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ANNUAL MARKET UPDATE
AUGUST 2023

Your financial future,
tailored your way

MPW Annual Market Update - August 2023

General Advice Disclaimer

The purpose of this presentation is to provide you general advice and insight into MPW's current market outlook and investment philosophy.

Where our presentation provides general advice, we must explain that this advice has been prepared at this time without taking into account your individual personal needs, objectives, or financial situation, and the personal information we hold about you has not specifically been considered in forming our views.

You should not act on any advice that has not been tailored to you or considered in light of your full individual personal circumstances, as there is a risk that such actions may not be appropriate for you or be in your best interests.

Where we provide personal advice and investment recommendations, these will be presented in a Statement of Advice (SoA) which will explain the basis of your personal advice recommendations, and any considerations or risks so that you can make an informed decision.

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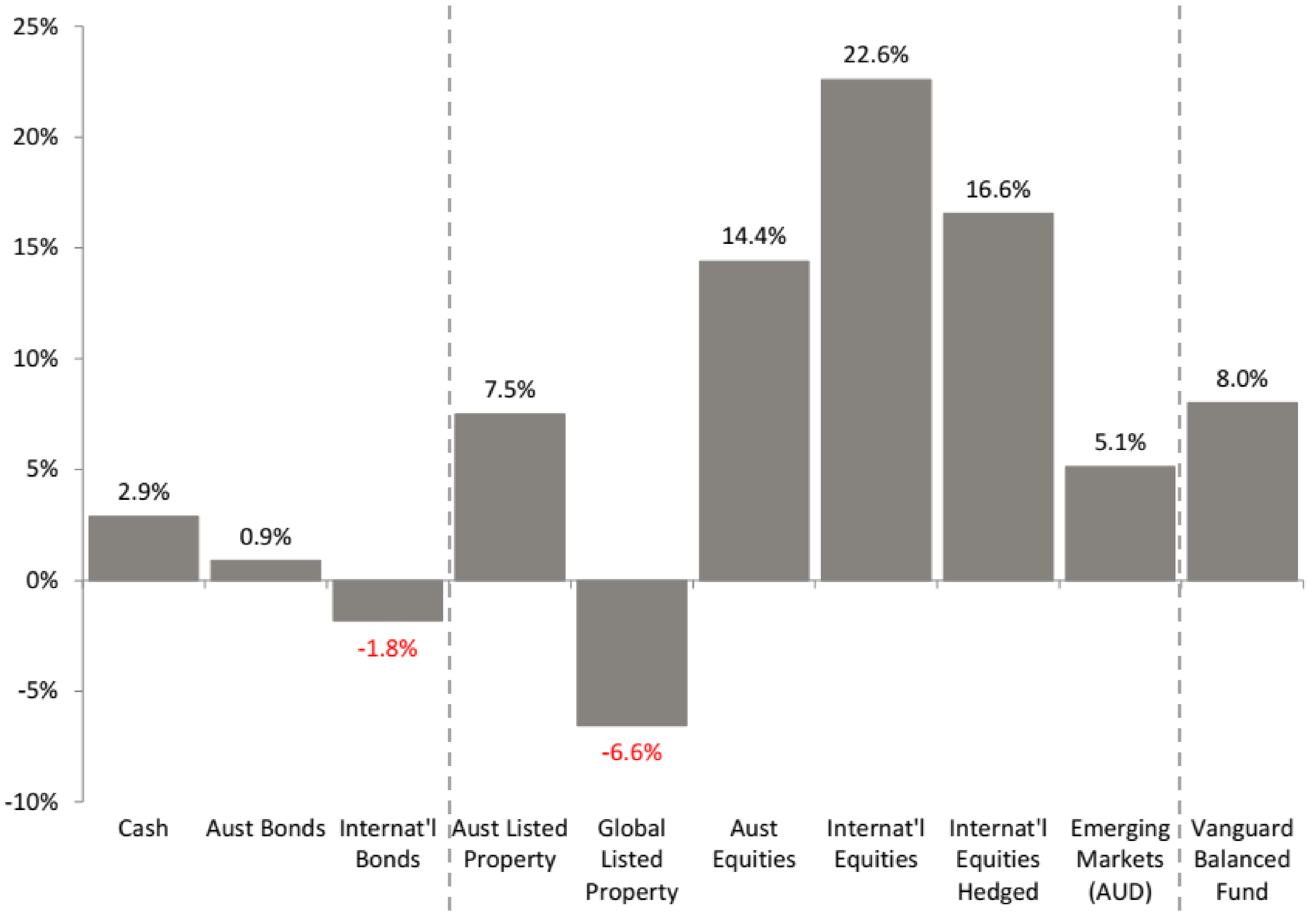
Asset Class Returns 12 Months to 30th June 2023



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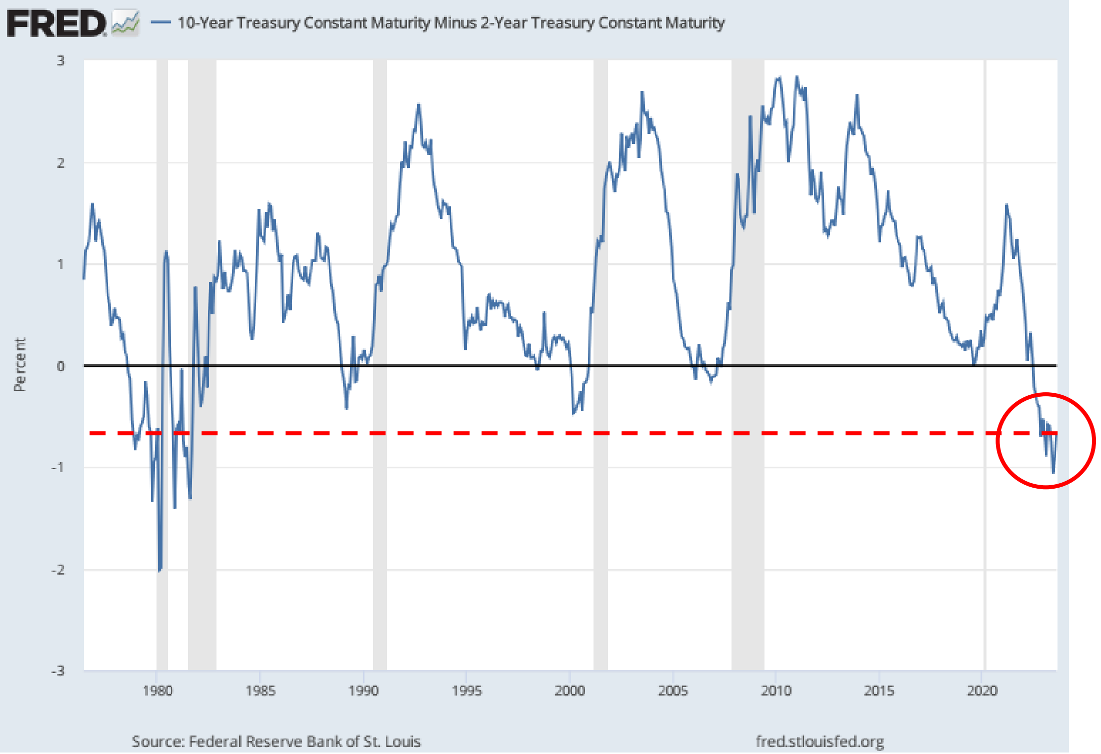
MPW Outlook & Likely Recession Ahead

