INSTITUTE OF FINANCIAL PROFESSIONALS AUSTRALIA

Investment insight series

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AGENDA

1. Investment market snapshot
2. Inflation & interest rates – are we there yet?
3. US jobs – Trump fires the messenger!
4. Share market pricing
5. Trump’s tariff twists & turns – an end game or just more turmoil?
6. Asset Allocation themes

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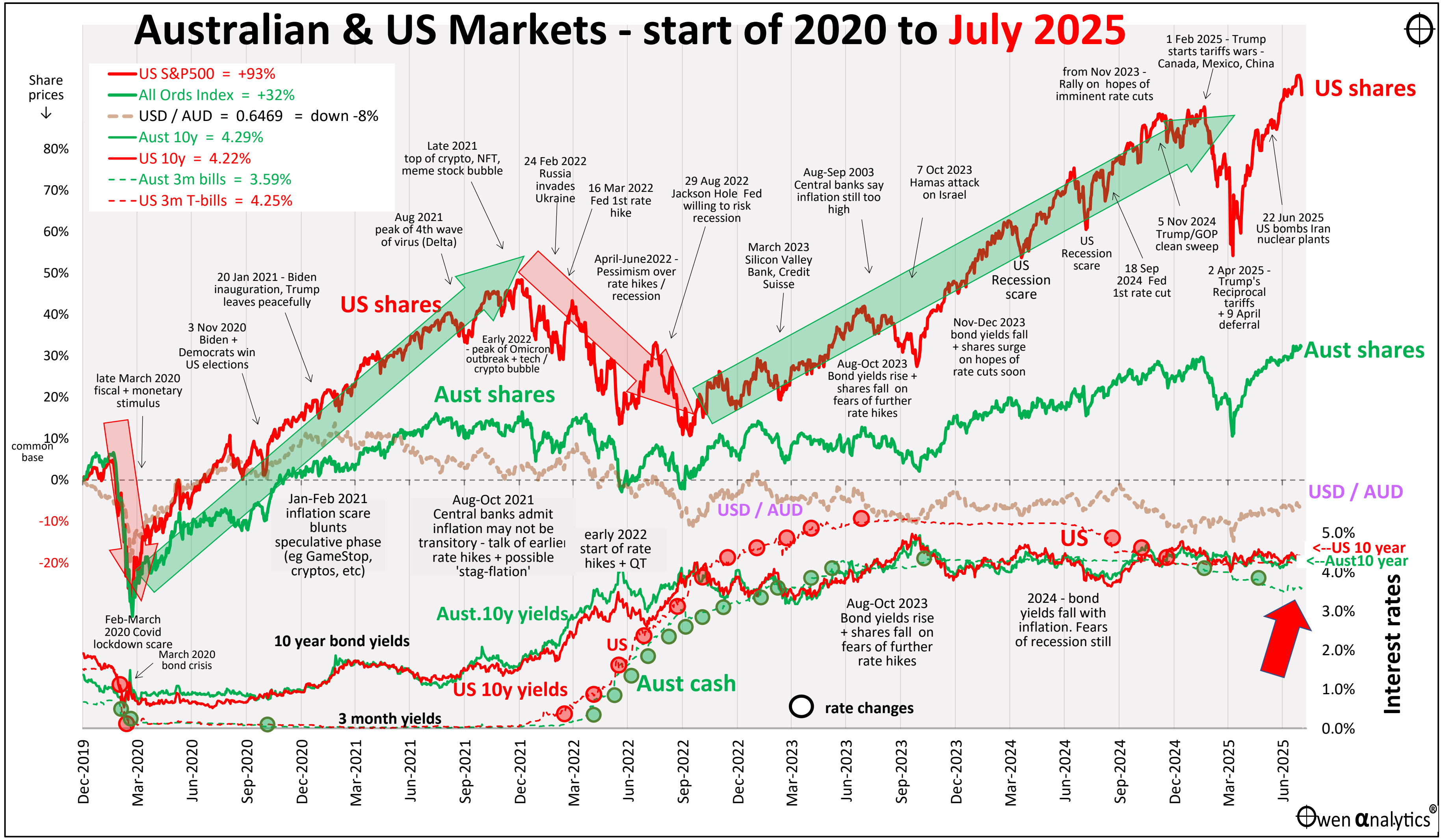
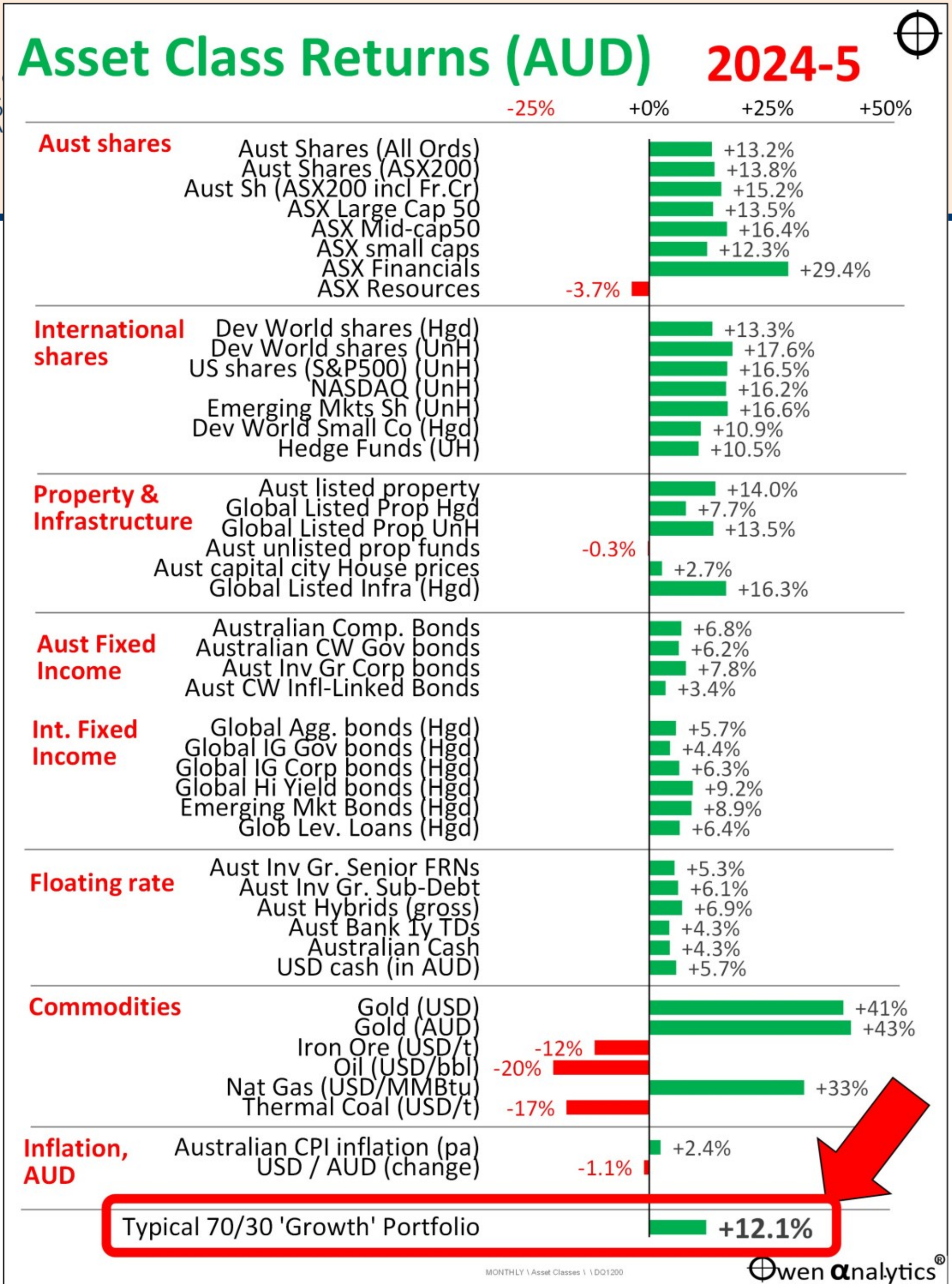
1. Current market snapshot



- Share markets posting new highs
- US profits strong
- But shares horribly over-priced

2024-25 FY returns



- Every asset class / segment did well (except miners & unlisted property)
- If your firm / client standard / model 70/30 portfolio did not return 11-12% (before fees & taxes) – need to find out why?

