The Quarterly Market Report

March 2023

Asset Class Returns March 2023

Asset Classes	3 Month % chge	6 month % chge	FYTD%	YTD %	1 year % chge	3yr return pa	5yr return pa	10yr return pa
Australian Shares (ASX 200 Accumulation)	3.46	13.19	13.63	3.46	0.10	16.52	8.69	8.18
Global Shares (MSCI World ex Aust-net(USD))	7.84	18.24	10.93	7.84	-6.97	16.32	8.05	9.02
Global Shares (MSCI World ex Aust ,net, AUD)	9.20	13.51	13.90	9.20	4.31	12.88	11.02	13.95
MSCI World ex Australia 100% hedged to AUD Index (Net)	7.14	14.82	8.87	7.14	-7.57	15.09	7.59	10.08
Australian Property (S&P/ASX 200 - Property Trusts (TR)m)	0.52	12.08	4.55	0.52	-13.94	13.60	4.77	7.65
Global REITs (FTSE EPRA Nareit DEV HEDGED IN AUD L - TOT RETURN IND)	0.10	4.15	-6.75	0.10	-21.31	5.67	0.69	3.74
Australian Cash (Bloomberg AusBond Bank Bill Index)	0.79	1.54	1.97	0.79	2.04	0.73	1.08	1.68
Australian Bonds (Bloomberg AusBond Composite 0+ yr Index)	4.60	4.99	4.32	4.60	0.35	-2.37	1.27	2.78
Global Bonds (Barclays Global Aggregate (AUD Hedged))	2.38	3.04	-0.86	2.38	-5.48	-2.82	0.27	2.44

Sub Asset classes	3 Month % chge	6 month % chge	FYTD%	YTD %	1 year % chge	3yr return pa	5yr return pa	10yr return pa
MSCI All Country ex Aust(net, AUD)	8.65	13.07	12.68	8.65	3.78	12.29	10.14	13.21
US Shares (S&P 500 Total Return Index)	7.50	15.52	9.98	7.50	-7.73	18.60	11.19	12.24
Australian Small Caps (ASX Small Ords Accum (Ex 100))	1.88	9.55	9.04	1.88	-13.19	13.15	3.89	5.16
Global Small Caps (MSCI Small Cap Index (USD, net))	4.29	15.51	9.42	4.29	-9.38	17.59	4.45	7.61
Global Small Caps ex-Aust (MSCI World Small Caps ex Aust (NI) AUD)	5.49	12.05	12.37	5.49	1.49	14.24	7.27	12.62
Global Emerging (MSCI Emerging Markets (USD))	3.96	14.04	0.84	3.96	-10.70	7.83	-0.91	2.00
Global Emerging (MSCI Emerging Markets (AUD, net))	5.26	9.48	3.54	5.26	0.12	4.64	1.82	6.61
Global Infrastructure (FTSE Global Core Infrastructure 50/50 Index - AUD Hedged NR)	-0.35	5.99	-2.04	-0.35	-7.42	8.62	5.76	7.67
Global Credit (Barclays Global Aggregate Credit (AUD Hedged))	5.22	8.03	2.80	5.22	-4.56	-0.42	1.03	3.06
Global High Yield (Barclays Global Aggregate High Yield TR Hedged AUD)	2.31	8.40	6.30	2.31	-5.64	3.84	0.68	3.94
Australian Govt Bonds (Bloomberg AusBond Infl Govt 0+ yr Index (d))	6.82	10.79	8.68	6.82	2.17	1.82	2.84	3.23
Treasury Yields (Bloomberg Treasury Index)	4.89	5.14	4.39	4.89	0.44	-3.04	1.26	2.59
Australian Credit (Bloomberg AusBond Credit Bond Index (d))	3.44	4.59	4.52	3.44	1.15	-0.28	1.97	3.40
Australian Floating Rate Bonds (Bloomberg AusBond Credit FRN 0+ Yr Index)	1.12	2.05	2.78	1.12	2.70	1.73	1.85	2.57
AUD-USD (m)	-0.93	3.23	-2.57	-0.93	-10.29	2.82	-2.62	-4.31
Trade Weighted Index of AUD (AUD TWI(m))	-1.79	-1.95	-2.43	-1.79	-5.19	3.30	-0.65	-2.68
US Broad Dollar Index -- Nominal, Monthly	-1.14	-3.75	0.70	-1.14	3.81	-0.06	2.28	2.72

