

# INSTITUTIONAL UPDATE

September 2024



## AUSTRALIAN EQUITIES STRATEGIES

The S&P/ASX 300 rose 7.81% in the quarter ending September, driven initially by a surge in bank stocks and followed by a significant rotation from defensive to cyclical stocks in late September. As expected, the U.S. Federal Reserve cut interest rates, while China surprised markets with a larger-than-anticipated stimulus package. Although there was scepticism about the long-term effectiveness of China's measures, they had an immediate and notable impact on both Chinese and Australian stock markets. Banks performed well early in the quarter, buoyed by consumer resilience, but faced sharp sell-offs once the stimulus measures were announced, allowing resource stocks to take the lead. The Materials sector soared 10.80%, significantly outpacing the broader market. Financials also saw strong gains, rising 8.27%. Real estate, consumer, and industrial stocks all participated in the rally.

September served as a stark reminder of how quickly market dynamics can shift, particularly when a momentum trend is disrupted. Concerns about Chinese growth and deflation led to excessive bearish sentiment, with the Chinese equity market reaching generational lows. Even quality, world leading businesses like Baidu traded at just 8x earnings, despite having a cash backing amounting to half its market capitalization. In Australia, despite a resilient consumer base, it was increasingly difficult to justify the ~45% rally in Commonwealth Bank shares since October 2023. Meanwhile, BHP was trading at levels reminiscent of 2007. The easing measures from both the Federal Reserve and the People's Bank of China was also a reminder of the role of the US dollar and policy. With US interest rates high and the stock market performing well, the US (and the USD) had been the primary destination for global capital. However, as we potentially enter a rate-cutting cycle and with much of the US equity gains already baked in, global capital could begin to flow outside the US in search of better returns. This trend has historically been beneficial for emerging markets and, by extension, Australian companies, particularly in the resources sector.

Gross Performance	1M%	3M%	6M%	1Y%	2Y%	3Y%	5Y%	7Y%	10Y%
Perpetual Australian Share Fund	2.6	5.8	4.5	16.2	14.0	7.4	9.6	9.5	8.4
S&P/ASX 300 Accumulation Index	3.1	7.8	6.5	21.7	17.2	8.1	8.3	9.7	8.9
Excess	-0.5	-2.0	-2.0	-5.5	-3.2	-0.7	+1.3	-0.2	-0.5
Perpetual Concentrated Equity Fund	2.0	4.6	4.1	16.4	14.8	9.5	9.1	9.4	8.7
S&P/ASX 300 Accumulation Index	3.1	7.8	6.5	21.7	17.2	8.1	8.3	9.7	8.9
Excess	-1.1	-3.2	-2.4	-5.3	-2.4	+1.3	+0.8	-0.3	-0.3
Perpetual ESG Australian Share Fund	1.7	6.4	2.8	19.1	16.7	9.1	11.7	9.9	10.1
S&P/ASX 300 Accumulation Index	3.1	7.8	6.5	21.7	17.2	8.1	8.3	9.7	8.9
Excess	-1.4	-1.4	-3.7	-2.6	-0.5	+0.9	+3.4	+0.2	+1.2
Perpetual Pure Equity Alpha Fund – Class A	1.4	0.1	1.5	9.7	6.9	7.4	10.7	9.2	8.7
RBA Cash Rate Index	0.4	1.1	2.2	4.4	4.0	2.9	1.8	1.7	1.8
Excess	+1.0	-1.0	-0.7	+5.3	+2.9	+4.5	+8.8	+7.5	+6.9
Perpetual Share-Plus Long-Short Fund	2.6	3.0	1.8	18.7	14.1	10.5	11.5	11.0	10.4
S&P/ASX 300 Accumulation Index	3.1	7.8	6.5	21.7	17.2	8.1	8.3	9.7	8.9
Excess	-0.5	-4.8	-4.8	-3.0	-3.1	+2.4	+3.2	+1.3	+1.5
Perpetual Smaller Companies Fund	2.8	3.6	1.1	10.4	8.2	5.8	11.0	10.3	10.7
S&P/ASX Small Ordinaries Accumulation Index	5.1	6.5	1.8	18.8	12.7	-0.6	4.4	6.5	7.0
Excess	-2.3	-3.0	-0.7	-8.3	-4.4	+6.4	+6.6	+3.9	+3.7
Perpetual Strategic Capital Fund - Class S	2.4	3.8	3.1	-	-	-	-	-	-
S&P/ASX 300 Accumulation Index	3.1	7.8	6.5	-	-	-	-	-	-
Excess	-0.6	-4.0	-3.4	-	-	-	-	-	-

