



# Quarterly Investment Report November 2024

---

Shifting Landscape



## TABLE OF CONTENTS

---

Summary.....	3
Positioning.....	6
Market Returns.....	7
Cash .....	8
Fixed Interest.....	9
Australian Equities.....	10
Global Equities .....	11
Property.....	12
Alternatives.....	13
Important Information.....	14



# Summary

As we close out the final quarter of 2024, a profound shift is taking shape in global markets. With Donald Trump re-elected and a Republican majority in both the House and Senate, the political landscape has shifted, bringing fresh perspectives on geopolitics, fiscal policy, and global economic growth.

US equities remain attractive, driven by robust earnings growth and a steady economic base. Proposed tax cuts are expected to bolster corporate profitability, building confidence among business leaders and investors. This climate could stimulate activity in mergers, acquisitions, and IPOs, supporting private equity opportunities.

That said, much of this optimism appears to have been priced into equity and bond markets as early as October. As a result, we may see a period of price consolidation before year-end, particularly if there are shifts in policy expectations or economic fundamentals. While the US growth outlook remains strong, we're closely monitoring the impact that rising bond yields could have on valuations, especially with equity markets at record highs.

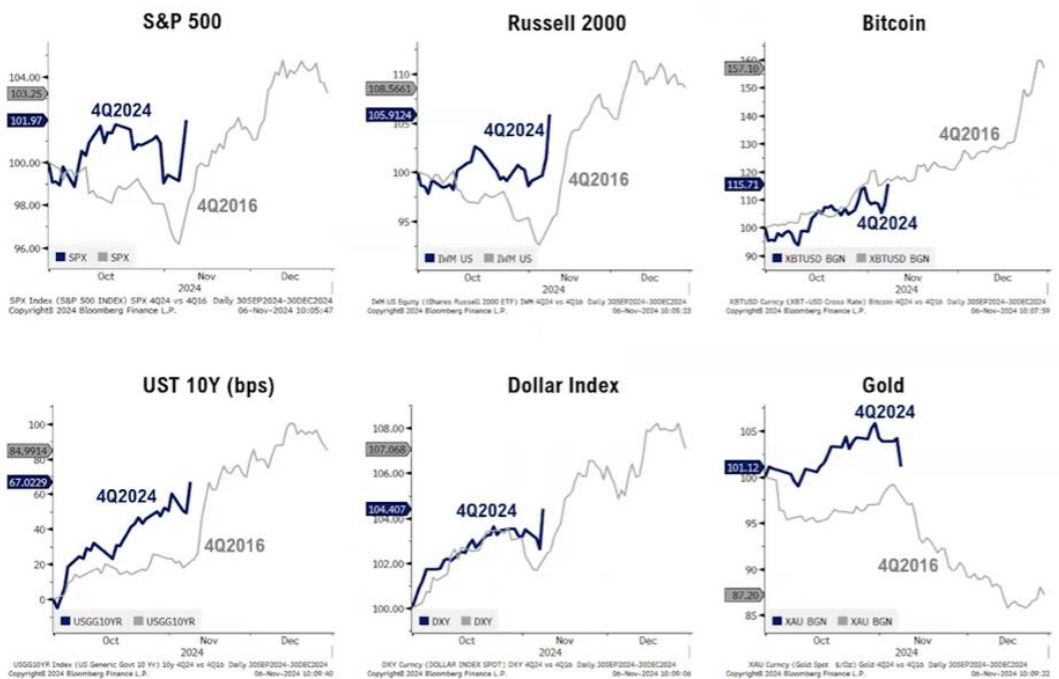
The political landscape has shifted, bringing fresh perspectives on geopolitics, fiscal policy, and global economic growth.

Much of this optimism appears to have been priced into markets as early as October.

Economic growth outside the US continues on a modest path, but we are observing more complex conditions in bond and currency markets.

## Price Trajectory Post-Trump Wins

Q42024 up to election day v Q42016, rebased to 100



Source: Fundstrat & Bloomberg – November 2024

Economic growth outside the US continues a modest path, but we are observing more complex conditions in bond and currency markets.



Trump's stance on trade, particularly tariffs, has raised concerns that markets may be underestimating the risk of a global trade war.

