D R U M M O N D

CAPITAL PARTNERS

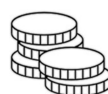
INVESTMENT PERSPECTIVES

Month In Review

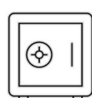
Global Equities
4.7%

Aus Equities
0.8%

Aus REITs
4.9%



AUD/USD
-0.8%



US Bonds
-1.3%

Commodities
0.9%

Major equity markets continued their rally through February with global equities (MSCI ACWI Index) up 4.7% due to robust economic data and relatively strong earnings. Enthusiasm for AI continued to boost US technology stocks where the 'Magnificent 7' continued to lift the market higher due to good earnings results. For now, the S&P 500 has largely been able to look through the push back from the US Federal Reserve against early rate cuts. Assisted by a weaker Yen, Japan's export-oriented stock market continued to outperform, with the Nikkei 225 Index reaching a new all-time high for the first time in over 30 years, despite a weaker than expected fourth quarter GDP print. In contrast, UK and European stocks lagged.

Australian equities (ASX 200) nudged out a much more modest gain of 0.8% which reflects the local market's lack of exposure to technology stocks as well as mixed earnings results - with gains in IT and utilities shares offset by falls in resources, property, and consumer staple stocks. Emerging markets performed well over the month, up 4.8%, due largely to a rebound in China off the back of ongoing share market support measures. The People's Bank of China cut it's 5-year loan prime rate (a benchmark for mortgage rates) by 0.25% which was a higher cut than normal, reflecting a desire to shore up the property market. China also introduced limitations on short selling and initiated stock purchases by the 'national team' of state-owned investment firms.

Fixed income investors suffered lacklustre outcomes during the month as inflation numbers were stronger than anticipated in the US, which reduced expectations for Federal Reserve interest rate cuts over 2024. As a result, US treasuries sold-off, falling -1.3%. The broad commodity market was mildly positive, up 0.9% with oil recording its second consecutive monthly gain due to expectations of OPEC+ rolling their production cuts. The AUD continued to weaken against the USD as the market continued to push out US rate cut expectations.

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 rates will be cut throughout 2024.
2.	Inflation is looking to have established a disinflationary trend, but the process of inflation normalisation still has some way to go.
3.	Equity market and bond valuations will be 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

