MARKET MATTERS
INVEST

MONTHLY REPORT | JUNE 2024 | ACTIVE GROWTH

PORTFOLIO DETAILS

Portfolio Name	Active Growth
Structure	Separately Managed Account
Benchmark	S&P/ASX 200 Accumulation
Management Fee	0.85% incl GST
Platform	Open Wealth | Praemium
Included Assets	Equities, ETFs
Portfolio Manager	James Gerrish
Annual Performance	9.17%*

**Inception Date 10.05.2016*

OBJECTIVE

The objective of the Market Matters Active Growth Portfolio is to provide an active exposure to Australian large-cap shares, with reduced volatility. Returns will be achieved through a combination of capital appreciation and income with an overall objective of outperformance of the S&P/ASX 200 Accumulation Index over the medium term, (3 years).

MARKETS & PERFORMANCE

The Market Matters Active Growth Portfolio declined by -1.71% in June, materially underperforming the S&P/ASX 200 Accumulation Index which was up 1.01%. The portfolio has returned 13.38% for the rolling 12 months against the benchmark return of 12.10% and 9.87% per annum for 3 years, outperforming the market return of 6.37% per annum.

PERIOD	1 MONTH	3 MONTH	6 MONTH	1 YEAR	2 YEAR PA	3 YEAR PA	5 YEAR PA
PORTFOLIO %	-1.71	-3.23	3.94	13.38	19.51	9.87	8.17
BENCHMARK %	1.01	-1.05	4.22	12.10	13.43	6.37	7.26
RELATIVE %	-2.72	-2.18	-0.28	1.28	6.08	3.50	0.91

Benchmark: S&P/ASX 200 Accumulation

More broadly, international markets did better than our own, the MSCI Developed Markets Index rose (+2.4%), while the S&P 500 also increased by (+3.6%) in local currency terms. Meanwhile, the Australian 10-year government bond yield fell 10 bps over the month to 4.31%, as US yields also decreased, stepping down 12 bps to 4.37%. Commodity prices were mixed in June. Brent Oil rose by US $4.79 to US$86.41/bbl, whilst Iron Ore prices fell by US$10.50 to US$106.50/Mt.

On a sector basis in Australia, Financials (+5.1%), Consumer Staples (+4.6%), Utilities (+4.6%), Healthcare (+4.4%), Consumer Discretionary (+3.1%), Communications Services (+2.6%) and IT (+1.5%) all outperformed, while REITs (+0.4%), Industrials (-0.2%), Energy (-1.6%) & Materials (-6.5%) underwhelmed to varying degrees, though materials were the major negative outlier.

PORTFOLIO POSITIONING

The portfolio held 20 positions at the end of June, and after a period of outperformance, it gave back some due largely to a pullback amongst the resource companies, with the largest five detractors in the portfolio residing in the Materials Sector.

There were several changes to the portfolio during the month; we bought back into **Paladin Energy (PDN)**, sold **Pilbara Minerals (PLS)** for around breakeven, and topped up existing positions in **CSL, Sandfire Resources (SFR) & South32 (S32)**.

Our investment process combines top-down macroeconomic analysis with bottom-up stock-picking.

A LOOK BACK ON FY24

We commenced the final month of FY24 with the portfolio up 15.35%, 4.37% ahead of its benchmark. Unfortunately, we ended the month and FY24 with a reduced level of outperformance – a frustrating month overall, but still a solid year none-the-less.

While a soft end to the financial year played out locally, returns for FY24 overall were good, yet not spectacular. The S&P/ASX 200 Index, which tracks the largest 200 companies listed in Australia increased 7.8% in price terms and 12.1% inclusive of dividends - an above-average outcome.

While AI enthusiasm powered US stocks strongly higher for the year, the S&P 500 up 22.7%, supporting the case for having a proportion of portfolios held internationally, trends were more mixed than that level of performance implies, with the less tech-focused Dow Jones Industrial Average and small-cap focused Russell 2000 returning 13.7% and 8.4% respectively.

Upside momentum that started in May, continued in June thanks to more positive news on US inflation, additional reassuring commentary from the Fed and strong AI-linked tech earnings.

PORTFOLIO STOCKS	
NO. OF HOLDINGS	20
ESTIMATED YIELD (%)	3.32
TOP 5 POSITIONS (% OF AUM)	32.66
TOP 10 POSITIONS (% OF AUM)	56.28

STOCK	CONTRIBUTION (%)
NATIONAL BANK (NAB)	0.50
TREASURY WINES (TWE)	0.44
NATIONAL STORAGE REIT (NSR)	0.25
GOODMAN GROUP (GMG)	0.25
CSL LIMITED (CSL)	0.25

STOCK	DETRACTION (%)
MINERAL RESOURCES (MIN)	-1.38
PALADIN ENERGY (PDN)	-0.73
EVOLUTION MINING (EVN)	-0.46
SOUTH32 (S32)	-0.41
BHP GROUP (BHP)	-0.35

