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HALF YEARLY MARKET UPDATE
JANUARY 2024

Your financial future,
tailored your way

MPW Annual Market Update – January 2024

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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.

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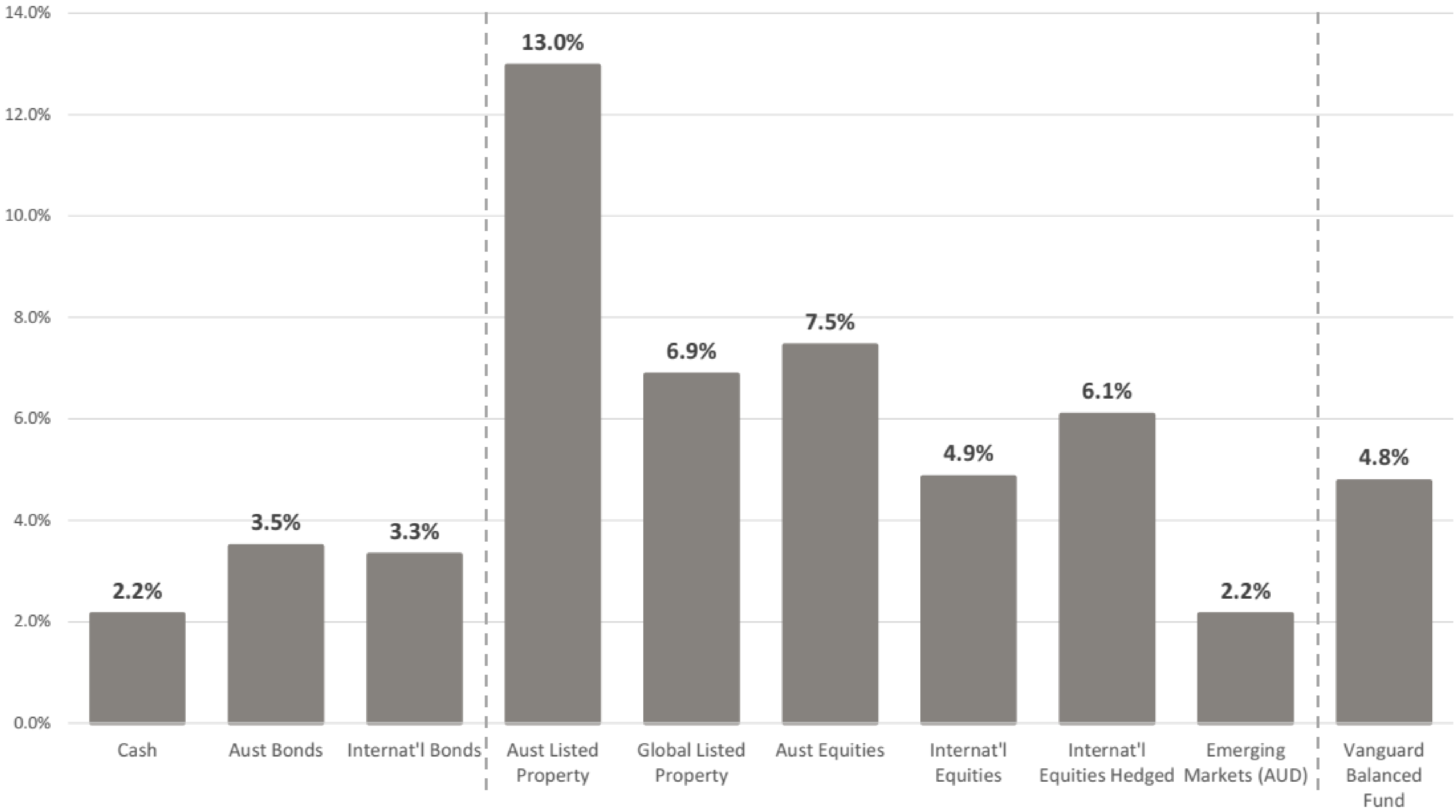
Asset Class Returns 6 Months to 31st December 2023



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Why The Market Proved Resilient In 2023

Despite many uncertainties and headwinds throughout 2023, the global economy and markets proved very resilient. Why?

- Unemployment remained very low;
- Inflation fell from 40-year peak levels;
- Corporate earnings were less bad;
- Consumers spent their excess savings; and
- Investor sentiment improved into year-end as US interest rate cuts were priced-in.

The chart opposite shows the Australian share market down 6% into November before rallying 12% into year-end as sentiment improved.

What will 2024 bring for markets?

