Perpetual Asset Management Australia

INSTITUTIONAL UPDATE

February 2025

AUSTRALIAN EQUITIES STRATEGIES

The S&P/ASX300 fell -3.79% in February buffeted by wild swings as company results were reported. Large caps in particular disappointed, often in relation to outlook rather than reported results. It also marked a major break in momentum with many companies that had had a strong run in the previous year struggling. Amongst the biggest reversals were NAB (-12.1%), Wisetech (-27.7%), Cochlear (-19.0%) and Fortescue (-11.1%). On a sector basis Utilities (+3.2%), Communications (+2.8%) and Consumer Staples (+1.4%) performed best. Information Technology (-12.3%) was the worst sector. Healthcare (-7.6%) and Real Estate (-6.2%) were also laggards. The sell-off in the market accelerated in the last half of the month in sympathy with a declining US market which increasingly worried about the frenetic and sometimes disruptive pace of White House initiatives, particularly in relation to tariffs.

Equity markets had looked expensive going into February with Australian growth stocks, like their US counterparts, had been trading at elevated P/E ratios. Many of these stocks bore the brunt of the sell-off as the world market potentially enters a new phase. Markets had broadly welcomed the pro business Trump administration choosing to focus on a welcome agenda of tax cuts, de-regulation and budget savings which they expected would boost economic growth whilst also containing inflation. Meanwhile Trumps much vaunted love of tariffs was widely considered to be, in the most part, a bargaining tool in trade negotiations. However there are some fears that headline-grabbing cuts to government spending could be increasingly hurting consumer sentiment whilst on-and-off tariffs on allies and close trading partners could be having a more profound pre-emptive impact on business confidence and supply side chains than fully appreciated.

Gross Performance	1M%	3M%	6M%	1Y%	2Y%	3Y%	5Y%	7Y%	10Y%
Perpetual Australian Share Fund	-2.0	-2.8	0.7	6.0	6.4	6.6	10.5	8.5	7.0
S&P/ASX 300 Accumulation Index	-3.8	-2.6	2.8	9.7	10.1	8.9	8.8	8.5	7.5
Excess	+1.8	-0.2	-2.1	-3.6	-3.7	-2.3	+1.7	0.0	-0.5
Perpetual Concentrated Equity Fund	-1.7	-2.1	0.9	7.5	7.6	8.2	10.7	8.3	7.3
S&P/ASX 300 Accumulation Index	-3.8	-2.6	2.8	9.7	10.1	8.9	8.8	8.5	7.5
Excess	+2.1	+0.5	-1.9	-2.2	-2.5	-0.7	+1.9	-0.2	-0.2
Perpetual ESG Australian Share Fund	0.1	2.1	4.5	9.9	12.6	9.7	13.5	9.5	8.9
S&P/ASX 300 Accumulation Index	-3.8	-2.6	2.8	9.7	10.1	8.9	8.8	8.5	7.5
Excess	+3.9	+4.7	+1.7	+0.3	+2.5	+0.8	+4.7	+1.0	+1.4
Perpetual Pure Equity Alpha Fund – Class A	1.6	1.3	6.7	8.2	7.4	7.6	11.6	9.4	8.8
RBA Cash Rate Index	0.3	1.1	2.2	4.4	4.3	3.5	2.1	1.9	1.8
Excess	+1.2	+0.2	+4.5	+3.8	+3.1	+4.1	+9.4	+7.5	+7.0
Perpetual Share-Plus Long-Short Fund	-1.8	-2.9	5.2	7.3	9.2	10.4	13.0	10.4	9.4
S&P/ASX 300 Accumulation Index	-3.8	-2.6	2.8	9.7	10.1	8.9	8.8	8.5	7.5
Excess	+2.0	-0.3	+2.4	-2.3	-0.9	+1.5	+4.2	+1.9	+1.9
Perpetual Smaller Companies Fund	-1.1	1.5	3.8	6.8	5.4	5.0	12.4	9.7	10.1
S&P/ASX Small Ordinaries Accumulation Index	-2.8	-1.5	5.7	7.3	7.6	2.1	5.6	4.7	6.5
Excess	+1.7	+3.0	-2.0	-0.5	-2.2	+2.9	+6.9	+5.0	+3.6
Perpetual Strategic Capital Fund - Class S	-0.4	-1.3	1.8	6.0	-	-	-	-	-
S&P/ASX 300 Accumulation Index	-3.8	-2.6	2.8	9.7	-	-	-	-	-
Excess	+3.4	+1.3	-0.9	-3.7	-	-	-	-	-

