Monthly Market & Asset Allocation Report

January 2024

Asset Class	Asset Class	1 Mth (%)	3 Mths (%)	6 Mths (%)	1 Yr (% p.a.)	3 Yrs (% p.a.)	5 Yrs (% p.a.)	10 Yrs (% p.a.)
Aust Eq (lge)	S&P/ASX 200 (Accum)	1.2%	14.0%	5.8%	7.09%	9.6%	9.7%	8.4%
Aust Eq (sml)	S&P/ASX Sml Ords (Accum)	0.9%	15.8%	3.7%	2.10%	1.3%	5.4%	6.4%
Aust Industrials	S&P/ASX 200 Industrials (Accum)	3.0%	17.2%	7.2%	9.46%	8.3%	8.8%	8.1%
Aust Resources	S&P/ASX 200 Resources (Accum)	-3.6%	5.9%	1.9%	1.06%	13.5%	12.8%	9.0%
Global Eq (unh)	MSCI AC World (unh) Accum	3.8%	9.9%	5.4%	20.15%	9.7%	10.4%	9.4%
Global Eq (hdg)	MSCI AC World (hdg) Accum	1.2%	13.2%	3.8%	14.30%	6.3%	9.3%	9.3%
Global Eq (sml unh)	MSCI World SMID Cap Index	-1.9%	16.2%	0.0%	2.44%	0.6%	5.8%	5.2%
Global Eq (EM unh)	MSCI Emerging Markets (unh) Accum	-1.6%	2.5%	-4.2%	3.47%	-2.8%	3.0%	5.8%
AREITs	S&P/ASX 200 AREIT (Accum)	1.3%	25.4%	10.4%	10.18%	7.6%	5.1%	9.2%
GREITs	EPRA NAREIT (ex-Aust) hdg (Accum)	-3.6%	13.6%	-0.1%	-3.71%	0.6%	-0.7%	3.9%
Global Infra (A$ hdg)	S&P Gbl Infrastructure A$ (Hdg) TR	-2.3%	8.1%	-2.8%	-2.76%	5.8%	3.6%	5.9%
Global Infra (A$ unhdg)	S&P Gbl Infrastructure A$ TR	-0.1%	5.9%	-0.9%	3.97%	10.1%	6.1%	7.5%
Aust Fixed Income	BBerg AusBond Composite Index (0+yrs)	0.2%	6.0%	3.2%	2.45%	-2.5%	0.6%	2.5%
Global Fixed Income	Bar Cap Global Agg Index (AUD hdg)	-0.3%	6.0%	2.9%	2.82%	-3.0%	0.2%	2.4%
Aust Cash	BBerg Aust Bond Bank Bill Index	0.4%	1.1%	2.1%	4.00%	1.8%	1.4%	1.8%

Bond Mkts	3yr Yields (%)	Mthly Change	5yr Yields (%)	Mthly Change	10yr Yields (%)	Mthly Change
Aust	3.57	-4 bps	3.61	-3 bps	4.01	6 bps
US	3.98	-3 bps	3.84	-1 bps	3.91	3 bps
UK	3.88	29 bps	3.75	28 bps	3.79	26 bps
Japan	0.08	4 bps	0.31	10 bps	0.73	12 bps
Europe	2.15	2 bps	2.05	10 bps	2.17	14 bps

Cash Rates	End of month	YTD change	Cash Rates	End of month	YTD change
Aust	4.35	4.25	Japan	-0.10	0.00
US	5.50	5.25	UK	5.25	4.75
Europe	4.00	4.50	China	10.00	-1.50

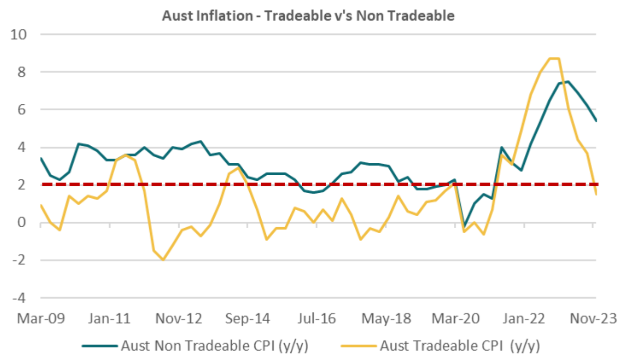
Commodities	Close	1 Mth	3 Mths
Barclays Commodity Index (TR US$)	227.33	0.4%	-4.5%
Gold US$/oz	2,039.52	-1.1%	2.8%
Crude Oil (Brent) US$/bbl	80.55	4.7%	-3.4%
Copper	8,500.50	0.4%	5.9%
Nickel	16,013.00	-2.2%	-10.6%
Iron Ore (Qingdao 62% fines)	135.13	--	13.6%

