



# WHAT KEEPS YOU UP AT NIGHT?

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# DISCLAIMER

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# LEARNING OUTCOMES

By participating in this session, you will be able to:



Market Review:  
Understand what has  
been moving markets



Economic review:  
Understanding the  
economic scenarios  
that drive market  
outcomes

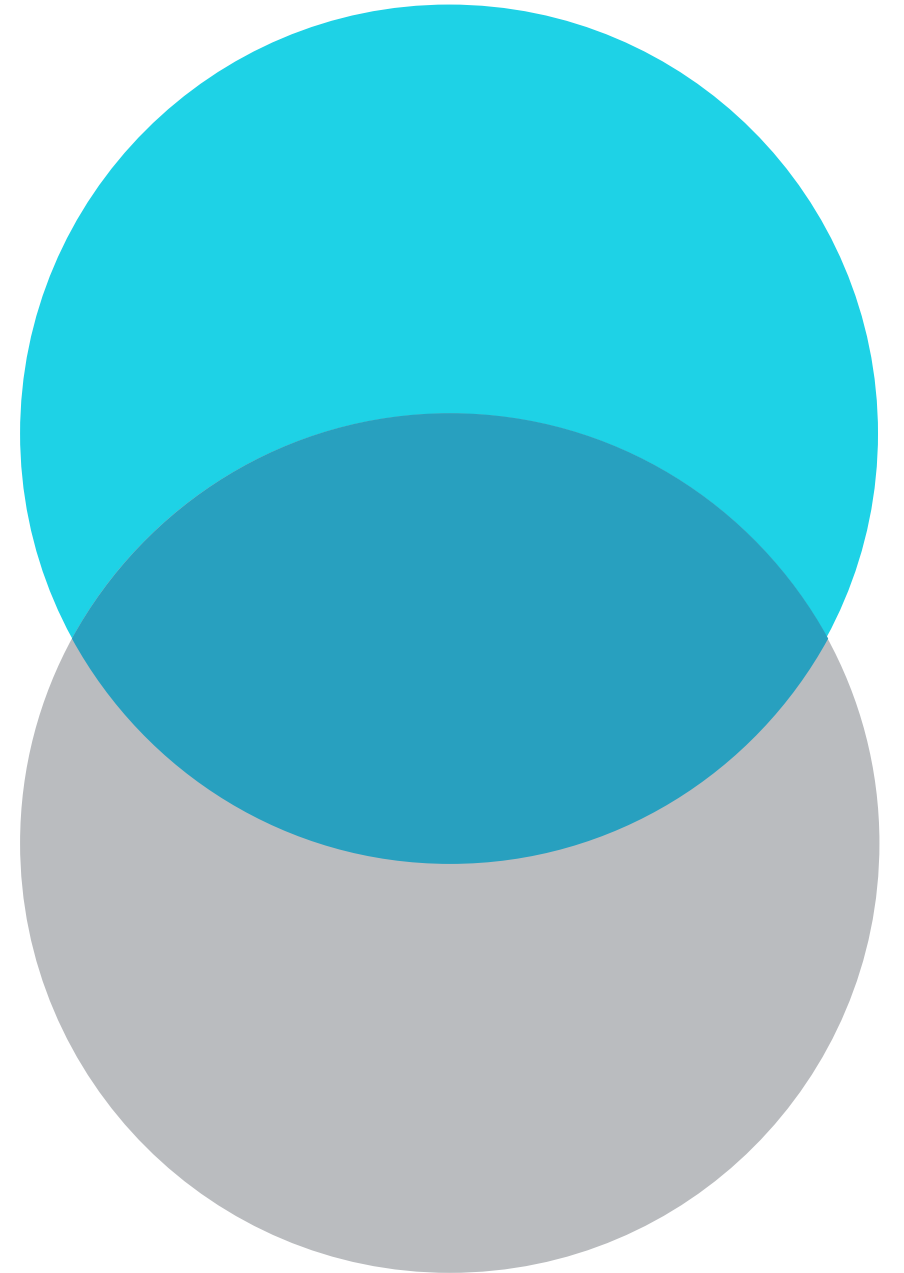


Portfolio Construction:  
Demonstrate an  
understanding of how to  
choose portfolios for  
clients