With elevated bond yields, we see value in a diversified portfolio that balances growth and defensive income assets.

We see strong potential in previously lagging sectors, especially among US small to mid-cap companies.

In the US, expectations for higher fiscal spending have lifted bond yields and strengthened the dollar, which has placed downward pressure on bond and currency markets in other countries, including Australia.

Furthermore, Trump's stance on trade, particularly tariffs, has raised concerns that markets may underestimate the risk of a global trade war and its potential long-term, stagflationary effects. However, historical trends suggest that such tariff threats often create more noise than actual impact. While Trump's approach can be unpredictable, his advocacy for low interest rates suggests he may adjust his stance, including on tariffs, to support this goal.

Our Advisory Board is closely monitoring these developments and their effects on various assets. In this environment, maintaining some liquidity and a balanced perspective is essential.

Stepping back from daily market noise, our approach remains clear; with elevated bond yields, we see value in a diversified portfolio that balances growth and defensive income assets. This strategy aims to deliver consistent returns throughout the cycle while allowing us to adapt to an evolving market landscape.

Our client portfolios are well-positioned for various scenarios, so no major adjustments have been necessary post-election. Accordingly, our Advisory Board's asset allocation preferences remain unchanged for the quarter.

We are currently overweight in fixed interest through floating-rate credit, which benefits from higher base rates. Our equity allocation remains neutral, having captured gains in prior quarters, and last quarter, we reduced duration exposure through interest-sensitive assets like A-REITs when bond yields temporarily dipped below 4%.

Looking ahead, we are selectively adding inflation-protected assets and gradually increasing global equity exposure during pullbacks, which have been scarce throughout 2024. We see strong potential in previously lagging sectors, especially among US small to mid-cap companies.



# Positioning

As of October 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

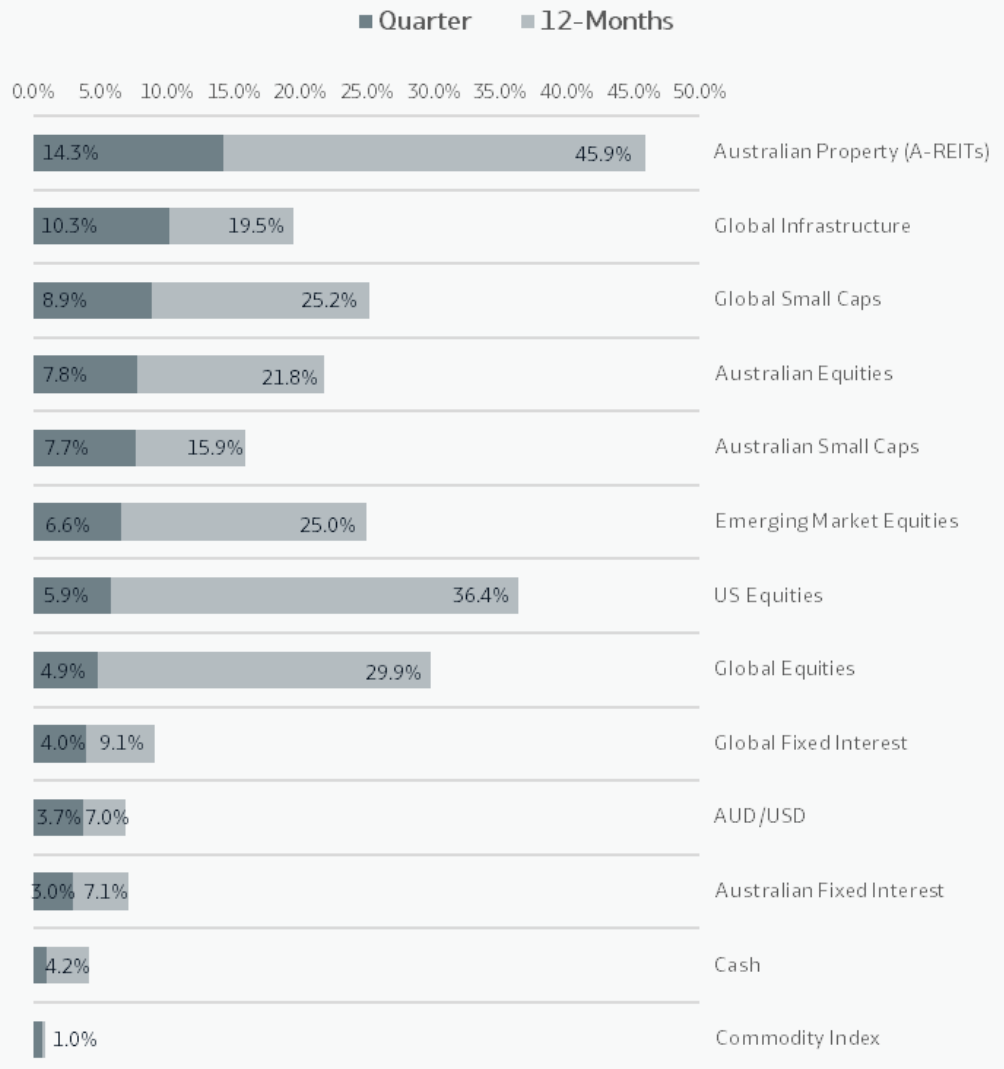
**Overweight**  $\geq 2.0\%$  above benchmark strategic asset allocation weight