S&P/ASX Sectors	1 Mth	3 Mths	6 Mths	1 Yr
Energy	5.2%	0.8%	-5.2%	0.0%
Materials	-4.8%	8.7%	1.5%	-2.8%
Industrials	0.0%	12.4%	-1.3%	5.1%
Consumer Disc	2.4%	14.0%	9.1%	10.7%
Consumer Staples	0.0%	4.0%	-6.3%	-7.3%
Healthcare	4.3%	27.1%	8.6%	2.6%
Financials	5.0%	16.1%	8.1%	5.0%
AREITs	1.3%	23.8%	8.2%	5.6%
IT	1.2%	16.5%	-2.9%	24.9%
Telecoms	1.7%	11.9%	2.2%	8.6%
Utilities	-1.5%	-6.1%	-11.3%	-0.1%
Banks	5.3%	17.4%	10.0%	4.8%

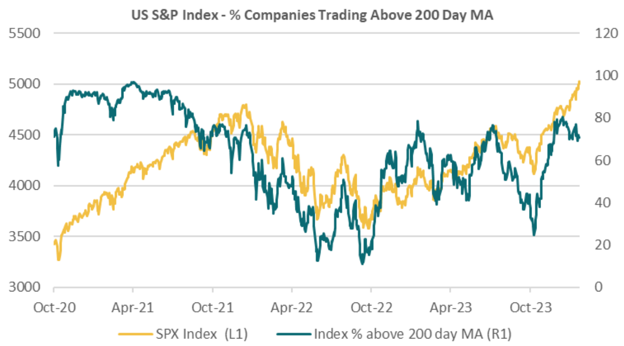
Currencies	FX Rate	1 Mth	3 Mths	1 Yr
AUD/USD	65.68	-3.6%	3.6%	-6.9%
AUD/GBP	51.76	-3.3%	-0.7%	-9.6%
AUD/EUR	60.71	-1.6%	1.3%	-6.5%
AUD/JPY	96.5130	0.5%	0.4%	5.2%
GBP/USD	1.2688	-0.3%	4.4%	3.0%
EUR/USD	108.18	-2.0%	2.3%	-0.4%
USD/JPY	146.9200	4.2%	-3.1%	12.9%
Aust TWI	61.4000	-1.9%	2.0%	-1.6%

Market Charts

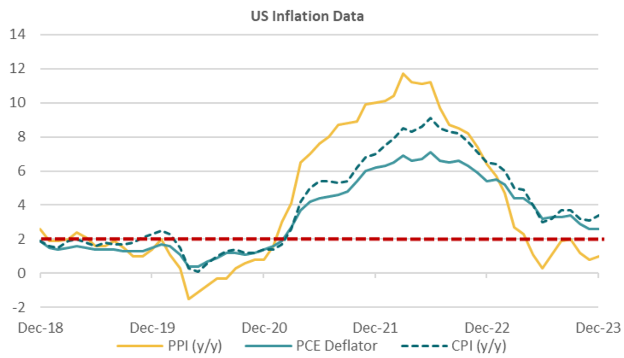
Aust Inflation – Not Quite There



US Equity Markets – Spread Widening A Positive



US Inflation Data Points – Heading in the Right Direction



Source: Bloomberg, Infinity Asset Management

Market Commentary

- Financial markets began the new calendar year in strong fashion, with both local and global equities continuing to push higher. Bond and other interest rate sensitive markets were mixed. While bond yields were a little lower at the front end of the curve (2yr) over the month, we did see spread widening at the long end (10yr) as markets began to digest the view that global central banks (led by the Fed and including the RBA) would not be looking to cut cash rates through the 1q24.

- With the ASX 200 Index up over 14% (q/q) and global equities a similar amount, we believe that a period of consolidation is most likely as we head into the domestic 1h24 reporting season. For US markets the 4q24 earning season has been solid and this has contributed to a widening of the performance across the S&P500 Index. In our view, this can underpin the performance of the US (global) markets in the near term. With expectations that the US economy will continue to remain sound with the potential for a reduction in cash rates though the 2h24, we believe that US markets can continue to push higher.

