DRUMMOND

CAPITAL PARTNERS

INVESTMENT PERSPECTIVES

November 2023

Month In Review

Global Equities
8.1%

Aus Equities
5.0%

Aus REITs
11.3%

AUD/USD
4.8%

US Bonds
3.4%

Commodities
-3.7%

Markets rose strongly in November. Reversing most of the damage done in prior months across bond and equity markets. Positivity was driven by falling bond yields and constructive comments from the Federal Reserve. November's significant market upswing saw the major equity market indices post their strongest monthly performance of 2023. Global equities (MSCI ACWI Index) lifted 8.1% whilst Australian equities (ASX200) were up 5.0% led by interest rate sensitive sectors such as REITS (+11.3%). Emerging markets also delivered a stellar month, up 8.0%.

After a horror 3 years, US bonds produced their best monthly return (+3.4%) since May 1985. Ongoing inflation softness, increased expectation of rate cuts in 2024 and a more positive than expected announcement by the US Treasury stating it would fund the budget deficit by issuing less longer dated bonds drove the rally. Australian bonds also recorded strong gains (+3.0%). The ongoing soft economic landing narrative was also supportive for credit, with credit spreads reaching their tightest levels this year.

The broad commodity market was weaker over the month, down -3.7%, despite the gold price strengthening by 2.1%. Oil prices weakness continued, falling -7.4% on demand concerns while the AUD posted its first monthly increase against the USD in four months, climbing 4.8% during November as interest rate expectations shifted.

Things That Matter

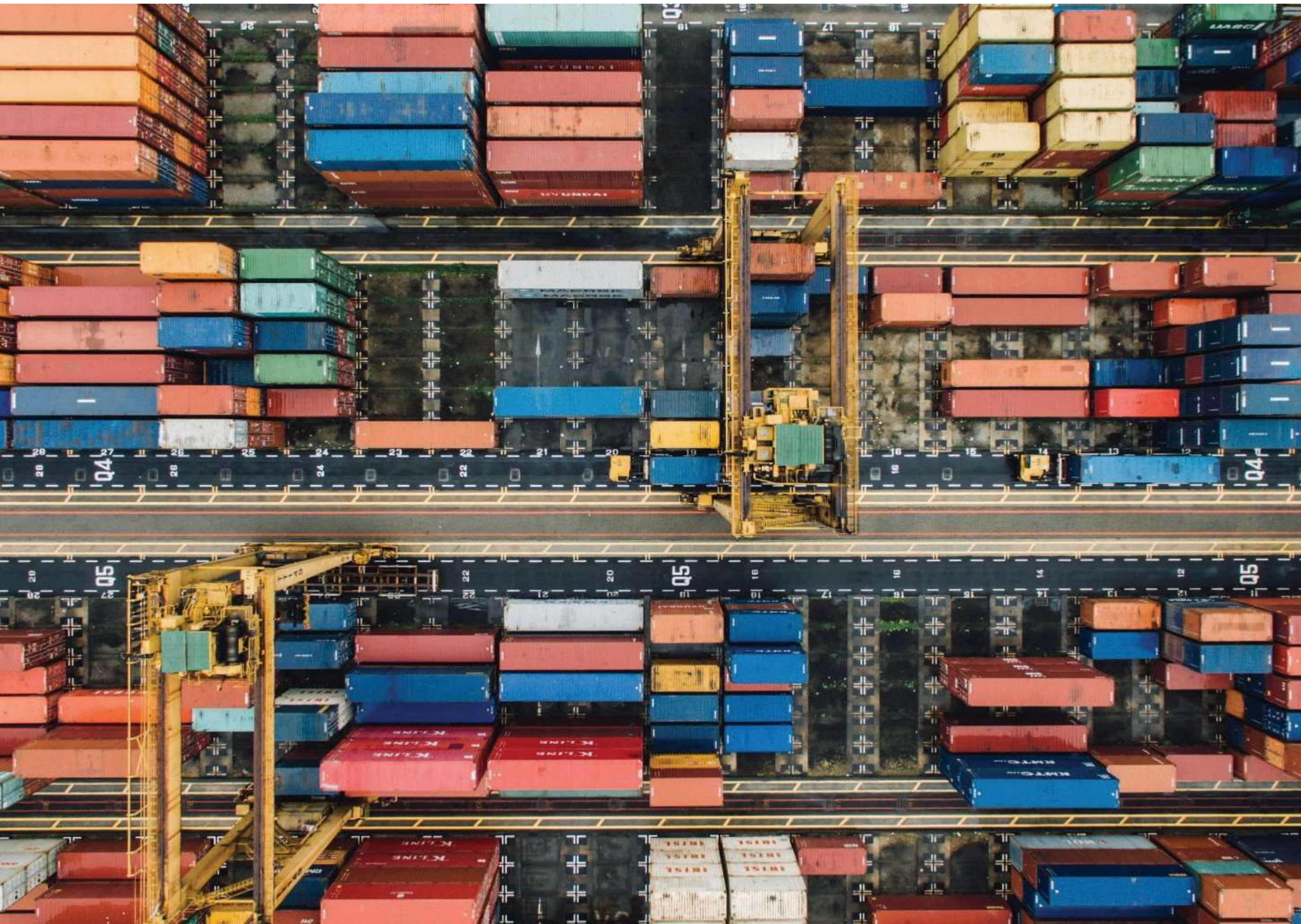
1.	Most global central banks have aggressively tightened monetary policy in response to high inflation and there is now an expectation that we are close to peak rates.
2.	Inflation is looking to have established a disinflationary trend but the process of getting inflation to central bank targets still 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 and easing regulatory pressures. However, growth has since faltered, with the property sector being a notable drag on outcomes.
5.	The war in the Middle East is a stark reminder that geopolitical tensions are heightened across the globe 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	–	○	●	○	○	○

