DRUMMOND

CAPITAL PARTNERS

INVESTMENT PERSPECTIVES

July 2023

Things That Matter

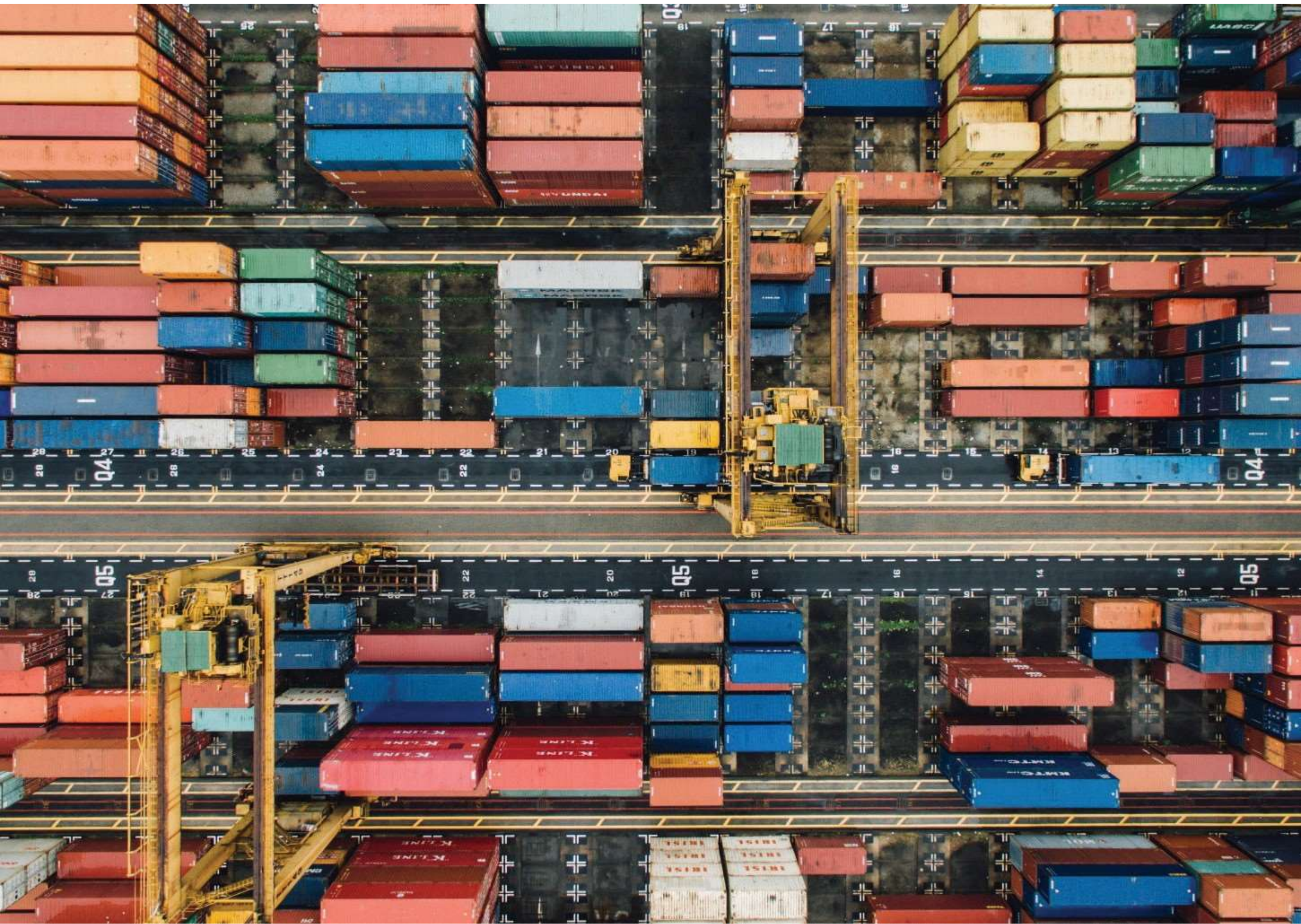
1.	Most global central banks have aggressively tightened monetary policy in response to high inflation and there is now an expectation that we are close to peak rates.
2.	Inflation is looking to have established a disinflationary trend but the process of getting inflation to central bank targets still has a way to go.
3.	Equity market and bond valuations have improved but will be further challenged in the period ahead if inflation proves to be sticky or if there is a recession.
4.	China's growth initially picked up in response to the end of zero-Covid & easing regulatory pressures. However, growth has since faltered, with the property sector being a notable drag on outcomes.
5.	Geopolitical tensions are elevated across many regions and may contribute to elevated volatility in the years ahead.