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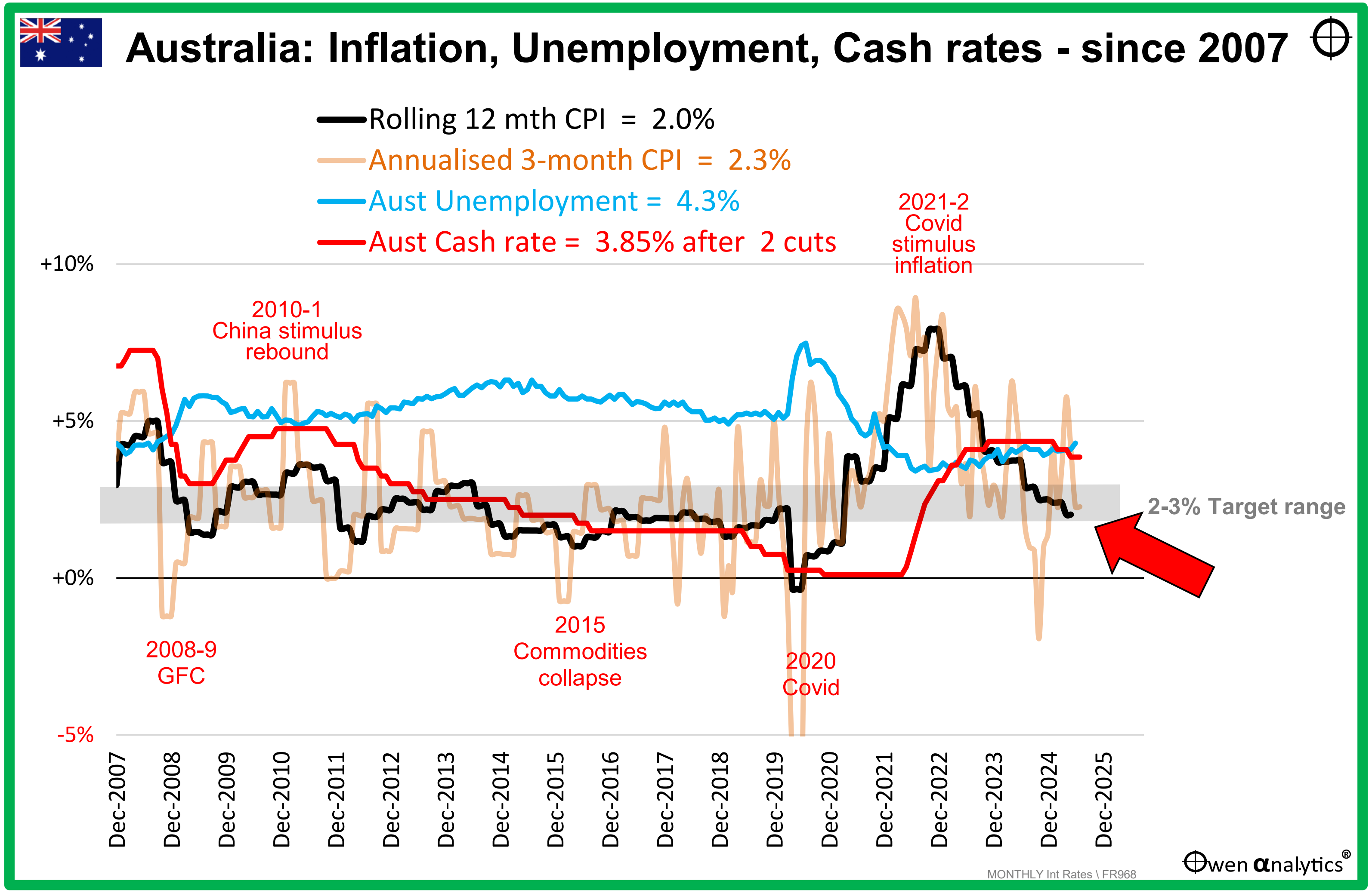
2. Inflation & interest rates

- Inflation & interest rates – are we there yet?

Australia: inflation, interest rates, unemployment



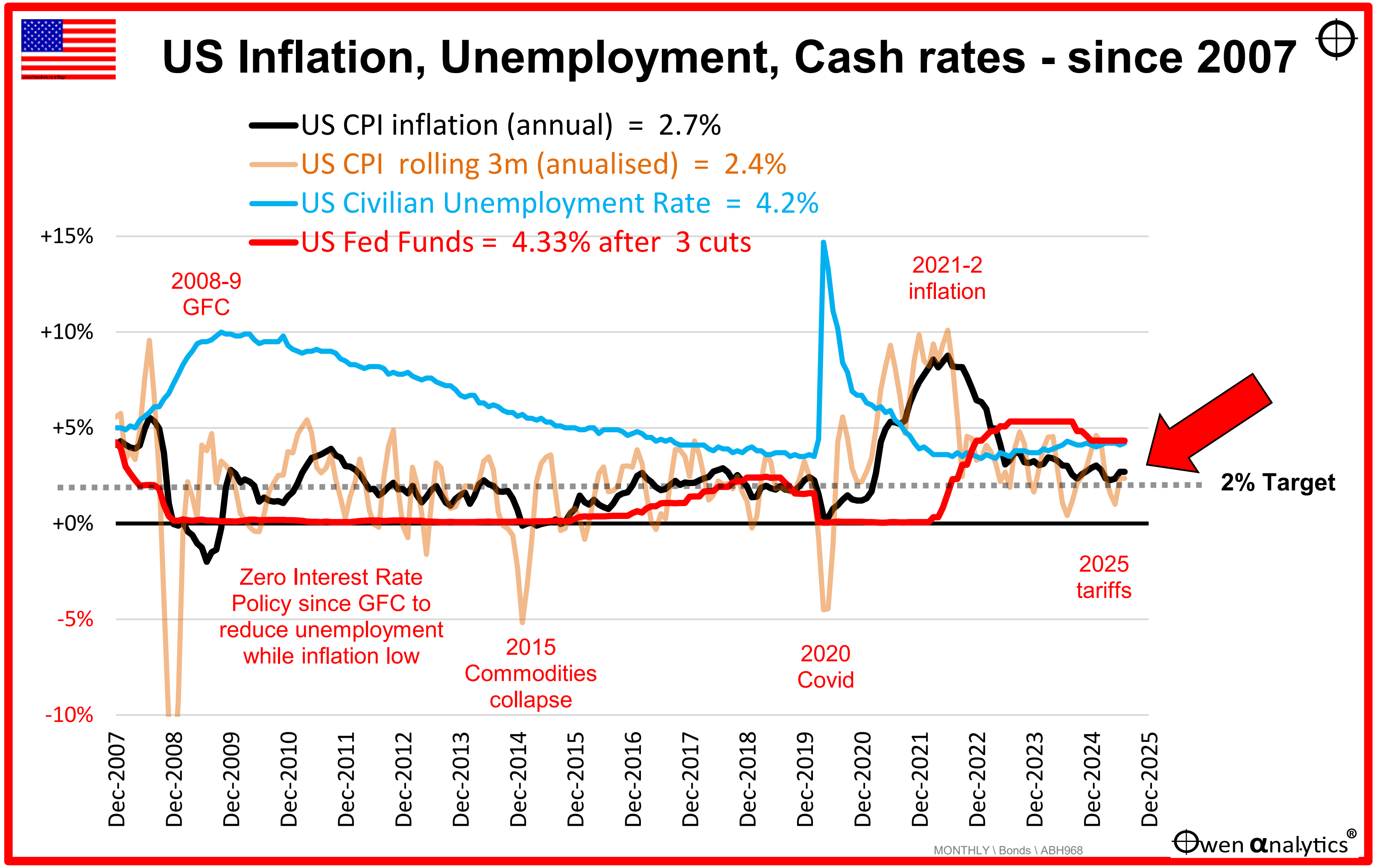
Before Trump's tariff tirade:

- Inflation still too high
- Jobs market still strong (gov)
- RBA – no hurry/reason to cut

Now:

- Inflation lower finally
- Commodities exports likely to be supported by China stimulus
- But at lower prices – oversupply
- Rate cuts re-fuelling house price rises + new gov policies adds to demand/prices

US: inflation, interest rates, unemployment



Before Trump's tariff tirade:

- Inflation still too high
- Jobs market still strong
- Fed – no hurry/reason to cut

Now:

- Inflation still too high – some tariff impacts
- GDP still strong-ish
- Slowdown likely as spending & investment slows – uncertainty over Tariffs & other policies
- + likely job losses accelerate
- Fed would need to cut rates

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Inflation & interest rates – longer trends

- Inflation = Supply -v- Demand for savings
- Demand for savings rising post-Covid + rising nationalism, populism
- Inflationary forces: -v- Deflationary forces

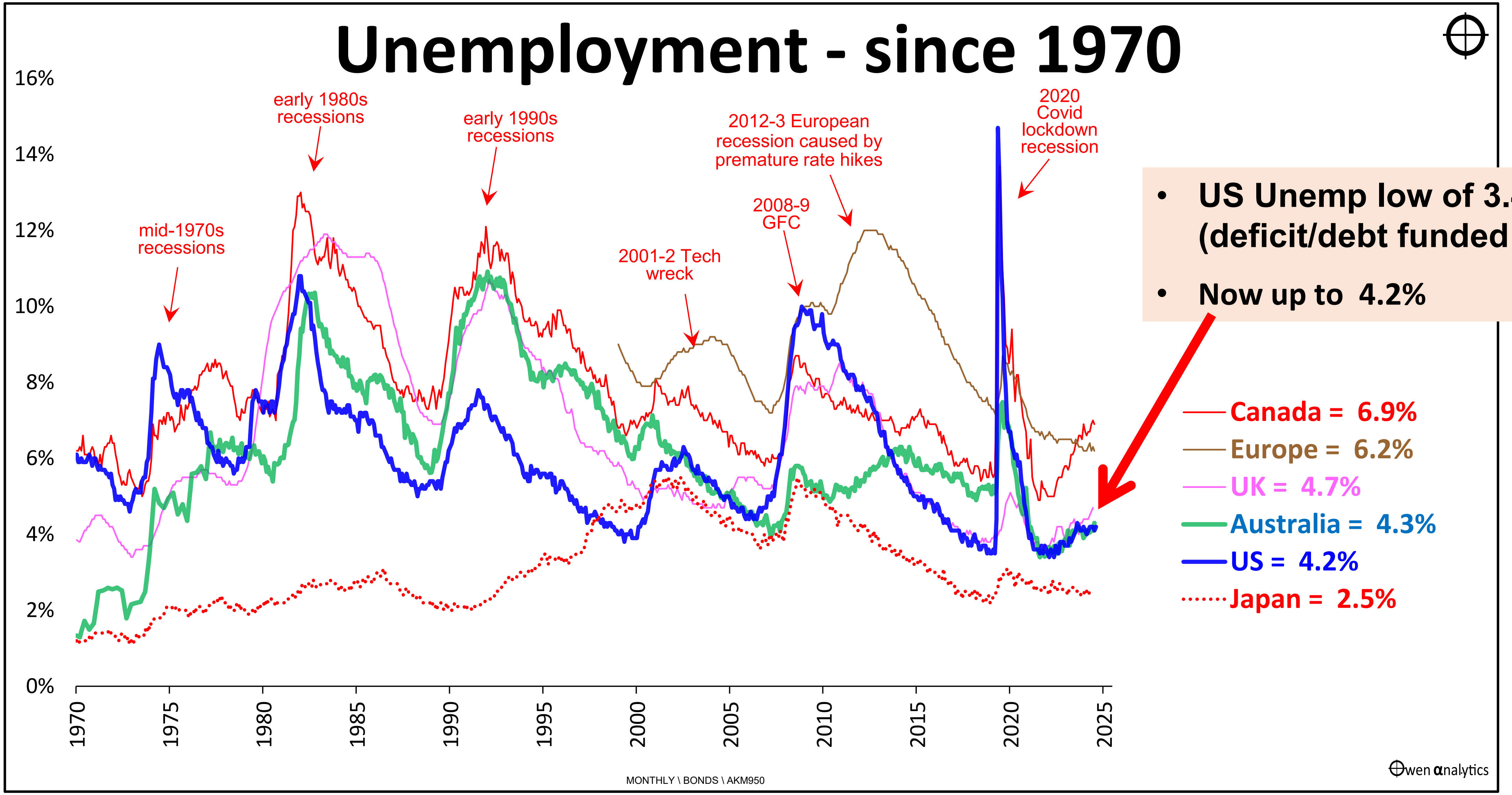
Inflationary forces:

- Expanding government deficits
- Rising defense spending
- On-shoring manufacturing
- Energy transition to renewables
- Rising investment in ai
- Immigration restrictions fueling wage rises

-v- Deflationary forces

- Aging populations
- Declining populations
- ai reducing jobs + costs/prices

3. US jobs weakening



- **US Unemp low of 3.4% in Jan 2023 (deficit/debt funded stimulus)**
- **Now up to 4.2%**