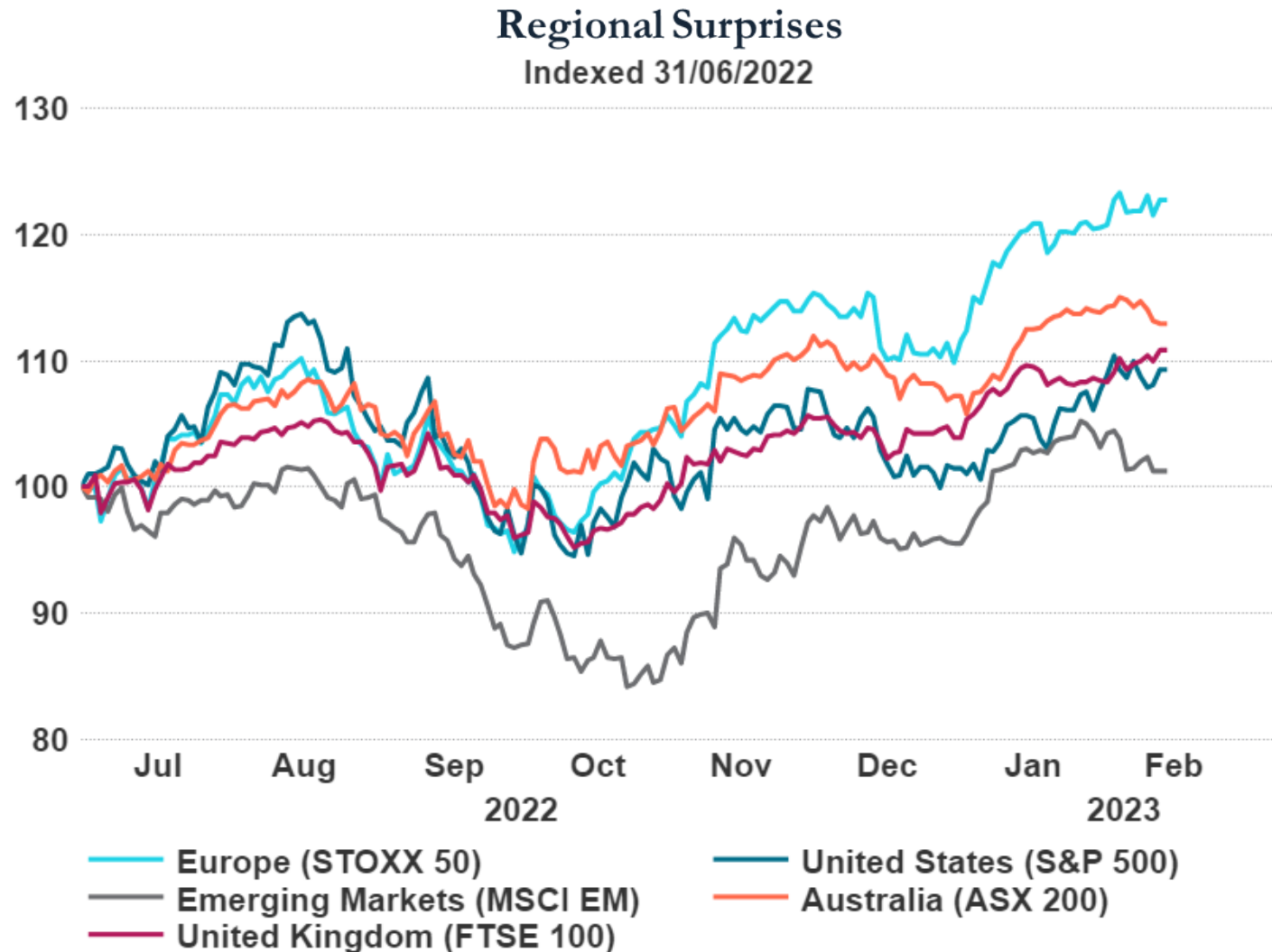


Explore the potential  
changes in market  
dynamics for the year  
2023 and beyond

