

StanfordBrown Private
Wealth

12th July 2024

Quarterly Investment Markets Report





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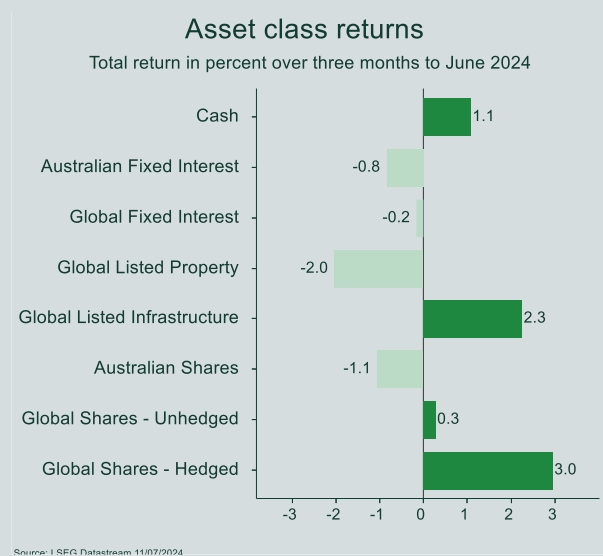
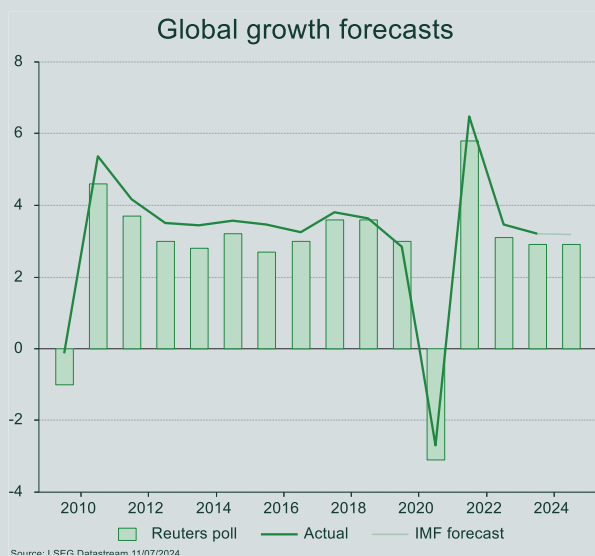
Executive Summary

We continue to view the global economy as being in a state of goldilocks – not too hot nor too cold - with growth close to long-term trend rates of around 3%. US economic exceptionalism, where the US economy grew more strongly than other countries over the past year, has been fading. Higher interest rates and the depletion of pent-up pandemic savings is now beginning to slow the US economy with demand and supply coming back into balance. In the Eurozone and United Kingdom, economic activity has improved after both economies showed near zero growth over 2023 as these economies are more sensitive to interest rates and cost of living pressures which had a more material impact on activity. In Australia, top line economic growth has been flattered by strong immigration, but per capita consumer spending and the interest rate sensitive parts of the economy remain weak. China's economy has improved marginally, helped by government stimulus measures that are attempting to support the property and stock market and, in turn, revive consumer spending and investment.

Labour markets in the major economies have been cooling, with gradual rises in unemployment in most developed countries helped by immigration, higher workforce participation, few job vacancies and less labour hoarding by companies. This has meant that wage pressures are gradually easing in most of these regions. US Federal Reserve Chair, Jerome Powell, described the US labour market as strong but no longer overheated and discussed recent data showing that there had been considerable cooling of the labour market such that it is not a source of broad inflationary pressures for the economy now. Australia's RBA also highlighted downside risks to the labour market and it views wages growth as having peaked.

Inflation in most countries has continued to trend lower, despite some upside surprises in US inflation at the start of 2024. US Federal Reserve officials are waiting for a few more inflation reports to gain confidence that inflation is heading sustainably lower before embarking on the first rate cut. The current view is that they could have enough evidence to cut in September and this will be more likely if the US labour market continues to soften with unemployment having risen to 4.1% recently against a Fed forecast that it would be 4.0% at the end of 2024. Our view is that core inflation should continue to decline, which will see one to two rate cuts in the US, another rate cut in the Eurozone and two cuts in the UK where headline inflation is already back to 2%. In Australia, recent inflation data has been higher than expected, running at around 4%, which means that the RBA will likely remain on hold longer than other central banks with a rate cut in Australia this year looking unlikely based on current economic data.

For financial markets, the goldilocks environment of trend-like global growth with declining inflation and gradually rising unemployment, is positive although much of the good news is already priced in which doesn't leave much room for setbacks. Despite the modest lift in bond yields over the June quarter, global equities have continued to make new record highs helped by solid earnings results, particularly from the Magnificent Seven (Alphabet, Apple, Meta, Amazon, Microsoft, Nvidia and Tesla) stocks and enthusiasm for the broader artificial intelligence theme.



Australian equities which have no exposure to the massive investment in artificial intelligence have struggled to keep up with the gains in US equities.

