



Pre Select commentaries

Quarter ended 30 September 2023

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Economic and market commentary

Asset class returns to 30 September 2023

	CYTD %	1 month %	3 months %	1 year %	3 years pa %	5 years pa %	10 years pa %
Australian shares	3.7	-2.8	-0.8	13.5	11.0	6.7	7.4
Global shares (hedged)	10.2	-3.6	-2.7	18.0	7.0	5.8	8.7
Global shares (unhedged)	15.6	-3.8	-0.4	20.3	10.7	8.9	11.6
Emerging markets (unhedged)	7.0	-2.3	0.1	11.3	1.8	2.9	5.9
Australian property securities	0.3	-8.7	-3.0	11.9	4.9	2.8	7.6
Global property securities (hedged)	-4.3	-5.6	-5.2	-0.4	1.1	-1.7	3.3
Global listed infrastructure (hedged)	-8.5	-4.1	-7.3	-2.7	2.6	2.8	6.4
Australian bonds	1.2	-1.5	-0.3	1.6	-3.9	0.3	2.3
Global bonds (hedged)	-0.1	-1.8	-2.1	0.5	-4.6	-0.2	2.2
Global high yield bonds (hedged)	3.6	-1.4	-0.3	8.0	0.1	1.9	4.2
Australian inflation-linked bonds	4.0	-0.9	0.6	7.4	1.1	2.4	2.9
Cash	2.8	0.3	1.1	3.6	1.4	1.3	1.7
AUD/USD	-4.8	-0.3	-3.0	0.4	-3.4	-2.3	-3.6

Past performance is not a reliable indicator of future performance.

Sources: Australian shares - S&P/ASX 200 Total Return Index; Global shares (hedged) - MSCI All Countries World (A\$ hedged, Net); Global shares (unhedged) - MSCI All Countries World in A\$ (Net); Emerging markets - MSCI Emerging Markets in A\$ (Net); Australian property securities - S&P/ASX 300 A-REIT Accumulation Index; Global property securities - FTSE EPRA/NAREIT Developed (A\$ hedged, Net); Global listed infrastructure - FTSE Global Core Infrastructure 50/50 (Hedged \$A); Australian bonds - Bloomberg AusBond Composite 0+ Yr Index; Global bonds (A\$ hedged) - Barclays Global Aggregate (A\$ hedged, Gross); Global high yield bonds (A\$ hedged) - Barclays US High Yield Ba/B Cash Pay x Financials (\$A Hedged); Australian inflation-linked bonds - Bloomberg AusBond Inflation Government 0+ Yr Index; Cash - Bloomberg AusBond Bank Bill Index; AUD/USD - WM/Reuters Daily (4 pm GMT).

Global

Global share prices have finally responded to a wall of worries. High inflation with rising bond yields and interest rates caused global shares (hedged) to deliver a weak -2.7% return for the three months to September. The falling Australian dollar has partly mitigated the impact for unhedged global shares which recorded a negative -0.4% quarterly return.

Wall Street's benchmark S&P 500 Index delivered a very weak -3.4% return for the past three months. This comes after the extraordinarily strong returns of 16.6% in the first six months of this year. Investors appear to have become more cautious given rising oil prices, a revival in inflation and guidance from the US central bank that it was prepared to raise interest rates further and to hold them at a "restrictive level".

European shares (MSCI AC Europe) also disappointed with a weak -1.9% return for the quarter. Higher interest rates and the tragic Russia-Ukraine conflict have weighed on European shares.

Asian share markets have also struggled. The MSCI China Index declined by 2% in local currency terms with persistent concerns over China's economic activity and the financial stress in the property sector. Japan's Nikkei 225 Index also delivered weak returns despite assurances from the central bank of continued low interest rate settings.

Global bonds (hedged) delivered a sharply negative -2.1% quarterly return with inflation concerns dominating on the back of rising oil prices and the tough rhetoric from central banks on the need to keep interest rates 'higher for longer'.