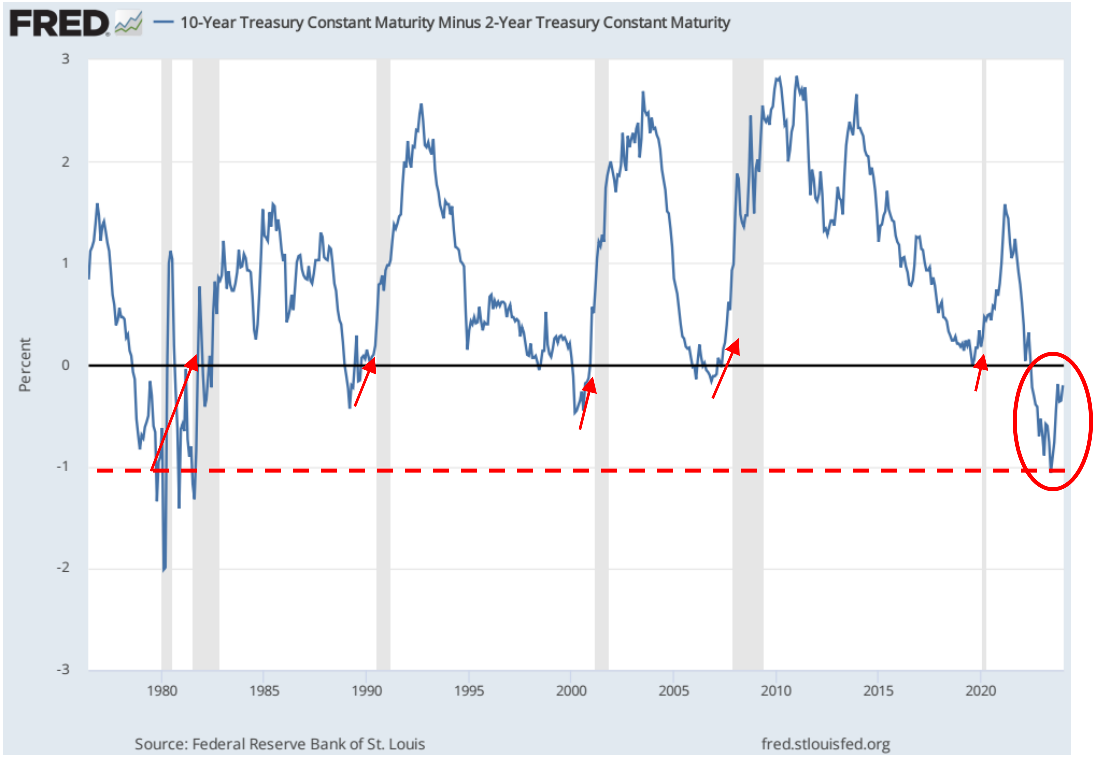
MPW Outlook: 2024 Recession Risks Increase

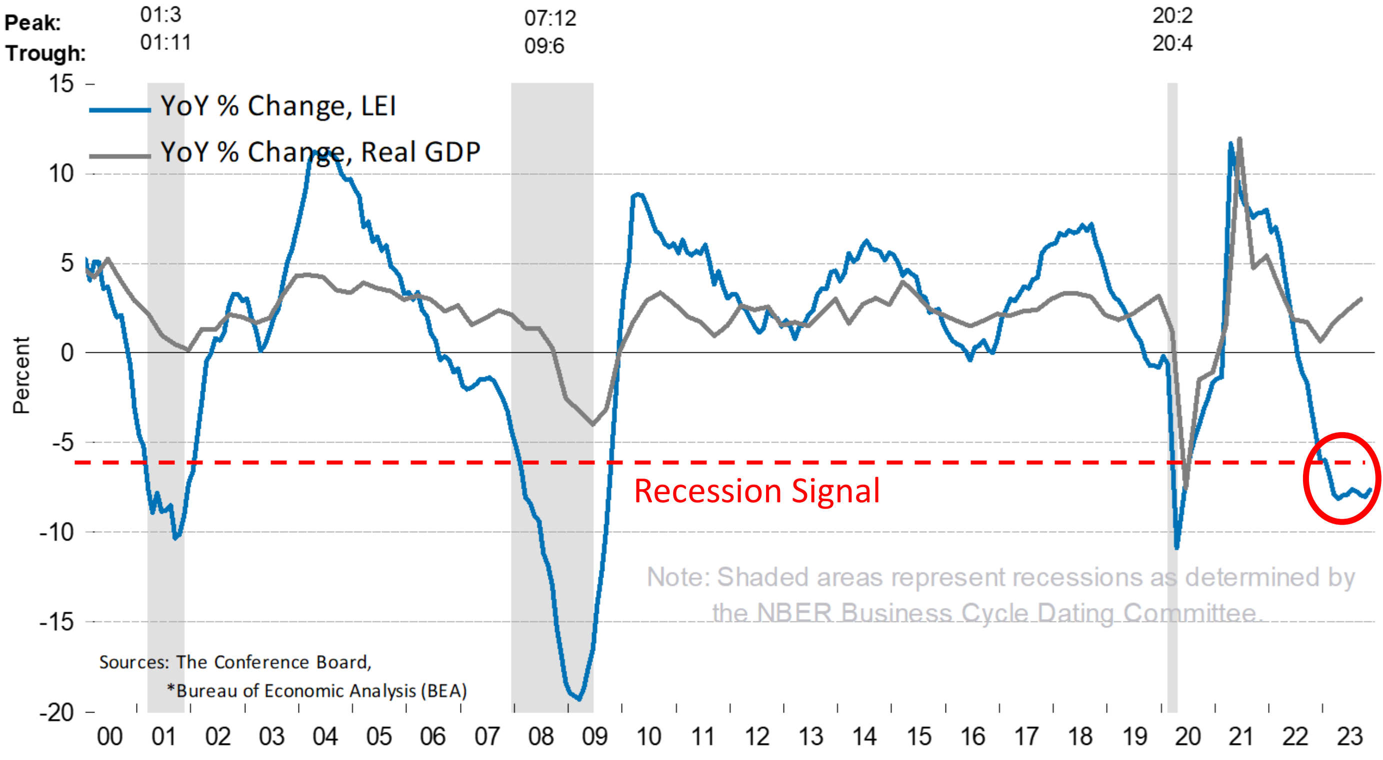
1. Hard Landing: Global Recession MPW Probability = High	2. Soft Landing: Mid-Cycle Slowdown MPW Probability = Medium	3. Strong Growth: New Bull Market MPW Probability = Low
• Inflation remains stubbornly high	• Inflation moderates towards targets	• Inflation moderates more quickly
• Central banks tighten 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	• Geopolitical risks and conflict abates
• 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 Still Point To Recession Ahead

A negative yield curve has been an excellent predictor of prior recessions (shaded grey) and is now steepening after being the most inverted since the 1980's, suggesting recession in 2024.