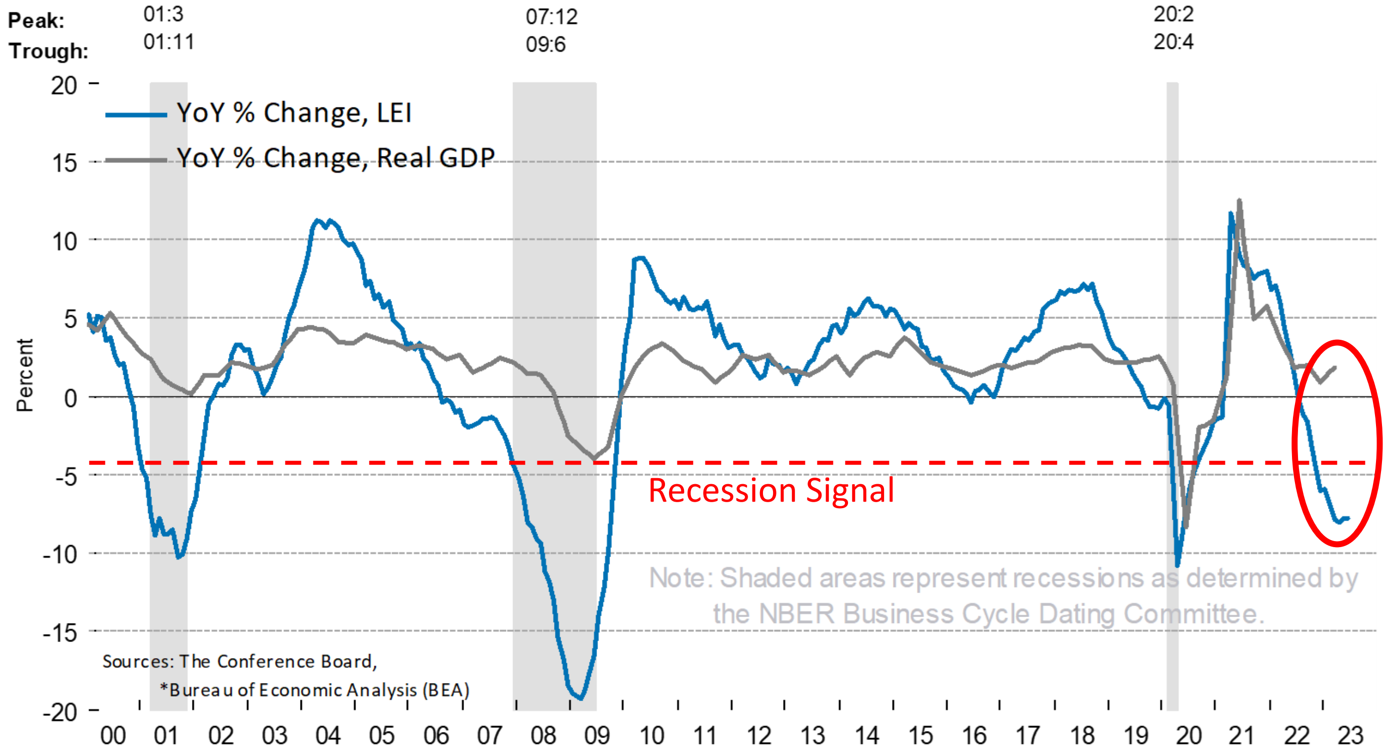
1. Hard Landing: Global Recession MPW Probability = High	2. Soft Landing: Mid-Cycle Slowdown MPW Probability = Medium	3. Strong Growth: New Bull Market MPW Probability = Low
• Inflation remains stubbornly high	• Inflation moderates towards targets	• Inflation moderates more quickly
• Central banks tighten too much	• Central banks pivot and cut rates	• Central banks cut rates more quickly
• Unemployment rises 1-2%	• Unemployment rises marginally	• Employment growth remains strong
• Savings rates evaporate	• Savings rates are neutral	• Savings rates remain elevated
• Economic data deteriorates	• Economic data stabilises	• Economic data pivots to growth
• Corporate earnings fall further	• Higher revenues offset higher costs	• Companies improve productivity
• Geopolitical risks intensify (wars)	• No further sanctions or conflict	• Russia and China pivot their stance
• Oil price spike magnifies the above	• Supply issues don’t spike oil prices	• Oil prices stabilise at lower levels
Markets are <u>not</u> priced for this, expect further decline from here (~-20% plus)	**Markets <u>are</u> priced for this, value can be selectively found at current levels**	**Markets are <u>not</u> priced for this, risky assets will perform very strongly**

Traditional Indicators Point To Recession Ahead

A negative yield curve has been an excellent predictor of prior recessions, and it remains the most inverted we have seen since the 1980's.

