Perpetual Asset Management Australia

INSTITUTIONAL UPDATE

December 2024

AUSTRALIAN EQUITIES STRATEGIES

Markets sold off in December after their strong bounce in November. The S&P/ASX300 Accumulation Index gave up -0.81% with Materials down a significant -11.75% while Real Estate, Energy and Consumer Staples all gave up over 5%. Euphoria over hoped-for tax cuts and de-regulation from the incoming Trump administration were tempered by the growing reality of governing with a narrow Republican majority in the House of Representatives. Squabbling over spending measures nearly forced the US federal government into shutdown before Christmas. Combined with resurgent economic confidence this led to US bond yields rising, with the yield on the US 10 year threatening to rise above the 4.7% peaks in April. The Australian economy sent mixed signals. Employment growth remained robust, at 35,600 in November, pushing the unemployment rate down to 3.9%, but most jobs were being created by government as public spending continued to grow. Meanwhile GDP slowed to just 0.8% for the year ended Q3 with just 0.3% for the quarter. GDP per capita fell -0.3% the seventh consecutive quarterly decline.

After initially embracing Trumponomics attention is now turning to the challenges of delivery and containing excesses in the economy, including the potential for inflation to return in 2025. The incoming administration will need all its political guile to deliver the much hyped agenda of reduced regulation, tax relief and spending cuts whilst also reducing the budget deficit. Bond vigilantes will no doubt be around to remind markets if they think that this ambitious mix of goals is not being achieved. Whilst bond markets have been wary of the period ahead equity markets in the United States continue to exhibit extreme exuberance and are once again trading at similar valuations to the Dotcom peak in 2000 and the post COVID bubble in 2021. Australian equity valuations, whilst stretched in some sectors, are not as out of kilter overall, especially as resources trade near multi year lows. The big question remains what happens in China where the economy flirts with deflation and whether authorities can pull off a the sustained stimulus that Mario Draghi and Ben Bernanke did in 2012, such as QE3, that allayed market concerns about the commitment to reflating the economy.

Gross Performance	1M%	3M%	6M%	1Y%	2Y%	3Y%	5Y%	7Y%	10Y%
Perpetual Australian Share Fund	-3.6	-2.6	3.0	9.8	7.9	6.2	8.8	7.8	7.9
S&P/ASX 300 Accumulation Index	-3.1	-0.8	6.9	11.4	11.8	7.1	8.0	8.4	8.5
Excess	-0.5	-1.8	-3.9	-1.6	-3.8	-0.9	+0.9	-0.6	-0.6
Perpetual Concentrated Equity Fund	-3.7	-2.7	1.8	9.4	8.9	8.0	8.6	7.6	8.2
S&P/ASX 300 Accumulation Index	-3.1	-0.8	6.9	11.4	11.8	7.1	8.0	8.4	8.5
Excess	-0.6	-1.9	-5.2	-2.0	-2.9	+0.9	+0.6	-0.8	-0.4
Perpetual ESG Australian Share Fund	-1.5	-0.9	5.4	13.9	13.6	7.1	11.6	8.7	9.6
S&P/ASX 300 Accumulation Index	-3.1	-0.8	6.9	11.4	11.8	7.1	8.0	8.4	8.5
Excess	+1.6	-0.1	-1.5	+2.5	+1.8	+0.1	+3.6	+0.3	+1.1
Perpetual Pure Equity Alpha Fund – Class A	-0.2	3.6	3.8	13.6	7.5	8.6	11.0	9.0	8.7
RBA Cash Rate Index	0.4	1.1	2.2	4.5	4.2	3.2	2.0	1.8	1.8
Excess	-0.6	+2.5	+1.5	+9.1	+3.3	+5.3	+8.9	+7.2	+6.9
Perpetual Share-Plus Long-Short Fund	-3.4	2.0	5.0	14.5	10.1	11.1	11.7	9.8	10.2
S&P/ASX 300 Accumulation Index	-3.1	-0.8	6.9	11.4	11.8	7.1	8.0	8.4	8.5
Excess	-0.3	+2.8	-1.9	+3.1	-1.6	+4.1	+3.8	+1.4	+1.7
Perpetual Smaller Companies Fund	0.6	0.0	3.6	9.2	4.6	3.5	11.0	9.1	10.8
S&P/ASX Small Ordinaries Accumulation Index	-3.1	-1.0	5.5	8.4	8.1	-1.6	4.0	4.4	7.3
Excess	+3.6	+1.1	-1.8	+0.8	-3.5	+5.0	+7.0	+4.8	+3.5
Perpetual Strategic Capital Fund - Class S	-1.8	-1.1	2.7	11.8	-	-	-	-	-
S&P/ASX 300 Accumulation Index	-3.1	-0.8	6.9	11.4	-	-	-	-	-
Excess	+1.2	-0.3	-4.2	+0.4	-	-	-	-	-

