Perpetual Asset Management Australia

INSTITUTIONAL UPDATE

January 2025

AUSTRALIAN EQUITIES STRATEGIES

Markets surged in January, with the S&P/ASX 300 Accumulation Index delivering a strong 4.46% return, driven largely by Financials, which contributed nearly half of the month's gains. The major banks rallied, with NAB surging 8.19% and ANZ adding 7.29%, while CBA and Westpac rose 4.77% and 4.36%, respectively. Macquarie Group also posted a notable 8.64% gain, and Wesfarmers added 7.09%. Consumer Discretionary (+6.07%) and Real Estate (+4.60%) were among the strongest-performing sectors, while Utilities (-2.40%) was the weakest, weighed down by a 4.13% decline in Origin Energy. Consumer Staples saw only modest gains, rising 0.77%. Despite continued tariff threats from the White House, major miners BHP and Rio Tinto remained flat. December NAB Business Conditions improved to +6 from +3 in November, while the labour market remained resilient, with employment rising by 56,300—well ahead of expectations. Headline inflation fell to its lowest level since early 2021, with the trimmed mean reaching a three-year low. This drove increased speculation of interest rate cuts, leading to a decline in the Australian dollar.

Gross Performance	1M%	3M%	6M%	1Y%	2Y%	3Y%	5Y%	7Y%	10Y%
Perpetual Australian Share Fund	2.9	2.1	1.8	9.5	6.9	8.1	8.7	8.5	7.9
S&P/ASX 300 Accumulation Index	4.5	5.0	7.3	15.1	10.8	11.1	7.9	9.2	8.6
Excess	-1.6	-2.9	-5.4	-5.6	-3.9	-2.9	+0.8	-0.7	-0.8
Perpetual Concentrated Equity Fund	3.5	2.5	1.5	10.6	8.2	10.2	8.6	8.4	8.2
S&P/ASX 300 Accumulation Index	4.5	5.0	7.3	15.1	10.8	11.1	7.9	9.2	8.6
Excess	-1.0	-2.4	-5.7	-4.5	-2.6	-0.9	+0.8	-0.8	-0.5
Perpetual ESG Australian Share Fund	3.6	4.2	4.4	14.5	12.7	10.5	11.8	9.3	9.7
S&P/ASX 300 Accumulation Index	4.5	5.0	7.3	15.1	10.8	11.1	7.9	9.2	8.6
Excess	-0.9	-0.8	-2.9	-0.6	+1.9	-0.6	+3.9	+0.2	+1.0
Perpetual Pure Equity Alpha Fund – Class A	-0.1	2.6	4.1	9.8	6.9	7.6	10.8	9.0	8.7
RBA Cash Rate Index	0.4	1.1	2.2	4.5	4.3	3.3	2.1	1.9	1.8
Excess	-0.4	+1.5	+1.9	+5.3	+2.6	+4.2	+8.7	+7.2	+6.9
Perpetual Share-Plus Long-Short Fund	2.3	3.9	5.0	12.6	8.6	12.4	11.8	10.3	10.2
S&P/ASX 300 Accumulation Index	4.5	5.0	7.3	15.1	10.8	11.1	7.9	9.2	8.6
Excess	-2.1	-1.0	-2.3	-2.5	-2.2	+1.3	+3.9	+1.2	+1.6
Perpetual Smaller Companies Fund	2.1	3.4	2.9	9.7	3.8	6.4	11.2	9.6	11.2
S&P/ASX Small Ordinaries Accumulation Index	4.6	2.7	6.6	12.3	7.1	3.1	4.3	5.1	7.7
Excess	-2.5	+0.7	-3.7	-2.6	-3.3	+3.3	+6.9	+4.5	+3.5
Perpetual Strategic Capital Fund - Class S	0.9	1.8	1.0	8.2	-	-	-	-	-
S&P/ASX 300 Accumulation Index	4.5	5.0	7.3	15.1	-	-	-	-	-
Excess	-3.6	-3.2	-6.3	-6.9	-	-	-	-	-

GLOBAL EQUITIES STRATEGIES

January was an eventful month packed with impactful geopolitical headlines mixed with macroeconomic developments. The freshly inaugurated President Trump and his administration hit the ground running with a flurry of activity addressing myriad issues which resulted in gyrating markets. In spite of all the headlines generating uncertainty, January proved to be a strong month for global equity markets that finished mostly higher. Like last year, there was a notable difference in styles. Unlike last year, it is value leading the charge as the MSCI World Value Index outperformed its growth counterpart by roughly 200 basis points (bps) in U.S. dollar terms for the month. Global investors are all wondering what the impact of Trump 2.0 means for the globe, and maybe the style shift and broader market in January is an indicator. The growth levels of high momentum and AI related stocks became a source of controversy after the release of DeepSeek, a Chinese AI model reported to be developed at a fraction of the cost of comparable American products. The cost effectiveness claims could prove to be a deepfake but for now the long-term spending on AI-related CAPEX is up for debate.

