



# Quarterly Investment Report July 2024

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Slowing but Growing



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# Summary

A notable feature of 2024 has been the absence of significant downside volatility.

We interpret the recent weakness in global equities as an overdue correction.

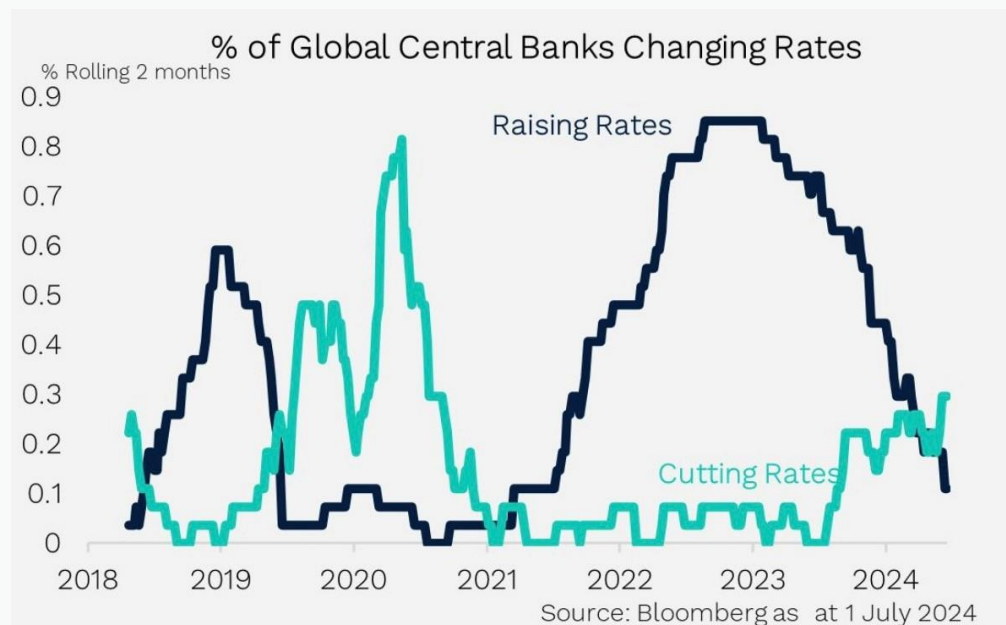
Recent data supports a narrative of the global economy moving towards a soft landing.

Despite various challenges, the share market's path of least resistance has been higher for most of 2024. Global shares achieved an impressive 13% return in the first half of 2024, culminating in a 20% gain for the financial year. Conversely, Australian shares delivered a 4% return over the last six months and a respectable 12% gain for the financial year.

A notable feature of 2024 has been the absence of significant downside volatility, as investors have gravitated towards mega-cap stocks, particularly in the global tech sector. These stocks have shown pricing power and relative immunity to higher interest rates. The recent pullback in the S&P500, which marked the first instance in 18 months of the benchmark falling more than 2% in a trading session, underscores this trend.

We interpret the recent weakness in global equities as an overdue correction in an overbought segment of the market (U.S. mega-cap). This correction is driving a rotation away from global tech giants into other sectors that have lagged in recent years, such as small-mid caps, which we have been increasing the weight across client portfolios over the last 12 months.

Recent data supports a narrative of the global economy moving towards a soft landing, characterised by a return of inflation to target ranges without triggering a recession. The U.S. recently reported its first negative monthly inflation print since 2020, coupled with easing employment data. This has led to widespread anticipation of a U.S. rate cut over the next quarter, with expectations of nearly three cuts by the year's end, reflecting similar moves across the world, including Canada and Europe.





