



D R U M M O N D

C A P I T A L P A R T N E R S

INVESTMENT PERSPECTIVES

May 2024

Month In Review



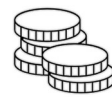
Global Equities
3.8%



Aus Equities
0.9%



Aus REITs
2.4%



AUD/USD
1.7%



US Bonds
1.5%



Commodities
-1.9%

Despite a bout of volatility gripping stocks in the final stretch of May, global equities (MSCI ACWI Index) finished 3.8% higher for the month. The S&P 500 posted its best monthly performance since February (+5.0%), thanks largely to AI-related enthusiasm which lifted information technology stocks. Moreover, all three US indices hit new record highs during May with the Nasdaq up 7.0% and the Dow up 2.3%. European equities rallied 3.5% in May and Japanese equities delivered a modest 1% gain for the month.

Australian equities (ASX 200) remained range bound throughout May and closed the month up 0.9%. Information technology (5.5%) and utilities (3.4%) were the top performing sectors whereas communication services were the worst sector with a fall of -2.6%. Emerging market equities (+0.6%) were largely flat for the month.























































Fixed income market performance was also positive for May with US bonds rising 1.5% and Australian bonds up a more modest 0.4%. This was despite treasury yields approaching their year-to-date highs (reached in April) towards month end, following a bond auction that was met with weak demand. Comments from the US Federal Reserve officials on the path of interest rates also kept investors on edge. Pleasingly, credit spreads continued to remain stable due to the supportive economic backdrop.

The broad commodity market fell -1.9% for the month as losses in energy (-5.4%) outweighed the more modest gains in Gold (+1.5%). The AUD strengthened 1.7% vs the USD as the market pushed out the first rate cut in the US from November to December.

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 in 2024.
2.	This year so far has seen surprisingly high inflation, showing 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 remains sticky or if there is a recession.
4.	So far in 2024, Chinese property data has remained depressed with further falls in property prices, sales and investment. But so far, the rest of the economy is still growing at a satisfactory pace.
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 MoM	Strong Underweight	Underweight	Neutral	Overweight	Strong Overweight
Australian Equities						
Global Equities						
Property						
Infrastructure						
Global Alpha						
Government Bonds						
Corporate Debt						
Cash						
Total Growth vs Defensive						