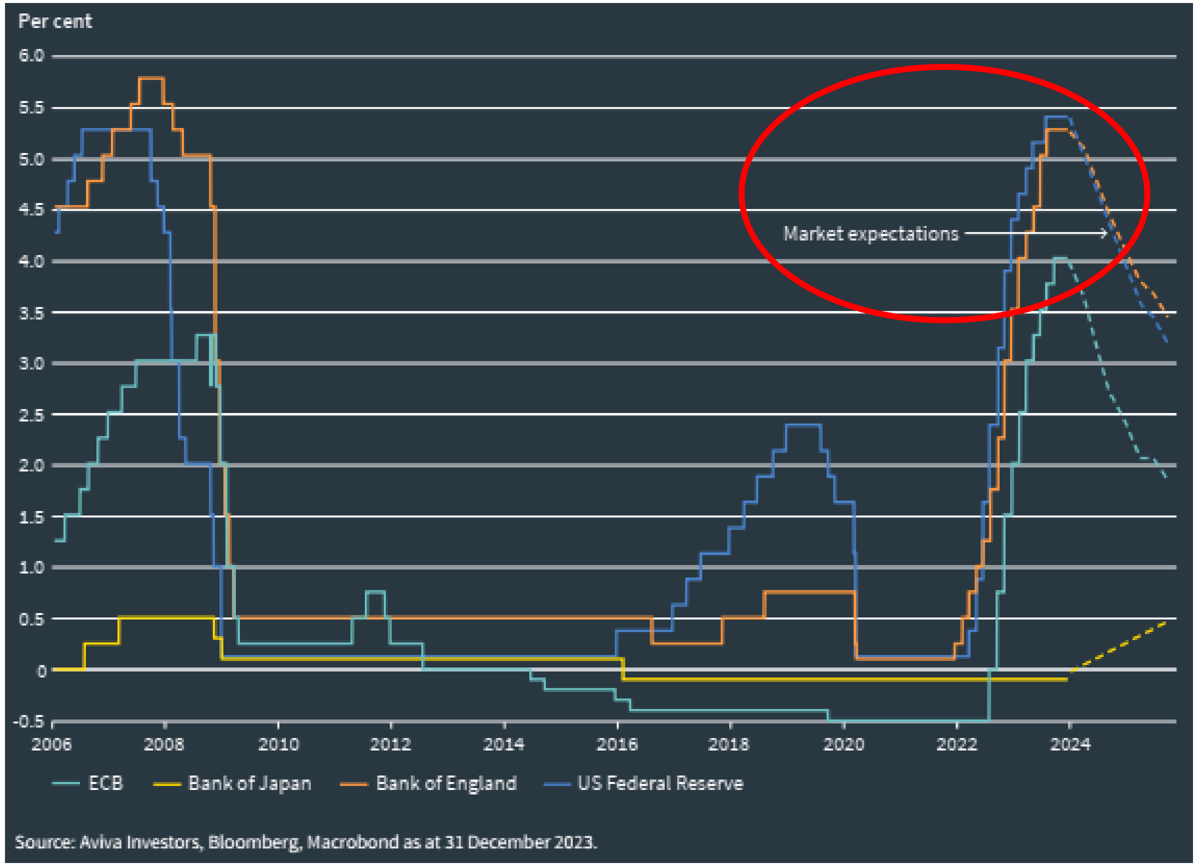
US Leading Economic Indicators (LEI's) are priced well below previous recession levels and suggest that GDP growth will turn negative in 2024.



