Pendal Sustainable Balanced

Quarterly Investment Option Update

31 December 2024

Aim and Strategy

The option aims to provide a return (before fees, and expenses) that exceeds the option's benchmark over the medium to long term. The benchmark for the option is created from a weighted composite of market indices with reference to the option's neutral asset allocation. The option invests in Australian and international shares, Australian and international property securities, unlisted property (including infrastructure), Australian and international fixed interest, cash and alternative investments.

The option may also use derivatives. Sustainable and ethical investment practices are incorporated into the Australian and international shares, Australian and international fixed interest and part of the Alternative investment components of the option. Pendal actively seek exposure to securities and industries that demonstrate leading ESG and ethical practices and exclude companies not meeting the investable criteria.

Asset Allocation	Benchmark (%)	Actual (%)
Australian shares	27	25.1
Global shares	34	36.5
Australian property securities	2	2.0
Global property securities	0	0.0
Unlisted property and infrastructure	2	7.7
Growth alternatives	14	9.2
Australian fixed interest	8	7.9
Global fixed interest	9	8.8
Cash	4	2.8

Investment Option Performance

To view the latest investment performances for each product please visit amp.com.au/performance

Investment Option Overview

Investment Category	Multi-Sector
Suggested minimum investment timeframe	5 years
Relative risk rating	6 / High
Investment style	Active
Manager style	Single Manager

Investment Option Commentary

The portfolio underperformed its benchmark over the December quarter.

The portfolio's underperformance over the quarter was primarily attributable to stock selection among global equities. The continued underperformance of value relative to growth impacted and the increasing concentration of US equity returns negatively impacted the portfolio's underlying global equity managers.

The portfolio's Australian equity stock selection contributed to relative performance. Underweight exposure to resources – notably BHP – was constructive. Manager alpha was attributable to strong performance from some of the largest overweight positions including Qantas (QAN), Xero (XRO), QBE Insurance (QBE) and Telstra (TLS).

The portfolio's allocation to alternatives detracted from performance, reflecting a challenging December for the Pendal Risk Parity Fund which gave back a portion of its recent robust returns.

The portfolio's US dollar exposure benefitted as greenback extended its rally reflecting the ongoing outperformance of the US economy, moderating monetary policy easing expectations and the anticipated impact of the incoming administration's trade policies.

Market Commentary

Financial markets saw elevated volatility during the December quarter as markets parsed the results of the US presidential election, moderating monetary policy easing expectations alongside political and fiscal concerns in Europe.

- Developed market equities (+2.0%) rose, marking the close of a robust year for risk assets. US equities (+2.4%) rose, responding positively to the results of the US presidential elections and expectations for corporate profit growth under a second Trump administration. A strong November bookended by negative months, reflecting some pressure as expectations for US monetary policy moderated.
- European equities (-1.8%) were mixed with German stocks rallying (+3.0%) despite political uncertainty while French equities (-3.2%) fell on sovereign debt concerns. Ongoing political instability and the anticipated impact of US trade policy exacerbated persistent growth concerns in the world's largest trading bloc.
- UK Stocks (-0.2%) trailed the broader developed market. Domestically focused sectors fell on the weakening macro outlook. UK stocks were also impacted by rising long-term bond yields reflecting inflation expectations and concerns over the new government's fiscal policies in the budget published in October.
- The ASX 300 (-0.8%) declined, impacted by rising bond yields alongside the potential ramifications for Chinese commodity demand from proposed US tariffs.
- Japan equities (+5.4%) led developed markets, rebounding from their 3rd quarter decline and benefitting from the weakened yen improving the earnings outlook for exporters.
- Emerging Markets (-4.2%) fell throughout the quarter. The rising US dollar provided a significant headwind. Trump's election victory and associated trade policy weighed on emerging market equities, particularly China (-7.0%).
- Global bond markets saw elevated volatility throughout the quarter with 10 year yields rising across Australia (+39bps), the US (+79bps) the UK (+57bps) and Germany (+24bps).

With the resolution of the US election and the Republican party sweeping both the legislative and executive branches, market expectations for US growth have remained positive. Accommodative tax policies and a reduced regulatory burden are expected to support a soft economic landing, underpinned by resilient employment, strong corporate earnings growth, and a vibrant consumer. Growth, employment and inflation data continue to imply that US rates have been considerably less restrictive that the Fed anticipated. The strength of services sector labour data in particular, provides a challenge for the Fed as service sectors is where wages growth and core inflation have the strongest correlation, and it's also where productivity is the hardest to move higher through innovation.

The Federal Reserve lowered interest rates by 25 basis points in both November and December. However, the Fed's December meeting triggered a stock market sell-off after the release of the new dot plot, which showed a median forecast of only two additional rate cuts in 2025. While this aligned with market expectations, the tone from the Fed was more hawkish, indicating that the committee was reconsidering the "extent and timing" of further cuts.

While concerns over President Trump's proposed tariffs have unsettled markets and saw bond yields climb in the December quarter, we believe the impact on growth will be modest and unlikely to significantly influence Fed policy. Our primary concern remains the unsustainable fiscal deficit, which stands at 6.4% of GDP and is set to widen through tax cuts. This raises concerns about the long-term trajectory of fiscal policy and its potential impact on bond markets and equity valuations.

Europe continues to struggle with weak economic data and political instability, including the collapse of the German coalition government and growing concerns about French debt. Composite PMI fell to a 10-month low in November before the December print showed improvement with the service sector returning to expansionary territory. The ECB cut rates by 25 basis points in October and December and signalled more cuts in 2025 amid ongoing growth struggles. In the UK, signs of economic weakness emerged, with the services PMI hitting its lowest level since November 2023 and unemployment rising to 4.3%.

Emerging markets struggled throughout the December quarter, pressured by rising concerns over the potential impact of US tariff increases alongside the strengthening US dollar. China's economic outlook remains fraught. A lack of further detail relating to the policy stimulus measures announced in September, together with investor concerns relating to the implications of proposed Trump trade tariffs on Chinese exports compounded the existing property sector overhang, sustained deflation, high debt and weak private sector confidence.

The Australian economy continues to struggle with higher inflation and elevated interest rates, leading to six consecutive quarters of contracting GDP growth per capita. Economic growth in 2025 is expected to remain subdued, driven by softening labour market conditions and constrained household consumption. The Reserve Bank of Australia held the cash rate at 4.35% in December, signalling confidence that inflation is moving towards target and acknowledging a more-than-expected easing in wage growth. Third-quarter GDP growth was weak at 0.3% quarter-on-quarter, with private investment and consumption showing little growth. The labour market remains firm, with unemployment at a record low of 3.9%.

Outlook

The challenging economic outlook for ex-US markets and the uncertain path of inflation and monetary policy provide a difficult environment for investors to negotiate. Elevated equity valuations are underpinned by expectations of a soft landing for the global economy and supportive central bank action on policy rates. With so much good news already priced in, we maintain some caution. We continue to carefully manage our exposure to equity market beta and our equity exposures remain focused on stock selection alpha opportunities among high quality companies with strong balance sheets and highly resilient operating models.

Availability

Product Name	APIR Code
SignatureSuper	AMP9559AU
SignatureSuper – Allocated Pension	AMP5144AU
SignatureSuper – Term Pension	AMP5144AU

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