Asset Class Positioning

Change Over Month	**Change**	**Strong Underweight**	**Underweight**	**Neutral**	**Overweight**	**Strong Overweight**
Australian Equities	▲	○	○	●	○	○
Global Equities	▲	○	●	○	○	○
Property	▼	○	○	●	○	○
Infrastructure	▬	○	○	○	●	○
Global Alpha	▼	○	○	●	○	○
Government Bonds	▲	○	●	○	○	○
Corporate Debt	▲	○	●	○	○	○
Cash	▼	○	○	○	○	●
Total Growth vs Defensive	▲	○	●	○	○	○

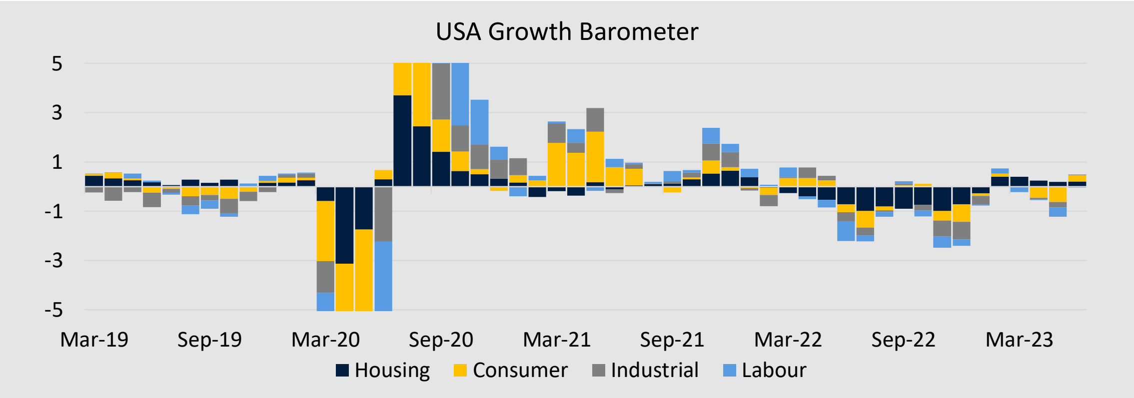
Macroeconomic Overview

North America	●
Asia	▼
Europe	▼
Australia	▼



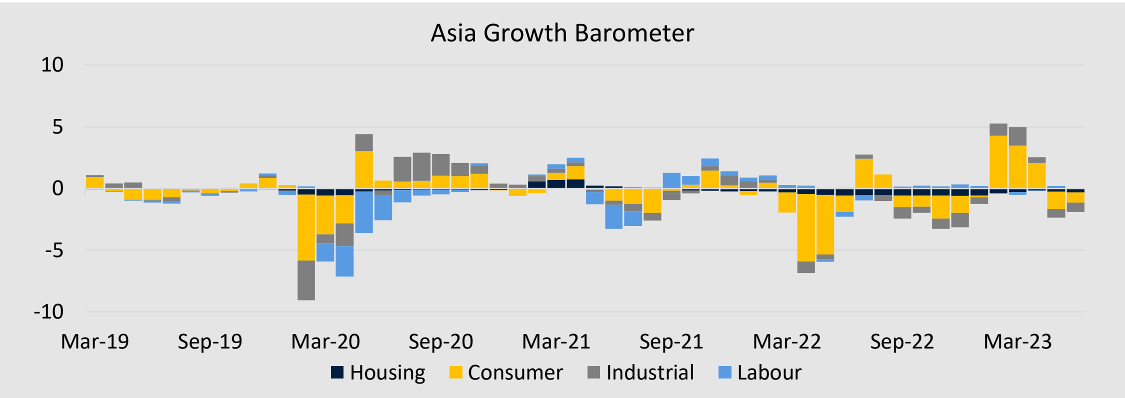
North America

US growth has ticked up so far this year, but we expect growth to moderate in the year ahead reflecting higher interest rates. We also expect credit conditions to deteriorate given the problems in the banking sector (where deposits continue to fall). Whilst core inflation is now looking more likely to have established a downward trend, we still think the tightening to date is sufficient to cause a recession and