

Market and Model Commentary

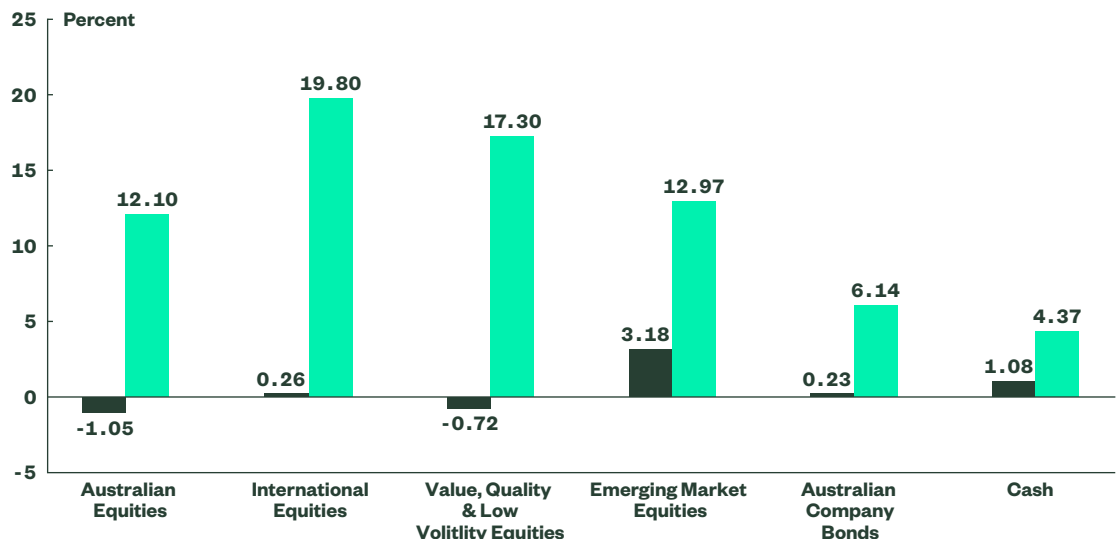
- Global equity markets registered consecutive quarterly gains amid solid earnings, resilient global economy, and somewhat favorable inflation data.
- However, business activities, which had seen solid momentum in April and May, slowed down in June.
- Overall, global equities registered modest gains in the second quarter.

The Economy in Review

- Global growth remains moderate, with some improvement in Europe, deceleration in the United States (US) and constrained economic growth in China.
- Inflation has been moderating unevenly, with services inflation staying elevated. Earlier in June, a number of central banks including the European Central Bank, cut their policy rates ahead of the Fed. Political and geopolitical risks loomed large with elections in Mexico, India, and the European Union, all bringing surprising outcomes. As we gear up for US elections in November, investors are bound to grapple with rising volatility.
- The Australian economy continued to slow with annual GDP growth at a 32 year low for the March quarter. Despite growth slowing, inflation remained persistent with the May monthly inflation rate surging to 4.0% y/y. As a result, Australian markets are now pricing a 40% chance of a rate increase in August.

Figure 1
Asset Class Performance¹

■ 3 Month Return
■ 1 Year



Source: As of 28 June 2024, Bloomberg Finance L.P., MSCI and S&P Dow Jones Indices. Index returns are unmanaged and do not reflect the deduction of any fees or expenses. The index returns reflect all items of income, gain and loss and the reinvestment of dividends and other income. Past performance is not a reliable indicator of future performance. Australian Equities: S&P/ASX 200 Total Return Index; International Equities: MSCI World Net Total Return AUD Index; Value, Quality and Low Volatility Equities: MSCI World Factor Mix A- Series (AUD) Net Total Return Index in AUD; Emerging Markets Equities: FTSE Emerging Markets All Cap China A Inclusion Net Tax Index (AUD); Australian Corporate Bonds: Bloomberg AusBond Credit 0+ Yr Index; Cash: S&P/ASX Bank Bill Total Return Index.

- **Australian equities** fell 1.1% for the second quarter of 2024²
- **International equities** were marginally positive, 0.3% for the second quarter of 2024³
- **The combined value, quality & low volatility equity** factor investment strategy was down 0.7% for the second quarter of 2024⁴
- **Emerging market equities** were up 3.2% for the second quarter of 2024⁵
- Australian company bonds returned a mere 0.2% for the second quarter of 2024⁶
- **Cash** returns in Australia were up 1.1% for the second quarter of 2024⁷

Factor investing is a 'rules-based' approach to investing. These strategies seek to capture specific investment characteristics such as value and quality. Why? Academic research has lead documented long-term outperformance of factors.