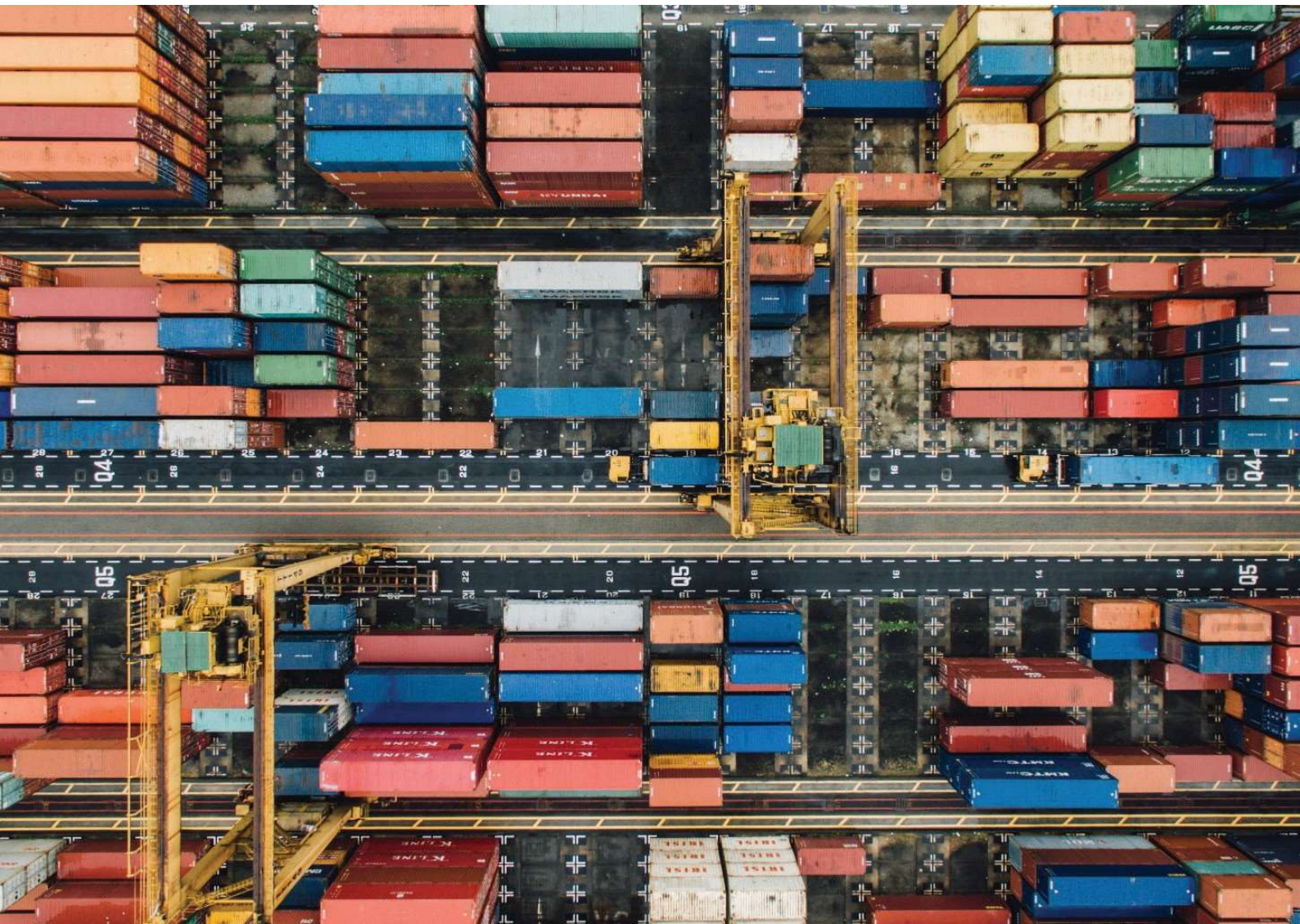
Macroeconomic Overview

North America ●

Asia ●

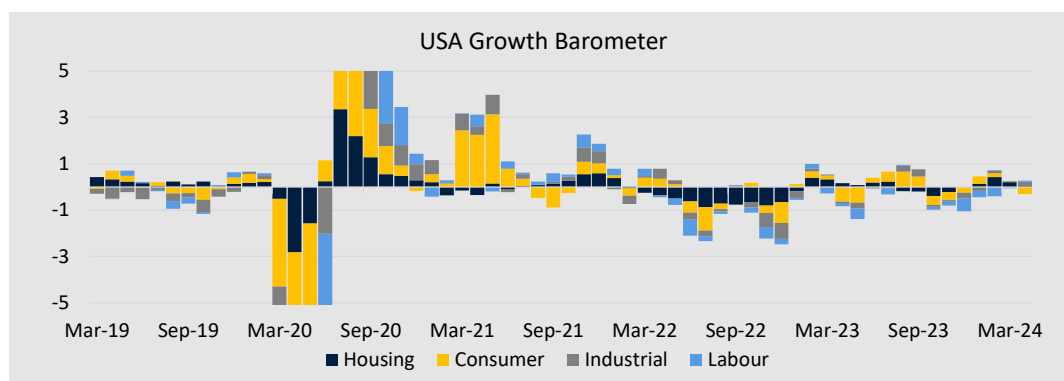
Europe ▲

Australia ●



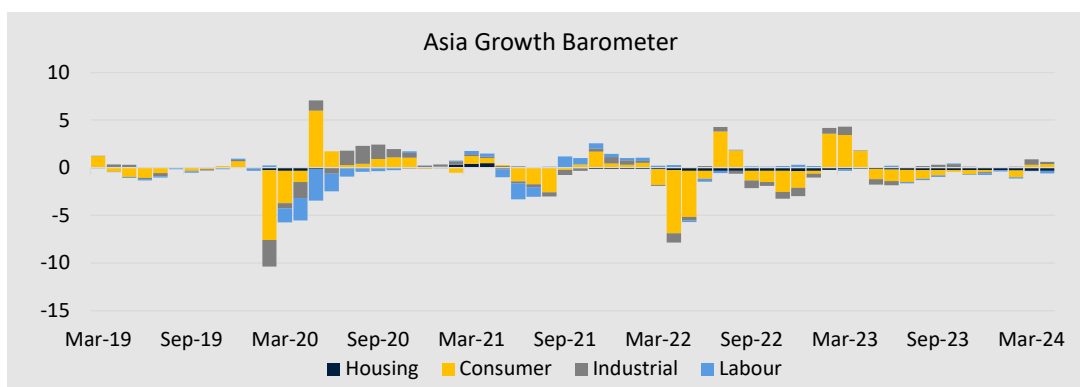
North America

The US economy has generally surprised to the upside since 2023. Much of this unexpected strength reflects increased fiscal spending. Fiscal stimulus has helped Federal Reserve rate hikes to be digested by the economy without too much turmoil. With 2024 an election year, we don't expect much pull back on the fiscal front. As such, the risk of recession has faded significantly since this time last year – the long hoped for soft landing in the economy looks increasingly likely. Still, inflation in the US remains too high for comfort. Progress on disinflation seems to have stalled so far in 2024 and this has pushed back market expectations for rate cuts substantially. We think inflation will again begin to moderate in the second half of this year reflecting