%	JUL	AUG	SEP	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUN	YTD
FY24	4.82	-1.54	-1.48	-4.76	4.70	7.58	-0.08	1.70	5.69	-1.88	0.34	-1.71	**13.38**
FY23	8.16	2.80	-5.71	3.68	7.75	-3.20	8.18	-1.93	2.08	2.63	-1.72	1.71	**24.43**
FY22	0.25	2.53	0.78	1.75	-3.49	2.72	-4.00	2.06	5.51	-2.30	-4.69	-7.70	**-6.58**
FY21	0.27	4.94	-4.10	-1.07	14.87	1.34	-0.50	3.08	0.66	4.10	1.17	2.70	**27.46**
FY20	1.21	-2.16	3.75	-1.55	0.80	0.34	2.06	-10.25	-24.12	12.66	5.30	2.02	**-9.94**
FY19	1.11	1.64	-0.77	-2.16	-1.22	-1.94	3.39	4.98	-1.00	2.39	1.72	4.41	**12.55**
CUMULATIVE													**61.30**

A LOOK BACK ON FY24 CONTINUED

Of note, core CPI, which excludes food and energy prices, dropped to the lowest level since April 2021, further confirming ongoing disinflation. Then, at the June Federal Open Market Committee (FOMC) meeting, Fed Chair Powell reassured markets two rate cuts are entirely possible in 2024, reinforcing market expectations for a September rate cut. Economic data, meanwhile, showed continued moderation of activity and that slowing growth and falling inflation helped to push the 10-year Treasury yield close to 4.20%, a multi-month low.

While US inflation is headed in the right direction, Australia is not experiencing the same trend, for now at least, with the monthly CPI read for May, released in June showing price growth of 4.0%, ahead of expectations, confirming a lack of progress during CY24. The market quickly priced in a more than 50% chance of a rate increase before Christmas, sending bond yields materially higher, and equities lower.

We ended FY24 with mixed messages. Markets impressively rebounded from April declines and US stocks are hitting new highs thanks to increased rate cut expectations, falling Treasury yields and continued robust earnings growth from AI-linked tech companies, however, the picture in Australia is more 'balanced' with lingering inflation, and a central bank erring on the side of rate hikes when others have already started cutting.

From an investment style standpoint, growth outperformed value for the month, as it did for the year. Technology benefited from continued AI enthusiasm, while resources, energy, consumer staples and industrials reflected heightened concerns about global economic growth.

The clear standout, however, came from the financials, and particularly the Banks defying consistently bearish sell-side analyst calls to lead the ASX in FY24, the sector up an impressive 29.2%, just topping the 28.4% move in IT. Property also enjoyed a strong renaissance, with Real-Estate advancing 24.6% ahead of Consumer Discretionary up 22.7%. Impressively, 4 of 11 sectors in Australia increased more than 20% for the year.

Turning to the sector laggards, the consumer staples, materials & energy, lost ground in the 12 months to June 30, while communications, industrials & healthcare underperformed the broader market.

Generally, commodities had a solid FY24 with Gold and Copper the standout performers, while Lithium prices and other metals directly related to Electric Vehicles (EVs) struggled with weakening uptake.

LOOKING AHEAD

Stocks begin FY25 still riding a wave of optimism and positive news as US inflation is declining in earnest, the US Central Bank may deliver the first rate cut in over four years this September, economic growth remains generally solid and substantial earnings growth from AI-linked tech companies has shown no signs of slowing down.

While the rhetoric is less optimistic locally, with inflation remaining persistently above target, the US is providing a positive backdrop for risk assets which is filtering into markets around the globe.

China remains a variable, and a key determinant for our influential resource stocks, though the outlook for some commodities remains strong, underpinned by the global energy transition.

Interestingly, the S&P 500 has made 30 new highs so far in 2024 and is trading at levels that, historically speaking, are richly valued. That said, if inflation continues to decline, economic growth stays solid and the Fed delivers on a September cut, absent any other major surprises, it's reasonable to expect this strong rally to continue.

However, while the outlook for stocks is undoubtedly positive right now, market history has shown us that nothing is guaranteed. As such, we must be constantly aware of events that can change the market dynamic.

To that point, the market does face risks as we start the September quarter. Slowing economic growth, disappointment if the Fed doesn't cut rates in September, underwhelming earnings results (US quarterly result in July and Australian full year results in August), a rebound in inflation and geopolitical surprises (including the looming U.S. elections) are all potential negatives. And, given high levels of investor optimism and current market valuations, any of those events could cause a pullback in markets similar to what was experienced in April (or worse).

While any of those risks (either by themselves or in combination with one another) could result in a drop in stocks, the risk of slowing economic growth is perhaps the most substantial threat to this strong 2024 rally. To that point, for the first time in years, economic data is pointing to a clear loss of economic momentum.

However, while the outlook for stocks is undoubtedly positive right now, market history has shown us that nothing is guaranteed. As such, we must be constantly aware of events that can change the market dynamic.

So far, the market has welcomed that moderation in growth because it has increased the chances of a September rate cut in the US. However, if growth begins to slow more than expected and concerns about an economic contraction increase, that would be a new, material negative for markets. Because of that risk, we will be monitoring economic data very closely in the coming months.

Bottom line, the outlook for stocks remains positive but that should not be confused with a risk-free environment. There are real risks to this historic rally, and we will continue to monitor them closely in the coming quarter and beyond.

The portfolio maintains a high conviction approach, with an overweight stance towards materials & energy.

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