Atchison

Tactical Asset Allocation Outlook

Q3 2024

Identifying Opportunity™

Tactical Asset Allocation

Tactical asset allocation (TAA) is an investment style in which three primary asset classes (shares, bonds, and cash) are actively balanced and adjusted based on market performance to meet stated risk tolerance and investment objectives. The focus is on asset classes rather than specific assets themselves. The strategy blends and augments passive buy-and-hold methods with medium term views on market dislocations and valuation opportunities.

This report should be read in conjunction with our most recent Investment Outlook, incorporating updated capital market assumptions (CMA) which project the returns of asset classes over a ten-year horizon. These serve as key inputs into our strategic asset allocation (SAA) model and can also be termed as ***neutral*** asset allocation positions.

Refer to Table 1 for Summary TAA positions – Q3 2024. The recommendations shown in the summary are Atchison's conviction away from an SAA, therefore should not be interpreted as a recommended percentage change.

Key Take-outs:

The narrative in markets seems to have shifted again with a focus on:

- Run-up to the US Presidential election on 5 November, and to an extent UK general election, and the French legislative election, and whether central banks will want to make first cuts prior to an election.
- Market expectations that the US Federal Reserve (US Fed) will cut rates only two times between now and January 2025, as fears about future inflation abate.
- Apart from continuing "geopolitical" concerns, the continuation of persistent inflation or an excessive slowdown in activity can muddy the outlook.
- The anticipation that policy rates have peaked for this cycle supports a risk-on tilt in portfolios, with over-weights to equity (international) and credit.

The end of last year saw the US Fed finally pivot towards an easier policy stance – signalling that rate cuts were in the cards for 2024 — a view that was reinforced at the March meeting. As it has become clear that policy rates have likely peaked for this cycle, risk assets have performed well, with equities moving to all-time-highs and credit spreads approaching their cycle tights.

It is anticipated that US real GDP growth of around 2% for 2024 — a touch above trend and in line with the current pace. Inflation is set to cool gradually, with headline CPI reaching the low 2s by year- end. This should in turn prompt the US Fed to deliver two or even three rate cuts this year. Globally, it is expected activity in Europe to pick up from a low base, offsetting the slight drag from moderating U.S. growth.

This environment supports a pro-risk stance. In multi-asset portfolios, we maintain our view, overweight to equity and credit positions. Meanwhile we are neutral duration as bonds will likely trade in a range, but the promise of rate cuts probably caps the risk of bond yields moving sharply higher.

With interest rates set to decline this year Atchison prefer to be underweight cash, managing the negative carry of this position through allocation to credit. Differences in policy timing and growth rates across the globe also create meaningful relative value opportunities, as well as greater potential to capture security selection alpha via recommended active investment managers.

It is acknowledged one key risk to this relatively benign base case: inflation becomes "sticky" at current levels, or worse still, reaccelerates. This would give the US Fed and other central banks around the world reason to delay rate cuts, or in the very worst-case return to a more hawkish policy setting. While recent US inflation prints surprised to the upside, it is viewed that the most important drivers of inflation, notably housing, are trending lower. Nevertheless, a threat in the pick-up in wage inflation which has, so far, remained muted, could cause our views to be revised.

Financial markets seem to be relaxed about whether Trump or Biden wins in November, as both are viewed as reasonably market friendly. Trump cut taxes and had a light touch on regulation during his term. Biden has kept the economy ticking over and unemployment levels are historically low. For now, the election is somewhat of a sideshow rather than something playing out on the market's main stage.

Continental Europe has so far avoided a deeper recession than many anticipated, with signs that industry and consumers have adjusted to higher rates quicker than anticipated. And the immediate outlook may be brighter than expected. Services purchasing manager index surveys (PMIs), which are a gauge of future activity, are in expansion territory and inflecting upwards in most of the major European economies. Admittedly, that is not true of manufacturing PMIs, which largely remain in contraction territory. Even here there are signs of a possible nascent improvement from a low base, with a potential upturn in the inventory cycle looming, along with signs of a possible improvement in German economic sentiment. Furthermore, rapidly falling power prices have the potential to boost Europe's manufacturers in the coming months as energy price hedges roll off, leading to lower input prices. Meanwhile, inflation is within sight of the ECB's 2% target: Annual headline consumer price inflation is now down to 2.4% and core inflation stands at 2.9%, the lowest level since March 2022.

Despite considerable debate amongst economists, Atchison' expectations remain unchanged. Major economies are running at sub trend growth, and it is expected that we should have a soft landing, however Europe's fate lies in the hands of central bankers. While across the developed world small to middle market businesses and lower-middle income households are struggling with higher prices across the board, and the higher interest costs to finance those higher prices, financial conditions have eased and there is evidence across larger businesses that strong private sector balance sheets persist.