1. Markets

GLOBAL DEVELOPED EQUITIES

- After losing ground in February, global equity markets rose 3.2 per cent in USD terms in March, taking the March quarter gain to 7.8 per cent. While markets were roiled by the collapse of Silicon Valley Bank (SVB) and Signature Bank in the early part of March, the key theme during the quarter was one of peak inflation, a potential peak in Fed funds and, perhaps most importantly, the combination of weaker, but not recessionary, growth data and lower bond yields.
- In the early part of March, following another strong US payrolls result, the markets had been pricing in a 5.5 per cent Fed funds rate peak. By month-end, the market was barely factoring in a further Fed hike and had slashed almost 100 basis points of Fed funds projections for 2023-24. This prompted a 45 basis point decline in the US 10-year yield and a similar move in TIPs yields. Growth stocks, led by the big US tech firms, benefited from the decline in real bond yields, jumping 6.9 per cent in March and 15.1 per cent for the quarter, outperforming Value which returned -0.7 per cent and 0.9 per cent, respectively. Quality stocks and stocks with higher EM exposure also fared well while Momentum stocks lagged.
- Silicon Valley Bank, the 16th largest bank in the US, was unique in that as the banker for many venture capital backed start-ups, it's depositor base was highly concentrated, with deposit sizes larger than the average size for larger banks and less "sticky" than typical depositors. On the asset side, SVB had a larger weighting to US treasuries and MBS's. With bond yields surging over the past 12 months mark to market valuations had deteriorated significantly. Furthermore, with tech sector start-ups increasingly struggling and having to access deposits for working capital, SVB was forced to seek additional capital. This unsettled markets and depositors, sparking a bank run. Signature Bank failed soon after while in Europe, Credit Suisse finally succumbed to years of difficulty, forced into the arms of UBS.
- In AUD terms the MSCI World ex-Australia index rose 9.2 per cent for the quarter and 13.9 per cent in the financial year to date. The solid performance was even across markets although Germany, Denmark, Ireland and Netherlands have outperformed in recent months. Europe ex-UK was up 11.9 per cent for quarter compared with the US at 7.6 per cent and Japan 6.2 per cent. Commodity and energy heavy markets have lagged, particularly Norway, down 7.2 per cent for the quarter, and Canada to a lesser extent.
- In terms of the economic data, clearly the focus has been on inflation. In the US the CPI was slightly higher than expected with core inflation coming in at 5.5 per cent for the year resulting from "Sticky" prices in the services ex-shelter area. In Europe, the March CPI dropped to 6.9 per cent, well down on the 10.6 per cent peak in October last year while in Spain inflation is now almost 3 per cent, down from over 10.5 per cent.
- Manufacturing activity, as measured by the ISM continues to contract, the March reading falling to 46.3 while the new orders component was just 44.3. Manufacturing, outside of China and some other EM countries, is weaker while the service sector continues to grow at a reasonable clip. A strong service sector, supported by a strong labour market and built up savings, is contributing to high wages growth, making the central banks task of reducing inflation that much more difficult.
- On the earnings front, March quarter 12 month trailing earnings are expected to be down almost 6 per cent on a year earlier with a further decline expected in the June quarter before a bounce in the second half of 2023y, ending with a 10 per cent jump in the December quarter, according to consensus estimates.
- At the sector level, the decline in bond yields and perceived "safety" saw the IT sector surge 10 per cent for a 21.1 per cent gain in the December quarter while communications rose 9 per cent and utilities and consumer staples around 4 per cent. Banks, the big gainers in 2022, dropped 7.3 per cent in the month reflecting the collapse of several smaller, regional banks and concerns over contagion while energy, another "winner" in 2022, lost 1.7 per cent as oil prices weakened.

AUSTRALIAN EQUITIES

- The Australian equity market was up 3.5 per cent for the quarter, the first quarterly underperformance of global equities since the June quarter 2022. For the financial year to date Australian equities have returned 13.6 per cent, broadly in line with unhedged global markets.
- The bank sector weakened over the quarter amidst the turmoil in smaller regional US banks and the implosion of Credit Suisse. Australian banks rank amongst the most well capitalised in the world although valuations largely reflect this. Investors are now acknowledging that the banks may be negatively impacted by movements in short term rates beyond a certain threshold. For most of 2022 banks had benefited from the rising interest rate environment however signs of a peak in net interest margins and the impact of cumulative mortgage rate increases on household disposable incomes and the housing market has been undermining the sector in 2023. The bank sector dropped 4.7 per cent for the quarter, underperforming the broader market which was up 3.5 per cent.

- For the quarter the best performing sectors were utilities (up 15.9 per cent), food retailers (11 per cent), healthcare (10.4 per cent) and retailing (10 per cent). As noted above, banks, REITs and diversified financials detracted.
- The RBA lifted the cash rate in March for the 10th consecutive meeting, to 3.6 per cent, but softened the language in response to weaker GDP and wages data while expressing confidence that the risk of a wage-price spiral had diminished. “At the aggregate level, wages growth is still consistent with the inflation target and recent data suggest a lower risk of a cycle in which prices and wages chase one another,” Dr Lowe said. In a speech to the AFR Business Summit, Lowe revealed the RBA board had talked about the possibility of leaving the cash rate target on hold at a future meeting, acknowledging that at 3.6 per cent it was already in “restrictive territory”. “At our board meeting yesterday, we discussed the lags in monetary policy, the effects of the large cumulative increase in interest rates since May and the difficulties that higher interest rates are causing for many households,” Mr Lowe told the audience in his prepared remarks.
- On the economic front, the employment data rebounded from the soft January figure with 65,000 jobs added and the unemployment rate back down to 3.5 per cent. The wages data for the December quarter was not as strong as expected with wages up 0.8 per cent in the quarter and 3.3 per cent for the year. Perhaps more importantly, the national accounts for the December quarter showed a household sector labouring under the weight of the rapid lift in mortgage rates. Household disposable incomes contracted by 0.7 per cent, despite solid wages growth with mortgage costs as a percentage of incomes reaching 4 per cent, the highest since 2015.