History tells us that over long term equally combining the below 3 factors can leads to outperformance

- Value companies with attractive fundamental ratios like Price/Book, Price/Earnings, Price/Cash Flow and Dividend Yield.
- Low volatility companies that are less likely to fluctuate dramatically, and tends to be more steady.
- Quality companies are those with high and stable profitability, and low leverage.

Figure 2

**Target Model
Portfolio Allocations**



| Ticker | Asset Class | ETF Name | Moderate (%) | Balanced (%) | Growth (%) |
|-------------|-----------------------------|--|--------------|--------------|-------------|
| | Growth | | 52.5 | 65.0 | 77.5 |
| QMIX | International Equities | SPDR MSCI World Quality Mix Fund | 25.0 | 30.0 | 35.0 |
| STW | Australian Equities | SPDR S&P/ASX 200 Fund | 22.5 | 27.5 | 32.5 |
| VGE | Emerging Market Equities | Vanguard FTSE Emerging Markets Shares ETF | 5.0 | 7.5 | 10.0 |
| | Defensive | | 47.5 | 35.0 | 22.5 |
| GOVT | Australian Government Bonds | SPDR S&P/ASX Australian Government Bond Fund | 12.5 | 7.5 | 2.5 |
| VACF | Australian Credit | Vanguard Australian Corporate Fixed Interest Index ETF | 20.0 | 15.0 | 15.0 |
| BILL | Cash | iShares Core Cash ETF | 12.0 | 9.5 | 2.0 |
| | Cash | Cash Liquidity Implementation | 3.0 | 3.0 | 3.0 |

Important Information Source: State Street Global Advisors as of 28 June 2024. Model Portfolio Allocations presented above are hypothetical and have been provided for illustrative purposes only. They do not reflect the results of the actual trading of any account or group of accounts and actual results could differ substantially. A model portfolio is an allocation to a list of funds that are group together. Where a model portfolio is offered on an investment platform, investors who select it effectively instruct the platform operator to acquire units in the ETFs that comprise the model portfolio. The model portfolio described above has not been implemented by State Street, so the results are hypothetical.

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Performance Summary

For the second quarter of 2024, the Australian equity allocation and the multi-factor international equity allocation were the major detractors to total return. Australian stocks in the materials sector, which were affected by declining demand and unfavourable economic data from China, were the biggest detractors while sectors sensitive to interest rate changes, such as real estate, consumer discretionary, continued to struggle. The multi-factor international strategy also registered negative returns for the quarter, as both minimum volatility and value factors detracted. The emerging market equity exposure, supported by the strength of Asian markets, positively contributed to total return. Looking at fixed income, Australian government bond exposure had a negative contribution to total return.

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Index returns are unmanaged and do not reflect the deduction of any fees or expenses. The index returns reflect all items of income, gain and loss and the reinvestment of dividends and other income. Past performance is not a reliable indicator of future performance.

Endnotes

- 1 All returns as at 28 June 2024. Index returns reflect capital gains and losses, income, and the reinvestment of distributions. Index returns are unmanaged and do not reflect the deduction of any fees or expenses. The index returns reflect all items of income, gain and loss and the reinvestment of dividends and other income. Past performance is not a reliable indicator of future performance.
- 2 Source: S&P/ASX 200 Total Return Index.
- 3 Source: MSCI World Net Total Return AUD Index.
- 4 Source MSCI World Factor Mix A- Series (AUD) Net Total Return Index in AUD.
- 5 Source: FTSE Emerging Markets All Cap China A Inclusion Net Tax Index (AUD).
- 6 Source: Bloomberg AusBond Credit O+ Index.
- 7 Source: S&P/ASX Bank Bill Total Return Index.

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- Start with rigor
- Build from breadth
- Invest as stewards
- Invent the future

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* Pensions & Investments Research Center, as of December 31, 2022.

[†] This figure is presented as of March 31, 2024 and includes ETF AUM of \$1,360.89 billion USD of which approximately \$65.87 billion USD is in gold assets with respect to SPDR products for which State Street Global Advisors Funds Distributors, LLC (SSGA FD) acts solely as the marketing agent. SSGA FD and State Street Global Advisors are affiliated. Please note all AUM is unaudited.

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