As we discussed previously, while we think that the interest in artificial intelligence could continue for some time, further broad equity market gains based on increasing valuation multiples look harder to achieve over the short-term and a period of consolidation seems likely, as we have seen in sectors and equity markets outside the leading US technology stocks. Equity valuations remain elevated with the MSCI World trading at 18.9 times next year's earnings compared with its long run average of 16.2 times, although this remains lower than the multiples during the dot-com boom, and also during 2020-2021 when investors expected zero interest rates would remain in place for a long time. So while equity valuation multiples are unlikely to rise, equity prices can still grow in line with earnings. Analysts expect global corporate profits to accelerate over the next couple of years due to a combination of reasonable economic growth, lower interest rates and slower cost growth, which should see profit margins widen.

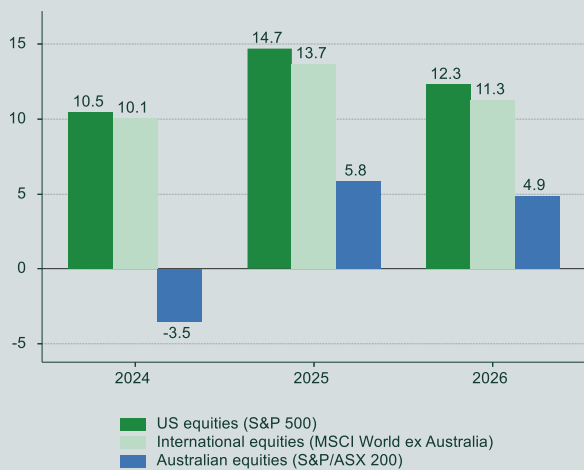
While we don't necessarily see risks of a material decline in equities and are therefore comfortable maintaining our neutral overall weighting to equities, we are wary that stock markets are already pricing in a lot of good news and the year-to-date returns exceed long run full year average returns.

We could see further equity gains if the optimism around artificial intelligence and the narrow rally of the Magnificent Seven continues and given the recent run of stronger-than-expected earnings results from these companies, this remains a likely scenario. Alternatively, we could see a broadening of the narrow rally into other regions, sectors and stocks that have lagged, which could be described as a "catch up" rally. The other possible scenarios are a "catch down" correction by the Magnificent Seven that would impact the broad indices but not necessarily the average stock. Another scenario, albeit becoming less likely, is a sharper global growth slowdown, or fears of one, which could also see global equities head lower.

In relation to fixed income, we have previously expressed the view that longer term bond yields in Australia and the US of around 4.0-4.5% seems to be around fair value given the expected path of inflation and cash rates and potential growth of each economy. In our view, cash rates in the US and Australia are likely to fall to around 3.0-3.5% this cycle, rather than below 2% seen before the pandemic which would support a yield on the 10-year government bond in Australia and the US of around 4.0-4.5% which is close to current levels.

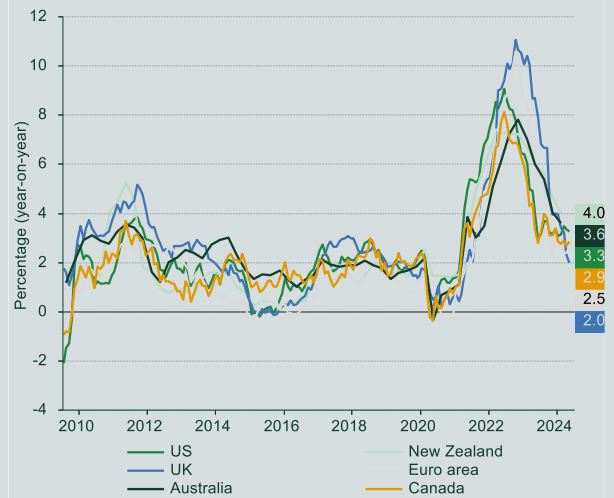
Earnings per share growth estimates

per cent year-on-year change

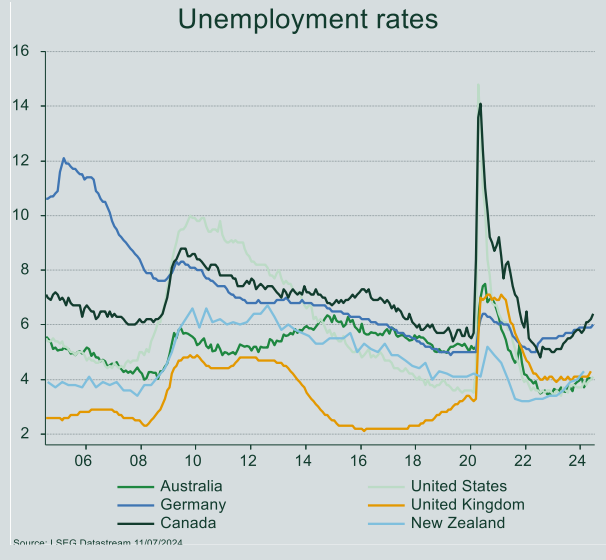
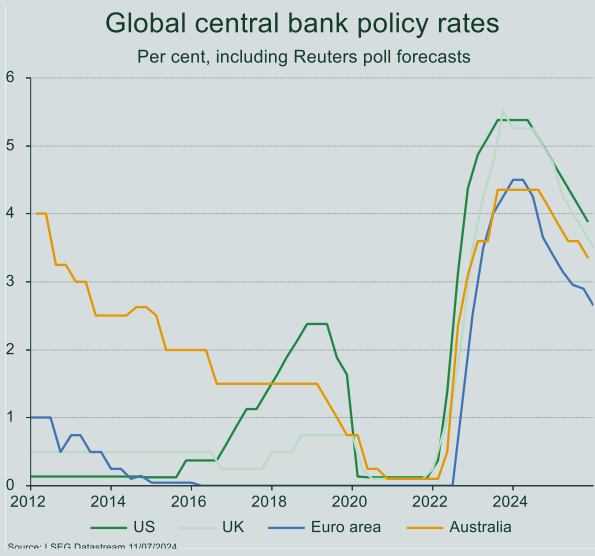