# MARKETS IN REVIEW

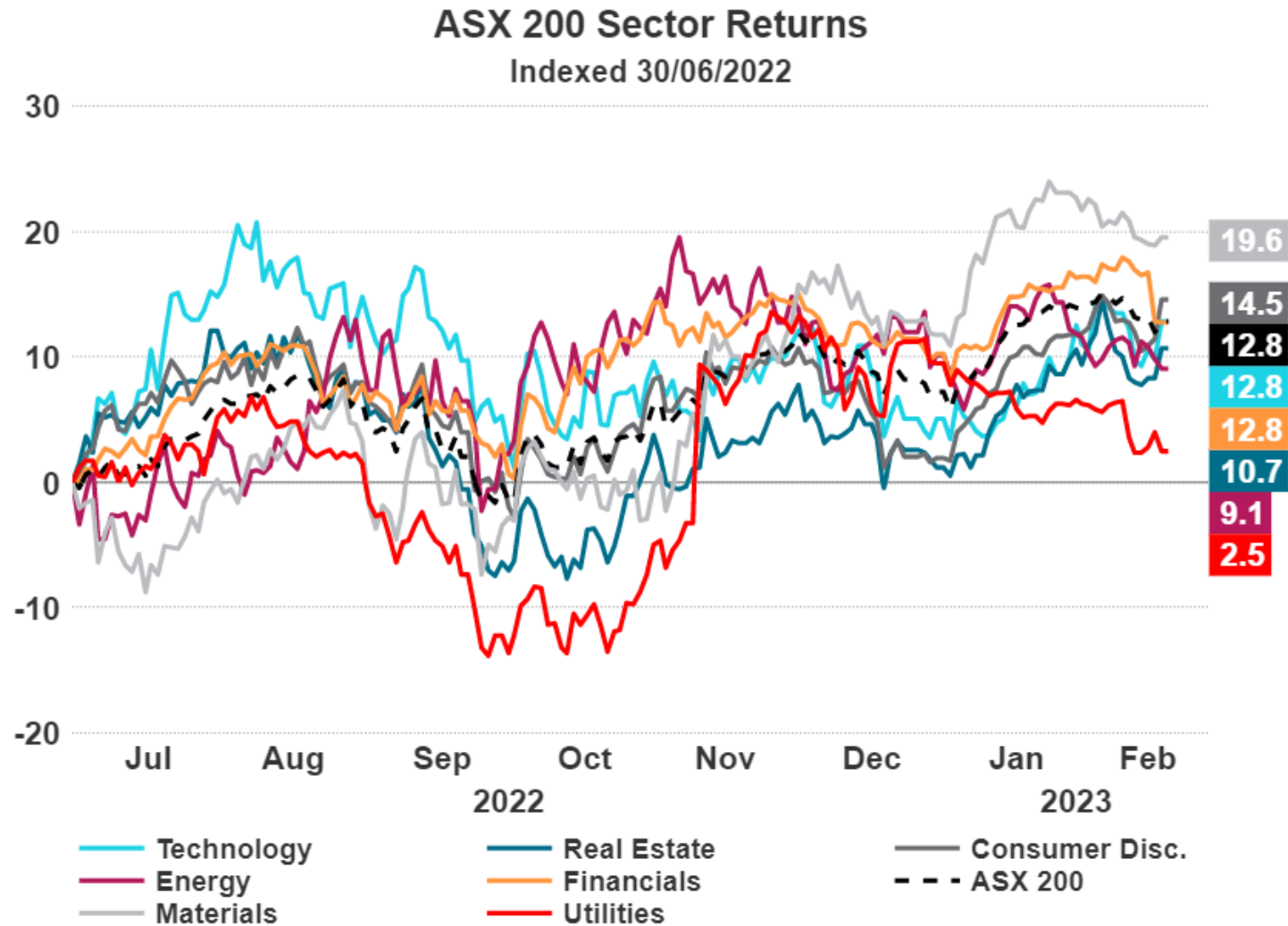


# MARKETS RALLIED DUE TO LOOSENING OF FINANCIAL CONDITIONS, EUROPE SURPRISED THE MOST.



Source: Refinitiv Datastream