we don't see the Fed as anywhere close to rate cuts (unless we do get a recession). We are closely watching labor cost growth and whether it can soften without a material lift higher in unemployment.



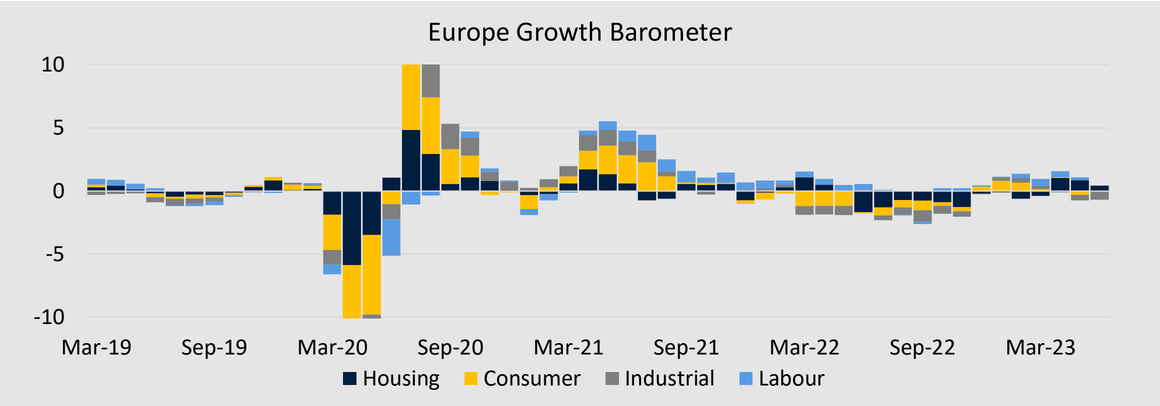
Asia

Growth in China had been recovering following the Government's abandonment of its zero-Covid policies as well as an easing in regulatory pressures. However, this has now lost steam as China data continues to disappoint, with the property sector again dragging on outcomes, despite the Government relaxing many of its regulatory restrictions on the sector. Manufacturing PMIs have also been falling. Going forward, most expect renewed stimulus from the Government and PBOC, though we think it will be modest, meaning prospects for significant equity market outperformance are limited. However, we think a modest allocation is still warranted due to relative policy settings and growth prospects versus developed markets.