Atchison's Base Case – Unchanged - Moderate Economic Growth Q3 2024

As documented in our previous TAA paper it is expected that economic growth will be flat, inflation to slowly move down, coupled with looser central bank policies this year. Policy rates have likely peaked for this cycle, risk assets have performed well, as equities continue to move to all-time highs and credit spreads approaching their cycle tights.

Consensus baseline forecast is for the world economy to continue growing at 3.2% during 2024 and 2025, at the same pace as in 2023. A slight acceleration for advanced economies—where growth is expected to rise from 1.6% in 2023 to 1.7% in 2024 and 1.8% in 2025—will be offset by a modest slowdown in emerging market and developing economies from 4.3% in 2023 to 4.2% in both 2024 and 2025.

Global inflation is forecast to decline steadily, from 6.8% in 2023 to 5.9% in 2024 and 4.5% in 2025, with advanced economies returning to their inflation targets sooner than emerging market and developing economies.

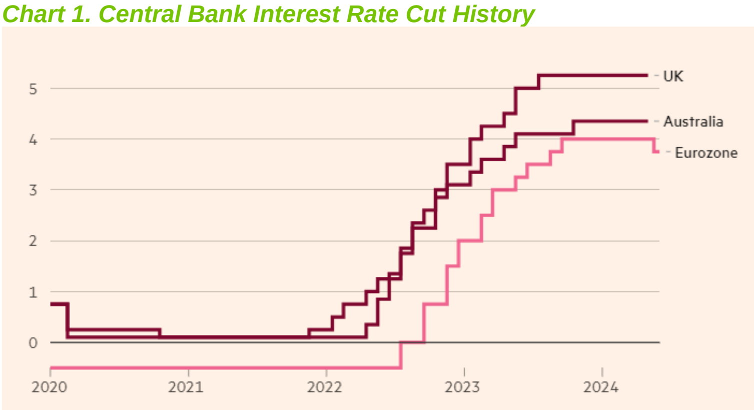
Pleasingly the euro area (EA) has come out of stagnation, as GDP growth picked up in the first quarter (Q1) of 2024, coming in at 0.3% quarter-over-quarter. Going forward, expect growth momentum to continue. There are signs that consumer confidence is recovering from historically subdued levels, supported by lower headline inflation combined with still-elevated wage growth. While the savings rate remains above pre-pandemic levels—kept there by high deposit interest rates and some lingering economic uncertainty—a gradual reversal should further boost growth in the quarters ahead.

Inflation in Europe continues to moderate, with bumps in the road. Despite headline inflation notching up in May, it is expected that the general downward trend to resume going forward, with some volatility toward the end of the year. Wage-sensitive items, such as hospitality and recreational activities, remain hot and are exposed to rising real demand from consumers.

Over the European summer, newly approved fiscal rules that are aimed at reducing deficits and debt ratios across European Union member states kick in. Fiscal spending ballooned as governments responded to COVID-19 pandemic and energy shocks. With 2024 seen as a transition year, many EU countries will be implementing diverging consolidation strategies to comply with the rules that come into force in 2025.
The European Central Bank (ECB) cut rates in June for the first time in 5 years by 0.25% to 3.75% on the back of slowing price rises, and perceived view that inflation is on track to return to 2% target over the medium term. ECB president Christine Lagarde said there was a "strong likelihood" the decision marked the beginning of "dialling back" rates from their all-time high. But she added further moves would "depend on the data that we receive".

The ECB leads other major central banks in cutting rates. Refer to Chart 1 below.

Chart 1. Central Bank Interest Rate Cut History



Globally, we expect activity in Europe to pick up from a low base, offsetting the slight drag from moderating US growth.

Given the current, to a degree alert macro landscape, we look to buffer portfolios by also allocating to real assets (e.g. real estate, infrastructure, precious metals etc.). Real assets can deliver a hedge against stock market volatility, and potentially higher yield than traditional equities.

Summary of our Q3 2024 TAA:

1. Maintain Underweight to Australian Equities – reduce exposure to Growth in favour of a marginal tilt to Value, and mid cap equities.

2. Increase Overweight to International Equities – maintain neutral exposure to Growth and Value in favour of Emerging Markets (ex-China) and Mid and Small cap equities.

3. Maintain Small Underweight Currency – Neutral AUD/USD, Underweight AUD/Euro, Underweight AUD/Yen.

4. Move to Underweight Real Assets – REITs, Listed Infrastructure assets.

5. Remain Underweight Duration – Underweight Australia / Underweight US / Underweight Europe / Underweight Japan / Underweight Emerging Markets.

6. Maintain Overweight Floating Rate – Overweight Investment Grade Credi and High Yield, being selective in Commercial Mortgage-Backed Securities (CMBS) and High Yield sectors.

7. Maintain underweight Cash.

Market Forecast – Q3 2024

Introduction:

Global inflation remained at an elevated 5.0% y-o-y in April (unchanged from March), although inflation in advanced economies edged lower to 2.6% yoy.