falling rents and the passing of one-off annual price increases. This should keep the Federal Reserve on track for some interest rate cuts, though not until the end of the year.



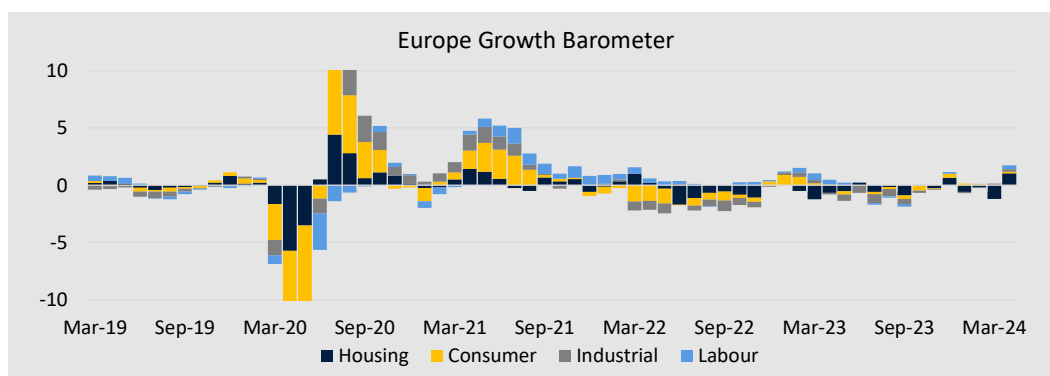
Asia

The Chinese housing market remains depressed but so far, the rest of the economy is still growing, offsetting a lot of the weakness in that sector. China's Politburo set a positive tone during their April meeting by announcing that fiscal spending will accelerate and that the PBOC may cut both the policy rate and the reserve requirement ratio however they are constrained by the need to keep the exchange rate stable. Overall, it is positive to see the economy growing without a recovering property sector. However, more policy support and large-scale reforms are required to see a return of foreign institutional investors, including a plan to address China's structural issues such as their property market and local government debt.



