IMAP Independent Thought Conference

Australian equities – Is the market too optimistic?

September 2023

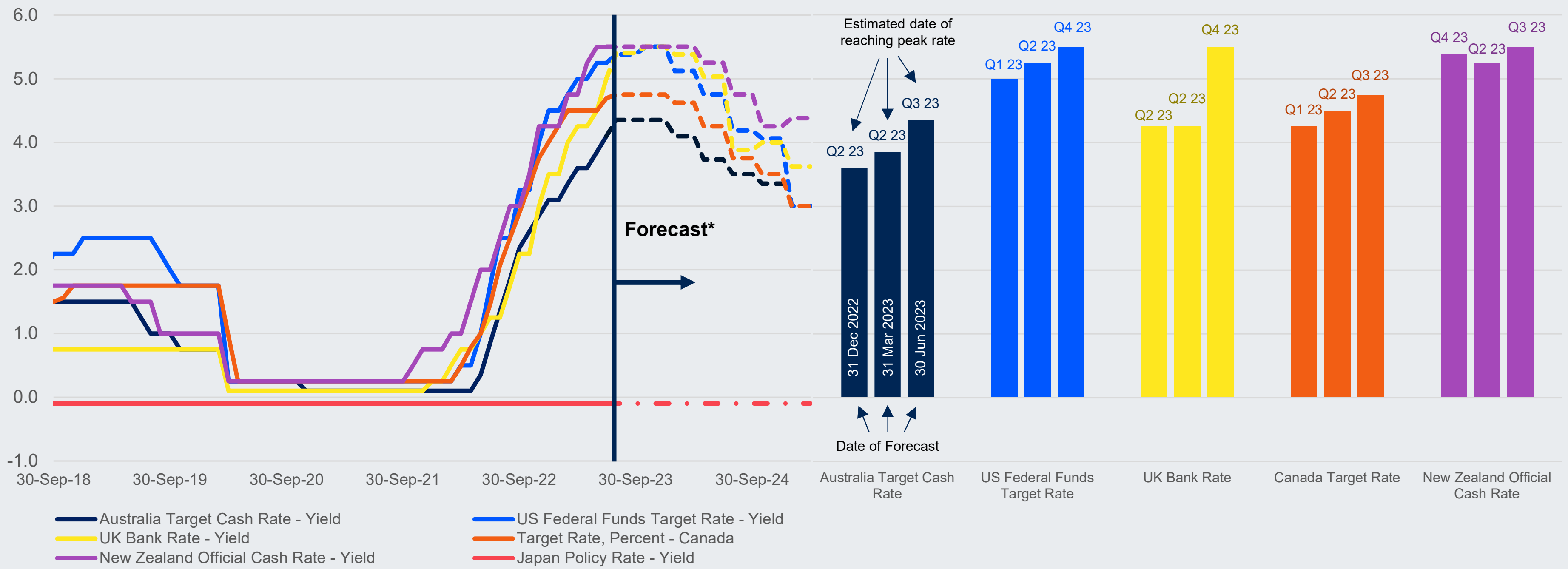
Perpetual Private

Trust is earned.

