Year in review – investment insights 2022 -2023

By Perpetual Asset Management

13 July 2023



Over the last 12 months, we have seen a continued shift away from the benign inflation and low interest rate environment which dominated investment markets for most of the last

decade. While inflation appears to have peaked, it has proved more persistent than some first thought and central bankers have continued to lift cash rates in response.

As financial conditions have tightened, we have also seen pockets of instability in the financial system, most notably resulting in Credit Suisse's forced merger with UBS in March, where governments and regulators moved quickly to prevent wider contagion in the banking sector.

Despite this, equity markets proved resilient, even in the face of potential risks around a global recession and credit market tightening. While the market and economic outlook is always uncertain, it is in these kinds of conditions that the benefits of active, fundamental investment management can come to the fore.

Value for the long term

Over the last two years, value investing has returned to favour and markets are again starting to place greater focus on investment fundamentals, rather than narratives– conditions which suit the active approach of our investment teams.

In particular, our Australian Equities team has performed exceptionally strongly and we believe our investment process – with the four quality filters of conservative debt, sound management, recurring earnings and quality of business at its core – will be increasingly important, as cash flow and capital allocation take precedence in a rising rate world.

For Barrow Hanley, manager of the Barrow Hanley Global Share Fund, a bottom-up focus on a company's long-term prospects and fundamentals should also see it well positioned for what could be a longer value investing cycle. We have been offering Barrow Hanley's Global Equities capability in Australia since 2020 and we were pleased to also launch the Barrow Hanley Emerging Markets Fund during the year. This fund aims to provide investors with long-term capital growth from investing in emerging market shares.

Credit markets

The impact of contractionary global monetary policy was particularly evident in credit and fixed income markets, which have grappled with tightening financial conditions over the past year.

In March, we saw credit spreads impacted by concerns over the strength of the global banking system and liquidity pressures emerge in financial markets. While these pressures have eased somewhat, the outlook for credit markets continues to be challenging.

Despite this, our Credit funds performed well over the year – focusing on quality, defensively positioning portfolios while retaining capacity to take advantage of opportunities as they arise in the year ahead.

Award-winning investment capability

We were excited to see the Perpetual Diversified Real Return Fund, managed by our Multi-Asset team, named category winner at both the Lonsec awards and, for the fourth year in a row, at the Zenith awards. This result is a testament to our Head of Multi-Asset, Michael O'Dea, and the Multi–Asset investment team and the outcomes they have been able to achieve for our clients.

More broadly, we were honoured that Perpetual Asset Management Australia was recognised as Fund Manager of the Year at both the Lonsec Fund Awards and, for the second consecutive year, at the Zenith Fund Awards.

These awards are wonderful recognition of the strong investment culture and outstanding capabilities we have been able to deliver to clients and maintain through many market cycles.

Pendal acquisition

Lastly, you may have seen that Perpetual Limited acquired the Pendal Group earlier this year. This has brought together two investment management firms with a long and proud history of offering high-quality, active investment capabilities and delivering strong and consistent outcomes for clients.

In Australia, we are now home to more than 70 investment professionals and are managing over $60b in assets. We are also part of a truly global asset management group, with leading active investment capabilities across the world and more than $200b in assets under management*.

As these businesses come together, the focus for our investment teams will, as always, be on investing for the long term, on behalf of our clients. In the year ahead, we look forward to continuing to provide you with world class active investment management capabilities and solutions in the Australian market.

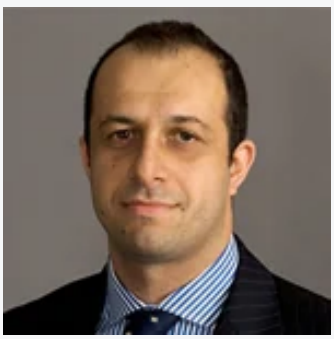
*As at 31/03/2023

Viewpoints from our Investment Managers

The S&P/ASX300 delivered a solid return of +14.40% over the year ended 30 June 2023. This came despite a succession of rate hikes by the Reserve Bank of Australia as central banks around the world rushed to unwind stimulatory monetary settings and battled to contain rising rates of consumer price inflation. Amongst the larger sectors Energy & Materials stocks led the charge in a year defined by the rising inflation challenge whilst expensive sectors like Consumer Staples suffered as rising rates negatively impacted their valuations.

