What changes in portfolios are we making in 2024 to cope with the changing macro environment?

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clime

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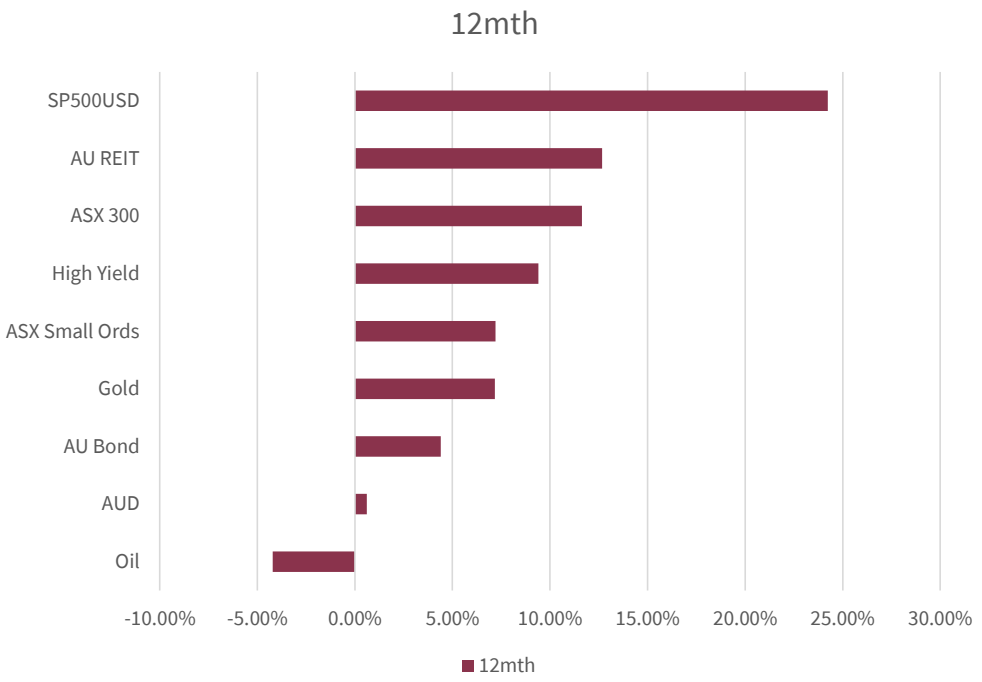
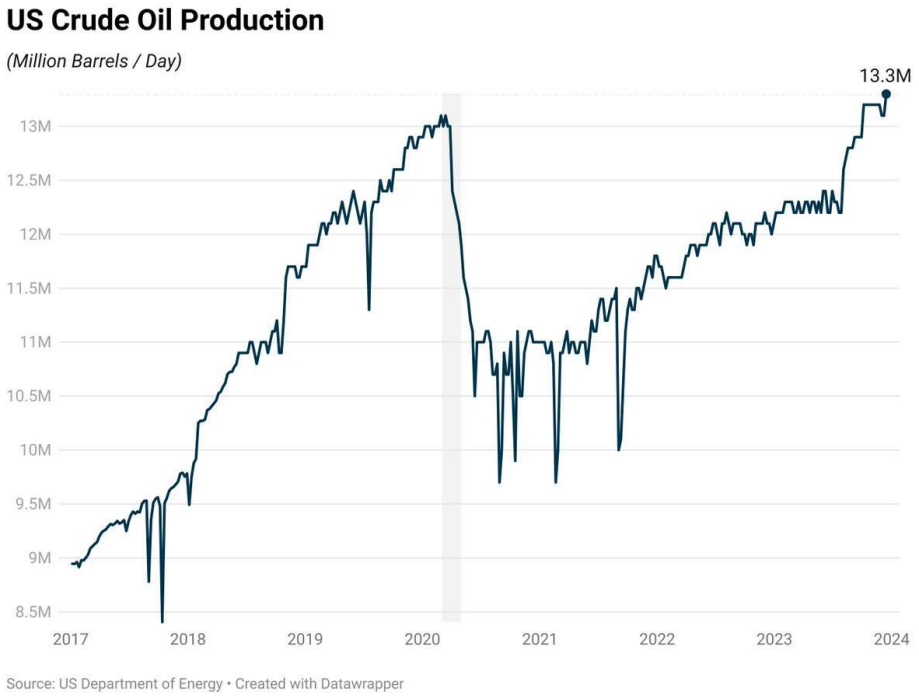
2023 – The year almost everything went up

2023 Asset class returns

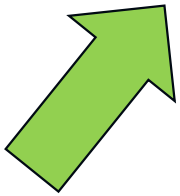
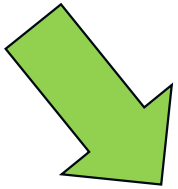
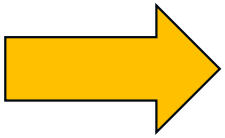