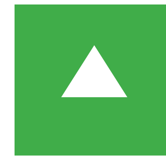
Asia

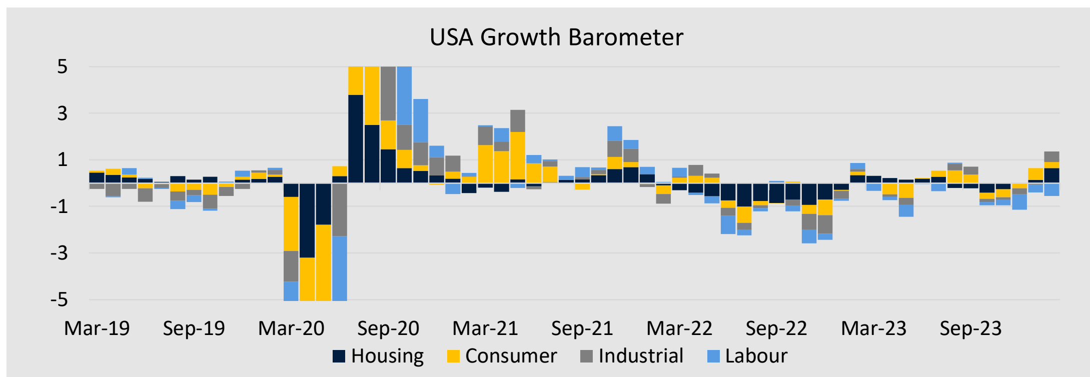
Europe

Australia

North America

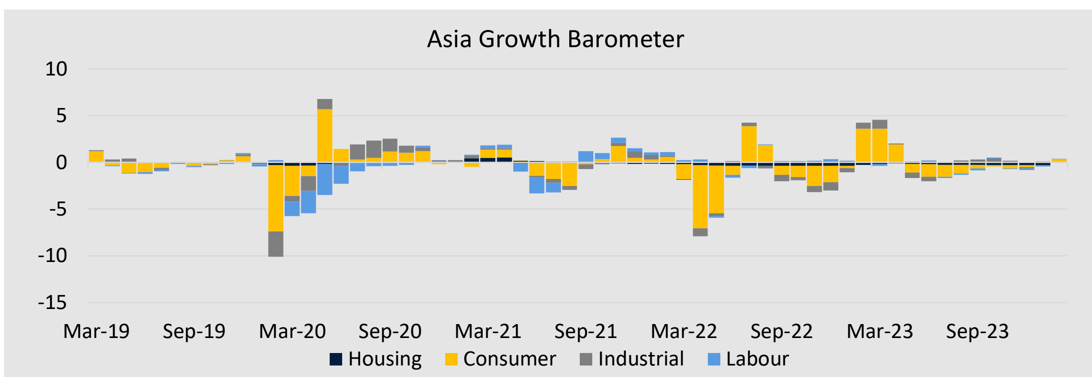
Lead indicators of manufacturing activity have begun to pick up steam of late and so too has our US Growth Barometer. US economic strength was a key theme through 2023 and this year so far has been no exception. Whilst a recession in 2024 seems less likely, we continue to expect real GDP growth to slow over coming quarters as the lagged impact of monetary policy is felt. Indeed, the unemployment rate is generally trending higher in the US and whilst core inflation has moderated from the peak, further falls from here will be hard to generate with growth strong.





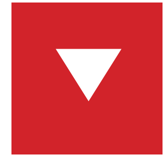
Asia

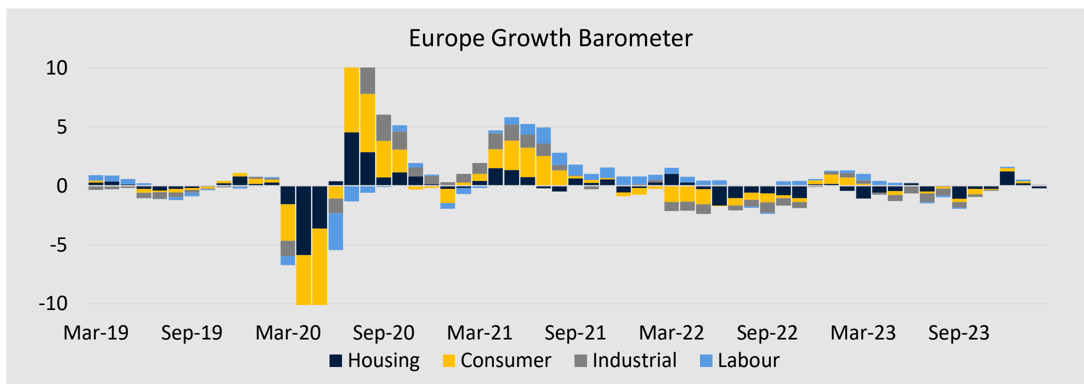
China's economy and share market have started to show signs of recovery following momentary policy stimulus and various share market support measures. Activity data over the Lunar New Year holiday period strengthened and parliament is expected to announce additional stimulus focussing on near-term support however they are unlikely to include a plan to address China's structural issues such as a property market crises and exorbitant local government debt. That will require a bold fiscal plan and large-scale reforms. Whilst these stimulus measures are encouraging, this isn't yet a recipe for a return of foreign institutional investors and equity market outperformance. Should the Government increasingly ramp up stimulus, a temporary allocation to China may be warranted.



Europe

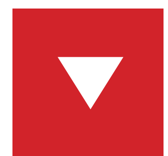
Europe's economy has struggled to regain momentum following the pandemic, constrained by high inflation and an aggressive interest rate hiking cycle. Indeed, the Eurozone only avoided ending 2023 in a recession by a very narrow margin. Moreover, European banks have rapidly pulled back on business lending 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 and has kept natural gas prices high. Interest rates are significantly higher than anyone thought possible two years ago as are funding costs for heavily indebted governments. Overall, we expect the Eurozone economy to continue to remain under pressure as the effects of past monetary tightening continue to work through the economy.

