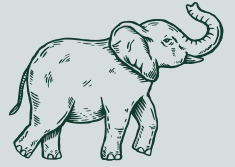


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November 2024

Investment Markets Report

Nick Ryder

Chief Investment Officer



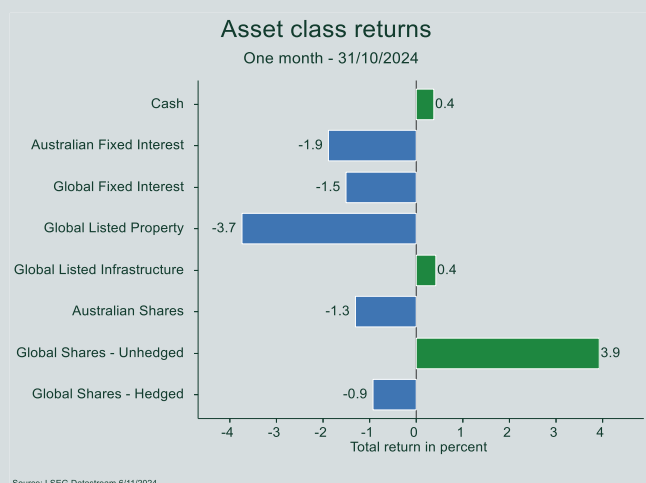
Our investment office unpacks what happened in the past month, current tactical positioning and what this means for our portfolio weightings to different asset classes.

What's changed in October?

October was a relatively volatile month for financial markets with the US stock market making a fresh record high mid-month, which was then followed by falls in the last week of the month as investors became more cautious ahead of the US election and following mixed earnings results from major tech companies. Bonds were weaker over the month as yields rose following the stronger-than-expected US employment report for September which dampened expectations of aggressive rate cuts. The Australian Dollar was negatively impacted by a stronger US Dollar and weakness in the Chinese Yuan following further Chinese interest rate cuts.

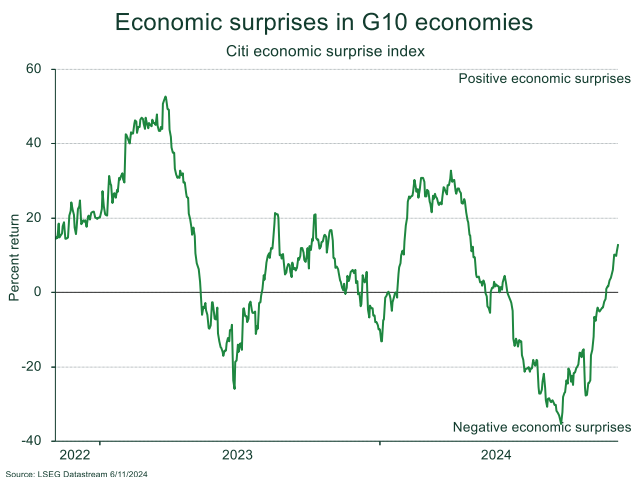
EXECUTIVE SUMMARY

- ▶ In currency-hedged terms, developed market equities (MSCI World ex-Australia) declined 0.9% in October. In unhedged terms, developed market shares rose 3.9% due to the decline in the Australian Dollar. Emerging market shares (MSCI Emerging Markets) fell 2.7% and Australian shares (S&P/ASX 200) lost 1.3%.
- ▶ 10-year government bond yields rose 44 basis points (bps) in the US, 55bps in Australia, 44bps in the UK, 26bps in Germany and 9bps in Japan.
- ▶ Investment-grade corporate bond spreads in the US narrowed by 6bps to 86bps over US treasuries while US high yield bond spreads fell by 15bps to 288bps.
- ▶ The Australian Dollar fell 3.9 US cents to US\$0.6550.
- ▶ Oil prices rose 1.2% to US\$69.58 per barrel (WTI). Gold rose 4.0% to US\$2,734 per troy ounce. Iron ore prices fell 3.4% to US\$103.78 per tonne.



Tactical Positioning

Global economic data over the past month has been solid with better-than-expected economic growth reports in Europe and China and confirmation that the US economy continues to expand at an above-trend pace of 2.8% per annum. In our view the global cyclical outlook is improving helped by falling interest rates in most countries, low unemployment and increases in consumer spending power as inflation drops below wage growth. Debates over a hard landing (recession), soft landing (weak growth) or no landing (trend/above trend growth) suggest that the no landing narrative is gaining more traction with investors.

