



MARKET MATTERS
INVEST

MONTHLY REPORT | DEC 2024 | ACTIVE INCOME

PORTFOLIO DETAILS

Model Name	Active Income
Benchmark	RBA Cash +4%
Included Assets	Equities, Hybrids, Trusts, ETFs
Portfolio Manager	James Gerrish
Annual Performance	9.03%*

OBJECTIVE

To provide a high level of regular tax-effective income with lower volatility than the underlying share market. This is achieved by actively managing a portfolio of high-yielding equities combined with ASX listed income securities that offer diversification benefits to both Australian equities and cash or term deposits.

*Inception Date 05.07.2017

PORTFOLIO PERFORMANCE & ACTIVITY

The **Market Matters Active Income Portfolio** advanced **0.06% in December**, underperforming its RBA Cash +4% Benchmark which increased 0.70%. The portfolio has returned 7.26% for the rolling 12 months, 9.78% per annum for 2 years and 8.53% per annum for 3 years, 1.59% per annum above its benchmark.

PERIOD	1 MONTH	3 MONTH	6 MONTH	1 YEAR	2 YEAR PA	3 YEAR PA	5 YEAR PA
PORTFOLIO %	0.06	-1.77	5.22	7.26	9.78	8.53	9.92
BENCHMARK %	0.70	2.08	4.17	8.37	7.97	6.94	5.7
RELATIVE %	-0.64	-3.85	1.05	-1.11	1.81	1.59	4.22

Benchmark: RBA Cash Rate +4%

The portfolio held 19 positions at the end of December with cash sitting around 9%.

The more defensive, lower volatility income strategy produced solid returns in CY24, staying true to label with a standard deviation of ~7% and a maximum drawdown of just ~4%. Income above capital growth drove ~80% of the returns, with ~62% of the ~32 positions held at various times throughout the period making a positive contribution.

Domestic shares, property and fixed income all contributed positively to returns and combined to support the risk metrics of the strategy.

Commonwealth Bank (CBA) had the biggest positive contribution adding ~2.9%, while **BHP Group (BHP)** had the largest negative influence, detracting ~1.4%. The current portfolio is expected to yield ~6% in the year ahead.

During the month, we took profits on **Magellan Financial Group (MFG)** and trimmed **Commonwealth Bank (CBA)** at ~\$160, buying **ANZ Group (ANZ)** into weakness.



MARKETS IN DEC QUARTER

While the December quarter was largely flat across global markets, there was a lot happening under the hood; the US Presidential election was the main influence though uncertainty around the expected path for interest rates, the validity of Chinese stimulus and bouts of political uncertainty in South Korea, France and Germany played a part.

Australian equities tracked lower for the period, initially weighed by anxiety over the US election as the polls tightened materially in October and left the race too close to call.

That uncertainty, however, gave way to optimism in November as Donald Trump convincingly won re-election while Republicans took control of both houses of Congress, completing a “Red Sweep.” Reminiscent of 2016, the Trump and Republican victories proved to be bullish catalysts as investors embraced the idea of future tax cuts, deregulation and a pro-business administration. Most stock markets made new all-time highs in November, with the S&P 500 trading above 6,000 for the first time.

Closer to home, scepticism about the impact of Chinese stimulus weighed on certain sectors while the RBA’s reticence to follow the US Federal Reserve in cutting interest rates had a negative influence on returns overall.

As the quarter completed, investors were reminded of the volatile nature of a Trump presidency, as the president-elect nominated several unorthodox supporters to prominent cabinet positions. While there are potential

economic benefits of an incoming Trump administration and when combined with the “Goldilocks” economic environment of solid growth and continued rate cuts, there is reason to remain optimistic, though, as a reminder of things to come, the period ended with tariff threats at major trade partners including Canada, Mexico and China and market volatility increased as the

PORTFOLIO STOCKS

NO. OF HOLDINGS	19
ESTIMATED YIELD (%)	5.73
TOP 5 POSITIONS (% OF AUM)	33.63
TOP 10 POSITIONS (% OF AUM)	58.25

STOCK CONTRIBUTION (%)