Oil production increase drove down inflation

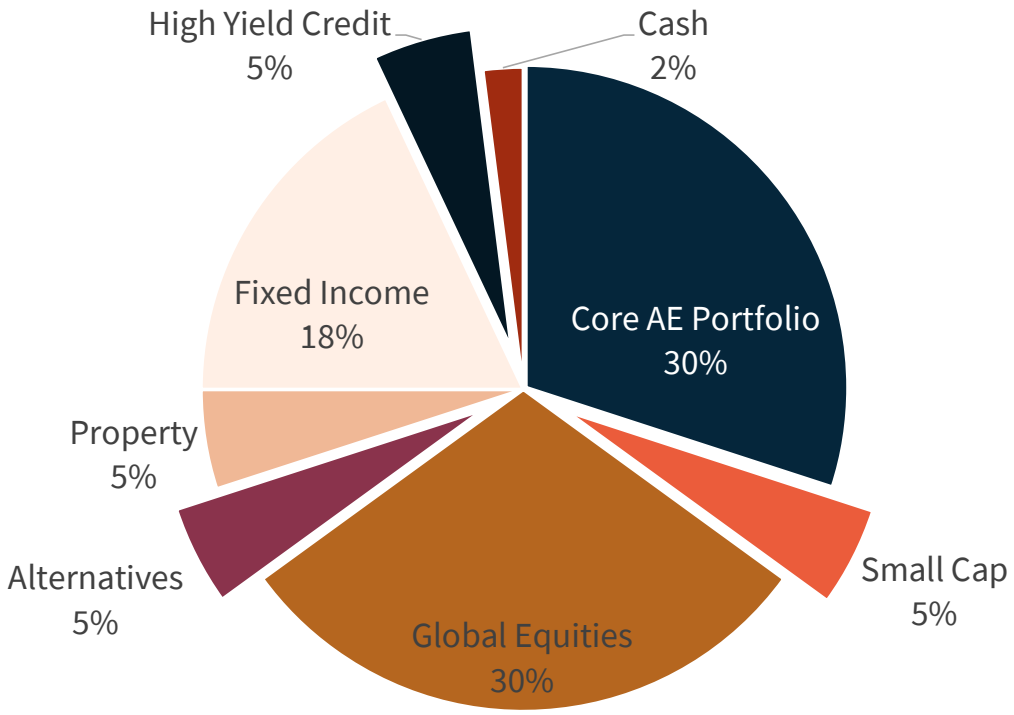


Source: Factset

Clime investing framework

	GROWTH	Where's the recession?
	RISK	Rate cuts to start in 2024
	VALUE	Back to fair value

Global opportunity set – where to invest in 2024?



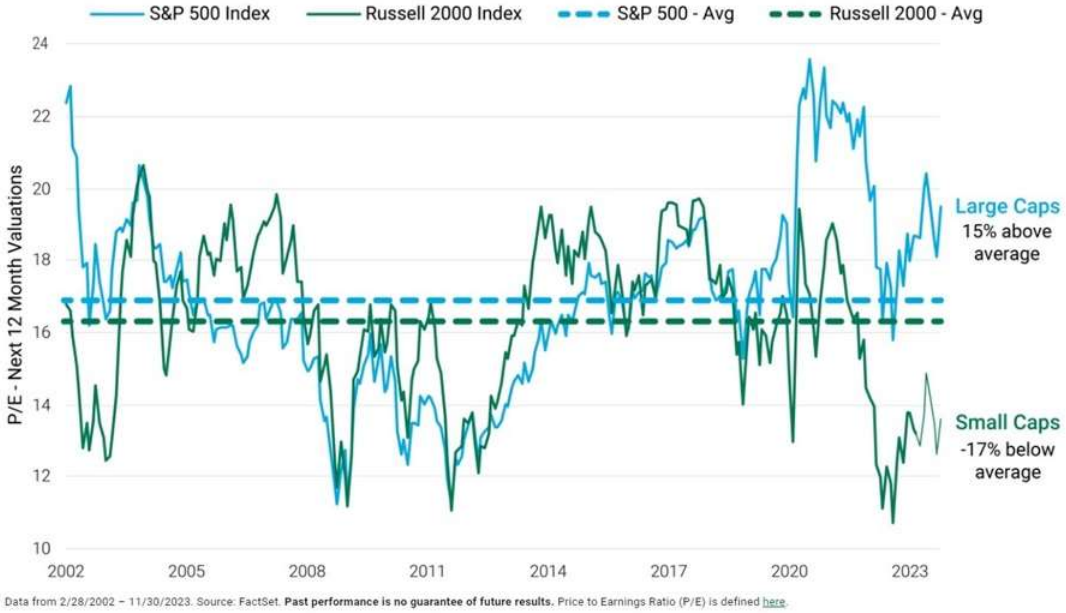
1. Small Cap companies

2. High Yield Credit

3. Private Equity

Small and emerging companies rebounding

Figure 1 | Value Disparities Between Large- and Small-Cap Stocks



Data from 2/28/2002 – 11/30/2023. Source: FactSet. **Past performance is no guarantee of future results.** Price to Earnings Ratio (P/E) is defined here.

