DRUMMOND

CAPITAL PARTNERS

INVESTMENT PERSPECTIVES

March 2024

Month In Review

Global Equities
3.4%

Aus Equities
3.3%

Aus REITs
10.1%

AUD/USD
0%

US Bonds
0.6%

Commodities
4.7%

Major equity markets recorded another strong month during March with global equities (MSCI ACWI Index) up 3.4% due to economic news that was consistent with a goldilocks scenario and with central banks remaining on track for rate cuts this year. The breadth of the US share market has also risen with the Nasdaq trailing the S&P 500 equally weighted index. Assisted by a weaker Yen, Japan's export-oriented stock market continued to outperform, despite the Bank of Japan (BoJ) ending the world's last negative interest-rate regime.

Australian equities (ASX 200) also gained and closed the month at another new record high. Nearly every sector in the ASX 200 gained, with communication services being the only sector with a loss. The AREIT sector rallied 10.1% in March to become the second-best sector YTD after information technology. Emerging markets also performed reasonably well over the month, up 2.5%, as Chinese equities bounced from their February lows. Recent Chinese economic activity data has surprised on the upside which has been a catalyst for investors to consider the probability of China reaching it's 5% growth target this year despite a property market in the doldrums.

Fixed income markets appreciated during the month as global central banks signalled interest rate cuts are slowly on their way and an improving environment for risk-taking saw credit spreads continue to tighten. Amidst this backdrop, Australian Bonds were up 1.1% whilst US Bonds rose 0.6%. The broad commodity market rallied 4.7% for the month and is now one of the best performing asset classes in the world YTD. Gold (8.3%) was the strongest contributor after reaching an all-time high of US$2.200/Oz. The oil market also rallied (6%) as OPEC+ supply cuts have turned the market outlook from surplus to deficit.

Things That Matter

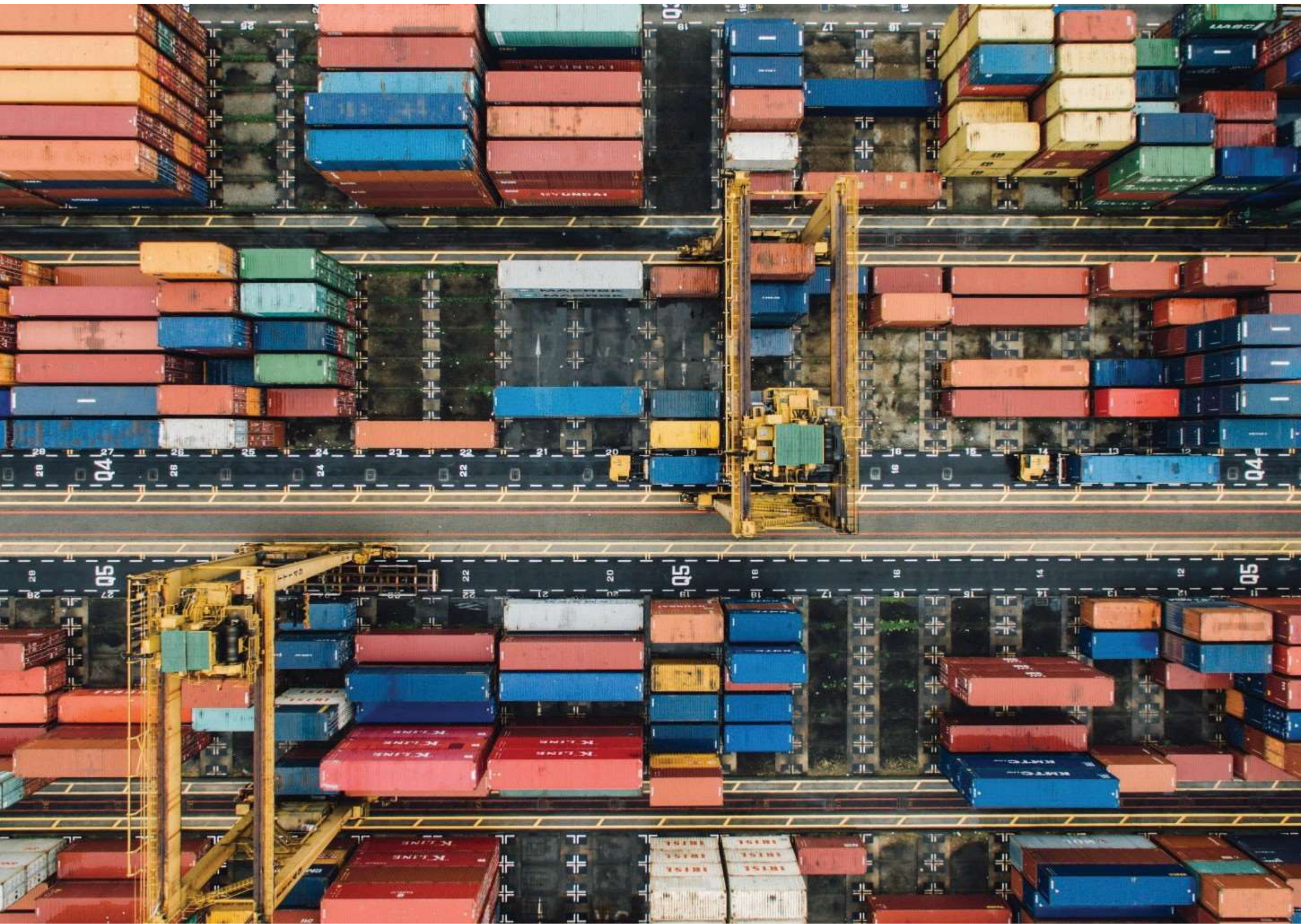
1.	Most global central banks have aggressively tightened monetary policy in response to high inflation and there is now an expectation that rates will be cut throughout 2024.
2.	Inflation is looking to have established a disinflationary trend, but the process of inflation normalisation still has some 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	▲	○	○	●	○	○