Perpetual

Cash rates

An abrupt change

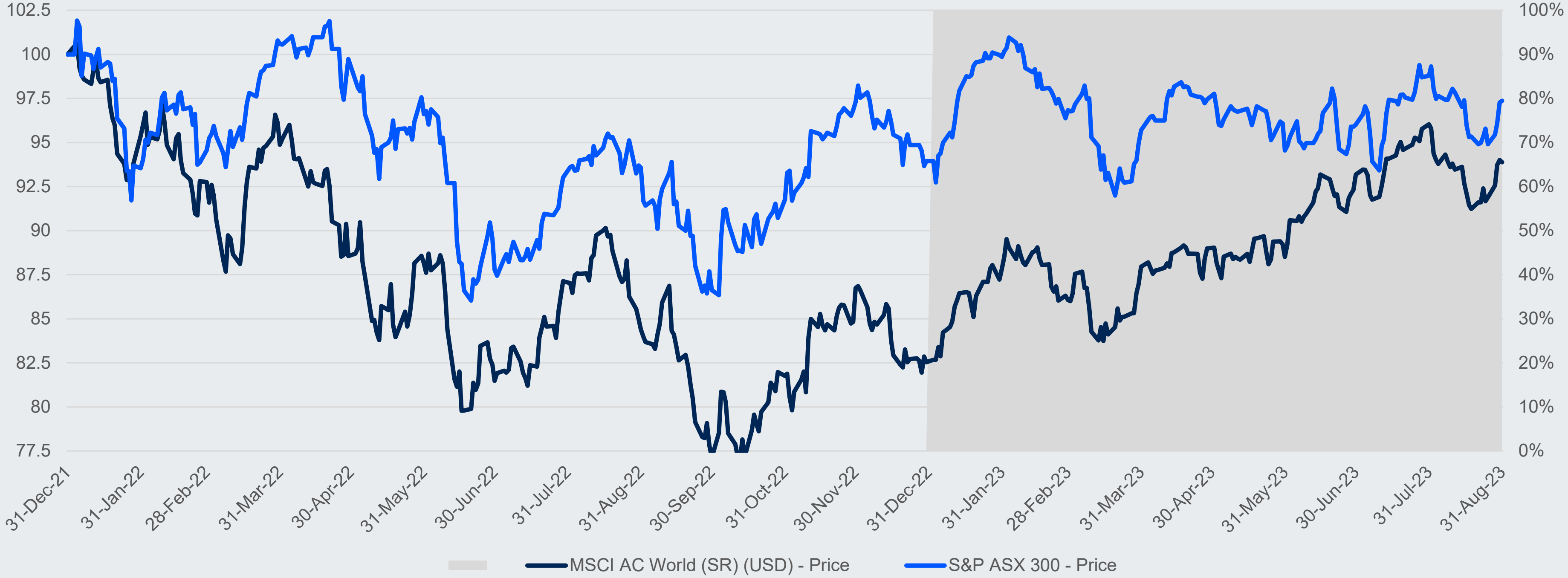


- Central banks have begun to pause or temper rate hikes across the globe as inflation trends down.
- We are likely close to the peak of the tightening cycle in most developed economies.
- RBA paused for the third time in August. The Fed paused in June, but continued in August.
- Peak rate forecasts have increased over the last 6 months and been pushed back as economies have been surprisingly resilient.

Source: FactSet Economics Standardized Database, June 2023
Forecast*: FactSet Economic Estimates (Median broker estimate)