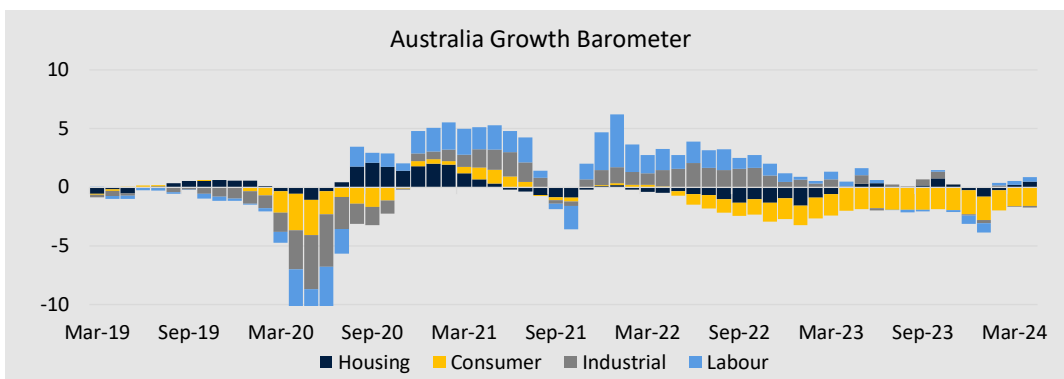
Europe

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. Bank lending and demand for loans continues to be weak. The German economy, extremely important for the Bloc as a whole, continues to struggle with a stagnant manufacturing industry. With growth very weak and substantial progress been made on the inflation front, the European Central Bank is expected to begin cutting rates before the Federal Reserve, beginning around the middle of this year. Whether that will be sufficient to kick-start growth in what is a structurally sluggish economy remains to be seen.



Australia

The Australian economy is still experiencing below trend growth. Consumer confidence remains around recessionary levels. By contrast, business confidence remains far stronger reflecting slightly above average business conditions, although both are well down from their highs a few years ago. Strong migration is supporting the housing market and overall headline economic activity although the economy has been shrinking in per-person terms since mid-2022. Inflation in Australia also remains too high, with limited housing supply and strong migration pushing rents ever higher. Fiscal spending on infrastructure projects is also adding to the inflation burden. The RBA hasn't increased interest rates by as much as other central banks and would have been hoping they could get inflation under control with rates where they currently are. However, ongoing high inflation may force their hand into another hike.



Asset Class Overview

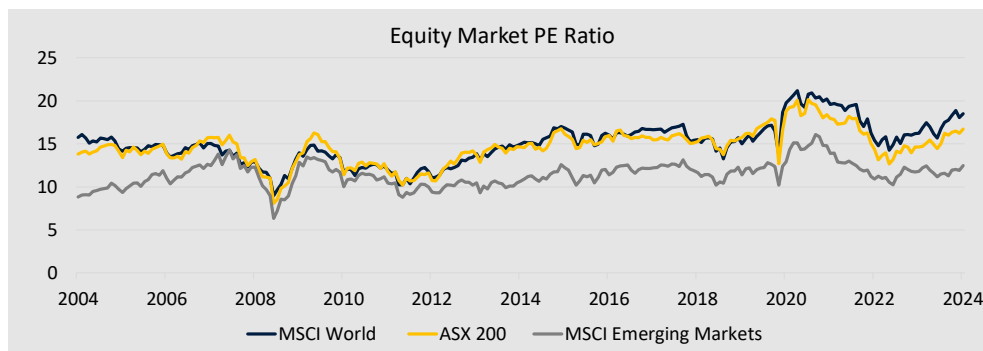
Equities	Overweight
Bonds	Underweight
Credit	Overweight
Infrastructure	Neutral
Property	Overweight
Global Alpha	Underweight



Equities

Excluding April's reversal, US equity markets have been strong so far in 2024 and most of the gains have been concentrated in a small number of technology stocks due to AI positivity. Pleasingly, Q1 2024 earnings have continued to beat for a fifth straight quarter with mega-cap technology earnings growth remaining very strong at 38% year-on-year. 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 more cyclical sectors.

