Pendal Sustainable Balanced

Quarterly Investment Option Update

30 September 2024

Aim and Strategy

The option aims to provide a return (before fees, and expenses) that exceeds the option's benchmark over the medium to long term. The benchmark for the option is created from a weighted composite of market indices with reference to the option's neutral asset allocation. The option invests in Australian and international shares, Australian and international property securities, unlisted property (including infrastructure), Australian and international fixed interest, cash and alternative investments.

The option may also use derivatives. Sustainable and ethical investment practices are incorporated into the Australian and international shares, Australian and international fixed interest and part of the Alternative investment components of the option. Pendal actively seek exposure to securities and industries that demonstrate leading ESG and ethical practices and exclude companies not meeting the investable criteria.

Asset Allocation	Benchmark (%)	Actual (%)
Australian shares	27	25.7
Global shares	34	34.2
Australian property securities	2	2.3
Global property securities	0	0.0
Unlisted property and infrastructure	2	7.6
Growth alternatives	14	10.3
Australian fixed interest	8	7.8
Global fixed interest	9	8.8
Cash	4	3.3

Investment Option Performance

To view the latest investment performances for each product please visit amp.com.au/performance

Investment Option Overview

Investment Category	Multi-Sector
Suggested minimum investment timeframe	5 years
Relative risk rating	6 / High
Investment style	Active
Manager style	Single Manager

Investment Option Commentary

The portfolio outperformed the benchmark over the September quarter. The key driver of returns was stock selection within both Australian and Alternatives, whilst asset allocation detracted slightly as did style selection within Global equities.

The Australian sustainable share strategy delivered strong outperformance of 1.5%, delivering a total of 9.3% for the quarter vs the benchmark returns of 7.8%. The key drivers of returns were and zero weight to energy stocks, overweight position in Qantas (QAN) helped as the market continues to gain confidence in the sustainability of its profit uplift in the post-Covid era. There was also some strength in cyclicals such as Orora (ORA) and James Hardie (JHX).

In Alternatives, both the sustainable infrastructure LICs held in the UK as well as the Risk Parity strategy contributed to outperformance. The listed infrastructure stocks benefitted from both falling bond yields and signs of a stronger UK economy. Risk parity benefitted from falling bond yields and rising equity markets.

From an asset allocation and style allocation perspective, the small underweight to Australian shares detracted as Australian equities rallied in line with global markets, as well our underweight to Emerging markets also detracted, as EM equity markets outperformed on the back of China stimulus and a lower US dollar and lower US cash rates.

Market Commentary

Financial markets shook off a stumble in early August to consolidate their year to date gains, supported by monetary policy easing across The US, UK, EU and China.

- Developed market equities (+4.8%) consolidated their strong start to the year, rising through the September quarter. After a falter in early August, global equities – led by the US (+5.9%) – recovered strongly as the US Fed commenced monetary policy easing.
- Value was ascendant with the Russell 1000 Value index (+9.4%) substantially outperforming the growth variant (+3.2%) as The Magnificent Seven tech stocks underperformed despite robust second quarter earnings results for Meta, Apple and Alphabet.
- Chinese equities (+22.4%) were resurgent on the back of a substantial monetary policy stimulus package intended to resuscitate the economy and support the embattled property market. The Strong Performance of Chinese equities saw emerging market equities (+6.8%) outperform developed markets.
- The ASX 300 (+7.8%) outperformed the global market, supported by falling bond yields, easing inflation concerns, better than expected corporate earnings results and anticipation of rising Chinese demand.
- European equities (+2.5%) rose despite trailing the broader market. Easing inflation allowed the ECB to cut rate in September after holding in July while economic activity indicators slowed over the quarter.
- UK Stocks (+1.8%) rose, supported by attractive valuations and improving economic expectations given a decisive result in the UK election early in the quarter. The Bank of England delivered its first rate cut in 4 years during August, which was partially offset by incoming UK Prime minister Keir Starmer forewarning of a painful first budget with spending cuts and tax increases.
- Japanese equities (-3.5%) were roiled in August after an initial rally in the Yen following a surprise rate hike by the Bank of Japan, sparked heightened volatility as investors unwound the popular Yen carry trade. Some soothing words from the Bank of Japan Governor about the future policy path saw the Yen subsequently depreciate but the market could only partially recover its August losses.
- Domestic bond yields fell in most maturities in most markets reflecting moderating core inflation and the commencement of monetary easing from The Fed, ECB and Bank of England. Australian 10-year yields fell 34 bps trailing the US which rallied 58 bps.

Anticipation of the path of US interest rates was a key theme during the September quarter. The Fed held interest rates steady in July. However, this was followed in early August by weaker jobs data. The US unemployment rate unexpectedly rose to 4.3% – its highest reading in nearly three years – and the pace of job gains decelerated. The softer than anticipated data triggered the Sahm rule and associated recession fears saw equities selloff and credit spreads widen globally. Fed Chair Powell allayed concerns with doveish comments at the Jackson Hole Conference. This was followed in September by a 50bps rate cut. Robust corporate earnings results and strong consumer spending data were also supportive.

The domestic economy remains a key battleground for the 2024 presidential election which saw a seismic shift during July as President Biden withdrew from the race, endorsing Vice President Harris whose strong early polling suggests the contest might be closer than had previously been assumed. The result of the election will be a crucial issue for markets given how reliant US economic growth has been on elevated fiscal expenditure in the years following the COVID-19 pandemic, with the FY24 fiscal deficit likely to be -6.5% of GDP which is highly expansionary and aligned with levels seen during previous economic downturns.

Asian markets were another focus during the quarter with policy decisions from both China and Japan proving to be catalyst for significant market volatility. In August a second hike in Japanese official interest rates sparked an abrupt reversal of the global carry trade which has supported markets for a prolonged period. The ensuing rally in the Yen saw the Japanese sharemarket record its largest individual day loss since the 1987 stock market crash which weighed on equities globally.

In late September, the People's Bank of China (PBoC) unveiled a comprehensive stimulus package aimed at mitigating deflationary pressures and revitalizing economic growth. The initiative – which includes increased funding provisions and targeted interest rate reductions – aimed to address the ongoing challenges in the property sector, stock market and the broader economy. The policy was very well received by markets with Chinese equities and materials rallying strongly in its wake. However China will likely require increased fiscal support to extend the turnaround.

Meanwhile, there are more questions being asked about the Australian economy given continued sluggish growth and waning consumer sentiment. The challenges here have been camouflaged by strong population growth and another year of significant public sector spending growth at a time when the RBA is trying to slow economy-wide spending. The Australian economy has struggled in the wake of higher inflation and increased interest rates which have sparked 6 consecutive quarters of declining growth in GDP per capita with the June quarter National Accounts showing that household consumption fell -0.2%.

Outlook

Uncertainty surrounding economic growth alongside high starting valuations provide a challenging backdrop for markets to negotiate. While the nascent monetary easing cycle is supportive for risk assets, much of the anticipated benefit has already been priced into valuations. We maintain caution and our equity exposures remain primarily in high quality markets which have more attractive valuations and where earnings growth expectations have the potential to rise once the economy finds a stronger base. As always, we are also looking for markets with attractive valuations and that have elevated dividend yields which tend to have much volatility than earnings growth.

Availability

Product Name	APIR Code
SignatureSuper	AMP9559AU
SignatureSuper – Allocated Pension	AMP5144AU
SignatureSuper – Term Pension	AMP5144AU

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