# MATERIALS AND FINANCIALS LED THE AUSTRALIAN MARKET



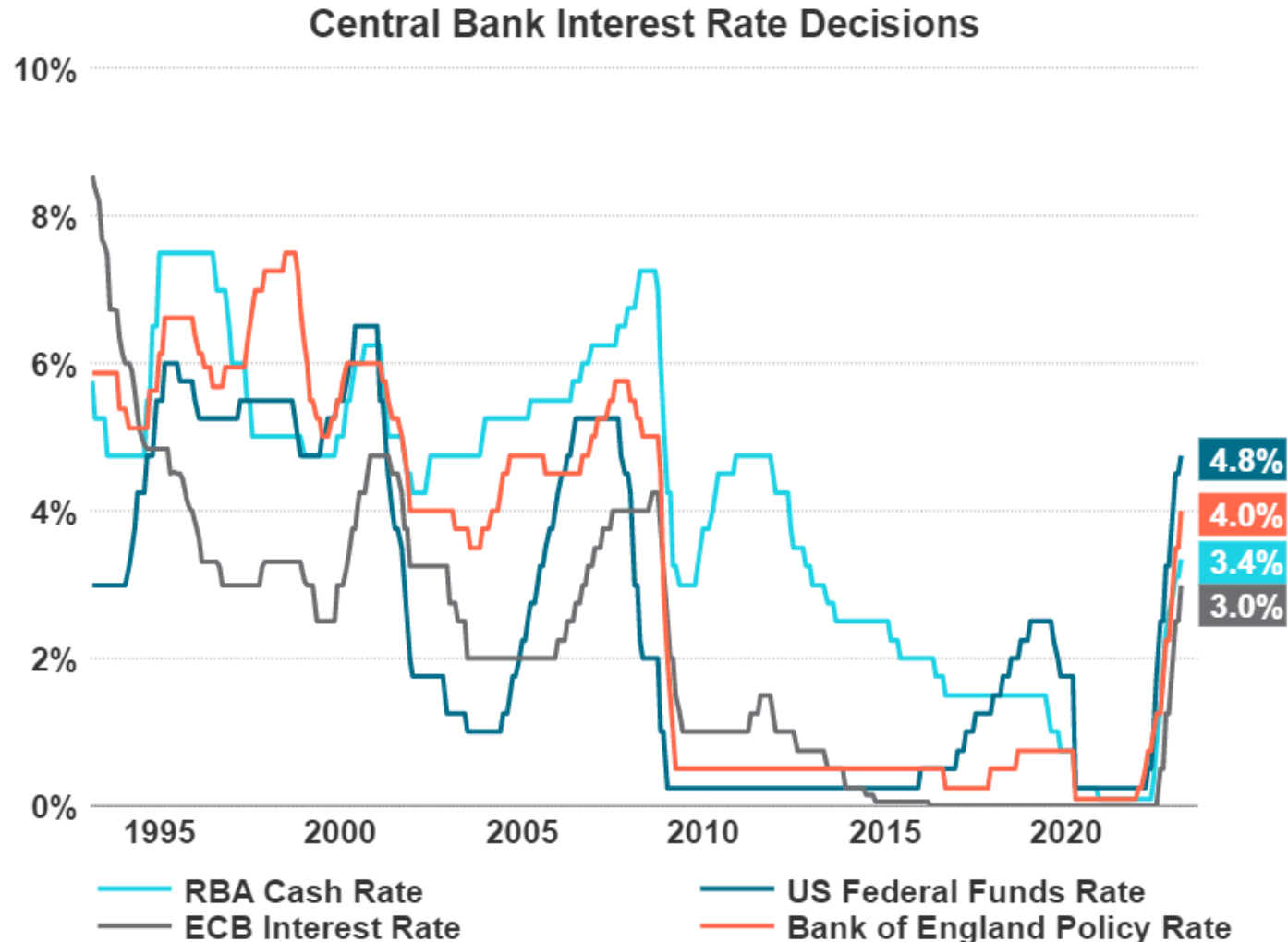
Source: Refinitiv Datastream

# GIVEN UNCERTAINTY YOU SHOULD BE DIVERSIFIED ACROSS GROWTH AND VALUE