Source: I SECF Datasystem 11/07/2024

CPI inflation

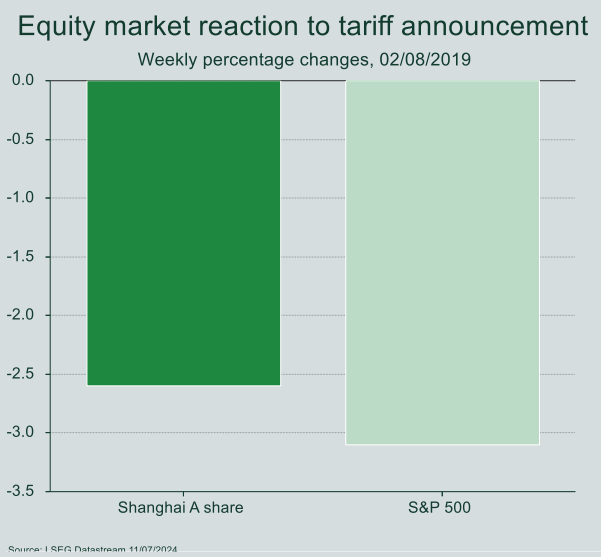
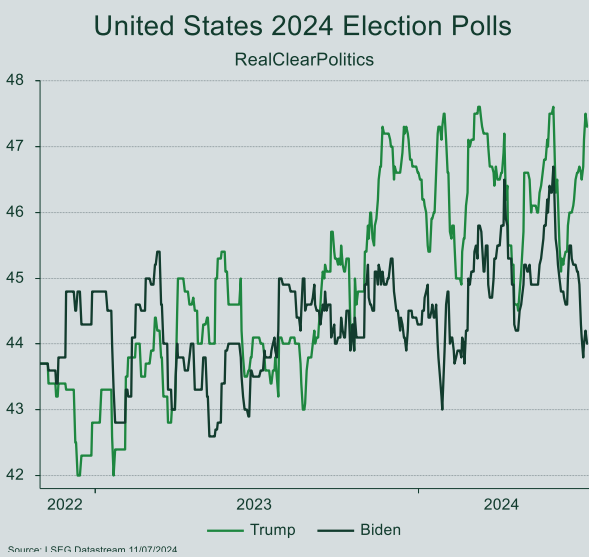


Source: I SECF Datasystem 11/07/2024



In terms of key risks to our outlook for financial markets, US election risks is one that will increasingly occupy media and investor attention as we get closer to November's election. Our analysis of the current policy differences between the two US Presidential nominees suggests that there is probably not too much that we know about today that could upset investors under a second Trump presidency, despite speculation that Trump would attempt to curb the US Federal Reserve's independence and seek to lower interest rates, which seems improbable in our view.

At present, the key Trump policies suggest an extension of tax cuts, additional import tariffs (particularly on China), potential changes to infrastructure spending measures as well as a crackdown on immigration which could all be slightly inflationary but probably wouldn't have a big impact on financial markets in the near term. crackdown on immigration which could all be slightly inflationary but probably wouldn't have a big impact on financial markets in the near term.