Small caps starred in recent reporting season

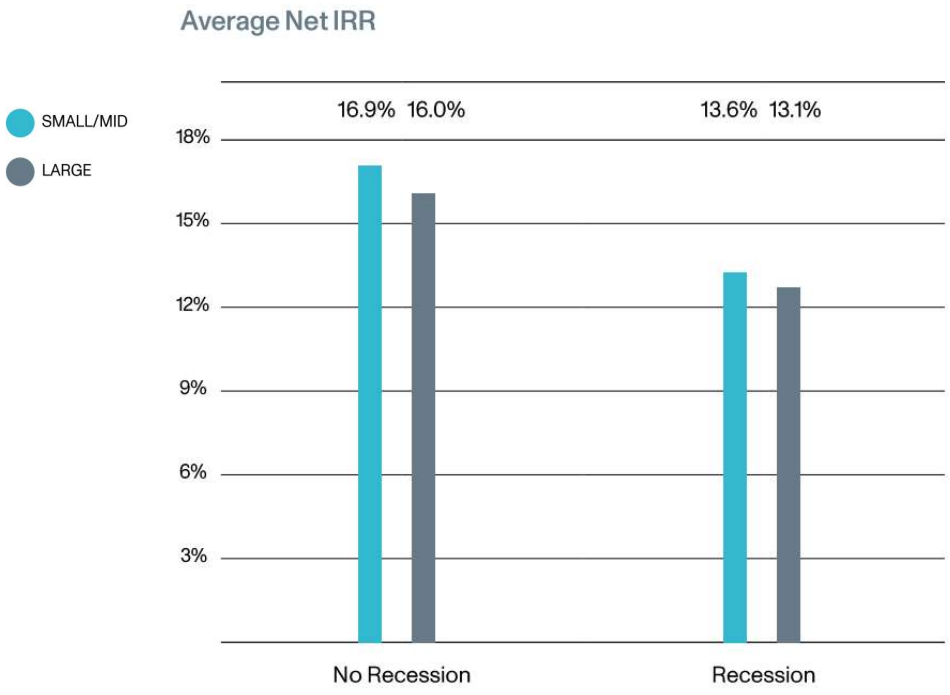
	12mf PE*	XJI move*	ASX50 Beats	ASX50 Misses	Ex ASX50 Beats	Ex ASX50 Misses
Feb-24	16.5	0.5%	23%	2[illegible]%	44%	22[illegible]
Aug-23	17.5	-1.0%	23%	35	29%	[illegible]%
Feb-23	18.3	-1.5%	41%	19%	[illegible]	32%
Aug-22	17.4	-1.0%	23%	31%	33%	22%
Feb-22	20.1	0.3%	34%	14%	35%	14%
Aug-21	21.7	5.0%	14%	17%	30%	10%
Feb-21	23.0	-0.7%	45%	7%	31%	13%
Aug-20	21.0	2.9%	21%	21%	28%	18%
Feb-20	19.2	-6.9%	25%	21%	17%	29%
Aug-19	18.2	-1.8%	11%	29%	17%	29%
Feb-19	15.2	5.0%	15%	15%	18%	26%
7-Yr Averages			**22%**	**19%**	**26%**	**21%**

*** XJI – ASX 200 Industrials**

Source: Goldman Sachs

Private Equity – Diversification + all weather returns

Positive returns in a recession



Low correlation to all asset classes

CORRELATIONS

	US Equities	Non-US Equities	Emerging Markets	Global High Yield	Aggregate Fixed Income	Private Equity	Private Infrastructure	Private Debt
US Equities	1.00							
Non US Equities	0.89	1.00						
Emerging Market Equities	0.80	0.85	1.00					
Global High Yield	0.41	0.44	0.39	1.00				
Aggregate Fixed Income	0.26	0.27	0.25	0.65	1.00			
PRIVATE EQUITY	0.41	0.42	0.40	0.04	0.00	1.00		
Private Infrastructure	0.46	0.52	0.50	0.14	0.11	0.66	1.00	
Private Credit	0.33	0.36	0.31	0.78	0.20	0.06	0.14	1.00
Private US Real Estate	0.37	0.33	0.28	0.07	0.08	0.53	0.60	0.03

Source: Russell Investments, 2022.

Prequin, Schroders Capital, 2023

High Yield Credit

Attractive returns in high yield

Source: Bloomberg. Government bond yield = 10-year US Treasury yield.
Credit spread = Bloomberg Barclays Global Aggregate Corporate Average Option Adjusted Spread.
Data shown 1 January 2017 to 31 October 2023.

Attractive relative returns

- Yields to decline but remain attractive
- Credit spreads to remain tight
- Traditional lenders have focused on low risk lending
- Regulators increasing capital requirements
- Domestic property lending vs equity

Invest in people, who invest in you.