GLOBAL EQUITIES STRATEGIES

February was an eventful month filled with impactful geopolitical headlines mixed with macroeconomic developments and more volatile markets. The freshly inaugurated President Trump and his administration hit the ground running with a flurry of activity addressing myriad issues which resulted in gyrating markets stemming from rising uncertainty, primarily regarding the implementation of tariffs and a resolution of the Ukrainian war. Despite all the headlines generating uncertainty, February proved to be a strong month for global equity markets, excepting the United States. Like last year, there was a notable difference in styles. Unlike last year, value continues leading the charge as the MSCI World Value Index outperformed its growth counterpart by more than 400 basis points (bps) in U.S. dollar terms for the month. Investors are all wondering what the impact of Trump 2.0 means for the globe, and the style shift and broader market in the first two months of the year may be indicators. The growth levels of high momentum and AI-related stocks became a source of controversy after the release of DeepSeek, a Chinese AI model reported to have been developed at a fraction of the cost of comparable American products. Even though blue chip AI companies are reporting high growth, the rates are decelerating, leading to volatility.

The persistent political changes across the globe continue to drive short-term tactical repricing, but the long-term impacts are far from certain, as ideology will ultimately clash with political reality. What does stand out is the juxtaposition of continued U.S. economic strength and tepid economic growth in Europe. However, this month showed some cracks in that trend, as U.S. data weakened. While the market expected more cuts, the interplay between economic strength and the labor market led the Fed to pause rate cuts. A few areas to watch in the U.S. going forward are policy initiatives, tariff threats, jobs, ambitions to project power abroad, and whether the labor market or economy take center stage as the Fed idles. We are also mindful that, given the geopolitical factors which are ever present, i.e., war in Ukraine, Middle East conflicts, recent elections in Europe, the U.S., and South America, markets are likely to remain more volatile as they adjust to changing economic conditions and policy goals.

Gross Performance	1M%	3M%	6M%	1Y%	2Y%	3Y%	5Y%	7Y%	10Y%
Barrow Hanley Emerging Markets Fund	0.0	7.6	11.2	10.5	8.4	-	-	-	-
MSCI Emerging Markets Net Total Return (AUD)	0.8	7.0	9.5	15.3	13.9	-	-	-	-
Excess	-0.8	+0.6	+1.7	-4.7	-5.6	-	-	-	-
Barrow Hanley Global Share Fund - Class A	2.1	5.8	13.0	20.8	17.5	14.9	14.5	13.3	12.4
MSCI World Net Total Return Index ($A)	-0.4	4.9	14.0	21.1	25.2	16.0	14.7	14.2	12.4
Excess	+2.5	+0.9	-1.0	-0.3	-7.7	-1.1	-0.3	-0.9	+0.1

CASH & FIXED INCOME STRATEGIES

In February, global markets softened, driven by concerns over a mix of weakening US economic data and stubborn inflation. Uncertainties surrounding U.S. tariff, tax, and immigration policies further fuelled market volatility. While US and Australian markets fell, European and Chinese equities rallied, benefitting from better than expected earnings and technology advancement respectively.

Global bond yields rallied through the second half of the month. US yields rallied strongly, with markets appearing to shake off anticipation of elevated February inflation data, instead rallying on weaker US sentiment and softening growth. Australian bond yields rallied reflecting both falling US yields, softening global economic data and the commencement of the RBA's monetary easing. The RBA lowered the cash rate by 25 basis points to 4.10% in February. The RBA's next move will be data dependent with the governor noting that the market is too confident in pricing further rate cuts.

Australian credit markets saw mixed performance in February contracting through the start of the month before expanding as with physical spreads tightening marginally while the Australian iTraxx CDS index widened slightly. Domestic spreads tightened benefitted from strong demand for primary issuance. Spreads on non-financial corporates alongside consumer finance, insurance, and real estate investment trust sectors narrowed while trading in a tight range.

Primary markets in February were diversified by sector with corporates, financials, securitisations and government adjacent sectors all seeing new deals come to market. ANZ raised $4.5B across 3- and 5-year tranches in senior unsured deal. Domestic subsidiaries of offshore banks were also active with DBS ($1.5B), Mizuho Bank ($550M) and Rabobank ($2B) tapping the market. The non-financial corporate space saw new deals from Ausnet service Holdings ($950M), NBN Co ($750M) and QPH Finance – Port of Brisbane ($500M).

The credit outlook softened from a mild positive reading to slight negative in the first week of March.

