Investment Committee

December 2024

OVERVIEW OF THE INVESTMENT COMMITTEE MEETING

The investment committee session focused on reviewing global economic conditions, assessing the performance of key markets and asset classes, and formulating strategic adjustments to the portfolio. The discussion spanned major economic regions—primarily the U.S., Australia, and China—evaluating data such as inflation, interest rates, unemployment levels, and growth prospects. Members examined both macro-level themes and sector-specific developments, ultimately aiming to refine positioning to outperform the Australian equity benchmark.

A key point of emphasis was the ongoing alignment of inflation within target bands, particularly in Australia, where the Reserve Bank's new governor, Michelle Bull, has been notably more dovish than expected. The committee considered the possibility of interest rate cuts in 2024, with many analysts expecting a move by the RBA as early as Q1 or Q2. In the U.S., the Federal Reserve's policy direction was scrutinized, amid solid labor market figures and increasing speculation of a potential rate cut. Such moves have broad implications for global liquidity, bond yields, and asset flows.

Global Economic Conditions

The committee agreed that the global economy presents a "Goldilocks" scenario in some respects—low inflation, steady if not spectacular growth, and tight labor markets. This environment, however, is not without its risks. High government debt levels in the U.S. are a growing concern, potentially limiting fiscal policy flexibility. In China, the property sector crisis continues to weigh on growth expectations, despite recent shifts in policy language to "moderately loose" and the likelihood of further stimulus measures. This tension between robust consumer spending (seen in strong U.S. retail sales and Australian dining and leisure activity) and underlying structural debts or policy uncertainties frames the coming months' investment landscape.

Sectoral Correlations and Economic Indicators

Committee members reviewed a correlation matrix linking major sectors and asset classes to key economic indicators such as GDP growth, CPI, and interest rates. Traditionally, financials, industrials, and REITs outperform in a stable or improving growth environment. Healthcare and staples, in contrast, provide a defensive refuge if growth stalls. This matrix forms a conceptual backdrop to help guide tactical allocations.

With inflation moderating and economies not obviously in recession, cyclical sectors may continue to benefit, but the committee remained open to shifting defensively if unemployment were to rise or consumer spending soften.

Bond Markets and Interest Rates

On bond yields, the committee noted that short- and long-term yields in both the U.S. and Australia have not dramatically diverged from levels at the start of the year. Markets have already priced in a significant amount of monetary policy adjustments, including the possibility of near-term rate cuts in the U.S. and Australia. The committee recognized that bond market responses to central bank actions will be critical. Reduced foreign appetite for U.S. bonds, tied in part to that country's debt spiral, could influence risk premiums. If the Federal Reserve cuts rates, the impact on bond yields could defy simple logic and requires close monitoring. Any unexpected central bank decisions might catalyze portfolio adjustments.

Equity Market Outlook

The U.S. equity markets remain remarkably resilient. Despite geopolitical tensions, wars, and macro "black swan" risks, indexes push higher, supported by strong corporate earnings and robust employment figures. The "Magnificent 7" tech giants—Microsoft, Google, Meta, Nvidia, Apple, Amazon, and Tesla—continue to dominate U.S. benchmarks. Their large cash reserves and recurring revenue streams have helped them weather inflation and interest rate concerns better than conventional growth companies.

Australian equities have also performed well in 2023. Financials have led the charge, significantly outperforming materials and energy. The committee noted that Australian financials, including the big banks, have continued to defy analyst calls for mean reversion, supported by mandatory superannuation inflows and index-based buying. However, there was acknowledgement that if growth cools or if the housing market falters, banks could face headwinds. Materials and energy, traditionally large components of the Australian market, have lagged, partly due to China's property woes. The committee expects that potential Chinese stimulus could help resource stocks rebound in 2024.

Defensive and Growth Sectors

Healthcare and consumer staples have been relatively subdued, reflecting the broader Goldilocks scenario that reduces the need for defensive rotation. Nonetheless, these sectors represent safe havens should macro conditions deteriorate. Utilities, which have rallied strongly in the U.S., have not mirrored those gains in Australia, presenting a potential catch-up scenario.