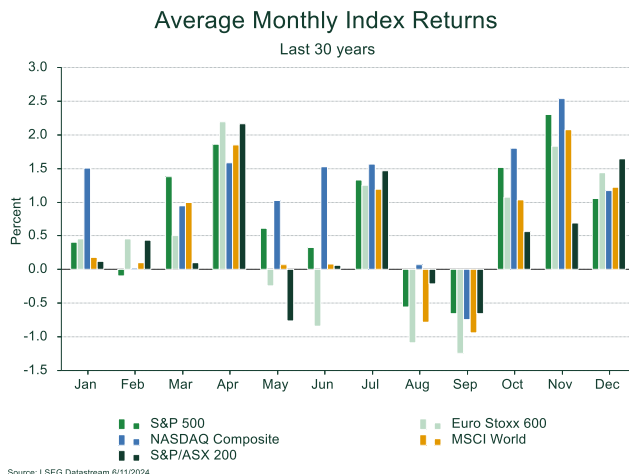


The improving growth backdrop has seen a material rise in bond yields over the past month. The bond market had been pricing in an overly aggressive non-recessionary rate cutting cycle which has now unwound, as foreshadowed in last month's Quarterly Investment Report when we wrote "we would therefore not be surprised if fewer rate cuts emerge than is currently priced by bond markets which could see global bond yields rise marginally from here." So long as the rise in longer term bond yields is due to a better growth outlook, as has largely been the case over the past month, this can still be a good environment for risk assets such as equities.

We have previously discussed equity market performance around the start of US rate cutting cycles with rises of 22% on-average where there was no recession in the 12 months preceding or following the first rate cut. We don't expect global equities will post another 20% return over the next year, given high starting valuations and following a 23% return in 2023 and 22% year-to-date return but the environment could support an extension of the current market rally.

Analysts are currently forecasting growth of 12-13% per annum over the next 24 months for global shares, suggesting equity returns could still be relatively good despite something of a speed limit due to high starting valuation multiples. In addition, the final quarter of the year is seasonally relatively good for equity markets, often helped by companies buying back shares. Furthermore, US markets tend to receive a bounce following US presidential elections as regulatory uncertainty diminishes once investors know which administration will be in office.

Given this backdrop, we are marginally increasing our allocation to global equities from neutral to overweight with a preference for US equities and global small-mid cap companies which are more cyclically sensitive and generally benefit more from falling interest rates given their higher share of floating rate debt. Our increased allocation to global equities is being funded by a reduced allocation in listed infrastructure, a more defensive sector of the equity market that has risen strongly this year. With falling inflation and higher long term bond yields, the relative attractiveness of listed infrastructure has declined and so we have decided to trim this exposure to an underweight position.

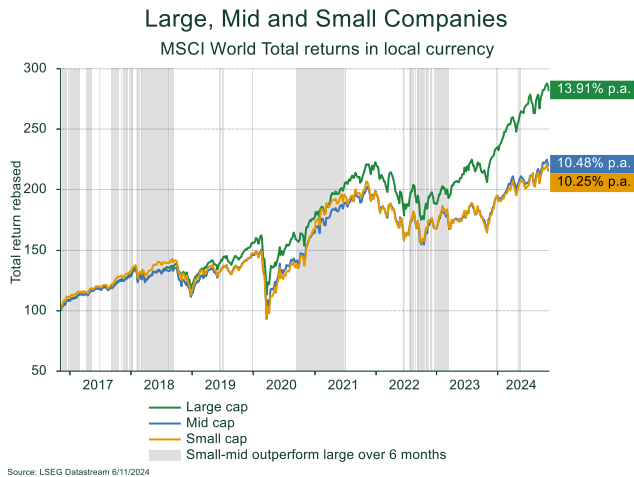


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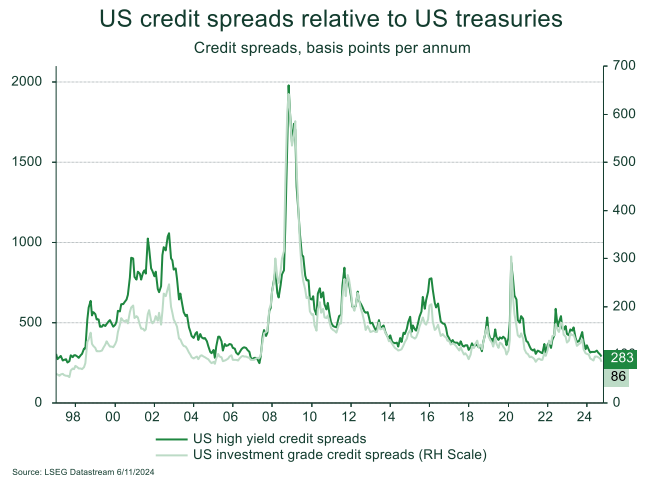
With 75% of US companies having reported third quarter earnings, the share of companies beating analyst expectations (76% so far) has again been above average. Reported earnings have come in 7% above expectations and grown 9% year-on-year. Consumer discretionary stocks are again leading the pack with the largest positive earnings surprise helped by robust ongoing US consumer spending.