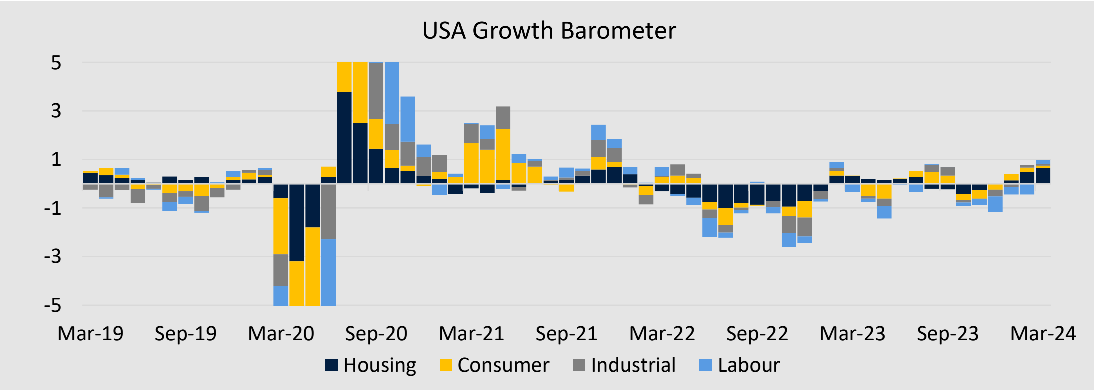
Macroeconomic Overview

North America	▲
Asia	▲
Europe	▼
Australia	▲



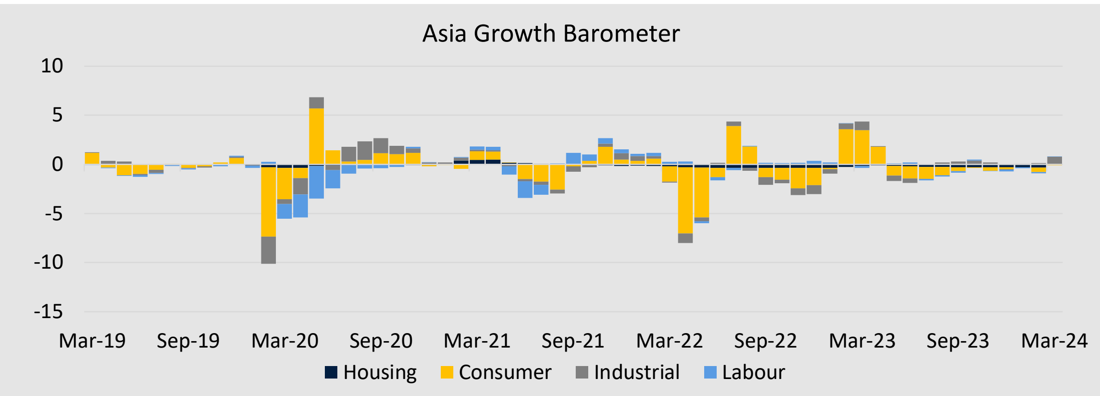
North America

US economic data continues to remain solid as evidenced by the strength in the US PMI alongside low jobless claims. The Conference Board's February leading index rose for the first time in two years and home builder conditions improved in March as did housing starts and existing home sales. 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.