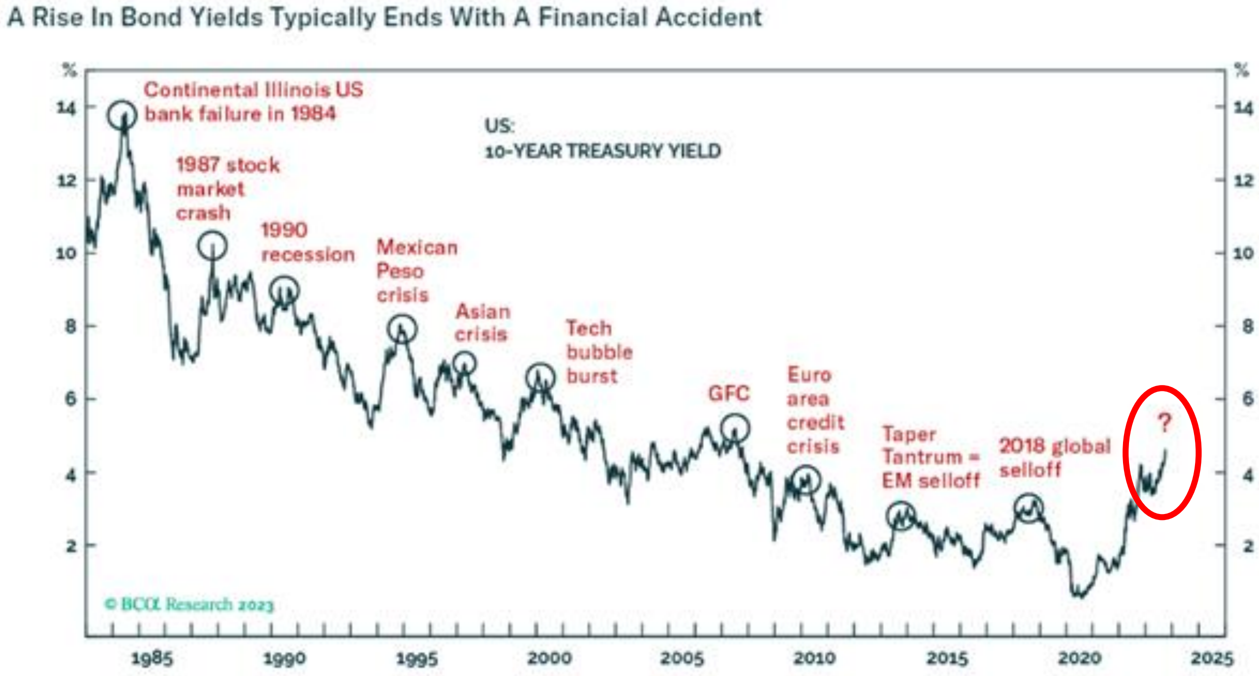


This is the Fastest Tightening Cycle Since the 1980's

Interest rates may have peaked in this cycle, the question now is when will central banks start cutting rates? Markets seem to be overly optimistic about a March cut.



Rising interest rates have historically resulted in market dislocations. After the fastest tightening cycle since the 1980's, why would this time be any different?

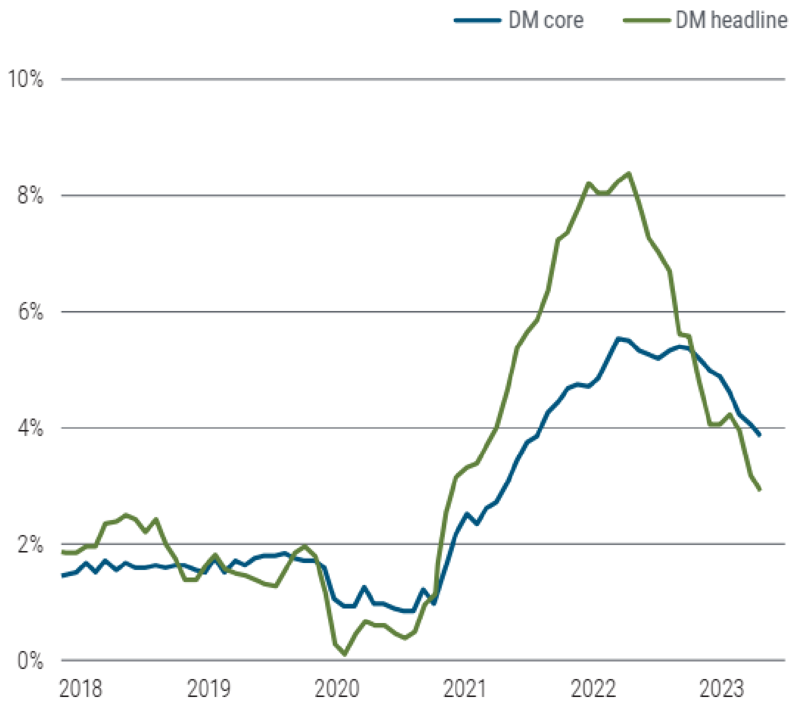


Risk of Higher Inflation vs Risk of Recession

Inflation is falling and will continue to fall, but it remains well above most Central Bank targets. What is the lesser evil, higher embedded inflation or a recession?

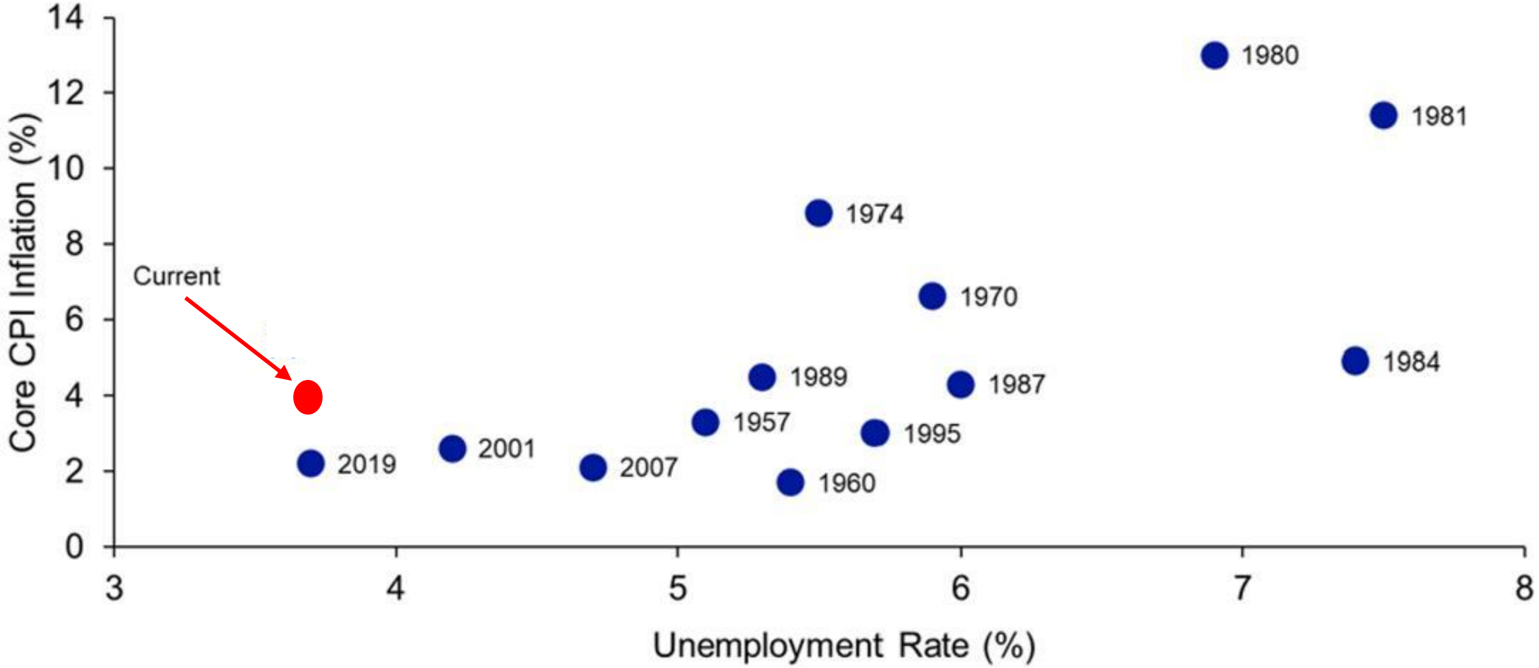
Do Central Banks risk higher inflation by cutting rates early or do they hold rates until unemployment rises and GDP growth is negative, thereby risking a recession?