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Asset Class Views

Current Balanced portfolio positioning summary

ASSET CLASS	POSITIONING	VIEW
Cash	Neutral	Short term cash rates are at their peak, but the timing of rate cuts is uncertain given Australian inflation has remained elevated.
Australian Debt	Neutral	Retain a neutral weighting with interest rate duration close to benchmark of around five years. Longer term yields are more attractive, and risks are evenly balanced given cash rates are at their cyclical peak.
Global Debt	Neutral	Hold a neutral weighting with interest duration close to benchmark of around seven years. We expect bond volatility to fall as US rate cuts commence in late 2024. Credit spreads are low and are unlikely to tighten much further, but credit can still perform well in a rate cutting environment that should keep default rates from rising.
Alternative Defensive	Neutral	Alternative strategies generally benefit from higher base interest rates as cash is used as collateral to secure derivatives and short positions. These strategies have held up relatively well when more traditional defensive strategies, tied to interest rates and the credit outlook, have suffered.
Alternative Growth	Neutral	Alternative growth strategies benefit from higher price volatility and dispersion with returns less correlated to broader risk sentiment. Trend-following strategies can often provide insurance-like characteristics by capturing downtrends and uptrends in prices of bonds, equities, commodities, and currencies.
Property & Real Assets	Neutral	Property and infrastructure valuations should bottom soon as interest rate headwinds fade, and underlying property valuations are adjusted to reflect recent transactional evidence. Real estate and infrastructure valuations are more attractive after two years of declines and revenues tend to have a degree of inflation pass-through.
Australian Shares	Neutral	The earnings growth outlook is relatively muted while equity valuation multiples, particularly for the major banks, are above average relative to history and compared with international peers.
Global Shares	Neutral	Valuations, economic and corporate fundamentals, and investor sentiment suggests short term upside is more limited, but a neutral allocation is still warranted. Investor focus has shifted from inflation and interest rates to corporate earnings growth which is expected to be solid in the year ahead. Our base case is that we should see a period of market consolidation, however, another scenario is a catch-up rally from sectors that have been left behind that could drive the overall market higher.
Currency hedging	Fully unhedged	The strong US Dollar looks unlikely to lose its status as King Dollar given US economic outperformance. Prefer to remain currency unhedged in Global Shares as a source of additional portfolio diversification as the Australian Dollar tends to move in line with global investor sentiment.

Fixed Income

Fixed income generated negative returns over the three months to the end of June as investors continued to unwind the expectations for rate cuts in 2024 based on resilient economic growth and sticky inflation. Major central banks also helped reprice the size and speed of rate cuts by discussing the need to see more evidence that inflation is on a sustainable path back to target. This means that monetary policy has become more dependent on historical economic data, rather than based on forward looking forecasts for where inflation and employment may be heading. This has seen markets move from pricing around three rate cuts in the US in 2024, at the end of March, to around 1.5 cuts at the end of June.

The Bloomberg Barclays Global Aggregate Bond Index Hedged AUD returned -0.2% over the three months to the end of June as bond yields rose in the US, Eurozone, UK and Japan. The two-year US Treasury bond yield rose from 4.64% at the end of March to 4.72% at the end of June, while the 10-year US Treasury bond yield rose from 4.21% at the end of the March quarter to end the June quarter at

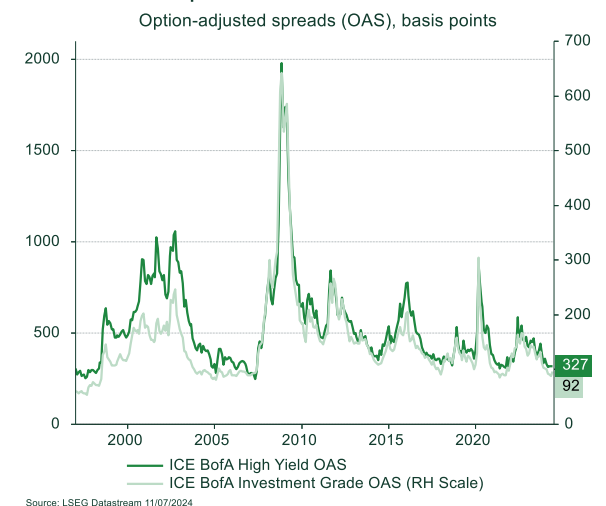
4.37%. In Europe, the 10-year German Bund yield rose from 2.29% to 2.49%, while the UK 10-year Gilt yield rose from 3.94% to 4.18% over the three months. In Japan, the 10-year Japanese Government bond yield rose from 0.74% to 1.05% over the quarter.

Australian fixed interest underperformed global fixed interest with the Bloomberg AusBond Composite Index losing 0.8% over the three months as local bond yields rose on the back of higher-than-expected inflation data. The two-year Australian Commonwealth Government bond yield rose from 3.68% in March to 4.18% at the end of June after monthly inflation data showed stronger than expected price rises in May with markets moving to price in a small chance of another rate hike this year. The Australian 10-year government bond yield rose from 3.98% to 4.33% over the three months, due to higher inflation and the general rise in global long-dated bond yields. Australian floating rate notes outperformed fixed rate bonds with the Bloomberg AusBond CreditFRN Index returning 1.40% over the three months.

US rate cuts by Dec 2024



US credit spreads relative to US treasuries



Credit markets were mixed over the quarter with investment grade corporate bonds returning -0.1% according to the Bloomberg Global Aggregate - Corporate Hedged AUD Index. Although investment grade credit spreads only widened

marginally, from 94 basis points over US Treasury bonds to 96 basis points, however the rise in US Treasury bond yields led to the negative total returns.

High yield bonds, as measured by the Bloomberg Global High Yield Hedged AUD Index, returned 1.0% over the three months as although credit spreads relative to US Treasury bonds rose from 315 basis points to 321 basis points, the high coupon income more than offset the rise in US Treasury yields and credit spread widening.