INVESTMENT STYLES



Source: Refinitiv Datastream

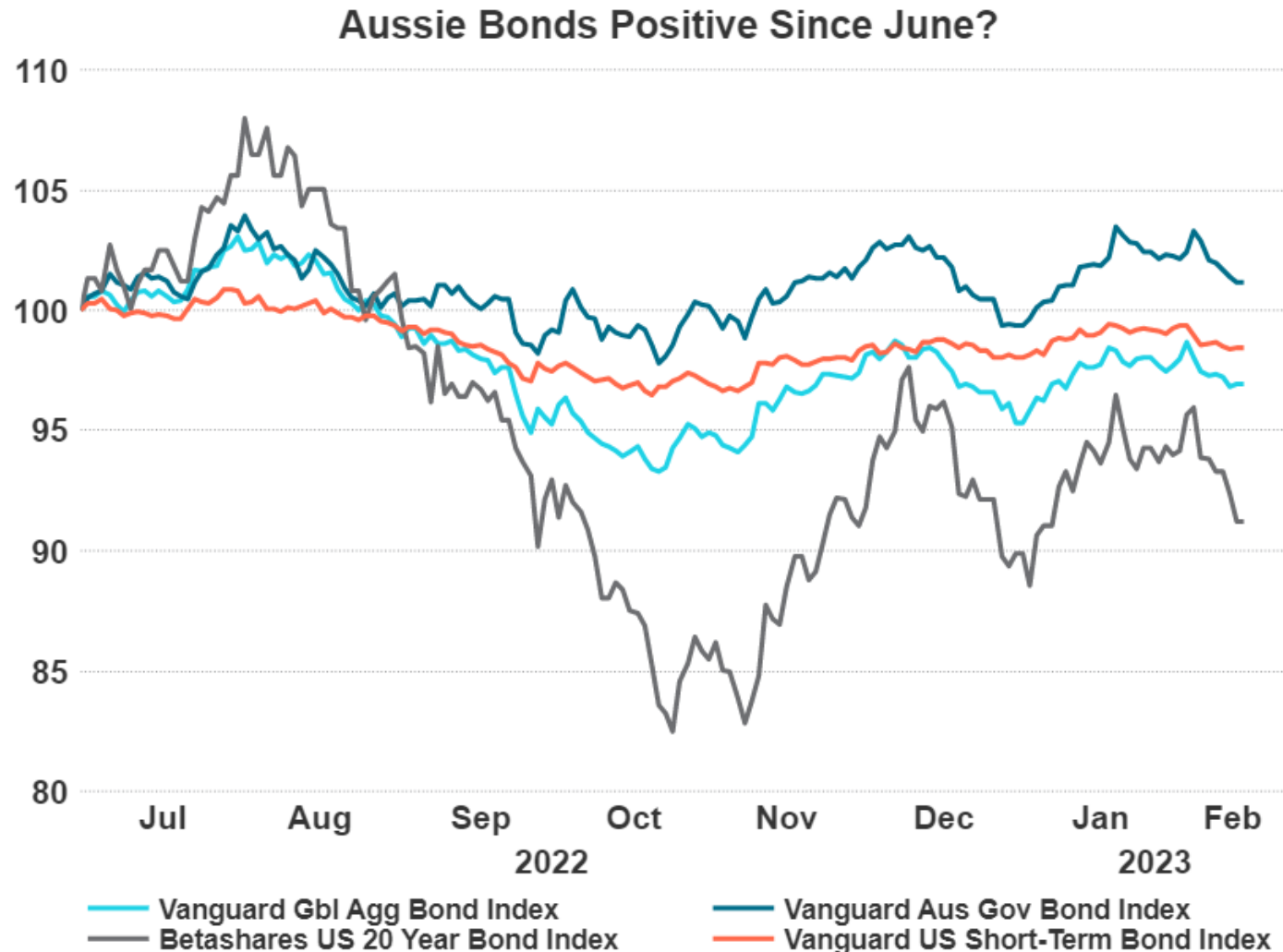
# UNPRECEDENTED CENTRAL BANK POLICY – THAT’S WHY SELL OFFS HAVE BEEN SO SHARP IN FIXED INCOME