Developed market inflation y/y



Source: Haver Analytics and PIMCO calculations as of 30 November 2023.

Core US inflation vs. unemployment at first cut in each Fed easing cycle since 1957



Note: For 1957 we have used headline CPI as no Core.
Source: BLS, Bloomberg Finance LP, Deutsche Bank

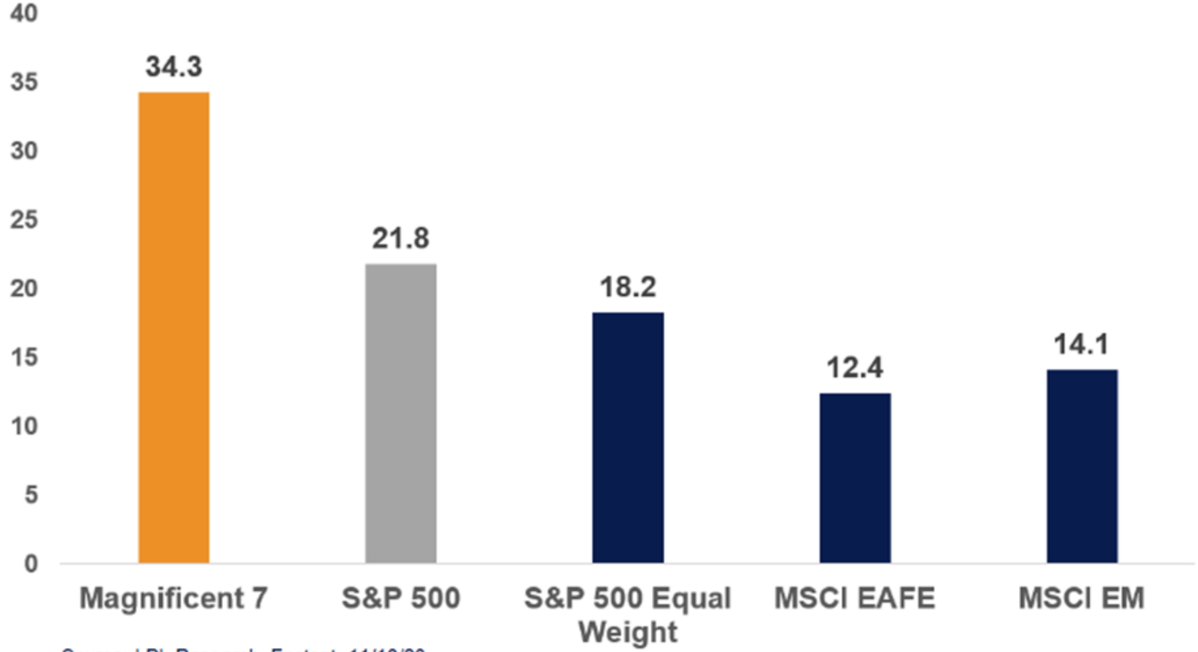
US Markets Are Not Priced For A Recession

The US Shiller PE ratio at 32.6 is very expensive on a historical basis, having been above this level only 4 times in history.

The valuation premium for the US "Magnificent 7" stocks is almost double that of the equally weighted US market and is largely responsible for driving returns in 2023.

When will 'Magnificent 7' valuations come back down to Earth?