2022 vs 2023

A changing landscape

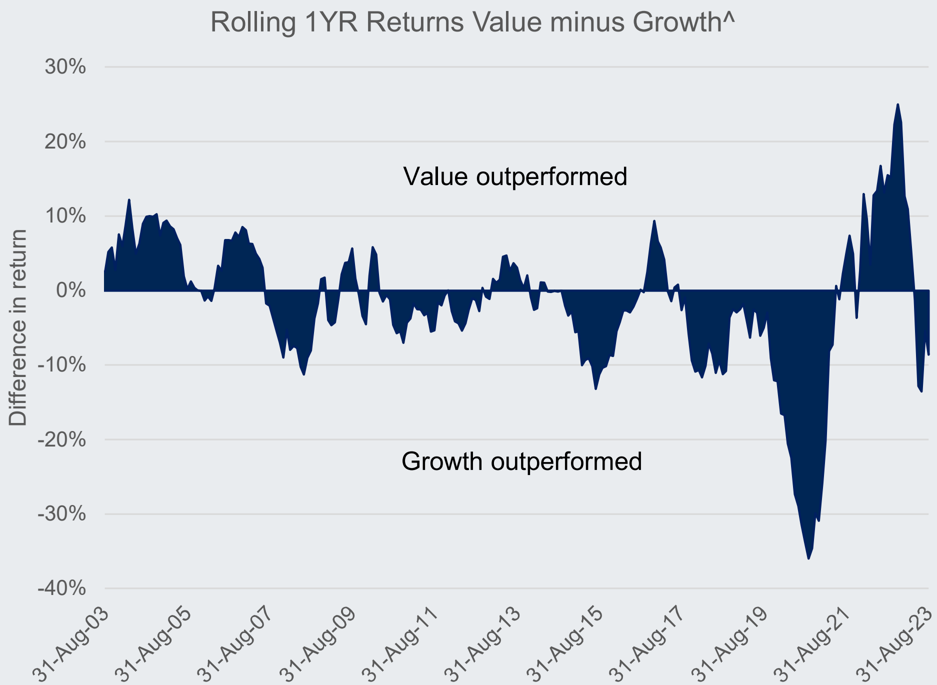


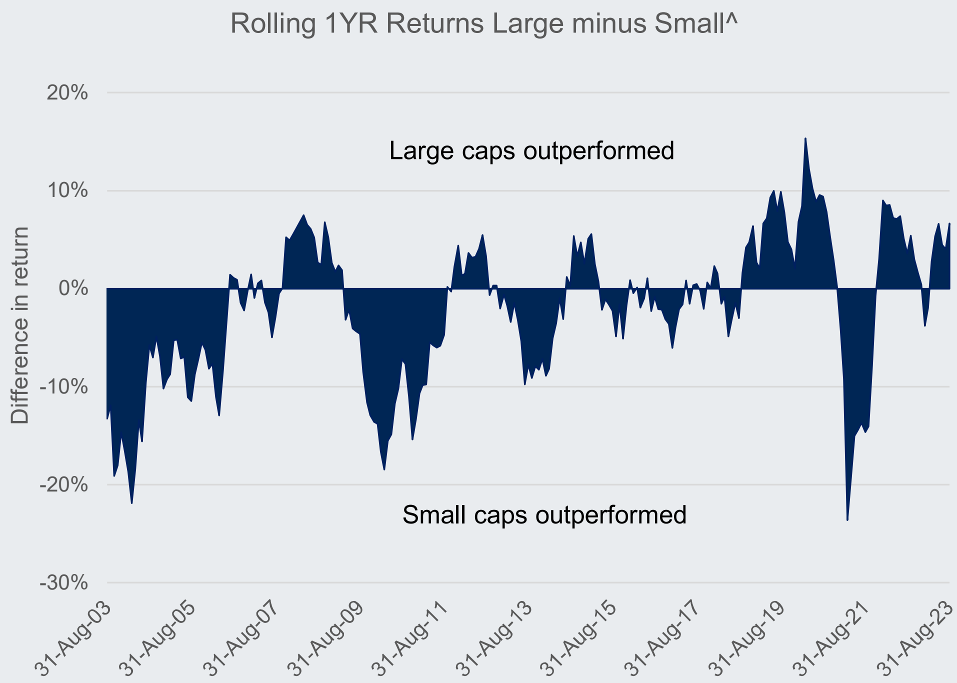
- 2022 was almost universally bad for all asset classes
- 2023 has seen an expansion of multiples, benefitting technology stocks globally
- Australia has limited exposure to “Tech”, so saw a limited amount of the downside and the recent upside
- Sentiment however, has improved as the widely expected recession has failed to arrive