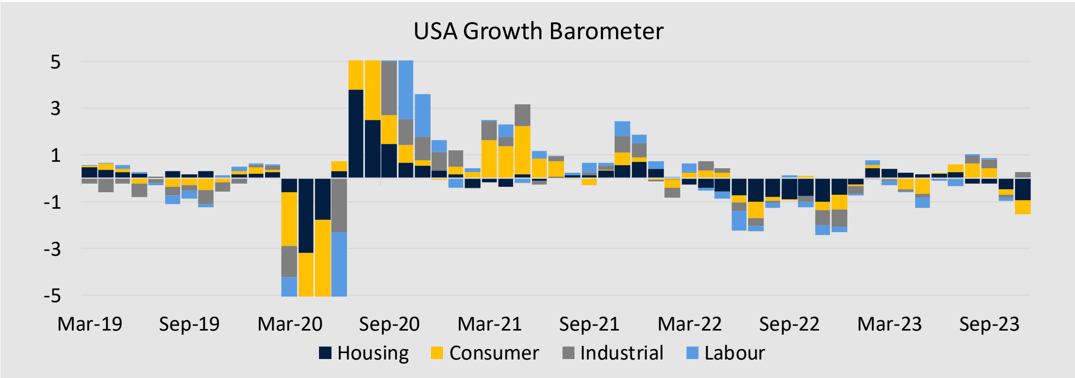
Macroeconomic Overview

North America	▼
Asia	▼
Europe	●
Australia	▼



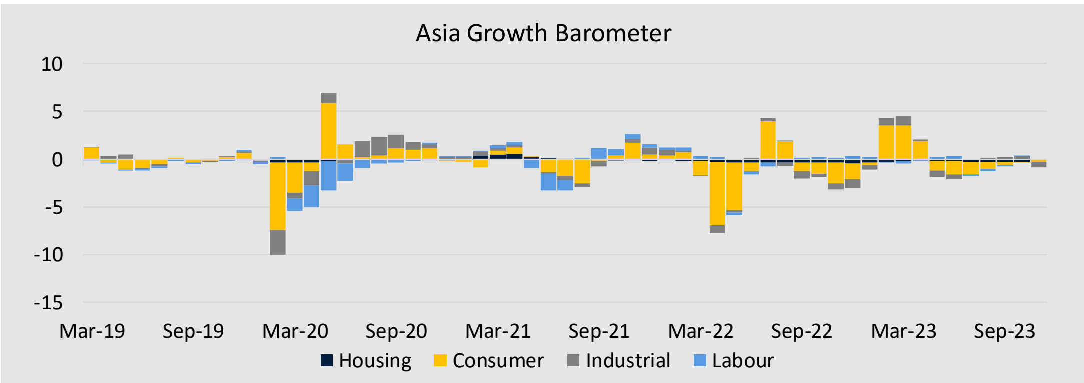
North America

US growth has ticked up so far this year, but we still expect growth to moderate in the year ahead. The labour market is now clearly slowing, and consumers are likely to start pulling back in 2024 as the long-anticipated headwinds of 'higher for longer' hit. We also expect a softening in capex. Whilst core inflation is now looking more likely to have established a downward trend, we still think the tightening to date is enough to cause a recession in H1 2024. Hence, our forecast of a mild recession remains, that is, one which sits between a soft landing, in which inflation is tamed without much upward movement in unemployment, and a traditional recession, where the unemployment rate rises at least two percentage points. Monetary policy famously operates with lags which are highly uncertain in their timing and impact, and hence, we are closely watching labour cost growth and whether it can materially soften without a lift higher in unemployment.



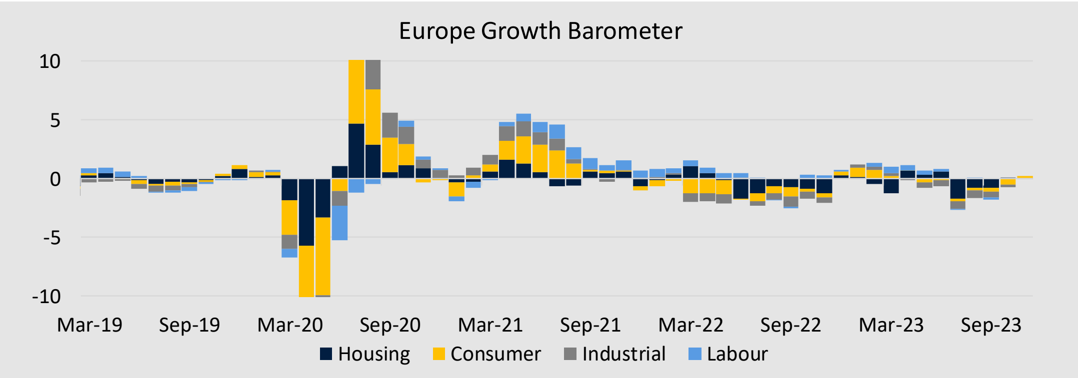
Asia

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. China recently surprised markets after they announced an additional 1 trillion-yuan central government bond issuance which could suggest the government is taking steps to support the economy. We will continue to monitor how any policy support may develop and what implications that may have for equity market performance.