While overall progress in lowering inflation has slowed, some central banks have seen enough to start cutting rates, given policy is clearly restrictive. This month the European Central Bank and Bank of Canada cut rates by 0.25%, the first of the major advanced economy (AE) central banks to do so. Japan, in contrast, is moving to gradually tighten policy. Expect further major AE rate reductions, including by the US Fed and Bank of England, but later in the year and into next. The risk is that cuts occur later or at a slower pace if there are inflation disappointments.

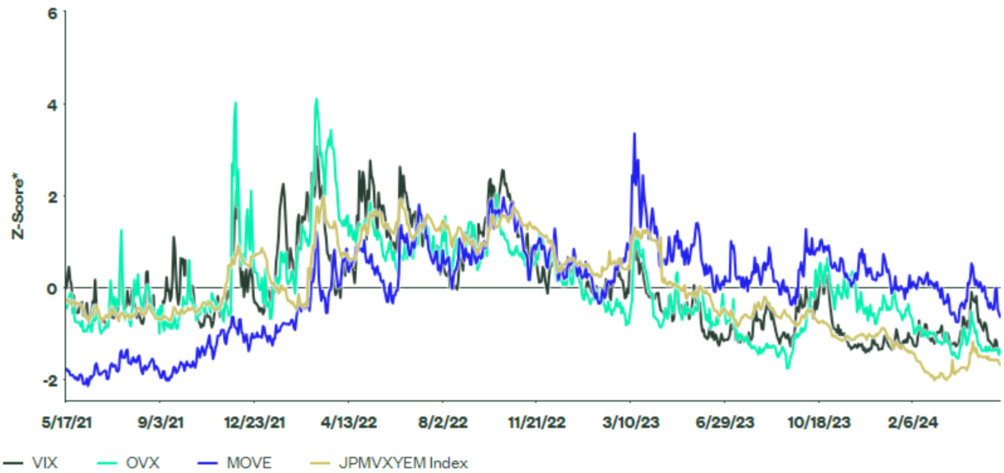
Real household income growth has picked up in Western Europe which will sustain consumption, but it has slowed in the US and is negative in Japan. Easing policy headwinds (both monetary and fiscal) should see major AE growth strengthen over 2025, although upcoming elections could change the fiscal outlook.

Geopolitical and election risks do contribute to market volatility but are unlikely to derail the global economic recovery. The impact of geopolitical events on the markets is often felt primarily through sudden and sizable moves in oil prices, especially when involving the Middle East or a major exporter like Russia. The events since the Hamas attack on Israel on October 7 have not sparked a sharp move in oil prices, as you can see in the chart below. Nevertheless, any large and sustained upward move in oil prices could negatively impact inflation and economic growth, holding the potential to spill over to stock and bond markets. However, this seems unlikely; soft demand growth, 4.5 million barrels per day of excess capacity within OPEC+ and US. production now double that of Saudi Arabia, is likely to reduce the risk of prolonged disruptions in energy supply.

Emerging Market (EM) business surveys strengthened in May, with the S&P Global composite PMI at its level in a year, although this was largely driven by China where alternative surveys are weaker. India's economy expanded by 7.8% yoy in Q1, and it remains the fastest growing major EM economy.

The question really is - are markets underestimating risks? One might imagine this current phase of elevated risk to be reflected in global risk premia. However standard gauges of risk such as the CBOE Volatility Index (VIX) remain below historical averages, and the cost of hedging against equity drawdowns, currency depreciation, or credit deterioration remain well below post=pandemic averages and close to mid-cycle lows seen in 2023. Refer to Chart 2 below

Chart 2. Market Volatility Indicating Complacency?



Source: State Street Global Advisors, Macrobond, CBOE, ICE, ICE BoAML. Data as of May 17, 2024. Past performance is not a reliable indicator of future performance. Chicago Board Options Exchange's CBOE Volatility Index (VIX), Crude Oil Volatility Index (OVX). ICE BofAML MOVE (Merrill Lynch Option Volatility Estimate) Index. JPMorgan's Emerging Market Volatility Index for foreign exchange (JPMVXYEM).

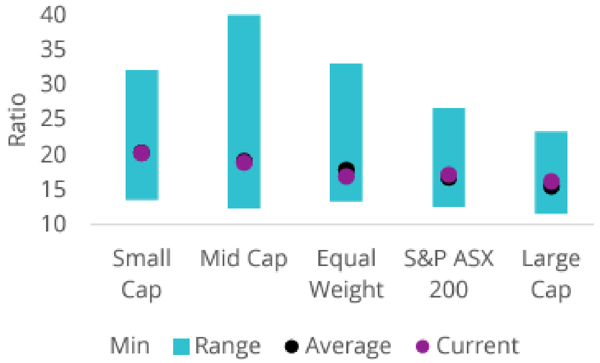
Australian Shares:

Interestingly the S&P/ASX 200 has been range trading between 6500 and 7500 for the past two and a half years, weighed down by the surge in interest rates, stagnate earnings growth and fears of an imminent recession. However, in recent months, Australian equities broke the cycle, surging to 7,800. Chart 3 below illustrates that the S&P/ASX 200 has recently managed to break to the 7,500 level.