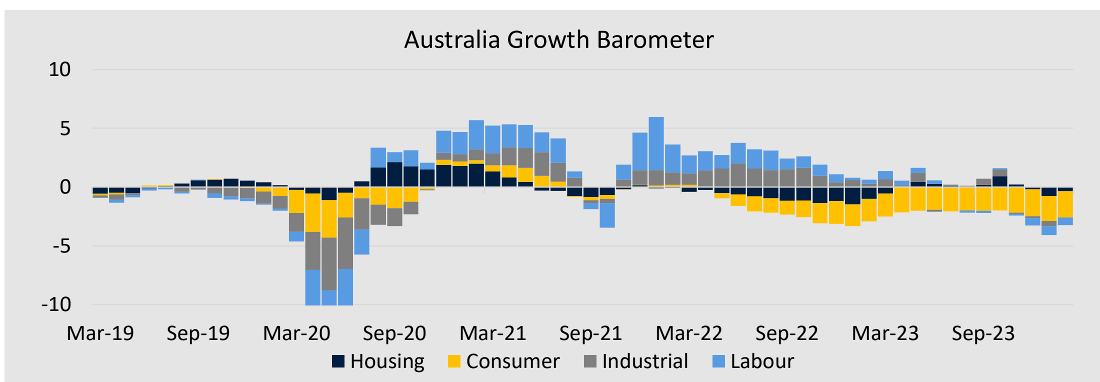




Australia

The Australian economy is still experiencing below trend growth and consumers are at GFC levels of pain as rate hikes are starting to bite. Moreover, Australian business conditions PMIs for the last 18 months have been showing little to no economic expansion. Softness in national house prices remains a risk for 2024 as interest rate rises continue to weigh.





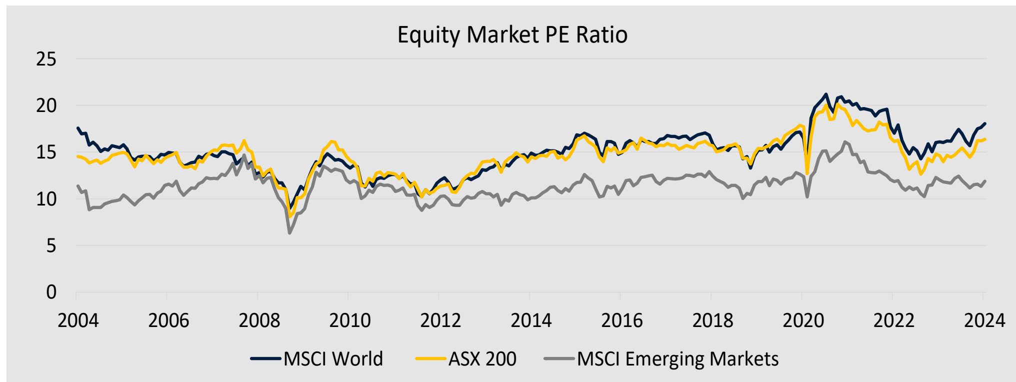
Asset Class Overview

Asset Class	Position
Equities	Underweight
Bonds	Underweight
Credit	Overweight
Infrastructure	Neutral
Property	Overweight
Global Alpha	Underweight

Equities

Underweight

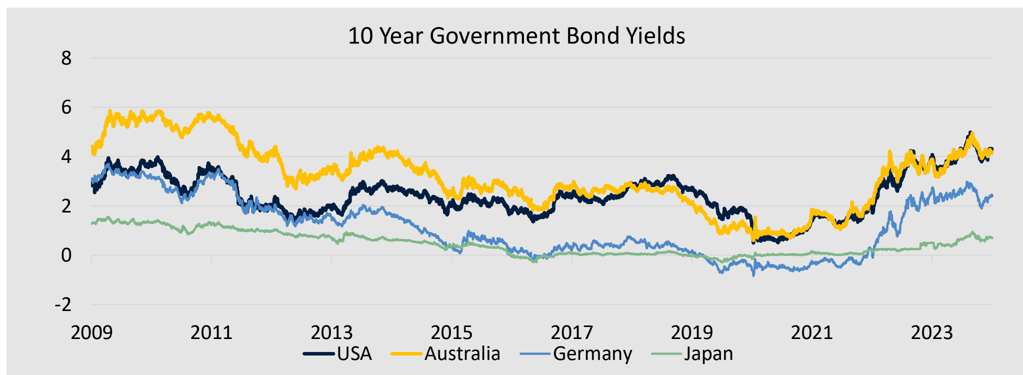
While US equity markets have been strong so far in 2024, most of the gains have been concentrated in a small number of technology stocks because of AI positivity. Whilst we have a market with very narrow leadership, inflation has substantially softened from the 2022 peaks despite solid economic growth, and it appears scope remains for the Federal Reserve to cut rates this year. Whether it's 3 or 7 cuts, a pivot to policy easing is very important for equity markets. Moreover, lead indicators of manufacturing activity have begun to pick up of late and this bodes well for the trajectory of earnings growth across the market, and it should benefit those more cyclical sectors.