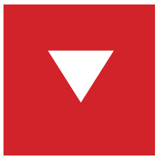


Asia

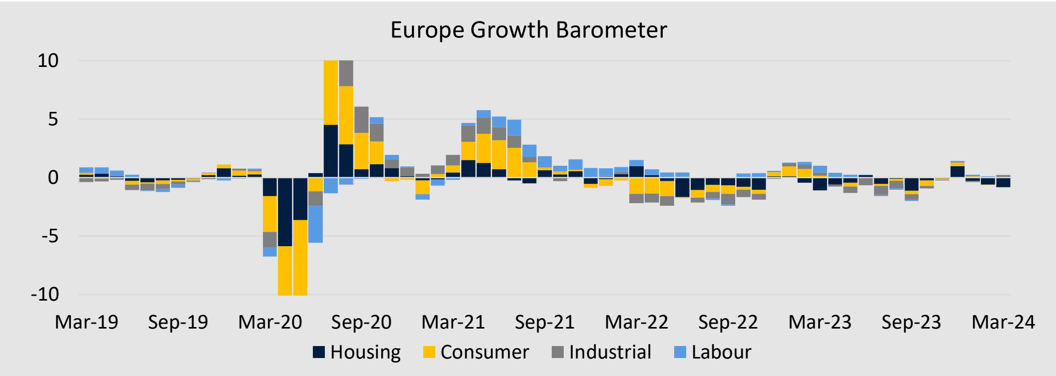
Chinese growth is not as bad as feared. While January and February data showed continued property sector weakness, industrial production and investment came in stronger than expected. This should help appease some of the extreme pessimism about the Chinese economy. The Government is also expected to announce additional stimulus focussing however they are unlikely to include a plan to address China's structural issues such as their property market and local government debt. That will require a bold fiscal plan and large-scale reforms, which is also what is required for a return of foreign institutional investors.



Europe

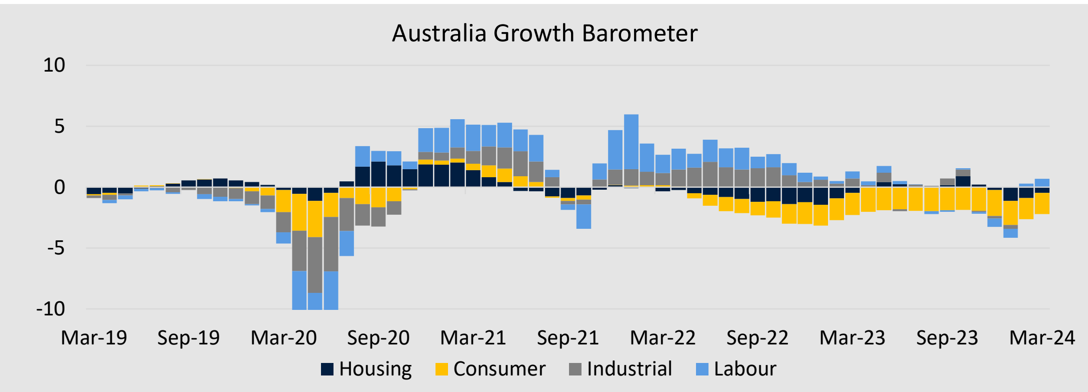


Europe's economy has struggled to regain momentum following the pandemic, constrained by high inflation and an aggressive interest rate hiking cycle. Indeed, the Eurozone only avoided ending 2023 in a recession by a very narrow margin. Moreover, European banks have rapidly pulled back on business lending 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. 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 stress as higher for longer rates start to bite. However, jobs surged during February which boosted both employment and hours worked and cut unemployment to 3.7% (only slightly above its 50-year low of 3.5%). Moreover, Australian business conditions PMIs for March rose with strength in services offsetting weakness in manufacturing. Softness in national house prices remains a risk for 2024 as interest rate rises continue to weigh. However, the strongest population growth since the 1950s should continue support demand.



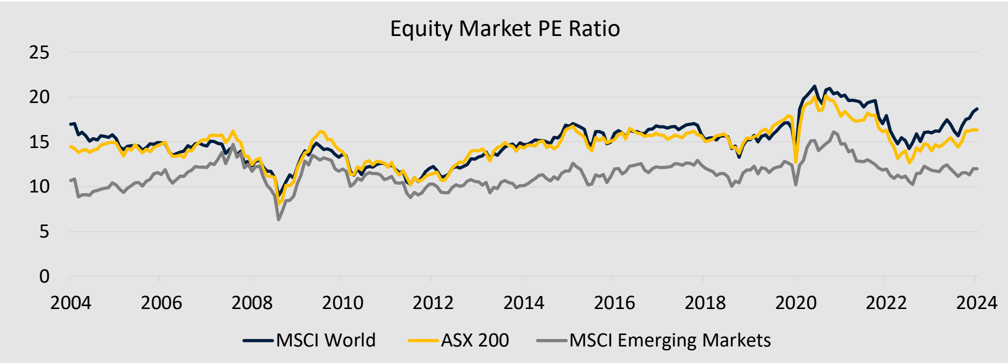
Asset Class Overview

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

Equities

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 the Federal Reserve is set on cutting rates this year. 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.