DALRYMPLE BAY INFRASTRUCTURE (DBI)	0.30
NEW HOPE CORP (NHC)	0.24
METCASH (MTS)	0.17
SUPER RETAIL (SUL)	0.13
TELSTRA (TLS)	0.10

STOCK DETRACTION (%)

NATIONAL STORAGE (NSR)	-0.24
BHP GROUP (BHP)	-0.21
CENTURIA CAPITAL (CNI)	-0.20
FORTESCUE METALS (FMG)	-0.17
COMMONWEALTH BANK (CBA)	-0.17

%	JUL	AUG	SEP	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUN	YTD
FY25	3.10	-0.54	4.41	-3.27	1.49	0.06							5.25
FY24	2.79	-0.44	0.09	-3.32	2.67	4.63	0.80	-1.45	2.36	-1.45	-0.22	1.94	8.4
FY23	4.22	0.30	-3.64	3.31	4.82	-0.07	3.49	-1.61	0.06	2.16	-2.01	2.07	13.10
FY22	0.10	3.04	0.58	-1.58	-1.31	3.01	-2.45	4.05	4.25	-0.09	-1.80	-6.54	1.26
FY21	1.16	2.22	-1.21	-0.17	9.29	1.46	0.47	0.96	2.73	2.79	1.91	2.39	24.00
FY20	1.54	-0.57	2.90	-4.54	1.16	-0.51	1.78	-3.97	-15.53	7.33	6.24	1.94	-2.23
FY19	1.35	0.76	-0.62	-3.09	-0.61	-0.40	2.42	3.92	-0.21	1.17	3.13	1.37	9.19

CUMULATIVE

58.97

Federal Reserve cut interest rates at the December meeting but also reduced the number of expected cuts in 2025 to just two (from four). That sparked a sharp selloff in stocks that continued into year-end, causing markets to trade well off their highs.

CY 24

2024 saw substantial outperformance by US equities relative to all other major markets, including Australia.

A combination of strong growth in Technology & Financial stocks and the prospect of a pro-business administration under Trump 2.0, pushed the S&P 500 up 25%, while Australia, along with other developed and emerging markets dramatically underperformed, weighed down by lacklustre growth in China and surprising bouts of political uncertainty elsewhere.

In isolation, the return of the ASX200 was reasonable, up by 11.4% net of dividends for CY24, and solid when compared to a blended benchmark of other developed and emerging markets (ex US) which advanced 6.2%, however compared to the stellar returns achieved in America, it was a disenchanting outcome.

Additionally, the divergence across sectors and stocks was stark. The Australian technology sector advanced 50% in 2024 while Financials were up an impressive 34%. Banks accounted for 7.2% of the main boards 11.4% return, while the local Energy and Material sectors acted as a counterbalance to this strength, detracting 4.3%. In US dollar terms, the ASX 200 advanced just 1.3%, anchoring it to the low end of global rankings.

In China, the backdrop of sluggish growth, disinflation and continued weakness in property markets prompted the Peoples Bank of China (PBoC) to finally act in an attempt to arrest these deteriorating trends, launching a wide ranging and aggressive stimulus package.

Designed to improve liquidity in the financial system and support the housing market, this meaningful change in policy supported China facing equities when it was announced, though, a lack of detail and the markets perception that measures were void of substance meant investors were reticent to embrace the policy pivot.

This, along with strength in the US Dollar as the markets pricing of future interest rate cuts eased, impacted Commodities for the quarter and the year. While Gold finished the quarter with a slightly negative return, it had a great 12 months up 27%, though more growth focused raw materials were subdued; Iron Ore fell 30% in CY24, Copper was down 11% in the quarter but managed a 2.4% gain for the year while Coal -14.4% and Oil -3.1% struggled.

By market capitalisation, large caps outperformed small caps in the quarter and for the full year, mostly due to strength in the major banks and technology stocks. While Small caps did enjoy a better year overall relative to last, up 8.4%, the outlook for interest rates changed as the year progressed, with fewer cuts being priced into the market, creating a mildly negative headwind into Christmas.

From an investment-style standpoint, growth significantly outperformed value both in the quarter and for the full year. The reasons were familiar: Artificial intelligence enthusiasm powered tech-heavy growth funds while Chinese scepticism and the timeline for implementation of pro-growth policies from the incoming Trump administration weighed on value stocks late in 2024.