## GLOBAL EQUITIES STRATEGIES

The third quarter was marked by significant market-moving headlines, with major global indices reaching new all-time highs, including in the U.S. Unlike the previous quarter, where a limited number of stocks drove gains, the MSCI World Equal-Weighted Index outperformed the MSCI World Index, with the S&P 500 Equal-Weighted Index similarly surpassing the S&P 500. Value stocks outperformed growth stocks by over 600 basis points, while small-cap stocks rallied despite trailing year-to-date performance. The Federal Reserve ended a 14-month pause, making headlines with a larger-than-expected 50 basis point rate cut, instead of the anticipated 25 basis points. This move steepened the previously inverted yield curve, as the Fed projected an additional 200 basis points of cuts through 2024 and 2025. Amid rising recession fears, cooling consumer price index data in June and July allowed the Fed to shift focus from inflation to addressing employment concerns. In contrast, the Bank of Japan unexpectedly raised rates, causing increased volatility and a drop of over 25% in the MSCI Japan Index peak-to-trough, ultimately closing down 6.0% in local currency. In China, negative sentiment persisted due to a sluggish economy, but a significant stimulus package announced at the quarter's end boosted market optimism, leading to the MSCI China Index's strongest weekly gain since 2008 and a quarterly return of +23.5%.

Looking ahead, clarity is emerging for investors, though new concerns are also rising. Following a recent 50 basis point cut, the Fed has

shifted its focus to maximum employment as inflation pressures ease. The sustainability of this disinflation remains uncertain amid trends like deglobalization and deficit spending. The narrative of a soft landing continues to dominate investor expectations, despite its historical rarity, leaving little context for potential global central bank rate cuts. After over a decade of zero interest rate policy (ZIRP), investors wonder if a return to cutting rates will bring central banks back to those lows. Currently, no clear catalyst suggests a significant acceleration in global GDP, but some industries may be closer to a trough than a peak, particularly on the value side of the market. While artificial intelligence (AI) shows promise as a force multiplier, its adoption curve is steeper than that of personal computers or the internet. The benefits of AI will extend beyond the current leaders, who are engaged in a costly arms race. Despite the recent value rally, valuations remain compelling on a relative basis, supporting the continuation of this momentum.

Gross Performance	1M%	3M%	6M%	1Y%	2Y%	3Y%	5Y%	7Y%	10Y%
Barrow Hanley Emerging Markets Fund	6.5	5.7	5.5	7.4	-	-	-	-	-
MSCI Emerging Markets Net Total Return (AUD)	4.3	4.7	7.4	17.3	-	-	-	-	-
Excess	+2.2	+1.1	-1.9	-9.9	-	-	-	-	-
Barrow Hanley Global Share Fund - Class A	1.1	7.6	3.7	16.6	19.8	10.7	12.8	12.6	13.1
MSCI World Net Total Return Index (\$A)	-0.4	2.4	2.7	23.2	22.3	10.6	12.4	13.1	12.7
Excess	+1.5	+5.2	+1.0	-6.6	-2.5	+0.2	+0.4	-0.5	+0.4

## CASH & FIXED INCOME STRATEGIES

Risk markets recovered from an early August selloff to end the quarter stronger with global equities and credit posting gains. Softer than expected US jobs data and the Bank of Japan's decision to raise interest rates precipitated a sharp selloff in equities as economic expectations worsened and JPY carry trades were unwound. The turnaround was swift and extended through the end of the September quarter.

Bond yields moved sharply lower in early August and consolidated their gains over the remainder of the September quarter. The Domestic yield curve steepened with substantial falls at the 3-and-4 year tenor. The RBA held rates at 4.35% during the quarter while the US Fed commenced easing, cutting rates by 50 bps in September.

A notable development in September was commentary from APRA proposing that banks phase out the use of additional Tier 1 capital bonds (Hybrids) and replace them with cheaper and more reliable forms of capital that would absorb losses more effectively in times of stress. This was in response to the 2023 turmoil observed in global banks following the collapse of Silicon Valley Bank and acquisition (and subsequent write-off of AT1 capital) of Credit Suisse by UBS.