Chart 3. Australian Shares Breakout post 7,800

Australian share valuations are increasingly starting to look attractive with Australian equity price to 12 months forward earnings trading closer its historical average. Refer to Chart 4 below.

Chart 4. Price to 12 months Forward Earnings S&P/ASX 200



When it comes to positioning an Australian share portfolio with a potential economic recovery on the way, mid-cap stocks look attractive on a valuation basis with forward PE below its historical average. Mid-caps also reported the highest upside price target revisions during the February earning reporting season. Refer to Chart 5

Chart 5. 12 Month Consensus Price Earnings Target

International Shares:

We continue to maintain a preferred stance on international shares over Australian shares over the next 3 to 6 months, but we do recognise that overall valuations are also stretched (in pockets though) and there will be short term pull backs, barring any major global political tensions escalating.

Even though US equities have outperformed international equities for much of the last 15-plus years, we recognise from history that relative performance between US and non-US markets is cyclical, and therefore there are plenty of opportunities to invest in both Growth and Value stocks outside the US, and even outside the Magnificent 7 or is it now 4?

While the economic outlook remains a little uncertain, there are reasons for investors to be optimistic in July and beyond.

The consensus for the Global Index is for EPS to rise to 10% in 2024, and for the US the expectation is for an 11% increase.

According to FactSet, the sectors with the best results are Communication Services, Consumer Discretionary and Information Technology.

Since 1950, the S&P 500 has averaged a 1.3% gain in June during U.S. election years. Summer election-year stock market strength has historically continued through August before markets tend to cool in September and October leading up to Election Day.

The S&P 500 has also historically performed very well in the second half of election years under a first-term president, such as current President Joe Biden.

Investors concerned about the potential for a U.S. economic slowdown or election-related volatility can take a more defensive approach to the market and increase their financial flexibility by dialling back exposure to stocks and increasing their cash holdings.

US Shares:

US stocks have led the world with the best performance and earnings growth over the past 15 years, but that picture could be changing. Stock prices move in concert with earnings over time.

It remains the case that there are valuation excesses in some of the leading companies in the US but valuations in the rest of the US market, and the rest of the world, do not seem to be stretched. Refer to Table 1.

Table 1. Earnings Per Share Calendar Year Growth Rate

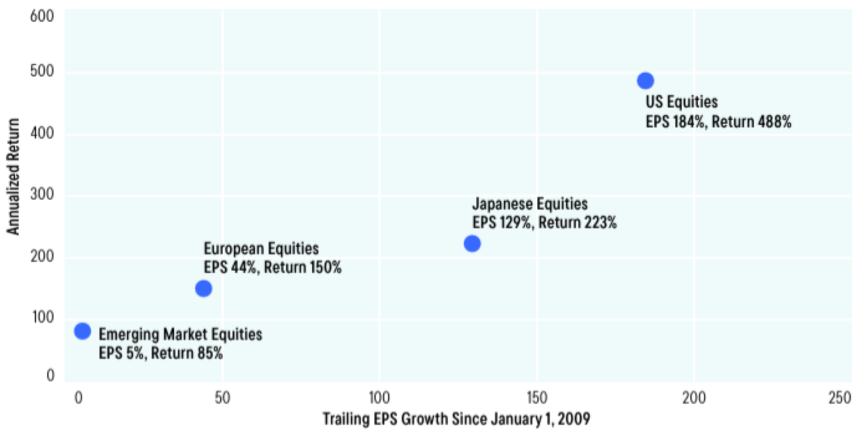
REGION	PE NTM	RELATIVE	GROWTH RATE 2023	2024	2025
World	17.1		(1.7%)	+9.7%	+12.4%
US	20.7	121%	+0.9%	+10.5%	+13.5%
Europe ex UK	13.9	81%	+5.7%	+5.1%	+10.6%
UK	11.0	64%	(8.9%)	+0.9%	+7.8%
Japan	15.1	88%	(2.5%)	+10.2%	+8.2%
Asia Pac ex Japan	12.4	72%	(10.8%)	+21.3%	+16.6%
Latin America	9.0	52%	(19.5%)	+6.2%	+9.5%
Emerging markets	12.5	73%	+4.5%	+3.9%	+9.7%
World ex USA	13.1	76%	(4.7%)	+8.7%	+11.1%

Source: MSCI, FactSet, Waverton. Data as at 09.02.24

For the past decade and a half, the MSCI USA Index has produced the strongest earnings growth on the planet. From 2009 to 2023, reported earnings from MSCI USA companies have grown 184%. US earnings growth was better than Japan (129% earnings growth), significantly stronger than Europe (44% earnings growth), and significantly stronger than Emerging Markets (EM) (5% earnings growth).

As a result, the US equity market has substantially outperformed Japan, Europe and emerging markets. Refer to Chart 6 below.