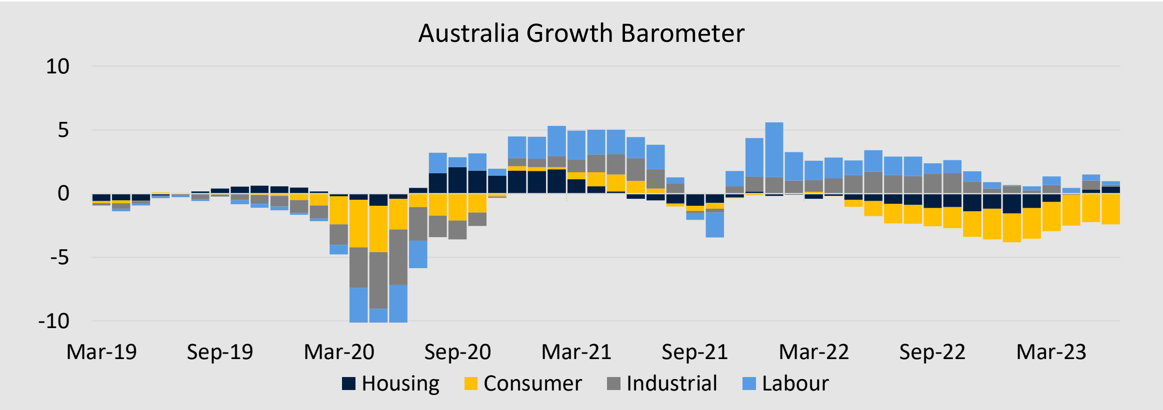
Europe

The ECB is still tightening monetary policy in response to high inflation but does appear close to a pause as macro data has softened. European banks have also rapidly pulled back on business lending which poses risks for a broader credit crunch in the eurozone. The Bloc still faces significant challenges from Russia's invasion of Ukraine which is weighing on business sentiment. Interest rates are significantly higher than anyone thought possible two years ago and funding costs for heavily indebted governments could become a concern for financial stability.



Australia

The Australian economy is still experiencing below trend growth and consumers are at GFC levels of pain as rate hikes are starting to bite. After a period of softening, house prices have stabilized. A rush in demand due to high levels of immigration and limited supply appear to be offsetting the negative impact of higher interest rates on house prices. Further softness in house prices does, however, remain a risk as interest rate rises continue to weigh.



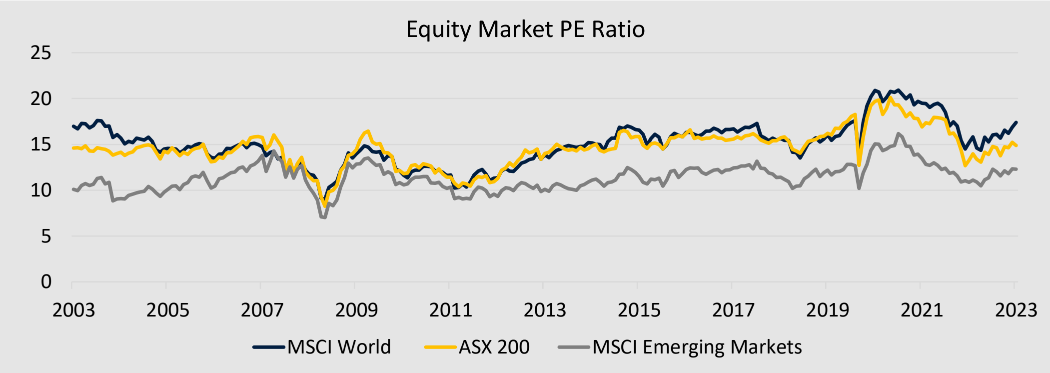
Asset Class Overview

Equities	Underweight
Bonds	Underweight
Credit	Underweight
Infrastructure	Overweight
Property	Neutral
Global Alpha	Neutral

Equities

Underweight

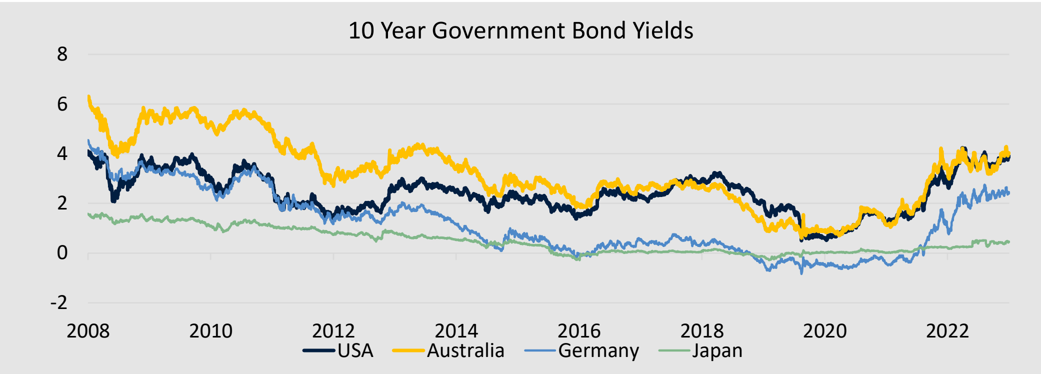
Global equities have performed well so far this calendar year, driven in large part by large cap tech companies. With central banks having aggressively tightened monetary policy, peak growth behind us, cheap valuations and the narrow market leadership, the outlook for equities remains lackluster. Given this, we are underweight equity exposure, with a significant underweight to global equities.