EMERGING MARKETS

- The MSCI Emerging markets index rose 4 per cent in USD terms in March, taking the financial year to date advance to just 0.8 per cent. In AUD terms, emerging markets rose 5.3 per cent for the quarter.
- For the quarter, EM Asia was 4.8 per cent higher with strong gains in Taiwan and Korea being partly offset by a drop in India of 6.4 per cent. Latin American stocks have been constrained by recent poor performance from Brazil.
- The growth and inflation backdrop in emerging markets is arguably more favourable than that of the developed markets, particularly in China. PMI activity readings in China have surged since the end of lockdowns while inflation remains low. Policy is being eased as reflected in the modest cut in the bank reserve requirement ratio during the month.

REITS AND INFRASTRUCTURE

- AREITs dropped 6.8 per cent in March taking the quarter’s advance to just 0.5 per cent and the financial year to date return to 4.6 per cent, well behind broader equities. Global REITs dropped 3.9 per cent in the month and are essentially flat for the quarter although since June 2022 the sector is down 6.75 per cent.
- Despite declining real bond yields, typically a positive for REITs valuations, investors in REITs were instead pre-occupied with the demise of SVB on March 10 and the risk of contagion to other smaller banks and to property valuations. In the US, the majority of lending for commercial property is undertaken by the smaller, regional banks. Commercial real estate loans account for over 40 per cent of the total lending of smaller US banks, compared to 13 per cent for the biggest US banks. With depositor outflows and a property sector already under pressure from higher rates, the concern was that tightening lending standards would further undermine the property sector.
- The global infrastructure sector managed to rise 2.3 per cent during March, leaving it with a small loss for the quarter. Infrastructure has lagged the recovery in global equity markets since June 2022.

GLOBAL FIXED INTEREST

- Global bond yields resumed their decline in March with 10-year yields down 40-50 basis points, with shorter dated yields down even more in response to a rethink about the path for Fed funds. After challenging the 4 per cent level last month, the US 10-year yield tumbled as low as 3.38 per cent before ending the quarter at 3.47 per cent.
- The collapse of Silicon Valley Bank and Signature Bank in the first half of March, fears of contagion and tightening lending standards prompted a reassessment of the likely peak in Fed funds, and the trajectory thereafter. Following strong labour market data, in early March markets had been pricing in a 5.5 per cent Fed funds rate peak in September quarter this year. Indeed, the March 22nd FOMC meeting materials suggested the Fed funds rate would reach 5.1 per cent in 2023, and remain there, before easing to 4.1 per cent by end-2024. In what was one of the most volatile periods for bond markets, by month-end the market had removed the prospect of any further hikes in Fed funds and had pencilled in at least two cuts in 2023 and a further five in 2024 to 3.25 per cent.
- Unlike previous rate cycles, the market is implying that the Fed will remain well above neutral for an extended period and ease relatively modestly. There is also a view that the so-called “neutral” Fed funds rate may be higher than previously thought, implying that policy is not nearly as tight as some would suggest, necessitating further action. However, in light of signs that there is some “breakage” in the system as a result of higher rates, markets are now more focussed on recession risk.

- The rally in TIPs yields was significant. The yield on 5-year TIPs fell from 1.6 per cent to 1.16 per cent while for the 10-year TIP the yield dropped from 1.49 per cent to 1.14 per cent. Implied inflation expectations had declined towards 2 per cent mid-March but ended back at around 2.3 per cent for 10 years at the end of the quarter.
- UK gilts ended the quarter unchanged at 3.7 per cent while the German 10 year yield ended at 2.38 per cent.
- Global bonds returned 2.4 per cent for the quarter but are down 0.9 per cent for the financial year to date. Global high yield was up 2.3 per cent for the quarter, however reversed in March as concerns over the banking sector and recession risk widened spreads while the base treasuries rallied. US high yield spreads ranged between 397 basis points and over 520 basis points during March, ending at 474 basis points. Investment grade credit returned 1.9 per cent, benefiting from higher duration and a minor spread deterioration. For the quarter both indices rose 2.8 per cent.