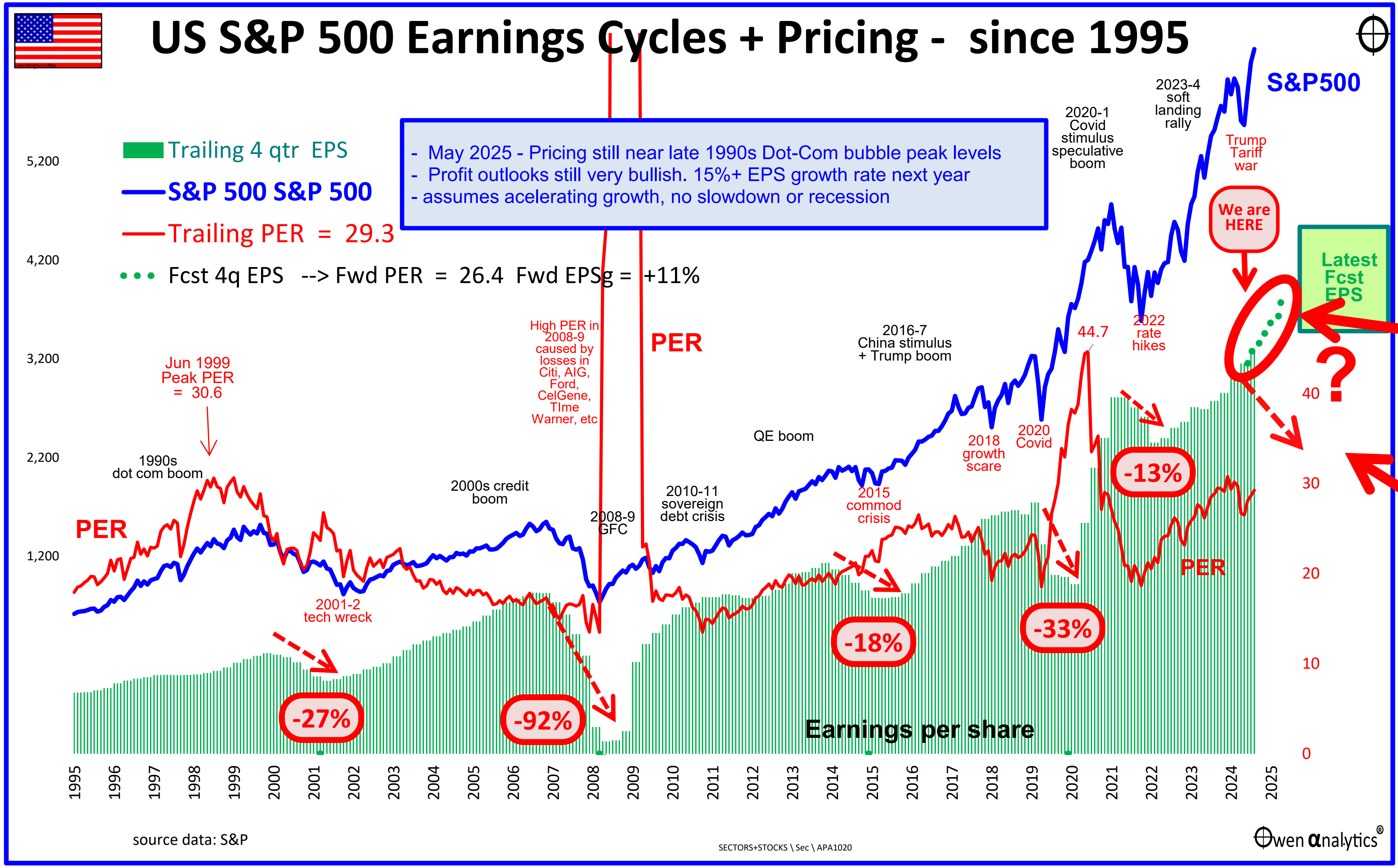
4. Share market pricing

- Share markets very expensive (especially US)

  (relative to earnings, dividends, book values, cashflows)

- + forecast profit growth also very ambitions
- = double layer of over-confidence / over-pricing

US pricing + earnings outlooks still super-bullish



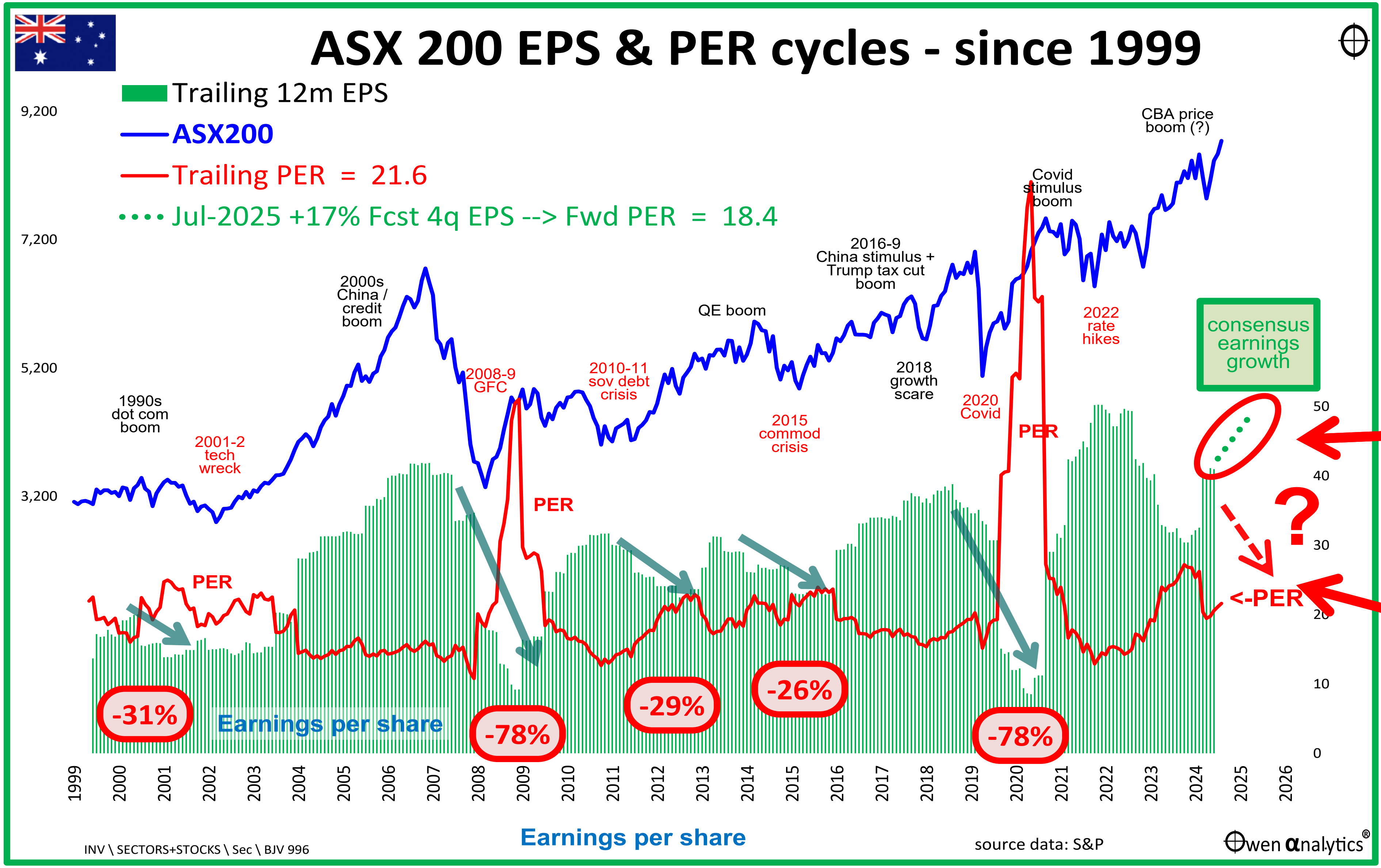
- **US market very expensive**

  (-v- earnings, divs)