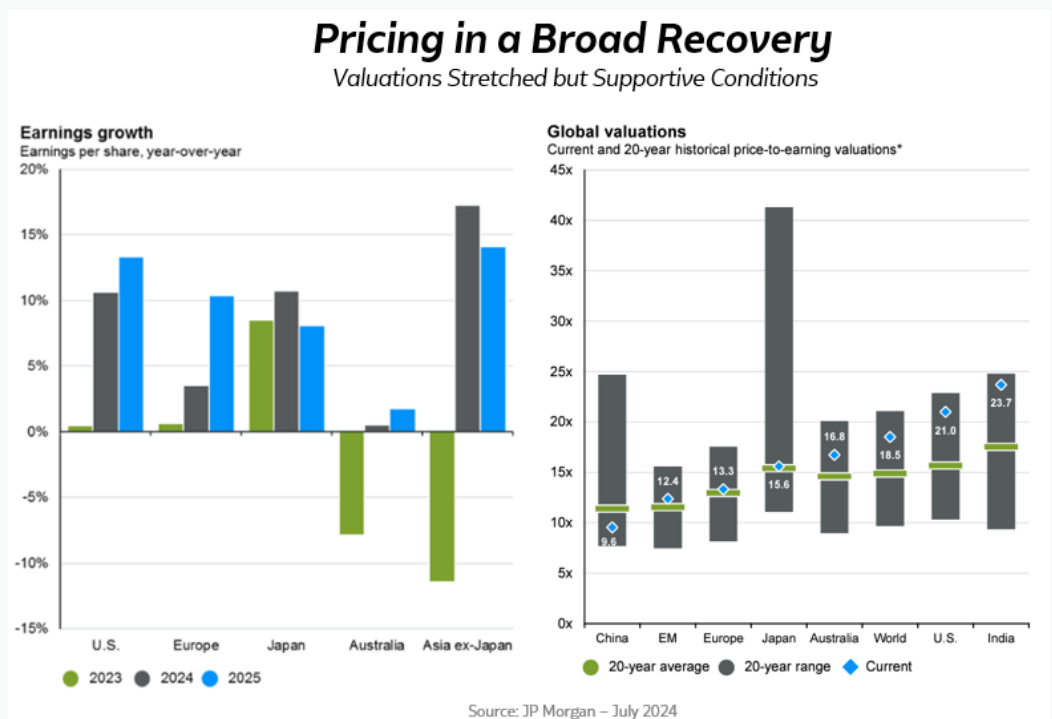
Recent data supports a narrative of the global economy moving towards a soft landing.

The prospect of lower rates has bolstered equity market valuations and lifted earnings expectations.

The changing global backdrop presents both opportunities and risks.

Despite improving trends globally, the economic landscape remains complex and subject to change, particularly in Australia. However, there are clear indications that policymakers are prepared to implement "insurance cuts" in 2024 to stave off a recession, which remains the biggest risk for the next year, albeit with diminished odds.

The prospect of lower rates has bolstered equity market valuations and lifted earnings expectations across various regions and sectors. Global shares are projected to grow by 10% over the next year, with strong recoveries expected in parts of Europe and Emerging Markets. Closer to home, the ASX200 is expected to see much lower growth, with just a 2% increase anticipated over the next year. This is due to weak domestic demand and the benchmark's low exposure to growth sectors like Technology.



The changing global backdrop presents both opportunities and risks. It could signify either a bullish broadening of earnings outside global tech giants or a bearish indication that expectations are too high. Therefore, to navigate the unknowns, we prefer active managers with strong valuation disciplines to provide a margin of safety against uncertain outcomes.

Looking ahead, the easing policy environment appears promising for equities and bonds, although a consolidation period is expected following a solid start to the year. Historically, shares have been vulnerable to a pullback or even a correction of over 10% leading up to the first U.S. rate cut.