AUSTRALIAN FIXED INTEREST

- Australian bond yields traded as low as 3.19 per cent in March before edging up to 3.3 per cent at quarter-end. The Bloomberg composite bond index returned 4.6 per cent for the quarter, strong gains after a poor 2022. A significant drop in real yields underpinned a 6.8 per cent quarterly gain.
- Similar to the US, the market unwound some of its tightening expectations although domestically the cause was more to do with weaker growth than banking sector concerns. A weaker than expected December quarter GDP growth rate of just 0.5 per cent, including evidence of strain in the household sector, slower than expected wages growth and signs of a peak in inflation combined to push rate hike expectations lower. In fact, over March the market lowered its peak cash rate estimate from 4.1 per cent to 3.6 per cent and wiped 70 basis points off the estimate for cash rates in a years' time.
- The RBA lifted the cash rate by 25 basis points to 3.6 per cent, as expected, in early March, making it ten back-to-back hikes. However, RBA governor Philip Lowe softened the language in response to weaker GDP and wages data while expressing confidence that the risk of a wage-price spiral had diminished. "At the aggregate level, wages growth is still consistent with the inflation target and recent data suggest a lower risk of a cycle in which prices and wages chase one another," Dr Lowe said. In a speech to the AFR Business Summit, Lowe revealed the RBA board had discussed the possibility of leaving the cash rate target on hold at a future meeting, acknowledging that it was already in "restrictive territory" at 3.6%. "At our board meeting yesterday, we discussed the lags in monetary policy, the effects of the large cumulative increase in interest rates since May and the difficulties that higher interest rates are causing for many households," Mr Lowe told the audience. In early April, the bank left rates at 3.6 per cent but did not rule out any further action in the period ahead.
- On the economic front, the employment data rebounded from the soft January figure with 65,000 jobs added and the unemployment rate back down to 3.5 per cent. As mentioned, wages data for the December quarter was slightly softer than expected with wages up 0.8 per cent in the quarter and 3.3 per cent for the year. Perhaps more ominously, the December quarter national accounts revealed a household sector grappling with the impact from the surge in mortgage rates. Household disposable incomes contracted by 0.7 per cent, despite solid wages growth, with mortgage costs as a percentage of incomes reaching 4 per cent, the highest level since 2015. Housing finance remains weak and dwelling approvals are down. However, with some stabilisation in interest rates house prices actually rose 0.6 per cent in March, breaking a sequence of ten monthly declines.

COMMODITIES

- The price of Brent crude oil dropped to US$72 a barrel in mid-March as concerns mounted over global demand, made worse by the fear of bank collapses in the US in early March. Oil had fetched more than US$120 a barrel at various periods in 2022. By the end of March oil lost almost 5 per cent and was down almost a third since June 2022. However, on April 2, members of the Opec+ cartel, led by Saudi Arabia, agreed to a surprise 1.16 million barrels per day cut in production, taking effect next month. The price of oil subsequently jumped to almost US$85 a barrel. Whether it was a pre-emptive move ahead of an economic downturn or a move to stabilise prices, it does represent a strong stance by Saudi Arabia despite opposition from the US administration.
- Gold has been a major beneficiary of the large decline in real yields and the recent weakness in the USD. The price of gold advanced 8.8 per cent over the quarter, ending the quarter at US$1986.2 an ounce.
- Iron ore was up 8.1 per cent for the quarter, ending the quarter at US$127 a tonne. Since October and China's move to re-opening, iron ore has risen by more than 50 per cent.
- Meanwhile, the RBA commodity price index is down 14 per cent for the financial year to date.

CURRENCY

- With markets re-evaluating the projection for Fed funds, the USD lost ground in March. The bank sector turmoil in the US and concerns over tightening lending standards prompted a reassessment of the outlook for Fed funds. In early March, following another strong US payrolls result, the markets priced in a 5.5 per cent Fed funds rate peak. In one of the most volatile months in

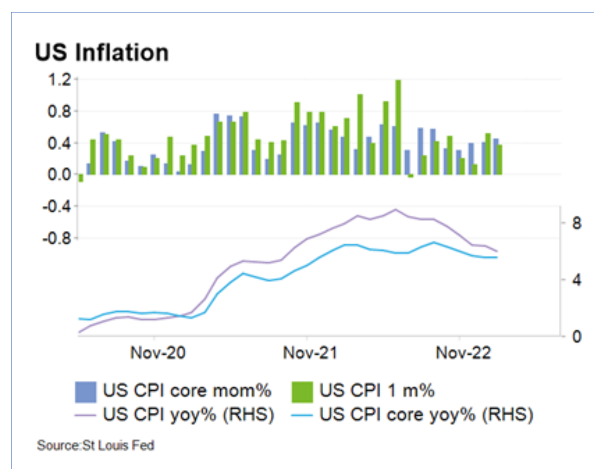
bond markets on record, by month-end the market was barely factoring in a further Fed hike and had slashed almost 100 basis points off Fed funds projections for 2023-24. With the ECB and BoE pressing ahead with rate hikes, the USD lost around 2.5 per cent against the Euro and the pound. The euro ended the month at 1.084 while the pound was 1.23. The yen strengthened to 132.8 from 136.

- During the month China's President Xi Jinping visited Russian President Vladimir Putin in Moscow and pledged to adopt the renminbi for "payments between Russia and countries of Asia, Africa, and Latin America". This is seen as an attempt to displace the dollar and follows Moscow's increased use of the renminbi for its trade with China and as a component of its central bank reserves.
- The AUD fell slightly against the USD in March but was down almost 2 per cent in the quarter to below 67 cents. Although US Fed funds expectations were lowered over March, expectations for RBA tightening were also reassessed in light of lower inflation, weaker GDP growth and lower than expected wages growth.

2. Key Economic Releases

US INFLATION STICKY

- US inflation for February showed a 0.4 per cent headline increase for an annual rate of 6 per cent, down from 6.3 per cent. The core CPI increased 0.5 per cent with the annual rate steady at 5.5 per cent.
- Core “sticky” price inflation outside of shelter is running at a 4 per cent annualised rate in the past three months, a slight lift. Including shelter, it is 6.5 per cent in the past three months.