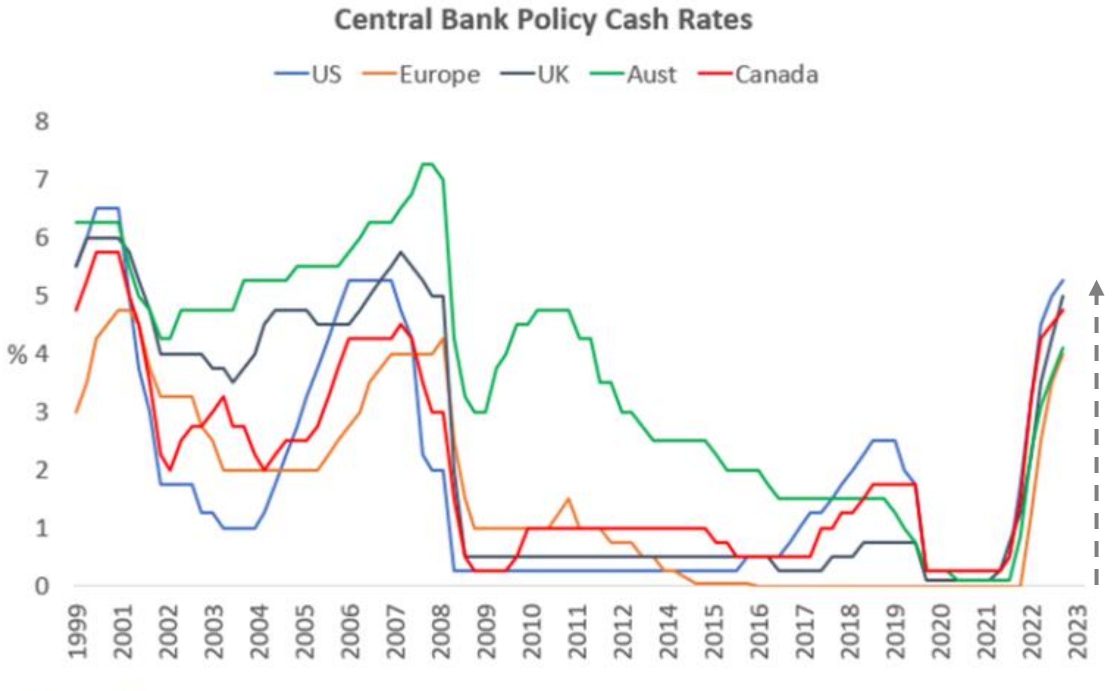
US Leading Economic Indicators (LEI's) are priced well below previous recession levels and suggest that GDP growth will turn negative in the next year.





Higher Global Interest Rates & Stubborn Inflation

Global interest rates have risen at a historically fast pace in the last 18 months and are likely nearing their cycle peak. Potentially 1-2 more hikes still to come.

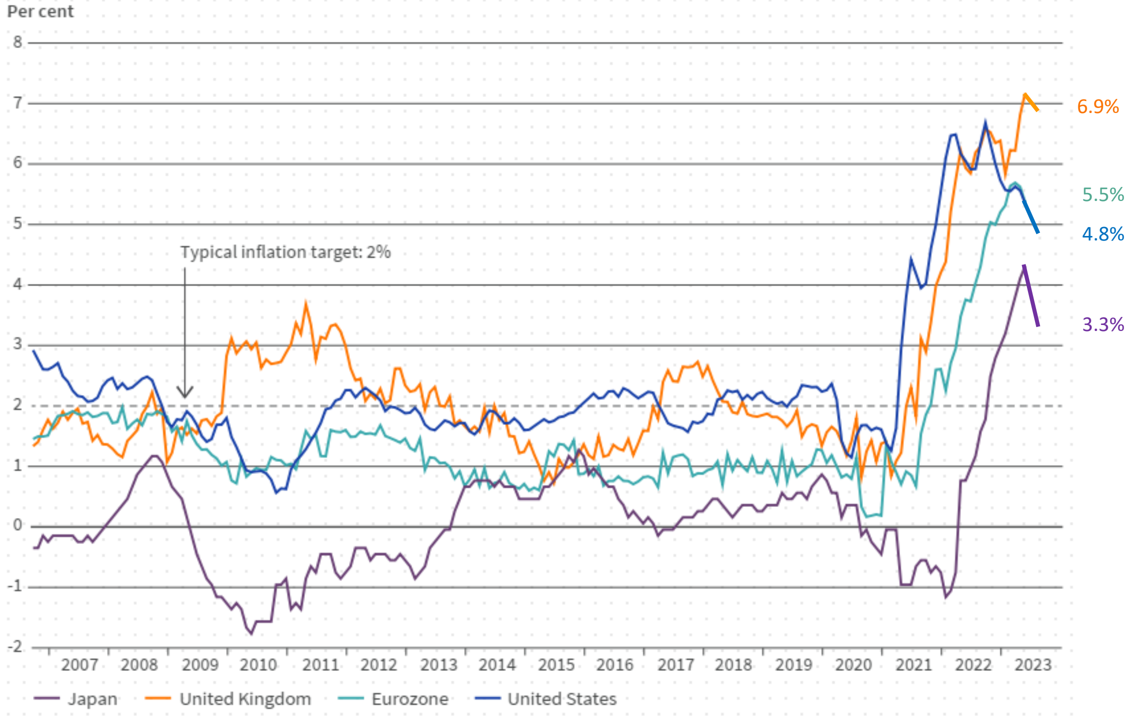


Source: Bloomberg

Global inflation peaked mid-2022, but it is a long way from central banks' target 2-3% range. Services inflation remains 'sticky' and Core inflation is falling at a slow pace.

Figure 6. **Core inflation in the major advanced economies**

Proving far more difficult to shift



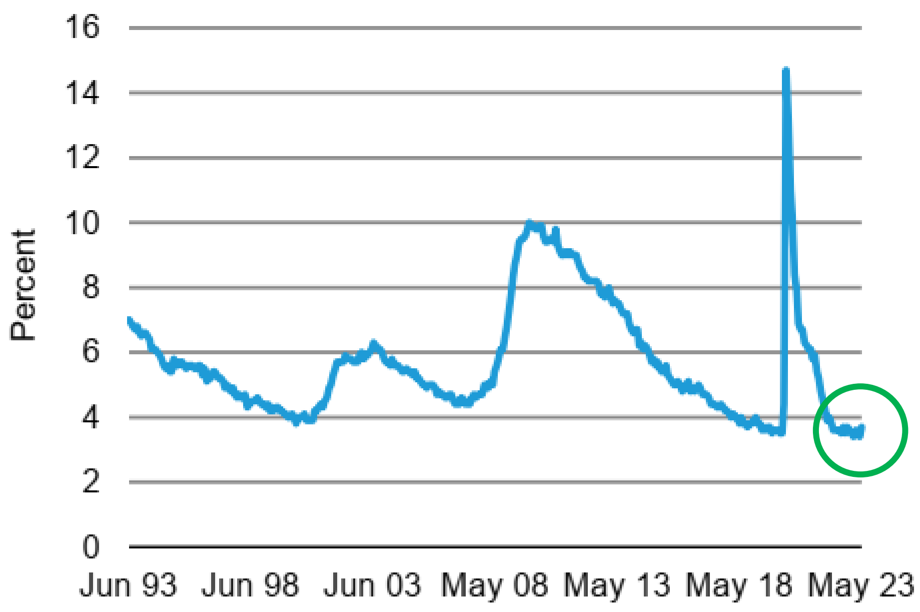
Source: Aviva Investors, Macrobond as at 30 June 2023.