Chart 6. US Equities – Worlds Strongest Earnings and Returns Since 2009

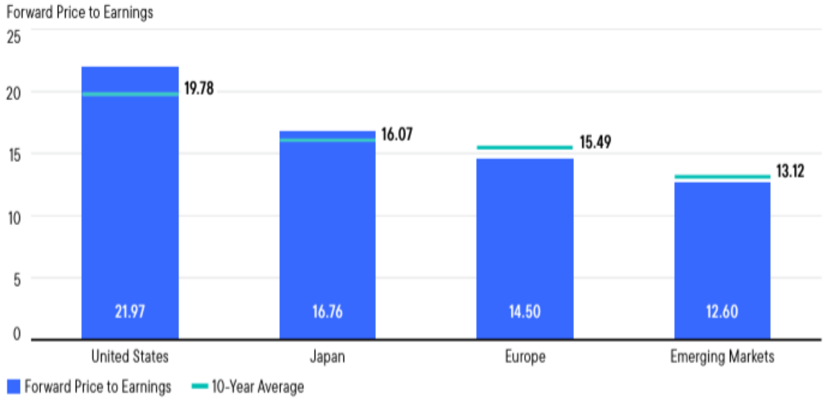


Sources: Bloomberg, Macrobond, MSCI. Analysis by Franklin Templeton Institute.

Indexes used. Definitions at the end of the paper. US = MSCI USA Index, USD; Europe = MSCI Europe Index, EUR; Japan = MSCI Japan Index, JPY; Emerging Markets = MSCI Emerging Markets Index, USD. Indexes are unmanaged and one cannot directly invest in them. They do not include fees, expenses or sales charges. **Past performance is not an indicator or a guarantee of future results.** See www.franklintempletondatasources.com for additional data provider information.

The earnings situation is changing. US earnings will most likely remain strong (assisted by AI theme) but EM look like they can offer even better performance potential. Equities in Japan and Europe also look stronger. While valuations drive stock prices over time, price fluctuations as estimated earnings valuations oscillate for extended periods. If we consider forward price/earnings (P/E) multiples for US, Europe, Japan and EM relative to their 10-year average multiples the US looks expensive. Refer to Chart7.

Chart 7. P/E Multiples Indicate Emerging Markets and Europe Are Undervalued



Sources: Bloomberg, Macrobond, MSCI. Analysis by Franklin Templeton Institute.

Definition for Forward Price to Earnings included at the end of the paper. Indexes used. Definitions at the end of the paper. US = MSCI USA Index, USD; Europe = MSCI Europe Index, EUR; Japan = MSCI Japan Index, JPY; Emerging Markets = MSCI Emerging Markets Index, USD. Indexes are unmanaged and one cannot directly invest in them. They do not include fees, expenses or sales charges. **Past performance is not an indicator or a guarantee of future results**. See www.franklintempletondatasources.com for additional data provider information.

- According to the above analysis, the US is not expected to have the strongest projected earnings growth in the next few years. Current and historic valuations suggest that a greater exposure to EM warranted.
- US large cap is preferred with a bias to high quality companies with strong EPS upward momentum, concentration risk to be mitigated by evidence of cash flow generation.
- Outlook for US improving as recession risk fades, favour profitable companies with low leverage given expensive financing rates.

Emerging Market Shares:

Over the past decade, sound policies, structural reform and strong growth have led to stark improvement among Emerging Markets (EM). When compared with the developed markets (DM), it is evident that the gap in credit quality has narrowed.

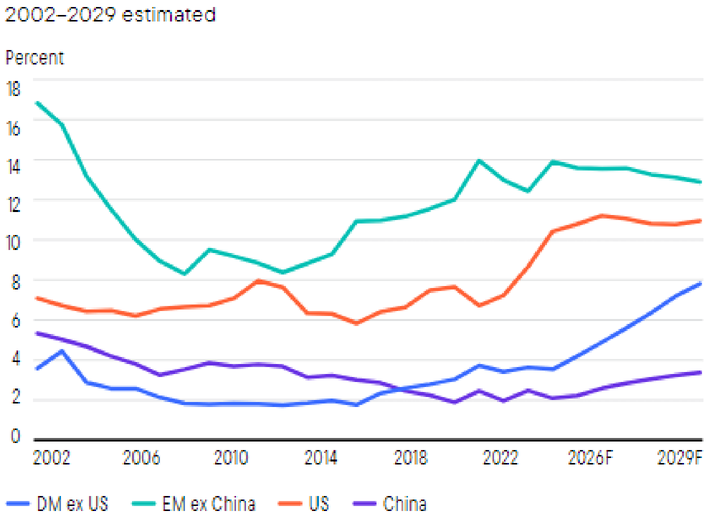
While DMs have seen a deterioration in their metrics since the COVID-19 pandemic, EMs have in most cases experienced superior growth rates, improving debt sustainability and strengthening fundamentals.