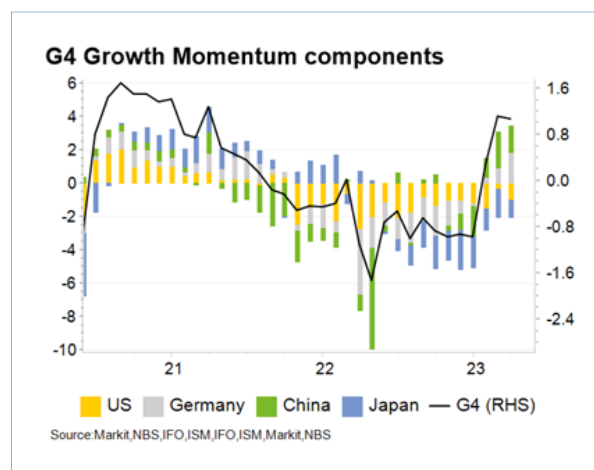


US LABOUR MARKET STRENGTH

- US payrolls for February rose 311,000, well above expectations of 100,000. The last ten payrolls numbers have exceeded expectations. Unemployment rose to 3.6 per cent.
- The US JOLTs data showed that job openings fell to 9.9 million, the lowest in two years. Initial claims for unemployment insurance remain below 200,000.

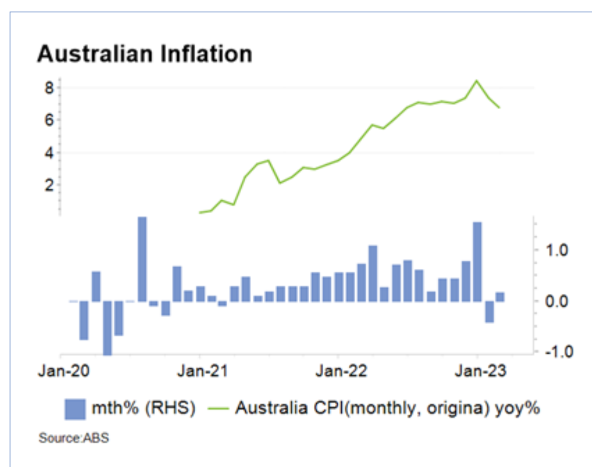
GLOBAL GROWTH MOMENTUM POSITIVE

- Global growth momentum remained above zero in March after becoming positive for the first time since July 2021 in January. Momentum did stall somewhat in March as the US ISM new orders index dropped and European and Chinese PMIs also softened slightly.
- Global growth momentum above zero (which provides an early indicator of a bottom in the manufacturing cycle) is associated with positive 3-month global equity market performance 82 per cent of the time (average 4.9 per cent) as opposed to negative momentum which is associated with negative performance 54 per cent of the time (average -1.7 per cent).



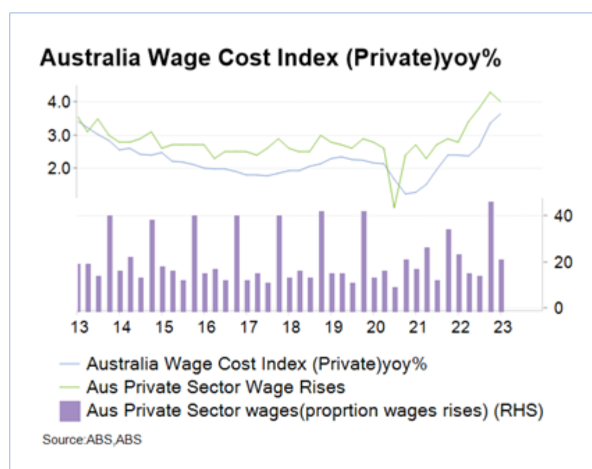
AUSTRALIAN INFLATION

- Australian inflation for February eased back to 6.8 per cent from 7.4 per cent in January. The monthly rise was just 0.2 per cent following a -0.4 per cent January result.
- Over the year electricity is up 17.2 per cent, holiday travel and accommodation 14.9 per cent, new dwellings 13 per cent, food 8 per cent. Interestingly, rents are up only 4.8 per cent.



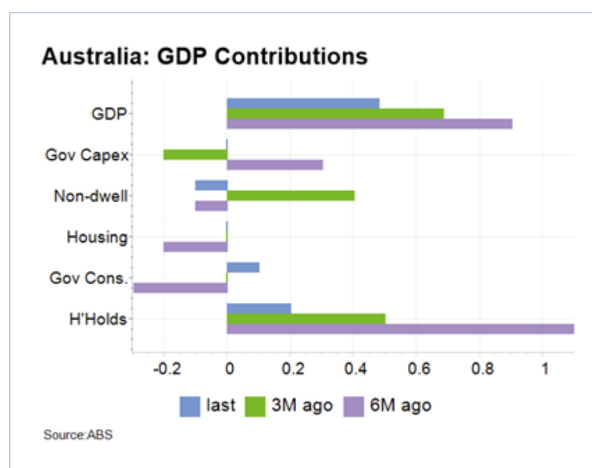
WAGES GROWTH

- Wages growth in the December quarter picked up slightly to 3.3 per cent from 3.2 per cent, a slower pace than expected. For the quarter wages rose 0.8 per cent, down from 1.1 per cent the previous quarter, lower than expectations.
- Private sector wages rose 3.6 per cent for the year (from 3.4 per cent) while new wage agreements were up 4 per cent (for 21 per cent of workers), down from 4.3 per cent (for 46 per cent) in the previous quarter.