Source: Refinitiv Datastream

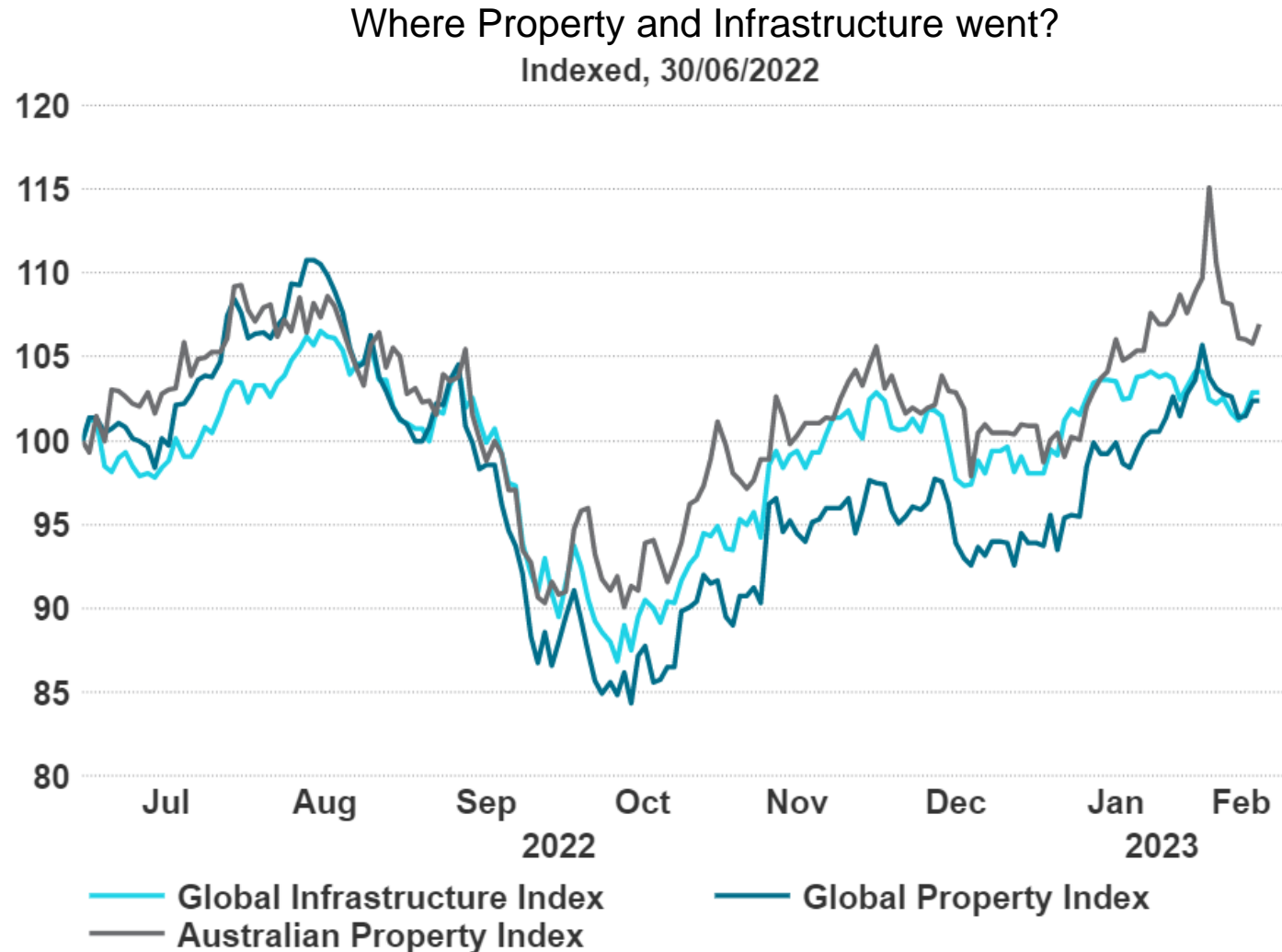


# RBA POLICY DIVERGED FROM INTERNATIONAL CENTRAL BANKS - THIS IS WHY OUR FIXED INCOME MARKET DID BETTER



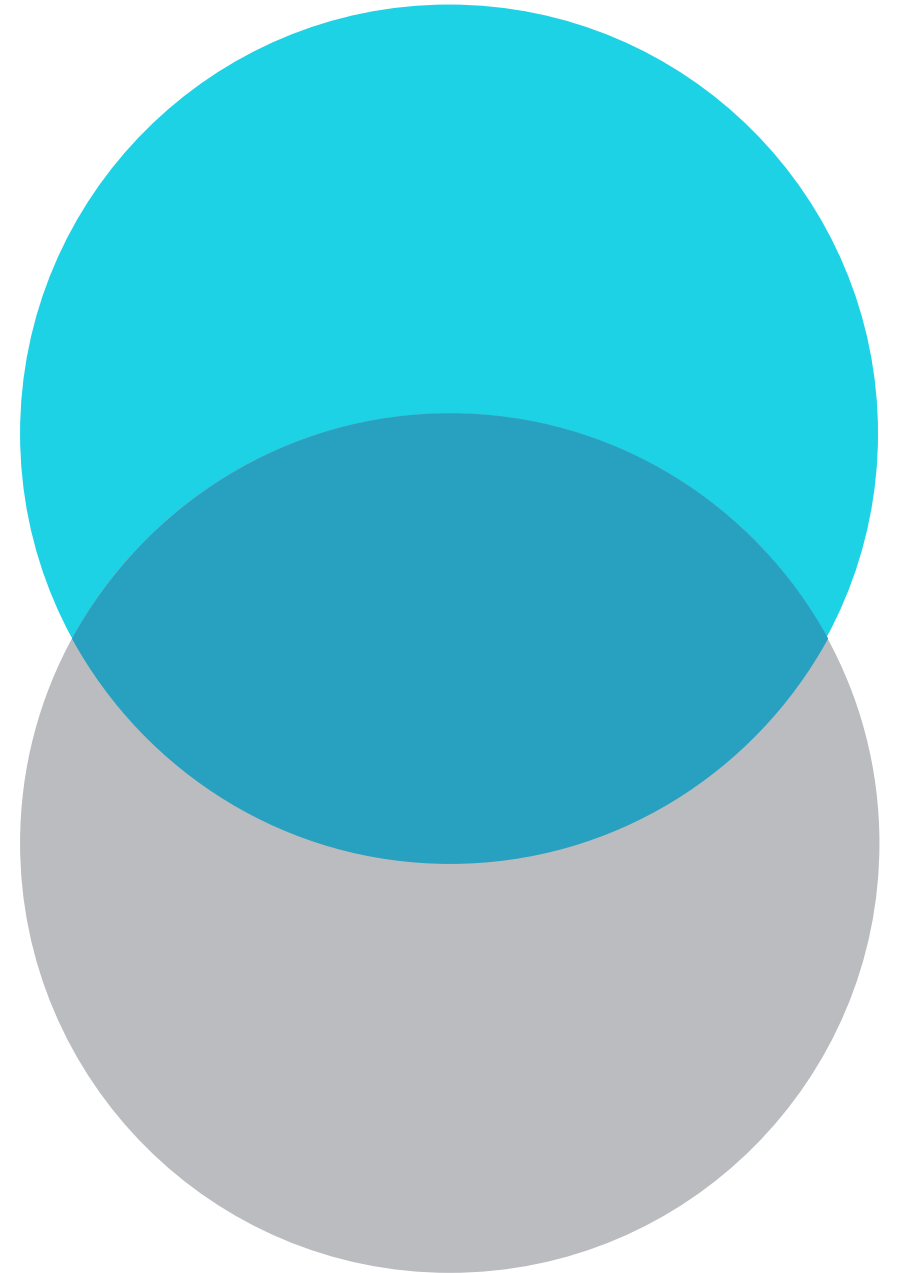