On the retail side, big names in the U.S. such as Costco, Walmart, and Lululemon have delivered strong results, implying that consumer spending remains healthy. This dynamic counters much of the pessimistic narrative about consumers being pressured by inflation and interest rate hikes. In the committee's view, discretionary spending does not yet appear to be rolling over significantly.

Commodities and Precious Metals

Commodities require careful attention. Gold, a core component of defensive positioning, has surged this year, supported by central bank buying, geopolitical tensions, and debt concerns in the U.S. Silver, often a late-cycle outperformer, has also begun to move higher. The committee maintains a bullish outlook on precious metals as a hedge against potential market volatility and currency risks, especially if global de-dollarization efforts by the BRICS nations intensify.

Industrial metals like copper remain range-bound, influenced heavily by Chinese data and policy signals. If China's stimulus ramps up, copper could break out, justifying additional positions. Similarly, uranium—a previous high-conviction thematic—has stalled. Given the committee's preference for assets with stronger immediate catalysts, uranium allocations may be trimmed to fund opportunities in more responsive parts of the market.

Energy and Bitcoin

Energy stocks, especially oil producers, have suffered despite Middle East tensions and supply concerns. The inability of oil prices to rally suggests other factors—like weak global demand or shifts in energy policy—dominate. The committee remains cautious on energy until there is a clearer catalyst.

Bitcoin, after a major rally, is testing a psychological level (near USD 100,000 if adjusted for a different unit scale referenced in the meeting). While bullish longer-term, the committee is mindful that such large round numbers can induce volatility. They are inclined to hold a core 1% allocation to bitcoin indefinitely but ready to trim or add around that core depending on price momentum. Bitcoin's price action might serve as a leading indicator of risk sentiment and liquidity conditions, reacting faster than traditional assets to shifts in the market environment.

Currency Considerations

The Australian dollar's weakness stands out. Its role as a commodity currency means it's sensitive to Chinese demand. With no strong upward catalysts, the AUD remains soft. Meanwhile, the U.S. dollar index remains in a trading range, and the Japanese yen's "carry trade" unwind was short-lived.

Currency markets are stable enough that the committee does not view forex as a primary driver of near-term strategy.

Index Plus Portfolio Adjustments

The committee reviewed its newly launched Index Plus strategy, which combines leverage on Australian equities (via GEAR) with fixed income holdings, quality-biased ETFs, and selected thematic exposures. The idea is to match or beat the ASX benchmark over time by gaining efficient exposure to dividends and selecting a few global growth opportunities. They considered adding more to leveraged Australian equities ahead of dividend distributions. Another option was to add a leveraged U.S. equity position (GGUS) to capitalize on seasonal strength and ongoing momentum in the U.S. market.

In addition to these core positions, the portfolio includes U.S. high-yield bonds (USHY) for yield, high-quality equity exposures (QUAL, MOAT), and some precious metals. The committee balanced the desire to add to what's working—U.S. equities, precious metals, and copper—against maintaining the appropriate risk parameters. They noted a slight inclination to rotate out of uranium and redeploy capital into more promising areas.

High Conviction Watchlist and Long-Term Themes

The committee's high-conviction watchlist is designed to identify both local and global equities that align with long-term secular trends—renewable energy, technology, healthcare innovations, and selected mining plays for battery metals. While the watchlist includes names like CSL, Wally (Worley), and various lithium or uranium juniors, actual allocation depends on technicals and fundamentals. For example, CSL's share price often trades in a repeatable range, creating reliable buying opportunities at lower levels. Similarly, certain junior miners and biotech names may remain on the watchlist but not enter the portfolio until technicals improve.

The U.S. election result, with President Trump returning to office, introduces the risk of new trade wars, tariffs, and reshoring efforts. This could favor domestic U.S. manufacturers like John Deere or energy-intensive industries, but the committee is waiting to see concrete policy moves before making large thematic bets.

Conclusion and Next Steps

For now, the strategy involves holding core equity exposures, leaning slightly into areas with clear momentum (U.S. equities, gold, quality stocks) and adding or trimming satellite holdings as opportunities arise. Bitcoin remains a niche but attractive wild card, while uranium and lagging energy plays may be source trades to fund better ideas.

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