Bonds

Underweight

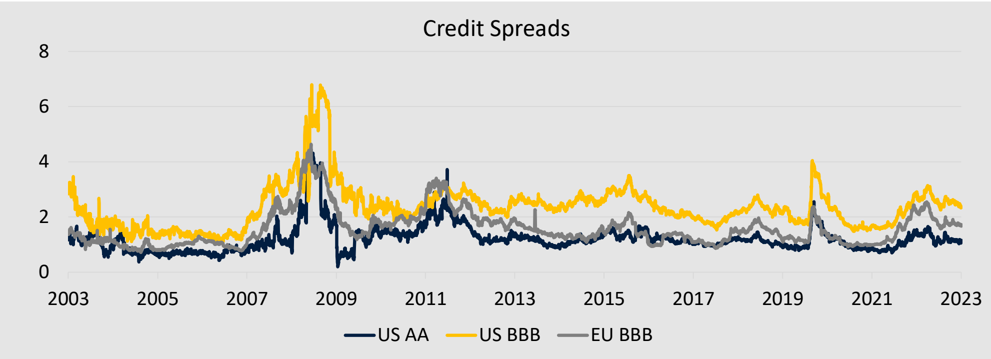
We reduced our bond exposure in Q1 2023 following the sharp rally in yields driven by banking sector concerns. We have since added to bonds as valuations improved, disinflationary trends have accelerated and as central banks approach peak rates. Recently, yields rallied strongly in response to the soft US June CPI print, and whilst we remain modestly underweight bonds, we are looking to close this position when valuations support a better entry point. Pleasingly, bonds should now also be able to better perform their job as a defensive asset given the strong yield buffers.



Credit

Credit spreads have widened a little in line with banking sector concerns, however they do not reflect the risk of a recession and hence we remain cautiously positioned. Current spread levels are also inconsistent with the inversion in the yield curve. Whilst carry has markedly improved, we remain defensively positioned with a focus on diversification, liquidity, and higher quality credit.

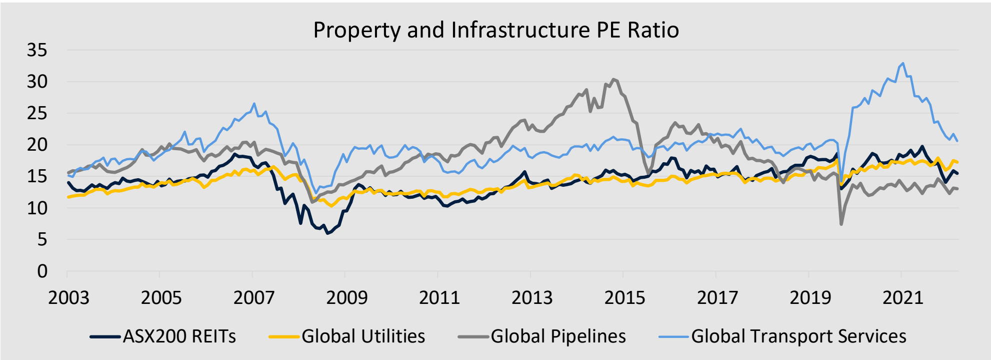
Underweight



Property / Infrastructure

Commercial real estate exposure in the loan books of US regional banks is an issue to closely monitor as valuations are stressed and banks are shoring up their balance sheets. We favor the more defensive qualities of infrastructure assets in this backdrop.