Source: Refinitiv Datastream

# AUSTRALIA RALLIED THE MOST DUE TO ITS SENSITIVITY TO INTEREST RATES

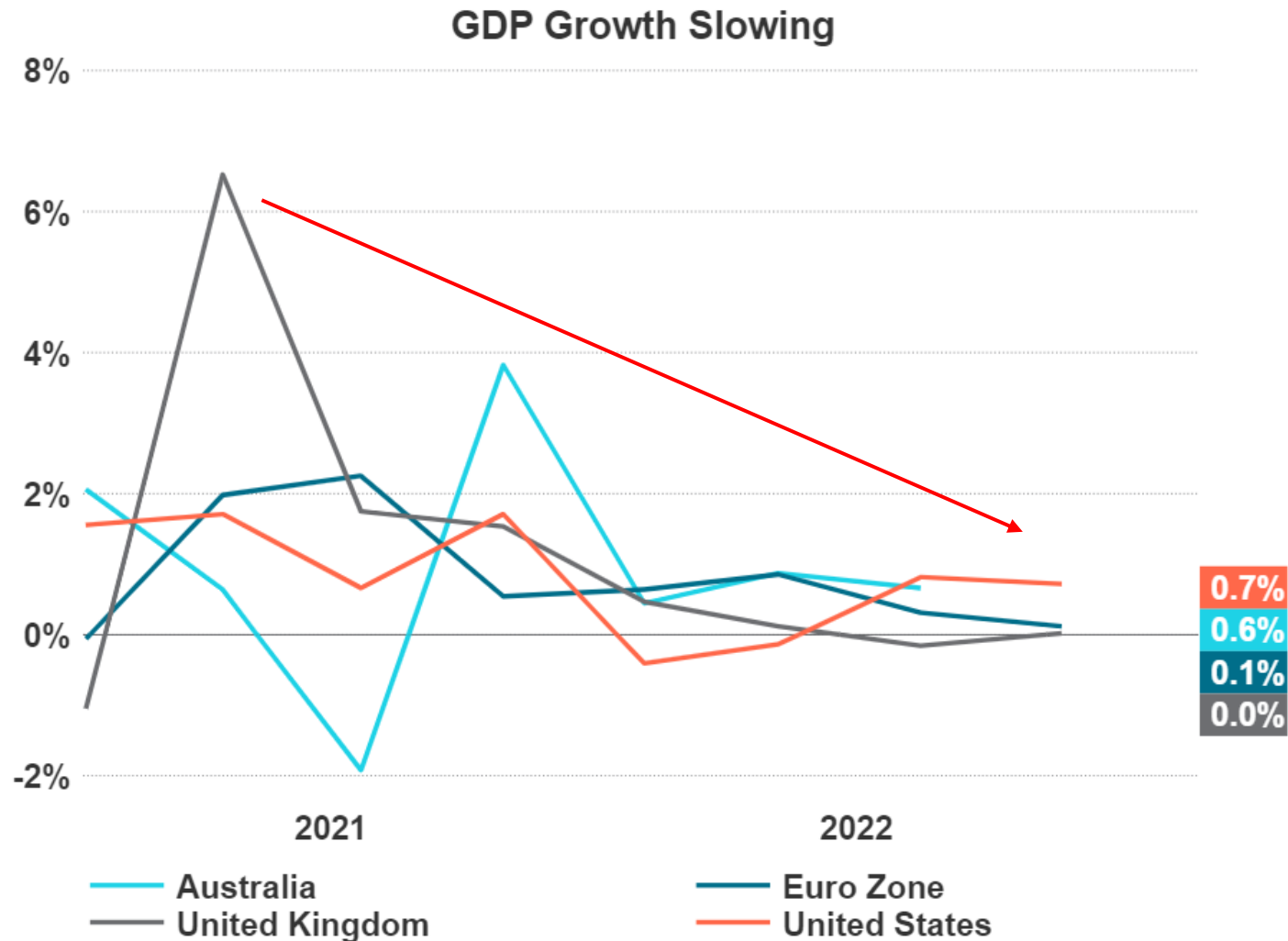


Source: Refinitiv Datastream

# ECONOMIES IN REVIEW



# GDP TRENDING DOWNWARD BACK