**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> September 2024)





# Cash

## Themes

- Cash rates remain materially higher than the average of the past 10-15 years.
- The Reserve Bank of Australia resolved to keep the cash rate at 4.35% in September 2024, although the tone of that inaction was more dovish than past meetings as the prospect of rate hikes seemed to subside.
- This came despite a significant rate cut in the US and as other central banks appear to be more advanced in their easing cycles.

## Strategy

- Term deposits and high-interest cash accounts continue to offer attractive returns in Australia. Without deteriorating economic data, cash rates will likely stay higher in Australia than in the rest of the developed world.
- Notwithstanding, with the global rate-cutting cycle now underway, the attractiveness of cash is diminishing.

## Neutral

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

Overweight

Neutral

Underweight



# Fixed Interest

## Themes

- The quarter saw a strong performance from bond markets, with global and Australian indices returning +4% and +3%, respectively. This was largely due to central banks cutting rates, which drove up demand for high-quality bonds.
- However, bonds recently receded from Q3 gains due to factors including upbeat economic data, growing geopolitical risks, and Trump's election victory, leading to higher yields and lower prices globally and in Australia.
- The Australian 10-year government bond yields stand at 4.6%, marginally higher than US 10-year Treasuries at 4.4%.
- Low corporate credit spreads hint at default rates consistent with regular economic cycles.

## Strategy

- The recent rise in bond yields reflects concerns about fiscal deficits and resilient growth, reducing the likelihood of significant rate cuts in the short term.
- We suggest investors seize the brief window to secure long-term returns before rate cuts intensify.
- Our strategy remains diversified across key bonds and top-tier credit, including senior secured, floating rate, and private credit.
- Government bonds offer fixed yields with safeguards against growth risks. Australian credit provides a notable spread over high government yields, with a preference for high-quality credit despite anticipated cyclical progress.
- Private credit has shown impressive performance, offering high single-digit returns with low default rates, leading to modest capital volatility.

## Positioning

- **Overweight** – We maintain our overweight position to fixed interest, favouring domestic private credit. We are underweight duration relative to the benchmark.

Overweight

Neutral

Underweight





# Australian Equities

## Themes

- The ASX200 returned +7% over the quarter, reaching new highs and posting the best September quarter since 2013.
- The Materials sector led the gains, rising by +15%, buoyed by Chinese stimulus measures that ignited a rotation from Financials to Materials.
- Small caps outperformed, with the S&P/ASX Small Ordinaries gaining +7%.
- Defensive sectors were the weakest, with Healthcare and Consumer Staples falling by -3 % and -2%, respectively.
- The dividend yield on Australian equities is among the highest globally, with the added benefit of franking credits.

## Strategy

- The Australian equity market has a history of closely aligning with global, particularly US equities. We foresee this correlation persisting.
- The Australian equity market is expected to perform well over the next 12 months, buoyed by a gradual rise in corporate earnings and a slight easing in monetary conditions.
- A positive global economic outlook and the stabilisation of China's economy contribute to this view, which should support sectors exposed to cyclical growth improvements, e.g. Building Materials & Resources.
- Despite modest index-level earnings growth, sector variation is significant, supporting an active management approach.
- Expensive sectors like banks and some consumer staples are less attractive than potential value opportunities such as Energy and Healthcare.

