

# Macquarie Australian Shares Fund

Monthly report – 31 July 2023

## Investment objective

Aims to outperform the S&P/ASX 200 Accumulation Index (**Index**) over the medium to long term (before fees). It aims to provide capital growth and some income.

## Key information

### Fund details

APIR code	MAQ0443AU
Inception date	29 November 2005
Fund size	\$392.4m
Distribution frequency	Quarterly
Management fee*	0.60% pa
Minimum investment (Direct)	\$20,000

Unit prices and spreads [macquarie.com.au/unit\\_prices](https://www.macquarie.com.au/unit_prices)

\*Read the Product Disclosure Statement for more details on fees and costs.

## Fund performance to 31 July 2023

	Total Fund return (gross)	Total Fund return (net)	Benchmark return	Total excess return (net)
<b>1 month (%)</b>	3.66	3.61	2.88	0.73
<b>3 months (%)</b>	2.46	2.30	2.04	0.26
<b>1 year (%)</b>	14.24	13.64	11.67	1.97
<b>3 years (% pa)</b>	13.83	13.17	11.99	1.18
<b>5 years (% pa)</b>	9.65	9.01	7.47	1.54
<b>Since inception (% pa)</b>	11.83	10.47	7.13	3.34

**Past performance is not a reliable indicator of future performance.**

Total returns are calculated based on changes in net asset values and assumes the reinvestment of distributions.

Total net Fund returns are quoted after the deduction of fees and expenses. Due to individual circumstances, your net returns may differ from the net returns quoted above.

## Top 5 overweight positions (alphabetical)

Altium Limited
Lend Lease Group
Qantas Airways
QBE Insurance
Washington H Soul Pattinson & Company Limited

## Top 3 stock attribution (alphabetical)

Lend Lease Group
Webjet Limited
WiseTech Global Ltd

\*Italics denotes underweight

## Bottom 3 stock attribution (alphabetical)

<i>National Aust. Bank</i>
Northern Star Resources Ltd
<i>Woodside Energy Group</i>

\*Italics denotes underweight

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## Fund highlights

The Fund returned 3.61% (post-fees) for the month, outperforming the benchmark by 0.73%.

The key contributors to relative performance included overweight positions in Webjet (WEB), Lendlease (LLC) and WiseTech (WTC). WiseTech continued to benefit from the boom in IT stocks globally with the stock up more than 70% for 2023.

The key detractors from relative performance included an overweight position in Northern Star Resources (NSR) and underweight positions in National Australia Bank (NAB) and Woodside Energy (WDS). Major banks, including NAB, outperformed in July, playing catch-up to the broader market, after lagging for the first half of the year. Competition in the mortgage refinancing segment eased with the major players easing back on incentives such as customer cashbacks to protect margins. From the perspective of deposits, banks continue to benefit from customer inertia in terms of locking-in better savings rates.

## Market overview

Australian shares, buoyed by slowing inflation and ignoring an uncertain outlook, lifted by 2.9% in July (ASX200).

Energy (+8.8%) tracked stronger as oil and gas prices were higher and was the best performing sector, followed by Financials (up +4.9%). Banks rallied as competitive pressures eased on their mortgage books, providing investors with optimism that expectations of shrinking margins were over cautious. Slowing inflation and a lower peak official rate has also lifted the banks with expectations of increased contingencies for souring loans waning. Defensive sectors had weaker returns: Healthcare was down -1.5% taking leads from poor trading updates from Ansell this month and CSL last month. The Consumer Staples sector was also weaker than the broader market, falling -1.0% as investors turned their attention back to discretionary spending exposures. Technology +4.5% companies continued their 2023 rally, now up almost 37% as the worldwide enthusiasm for artificial intelligence companies such as Megaport continues.

Australian inflation has continued to slow with the quarterly headline rate now at 6% YoY (down from its 8% December peak). Trimmed inflation, the RBA's preferred measure, has also stabilised and is slowing. The good news is that the RBA's 4% hike in rates have gained traction, but inflation is still too high, driven by the stubborn services component which includes the costs of renting, eating out and holidays. Inflation is a lagged statistic and while the interest rate changes have started to change consumer behaviour, the labour market remains tight which leaves the RBA concerned that a wage-price spiral may emerge, exacerbating its inflation battle.

Further rate hikes by the RBA run the risk of over correcting and tipping the country into recession. The local yield curve is modestly inverted but, unlike the US equivalent, this is far from a reliable predictor of impending recessions. Key to the economy outlook is household activity (i.e., consumption), which is half of all national demand, and has been declining in a per capita sense but continues to surprise overall due to strong population growth and the resilience of affluent spenders (who are also enjoying higher returns on their cash savings). A recovery in house and asset prices from 2022 adds to a wealth effect that also underpins consumption. However, consumer confidence continues to wane and while the other pillar of household strength, employment, remains at a multi-decade high, leading jobs indicators are pointing to an impending weakness in the jobs' market.

August's reporting season has commenced following a spattering of negative trading updates during July's month of confessions, mostly driven by expectations of higher costs and falling margins. The ability of companies to benefit from positive operational leverage going forward is diminishing. Since February, trading conditions have darkened putting corporate earnings under greater pressure from already shrinking profit margins. As economic demand wanes, the ability to pass on rising labour costs and higher input costs (electricity, rent and raw materials) becomes more difficult. Add the increasing costs of servicing debt and it has not been surprising that a steady stream of trading updates have fuelled downgrades across cyclical sectors. Earnings expectations are now sharply lower than a year ago.

One of the key observations of all markets this year is low volatility, with measures of fear such as the CBOE VIX and the Australian equivalent now printing well below their long-term trends, only increasing briefly during the US banking solvency concerns. Generally, with lower levels of volatility more subdued returns to investment styles or factors are observed and this has borne out in 2023 to-date. The post pandemic outperformance of value over growth has now stalled and there have been subdued returns to momentum. The current low levels of volatility are unusual given that monetary policy changes have an approximate 12-month lagged effect on economic demand. Confidence in immaculate disinflation is high.

Commodity prices were up in July, with Brent Oil rising US\$10.09 to US\$84.99/bbl and Iron Ore prices rising US\$1.00 to \$114.50/Mt. Gold was also up, rising by US\$42 to US\$1,954.

Bond yields rose slightly in July, with Australian 10-year bond yields increasing 3 bps to 4.05% and US yields rising 14 bps to 3.85%. Not surprisingly, given the uncertain economic outlook the RBA held interest rates steady at its August meeting.

## Outlook

The outlook for Australian shares, not surprisingly, remains very inflation and interest rate sensitive. August's reporting season will provide key insights in how companies and the economy are navigating the higher interest rate environment. Forward guidance from the banks and consumer-facing companies will be keenly watched for their economic portents. Compared to global shares, the dramatic impact of the "magnificent seven" is likely to revert but the headwinds facing resources will persist while China's lack of growth persists.

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**For more information speak to your financial adviser, call us on 1800 814 523, email [mam.clientservice@macquarie.com](mailto:mam.clientservice@macquarie.com) or visit [macquarieim.com](http://macquarieim.com)**

## Important information

Macquarie Investment Management Australia Limited ABN 55 092 552 611 AFSL Licence 238321 is the issuer of units in, and responsible entity of the Fund. Macquarie Investment Management Global Limited ABN 90 086 159 060 AFSL 237843 is the investment manager of the Fund.

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