GLOBAL EQUITIES STRATEGIES

The fourth quarter capped another strong year for asset class returns, particularly in equities. The MSCI World Index rose 19% in 2024, driven by U.S. markets, where the S&P 500 gained 25% and surpassed 6000 in mid-December. Despite solid performances from China (+19%) and tech-focused Taiwan (+34%), emerging markets underperformed their developed counterparts, with the MSCI Emerging Market Index returning a more modest 8%. Outside the third quarter, a narrow group of stocks, including the Magnificent 7, drove markets higher, fueled by growth, momentum, and mega-cap factors. This trend was especially pronounced in the U.S., which recorded its best two-year period since the late 1990s, driven by a handful of technology-related stocks at increasingly high valuations. This narrow market environment has left many sectors undervalued, presenting compelling opportunities for value investors. In Europe, 2024 results were mixed. Germany (+10%) and Italy (+11%) posted strong gains, the UK saw moderate returns (+8%), and France struggled (-5%). We have observed a clear shift from value to growth stocks since early 2023, spurred by expectations that interest rates had peaked, easing inflation, and normalizing supply chains. However, only a narrow set of AI/tech-related stocks and Financials delivered outsized returns, as investors avoided more controversial areas of the market. Despite this concentration, we remain confident that our contrarian, value-focused approach is well-positioned for a market environment where fundamentals regain prominence.

Looking forward, 2025 begins as a year with as much promise as uncertainty. One thing is known – the consensus forecast is likely to be wrong – but in what direction remains to be seen. Clarity that had begun to emerge regarding the path of global central banks now appears far less certain as inflation may not quite yet be fully tamed, particularly in the U.S., as job markets remain robust and economic growth could spur a subsequent period of re-inflation. Instead, the risk that seemingly has been assuaged is that of economic growth. We are very excited about how the Barrow Hanley Global Value Equity portfolio is positioned because the valuation discount of the strategy relative to the broader market is greater than in early 2020, which preceded a period of strong performance. Further, the strategy continues to own companies with good fundamentals with positive catalysts that we believe will support strong performance going forward.

Gross Performance	1M%	3M%	6M%	1Y%	2Y%	3Y%	5Y%	7Y%	10Y%
Barrow Hanley Emerging Markets Fund	4.6	1.5	7.3	8.2	8.7	-	-	-	-
MSCI Emerging Markets Net Total Return (AUD)	5.1	3.1	7.9	18.5	13.7	-	-	-	-
Excess	-0.4	-1.5	-0.5	-10.2	-5.0	-	-	-	-
Barrow Hanley Global Share Fund - Class A	0.8	6.5	14.5	20.9	17.7	12.4	13.2	12.7	12.8
MSCI World Net Total Return Index ($A)	2.5	11.9	14.6	30.8	26.8	12.2	14.0	14.0	13.1
Excess	-1.7	-5.4	0.0	-9.9	-9.1	+0.2	-0.8	-1.3	-0.3

CASH & FIXED INCOME STRATEGIES

Financial markets saw elevated volatility during the December quarter as markets parsed the results of the US presidential election, moderating monetary policy easing expectations alongside political and fiscal concerns in Europe.

Global bond yields ended the quarter higher after rising sharply – led by the US – in the wake of republican victories in presidential and congressional elections which sparked inflation concerns. The Reserve Bank of Australia held the cash rate at 4.35% in November and December, signalling confidence that inflation is moving towards target and acknowledging a more-than-expected easing in wage growth. While domestic growth is sluggish – GDP growth per capita continues to contract – labour market data shows resilience.