Source: Factset

Equities

A swinging pendulum





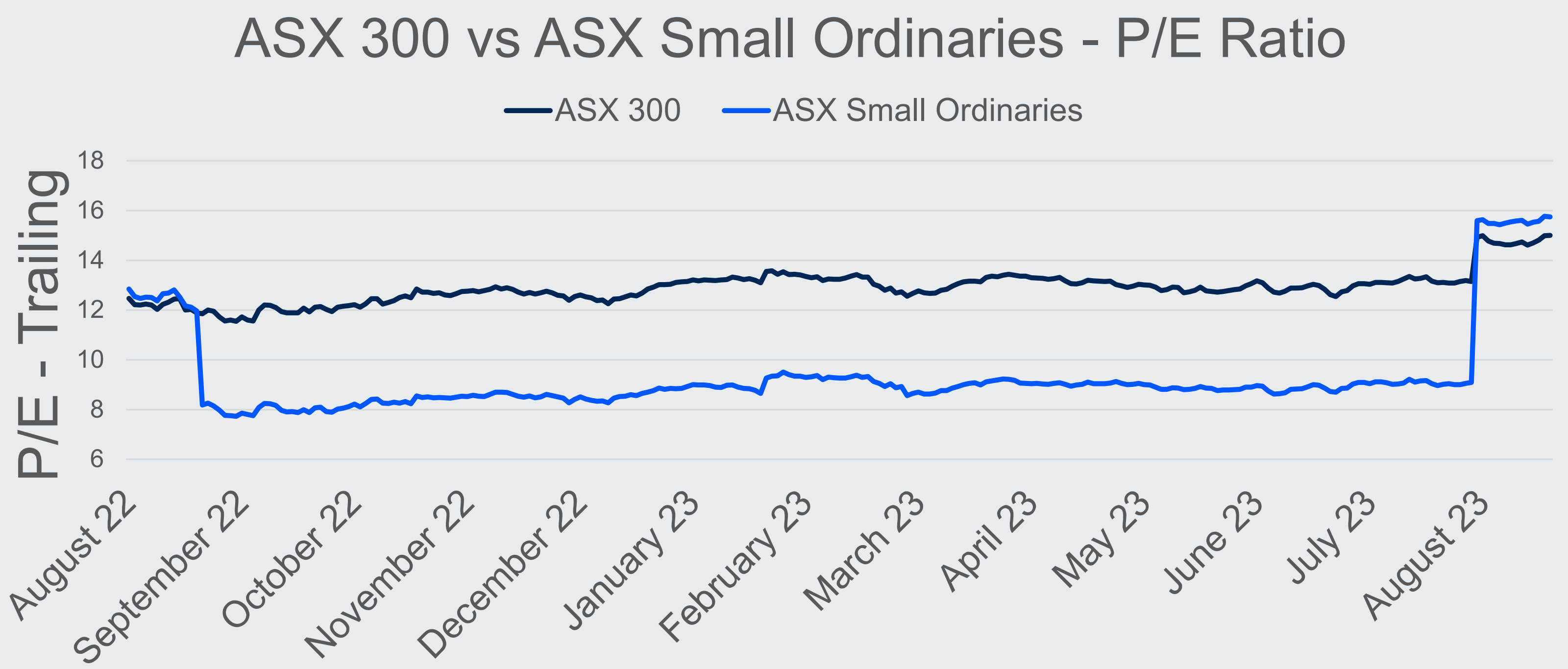
- Growth has swung back into favour over the last 6 months as equity markets rally on AI innovation.
- Large cap stock indices have benefitted from this rally, as well as investors seeking quality amid looming economic slowdown.
- Companies with strong balance sheets and high quality earnings expected to do well.
- Significant volatility in equity markets, and dispersion between sectors should create opportunities for good active managers.

Source: FactSet, Returns are in AUD, September 2023
^As measured by the MSCI AC World Value, Growth, Large Cap and Small cap indices.

Past performance is not indicative of future performance.