- Domestically, comments by the RBA post its February Board meeting (6th) reiterates our view that while inflationary pressures have moderated (4q23 CPI print 4.1% y/y, -1.3% pcp), the path to the RBA 's target (2.5%) still remains some way off. This is even more pronounced when we consider the breakdown between tradeable (i.e. goods/services) and non-tradeable (i.e. rent, food, energy) inflation, which continues to show that non tradable inflation remains the major challenge locally. The fact that China is in a deflationary environment also masks some of the benefits in regard to tradeable inflation given it remains Australia's largest trading partner.

- While we now are of the view that domestic (as well as) global cash rates are on hold, we cannot see any change in monetary policy over the 1h24. Inflationary pressures globally are still above central bank target levels, and we take the view that central banks will be cautious in reducing cash rates where the CPI measures are outside these levels. Given this backdrop we now take the view that bond markets are fairly priced at current levels (10yr above 4.0%). While we look to increase our exposure to fixed income markets given current market conditions and our outlook for cash rates, we will take a more opportunistic approach over the medium term as the cash rate cycle evolves over the year.

- While we continue to see a near term positive outlook for the US, ongoing challenges across the Chinese economy continues to hamper the growth outlook. Chinese (along with EM) equity markets have declined ~15% over the last 6mth period, an 18% differential to the US S&P Index. The issues facing the Chinese economy continue to be numerous, but the failing of the property sector (highlighted by the collapses of Evergrande and Country Garden) which continues to be one of the key indicators around personal wealth has stymied consumer confidence.

- Accordingly, we have yet to see any real signs of stability coming back into the Chinese property market. And given the level of debt overhang the potential for further forced asset sales both in Chinas as well as abroad could easily result in further widening of the property market challenges. In addition, government and central bank policies to support the economy (and calm financial markets) have shown few positive signs and not translating into real outcomes. This has resulted in investor capital either leaving the country or sitting on the sidelines as foreigners wait for more concrete action on the direction of the economy and support being provided by the Government. In addition, ongoing geopolitical/trade risks with the US is further dampening near term growth opportunities in our view. This has the potential to further destabilise over the course of 2024 as the political environment in the US picks up speed through the 2h24 heading into the November Presidential election. Overall, the lack of growth weaker near term outlook for China is spilling over into broader emerging markets performance. While we have seen some emerging market central banks begin to cut official cash rates, this has yet to translate into the performance of broader emerging markets (outside the Indian equity market) given the overhang across China at this stage of the cycle.

- So, while we now believe that we are at the end of the global rate tightening cycle the potential for inflation and (by consequence) cash rates to be higher for longer remains. However, while this likely to see ongoing gyrations across financial markets, we continue to see opportunities across both 'growth' and 'defensive' asset classes. To this extent, we have selectively added to some risk assets over the period as we position the portfolios for 2024.

- However, given the current macro and market backdrop, our focus remains on mitigating exposures where we feel that risk/reward outcome is not justified, both in the short and medium term. Overall, we continue to maintain a broad-based investment strategy across the entirety of our portfolios, but with a view to modifying individual portfolio risk exposures as market dynamics evolve. The need to maintain a flexible investment and asset allocation framework remains an important construct given the current financial, macro and geopolitical backdrop.