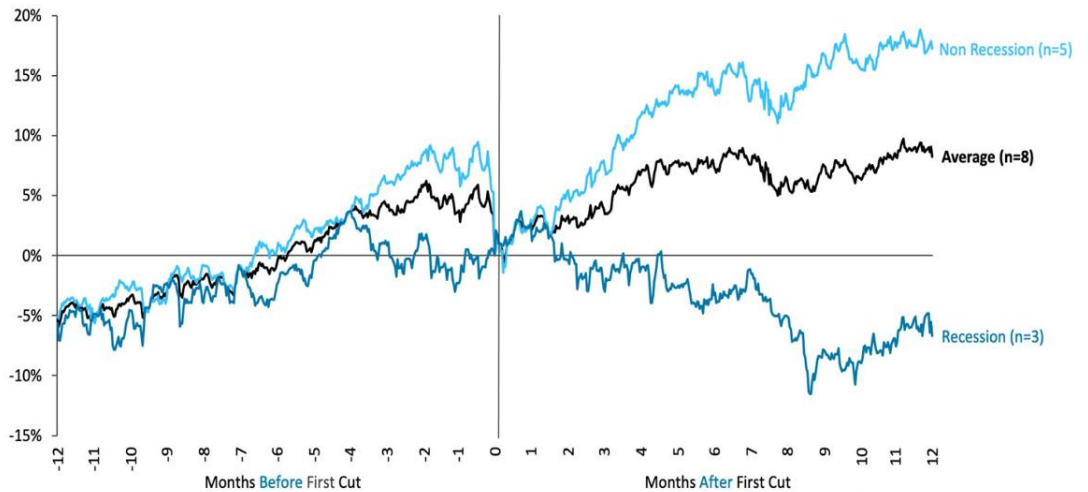


We maintain our neutral position in cash to capitalise on potential opportunities.

Typically, in a non-recession scenario, shares have shown strong performance in the subsequent six-month period. We are beginning to see this unfold as investors assess a slowing but still growing data.

### Exhibit 3: The S&P 500 outperforms when the Fed cuts rates in a non recessionary environment

Average S&P 500 index performance around the last eight rate cutting cycles since 1984\* (%)



Source: CarsenGroup – July 2024

In response to recent weaknesses in global equities, the Advisory Board has upgraded their outlook to neutral. We are increasing weights across active managers, including quality small-mid cap stocks and currency-hedged exposures that benefit from lower global rates. The change is funded by reinvesting FY24 distributions and taking profits from Australian listed property (A-REITs). Our reduction in A-REITs is a tactical move following a strong recovery from cyclical lows and increasing concentration risk in the index we are invested in.

We maintain our neutral position in cash to capitalise on potential opportunities that may arise in the second half of the year, such as central bank policy changes and the U.S. election.



# Positioning

As of July 2024	Positioning (DAA)		
Asset Class	Underweight	Neutral	Overweight
Cash			
Fixed Interest			
Australian Fixed Interest			
Global Fixed Interest			
Australian Equities			
Global Equities			
Developed Market Equities			
Emerging Market Equities			
Property			
Australian Property			
Global Property			
Alternatives (Inc. Infrastructure)			
Infrastructure			
Other Strategies (Private Markets, Hedge Funds)			