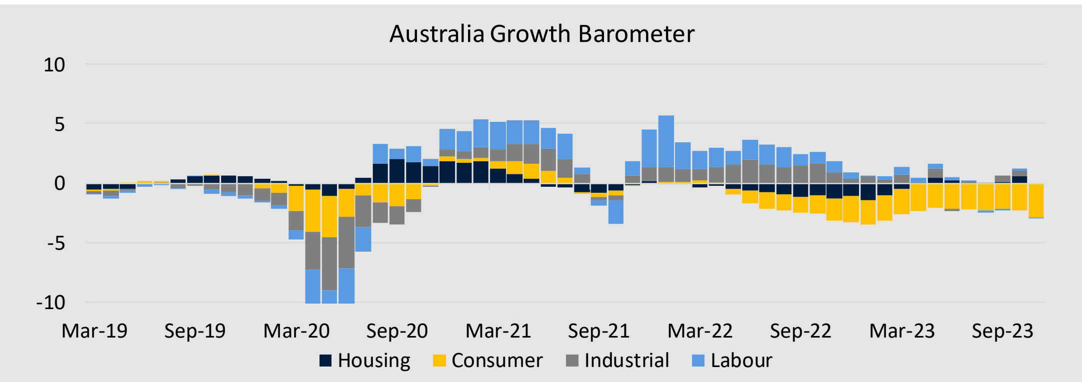
Europe

The ECB looks like it is now at a point where it can pause and assess the impact of its monetary tightening as macro and inflation data has softened. In fact, European growth data is already at levels seen in past recessions. European banks have also rapidly pulled back on business lending which poses risks for a broader credit crunch in the Eurozone. Moreover, 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. Accordingly, markets are now pricing nearly 125bps of ECB rate cuts by the end of 2024.



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 stabilised. 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.



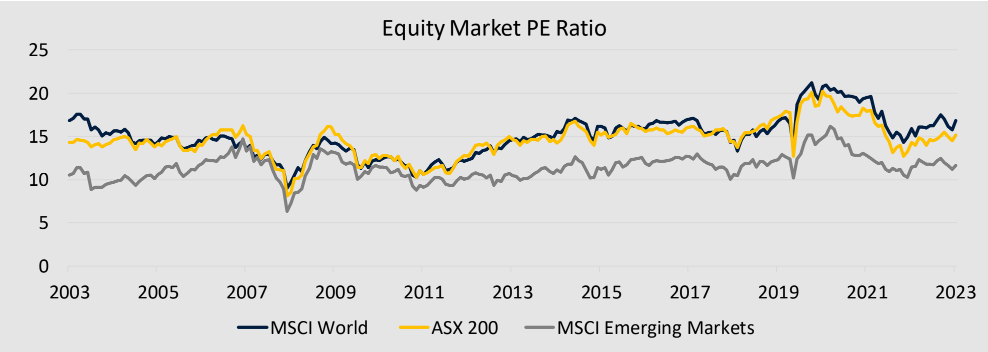
Asset Class Overview

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

Equities

Underweight

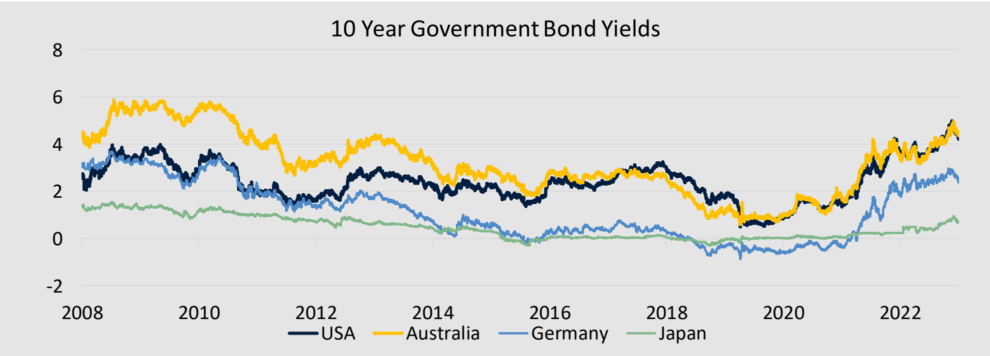
Global equities have performed well for the calendar year to date and are now pricing in the so-called Goldilocks scenario after inflation continued to slow whilst growth remained solid. The recent rally does however increase the risk of disappointment in the near term, either because markets shift as growth becomes too weak, or that yields spike higher again if economic growth stays robust, which could warrant higher interest rates for a longer period to cool down the economy. If anything, the recent rally has stimulated the economy and decreased the need for the Fed to ease monetary policy and thus poses a risk to the market's current conviction that the Fed will start cutting interest rates in H1 2024. Overall, with tightened monetary policy, peak growth behind us, rich valuations and the narrow market leadership, the outlook for equities remains hazy. Given this, we remain underweight global equity.