Primary markets remained orderly throughout with a notable exception of early August as market volatility and reporting season saw a brief lull in the primary market issuance.

Gross Performance	1M%	3M%	6M%	1Y%	2Y%	3Y%	5Y%	7Y%	10Y%
Perpetual High Grade Floating Rate Fund	0.5	1.4	3.2	6.6	6.2	4.1	3.3	3.2	3.3
Bloomberg AusBond Bank Bill Index	0.4	1.1	2.2	4.4	4.0	2.8	1.8	1.8	1.9
Excess	+0.1	+0.3	+1.0	+2.2	+2.2	+1.2	+1.4	+1.4	+1.4
Perpetual Credit Income Fund	0.6	1.8	3.7	9.4	8.7	5.2	4.6	4.4	4.4
Bloomberg AusBond Bank Bill Index	0.4	1.1	2.2	4.4	4.0	2.8	1.8	1.8	1.9
Excess	+0.3	+0.7	+1.5	+4.9	+4.7	+2.4	+2.8	+2.6	+2.5
Perpetual Active Fixed Interest Fund	0.4	3.4	3.1	9.3	6.4	-0.2	0.6	2.6	3.3
Bloomberg AusBond Composite Index	0.3	3.0	2.2	7.1	4.3	-1.2	-0.4	1.8	2.4
Excess	+0.1	+0.4	+0.9	+2.1	+2.1	+1.0	+1.0	+0.9	+0.9
Perpetual ESG Credit Income Fund- Class A	0.8	1.9	3.9	9.6	9.0	5.4	4.6	-	-
Bloomberg AusBond Bank Bill Index	0.4	1.1	2.2	4.4	4.0	2.8	1.8	-	-
Excess	+0.4	+0.8	+1.7	+5.1	+5.0	+2.6	+2.8	-	-
Perpetual Pure Credit Alpha Fund - Class W	0.6	1.9	4.3	9.6	9.4	6.5	5.6	5.5	5.9
RBA Cash Rate Index	0.4	1.1	2.2	4.4	4.0	2.9	1.8	1.7	1.8
Excess	+0.2	+0.8	+2.1	+5.2	+5.4	+3.7	+3.8	+3.8	+4.1

## MULTI-ASSET STRATEGIES

Financial markets shook off a stumble in early August to consolidate their solid year-to-date returns, supported by monetary policy easing in the US, UK, EU and China.

- Developed market equities (+4.8%) consolidated its strong start to the year, rising through the September quarter. After increased volatility in early August underpinned by rising recession concerns, global equities recovered strongly led by value sectors as the Russell 1000 Value index (+9.4%) substantially outperformed its growth counterpart (+3.2%). The Magnificent Seven tech stocks underperformed despite robust second quarter earnings results for Meta, Apple and Alphabet as these firms have net cash balance sheets that is sensitive to any interest rate reduction by the US Fed.

- Among the developed markets, the US were robust (+5.9%) as the US Fed commenced its monetary easing cycle in September with an aggressive -0.5% reduction and indicated through their dots and accompanying statement that more easing is likely in the months ahead. Another strong quarter of economic and EPS growth also buoyed sentiment.

- European equities (+2.5%) also posted solid quarterly returns rose despite trailing the broader market, with the region held back by the subdued regional economy and the ECB which is easing rates once every quarter until services inflation starts to move materially lower. Like the US Fed, the ECB cut rates in September, after holding in July.

- UK stocks (+1.8%) rose modestly despite the first rate cut by the Bank of England in 4 years which had a muted reaction as sentiment was weighed down by newly elected UK Prime Minister Starmer who forewarned of a challenging upcoming budget with spending cuts and tax increases.

- The ASX 300 (+7.8%) outperformed the global market, supported by falling bond yields, easing inflation concerns, better than expected

corporate earnings results and anticipation of rising Chinese demand.

- In contrast, Japanese equities (-3.5%) were among the small handful of regional markets to decline over the quarter, after an initial rally in the Yen following a surprise rate hike by the Bank of Japan, sparked heightened volatility as investors unwound the popular Yen carry trade. Some soothing words from the Bank of Japan Governor about the future policy path saw the Yen subsequently depreciate but the market could only partially recover its August losses.

- Lastly, emerging markets (+6.8%) outperformed their advanced economy peers as Chinese equities (+22.4%) surged higher in response to a major unwinding reversal of short-China positioning after the Bank of China cut official interest rates, which was supported by government pledges of additional support for the economy, although details here remain scant and run the risk of underwhelming the rhetoric.

