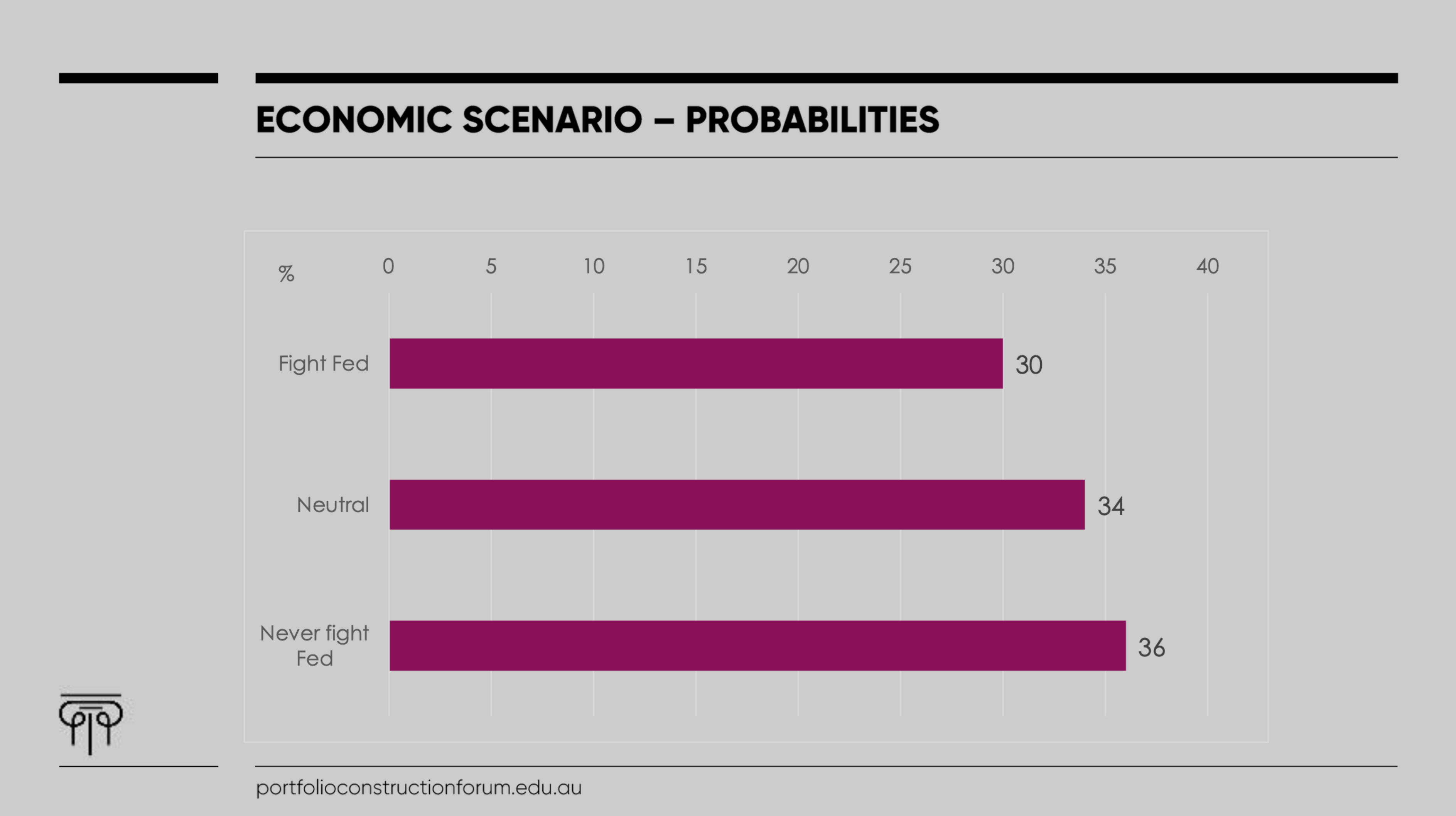
August 2024

Asset Class Outlook Roundtable.

Jonathan Ramsay, InvestSense (Sydney) – Chair
Emmanuel Sharef, PhD, PIMCO (Newport Beach)
Graham McNamara, Metrics Credit Partners (Sydney)
Isaac Poole, PhD, CIMA®, Ascalon Capital (Hong Kong)
Ram Rasaratnam, CFA, AXA Investment Managers (Singapore)

Portfolio Construction Forum

Did we just sit on the fence three years ago?