Floating rate credit performed well in a quarter where bond yields sold off. Spreads – led by USD paper – contracted during November following the US election as investors priced in the prospect of deregulation under a trump presidency. Domestic credit spreads traded in a relatively tight range, ending the quarter lower. Despite occasional volatility driven by global events, the overall "risk-on" sentiment—fuelled by strong equity performance, soft economic landings, central bank easing, and low credit defaults—supported spread compression. This positive environment provided an encouraging backdrop for the credit market, concluding 2024 on a strong note.

Primary market activity remained healthy into early December before winding down over the Christmas period. Demand remained robust throughout with domestic banks and blue chip corporates building oversubscribed books. Kangaroo issuance was also healthy with a number of offshore borrowers coming to the Australian market to meet the persistent robust demand. The securitisation market continued to see elevated deal flow, continuing the already record breaking 2024 pace.

Gross Performance	1M%	3M%	6M%	1Y%	2Y%	3Y%	5Y%	7Y%	10Y%
Perpetual High Grade Floating Rate Fund	0.5	1.6	3.0	6.5	6.4	4.6	3.5	3.3	3.3
Bloomberg AusBond Bank Bill Index	0.4	1.1	2.2	4.5	4.2	3.2	2.0	1.9	1.9
Excess	+0.1	+0.5	+0.8	+2.0	+2.2	+1.4	+1.5	+1.4	+1.4
Perpetual Credit Income Fund	0.6	2.0	3.8	8.4	8.9	5.9	4.8	4.4	4.5
Bloomberg AusBond Bank Bill Index	0.4	1.1	2.2	4.5	4.2	3.2	2.0	1.9	1.9
Excess	+0.2	+0.9	+1.6	+4.0	+4.8	+2.7	+2.8	+2.5	+2.5
Perpetual Active Fixed Interest Fund	0.6	0.1	3.6	4.8	6.1	0.4	0.8	2.4	3.0
Bloomberg AusBond Composite Index	0.5	-0.3	2.7	2.9	4.0	-0.8	-0.2	1.5	2.0
Excess	+0.1	+0.4	+0.8	+1.9	+2.1	+1.2	+1.0	+0.9	+1.0
Perpetual ESG Credit Income Fund- Class A	0.6	2.1	4.1	8.9	8.8	6.1	4.9	-	-
Bloomberg AusBond Bank Bill Index	0.4	1.1	2.2	4.5	4.2	3.2	2.0	-	-
Excess	+0.3	+1.0	+1.8	+4.4	+4.6	+2.9	+2.9	-	-
Perpetual Pure Credit Alpha Fund - Class W	0.7	2.2	4.2	9.3	9.7	7.1	5.8	5.6	6.0
RBA Cash Rate Index	0.4	1.1	2.2	4.5	4.2	3.2	2.0	1.8	1.8
Excess	+0.3	+1.1	+2.0	+4.8	+5.5	+3.9	+3.8	+3.8	+4.2

MULTI-ASSET STRATEGIES

Financial markets saw elevated volatility during the December quarter as markets parsed the results of the US presidential election, moderating monetary policy easing expectations alongside political and fiscal concerns in Europe.
- Developed market equities (+2.0%) rose, marking the close of a robust year for risk assets. US equities (+2.4%) rose, responding positively to the results of the US presidential elections and expectations for corporate profit growth under a second Trump administration. A strong November bookended by negative months, reflecting some pressure as expectations for US monetary policy moderated.
- European equities (-1.8%) were mixed with German stocks rallying (+3.0%) despite political uncertainty while French equities (-3.2%) fell on sovereign debt concerns. Ongoing political instability and the anticipated impact of US trade policy exacerbated persistent growth concerns in the world's largest trading bloc.
- UK Stocks (-0.2%) trailed the broader developed market. Domestically focused sectors fell on the weakening macro outlook. UK stocks were also impacted by rising long-term bond yields reflecting inflation expectations and concerns over the new government's fiscal policies in the budget published in October.
- The ASX 300 (-0.8%) declined, impacted by rising bond yields alongside the potential ramifications for Chinese commodity demand from proposed US tariffs.
- Japan equities (+5.4%) led developed markets, rebounding from their 3rd quarter decline and benefitting from the weakened yen improving the earnings outlook for exporters.

- Emerging Markets (-4.2%) fell throughout the quarter. The rising US dollar provided a significant headwind. Trump's election victory and associated trade policy weighed on emerging market equities, particularly China (-7.0%).
- Global bond markets saw elevated volatility throughout the quarter with 10 year yields rising across Australia (+39bps), the US (+79bps) the UK (+57bps) and Germany (+24bps).