Gross Performance	1M%	3M%	6M%	1Y%	2Y%	3Y%	5Y%	7Y%	10Y%
Barrow Hanley Emerging Markets Fund	2.8	4.1	10.1	17.0	8.3	-	-	-	-
MSCI Emerging Markets Net Total Return (AUD)	1.0	2.9	6.3	21.6	12.2	-	-	-	-
Excess	+1.8	+1.2	+3.8	-4.6	-3.8	-	-	-	-
Barrow Hanley Global Share Fund - Class A	2.9	6.8	11.5	23.0	17.1	13.1	13.4	12.9	12.9
MSCI World Net Total Return Index ($A)	2.8	10.7	13.1	28.7	26.7	14.1	13.7	14.2	13.0
Excess	+0.1	-4.0	-1.6	-5.7	-9.5	-1.0	-0.3	-1.2	-0.1

CASH & FIXED INCOME STRATEGIES

Financial markets performed well during January, notwithstanding elevated volatility among global bond yields. Uncertainty around the implications of the second Trump presidency remained a driving force for global markets. Declining domestic inflation was a key theme locally with December quarter CPI data below expectations and nearing the midpoint of the RBA's target band. Improved inflation print alongside a run of soft economic data and slow wages growth saw expectations firm for the RBA to commence monetary policy easing as early as February.

Bond markets saw elevated volatility during January as strong US employment data saw long term yields spike before retracing. Domestic bond yields also rose mid-month before receding. The yield curve steepened slightly with the very short end rallying - reflecting the market increasingly pricing in a February RBA rate cut – while longer tenors ended the month marginally higher.

Domestic credit spreads contracted through January, led by industrial corporates and real estate sectors. Spreads remain supported by low recession risks and resilient employment data, despite softer economic growth. Default rates – while rising – remain low and the possibility of lower interest rates during 2025 is constructive. Globally, USD spreads traded in a tight range, remaining close to historically tight levels, while EUR denominated spreads rallied.

Primary market volumes were bumpy through January with a rapid pace set in the first full week of the year before easing over the remainder of the month and pausing in the last week as the January public holiday and lunar new year disrupted deal flow. Westpac raised $2.5B of senior paper across fixed and floating tranches, while CBA came to market for $3.0B. Deal flow was notable among government adjacent sectors, with elevated volumes of kangaroo supranational issuance alongside a number of domestic semi-government deals. There were no new securitisation deals during January, following record breaking volumes printed in 2024.

Gross Performance	1M%	3M%	6M%	1Y%	2Y%	3Y%	5Y%	7Y%	10Y%
Perpetual High Grade Floating Rate Fund	0.5	1.4	3.0	6.5	6.4	4.8	3.5	3.4	3.3
Bloomberg AusBond Bank Bill Index	0.4	1.1	2.3	4.5	4.2	3.3	2.0	1.9	2.0
Excess	+0.1	+0.3	+0.7	+2.0	+2.2	+1.5	+1.5	+1.4	+1.4
Perpetual Credit Income Fund	0.7	2.0	4.1	8.3	8.7	6.2	4.8	4.4	4.5
Bloomberg AusBond Bank Bill Index	0.4	1.1	2.3	4.5	4.2	3.3	2.0	1.9	2.0
Excess	+0.4	+0.9	+1.9	+3.8	+4.5	+2.8	+2.8	+2.5	+2.6
Perpetual Active Fixed Interest Fund	0.3	2.2	2.1	4.8	4.6	0.8	0.4	2.5	2.8
Bloomberg AusBond Composite Index	0.2	1.8	1.4	2.9	2.7	-0.4	-0.6	1.6	1.8
Excess	+0.1	+0.3	+0.7	+1.9	+2.0	+1.2	+1.0	+0.9	+1.0
Perpetual ESG Credit Income Fund- Class A	0.7	2.1	4.4	8.7	8.6	6.4	4.9	-	-
Bloomberg AusBond Bank Bill Index	0.4	1.1	2.3	4.5	4.2	3.3	2.0	-	-
Excess	+0.4	+0.9	+2.2	+4.2	+4.3	+3.1	+2.9	-	-
Perpetual Pure Credit Alpha Fund - Class W	0.6	2.0	4.1	9.3	9.4	7.3	5.9	5.6	6.0
RBA Cash Rate Index	0.4	1.1	2.2	4.5	4.3	3.3	2.1	1.9	1.8
Excess	+0.3	+0.9	+1.9	+4.8	+5.2	+3.9	+3.8	+3.8	+4.2

MULTI-ASSET STRATEGIES

January saw elevated volatility in equity and bond markets as the early agenda of the Trump presidency brought a flurry of executive orders that precipitated a sharp selloff in bonds. Meanwhile, a challenge to the dominance of the US in the AI space culminated in lofty tech valuations being tested by the market.