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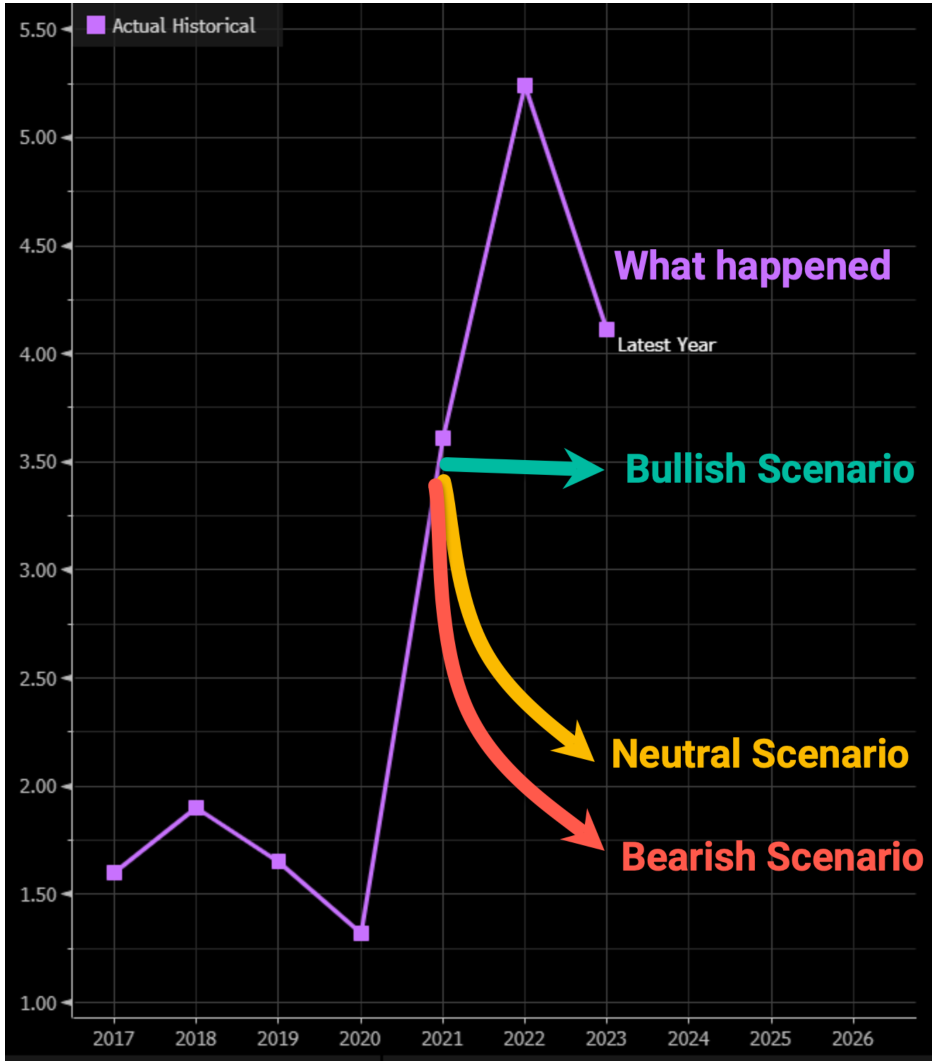
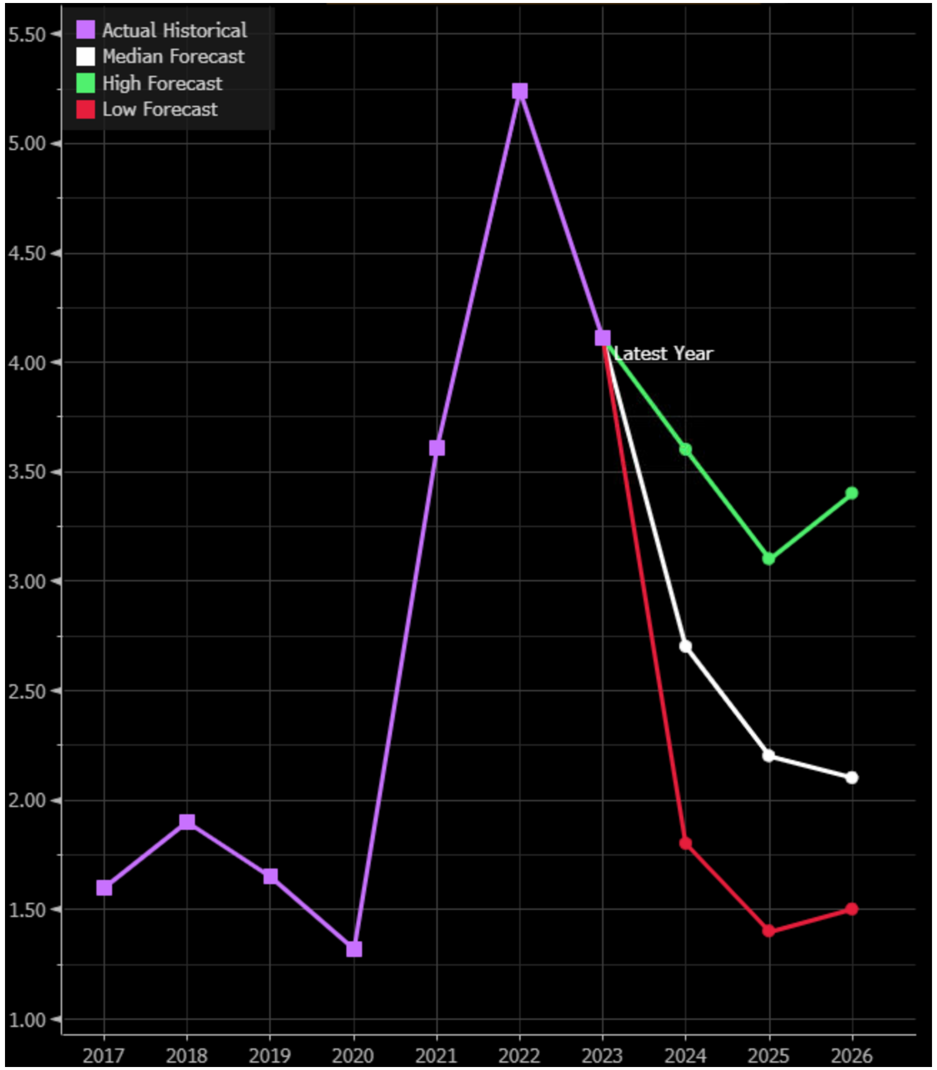
But then what happened - Inflation