GDP SOFTER

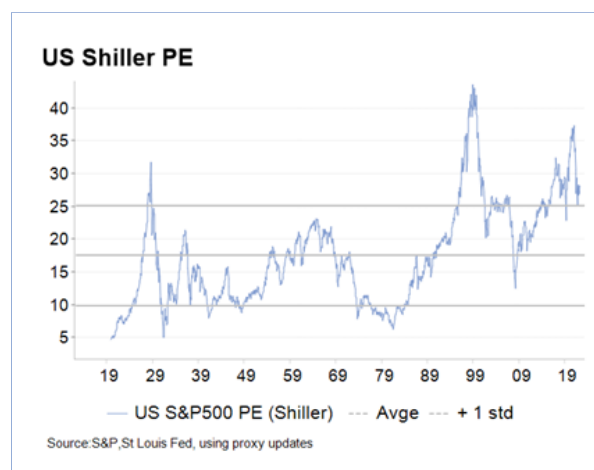
- The economy expanded 0.5 per cent in the December quarter taking the annual growth rate to 2.7 per cent, down from 5.9 per cent. Quarterly growth has been declining over 2022.
- Household consumption expanded by just 0.3 per cent in the quarter after 1 per cent, 2.2 per cent and 1.8 per cent in the previous three quarters. Gross disposable income fell by 0.7 per cent in the quarter as higher taxes and mortgage payments offset growth in wages.



3. Valuations: Overseas

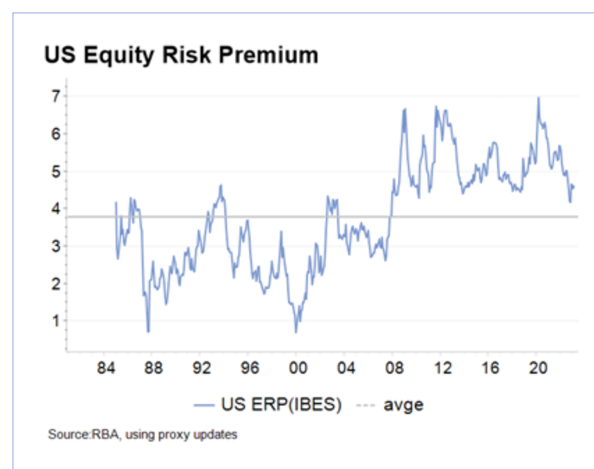
LONG TERM CYCLICALLY ADJUSTED PE

- The long term cyclically adjusted P/E is sitting at 28 times, well down from 37 times in late 2021 but is still well above average levels (17.7) and the low inflation regime average of around 23 times. The high inflation average is close to 15 times.



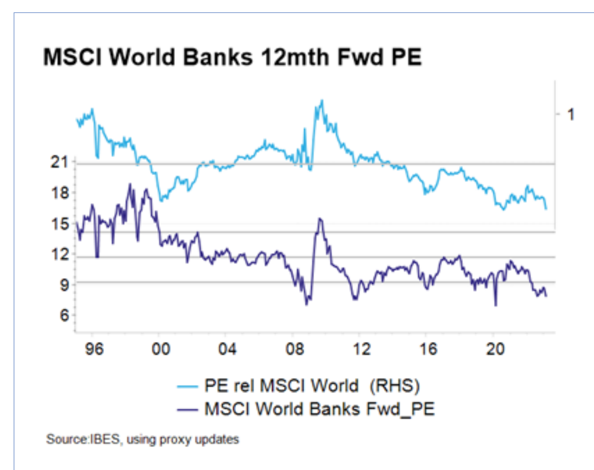
US EQUITY RISK PREMIUM

- The US Equity risk premium sits at 4.6 per cent. Earnings growth is softening, but bond yields have declined to 3.5 per cent. Using 10 per cent lower earnings produces an ERP of 4.2 per cent.
- The ERP is close to the bottom of the post-2008 range implying the equity market is expensive to bonds based on the past 14 years, or around average for the past 40 years



GLOBAL BANKS

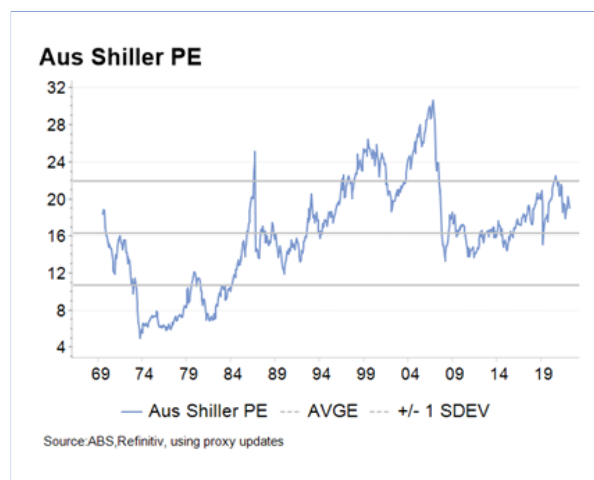
- With a PE of around 7.5 times, Global banks are trading at extremely cheap levels (long term average is 11.7 times).
- Relative to the market banks are at a 50 per cent discount, compared with an average 28 per cent discount.