US Economic Data Has Been Resilient in 2023

US unemployment remains at a 50-year low. A very tight labour market means employed people will continue to spend and this is inflationary.

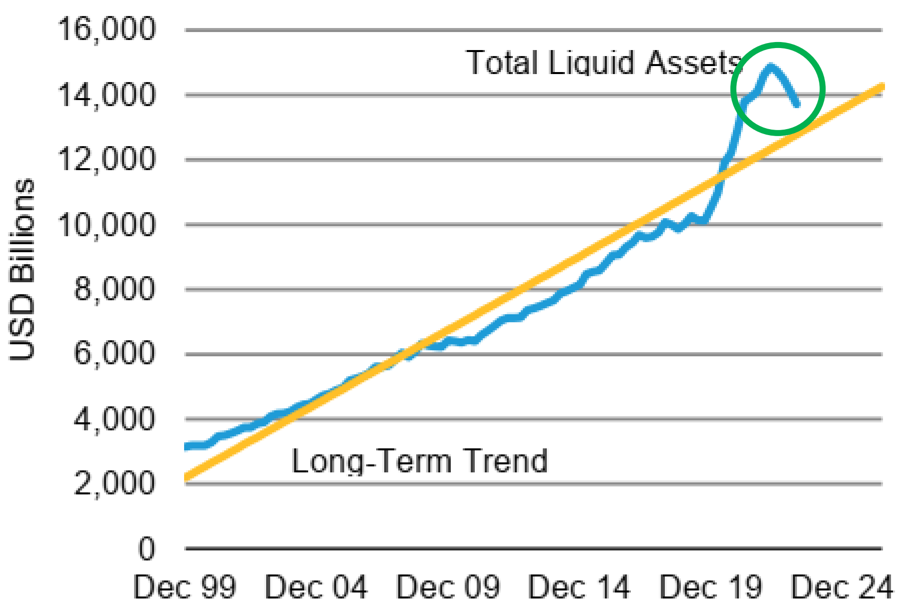
There is still excess savings held by US households, and whilst it is expected to be depleted by Q4 2023, it has already delayed the recession timeline.

Unemployment Rate



As of June 30, 2023
Source: Refinitiv Datastream

Household Excess Savings



As of June 30, 2023
Source: Refinitiv Datastream

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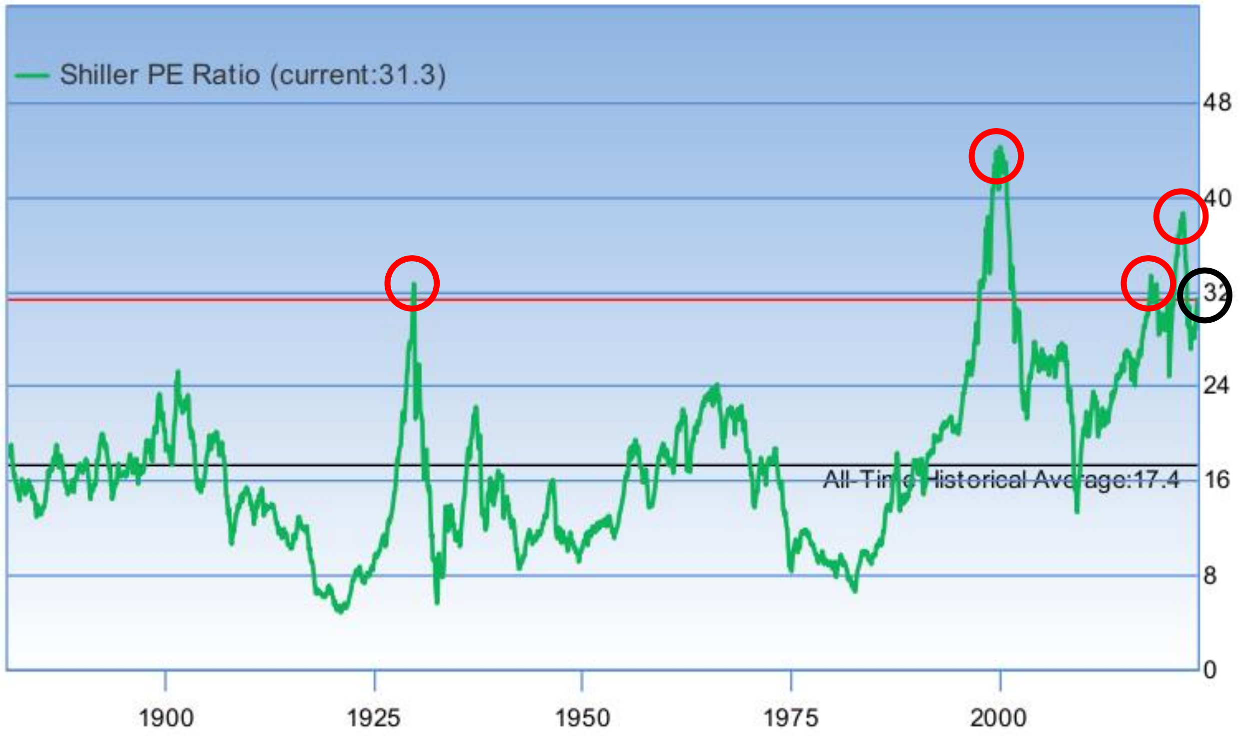
US Markets Are Not Priced For A Recession