Core inflation remains above central bank targets in most countries, but it is mostly trending lower, and this has seen some central banks begin to cut interest rates including the European Central Bank, Bank of Canada and Swiss National Bank. Current money market pricing has the first interest rate cut in the US and UK in September and a second cut in the Eurozone in October after a few more inflation data points confirm that the disinflation trend remains intact. For Australia, the run of stronger than expected inflation reports, and gradual softening of the labour market, has the RBA describing the outlook as more evenly balanced although current money market pricing suggests that the first rate cut will not arrive until September 2025 and there is a 50% chance of another rate hike by November 2024. In our view, the timing of rate cuts should not have a material impact on medium term fixed income returns and longer-term bond yields of around 4.0-4.5% are attractive if inflation falls back to around 2.0-2.5%.

Alternative Assets

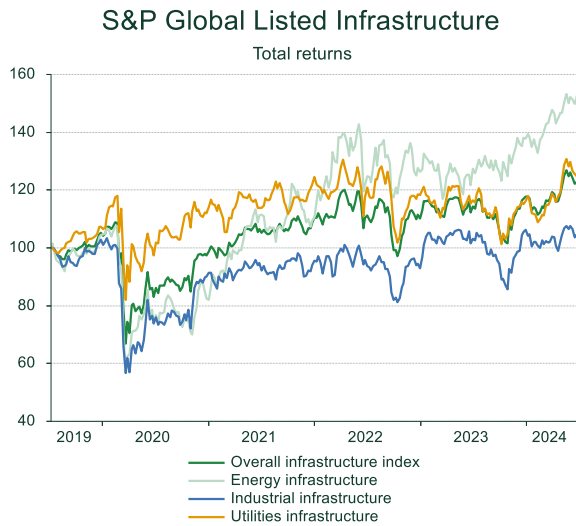
Hedge fund strategies posted positive returns over the quarter according to the HFRI Fund Weighted Composite Hedge Fund Index which returned 0.5% over the three months to the end of June. Trend-following strategies were the worst-performing strategy, down 2.0% over the quarter. The prior quarter's strong rise in the price of cocoa reversed, helped by improved weather conditions in West Africa which are seen as boosting the cocoa yields. Gold fell back from its record highs in May, while copper came under pressure amid high inventory levels in China and profit-taking from traders. Event-driven strategies showed quarterly gains of 1.2%, helped by a lift in global mergers and acquisitions activity. Equity long/short strategies posted returns of 1.1% over the quarter, with equity

market-neutral funds generating returns of 2.9% from mean-reverting, factor-based strategies. Relative value arbitrage funds returned 1.2% over the quarter, with gains from multi-strategy funds as well as fixed income and convertible arbitrage funds.

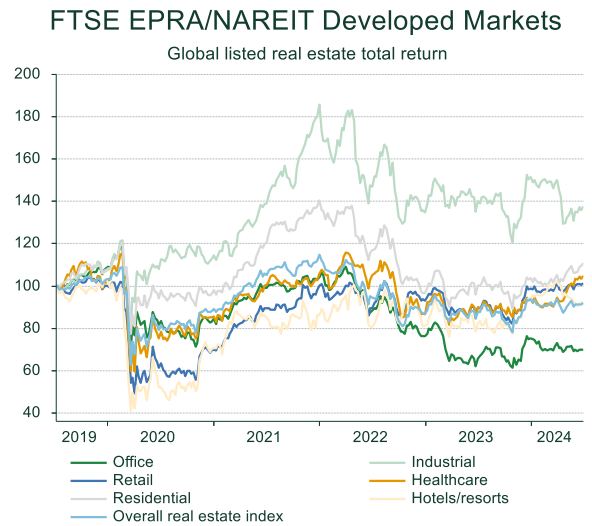
Conditions for hedge funds are reasonable with the increase in price volatility lifting directional trading opportunities, particularly with elevated bond, currency and commodity price moves, which helps macro and trend-following managers. Geopolitical risks and policy uncertainty have, however, seen some sharp price trend reversals recently which has impacted some of these strategies. High individual stock, sector and style dispersion also creates opportunities for active stock selection using fundamental and quantitative strategies. The opportunity set for event-driven strategies is improving with an increase in capital raising and merger activity so far in 2024. Within the hedge fund universe, manager selection remains more important than strategy selection and the return dispersion between the best and worst-performing hedge funds remains wide.

Property and Real Estates

The increase in bond yields over the past three months saw global listed property post a small loss again this quarter. Underlying real estate fundamentals have seen some stabilisation in recent months with a pick-up in real estate transaction volumes helped by improving finance conditions and expectations that interest rates have peaked. There is some evidence that commercial property valuations, particularly outside the troubled office sector, have troughed and some sectors such as industrial property, healthcare, single and multi-family residential and data centres continue to see price appreciation in many markets where rental demand exceeds supply.