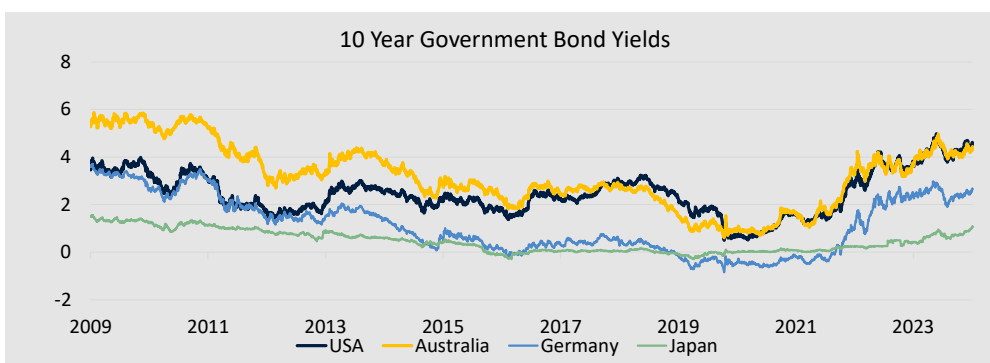
Overweight



Bonds

The portfolios remain underweight bond exposure. Yields have risen in 2024 as expectations for central bank rate cuts globally have been priced out of the market. Sticky inflation is the main culprit here. With the risk of recession fading, there is less need for defensive exposure in the portfolio. That said, yields where they are today provide much better income than they did three years ago and now have the potential to provide true diversification in times of economic crisis.

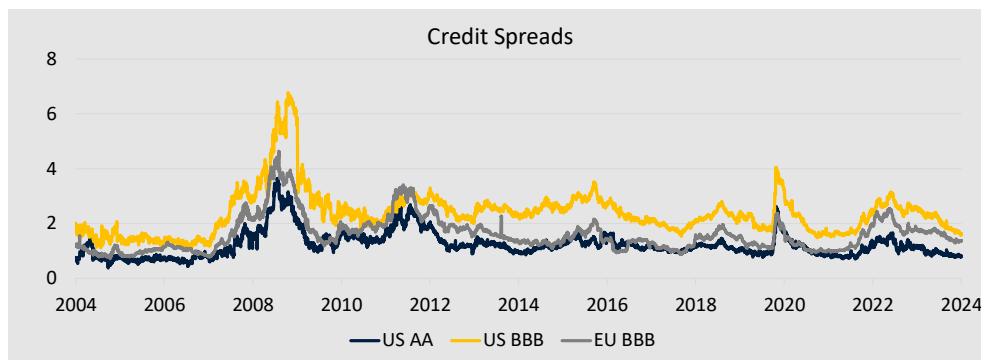
Underweight



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 is 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 are 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.

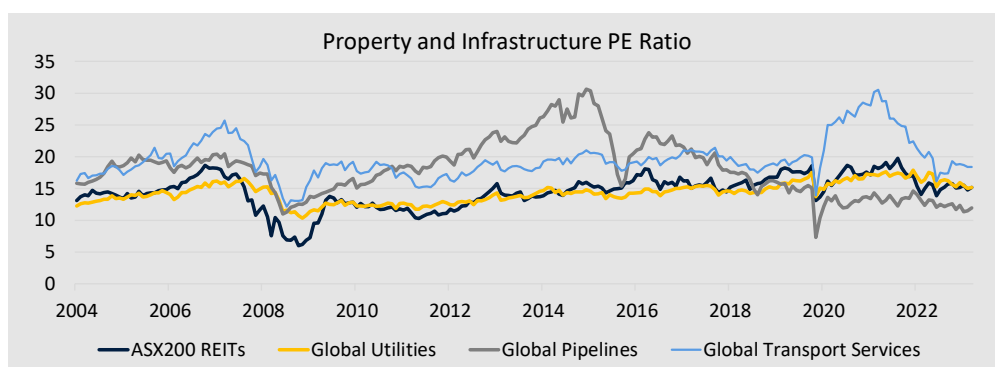
Overweight



Property / Infrastructure

Property and infrastructure have struggled to perform as well as global equities with interest rates remaining high. However, they are traditionally more defensive than global equities and less reliant on the fortunes of mega cap technology stocks. Over the long term, both also have robust inflation hedging characteristics which are desirable in the current environment.