Bonds

Underweight

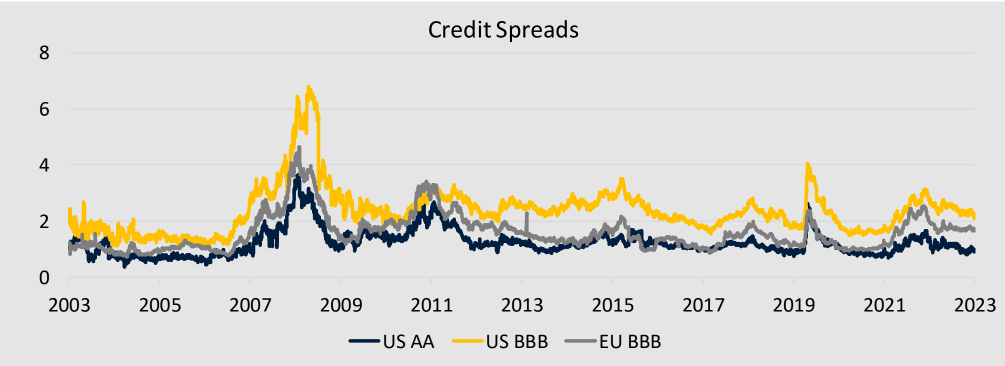
We reduced our exposure to global bonds over recent months as the sell-off in bond yields appeared set to continue with yields reaching highs last seen in 2007. This was led by 'real yields' pushing higher, likely mainly reflecting high debt issuance and a still strong US economy. We will look to close this underweight position once we get closer to a recession or when valuations support a better entry point. We have maintained a neutral exposure to Australian government bonds which have less sovereign risk vis a vis global bonds.



Credit

Overweight

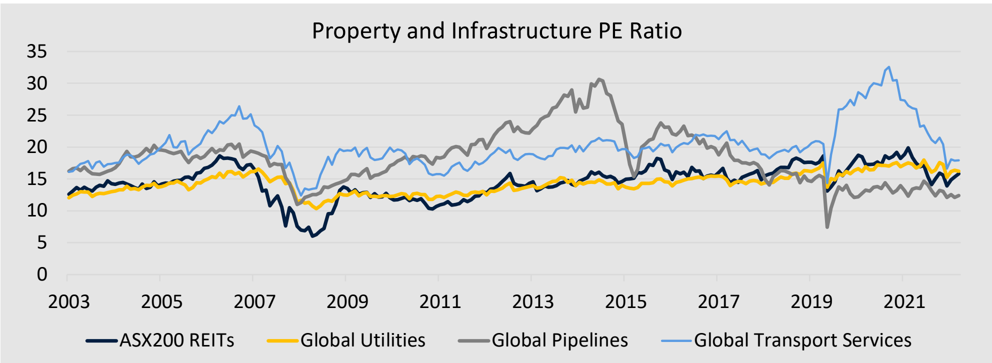
Global credit spreads are now at the tightest levels of 2023 so far and we view the current valuations as unreflective of the still uncertain economic backdrop and hence we remain cautiously positioned. However, we believe the current yields available on Australian investment grade corporate debt (IG) are attractive vs cash and government bonds and we have continued to build exposure to this sector which has taken our overall credit exposure to 'overweight'. Overall, we remain defensively positioned with a focus on quality.



Property / Infrastructure

Neutral

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 favour the more defensive qualities of infrastructure assets in this backdrop.



