Positive	Neutral/Positive	Neutral	Neutral/Negative	Negative

Asset Allocation Views – At 31 March 2024

	Activity	Inflation	Monetary Condition	Flows & Liquidity	Supply & Corporate	Valuation	Key Risk
Equities	Australian consumer demand continues to weaken as higher mortgage interest rates affect household budgets. Concerns regarding corporate earnings and company outlooks remain Global labour markets remain tight with increased wage settlements contributing to employment costs and inflation.	Wage settlements have been higher than the inflation rate in Australia and per capita productivity remains low. US inflation rate is close to the Federal Reserve's objective. A rate cut is likely before year end 2024. Headline inflation rate will remain higher for longer in Australia with likelihood that RBA may pause rate rises but unlikely to see imminent rate cut. Equity and bond markets have now priced in a more benign inflation environment.	Monetary policy remains restrictive, but imminent rate cuts unlikely. Australian housing markets remains an area of concern with increasing defaults due to the magnitude of consumer borrowing. However, rising property prices provide an increased equity buffer for distressed borrowers. Federal and State governments continue to show no fiscal rectitude. State Government Credit Rating downgrades are likely.	Pension plans continuing exposure to equities due to inflows and need to meet investment objectives. Alternative and unlisted assets are not providing the 'perceived' defensiveness due to the continuing risk of negative revaluations from interest rates remaining elevated.	Outlook for new IPOs remains muted. Larger listed companies are well capitalised and do not need to raise capital. Corporate merger and acquisition activity has increase as the interest rate cycle nears an end.	Valuations are at the high end of their historical ranges, but not at excessive levels. Corporate earnings have remained robust for global equities. The impact of the introduction of Artificial Intelligence is likely to be both deflationary and improve per capital productivity.	The interest rate remains elevated for longer than the market anticipates, resulting in a prolonged period of lower economic growth. Persistent higher inflation continues to impact company earnings as some companies fail to pass through cost pressures such as higher wage and input material costs with increased prices.
Credit	Credit spreads remain captive to persistent inflationary pressures and of an extended period of elevated i-rates. Corporates with poor balance sheets and high gearing continue to find it difficult to refinance at satisfactory interest rates.	Persistent higher inflation remains a major concern as this will keep the pressure on Central Banks to delay cutting interest rates.	Persistent levels of inflation will keep interest rates at current levels for longer. Conditions have improved for credit due to stabilisation of interest rates at elevated levels. Refinancing pressures on investment grade and non-investment grade companies have eased.	Pension plans and Investors are more favourable to credit due to increased clarity on the end of the interest rate cycle. Investors are more risk focussed in security selection (i.e. avoiding certain issuers, sectors, and security liquidity.	Issuance - Banks continue to lend senior debt, albeit at higher rates. Credit markets continue to function with larger corporates still accessing them to diversify funding and increase term to maturity at higher rates.	Credit spreads have begun to narrow and valuations are at fair to moderately expensive on a historic basis.	Credit spreads have narrowed, but elevated interest rate levels and company defaults remain continuing risks Long duration becoming attractive due to increased clarity on the end of the interest rate tightening cycle.
Property	Residential defaults have increased and remain an issue. Rental market remains very tight due to increased immigration Industrial market remains tight as activity slows. Commercial valuations remain under pressure due to changed working patterns. Retail sector negatively impacted by reduced consumer consumption..	Construction price inflation continues to negatively impact residential and commercial property development. Demand for Industrial and commercial property remains subdued. Government Low Cost Housing Fund ($10 billion) and projected 600,000 new immigrants will further increase existing inflationary pressures on construction costs and rents.	Bank lending criteria remain tightened. The lagged impact of interest rate rises has increased defaults as mortgages convert from fixed to variable rates and will be exacerbated if unemployment rises. This may cause Banks to further restrict lending criteria.	The gap between listed and unlisted valuations has narrowed significantly. The risk remains that unlisted valuations will fall further with elevated interest rate levels. The increase in immigration to 600,000 over the next two years is likely to exacerbate the current tightness in the residential rental market.	Evolution of healthcare sector REITs New Multi-Family Residential & Storage REITs Increasing trend of the broadening of property sectors to cover other industry segments.	Capitalisation (cap) rates have eased slightly due to recent negative revaluations. Caution remains on residential property as we look to see the impact of rising unemployment and elevated level of interest rates. Industrial and Commercial property valuations continues to weaken with further valuation downgrades possible.	Credit restrictions resulting in difficulties financing of projects. Project developers in financial stress / liquidation. Rental yields on residential property remain low but may increase with immigration demand. AREITs require capital raisings to meet debt covenants if valuations are downgraded.
Infrastructure	Domestic and Global government stimulus continue to underwrite many infrastructure projects. Asset class in demand from pension plans globally due to it having long duration assets with consistent cash flow profiles. Potential for current projects to be delayed or reduced in scope due to State budgetary constraints.	Can be a hedge for inflation as pricing typically has CPI indexation. Physical assets have historically been a good hedge for inflation. Effect of rising interest rates has been reflected in asset valuations. Risk of valuation downgrades remain if interest rates remain at elevated levels.	Funding remains difficult to obtain for brownfield or greenfield projects. Interest rates rises have impacted returns. Remains negative for Australian energy and utilities infrastructure due to sovereign risk (i.e. price caps).	Domestically and globally, government infrastructure spending remains positive despite some project cancellations / deferrals. Continuing demand from pension plans for stable income streams. Higher interest rates have reduced the returns from many infrastructure projects reducing their attractiveness to investors.	New projects pipeline continues to grow, albeit at a slower rate, as many pension plans are eager to finance them. State Government Credit downgrades and fiscal positions have negatively impacted proposed projects due to increased financing costs and their participation in them.	Current valuations remain expensive. ESG is a factor in forcing downward the valuation of many sectors such as electricity transmission and gas pipeline networks that traverse private property.	Investors seeking broader types of infrastructure assets that meet acceptable levels of returns Valuation risk with prolonged period of elevated i-rates. Highly leveraged due to stable cash flows, and thus susceptible to further interest rate changes Infrastructure investment is often dependent on government subsidies which will be lower in the future. Sovereign risk (change in government policy)
Government Bonds	Uneconomic Investors (e.g., insurance companies) and Pension Plans are purchasing bonds to increase allocations as they are now more attractive. Central Banks focus is reducing inflation and will maintain current interest rate level.	Capital losses remain a risk until inflation is contained but the potential magnitude is reduced.	Central Banks continue to focus on inflation with the risk being that interest rates remain elevated for a prolonged period. Central Banks continue to require banks to apply lower Loan / Valuation ratios (i.e. increased borrower equity)	Banks and Pension Funds are increasing their allocations to and holdings in sovereign and Investment Grade bonds. Both demand and liquidity remain high.	High level of issuances as governments continue to fund deficits.	Interest rate rises have seen bonds reprice to more reasonable levels and valuations. If the Australian economy significantly slows then long duration bonds can offer some protection if interest rates are cut.	With interest rates rises to date in the current tightening cycle, valuations are reasonable. Caution is still required until there is further clarity on the inflationary and interest rate outlook.