The fiscal outlook for EMs appears attractive than that of DMs. This divergence is highlighted by key fiscal indicators such as interest payments relative to revenue, primary balances and debt to GDP, painting two deviating paths for these two asset classes.

DMs, especially the US, have continued to accumulate high fiscal deficits, leading to increasing debt burdens. In Contrast, EMs (excluding China) have managed to stabilise their debt levels after the pandemic and are expected to start to see a gradual reduction in debt-to-GDP in the short term.

Overall, EMs also have a much healthier debt-to-GDP starting point, which is in part due to their previous inability to sustain higher debt loads. This further adds to the resilience of these countries today. While DMs generally can sustain larger debt burdens thanks to more efficient revenue collection and lower borrowing costs, the gap between DMs and EMs in terms of debt securities (corporate credit) and fiscal deterioration has been widening as EMs adopt more prudent policies, while the US and China continue to grow their debt through loose fiscal policy. Refer to Chart 8.

Chart 8. Emerging Market Interest as a Percentage of Revenue is Set to Decline



Despite China's continued challenges, relative opportunity exists. Active managers can focus their efforts on structural growth areas of the economy that have a government policy tailwind — such as technology independence, electrification, and other "new economy" areas. We are also of the view that separating China from the rest of an emerging markets allocation warrants consideration, given the country's high weighting of roughly 30% in the benchmark emerging markets index, low correlations, and global importance. Beyond its sizable concentration, slippage in China's performance often leads to headwinds for other emerging markets, multiplying China's impact on EM index performance.

- When considering EM versus DM, a key factor to consider is external risks as a sizeable portion of corporate debt is denominated in foreign currencies (e.g. US dollar). As a result, many EMs have been developing a deeper domestic bond market to reduce the risks associated with foreign currency denominated debt.
- Interestingly, the median standard deviation of a basket of EM currencies (0.52%) against the US dollar over a 10-year period (2014–2024) was lower than that of the British pound (0.60%) and Japanese yen (0.55%), and in line with the euro (0.50%), but remains more volatile than a US dollar index (0.43%). This data suggests that the external resilience we have alluded to is beginning to show in EM currencies.
- While investors are still justified to differentiate between DM and EM assets, EMs are improving to an extent that some now more closely resemble DM countries. The EM asset class is not a homogenous group, and any quantitative analysis should be combined with country-by-country fundamental analysis to fully understand the risks.
- Valuations look quite attractive but strong US dollar is a risk to be monitored.

Eurozone Shares:

Analysts are starting to get bullish on European stocks. Economic momentum appears to be both improving and broadening in the second quarter.

The overall Eurozone composite Purchasing Manager Index (PMI) rose to 52.3 in May from 50.3 in March, the end of the first quarter. This suggests GDP growth is accelerating—from an annualized 1.3% in the first quarter to (possibly) as much as 3% in the second.

Looking at European mega-cap stocks (>US$ 200 billion), there is no common sector theme to the rise of Europe's mega-caps—to some extent reflecting how much more diverse the European stock market has become in recent years. The market is a mixed set of companies sharing similar expectations of beating earnings performances: ASML, LVMH, and SAP all rose sharply on the day they reported results. While Novo Nordisk enjoyed another large earnings beat, driven by bumper sales of its type-one diabetes treatment, Ozempic, and its weight-loss drug, Wegovy. Incidentally, helping people get smaller has helped Novo Nordisk get bigger: It is now Europe's largest company and the fifteenth largest globally, with its share price having doubled over the last two years.

Outperformance by European mega-caps versus the broader US stock market have extended a trend that dates to late-2022, refer to Chart below, a trend that may have passed many investors by, given that US mega-cap technology stocks have often seemed like the only game in town.

As at 29 March 2024
The performance quoted represents past performance. Past performance may not be indicative of future results.
Source: Dow Jones, FactSet

The market has been caught off guard by the strength of European mega-cap earnings, however, while a lower valuation base than their mega-cap US counterparts has undoubtedly also helped Europe's biggest listed names outperform relatively.

- Investors should consider taking an overweight tilt to European equities given these attractive valuations.

Duration:

With no definitive indication of when or in which direction global interest rates will move within the fixed income asset class, we prefer an active and flexible strategy, able to tactically adjust positioning, can potentially generate strong risk-adjusted returns with a steady income stream in an array of economic environments.

Investors should refrain from getting too much exposure to bonds with ultra-long maturities as inflation remains above the 2% target. Monetary policies in developed markets will start to diverge in terms of balance sheet unwinding. In addition, the Fed will slow the pace of Quantitative Tightening (QT) to avoid a liquidity squeeze, and the ECB will accelerate it, beginning to runoff the Pandemic emergency purchase programme (PEPP) in June. This is likely to result in higher volatility in bond yields, especially in the longer part of yield curves.
Following a broad, cross-market rally over the past two quarters, markets might be underestimating both the upside and downside risks to the economy. The good news is that fixed income markets currently provide a variety of opportunities that can withstand multiple macroeconomic scenarios, thanks to attractive bond valuations and yields that are around their 15-year highs.