Bonds

Underweight

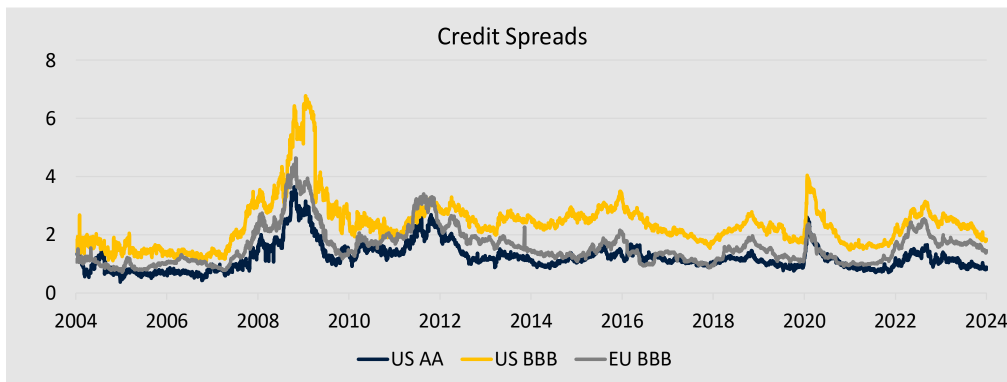
We reduced our exposure to global bonds early in Q3 2023 as the sell-off in bond yields appeared set to continue. Since then, we have continued to note that the stickier elements of inflation have been stable at a level well above the Fed's target of 2%. With very strong January labour market data and a pickup in our US Growth Barometer, it appears that the economy has withstood 5% interest rates well. Given core inflation in the US remains sticky and the deficit has no sign of abating, we remain cautious on global government bonds, but maintained a neutral exposure to Australian bonds. Overall, we remain underweight duration across our portfolios.



Credit

Overweight

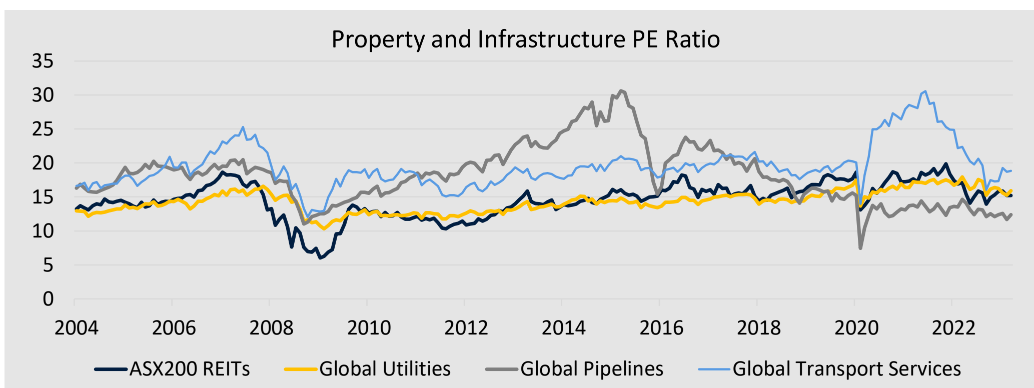
Global credit spreads ended 2023 at the tightest levels of the year whilst delinquencies and defaults are edging higher (albeit off a low base). We do view the current valuations as unreflective of the still uncertain economic backdrop and hence we remain cautiously positioned. However, we do believe the current yields available on Australian investment grade corporate debt are attractive versus cash and government bonds and we have continued to build exposure to this sector. Overall, we remain defensively positioned with a focus on quality.



Property / Infrastructure

Overweight

US activity data and inflation have surprised to the upside in 2024. As such, we reduced the overweight portfolio exposure to the interest rate sensitive infrastructure sector in February. For now, the proceeds will be held in cash as we look to re-allocate the proceeds into growth assets better equipped to deal with a potential higher for longer interest rate environment. We remain overweight property securities.