US earnings forecasts still ridiculously bullish

- **But good chance of earnings decline in Tariff induced slowdown**

ASX pricing + earnings outlooks still bullish



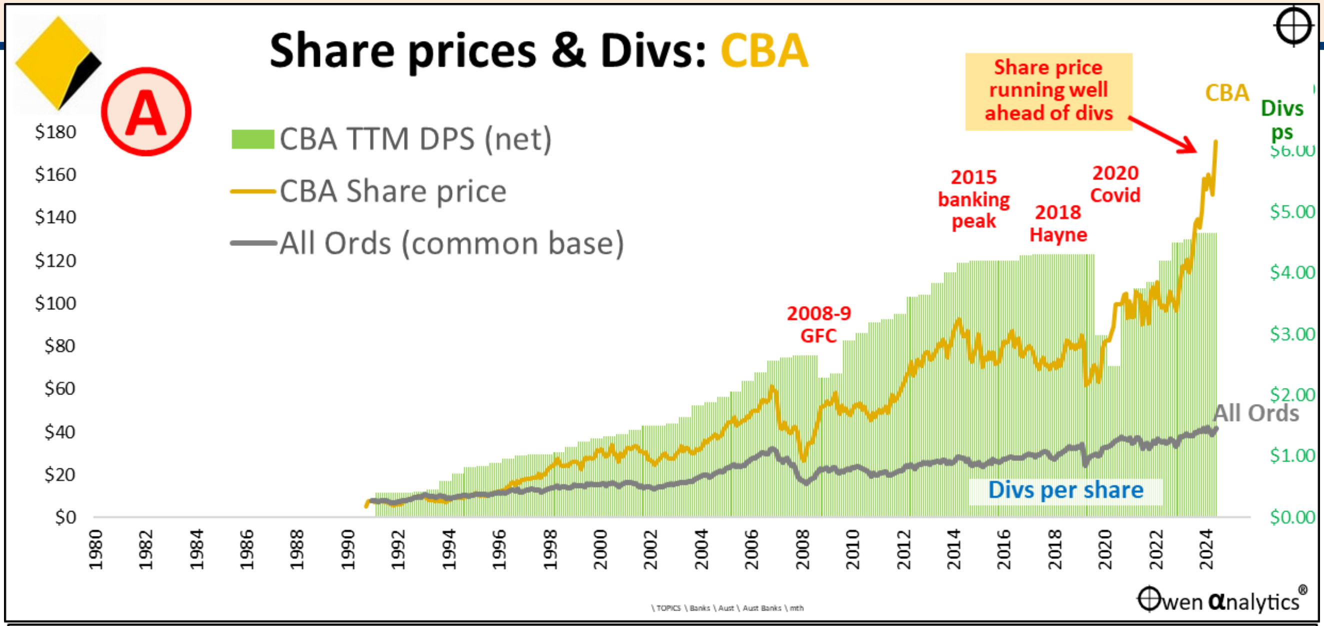
- **ASX expensive**

  (-v- Earnings + Divs)

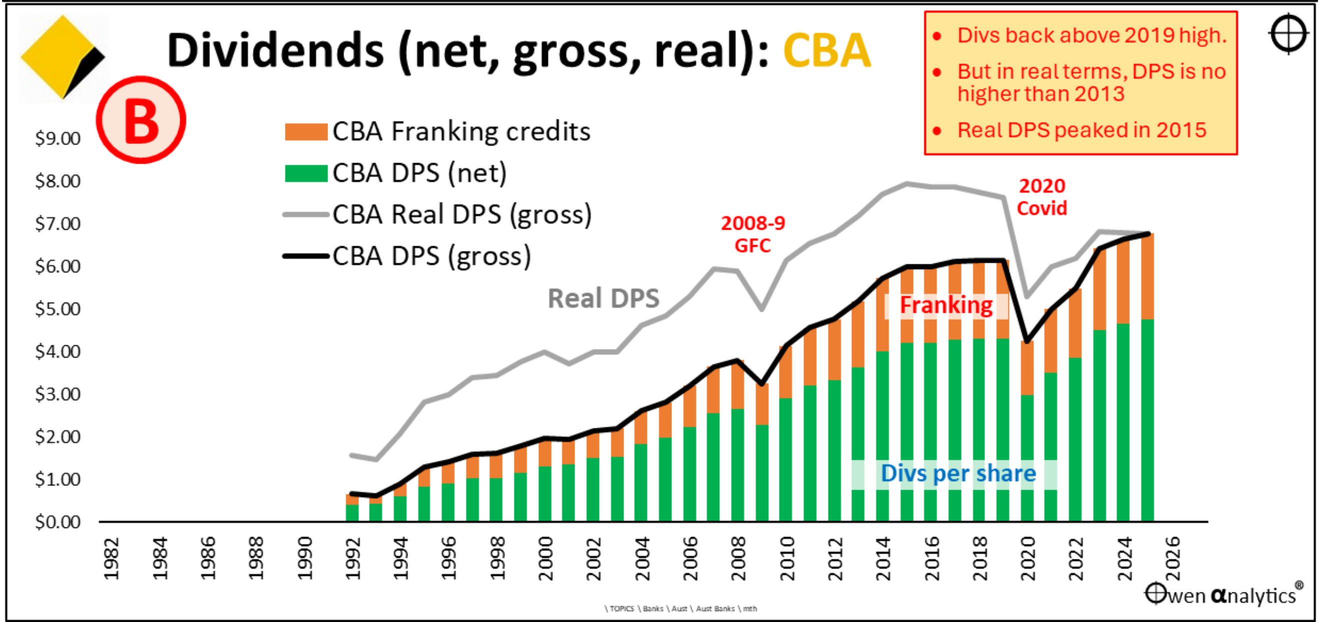
- **ASX earnings forecasts still bullish**

- **But good chance of earnings decline in broad US / China / global slowdown**

CBA = over-priced hot growth stock!