- US stocks (S&P 500 +2.8%) rallied despite trailing the MSCI World (+3.5%). Growth sectors – most notably technology – lagged as a low cost China listed company named DeepSeek sparked increased questions around the competitive landscape in AI.
- European equities (+8.1%) substantially outperformed the global market, led by Germany (+9.2%) as easing monetary conditions and low positioning saw investors increase their allocations. Europe's underweight to the technology sector (relative to the broader market) also helped mitigate the impact of AI-related volatility seen in the US.
- Australian equities (+4.5%) rose strongly reflecting firming expectations of a February start to the RBA's monetary easing cycle, as well as recent improvements in macro data.
- Emerging markets (+1.6) rose moderately as markets parsed both the potential impact of US tariffs but also a marginally softer US dollar.
- Bond markets experienced heightened volatility in January, with global yields rising on the back of President Trump's policy proposals, which raised expectations for higher inflation and concerns about the level of debt of the US Government. US Treasury yields climbed by around 20 basis points early in the month. However, yields softened towards the end of January following a weaker-than-expected January non-farm payrolls report. The domestic yield curve steepened as short-term yields fell as the market increasingly priced in a February RBA rate cut after the December Australian inflation report indicated that domestic core inflation was falling faster than RBA forecasts.
- Commodities performed strongly throughout January. Precious metals, including gold (+7.8%), benefited from geopolitical tensions linked to US trade policy as well as major investors wanting to diversify their US Treasury holdings, while Brent Crude Oil (+3.4%) was supported by increased demand in the wake of a cold European winter.

The reveal of DeepSeek – a Chinese start up offering a more cost-efficient generative AI model than US competitors – saw markets reconsider the defensive moats and valuations of large cap US tech firms and the ongoing demand for expensive chips developed by Nvidia. Nvidia saw the largest ever single day capital loss (-$600 billion in US dollar terms) for a US stock, falling 17.6% on the news. For some time we have warned about the risks associated with the increasingly concentrated equity returns exacerbated by the rise of passive investing. The selloff was a stark reminder of the risks associated with egregiously over-valued mega cap US tech stocks and raised questions around the level of capital expenditure and competitiveness of US tech given the potential for low cost alternatives.

The inauguration and subsequent early actions of the Trump presidency also contributed to market volatility in January. An initial sense of relief gave way as administration used emergency powers to enact 25% tariffs on Canada and Mexico (which were subsequently delayed to early March-2025) and a 10% tariff on China. While tariffs have unsettled markets, we believe the impact on growth and core inflation will be modest but it will see the US Fed delay any policy change until the effect of the tax increases become known. Our primary concern remains the unsustainable fiscal deficit, which stands at 6.4% of GDP and is set to widen through tax cuts from 2017 becoming permanent (although this can be changed by subsequent Congresses). This raises concerns about the long-term trajectory of fiscal policy and its potential impact on bond market term premia and equity valuations.

The US Federal Reserve kept interest rates steady at its January meeting, , while the US jobs market in December 2024 remained upbeat. December's non-farm payrolls data (released in early January) revealed +256k of jobs added, bolstering confidence in the economy. While core inflation eased to 3.2%, the Fed remains patient, balancing growth and inflation risks in its policy decisions.

Outside the US, European growth indicators improved although the region remains challenged. The composite PMI rose into expansion territory during the month, and employment growth also improved, indicating a moderate expansion. The ECB offered relief, cutting rates by a further 25bps during January to address soft growth expectations for 2025. The outlook remains challenging with concerns around rising geopolitical and trade tensions with the US alongside weakened consumer confidence.

Meanwhile, the Australian economy has struggled in the wake of higher inflation and sustained elevated interest rates which have sparked seven consecutive quarters of contracting GDP growth per capita (and eight contractions in the past nine quarters). The economy has only remained in expansion territory due to large population growth and a large fiscal expansion which is adding to price pressures. Australia's economy is projected to grow at a faster pace in 2025, driven by large increases in state and federal government spending, tax cuts and lower interest rates.

Gross Performance	1M%	3M%	6M%	1Y%	2Y%	3Y%	5Y%	7Y%	10Y%
Perpetual Balanced Growth Fund	1.8	2.7	3.1	9.6	7.7	6.7	7.8	7.7	7.6
Balanced Growth Index	2.6	4.8	6.6	14.9	12.1	7.6	6.8	7.8	7.6
Excess	-0.9	-2.1	-3.5	-5.3	-4.4	-0.9	+1.0	0.0	0.0
Perpetual Diversified Growth Fund	1.3	2.5	2.8	8.0	6.4	5.3	6.0	6.3	6.2
Moderate Growth Index	1.9	3.9	5.2	11.5	9.4	5.6	4.9	6.1	6.0
Excess	-0.6	-1.4	-2.4	-3.5	-3.0	-0.3	+1.2	+0.3	+0.2
Perpetual Diversified Real Return Fund - Class W	0.6	1.3	1.9	5.5	4.8	3.6	4.7	4.7	5.0
Australian CPI +5% (Target Objective)							8.9	8.3	
Perpetual ESG Real Return Fund	0.6	1.6	2.1	5.8	3.7	2.0			
Australian CPI +5% (Target Objective)							-	-	

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.

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