## Positioning Definitions

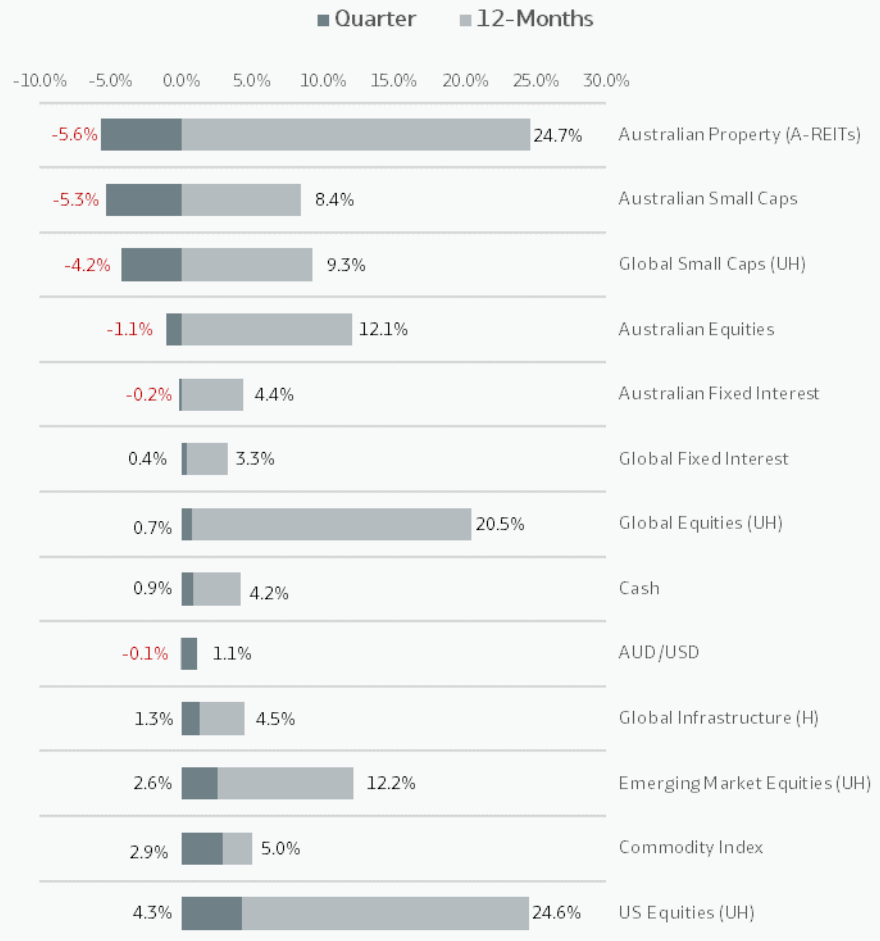
**Overweight**  $\geq 2.0\%$  above benchmark strategic asset allocation weight

**Neutral**  $\leq 2.0\%$  versus benchmark strategic asset allocation weight

**Underweight**  $\geq 2.0\%$  below benchmark strategic asset allocation weight



# Asset Class Returns (30<sup>th</sup> June 2024)



UH = Currency Unhedged  
H = Currency Hedged



# Cash

## Themes

- The RBA cash rate remains at 4.35%.
- Interest rates have been unchanged since November 2023, with uncertain prospects for cuts due to persistent inflation and employment data.
- Last month, markets saw a 70% chance of a rate rise by the end of 2024, but this has now dropped to 16%.

## Strategy

- In the absence of a very weak economic environment, cash rates are unlikely to move much lower in Australia, allowing investors to earn a positive return on cash, even after inflation.
- Term deposits and high-interest cash accounts continue to offer attractive returns.

## Neutral

- We maintain our neutral allocation with a preference for high-interest cash accounts for liquidity.

Overweight

Neutral

Underweight





# Fixed Interest

## Themes

- Bond markets showed mixed results this quarter: the local AusBond index fell by 0.2%, while the Global Aggregate Bond index rose by 0.4%.
- In Australia, bond yields increased due to expected interest rate hikes, whereas global yields decreased as central banks started cutting rates.
- Australian 10-year government bond yields are at 4.4%, higher than U.S. 10-year Treasury bond yields at 4.2%.
- Corporate credit spreads remain low, indicating default rates consistent with a regular cycle, not a recession.

## Strategy

- We maintain a diversified approach across core and high-grade credit strategies, including senior secured, floating rate, and private credit.
- Fixed interest offers attractive risk-adjusted returns in the current environment. We monitor investment grade and high-yield spreads for signs of economic weakness.
- Private credit has been a standout performer over the last year, offering high single-digit returns with lower volatility.

## Positioning

- **Overweight** – We maintain our overweight position to fixed interest, favouring private credit.

Overweight

Neutral

Underweight



# Australian Equities

## Themes

- Australian equities lagged behind global peers, returning -1.1% for the quarter.
- Defensive sectors performed well, with Utilities up 13.3% and Financials up 4.1%. Cyclical sectors like Energy and Materials fell by 6.8% and 5.9%, respectively.
- Australia's weaker performance is due to slower domestic growth and low exposure to A.I./technology sectors.
- The dividend yield on Australian equities is among the highest globally, with the added benefit of franking credits.

## Strategy

- While earnings growth is modest at an index level, there is significant variation across sectors – with Energy expected to decline by -11% and Technology to increase by +65%.
- Defensive sectors, such as banks (CBA) and some consumer staples (WES), are expensive. We are focusing on areas with upside potential, including Energy and healthcare.