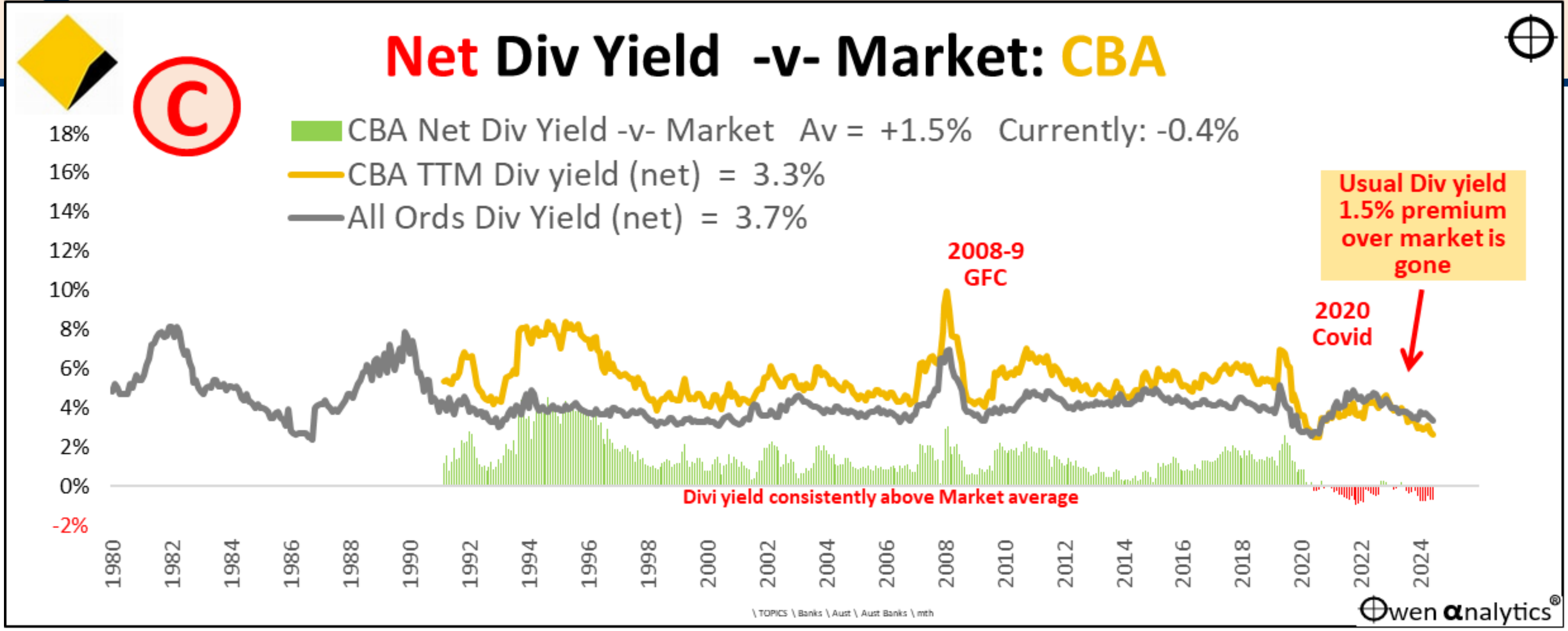


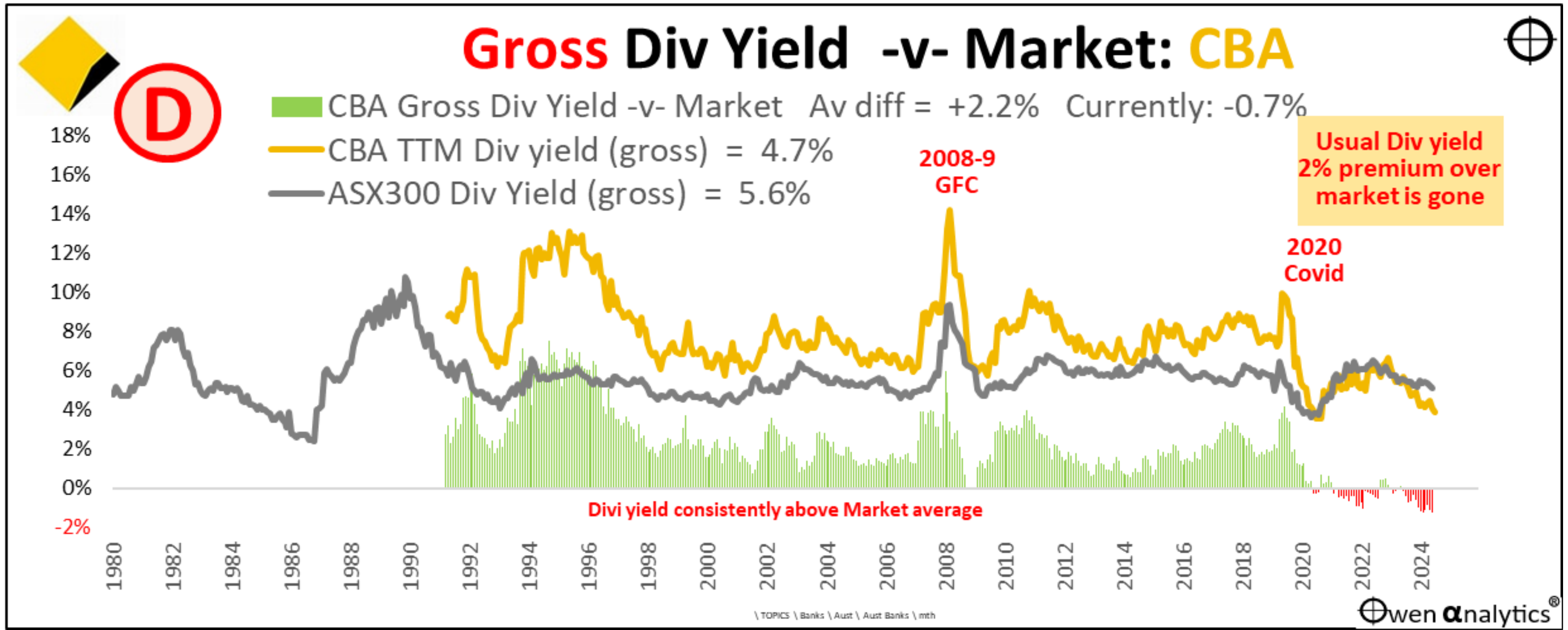
- Share price growth well ahead of dividends



- Real Divs peaked a decade ago (pre Hayne)