Valuation indicators are marginally negative. While US high yield spreads moderated over the month, AU swap spreads remain very tight. The issuance pipeline saw a tick up in opportunistic issuers looking to take advantage of strong primary demand and relatively tight spreads on new issues which weighs on the outlook.

The growth outlook is finely balanced. Macroeconomic indicators remain marginally negative reflecting softening data and rising uncertainty around the path of US trade policy. The ratio of upgrades to downgrades remains supportive however the macroeconomic growth indicators remain slightly challenging.

Supply and demand indicators improved to neutral over the month. A heavy pipeline of new deals weighs on the outlook although thus far market demand has been resilient.

Technical indicators worsened across the board during February with US credit spreads, equity markets and equity market volatility indicators all declining. Cash levels among real money accounts have settled while intermediary positioning is supportive with street inventory remaining light.

Gross Performance	1M%	3M%	6M%	1Y%	2Y%	3Y%	5Y%	7Y%	10Y%
Perpetual High Grade Floating Rate Fund	0.5	1.5	3.0	6.4	6.4	5.0	3.6	3.4	3.4
Bloomberg AusBond Bank Bill Index	0.3	1.1	2.2	4.5	4.3	3.4	2.1	2.0	2.0
Excess	+0.1	+0.4	+0.8	+1.9	+2.1	+1.6	+1.5	+1.4	+1.4
Perpetual Credit Income Fund	0.6	1.9	4.0	8.1	8.6	6.5	5.0	4.5	4.6
Bloomberg AusBond Bank Bill Index	0.3	1.1	2.2	4.5	4.3	3.4	2.1	2.0	2.0
Excess	+0.3	+0.8	+1.8	+3.6	+4.3	+3.1	+2.9	+2.5	+2.6
Perpetual Active Fixed Interest Fund	1.0	2.0	1.9	6.0	5.7	1.6	0.5	2.6	2.9
Bloomberg AusBond Composite Index	0.9	1.6	1.2	4.2	3.8	0.3	-0.6	1.7	1.9
Excess	+0.1	+0.3	+0.7	+1.8	+1.9	+1.3	+1.1	+0.9	+1.0
Perpetual ESG Credit Income Fund- Class A	0.6	2.0	4.3	8.5	8.5	6.8	5.1	-	-
Bloomberg AusBond Bank Bill Index	0.3	1.1	2.2	4.5	4.3	3.4	2.1	-	-
Excess	+0.2	+0.9	+2.1	+4.1	+4.2	+3.4	+3.0	-	-
Perpetual Pure Credit Alpha Fund - Class W	0.7	2.0	4.2	9.0	9.3	7.5	6.0	5.7	6.0
RBA Cash Rate Index	0.3	1.1	2.2	4.4	4.3	3.5	2.1	1.9	1.8
Excess	+0.3	+0.9	+2.0	+4.5	+5.0	+4.1	+3.9	+3.8	+4.1

MULTI-ASSET STRATEGIES

In February, global markets softened, driven by concerns over a mix of weakening US economic data, stubborn inflation and growing unease about U.S. trade and immigration policies which fuelled elevated market volatility. Importantly, a number of market trends that have been prevalent over the past 24 months including US exceptionalism and the outperformance of growth over value were challenged.

- In the US, the S&P 500 (-1.3%) reached a record high before declining over the second half of the month, weighing on the broader developed market (-0.9%). The rotation towards value intensified with the Russell 1000 Value (+0.4%) in positive territory while its growth variant (-3.6%) declined sharply underpinned by concerns about softer-than-expected US tech earnings growth and broader economic growth, in addition to stickier inflation - factors we anticipate will persist as the dynamics around US trade policy, and potential retaliation, are revealed.
- European shares (+3.5%) advanced in February in response to sign of growth momentum picking up after an 18 month stall. In addition, the impact of geopolitical uncertainty was evident in sub-sector performance with defence stocks rising strongly on expectations that European governments will have to lift military spending.
- UK Equities rose over the month with returns concentrated among large cap stocks (FTSE 100 +3.0%). Sterling strengthened during a month where the UK avoided US trade tariffs however the fiscal outlook continues to weigh on markets, exacerbated by PM Starmer's announcement of increased defence spending.
- Australian Equities (-3.8%) fell led by losses in cyclical sectors, most notably technology (-12.3%). Large cap stocks fell initially on mixed reporting season results and declines accelerated in the last half of the month in sympathy with the US market selloff.
- Emerging markets outperformed, led by China (+11.6%) which advanced on the back of positive momentum in the technology sector, increased fiscal stimulus and the weakening US dollar.
- Global bonds rallied led by US 10 year which declined -35bpts as investors shook off a higher-than-expected February inflation print and instead on softening economic data – both hard data and surveys. Australian 10-year yields also rallied (-13bps) reflecting both falling US yields and the commencement of the RBA's monetary easing cycle which we suspect will have little follow-through in the near-term.
- Gold (+0.8%) rose reflecting continued demand for safe haven assets in an increasingly challenging geopolitical and international trade environment.