Source: LSEG Datastream 11/07/2024



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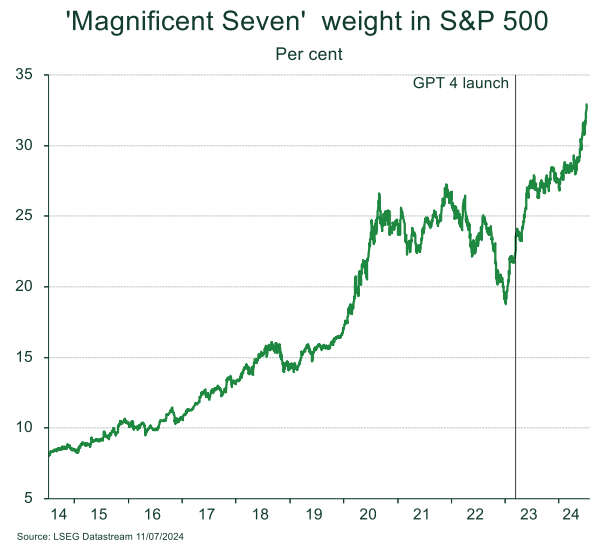
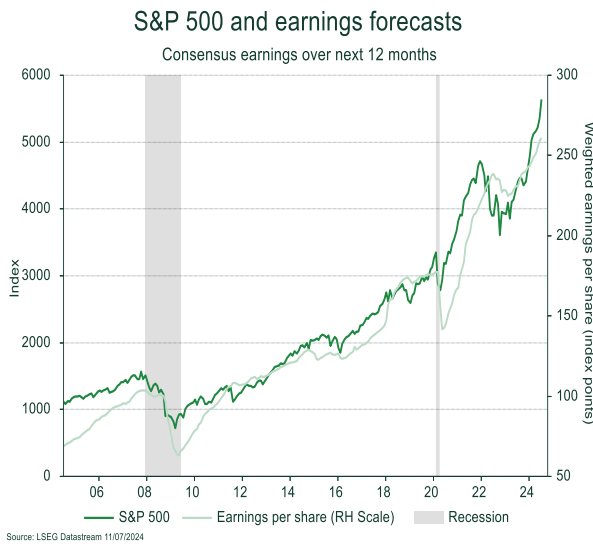
Global listed property, as tracked by the FTSE EPRA/NAREIT Developed Market Index Hedged AUD, returned -2.0% over the three months to the end of June. The healthcare sector was the best performing real estate sector, up 11.1% while hotels and resorts was the weakest sector over the quarter, down 9.6%. Australian listed property securities or A-REITs, as measured by the S&P/ASX 200 A-REIT index, fared worse than global peers with a return of -5.6% over the three months to June as higher than expected inflation saw markets price in a small chance of another rate hike which hurt interest rate sensitive securities. A-REITs, such as Mirvac, Scentre Group, Stockland, Vicinity, Dexis and Charter Hall declined by 8-18% over the quarter, while Goodman Group continued to rise helped by its pivot into data centres.

Global listed infrastructure, as measured by the S&P Global Infrastructure Hedged AUD Index, returned 2.3% over the three months to the end of June. The energy infrastructure sector was again the best-performing sector over the quarter while the industrial sector was the weakest. Energy infrastructure and electric utilities have received a boost in recent months as investors begin to factor in the large increase in energy demand needed to power artificial intelligence and data centres in coming years. Infrastructure remains an attractive long term asset class given its inflation-linked revenues, regulated or monopoly-like income characteristics and the need for governments to encourage the private sector to invest more in infrastructure assets, particularly to support the transition to renewable energy.

Global Shares

Despite the rise in bond yields over the quarter, equity valuations rose strongly as investor attention switched from inflation and interest rates to underlying corporate revenue and earnings growth. In currency-hedged terms, global shares returned 3.0% over the three months to the end of June, according to the MSCI World ex-Australia Hedged AUD Index including dividends. The currency-unhedged index returned 0.3%, due to a 1.5 US cent rise in the Australian Dollar over the quarter.

Global growth stocks (companies with above-average earnings growth) outperformed value stocks (companies with shares that are cheaper than average) over the past three months, helped by the strong performance of the Magnificent Seven, which mostly reported strong quarterly earnings results. Performance over the quarter was relatively narrow and focussed on artificial intelligence with the Information Technology and Communication Services sectors (home of the Magnificent Seven excluding Tesla which is in the consumer discretionary sector) returning 11.7% and 8.5% respectively over the quarter. Utilities, which are also perceived as beneficiaries of artificial intelligence due to the huge data centre energy needs, also posted positive returns over the quarter. Materials, energy, consumer discretionary and industrials stocks posted small negative returns while financials, consumer staples and healthcare showed positive returns but all returned less than 1% over the three months to the end of June.



In the United States, the S&P 500 Index returned 4.3% for the three months, while the more technology-heavy NASDAQ Composite Index gained 8.5%. March quarter earnings from US companies were viewed as being relatively good, with 79% of companies reporting better-than-expected earnings and quarterly earnings were roughly 8% above expectations. Excluding the energy sector, earnings were 11.2% higher than the same quarter a year before and revenues were 4.5% higher. Communication services stocks provided the largest earnings surprise relative to expectations, helped by strong first quarter results from Google and Meta.