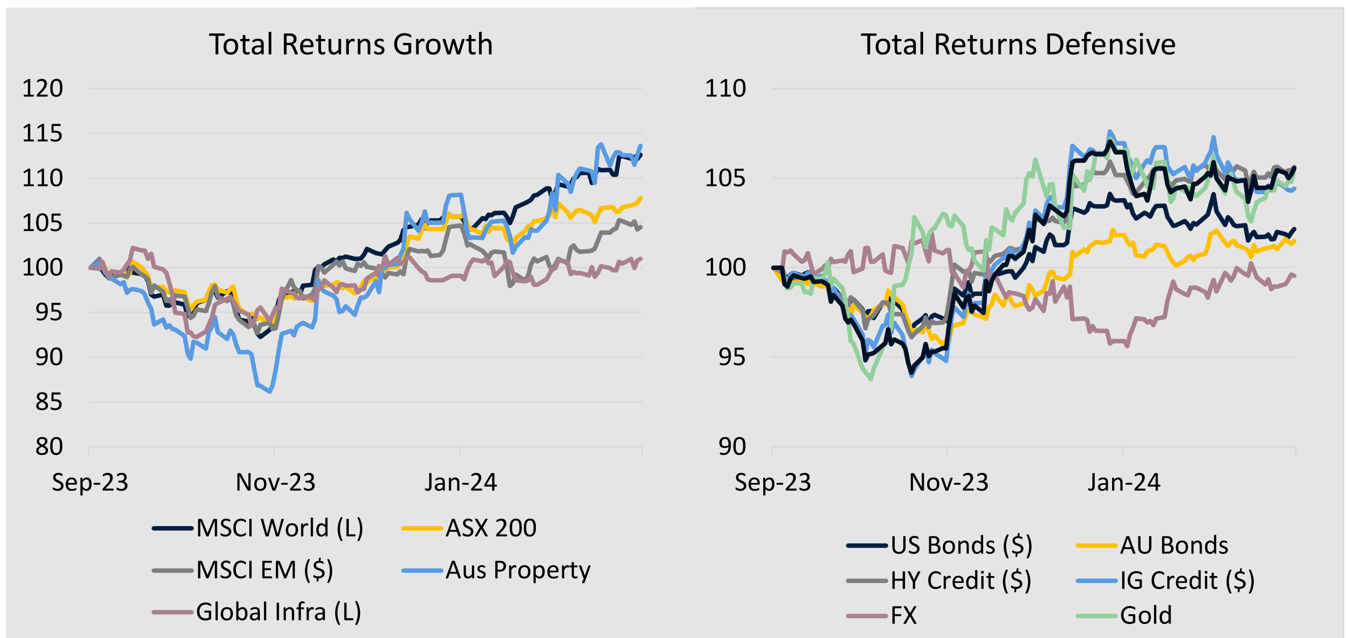
Global Alpha

Underweight

We have progressively switched our 'Global Alpha' allocation into high quality Investment Grade credit as we can attain a 6.5-7% running yield for a fraction of the fee. An over or underweight allocation to Global Alpha remains manager and strategy type specific.

Asset Class Returns

	Latest Value 29/02/24	Weekly Performance	Monthly Performance	Quarterly Performance	Yearly Performance
MSCI World All Countries	919	1.8%	4.7%	10.3%	24.0%
S&P/ASX 200	7,699	1.0%	0.8%	9.4%	10.6%
MSCI Emerging Markets	1,021	0.3%	4.8%	3.9%	9.2%
Nasdaq Composite	16,092	3.0%	6.2%	13.3%	41.6%
Euro Stoxx	498	1.8%	3.3%	8.8%	12.9%
Australian Property	89.2	1.2%	4.9%	17.6%	13.6%
Global Infrastructure	62	1.4%	1.3%	4.2%	3.6%
Australian Bonds	4.15%	0.4%	-0.4%	2.8%	2.9%
US Bonds	4.24%	0.3%	-1.3%	1.8%	2.5%
High Yield Credit (spread/return)	1.8%	0.3%	0.3%	3.6%	10.1%
Investment Grade Credit (spread/return)	0.9%	-0.2%	-1.9%	2.4%	6.0%
US $ / Australian $	0.65	-0.2%	-0.8%	-1.9%	-3.1%
Crude Oil-WTI	79.2	0.6%	3.9%	4.8%	3.0%
Gold Bullion Lbm $/T Oz	2,045	0.9%	-0.1%	0.4%	12.0%



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