Overweight



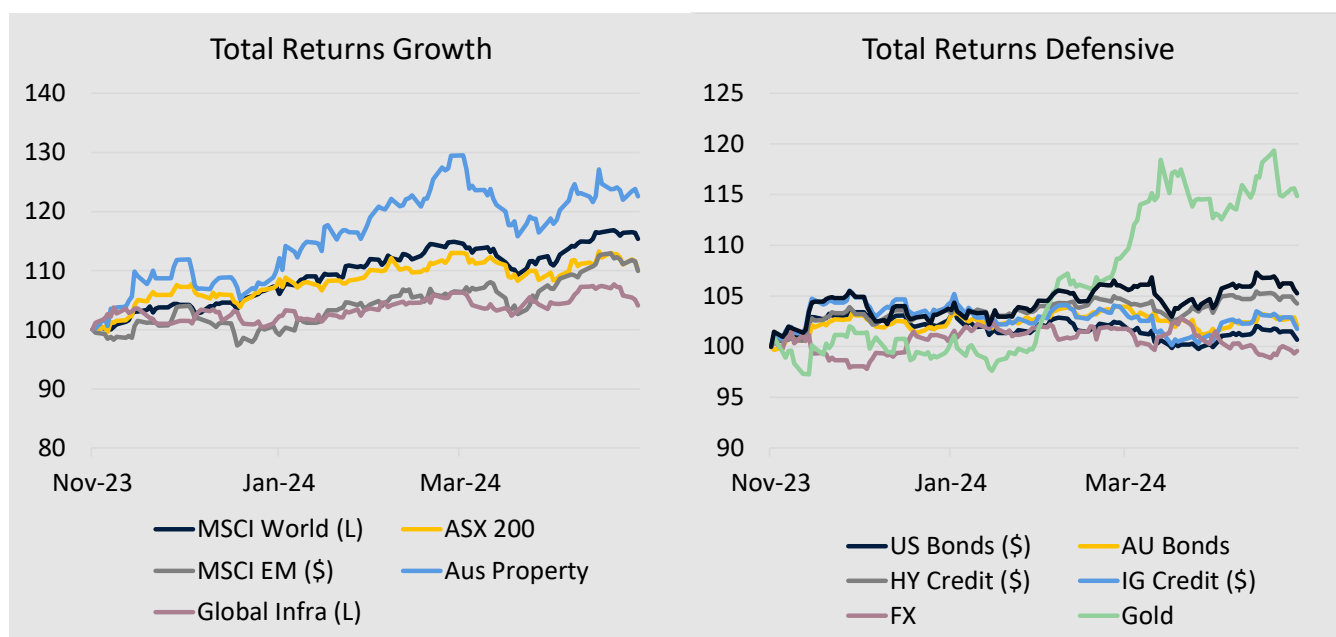
Global Alpha

An over or underweight allocation to global alpha tends to be manager and strategy type specific. However, with strong returns available in defensive credit and bonds, this asset class plays less of a role in the portfolio.

Underweight

Asset Class Returns

	Latest Value 31/05/24	Weekly Performance	Monthly Performance	Quarterly Performance	Yearly Performance
MSCI World All Countries	952	-0.9%	3.8%	4.4%	24.7%
S&P/ASX 200	7,702	-1.9%	0.9%	1.2%	12.9%
MSCI Emerging Markets	1,049	-4.2%	0.6%	3.6%	12.8%
Nasdaq Composite	16,735	-0.4%	7.0%	4.2%	30.4%
Euro Stoxx	516	-0.7%	3.1%	6.0%	19.9%
Australian Property	92	-1.9%	2.4%	3.6%	23.0%
Global Infrastructure	63	-2.1%	0.5%	2.2%	5.1%
Australian Bonds	4.41%	-0.6%	0.4%	-0.6%	-0.3%
US Bonds	4.49%	-0.2%	1.5%	-0.3%	-0.1%
High Yield Credit (spread/return)	1.6%	0.1%	1.6%	1.4%	10.6%
Investment Grade Credit (spread/return)	0.8%	-0.3%	2.2%	0.4%	3.7%
US \$ / Australian \$	0.66	-0.6%	1.7%	1.8%	2.2%
Crude Oil-WTI	79.0	-0.2%	-5.4%	-0.3%	16.0%
Gold Bullion Lbm \$/T Oz	2,331	-2.6%	1.5%	13.9%	18.2%



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