Magnificent 7' PE Ratio compared to other asset classes

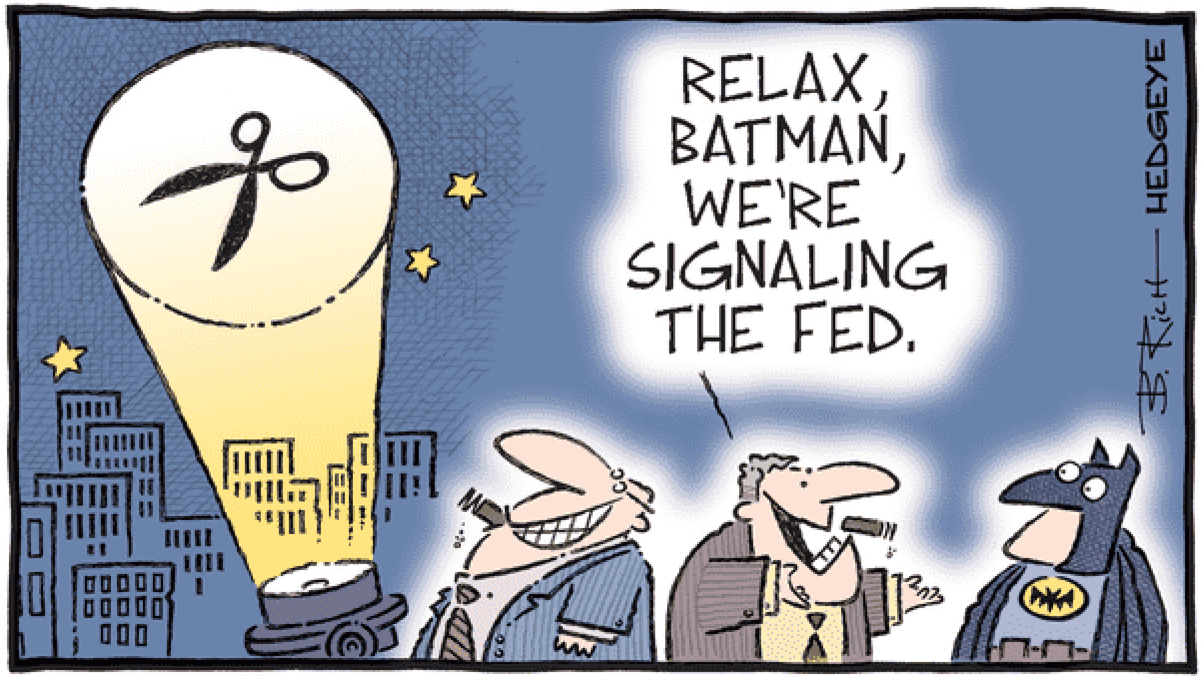


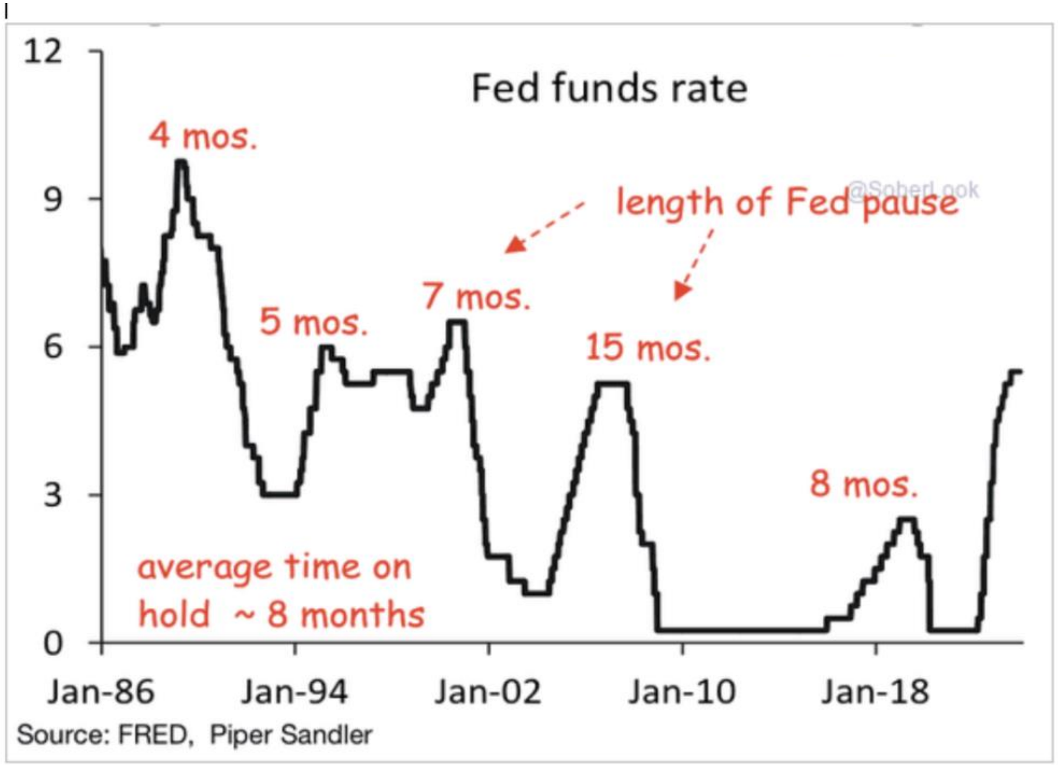
Source: LPL Research, Factset, 11/10/23

Markets Are Very Optimistic About Fed Rate Cuts

Markets are pricing US interest rates to start falling as soon as March. That is a big ask when the US has full employment and Core inflation at 3.9%.

We think the **Fed is more likely to pause** with high rates and see what happens to the economy by mid-year.