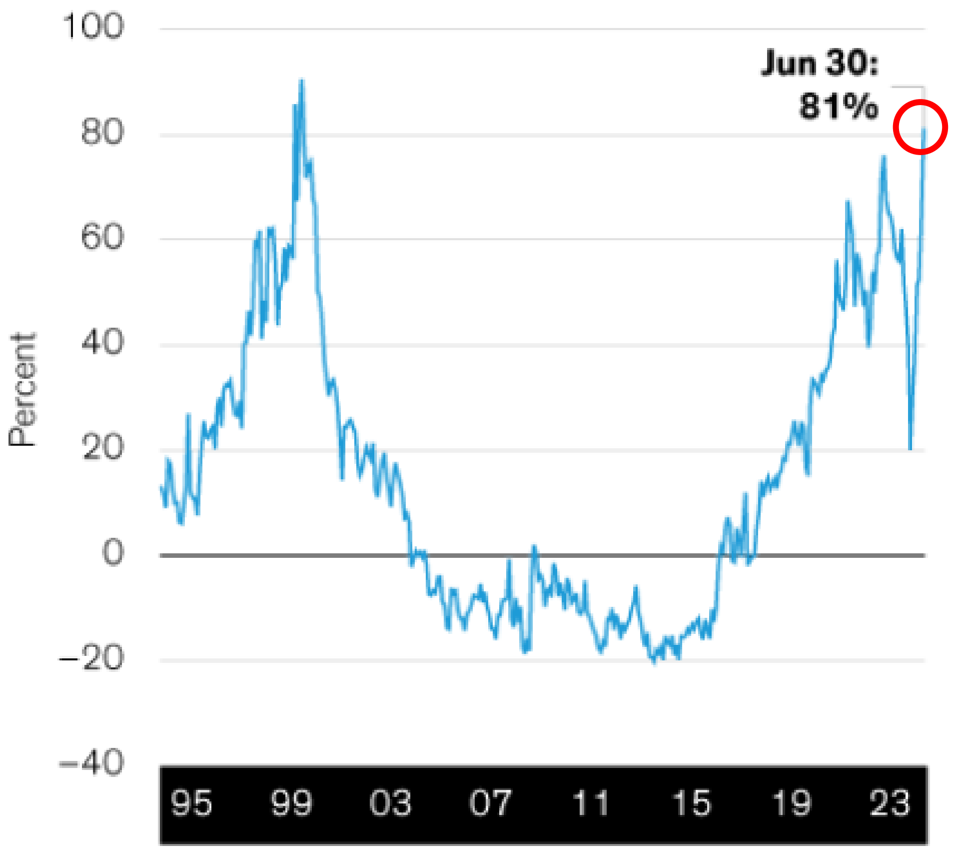
The US Shiller PE ratio at 31.3 is very expensive on a historical basis, having been above this level only 4 times in history.

The valuation premium for the 10 biggest US stocks is also approaching the dotcom bubble levels.



Valuation Premium of 10 Largest Stocks vs. Rest of the Index*

Price/Forward Earnings (Next 12 Months)