Expanded multiples

Despite robust earnings season

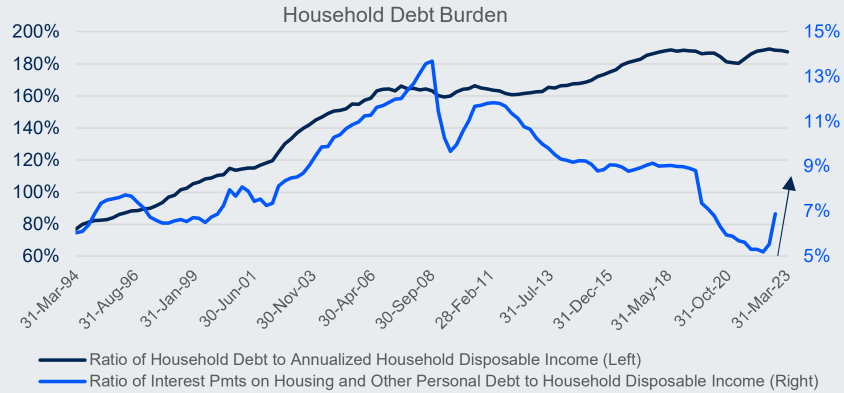


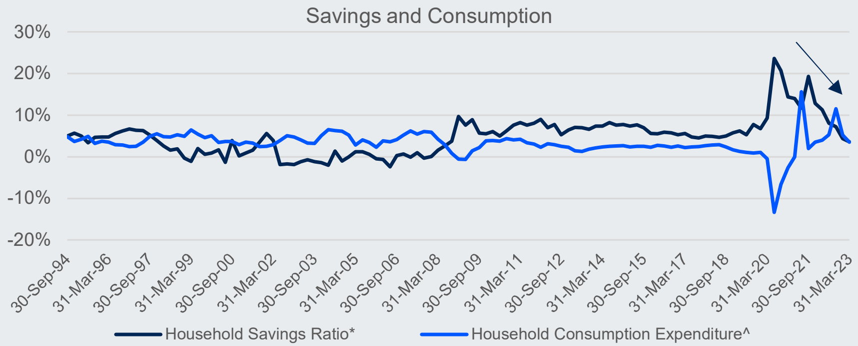
- Sentiment appears to be driving returns
- Though the recent earnings season has been encouraging, valuations have adjusted to expectations rather than results
- Is there potential to benefit from dislocations?

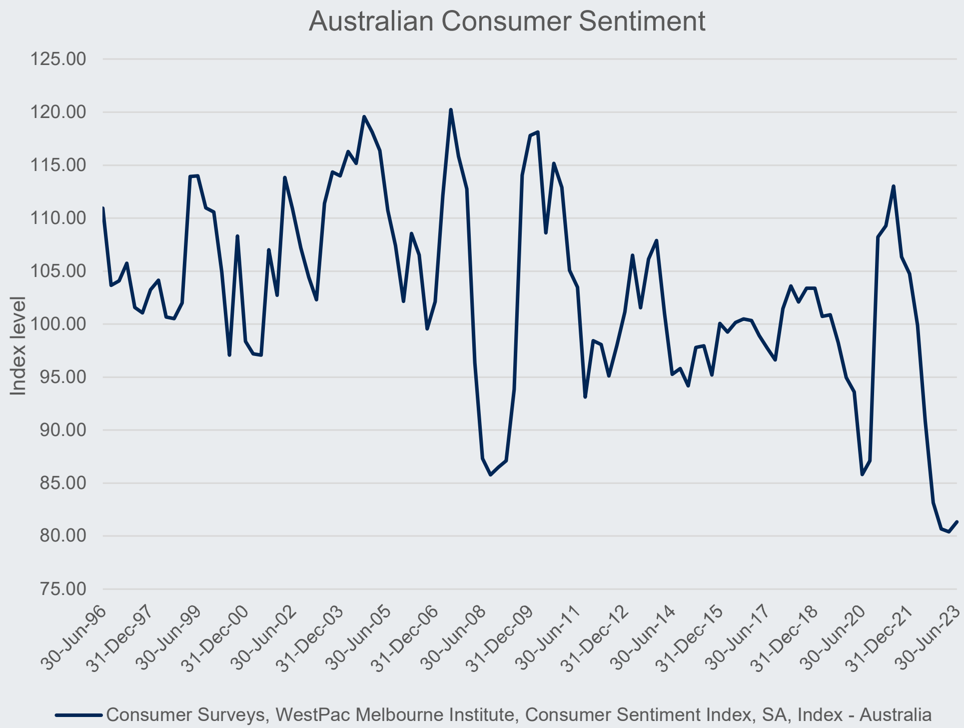
Source: Factset

Consumers starting to feel the pinch

Signs that Australian consumers are likely to curb spending in the second half of the year







- Consumer sentiment is at 30 year lows when measured on a quarterly basis.
- Household debt to disposable income at 30 year highs, interest rates at 15 year highs & may remain high due to sticky inflation.
- Excess savings have allowed consumers to continue spending, expect this to tighten over the next 12 months as savings deplete.
- Reduction in consumer demand is good news for inflation but bad news for economies if demand slows too rapidly.

Source: FactSet, RBA, ABS September 2023.
*Year-on-Year % change in Real GDP, Household Consumption Expenditure, At 2016-17 Chained Volumes, Seasonally Adjusted, Mil AUD – Australia
^Year-on-Year % change in Household Savings Ratio, Seasonally Adjusted - Australia