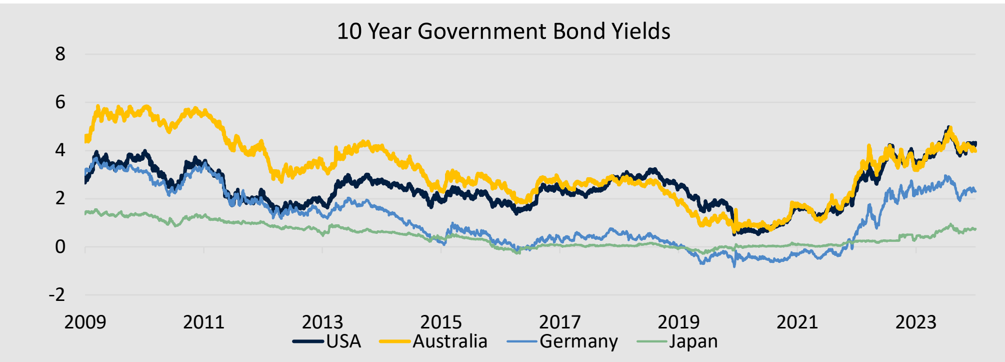
Neutral



Bonds

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 a pickup in our US Growth Barometer, it appears that the economy has withstood 5% interest rates well. Given core inflation in the US appears sticky and the deficit has no sign of abating, we remain cautious on global government bonds, but maintain a neutral exposure to Australian bonds. Overall, we remain underweight duration across our portfolios.

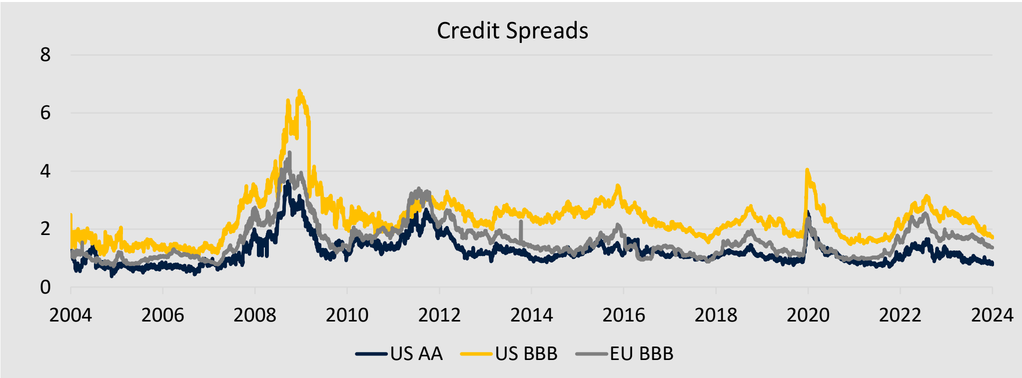
Underweight



Credit

Global credit spreads ended 2023 at the tightest levels of the year whilst delinquencies and defaults are slowly edging higher (albeit off a low base). So far in 2024, the riskier end of the credit spectrum like triple-Cs are continuing to outperform and we view valuations as unreflective of the still uncertain economic backdrop and hence we remain defensively positioned. However, we do believe the current yields available in Australian investment grade corporate debt to be attractive versus cash and government bonds and accordingly we have continued to build exposure to this sector. Overall, we remain cautiously positioned with a focus on quality and liquidity.