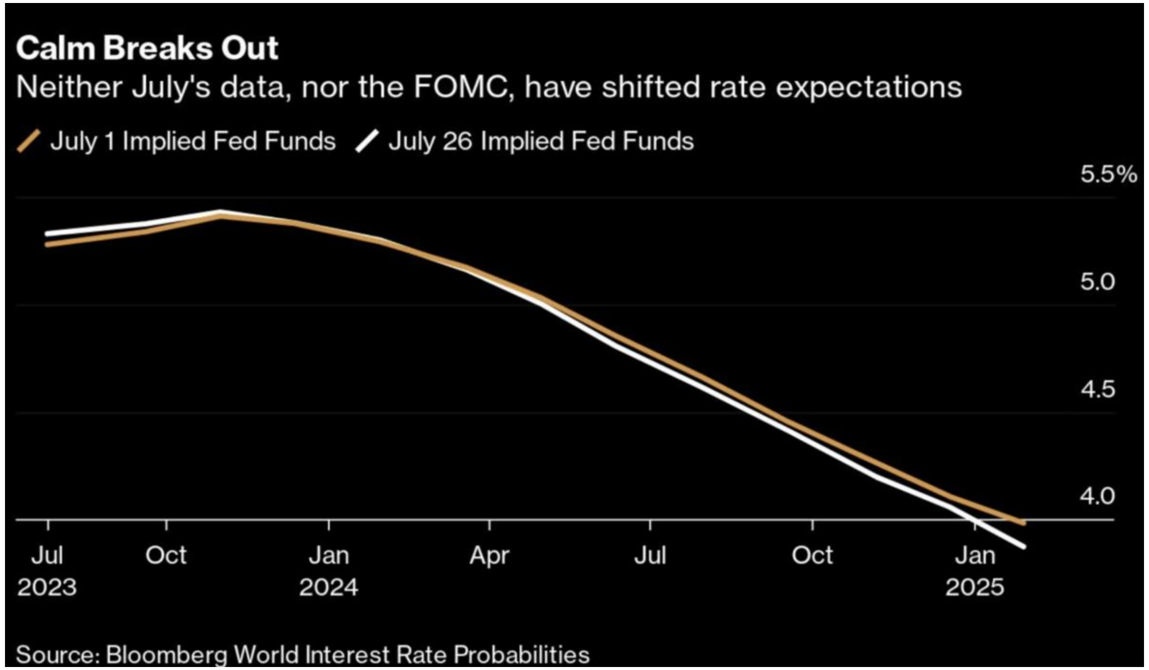
As of June 30, 2023

Source: Compustat, FactSet, I/B/E/S, S&P and AB

Markets Are Pricing Fed Rate Cuts In 2023-24

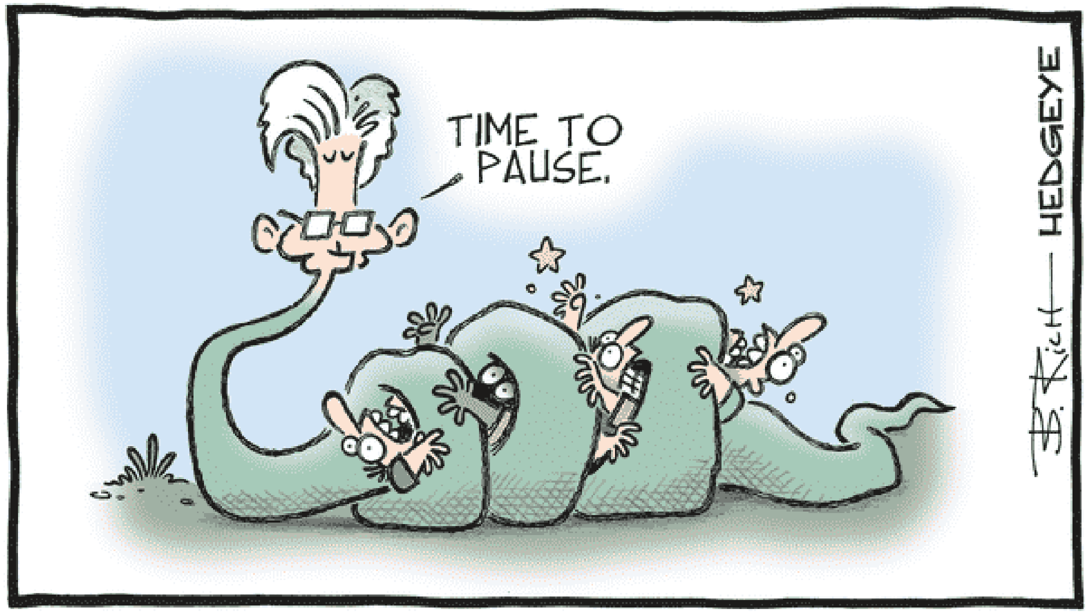
US Markets are pricing interest rates to start falling later this year and into 2024. That is a big ask when the US has full employment and Core inflation at 4.8%.

We think the Fed is more likely to pause with high rates and see what damage is being done to the economy.



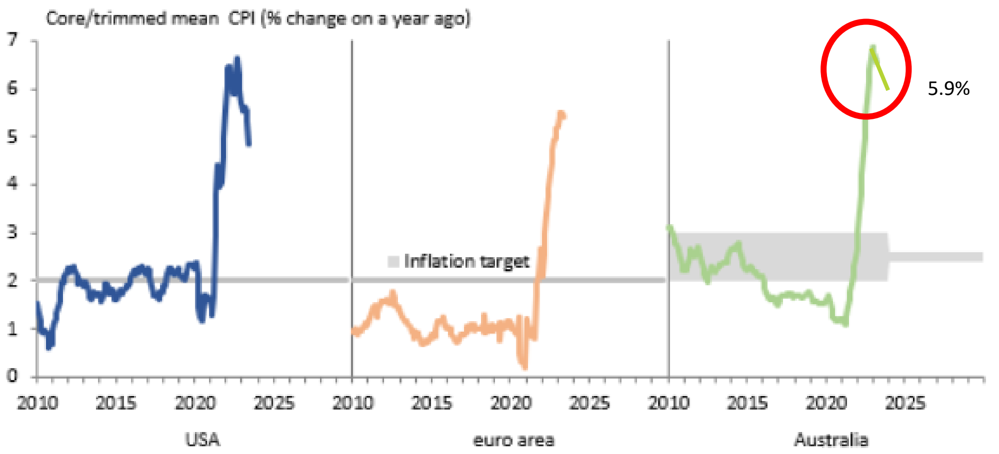
In our view, **for the Fed to cut interest rates** they would need to see one of three things happen:

1. **Core Inflation falling faster**
2. **A credit crisis**
3. **A deep recession**

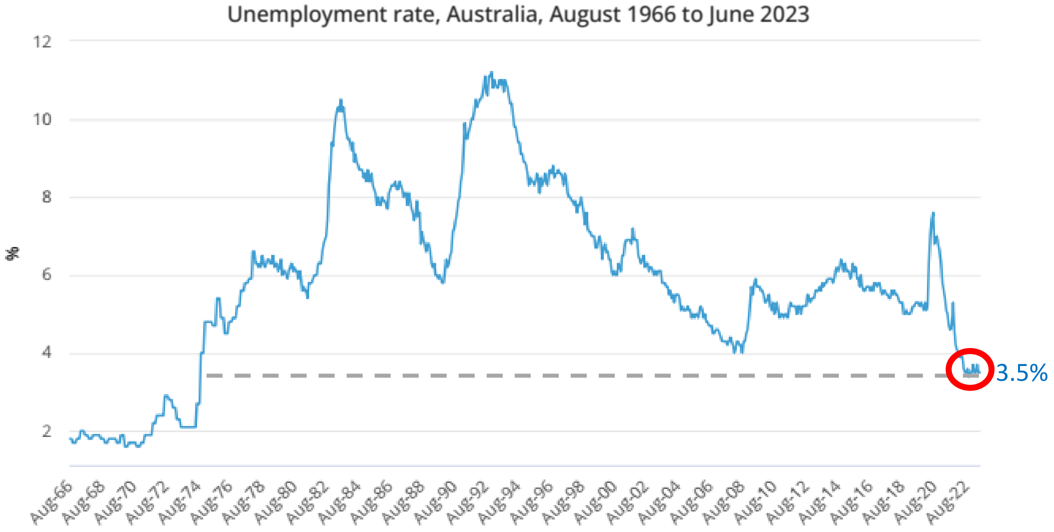


Australia Is In A Similar Position, Just On A Lag

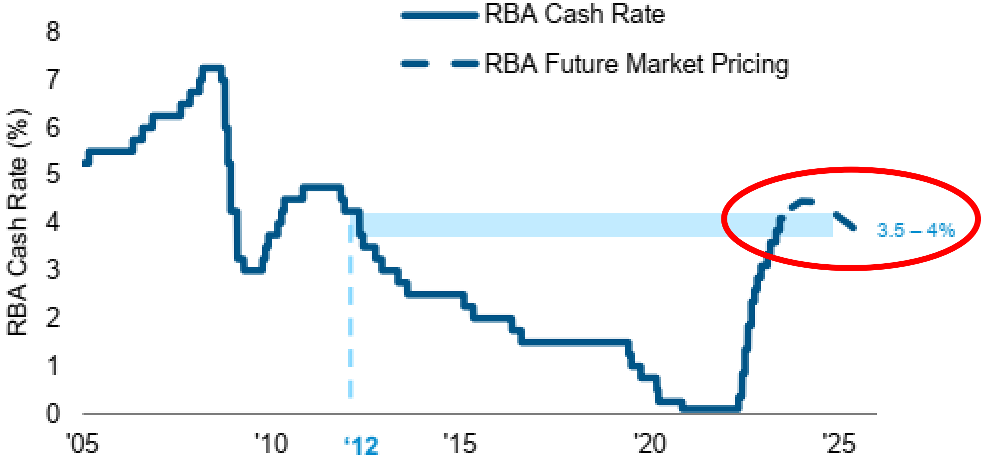
Figure 1: Core CPI inflation in the US, euro area and Australia



Source: Eurostat, Federal Reserve Bank of St Louis, Reserve Bank of Australia, CCI, as at July 2023



The RBA cash rate at 4.10% RBA is a level we haven't seen since 2012…



Sources: PIMCO, Bloomberg, RBA, ABS.