In Europe, the STOXX 600 Index returned 1.5% over the quarter, with Italian, German and French stocks posting losses over the quarter, in France's case due to the surprise snap election which has created political uncertainty. Of those companies in Europe that report quarterly earnings, around 61% beat analyst forecasts for earnings and aggregate earnings per share were 10.4% ahead of analyst forecasts. Companies in the utilities, materials, technology and financial sectors provided the largest earnings surprises relative to expectations. Excluding the energy sector earnings which were 0.7% higher than the same quarter in the prior year.

In Asia, Japanese equities returned -1.8% over the three months, as measured by the Nikkei 225 Index, as foreign enthusiasm for Japanese stocks

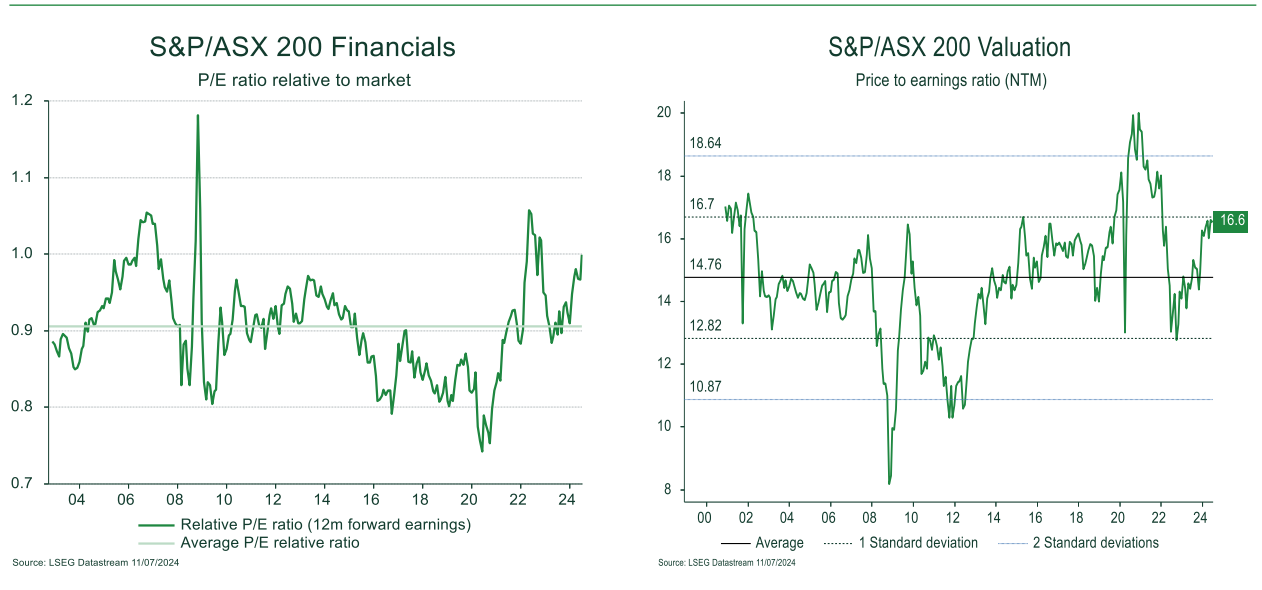
eased and some institutional money invested in Asia moved back into Chinese stocks. Shares in Hong Kong gained 9.0% over the quarter, based on the Hang Seng Index, helped by Chinese government policies aimed at supporting Chinese stock prices, including limits on short selling. Mainland Chinese shares, as tracked by the Shanghai Composite Index, generated a three-month return of -2.4%.

As discussed, equity valuations, fundamentals, and investor sentiment are a little extended, particularly in the US equity market, although this does not necessarily signal an immediate cause for concern and valuations can stay high for long periods. Our base case scenario is that equity market track sideways in the near term, following the strong year to date gains and, in our view, there are no obvious near term catalysts for a correction that would prompt a move to an underweight position. Within equity allocations, we continue to favour a mild overweight position in quality and growth companies although we would be wary holding an overweight position in the Magnificent Seven given concerns around excessive market concentration.

Australian Shares

Australian equities, as measured by the S&P/ASX 200 Index, returned -1.1% over the three months to the end of June. The utilities sector produced the highest returns over the quarter with strong gains from AGL and Origin. Materials sector stocks fell 5.8% and energy shares lost 6.8% even though iron ore prices were marginally higher and crude oil prices only slightly lower over the quarter.

Financials (mainly the large banks) rose 4.0% in the June quarter with Commonwealth Bank shares hitting a fresh record high. Consumer discretionary stocks gave back some of the prior quarter's gains as it became clearer that interest rate cuts are likely to be delayed and tax cuts may not do much to help boost weak discretionary spending. As was the case globally, healthcare and consumer staples produced low positive returns over the quarter.



As discussed in last month's Investment Markets Report, the Australian equity market is expensive based on valuation multiples when compared against history and against other equity markets. The local stock market also has softer earnings growth over the coming year or so. Pre end of financial year "confession season" corporate trading updates were downbeat, particularly for interest rate sensitive sectors exposed to consumers and housing. Earnings forecasts have been cut for fiscal 2024 but analysts still expect a large acceleration in earnings next year which seems somewhat optimistic. Despite the weaker earnings outlook, Australian shares, particularly the major banks, have benefited from foreign investors reallocating money out of China into other Asia-Pacific countries such as Japan, India and Australia. Looking forward, the outlook for the financials and materials sector, which collectively account for more than 50% of the value of the S&P/ASX 200 Index, is for relatively flat earnings.