4. Valuations: Australia

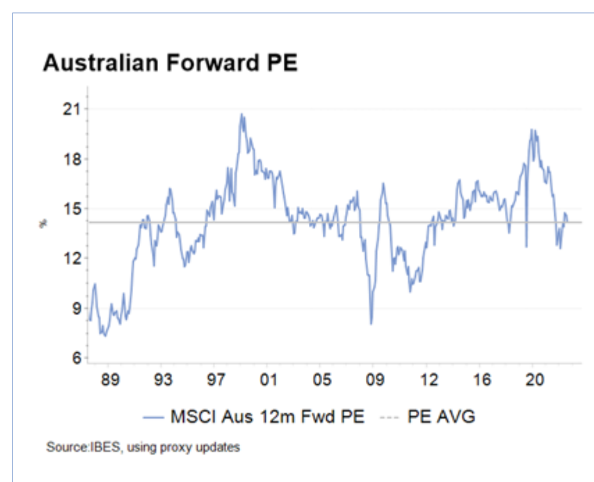
AUSTRALIAN LONGER-TERM VALUATIONS

- Using a Shiller method for calculating PE's the market is up to 19 times (compared with the average of 16).



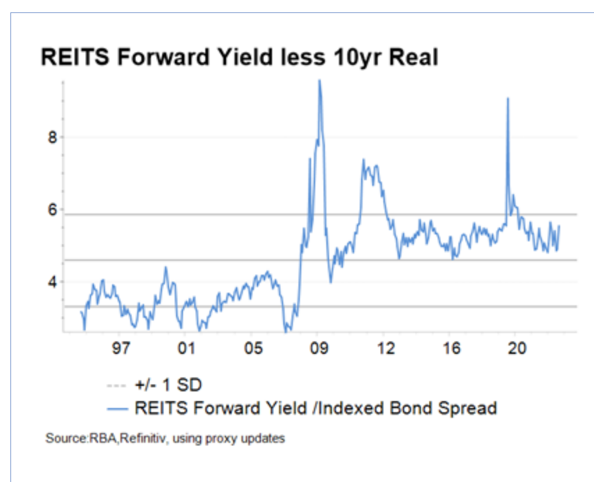
AUSTRALIAN PE

- The Australian PE sits at 14.1 times, close to the long-term average and well down on the recent 20 times in 2020.



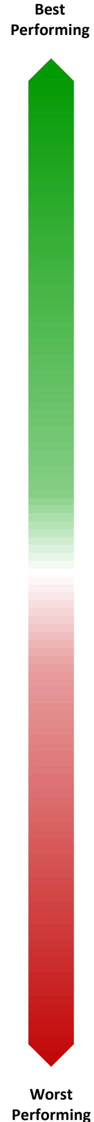
A-REITS AND REAL YIELDS

- The sell-off in AREITs and the recent rally in real yields has widened this spread to around 5.5 per cent, close to the highest level outside the major selloffs in 2008-09, 2011 and 2020.



5. Asset Class Return Quilt

The following table displays the returns generated over the past 10 calendar years. Each sector is ranked by its performance in each respective year. The purpose of the table is to highlight the variability of asset class returns. As is displayed in the table below, it is often unwise to sell after periods of poor performance and buy after periods of strong performance. In or view this table also highlights the importance of having a well-diversified portfolio.