Despite fiscal concerns, sovereign bonds continue to demonstrate their value as a portfolio hedge against growth and financial risks, with the front part of the yield curve offering a win-win solution.

The rise in US treasury bond yields this year hasn't hobbled the rise in equities, signalling that the inverse correlation between bond and equity prices may have returned.

RBA more hawkish than market anticipated and despite some weakness in activity inflation still a concern.

In this ambiguous environment duration of bond exposure remains a key to diversification rather than the type of bond.

We expect the Fed to begin to ease rates before the end of the year. But while a cutting cycle is — on average — supportive for duration, historical performance is skewed by cutting cycles that result from recessions.

If the Fed embarks on a modest run of mid-cycle cuts totalling around 75bps by mid-2025, and see only a limited risk of recession, we prefer an underweight duration position. Negative carry and the elevated level of rates volatility relative to other assets further reinforce an underweight stance to duration.

- Slower decline in inflation than initially forecast means fewer rate cuts, negative carry also weighs on returns – remain U/W duration.

Credit:

The Fed are likely to begin cutting rates post US presidential election. Yet, policymakers will reinforce the message that they remain data driven and will proceed slowly as inflation remains above the 2% target. If US rate cuts do not materialise (unlikely scenario), a hard landing becomes more probable.

The risk is investment grade credit deterioration will accelerate if the global economy slows, resulting in rating downgrades. Excluding pandemic highs/lows, investment-grade corporate bonds currently have the highest leverage on record, and the lowest investment coverage since the global financial crisis, making bottom-up analysis and cherry picking crucial.

However, fading recession risk makes credit compelling. An economy gliding to trend growth and 2% inflation has historically been a positive for credit risk, and this should be no exception.

Trend-like growth and attractive all-in yields supportive to credit despite tight levels of credit spreads. Fading recession fears and improving quality coupled with attractive yields.

- Atchison maintain our overweight position to credit with a preference for selecting strategies that aim to generate sustainable, regular income by investing in a diversified portfolio of actively managed quality credit assets.

Real Assets:

Atchison continues to remain bullish on pockets of Real Assets as they remain attractively priced, including gold and multi-assets, whilst neutral on commodities and subsectors of REITs (due to volatility and elevated interest rates) over the next 3 months).

Despite economic headwinds around the world, senior industry players canvassed by pwc believe there is potential for renewed investment activity following greater clarity on monetary policy in the US, Europe and Asia Pacific. The hope is that buyers and sellers of properties are starting to accept a higher-for-longer interest rate environment and will therefore find the middle ground on pricing that has been so elusive over the past two years. However, there is still a fair degree of caution in real estate, and diversification of risk by market and by sector remains critically important. 2024 appears to be a pivot point, moving towards greater liquidity in real estate markets.

In aggregate commodity prices have generally increased in 2024 after declining, on average, last year. Over the forecast period, commodity prices are projected to decline slightly but remain well above 2015-19 levels.

Oil prices have remained volatile this year amid a confluence of heightened geopolitical tensions and OPEC+ production cuts. US natural gas liquefaction capacity is set to advance next year, enabling more gas supplies to be diverted to other markets. Robust growth of clean energy investment is expected to continue supporting base metals prices. Food prices are projected to soften in the next two years, aided by growing supplies of grains and edible crops.

Commodities continue to be a perfect hedge against economic risks and unexpected spikes in inflation, and geo-political risk.

With its long-term intrinsic value, gold effectively diversifies investment portfolios, reducing overall risk. Gold's price continues to be influenced by a variety of economic and geopolitical factors, including inflation, interest rates, and the value of the US dollar.

Changes in the strength of the US dollar can impact the price of gold since it is priced in US dollars. A weaker US dollar is generally good for the price of gold, as it drives up demand for safe-haven assets. When the US dollar strengthens, gold may become more expensive for investors in other currencies, potentially reducing demand.

When inflation is expected to rise or exceed nominal interest rates, and the stock market is expected to decline, investors may turn to gold as a store of value, driving up its price. Potentially as elections around the world are done with, high inflation and interest rates fall away, and stock market settles the price of gold is expected to fall from its current US$ 2095 an ounce level.

- In the short-term Atchison favours overweight Inflation linked Real Assets, i.e., essential infrastructure – which includes toll roads, waste management services, utilities (water/gas/electricity), public transportation. Additionally, we remain confident inflationary costs will be passed to consumers - thus key essential infrastructure companies will maintain their pricing power/profitability.