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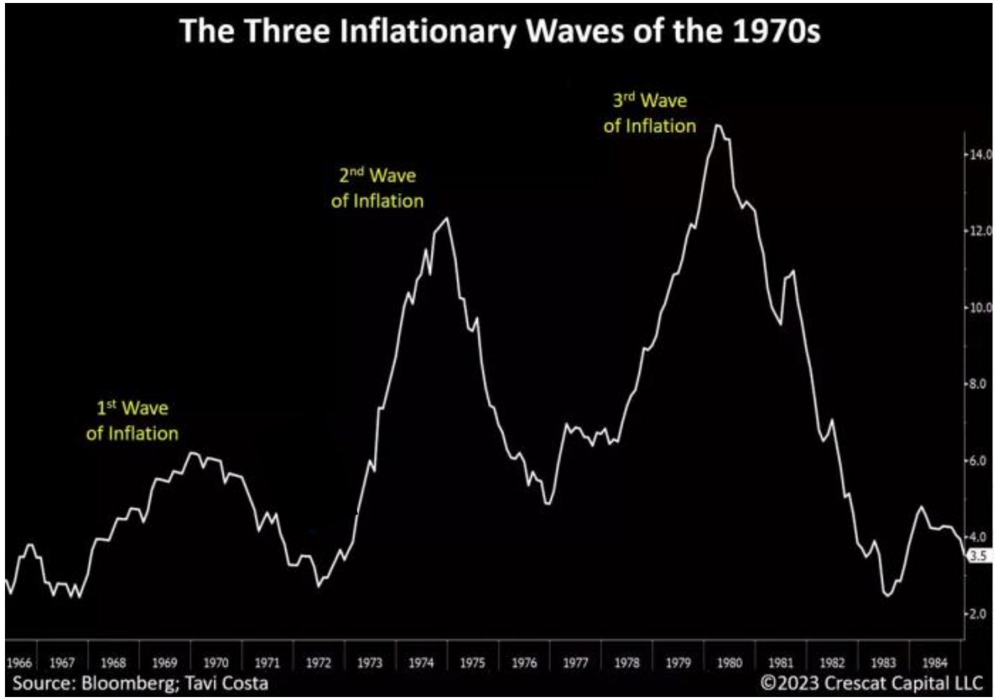
So What Does This Mean For Markets?

Will central banks pivot from rate hikes to interest rate cuts in late 2023 and throughout 2024?

OR

Will central banks learn from the mistakes of the 1970-80s and keep rates higher for longer, no cuts?



A Fed Pivot = A Soft Landing
Action: Selectively buy assets

A Fed Hike & Pause = A Hard Recession
Action: Stay defensively positioned

MPW Recommended Portfolio Strategy

Asset Class	Tactical Position	Comment
Currency (AUD vs USD)	Neutral	Neutral hedge at current levels, AUD to fall into global recession and recover out of it
Cash & Liquidity	Neutral to Over	Rates are ~4% and rising, hold cash for better buying opportunities throughout 2023-24
Government Bond Duration	Neutral	Long-duration yields have risen to attractive levels but could rise further in the short term
Corporate Credit & Debt	Underweight	Listed credit can fall further into recession, but selective private credit is very attractive
Listed Property & Infrastructure	Underweight	Listed property is ‘relatively’ cheap but high risk, prefer to own selective unlisted assets
Listed Australian Shares	Underweight	Fair value, retain quality value bias, underweight small caps now ready to rotate into
Listed International Shares	Underweight	Not cheap, particularly the US, Emerging Markets are cheap but cautious into recession
Liquid Alternative Assets	Overweight	Equity market neutral, private debt and equity, commodities, and niche opportunities
Illiquid Alternative Assets	Overweight	Private debt and equity, niche illiquid strategies can provide a long-term return premium

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The Role of Alternative Assets In Portfolios

Framework-driven portfolio construction: What role do different categories play in the portfolio?

	Fixed income-like	Hybrids	Equity-like	
RETURN ENHANCERS Global diversification and tactical/ opportunistic returns	Distressed credit	Special situations	Private Equity, Venture Capital	LOWER Income/ HIGHER Volatility
CORE COMPLEMENTS Added diversification and/or enhanced returns	Corporate mezzanine loans	Hedge funds	Noncore real assets	
CORE FOUNDATION Stable Income with lower volatility, diversification ad inflation sensitivity	Core Private credit	Core real estate, infrastructure and transport	Low volatility core equity	HIGHER Income/ LOWER Volatility