At a price-to-earnings ratio of 16.6 times, Australian shares are trading around one standard deviation above their 20-year average multiple of 14.8 times, based on expected earnings over the next 12 months. This is largely due to the rise in bank valuations which now sit at 16.4 times expected earnings and therefore exhibit no discount to the broader market multiple, compared with the long run average discount of around 10% to the broader market. The expected dividend yield for the S&P/ASX 200 index over the next year is 3.6%, which is below long-term averages of over 4% and below current cash rates, suggesting that the market is on the more expensive side based on dividend yield.



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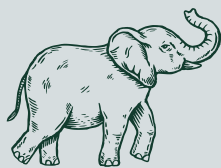
Market and Portfolio Snapshot

Strategic Asset Allocation (SAA) and Dynamic Asset Allocation (DAA) weights

PORTFOLIO ASSET CLASS	CONSERVATIVE		MODERATE		BALANCED		GROWTH		HIGH GROWTH	
	SAA	DAA	SAA	DAA	SAA	DAA	SAA	DAA	SAA	DAA
Defensive Assets	70.0	70.0	50.0	50.0	35.0	35.0	20.0	20.0	5.0	5.0
Cash	15.0	15.0	10.0	10.0	5.0	5.0	2.5	2.5	2.5	2.5
Australian Debt	20.0	20.0	10.0	10.0	5.0	5.0	0	0	0	0
Global Debt	30.0	30.0	25.0	25.0	20.0	20.0	15.0	15.0	0	0
Alternative Defensive	5.0	5.0	5.0	5.0	5.0	5.0	2.5	2.5	2.5	2.5
Growth Assets	30.0	30.0	50.0	50.0	65.0	65.0	80.0	80.0	95.0	95.0
Property & Real Assets	5.0	5.0	7.5	7.5	10.0	10.0	7.5	7.5	7.5	7.5
Alternative Growth	5.0	5.0	7.5	7.5	10.0	10.0	10.0	10.0	10.0	10.0
Australian Shares	5.0	5.0	15.0	15.0	20.0	20.0	25.0	25.0	25.0	25.0
Global Shares	15.0	15.0	20.0	20.0	25.0	25.0	37.5	37.5	52.5	52.5
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Major financial markets

To 30 June 2024	Latest	1 month	3 month	Year-to-date	1 year	3 year	5 year
Equities	Local currency returns including dividends in percentage, not annualised						
Australia - S&P/ ASX 200	7768	1.0	-1.1	4.2	12.1	20.4	53.8
Japan - Nikkei 225	39583	3.0	-1.8	19.3	21.5	57.1	43.3
US-S&P 500	5460	3.6	4.3	15.3	24.6	35.1	101.5
US - NASDAQ Composite	17733	6.0	8.5	18.6	29.6	29.4	130.8
UK – FTSE 100	8164	-1.1	3.8	7.9	12.8	30.7	32.4
Europe – STOXX 600	511	-1.1	1.5	9.4	14.4	26.0	54.4
Developed Markets – MSCI World	2770	2.4	3.2	13.7	21.9	31.5	84.8
Emerging Markets – MSCI EM	67433	4.3	6.3	11.2	16.0	1.8	33.9
Government bond yields	Change in annual yield in percentage points						
Australia - 2 year	4.18	0.05	0.50	0.47	-0.02	4.11	3.20
Australia -10 year	4.33	-0.08	0.35	0.37	0.33	2.82	3.01
US - 2 year	4.72	-0.15	0.08	0.47	-0.15	4.47	2.98
US - 10 year	4.37	-0.12	0.16	0.50	0.56	2.93	2.37
UK - 10 year	4.18	-0.15	0.24	0.64	-0.21	3.46	3.35
Germany -10 year	2.49	-0.16	0.20	0.46	0.09	2.69	2.81
Currencies and Commodities	Change in price						
Australian Dollar (US\$)	0.6679	0.003	0.015	-0.015	0.002	-0.083	-0.034
US Dollar Index	105.87	1.20	1.32	4.53	2.95	13.43	9.74
Gold	2330.90	-17.35	116.55	262.23	418.65	567.75	921.90
Iron Ore	106.83	-11.75	4.77	-33.09	-4.88	-104.30	-6.07
Crude oil	82.83	4.86	-1.13	10.94	12.19	9.21	24.58



Nick Ryder

Chief Investment Officer

Nick Ryder is an investment professional with deep and broad experience built over 30+ years in the investment management and financial services industries. Before joining Stanford Brown, Nick was a senior investment strategist at Commonwealth Bank, JBWere and NAB providing investment strategies to wealthy individuals, families and not-for-profit-clients.

He is passionate about helping clients grow and preserve their wealth, ensuring they also have a strong understanding of how their money is being invested.

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