Piers Bolger
Chief Investment Officer
Infinity Asset Management

February 2024

INFINITY ASSET MANAGEMENT

Monthly Market & Asset Allocation Report January 2024

Asset Allocation

	Asset Class	UW		N		OW	Infinity AM Comment
ASSET CLASSES	Cash	X					We believe global cash rates have now peaked. After a period of aggressive rate hikes central banks are now looking to maintain stable cash rates, with the next move downwards through the 2h24 as the outlook for inflation and impact of prior rate hikes filters through the global economy. We remain underweight as we see stable/lower cash rates providing a catalyst for higher returns across other asset classes.
	Bonds			X			We maintain a broadly neutral position in fixed income with the asset class broadly fair value on current estimates. While we expect bond market volatility to remain elevated as markets digest the timing and extent of the next moves by central banks, we still see some further upside in the sector through 2h24. We remain of the view rates will be 'higher for longer' with no rate cuts through 1h24 in the avoidance of a material economic slowdown. Credit continues to provide better spread value offset by the potential increase in default rates across parts of the market if the growth outlook deteriorates further: not our base case.
	Property/ Infrastructure		X				We remain underweight the listed REIT market (Aust & Gbl) with a preference for real asset exposures, which we view as a more 'defensive' play across the sector as well as providing some level of inflation hedge, although, more recently we have reduced this position We believe that cap rate expansion has peaked although additional risks in parts of the commercial property and lending market has resulted in a more cautious approach in adding to our current position. Lower rates will support the asset class through 2h24.
	Equities				X		We have a slight overweight exposure to equities with a view to increasing our allocations over time. While we will take a more dynamic approach to equity allocations across both developed (large/small cap) as well as emerging markets, the peak cycle in cash rates should provide further opportunities across the asset class over the medium term.
	Alternatives				X		We view alternatives as important to our portfolio construction framework. While we maintain an overweight exposure to provide increased portfolio diversity and reduce risk across our portfolios, we have reduced our position in defensive alternatives given we now view global cash rates as peaked allowing for a broader opportunity set over the medium term.
INDIVIDUAL SECTORS	Aust Bonds			X			We have a neutral position on Aust bonds with a view that the RBA has now finished with increasing the cash rate. This will provide increased opportunities across the sector and we will add to our position on further market weakness and as inflationary pressures subside. Currently market is trading at FV levels at the long end of curve.
	Gbl Bonds			X			We have a neutral position on global bonds with a view that the major central banks (led by the Fed) have now finished with increasing the cash rates. This will provide increased opportunities across the sector and we will add to our position on further market weakness and as inflationary pressures subside. Currently market is trading at FV levels at the long end of US curve.
	Credit			X			Credit continues to provide the most attractive return profile across fixed income markets both in absolute as well as relative terms to sovereign debt. While spreads have contracted in recent periods, they are not inconsistent with longer term averages and continue to provide premium above Treasury assets. Default rates remaining contained at the stage of the cycle. We will continue to add to our exposures as market dynamics continue to improve through 2024.
	AREITs	X					Despite improving valuations and the recent rally across the sector, we remain underweight publicly listed AREITs. While valuations are attractive, we see other sector idiosyncratic risks (i.e. high vacancy rates, weaker selling prices) adding further pressure to the sector in the near term. Commercial market remains the weakest sector.
	GREITs	X					Despite improving valuations and the recent rally across the sector, we remain underweight publicly listed GREITs. While valuations are attractive, we see other sector idiosyncratic risks (i.e. high vacancy rates, weaker selling prices, geographic risks, refinancing debt costs, bank lending positions) as well as ongoing contraction in the Chinese property market adding
	Real Assets/ Infrastructure				X		We maintain an overweight exposure to infrastructure and other real assets, although we have reduced this position given market back drop and higher cap rates along with other challenges that continue to impact segments of property market.
	Aust Equities (lg)				X		We maintain a slight overweight position to Aust equities, but with a preference to large caps over small caps. The recent rally in Aust large caps may see some consolidation in the near term as the risks for equity markets continue to remain relatively high. However, we continue to be more constructive on the medium term outlook and we will look to add to
	Aust Equities (sml)		X				We maintain a slight underweight position on near term economic and growth risks. However, we have sought to reduce the u/w to small caps given the outlook for lower cash rates through the 2h24. The recent rally in small caps may see some period of consolidation in the near term as the risks for equity markets continue to remain relatively high. However, we continue to be more constructive on the medium term outlook and we will look to add to our position over the course of 2024.
	Gbl Equities (lg)				X		We have moved to an overweight position in global large cap equities. We now believe global cash rates have peaked with the next move to be lower through the 2h24. While we still see market volatility as remaining high, given the current strength of the US economy we believe this can provide a catalyst for a stronger rally over the course of 2024
	Gbl Equities (sml)				X		We have moved to an overweight position in global small cap equities. We now believe global cash rates have peaked with the next move to be lower through the 2h24. While we still see market volatility as remaining high, given the current strength of the US economy we believe this can provide a catalyst for a stronger rally over the course of 2024
	EME		X				risks continue to remain elevated resulting in a more cautious level of positioning, particularly given the challenges facing the Chinese economy that is impinging the performance of wider EM assets. However, with global interest rates now peaked, along with several EM central banks already beginning the process of reducing official cash rates, combined with reasonable security/market valuations we believe the backdrop for EME will steadily improve through 2024 providing the opportunity to add to our exposures.
	Alternatives				X		While we maintain an overweight exposure with a focus broad exposures across multiple market options we have continued to reduce our allocation to alternatives in favour of spread based fixed income investments as well as selective growth opportunities.
A$	Currency		X				We maintain a slight underweight exposure. Longer term, we continue to see some upside relative to other major currencies, particularly v's US$. However, near term challenges including ongoing geopolitical risks, moderating global growth (weak from China), relative IRD on US/Aust rates and variable commodity prices continue to see the A$ range trade.

Note: Positioning of Infinity Balanced Portfolio. Positioning is not static and can be subject to change at any time.