= Overweight for a recession environment

Source: JP Morgan Asset Management Alternative Solutions Group & MPW

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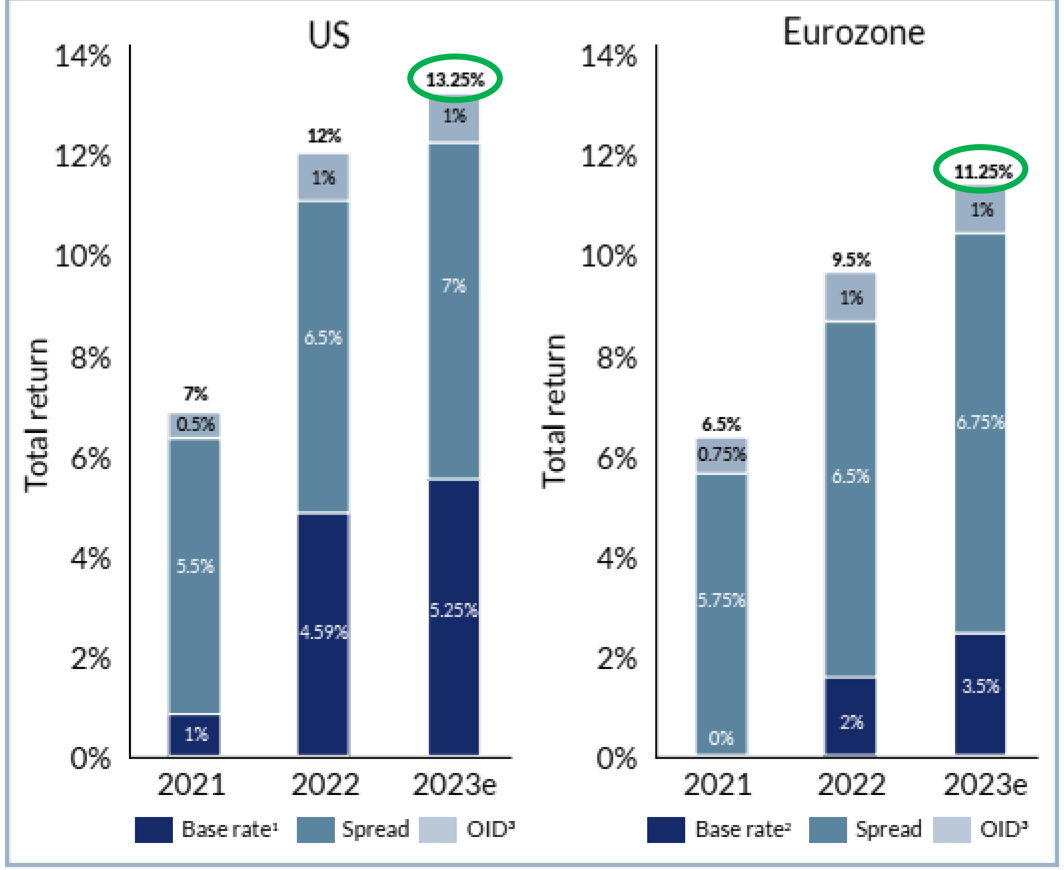
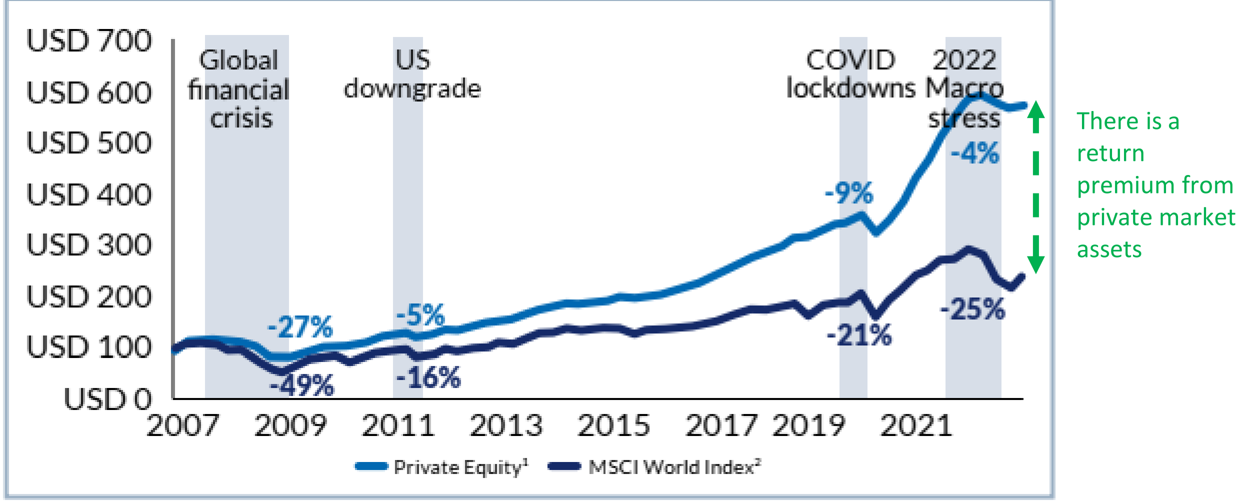
Why We Like Private Markets Over Listed Markets

Direct lending returns have almost doubled since 2021



¹ Base Rate = ICE LIBOR USD 3 Month. ² Base Rate = CME Term SOFR 3 Month. Spread and OID are observations by Partners Group as of December 30, 2022. ³ Original issue discount (OID) is a form of interest equal to the excess of a debt instrument's stated redemption price at maturity over its issue price.

Private markets outperformed public equities during periods of turmoil



For illustrative purposes only. Figures as of 31 December 2022. Drawdowns correspond to quarter end index values. ¹ Private Equity returns represented by the Bloomberg PE Buyout Index (PEBUY) through 31 December 2022. Benchmark is used for comparison purposes only. ² MSCI World total return in USD.
Source: Partners Group (2023).

Our portfolios have a significant weight to <u>private debt</u> for increased yield and to <u>private equity</u> for strong long-term returns.

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MPW Concluding Summary

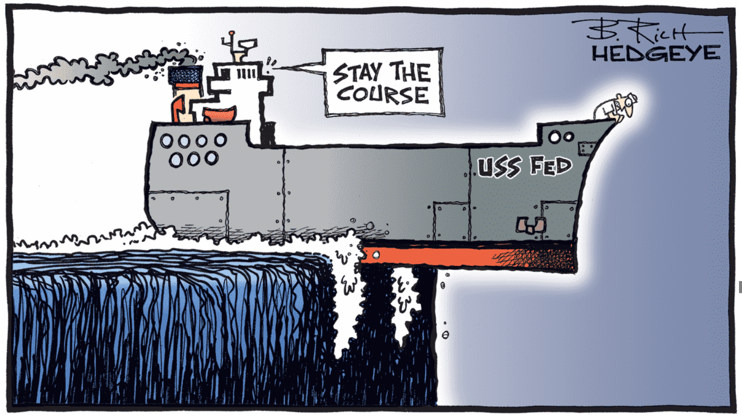
Uncertainty remains: Recession risks are high and markets are not cheap, so downside outweighs upside?

***Soft Landing Scenario**: Markets have priced-in this outcome and believe central banks will cut rates in 2023-24.*

- Current market valuations don't leave much room for further upside.
- **This outcome is <u>not our base-case</u>.**

***Recession Scenario**: Fighting inflation is the Fed's priority and markets have not priced-in the consequences of this.*

- A deeper recessionary environment means risk assets fall much further.
- **This outcome is <u>our base-case</u>.**



Portfolio Implications:

- Be overweight alternative assets and private market strategies
- Be patient, better opportunities should arise in listed markets

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