The six Magnificent Seven companies that have reported (excluding Nvidia) posted stronger-than-expected earnings results. The post announcement market reaction was mixed once again due to guidance for slower growth in cloud computing and high ongoing Artificial Intelligence related capital expenditure with little visibility on payback. While the longer-term growth trajectory of these companies remains intact, we may see ongoing underperformance in Magnificent Seven shares until earnings catch up to elevated valuation ratios and AI revenue visibility improves.

Given our move to slightly overweight global equities, as discussed, our preference is to increase the allocation to US equities and to small and mid sized global companies given valuations are more reasonable and where improvements to global growth and lower interest rates have a much larger impact on earnings and share prices.



The recent steepening of the yield curves due to better economic data in the US and Europe and forecasts of rising US government debt means that longer-dated bonds provide a more attractive yield and 'term premium' relative to short term bonds. We are retaining a neutral weighting in Australian and Global Debt and around 5-6 years of interest rate duration.



Although the Australia equity market is fully valued and showing little earnings growth, it is a more cyclical market that could benefit from increased Chinese stimulus over the next year. This could be directly through higher commodity prices that boost resources company earnings, or indirectly from foreign investors wanting to play the China recovery theme without necessarily buying mainland Chinese shares. We are therefore staying neutral in Australian Shares for now.

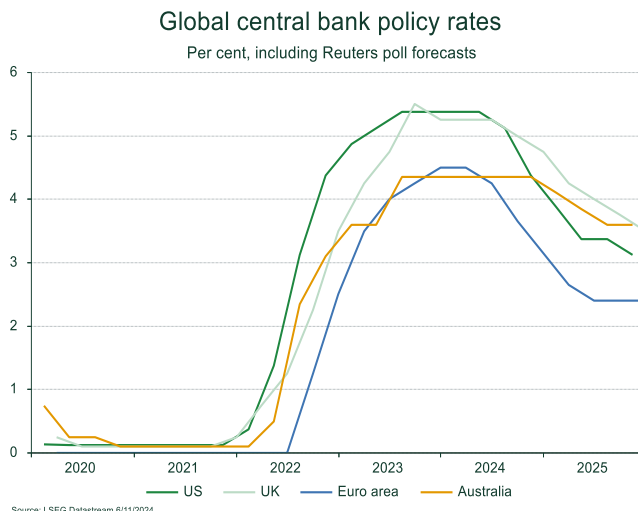
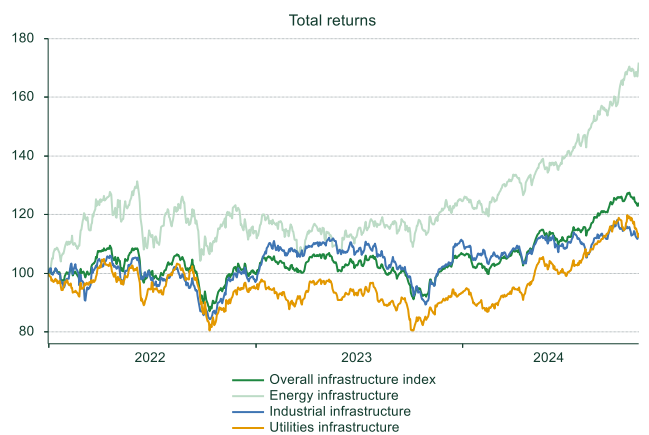
PROPERTY AND REAL ASSETS:

Following the strong recent performance of listed infrastructure securities, partly due to expectations of greater energy demand from new data centres, we have decided to move to an underweight position. Falling inflation and higher longer-dated bond yields are modest headwinds for the asset class. We are retaining a neutral weight in real estate which has more cyclical upside in our view.

FIXED INCOME:

Short term interest rates in most of the major economies (outside Japan, Norway and Australia) are expected to continue to decline back to 'neutral' levels by mid-2025. While the speed and destination for policy rates remain somewhat unclear, the direction of rates is not in question. In Australia, as previously discussed, our higher core inflation and lower peak in interest rates relative to other countries means that rate cuts are unlikely until the first half of 2025.