Source: Bloomberg



It appears we were asking the right questions

RESEARCH ROUNDTABLE: 3 HIGH CONVICTION PROPOSITIONS

1. You should hold bonds despite expecting a negative real return
2. ESG investors should not expect better than market returns… yet
3. We need to rethink 'defensive' in our equity portfolios

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And, by the end of the Asset Allocation Panel, we had glimpsed the future

- “No one's mentioned high levels of inflation. What we're talking about here is a world where inflation might move to, I don't know, three, four, 5%.
- That often has been a good, environment for equities. And, the path would be quite volatile. The path to higher interest rates as the Fed reacted would be very volatile. But I still think in that scenario, that the reality is that probably one of the better places you can be is equities although it would be very volatile getting there.
- It would be volatile for everything. And I think with respect to bonds, you're better off staying out of them and really just holding cash instead as a defensive asset. It's a world where cash, would win versus bonds, I think.”

Angela Ashton

- Scenario 1 “The return for Don’t Fight The Fed is 8.5%. Scenario 2, “Sit tight it’s in the price’, we modelled that expected return of maintaining neutral policy at three and a half percent. Scenario 3 Fight the Fed before it’s Too Late. **We expect the return of that portfolio -3% to give us, based on our weighted vote as a committee and as a, an audience, about 3.3 %.**

Rob Mead

This year's Global Economic Scenarios

- A Bullish AI/Energy Driven Productivity Boom
- A "Muddle Through" where central banks 'land the economy'
- A Bearish Debt Deflation Spiral
- Stagflation - Short-term electoral gain, long-term economic pain

Scenario 1 - A Bullish AI/Energy Driven Productivity Boom

- AI, energy innovation, and other breakthroughs drive a **productivity surge**, boosting incomes and easing social tensions
- Pre-pandemic disinflation reasserts itself as supply expands, goods prices fall, and **worker bargaining power wanes**
- Inflation durably contained at target levels **without a recession** as fiscal prudence and strong growth reduce debt burdens
- Equities and bonds rally in a goldilocks environment of low inflation and high growth, while Australia and NZ benefit from **robust global demand**

Scenario 2 - A "Muddle Through" where central banks ‘land the economy’

- **Central banks tolerate 2-3% inflation** as fiscal stimulus and supply constraints keep price pressures elevated
- **Growth slows** but avoids recession as policy support and private sector resilience buffer headwinds
- Equities and bonds deliver modest positive returns as earnings growth moderates and yields remain low
- Australia and NZ navigate a middle path of moderate growth and inflation with **gradually normalizing policy**

Scenario 3 - A Bearish Debt Deflation Spiral

- **Private credit boom turns to bust** as rising defaults trigger a liquidity crunch and asset price crash
- **Debt deflation** dynamics take hold as falling prices and incomes cause a vicious spiral of deleveraging
- Monetary and fiscal stimulus blunt the downturn but **fail to spark a robust recovery** amid impaired balance sheets
- **Australia and NZ experience a severe recession** as commodity prices slump and global ties transmit the shock

Scenario 4 - Stagflation - Short-term gain, long-term pain

- **Pre US election fiscal stimulus and easing monetary conditions** restoke the demand side
- **Persistent supply constraints and de-globalization** pressures also keep inflation stubbornly high despite slowing growth in 2025
- Central banks hike aggressively to contain inflation expectations, exacerbating the downturn and financial strains
- Fiscal policy whipsaws between stimulus and austerity as high debt loads collide with rising borrowing costs
- Australia and NZ face the challenging combination of weakening external demand, cost-push inflation, and limited policy space

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