Neutral



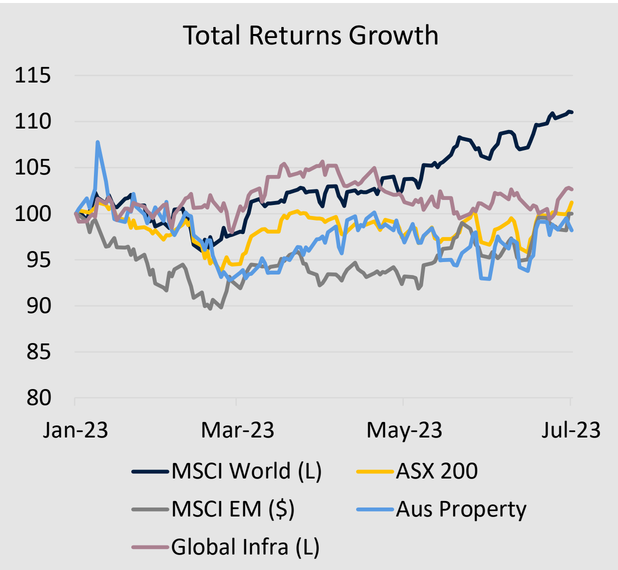
Global Alpha

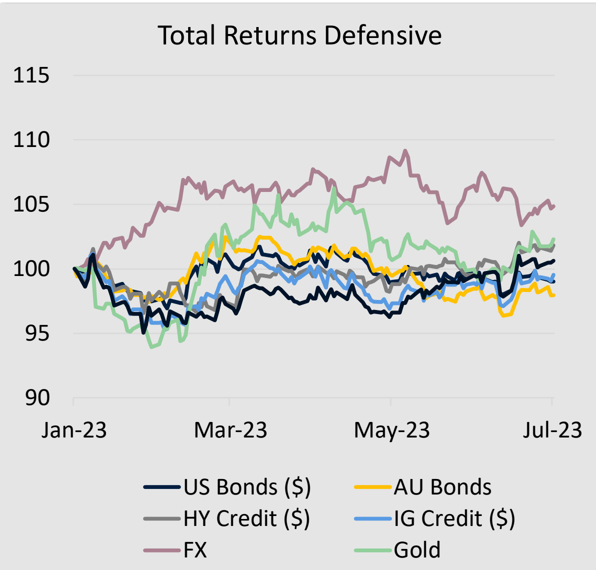
With expected returns to equities and bonds low, global alpha strategies remain a prudent diversifier in multi-asset portfolios. An over or underweight allocation to this asset class will remain manager and strategy type specific.

Neutral

Asset Class Returns

	Latest Value 25/07/23	Weekly Performance	Monthly Performance	Quarterly Performance	Yearly Performance
MSCI World All Countries	839	1.3%	4.5%	9.5%	15%
S&P/ASX 200	7,340	0.5%	3.6%	0.9%	13%
MSCI Emerging Markets	1,032	0.4%	4.8%	8.4%	8%
Nasdaq Composite	14,145	0.2%	4.9%	20.1%	21%
Euro Stoxx	464	0.5%	3.7%	2.5%	20%
Australian Property	78.5	-0.3%	6.3%	1.6%	3%
Global Infrastructure	63	2.8%	1.9%	-1.7%	1%
Australian Bonds	4.03%	-0.4%	-0.3%	-3.2%	0%
US Bonds	3.89%	-0.3%	-0.6%	-2.4%	-3%
High Yield Credit (spread/return)	2.3%	0.1%	1.9%	1.6%	4%
Investment Grade Credit (spread/return)	1.1%	0.2%	0.3%	-1.1%	-1%
US $ / Australian $	0.68	-1.8%	1.1%	1.4%	-2%
Crude Oil-WTI	80.0	6.1%	16.1%	3.7%	-20%
Gold Bullion Lbm $/T Oz	1,962	0.1%	2.0%	-1.3%	14%





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