S&P Global Listed Infrastructure



ALTERNATIVE ASSETS:

Liquid alternative assets lost 0.7% in October (HFRX Global Hedge Fund Index) with event-driven and relative value funds the best performers. Macro/CTA funds were down 1.8% as many price trends reversed in October including fixed income, currencies and equities. We remain neutral in alternative assets.

CURRENCY:

The Australian Dollar fell in October due to stronger US growth which boosted the US Dollar as investors dialled back rate cut expectations. We remain currency unhedged in Global Shares.

Current Balanced portfolio positioning summary

ASSET CLASS	POSITIONING	VIEW
Cash	Neutral	Cash rates are most likely at their peak, but rate cuts are unlikely until at least February 2025 and there is a risk that rates stay higher for longer.
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. Credit is generally expensive, but some local sub-sectors offer relative value.
Global Debt	Neutral	Hold a neutral weighting with interest duration close to benchmark of around six years. Bonds should provide a stronger offset to equities now that inflation has declined. Credit spreads are very low by historical standards as default rates stay contained but we are more focused on high income rather than capital gains from further spread compression.
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.
Property & Real Assets	Underweight	Move to an underweight exposure to listed infrastructure given the strong recent performance due to investor enthusiasm for companies that can benefit from data centre energy demand which we think will take a long time to play out. There are also headwinds from falling inflation and higher bond yields that favour more cyclical assets such as real estate where we continue to recommend a neutral weighting.
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 and are lowly-correlated with risk assets.
Australian Shares	Neutral	The earnings outlook is relatively muted due to soft profit growth for banks. Equity valuations are above average relative to history, but the more cyclical nature of the market means that it could perform relatively well, particularly if Chinese fiscal stimulus can support the construction and infrastructure sectors as it has historically. Remain neutral for now.
Global Shares	Overweight	The improving global economic and corporate earnings backdrop and falling offshore interest rates should drive equities higher if earnings growth forecasts remain intact. Move to a modest overweight to Global Shares with a preference for US equities and for more cyclically sensitive small and mid sized companies which could outperform the mega capitalisation Magnificent Seven in the near term.
Currency hedging	Fully unhedged	Despite the interest rate differences between Australia and the US widening as rates stay higher for longer in Australia, the US Dollar has been strengthening due to stronger growth and fears about US tariff increases. 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.

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	2.5	7.5	5.0	10.0	7.5	10.0	7.5	10.0	7.5
Alternative Growth	5.0	5.0	7.5	7.5	10.0	10.0	7.5	7.5	7.5	7.5
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	17.5	20.0	22.5	25.0	27.5	37.5	40.0	52.5	55.0
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 31 October 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	8160	-1.3	2.1	10.9	24.9	26.0	61.2
Japan - Nikkei 225	39081	3.1	0.7	18.7	28.9	57.1	43.3
US-S&P 500	5705	-0.9	3.7	21.0	38.0	30.1	103.5
US - NASDAQ Composite	18095	-0.5	3.0	21.2	41.9	19.8	127.1
UK - FTSE 100	8110	-1.5	-2.1	8.3	15.0	25.5	34.1
Europe - STOXX 600	505	-3.2	-2.1	8.7	20.4	17.5	47.9
Developed Markets - MSCI World	2862	-0.9	2.5	18.1	33.3	26.3	85.2
Emerging Markets - MSCI EM	69278	-2.7	3.1	15.5	26.5	6.2	37.6
Government bond yields	Change in annual yield in percentage points						
Australia - 2 year	4.06	0.48	0.17	0.35	-0.42	3.44	3.20
Australia - 10 year	4.52	0.55	0.40	0.56	-0.42	2.45	3.36
US - 2 year	4.17	0.52	-0.09	-0.08	-0.90	3.67	2.64
US - 10 year	4.28	0.49	0.23	0.42	-0.63	2.73	2.59
UK - 10 year	4.45	0.44	0.48	0.91	-0.07	3.41	3.82
Germany - 10 year	2.39	0.26	0.09	0.36	-0.42	2.54	2.79
Currencies and Commodities	Change in price						
Australian Dollar (US\$)	0.6550	-0.039	0.002	-0.027	0.022	-0.096	-0.034
US Dollar Index	103.98	3.20	-0.12	2.64	-2.69	9.86	6.63
Gold (US\$/ounce)	2734.15	104.20	307.85	665.48	737.25	965.00	1223.20
Iron Ore (US\$/tonne)	103.78	-3.68	3.68	-36.14	-18.55	-1.40	21.03
Crude oil (WTI, US\$/barrel)	69.58	0.83	-9.78	-2.31	-12.04	-13.99	15.60

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