For the Fed to start cutting interest rates in this cycle:

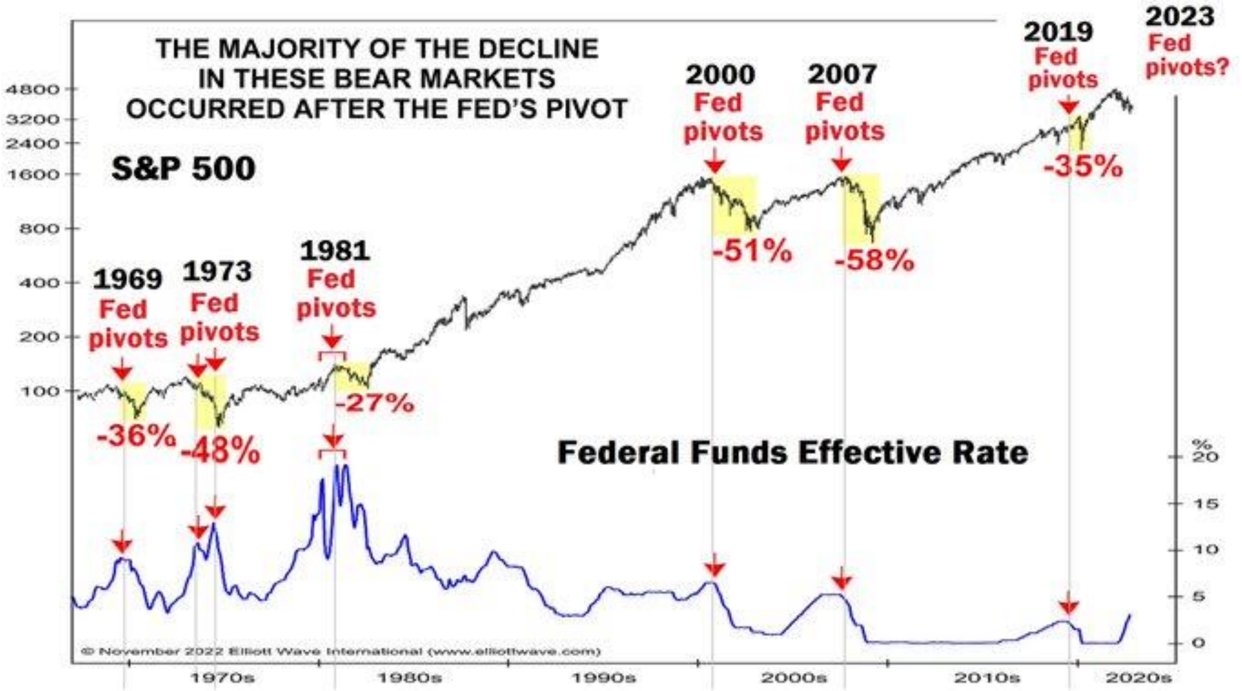
1. Core Inflation needs to fall much faster; and/or
2. A credit crisis or recession starts to unfold.

So What Does This Mean For Markets?

In our view it will be very difficult for central banks to manage a soft-landing and avoid a recession as interest rates will be on pause for longer than markets expect.

Early Fed Pivot = No recession, but a bumpy ride
Action: Selectively buy assets

Despite markets rallying in the hope of near-term interest rate cuts, history shows that markets bottom long after the first rate cut. Why? Because the economy is in recession!



Fed On Pause = A hard landing and 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	Peak rates at ~4.3-4.5%, hold cash for better buying opportunities in second half of 2024
Government Bond Duration	Neutral	Long-duration yields are at attractive levels for recession, but we prefer private debt
Corporate Credit & Debt	Underweight	Listed credit will 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	Selective hedge funds, 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

<u>Framework-driven portfolio construction: What role do different categories play in the portfolio?</u>