Momentum (price) was the best-performing factor theme in 2024 in Australia and abroad, and a key driver of equity returns. Trend following investment strategies that rely on price momentum enjoyed extremely supportive conditions.

Switching to fixed income markets, it was a mixed year for bonds. Our preferred benchmark (Bloomberg AusBond Composite Bond index) realised a moderately negative return in the December quarter although the benchmark did log a slightly positive gain for 2024.

Longer-duration bonds fell in the quarter while shorter-duration debt logged a small positive return. The outperformance by shorter-duration debt was driven by continued US rate cuts as well as more resilient inflation and growth metrics (which weighed on longer-duration debt).

Shorter-duration debt also outperformed long-term bonds on a full-year basis thanks to the start of the Fed easing cycle, while U.S. fiscal concerns and the resilient growth and inflation outlook weighed on the longer end of the yield curve. Short duration debt finished the year with solidly positive returns while longer duration bonds posted a slightly negative annual return.

In the corporate bond market, high-yield bonds outperformed higher-quality but lower-yielding investment grade debt in the quarter and the year as the election results boosted investor confidence for continued economic growth, resulting in investors accepting higher yields in exchange for greater risk. This also positively impacted Australian Hybrids which booked a positive quarter and a strong return of 8.9% for the year.

All said, 2024 was a very strong year for US stocks, but less so elsewhere. Equities outperformed bonds, and growth stocks over value stocks attracted best returns. It was a difficult year from a relative standpoint for portfolio's that were skewed towards Australian equities, specifically resources with the above-mentioned issues still impacting Chinese exposed sectors.

2025 OUTLOOK

Markets begin 2025 with great expectations as anticipation of US tax cuts and pro-business deregulation, a continued economic soft landing, ongoing rate cuts in the US and the start of a cutting cycle in Australia.

Starting with US politics, investors are eagerly awaiting the implementation of pro-growth policies from the Republican Congress and Trump administration, which includes an extension of the 2016 Tax Cuts and Jobs Act and possible additional corporate and personal tax cuts, along with sweeping deregulation. If executed, those policies should result in increased corporate earnings, personal incomes and spending (all of which are positive for stocks).

On growth, it appears that Central Banks have achieved the elusive economic soft landing, as economic activity is solid, unemployment is historically low, and inflation has declined substantially. That allowed the Federal Reserve to aggressively cut interest rates in 2024 and investors expect rate cuts to continue in 2025, with the RBA set to join the fray.

Finally, geopolitical tensions remained high in 2024 but investors finished the year with hopes for progress on ceasefire agreements between Israel and its antagonists (Hamas and Hezbollah) and between Russia and Ukraine.

And, if all these expectations are realised, we should all expect another strong year of returns in the markets.

However, nothing in the markets is guaranteed and while the outlook is positive as we begin 2025, there are significant risks to the outlook we must acknowledge.

China is incredibly important for Australia, and we must see more definitive stimulus and concrete policy to sure up demand and underpin growth.

In the US, investors have focused on potential positives of pro-growth policies, however increased trade tensions and likely tariffs could create unanticipated market and economic headwinds.

On growth, the economy remains in a "sweet spot" with solid, but not spectacular growth while inflation is tracking back to target. However, growth can still slow as rates remain historically high and elevated stock valuations imply complacency in the markets regarding the possibility of an economic slowdown.

Geopolitically, while hope for progress on resolution of major global conflicts is high, nothing is guaranteed, and the possibility exists that both conflicts spread in 2025.

Finally, global bond markets are expected to have a bigger influence on stock returns in 2025 and if bond investors in the US think aggressive tax cuts or fiscal spending will dramatically increase the deficit or national debt, bond yields could actually rise and present a headwind on stocks (as we saw in 2022).

Bottom line, while the outlook for markets is positive as we start the year, we won't allow that to create a sense of complacency because as the past several years have shown, markets and the economy don't always perform according to expectations.

As such, while we are prepared for the positive outcome currently expected, we are also focused on managing both risk and return potential across portfolios.

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