Currency:

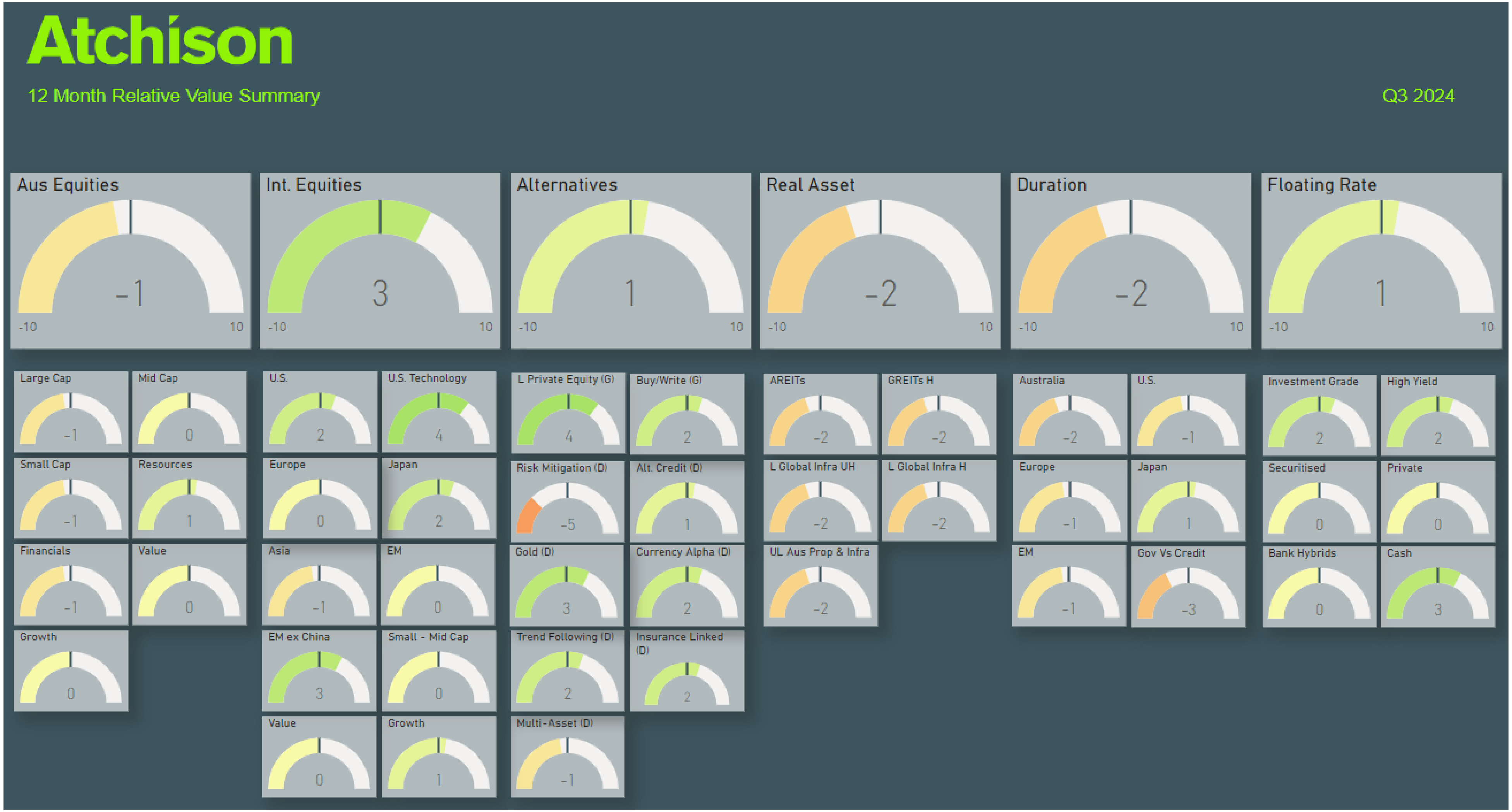
Over the past decade, the Australian dollar (AUD) has appreciated strongly against the US dollar (USD), rising from less than US $0.50 in 2001 to a peak of over US $1.10 in 2011. It came close to this high again in 2013. While the rise is attributed to several factors, the key driver of appreciation over this period is largely attributed to Australia's mining boom.

Put simply, the higher a nation's currency the more expensive its goods and services will be for people overseas. So typically, a high AUD will impact Australian businesses such as tourism, manufacturers and exporters, because it will be more expensive for people to travel here and the selling price of our goods and services will be higher than previously putting price pressures on business and trade opportunities.

There are several factors that impact the AUD. Some of these include interest rates movements and the RBA cash rate decisions, inflation, the strength of our economy, our terms of trade and Australia's level of Government debt.

- The outlook in 2024 is for a strengthening AUD against the USD, bolstered by May's unexpected 4% CPI figure. Financial markets may be under-pricing the potential for an increase in the cash rate. Consensus forecasts remain at $1 AUD to be worth between 0.70 and 0.75 US cents.

Table 1: Summary TAA Positions – Q2 2024



Refer to Table 1 for Summary TAA positions – Q2 2024. The recommendations shown in the summary are Atchison's conviction away from the SAA, therefore should not be interpreted as a recommended percentage change.

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