Global high yield bonds (hedged) recorded a small -0.3% loss for the quarter. The current elevated levels of high yields and reduced corporate bond issuance has seen more resilience compared to global shares.

Australia

Australian shares delivered a mildly negative -0.8% return with a mixed performance across industry sectors. The Energy sector recorded exceptionally strong gains of 11.2% given higher oil and gas prices. The Financial sector was also solid with a 2.4% return for the quarter. However, this was countered by sharp negative returns for Health Care (-8.6%) and Consumer Staples (-5.9%) with disappointments over their recent profit performances. Information Technology (-5.8%) also fell sharply as investors curbed their enthusiasm for the promise of 'Artificial Intelligence' (AI).

Australia's economy shows significant slowdown signs by recording a notional 'per capita' recession in the first six months of this year. This occurs where economic activity growth is less than population growth. The clearest signs that the Australian economy is struggling is seen in weak retail spending and falling housing construction. The impact of higher goods and services prices and rising mortgage interest rates has been a 'painful squeeze' on Australian consumers. However there have been positive surprises. Employment has recorded strong gains and the unemployment rate remains low at 3.7%. The Reserve Bank of Australia (RBA) has also held the cash interest rate steady at 4.1% since June. Yet the RBA is still warning that further interest rate rises "may be required" to get inflation back in their 2% to 3% target range.

Global prospects

Global share prices had positively surprised earlier this year by making very strong gains. The mania for AI and anything with a technology flavour had been the key driver. However, the past quarter has delivered a significant setback. Rising oil prices and tougher rhetoric from central banks suggest that interest rates could be further raised and held high for a considerable time to ensure lower inflation outcomes.

Accordingly, there are significant inflation and interest rate risks that investors should be cautious on. Clearly the Russian-Ukraine conflict is also a major concern. For investors, assessing these considerable risks is very challenging. Given there are multiple positive and negative outcomes possible over coming months, investors should maintain a disciplined and diversified strategy.



Contributors to performance

Pre Select Conservative Fund

The Fund returned -0.1% for the quarter (before fees) and 7.7% for the year.

Key contributors to performance for the quarter ended 30 September 2023 were:

- In another volatile quarter, there were negative returns in share markets and all maturity bonds. The exposure to short maturity bonds and inflation-linked bonds contributed positively to performance. The **short maturity strategy** returned +1.3% and the **inflation-linked bond strategy** returned +1.0%.

Note: Returns for the asset classes above are before fees and tax.

Pre Select Balanced Fund

The Fund returned -0.5% for the quarter (before fees) and 10.0% for the year.

Key contributors to performance for the quarter ended 30 September 2023 were:

- In another volatile quarter, there were negative returns in share markets and all maturity bonds. The exposure to short maturity bonds and inflation-linked bonds contributed positively to performance. The **short maturity strategy** returned +1.3% and the **inflation-linked bond strategy** returned +1.0%.

Note: Returns for the asset classes above are before fees and tax.

Pre Select Growth Fund

The Fund returned -0.9% for the quarter (before fees) and 12.6% for the year.

Key contributors to performance for the quarter ended 30 September 2023 were:

- In another volatile quarter, there were negative returns in share markets and all maturity bonds. The exposure to short maturity bonds and inflation-linked bonds contributed positively to performance. The **short maturity strategy** returned +1.3% and the **inflation-linked bond strategy** returned +1.0%.

Note: Returns for the asset classes above are before fees and tax.

Pre Select High Growth Fund

The Fund returned -1.0% for the quarter (before fees) and 14.7% for the year.

Key contributors to performance for the quarter ended 30 September 2023 were:

- In another volatile quarter, there were negative returns in share markets and all maturity bonds. The exposure to short maturity bonds and inflation-linked bonds contributed positively to performance. The **short maturity strategy** returned +1.3% and the **inflation-linked bond strategy** returned +1.0%.

Note: Returns for the asset classes above are before fees and tax.



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