2023 YTD	2022	2021	2020	2019	2018	2017	2016	2015	2014
Inter. Shares (Unhedged) 9.20%	Alternative (CTA) 18.33%	GREIT 30.93%	Inter. Shares (Hedged) 10.57%	Inter. Shares (Unhedged) 27.97%	Aust. Fixed Int. 4.53%	Inter. Shares (Hedged) 20.02%	AREIT 13.18%	AREIT 14.38%	GREIT 27.82%
Inter. Shares (Hedged) 7.14%	Alternative (Global Macro) 15.08%	Inter. Shares (Unhedged) 29.58%	Alternative (Global Macro) 6.53%	Inter. Shares (Hedged) 25.62%	AREIT 3.26%	Inter. Shares (Unhedged) 13.38%	Aust. Shares 11.80%	Inter. Shares (Unhedged) 11.80%	AREIT 26.79%
Aust. Fixed Int. 4.60%	Aust. Cash 1.25%	AREIT 27.04%	Inter. Shares (Unhedged) 5.73%	Aust. Shares 23.78%	Aust. Cash 1.92%	Aust. Shares 11.95%	Inter. Shares (Hedged) 10.35%	GREIT 6.31%	Alternative (CTA) 21.16%
Aust. Shares 3.33%	Aust. Shares -1.76%	Inter. Shares (Hedged) 23.88%	Inter. Fixed Int. 5.30%	GREIT 22.10%	Inter. Fixed Int. 1.65%	AREIT 6.45%	Inter. Shares (Unhedged) 7.92%	Inter. Shares (Hedged) 3.82%	Inter. Shares (Unhedged) 15.01%
Inter. Fixed Int. 2.37%	Aust. Fixed Int. -9.71%	Aust. Shares 17.55%	Aust. Fixed Int. 4.48%	AREIT 19.55%	Inter. Shares (Unhedged) 1.52%	GREIT 6.02%	GREIT 6.95%	Inter. Fixed Int. 3.33%	Inter. Shares (Hedged) 12.52%
Aust. Cash 0.79%	Inter. Fixed Int. -12.28%	Alternative (Global Macro) 9.54%	Alternative (CTA) 1.86%	Alternative (Global Macro) 9.82%	Alternative (Global Macro) -0.62%	Alternative (CTA) 3.70%	Inter. Fixed Int. 5.23%	Aust. Shares 2.79%	Inter. Fixed Int. 10.37%
AREIT 0.32%	Inter. Shares (Unhedged) -12.52%	Alternative (CTA) 8.14%	Aust. Shares 1.74%	Alternative (CTA) 8.45%	Aust. Shares -3.07%	Inter. Fixed Int. 3.68%	Alternative (Global Macro) 4.82%	Aust. Fixed Int. 2.59%	Aust. Fixed Int. 9.81%
GREIT -0.07%	Inter. Shares (Hedged) -18.06%	Aust. Cash 0.03%	Aust. Cash 0.37%	Aust. Fixed Int. 7.26%	GREIT -3.98%	Aust. Fixed Int. 3.66%	Aust. Fixed Int. 2.92%	Aust. Cash 2.33%	Alternative (Global Macro) 5.57%
Alternative (CTA) -7.21%	AREIT -20.05%	Inter. Fixed Int. -1.53%	AREIT -3.97%	Inter. Fixed Int. 7.19%	Alternative (CTA) -6.77%	Alternative (Global Macro) 2.54%	Aust. Cash 2.07%	Alternative (Global Macro) 1.96%	Aust. Shares 5.30%
Alternative (Global Macro) -7.63%	GREIT -25.94%	Aust. Fixed Int. -2.88%	GREIT -13.49%	Aust. Cash 1.50%	Inter. Shares (Hedged) -7.58%	Aust. Cash 1.75%	Alternative (CTA) -5.70%	Alternative (CTA) 0.84%	Aust. Cash 2.69%

6. Annual Asset Class Forecast Assumptions

Our capital markets assumptions formulate long term return forecasts and are based on the longer-term drivers of economic growth, inflation and incorporate a path for interest rates and consideration of potential changes to valuations under different regimes. Our building blocks approach allows us to capture not only mean reversion but to also embody secular trends in our long-term return projections.

A major theme in our Capital markets assumptions update and SAA review this year is the increased long term return expectations given the low starting points of asset prices after many markets sold off in 2022. Despite this, the rise in cash rates and Consumer Price Index are making it increasingly challenging to construct portfolios that preserve and grow wealth in real terms.

The following represent our key findings from our capital markets assumptions review this year:

- Return expectations have improved following the sell-off in many asset classes in 2022 although they remain low compared to history.
- Return expectations for cash, bonds and credit have improved substantially since the last review (January 2022). For bonds, we still project some upside in yield as conditions normalise and bond yields return towards trend nominal GDP growth.
- Return expectations for equities have improved slightly, more so for global equities and small/mid-caps, partly reflecting lower starting point valuations. Higher nominal GDP growth, reflecting higher long term inflation assumptions, adds to sales growth for equities but impacts long term bond yield projections. Modest margin contraction is expected.
- Return expectations for unlisted asset classes are in line or slightly below previous expectations given the significant rise in real bond yields.
- Volatility estimates have been revised higher for most asset classes on the basis of higher probability of alternate scenarios (inflation), potentially more volatile business cycles, broadly higher interest rates and less supportive liquidity conditions.

Capital Market Assumptions as at Jan 2023

Asset Class	Jan 23 Forecast Return	Jan 23 Forecast Return	Jan 22 Forecast Return	Jan 23 Volatility	Jan 22 Volatility	Historical Return	Historical Return
	10 yr	3 yr	10 yr	10 yr	10 yr	10 yr	20 yr
Australian Shares	7.1%	7.1%	7.0%	15.0%	13.3%	8.7%	8.9%
International Shares	6.6%	6.6%	5.3%	13.3%	13.0%	12.1%	8.3%
REITs	6.0%	6.0%	5.4%	17.8%	17.9%	6.4%	6.4%
Diversified Hedge Funds (USD)	5.2%	5.0%	3.3%	6.5%	5.3%	4.4%	5.6%
Fixed Interest	3.8%	3.0%	1.9%	3.7%	3.0%	2.3%	4.7%
Australian Cash	3.1%	3.3%	1.7%	0.8%	0.6%	1.7%	3.5%
Australian CPI	2.8%	3.0%	2.3%	n/a	n/a	2.4%	2.6%
Australian Wages Growth	3.5%	3.8%	3.0%	n/a	n/a	2.3%	3.0%

The above table shows expected returns for the broad asset classes for 10 years and for the 3-year horizon as well as 20-year volatility and historical returns for comparison.

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