The start to the financial year was turbulent. The S&P/ASX300 had fallen -8.97% in June 2022 as the scale of the shift from policymakers sunk in. The RBA had slashed the official cash rate to just 0.10% in 2020 and embraced Quantitative Easing as COVID raged. The RBA had also implied that rates would remain low until around 2024. The sudden reversal of this position in early 2022 was the catalyst for an outsized market reaction. Growth stocks briefly bounced back in July 2022 as market embraced a “bad news is good news” narrative driven by hope that imminent recession would necessitate policy easing. This proved premature however and central banks had to make up for widespread fears that they were raising too little too late given the booming economy.

The RBA raised rates by 50 bps at four successive meetings in June, July, August and September 2022. Value stocks performed particularly strongly in the second half of 2022 as the market began to focus on fundamental valuations in a normalising interest rate environment instead of growth and momentum narratives driven by years of policy stimulus. Early 2023 was a more nuanced environment though as markets rallied on the hope of central banks slowing down rate hikes, the market re-rating to higher levels in anticipation, and the prospect of a soft economic landing saving equities from a larger drawdown. The risks of a downturn in the economy and corporate earnings remains high. We continue to position our clients in good quality businesses trading at reasonable valuations which we think are well placed to weather any storm.



Vince Pezzullo
Head of Australian Equities, Portfolio Manager
Perpetual Asset Management Australia

More information

Find out more about Perpetual's investment capabilities

Download the year in review brochure

This webpage has been prepared by Perpetual Investment Management Limited (PIML) ABN 18 000 866 535, AFSL 234426. It is general information only and is not intended to provide you with financial advice or take into account your objectives, financial situation or needs. You should consider, with a financial adviser, whether the information is suitable for your circumstances. The information is believed to be accurate at the time of compilation and is provided in good faith. This document may contain information contributed by third parties. PIML does not warrant the accuracy or completeness of any information contributed by a third party. Any views expressed in this document are opinions of the author at the time of writing and do not constitute a recommendation to act. To the extent permitted by law, no liability is accepted for any loss or damage as a result of any reliance on this information.

Barrow, Hanley, Mewhinney & Strauss (Barrow Hanley) is a 75% owned subsidiary of Perpetual Limited and a related party of PIML. Perpetual Corporate Trust Limited (ABN 99 000 341 533, AFSL 392673) has appointed Barrow Hanley as its authorised representative (Representative number 001283250) under its Australian Financial Services Licence.

The PDS for the relevant funds issued by PIML, should be considered before deciding whether to acquire or hold units in the fund. The PDS and Target Market Determination can be obtained by phoning 1800 022 033 or visiting www.perpetual.com.au. No company in the Perpetual Group (Perpetual Group means Perpetual Limited ABN 86 000 431 827 and its subsidiaries) guarantees the performance of any fund or the return of an investor's capital, past performance is not indicative of future performance.

The Zenith Fund Awards were issued on 14 October 2022 by Zenith Investment Partners (ABN 27 130 132 672, AFSL 226872) and are determined using proprietary methodologies. The Fund Awards are solely statements of opinion and do not represent recommendations to purchase, hold or sell any securities or make any other investment decisions. To the extent that the Fund Awards constitutes advice, it is General Advice for Wholesale clients only without taking into consideration the objectives, financial situation or needs of any specific person, including target markets where applicable. Investors should seek their own independent financial advice before making any investment decision and should consider the appropriateness of any advice. Investors should obtain a copy of and consider any relevant PDS or offer document before making any investment decisions. Past performance is not an indication of future performance. Fund Awards are current for 12 months from the date awarded and are subject to change at any time. Fund Awards for previous years are referenced for historical purposes only.

For important information regarding Lonsec ratings and awards please visit:
https://www.lonsec.com.au/logo-disclosure.