CBA - pricing



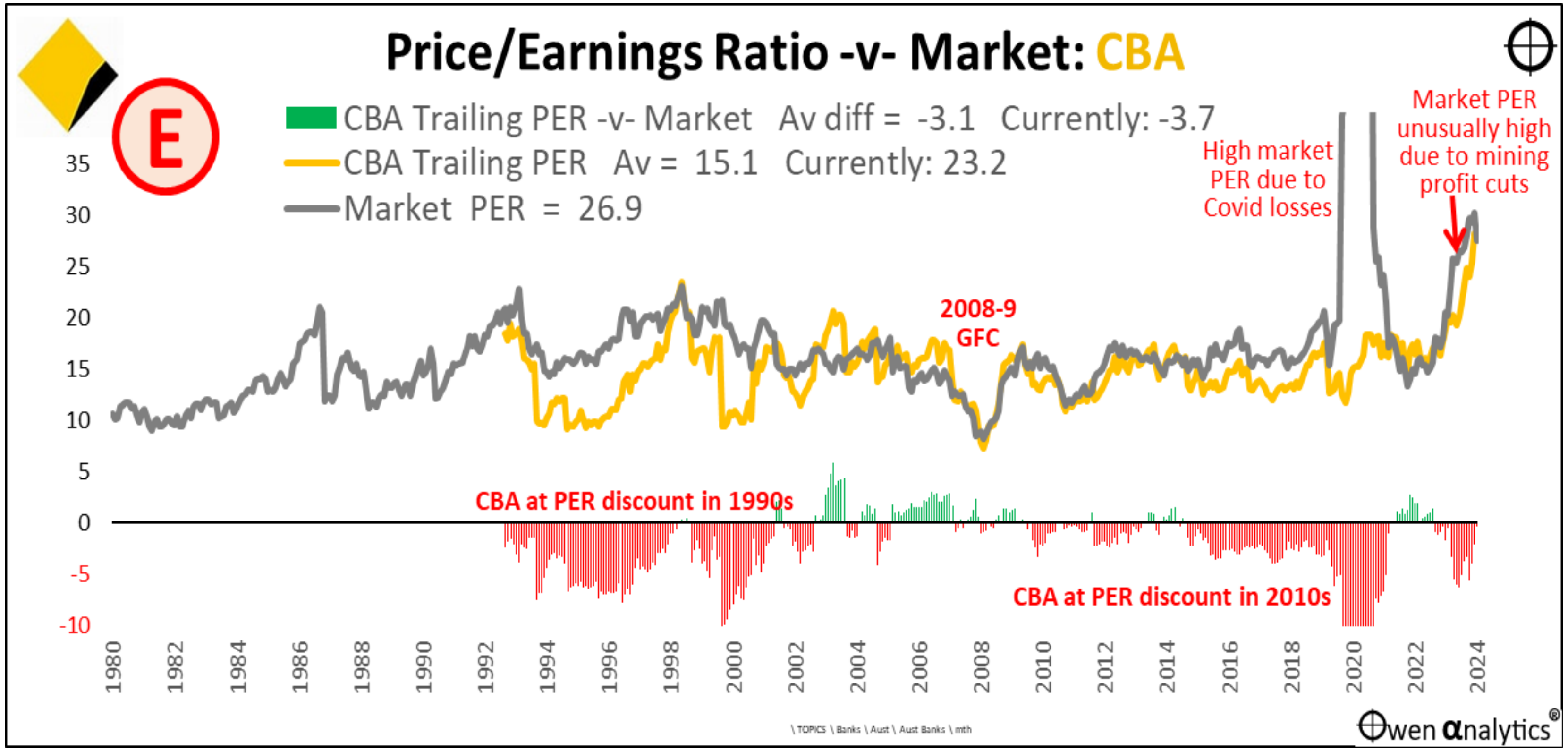


- Div yields now a **Discount** to overall market
- Has always been a premium

Banking is high risk:

- Highly cyclical
- Highly rate sensitive
- Geared 17:1
- Concentrated lending exposure
- World’s highest household debt burden

CBA - pricing



- Price/earnings ratio now a **<u>Premium</u>** to overall market
- Has always been a discount
- (despite higher risk)

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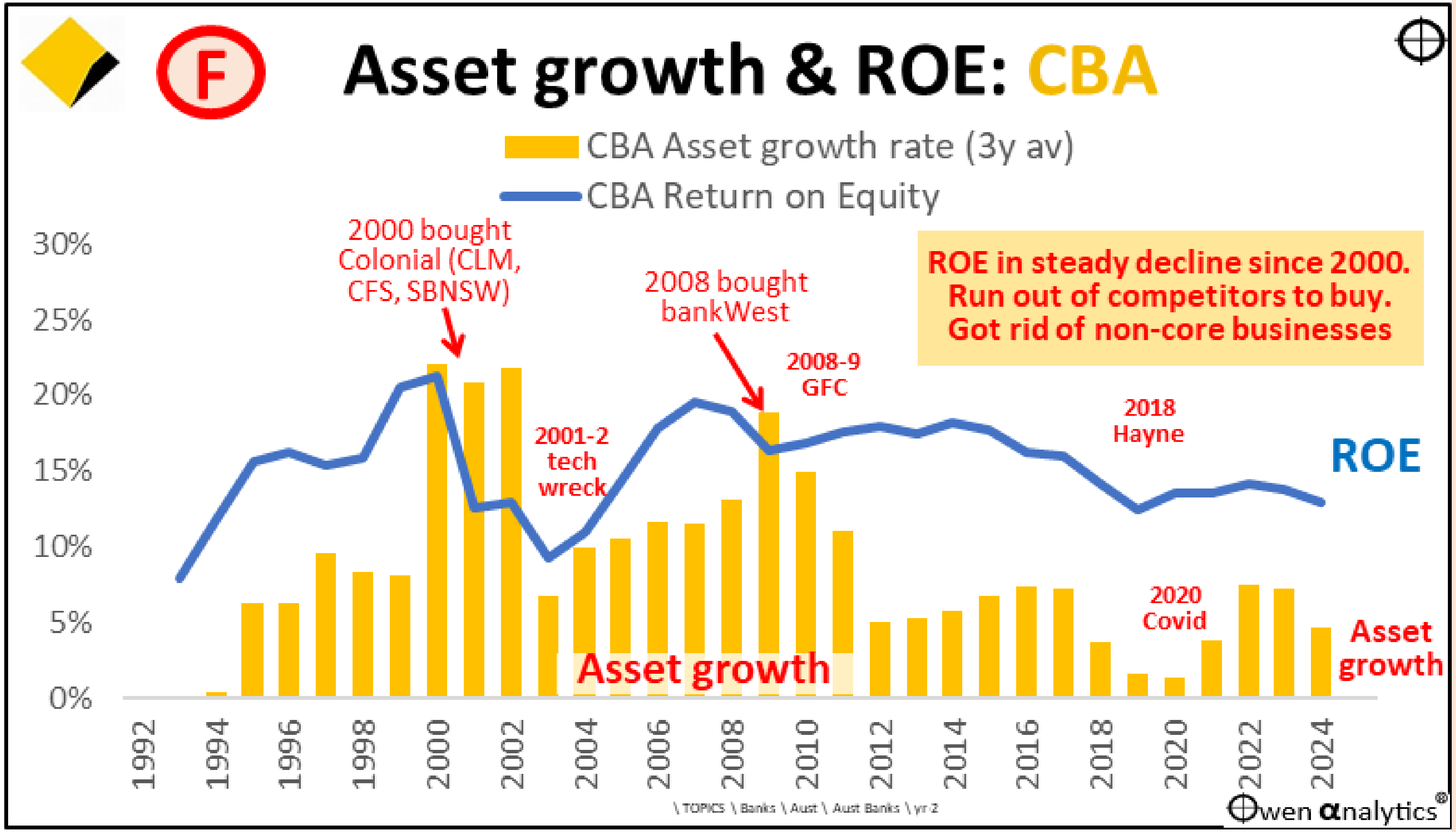
CBA – Asset growth & ROE



- Asset growth rates declining for 20 years
- ROE declining for 20 years
- Growth = nominal GDP growth only
- Relies on continued high immigration for growth
- Growth is Dumb, not smart

5. Next rotation out of Banks into Miners?

- ASX is dominated by 2 big sectors – Banks & Miners
- Which has had higher returns?
- Both! – depends on timing / cycles