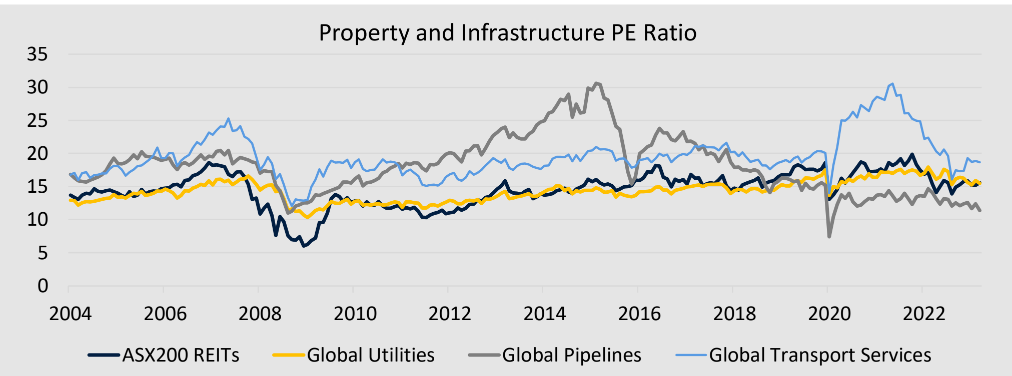
Overweight



Property / Infrastructure

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. We remain overweight global property securities where there remains a more compelling valuation and potential for performance to mean revert.

Overweight



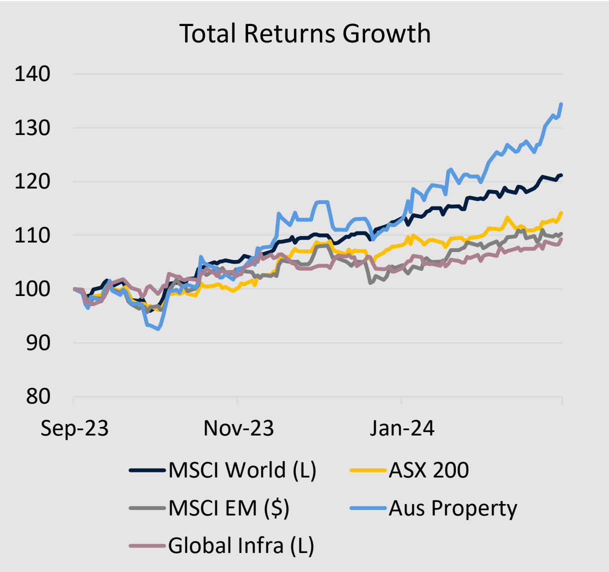
Global Alpha

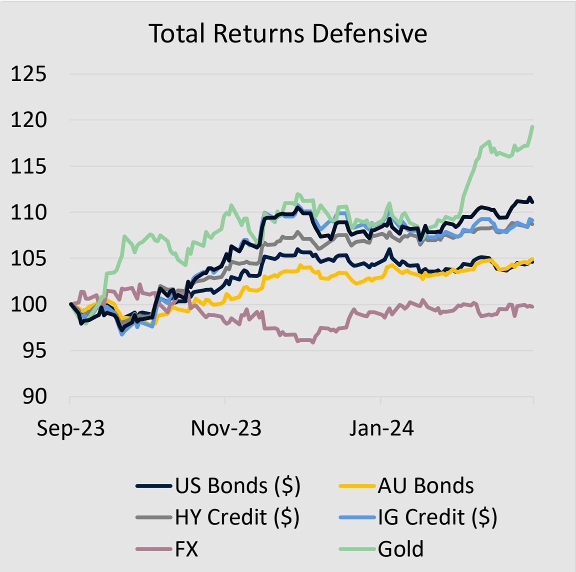
We have progressively switched our 'Global Alpha' allocation into high quality domestic Investment Grade credit as we can attain a 6.5-7% running yield for a fraction of the fee. An over or underweight allocation to Global Alpha remains manager and strategy type specific.

Underweight

Asset Class Returns

	Latest Value 31/03/24	Weekly Performance	Monthly Performance	Quarterly Performance	Yearly Performance
MSCI World All Countries	948	0.9%	3.4%	9.6%	25.0%
S&P/ASX 200	7,897	2.6%	3.3%	5.3%	14.5%
MSCI Emerging Markets	1,043	1.2%	2.5%	2.4%	8.6%
Nasdaq Composite	16,379	0.1%	1.9%	9.3%	35.1%
Euro Stoxx	520	1.9%	4.6%	10.2%	17.5%
Australian Property	98	5.9%	10.1%	15.7%	35.5%
Global Infrastructure	64	0.9%	3.0%	5.4%	5.1%
Australian Bonds	3.98%	0.5%	1.1%	0.8%	0.2%
US Bonds	4.21%	0.5%	0.6%	-0.9%	0.2%
High Yield Credit (spread/return)	1.7%	-0.1%	1.1%	1.5%	9.1%
Investment Grade Credit (spread/return)	0.9%	0.7%	1.5%	-0.9%	3.6%
US $ / Australian $	0.65	0.1%	0.2%	-4.5%	-2.7%
Crude Oil-WTI	84.0	1.4%	6.0%	16.8%	11.0%
Gold Bullion Lbm $/T Oz	2,214	2.7%	8.3%	7.2%	12.0%





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