With the resolution of the US election and the Republican party sweeping both the legislative and executive branches, market expectations for US growth have remained positive. Accommodative tax policies and a reduced regulatory burden are expected to support a soft economic landing, underpinned by resilient employment, strong corporate earnings growth, and a vibrant consumer. Growth, employment and inflation data continue to imply that US rates have been considerably less restrictive that the Fed anticipated. The strength of services sector labour data in particular, provides a challenge for the Fed as service sectors is where wages growth and core inflation have the strongest correlation, and it's also where productivity is the hardest to move higher through innovation.

The Federal Reserve lowered interest rates by 25 basis points in both November and December. However, the Fed's December meeting triggered a stock market sell-off after the release of the new dot plot, which showed a median forecast of only two additional rate cuts in 2025. While this aligned with market expectations, the tone from the Fed was more hawkish, indicating that the committee was reconsidering the "extent and timing" of further cuts.

While concerns over President Trump's proposed tariffs have unsettled markets and saw bond yields climb in the December quarter, we believe the impact on growth will be modest and unlikely to significantly influence Fed policy. Our primary concern remains the unsustainable fiscal deficit, which stands at 6.4% of GDP and is set to widen through tax cuts. This raises concerns about the long-term trajectory of fiscal policy and its potential impact on bond markets and equity valuations.

Europe continues to struggle with weak economic data and political instability, including the collapse of the German coalition government and growing concerns about French debt. Composite PMI fell to a 10-month low in November before the December print showed improvement with the service sector returning to expansionary territory. The ECB cut rates by 25 basis points in October and December and signalled more cuts in 2025 amid ongoing growth struggles. In the UK, signs of economic weakness emerged, with the services PMI hitting its lowest level since November 2023 and unemployment rising to 4.3%.

Emerging markets struggled throughout the December quarter, pressured by rising concerns over the potential impact of US tariff increases alongside the strengthening US dollar. China's economic outlook remains fraught. A lack of further detail relating to the policy stimulus measures announced in September, together with investor concerns relating to the implications of proposed Trump trade tariffs on Chinese exports compounded the existing property sector overhang, sustained deflation, high debt and weak private sector confidence.

The Australian economy continues to struggle with higher inflation and elevated interest rates, leading to six consecutive quarters of contracting GDP growth per capita. Economic growth in 2025 is expected to remain subdued, driven by softening labour market conditions and constrained household consumption. The Reserve Bank of Australia held the cash rate at 4.35% in December, signalling confidence that inflation is moving towards target and acknowledging a more-than-expected easing in wage growth. Third-quarter GDP growth was weak at 0.3% quarter-on-quarter, with private investment and consumption showing little growth. The labour market remains firm, with unemployment at a record low of 3.9%.

Gross Performance	1M%	3M%	6M%	1Y%	2Y%	3Y%	5Y%	7Y%	10Y%
Perpetual Balanced Growth Fund	-1.2	0.3	4.5	9.5	7.8	6.0	7.9	7.5	7.6
Balanced Growth Index	-0.9	1.7	7.1	13.4	13.2	5.4	6.9	7.5	7.6
Excess	-0.3	-1.4	-2.5	-3.9	-5.4	+0.6	+1.0	0.0	0.0
Perpetual Diversified Growth Fund	-0.6	0.4	4.1	8.1	6.7	4.8	6.2	6.2	6.3
Moderate Growth Index	-0.5	1.2	5.8	10.5	10.5	3.8	5.0	5.8	6.1
Excess	-0.1	-0.8	-1.7	-2.4	-3.8	+0.9	+1.2	+0.4	+0.2
Perpetual Diversified Real Return Fund - Class W	0.0	0.3	3.3	5.9	4.8	3.5	4.8	4.7	5.1
Australian CPI +5% (Target Objective)							9.0	8.4	
Perpetual ESG Real Return Fund	0.1	0.2	3.6	5.7	3.8	1.1			
Australian CPI +5% (Target Objective)							-	-	

MORE INFORMATION

Kate Hillyar
Institutional Sales Director, Institutional Sales
P: +61 (0)2 9229 3243
kate.hillyar@perpetual.com.au

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.