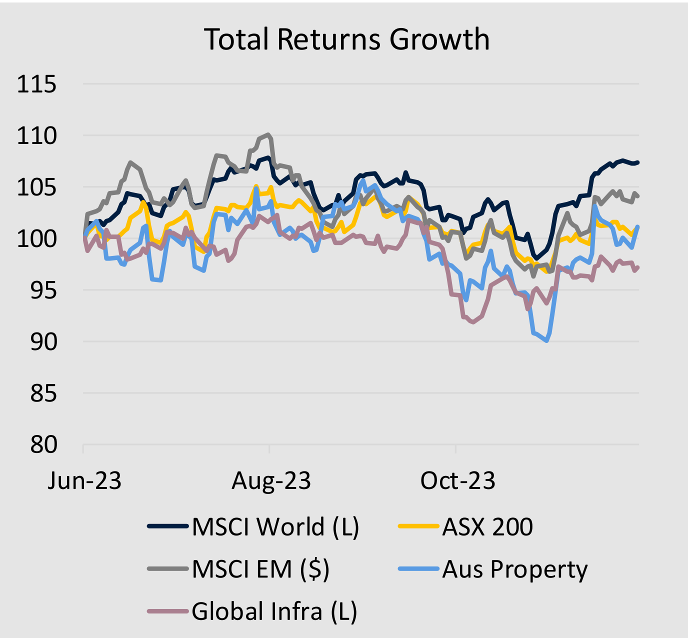
Global Alpha

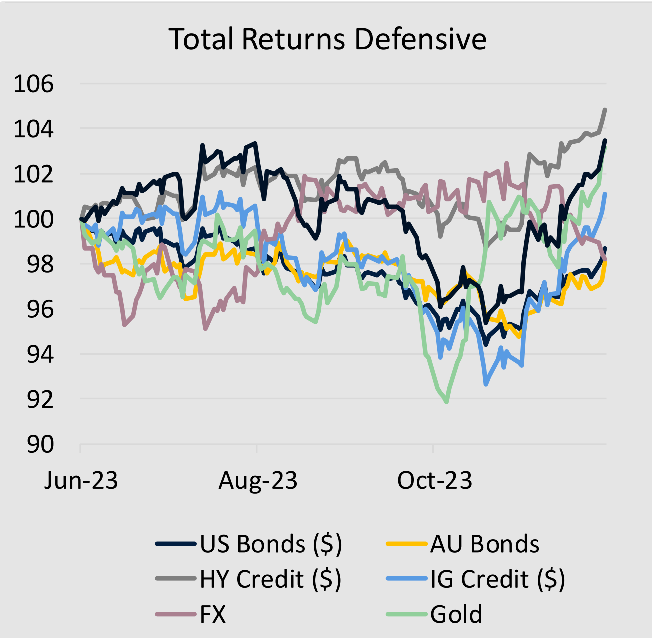
Underweight

We have progressively switched our 'Global Alpha' allocation into defensive IG credit this year as yields now offer more than 6.5% for a fraction of the fee. An over or underweight allocation to this asset class will remain manager and strategy type specific.

Asset Class Returns

	Latest Value 30/11/23	Weekly Performance	Monthly Performance	Quarterly Performance	Yearly Performance
MSCI World All Countries	836	0.7%	8.1%	1.6%	12%
S&P/ASX 200	7,087	0.2%	5.0%	-1.8%	1%
MSCI Emerging Markets	987	-0.1%	8.0%	1.2%	5%
Nasdaq Composite	14,226	0.2%	10.8%	1.6%	25%
Euro Stoxx	460	1.4%	8.0%	1.2%	12%
Australian Property	76.7	0.2%	11.3%	-4.3%	1%
Global Infrastructure	60	0.4%	3.3%	-2.3%	-5%
Australian Bonds	4.39%	0.4%	3.0%	-1.1%	-1%
US Bonds	4.34%	0.6%	3.4%	-0.1%	1%
High Yield Credit (spread/return)	2.1%	1.0%	4.9%	2.1%	6%
Investment Grade Credit (spread/return)	0.9%	1.4%	7.6%	1.3%	3%
US $ / Australian $	0.66	1.1%	4.8%	2.5%	-1%
Crude Oil-WTI	75.6	-2.3%	-7.4%	-9.6%	-6%
Gold Bullion Lbm $/T Oz	2,038	1.8%	2.1%	4.9%	16%





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