5. Next rotation out of Banks into Miners?

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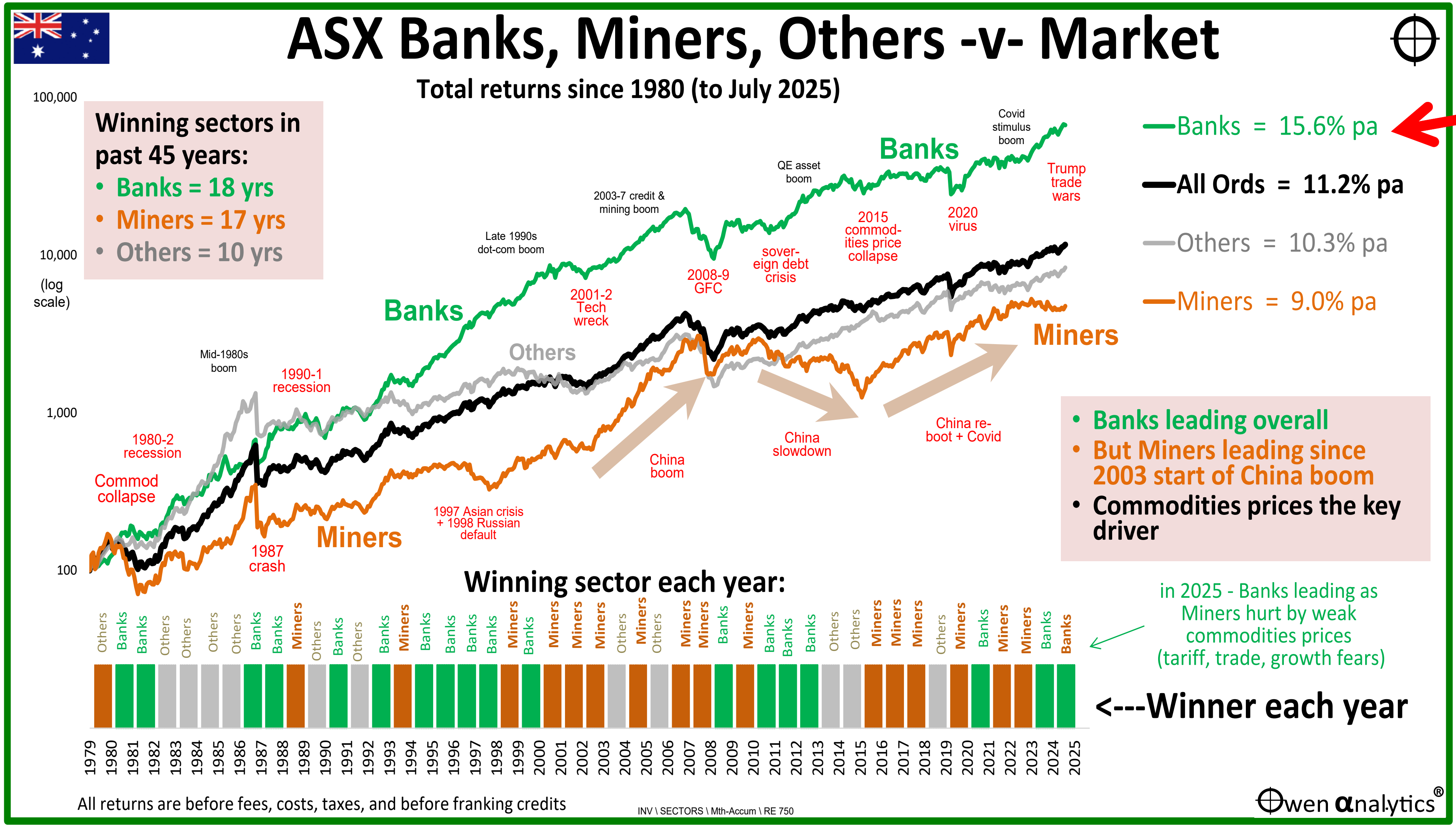


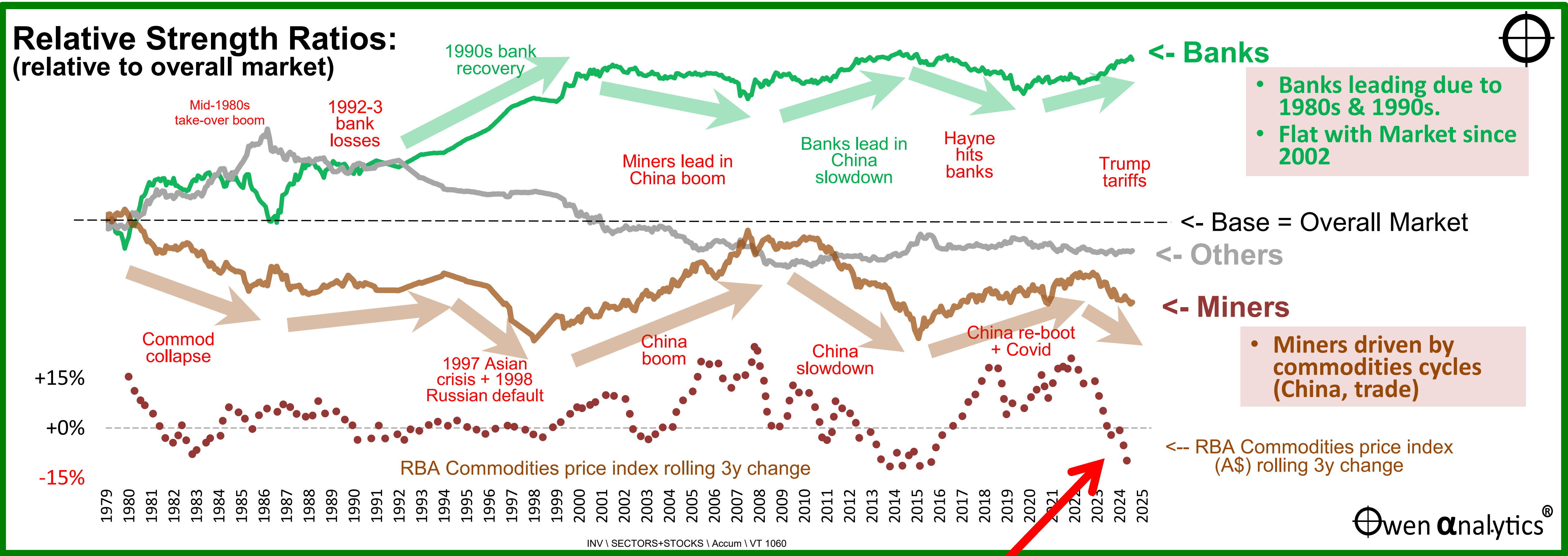
- **Banks** higher since 1980
- **Miners** higher since 2003
- **And especially since 2015**

Banks driven by credit / bad debt cycles

- Australia has avoided serious / sustained recession since 1990-1
- Inflation & interest rates much lower now (than 1970s to early 1990s)
- Banks much better capitalized now
- Basically just bloated building societies now
  - Relatively low exposure to corporate / commercial property / construction
  - (has been taken over by non-bank loan sharks ('Private Credit')
- Key to Loan growth + avoiding bad debts **= house price growth**

  = population growth (immigration) + tax breaks
- + Gov addiction to bailing out anything & everything (deficits/debts)
  - Populism / short-termism driving politics

Miners driven by commodities cycles



- **Commodities prices still weak / falling**
- **Weak demand + over-supply**

Miners / commodities day will return

- DEMAND Side
  - Renewable energy boom
  - Global military build-up
  - EV demand still weak - economic slowdowns, tariffs, inflation
  - Ai job losses weaken consumer spending
  - Governments running big deficits / debts to fund spending
- SUPPLY Side
  - New mines coming on stream – eg Guinea iron ore (RIO)
  - But low prices closing more mines (eg lithium)
  - Nationalist protection / self-sufficiency restricting supply, raising prices

6. Asset Allocation themes

Growth / Equity / Risk assets

- Global TACO Trade rally continues – despite extreme pricing
- confidence in no broad recession =/or more rate cuts (forced or not)

Defensive / Debt assets

- Race for yield – interest rate cuts, bank hybrids going
- ‘Private Credit’ (non-bank loan sharks) – bad debts / gating
- Bond yields rising medium term – inflation + ballooning debt

‘Alternatives’

- **Venture Capital + Private Equity** headaches continue – stay out
- **Industrial commodities** – still weak demand + over-supply
- **Gold** – US deficit / debt / funding / inflation /USD fears + geo-politics
- **Crypto** – ‘Genius Act’ + stable-coin reforms

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