- Elsewhere, bond yields declined across most maturities in most markets reflecting moderating core inflation and the commencement of monetary easing from the Fed, ECB and Bank of England. Australian 10-year yields fell 34 bps, trailing the US which declined 58 bps.

Anticipation of the path of US interest rates was a key theme during the September quarter. The Fed held interest rates steady in July which concerned investors after a subdued July non-farm payrolls report. This triggered the Sahm rule and raised recession fears in the eyes of some and sparked a broad equities selloff and widening in credit spreads. Fed Chair Powell allayed these concerns with dovish comments at the Jackson Hole Conference which foreshadowed a -50 bps reduction in official rates in September. Meanwhile, better-than-expected corporate earnings results, and strong consumer spending data, also supported sentiment.

The US economy remains a key battleground for the 2024 presidential election which saw a seismic shift in July as President Biden withdrew from the race, endorsing Vice President Harris whose early polling suggests the contest might be closer than had previously been assumed. The result of the election will be a crucial issue for markets given the respective spending programs of both major candidates which is set to culminate in another sizable rise in US government debt regardless of who wins. The estimates FY25 US fiscal deficit (-6.6% of GDP) is already at levels typically seen during recessions.

Asian markets were another focus during the quarter with policy decisions from both China and Japan proving to be catalyst for significant market volatility. In August a second hike in Japanese official interest rates sparked an abrupt reversal of the global carry trade which has supported markets for a prolonged period. The ensuing appreciation of the Yen saw the Japanese sharemarket record its largest individual day loss since the 1987 stock market crash which weighed on equities globally.

In late September, the People's Bank of China (PBoC) unveiled a comprehensive stimulus package aimed at mitigating deflationary pressures and revitalising economic growth. The initiative – which includes increased funding provisions and targeted interest rate reductions – aimed to address the ongoing challenges in the property sector, stock market and the broader economy. Although the policy announcements were well received by markets, the details so far are not doing much to alleviate the blow out in government debt, the property sector overhang, sustained deflation, as well as weak private sector confidence.

Meanwhile, there are more questions being asked about the Australian economy given continued sluggish growth and waning consumer sentiment. The challenges here have been camouflaged by strong population growth and another year of significant public sector spending growth at a time when the RBA is trying to slow economy-wide spending. The Australian economy has struggled in the wake of higher inflation and increased interest rates which have sparked 6 consecutive quarters of contracting GDP growth per capita with the June quarter National Accounts showing that household consumption fell -0.2%. However, there are some more promising early signs that wages growth, which has been central to the rise in core inflation, has peaked and is starting to moderate, but this will need to continue for an extended period, before the RBA is confident that core inflation is set to return to the 2% to 3% target band on a sustained basis.

Gross Performance	1M%	3M%	6M%	1Y%	2Y%	3Y%	5Y%	7Y%	10Y%
Perpetual Balanced Growth Fund	1.1	4.2	2.8	12.1	10.0	6.6	8.0	8.2	7.8
Balanced Growth Index	1.6	5.3	4.9	19.0	15.1	5.8	6.9	7.9	7.8
Excess	-0.5	-1.1	-2.1	-6.9	-5.1	+0.8	+1.1	+0.3	0.0
Perpetual Diversified Growth Fund	0.8	3.7	2.6	10.4	8.2	5.0	6.2	6.7	6.5
Moderate Growth Index	1.3	4.6	4.2	15.4	12.0	4.1	5.0	6.2	6.3
Excess	-0.4	-0.9	-1.6	-5.0	-3.8	+1.0	+1.2	+0.5	+0.2
Perpetual Diversified Real Return Fund - Class W	0.8	2.9	2.6	6.5	5.5	3.6	4.9	5.1	5.2
Australian CPI +5% (Target Objective)							9.0	8.4	
Perpetual ESG Real Return Fund	0.9	3.4	3.2	6.6	3.8	1.4			
Australian CPI +5% (Target Objective)							-	-	

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## MORE INFORMATION

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Total returns shown have been calculated using gross performance and assuming reinvestment of distributions. No allowance has been made for fees or taxation. Past performance is not indicative of future performance.

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\* Due to CPI data being released by the Australian Bureau of Statistics later in the month after quarter end, CPI figures reported are lagged by one month.