## Positioning

- Neutral – We maintain a neutral position on Australian shares and expect easing monetary conditions to support a more stable earnings backdrop.

Overweight

Neutral

Underweight



# Global Equities

## Themes

- Global equity markets returned +5% in the September quarter, with emerging markets up +6%, driven by China.
- A significant 50 basis point interest rate cut by the US Federal Reserve (Fed) and a blitz of fiscal and monetary policy stimulus by Chinese authorities lifted global equity markets.
- Interest rate-sensitive sectors showed strong gains, adding to their robust quarterly performances. The Consumer Discretionary sector was the best performer, rising by +11%, followed by Utilities, which gained +9%.
- Energy continued to underperform following weaker global energy prices.
- Valuation differences between US and non-US equities are significant, particularly in Emerging Markets, Japan, and parts of Europe.

## Strategy

- US equities appear promising due to robust earnings growth and a sturdy economic base backed by fiscal and monetary stimulus. However, valuations outside US large caps seem more favourable.
- Rising bond yields may be a near-term risk to equity market valuations while emerging markets brace for potential tariffs under Trump's administration.
- We are incrementally increasing our global equities exposure during market dips, seeing significant potential in lagging sectors, notably within small-mid caps.

## Positioning

- **Neutral** - We maintain our neutral allocation to Global equities, with various indicators pointing towards a supportive environment.

Overweight

Neutral

Underweight



# Property

Overweight

Neutral

Underweight

## Themes

- Listed property assets were the best-performing asset class over the quarter, with A-REITs and Global REITs up +14% and up +12%, respectively.
- These increases were spurred by a drop in bond yields, prompting mean reversion to tangible assets.
- Retail and office property transactions are gradually rising, indicating a balance of supply and demand.
- However, the A-REIT market grapples with over-concentration, as Goodman Group holds nearly 40% of benchmark exposure. Internationally, return rates differed, with the US outperforming the UK and Europe.

## Strategy

- We maintain a measured approach, favouring selective REIT strategies in Australia and globally with quality underlying assets.
- We prefer active management due to the significant concentration risk with Goodman Group.
- We continue to hold an underweight exposure to the sector after taking profits over the quarter, which we believe was prudent given the rise in bond yields.
- We have no exposure to unlisted property assets due to valuation concerns.

## Positioning

- **Underweight** – We maintain an underweight exposure to property, specifically listed Australian property (A-REITs).



# Alternatives

Overweight

Neutral

Underweight

## Themes

- Listed global infrastructure rose +10% in the September quarter, aided by lower global bond yields.
- Hedge Funds were flat for the quarter, lagging equities due to low volatility, concentrated returns, and relatively stable global macro conditions.
- Private market strategies delivered slightly positive returns between +1% and +3% for the quarter.
- Private Equity markets have, overall, experienced declines in valuation multiples over the past 18 months as listed-market investors rejected high-valuation IPOs.

## Strategy

- We like real assets, such as infrastructure, for their defensive nature and potential long-term income and growth profile.
- Private Equity investments, particularly from established managers, are becoming increasingly attractive due to favourable discounts and promising opportunities in primary and secondary markets.
- The importance of investment selection is emphasised, given the variable risks that require specialist expertise.
- We maintain a diversified exposure in alternative strategies (private equity, debt, infrastructure) across proven specialists 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.

## Important Information

This report has been issued and is distributed in Australia by Mackay Private Pty Ltd ABN 32 636 659 580 Corporate Authorised Representative of Mackay Private Partners Pty Ltd AFSL No. 534073. It does not take account of your objectives, financial situation or needs. Before acting on this general advice, consider whether it is appropriate. We recommend you obtain financial, legal and taxation advice before making any financial investment decision. Nothing in this report shall be construed as a solicitation to buy or sell any security or product or engage in or refrain from engaging in any transaction.

This report is based on information obtained from sources believed to be reliable but does not make any representation or warranty that it is accurate, complete, or up-to-date. We accept no liability whatsoever for any direct, indirect, consequential, or other loss arising from any use of this report or further communication concerning this report.