## Positioning

- Neutral – We maintain a neutral position on Australian shares and look towards next month's reporting season for opportunities.

Overweight

Neutral

Underweight



# Global Equities

Overweight

Neutral

Underweight

## Themes

- Global equity markets returned +0.7% in the June quarter, with emerging markets up +2.6%, driven by India and China.
- The major theme for the quarter and 2024 was the concentration of returns from a few large-cap, AI-related companies (Nvidia, Meta, Apple).
- These companies boosted the market-cap-weighted S&P500 index by 4.2%, while the equal-weighted S&P500 index fell by 2.6%.
- Valuation differences between U.S. and non-US equities are significant, particularly in Emerging Markets, Japan, and parts of Europe.
- The outlook for global equities improved this quarter, supported by easing inflation, slowing but still positive economic growth, and the prospect of interest rate cuts in the U.S.

## Strategy

- Valuations outside U.S. large caps are more attractive, with earnings growth broadening across most sectors.
- This quarter, we increased investments in global small and mid-caps, and non-US markets, particularly emerging markets and Japan, through select managers.
- We believe only a recession could alter the market's trajectory, which seems unlikely given the anticipated rate cuts before year-end.

## Positioning

- **Neutral** - We upgrade to neutral Global equities, with leading indicators pointing towards a supportive environment for equities.



# Property

Overweight

Neutral

Underweight

## Themes

- Listed property assets declined over the quarter, with A-REITs down 5.6% and Global REITs down 2.5%.
- Property transaction volumes in retail and office are slowly increasing, reflecting new market realities.
- Larger retail and office stocks declined 5-15% over the quarter, while high-demand industrial assets, like Goodman Group, rose nearly 5% for the quarter and 73% for the year.
- Globally, returns varied by region, with strong performance in the U.S. and weaker performance in the U.K. and Europe.

## Strategy

- The A-REIT index has significant concentration risk, with Goodman comprising 40% of the index.
- After Goodman's strong 73% return over 12 months, we believe moving underweight in this asset class is prudent.
- We maintain a measured approach, favouring selective REIT strategies in Australia and globally with quality underlying assets.
- We have no exposure to unlisted property assets due to valuation concerns.

## Positioning

- **Underweight** – We have moved underweight property, specifically listed Australian property (A-REITs).



# Alternatives

Overweight

Neutral

Underweight

## Themes

- Listed global infrastructure rose 1.3% in the June quarter, aided by lower global bond yields.
- Hedge funds increased by 0.7%, lagging equities due to low volatility, concentrated returns, and stable global macro markets.
- Private market strategies (private equity, infrastructure) delivered slightly positive returns between 1.0% and 3.0% for the quarter.

## Strategy

- We increased our investment in listed infrastructure in 2024 after bond yields peaked. Globally, falling interest rates could raise infrastructure valuation multiples over the next 12 months.
- Recent meetings with private equity teams indicate a potential uptick in returns over the next 12-24 months, driven by planned exits and value realisations.
- We maintain a diversified exposure in alternative strategies (private equity, debt, infrastructure) to enhance returns and mitigate risk.

## Positioning

- **Neutral** – We maintain our neutral position, allocating capital to proven market leaders with long-term track records.



## Independent Advisory Board

The Advisory Board believe a robust governance framework is critical in forming a House View and making effective Asset Allocation decisions. An Advisory Board charter governs the process and comprises experienced investment professionals with diverse areas of expertise, reflecting an industry best practice in decision-making.

The Advisory Board is responsible for setting and reviewing the House View and upholding the fundamental values and investment philosophy of Mackay Private.

The Advisory Board meets quarterly to meet intra-quarter as required. Voting members make all dynamic asset allocation decisions of the Advisory Board. Please visit our webpage, [www.mackayprivate.com](http://www.mackayprivate.com) or contact us directly at [info@mackayprivate.com](mailto:info@mackayprivate.com) or 1300 721 986.

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