	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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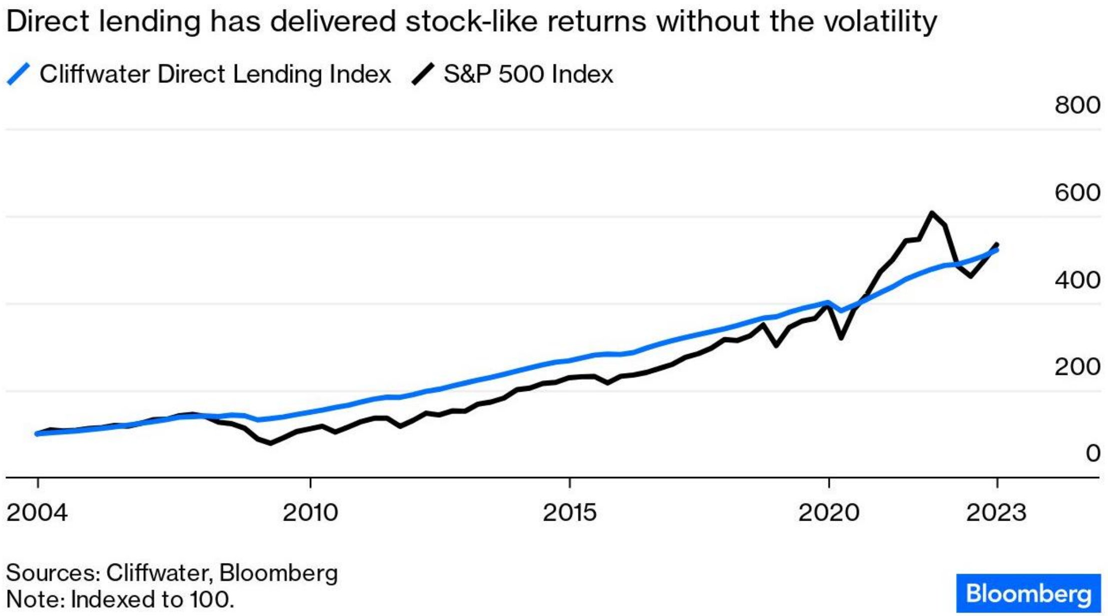
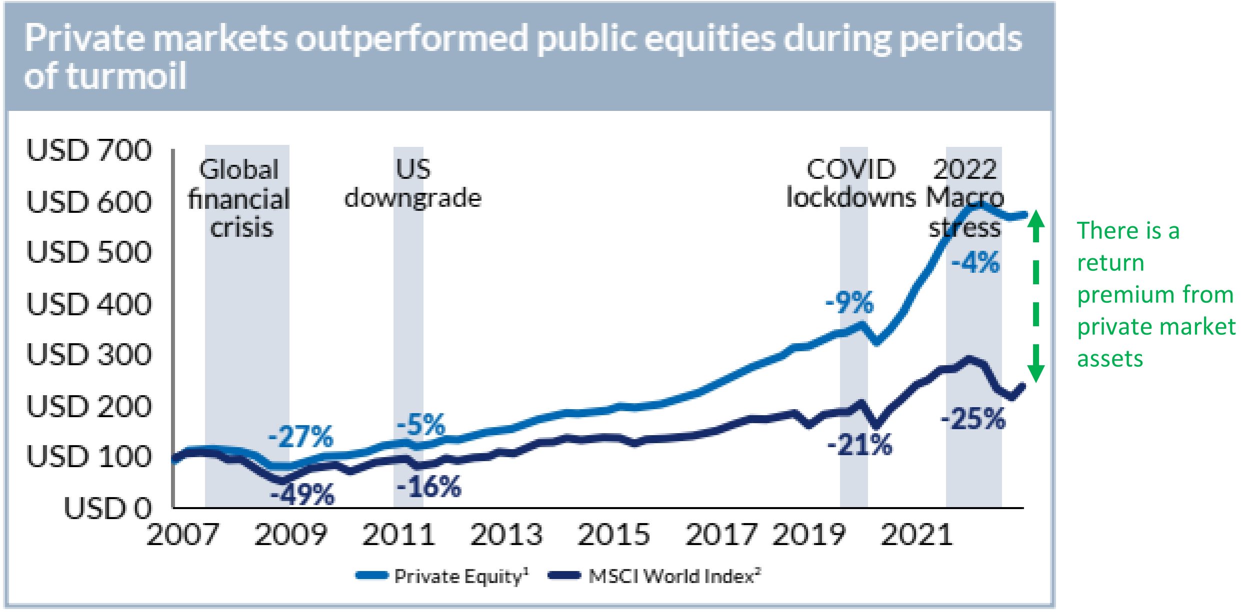
Why We Like Private Markets Over Listed Markets





Australian private debt strategies are now yielding 9-10% pa. These are equity-like returns, without the volatility and with the protection of being senior secured. This is very compelling.

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 private debt for increased yield and to private equity for strong long-term returns.

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MPW Concluding Summary

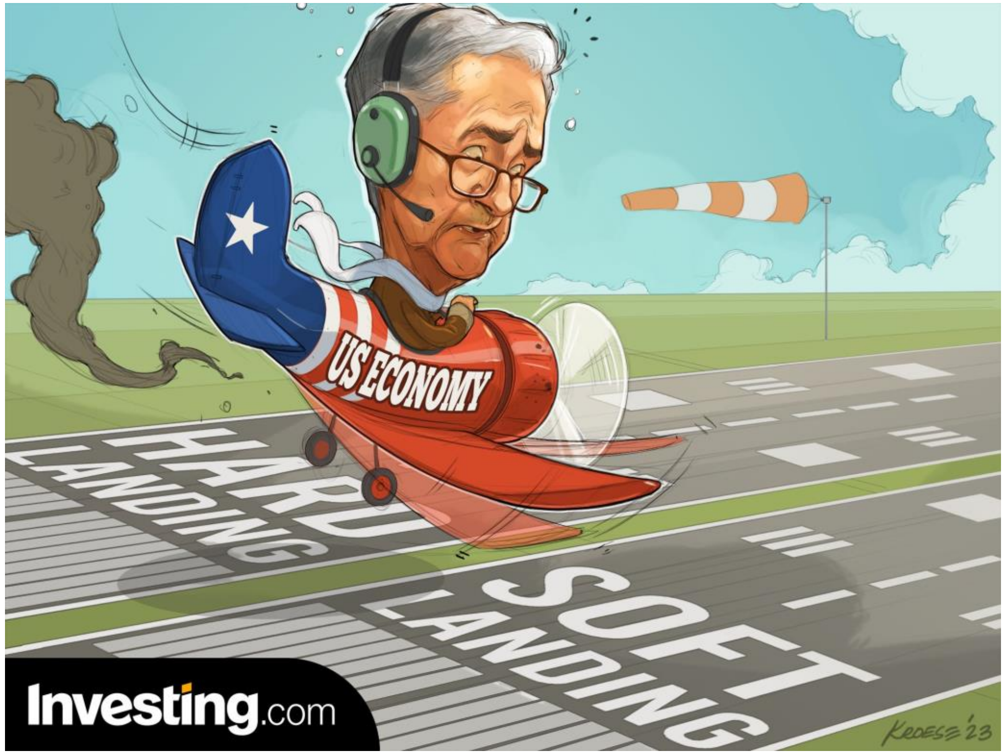
MPW Outlook: Recession risk is high and markets are not cheap, so the downside risk outweighs the upside.

<u>Soft Landing Scenario</u>: *This is the consensus view and markets are pricing this outcome, believing US interest rate cuts are close.*

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

<u>Recession Scenario</u>: *Inflation is still the Fed's priority and markets are not pricing interest rates to remain on hold for a longer period.*

- A deeper recessionary environment means risk assets fall much further from here.
- **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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