2025 thus far has been characterised by the reversion of recent outperformance of growth stocks over value. The US tech sector has moderated following the reveal of DeepSeek in January and this impact was compounded by softening tech earnings growth in the US reporting season and uncertainty around the outlook for growth and inflation. For some time we have warned about the risks associated with the increasingly concentrated equity returns exacerbated by the rise of passive investing. Regarding the Magnificent 7, there has been deteriorating performance for their legacy businesses at the same time we see reason to doubt that capital expenditure will result in a corresponding boost in their respective return on investment over medium term. We expect that 2025 will see large cap US tech earnings measured against two years of extremely fast growth and high profit levels, whereas the rest of the market will experience more favourable comparisons to two years of profit recession. Stretched valuations, elevated market concentration and the preponderance of passive investment all continue to contribute to elevated sensitivity of equity markets.

Key to the recent volatility in equity markets has been the uncertainty around US trade policy. The announcement and subsequent pausing of punitive tariffs against key trading partners sparked a rise in uncertainty and drove negative equity returns in the second half of February. The impact is observable in consumer confidence and inflation expectation survey data which have worsened since the Trump inauguration. Meanwhile, weakening PMIs and softer housing data also contributed to concerns that US growth is decelerating and which sparked declines in both bond yields and equity prices. Our primary concern remains the unsustainable fiscal deficit, which stands at 6.4% of GDP will persist as temporary tax cuts from 2017 becoming permanent (although this can be changed by subsequent Congresses) which combined with lower corporate taxes, raises concerns about the long-term trajectory of fiscal policy and its potential impact on bond market term premia and equity valuations.

In Europe, the focus of the month was squarely on geopolitics. The prospect of increased fiscal spending firmed following the results of the German election and the need for increased defence spending. European growth indicators remained finely balanced with the composite PMI (50.2) remaining in very marginal expansionary territory but overall we suspect that the European economic growth should improve in 2025, in contrast to the US

Meanwhile, the domestic monetary easing cycle commenced with the RBA lowering the cash rate by 25 basis points to 4.10% in February. The RBA's next move will be data dependent with the Governor noting that the market is too confident in pricing further rate cuts in the near-term. The strength in the labour market continued in January, with employment growing by a better than expected 44,000 jobs. We are cognisant of Australia's persistently declining GDP per capita and that the economy has only remained in expansion territory due to large population growth and a large fiscal expansion which is adding to price pressures. Australia's economy is projected to grow at a faster pace in 2025, driven by large increases in state and federal government spending, tax cuts and lower interest rates.

Gross Performance	1M%	3M%	6M%	1Y%	2Y%	3Y%	5Y%	7Y%	10Y%
Perpetual Balanced Growth Fund	0.2	0.8	3.4	8.2	8.0	6.9	8.7	8.0	7.2
Balanced Growth Index	-1.3	0.4	4.7	11.1	12.0	7.6	7.5	7.7	7.1
Excess	+1.5	+0.3	-1.3	-2.9	-4.0	-0.7	+1.2	+0.4	+0.1
Perpetual Diversified Growth Fund	0.4	1.2	3.1	7.3	6.9	5.6	6.6	6.6	6.0
Moderate Growth Index	-0.7	0.8	3.7	9.1	9.7	5.7	5.4	6.0	5.7
Excess	+1.1	+0.4	-0.7	-1.8	-2.8	-0.1	+1.3	+0.6	+0.3
Perpetual Diversified Real Return Fund - Class W	1.4	2.0	3.2	6.5	5.6	4.3	5.1	5.1	4.9
Australian CPI +5% (Target Objective)							8.9	8.3	
Perpetual ESG Real Return Fund	0.9	1.6	2.6	6.0	4.2	2.5			
Australian CPI +5% (Target Objective)							-	-	

MORE INFORMATION

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Total returns shown have been calculated using gross performance and assuming reinvestment of distributions. No allowance has been made for fees or taxation. Past performance is not indicative of future performance.

* Due to CPI data being released by the Australian Bureau of Statistics later in the month after quarter end, CPI figures reported are lagged by one month.