TO PRE-COVID NORMS FASTER, DUE TO HIGHER INTEREST RATES



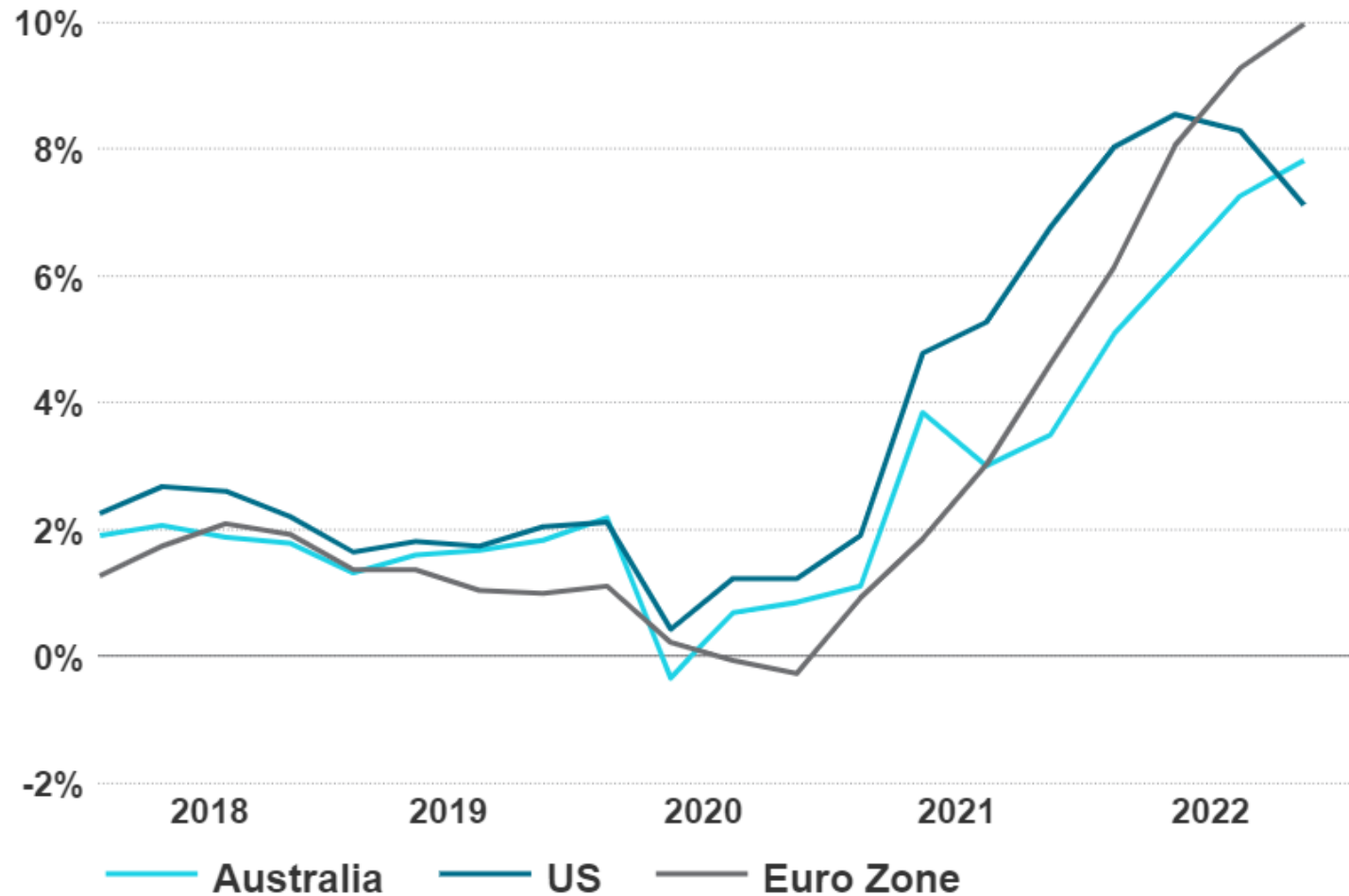
Source: Refinitiv Datastream

# SIGNIFICANT LOSS IN PURCHASING POWER OF CONSUMERS DUE TO THE OUT-OF-CONTROL INFLATION



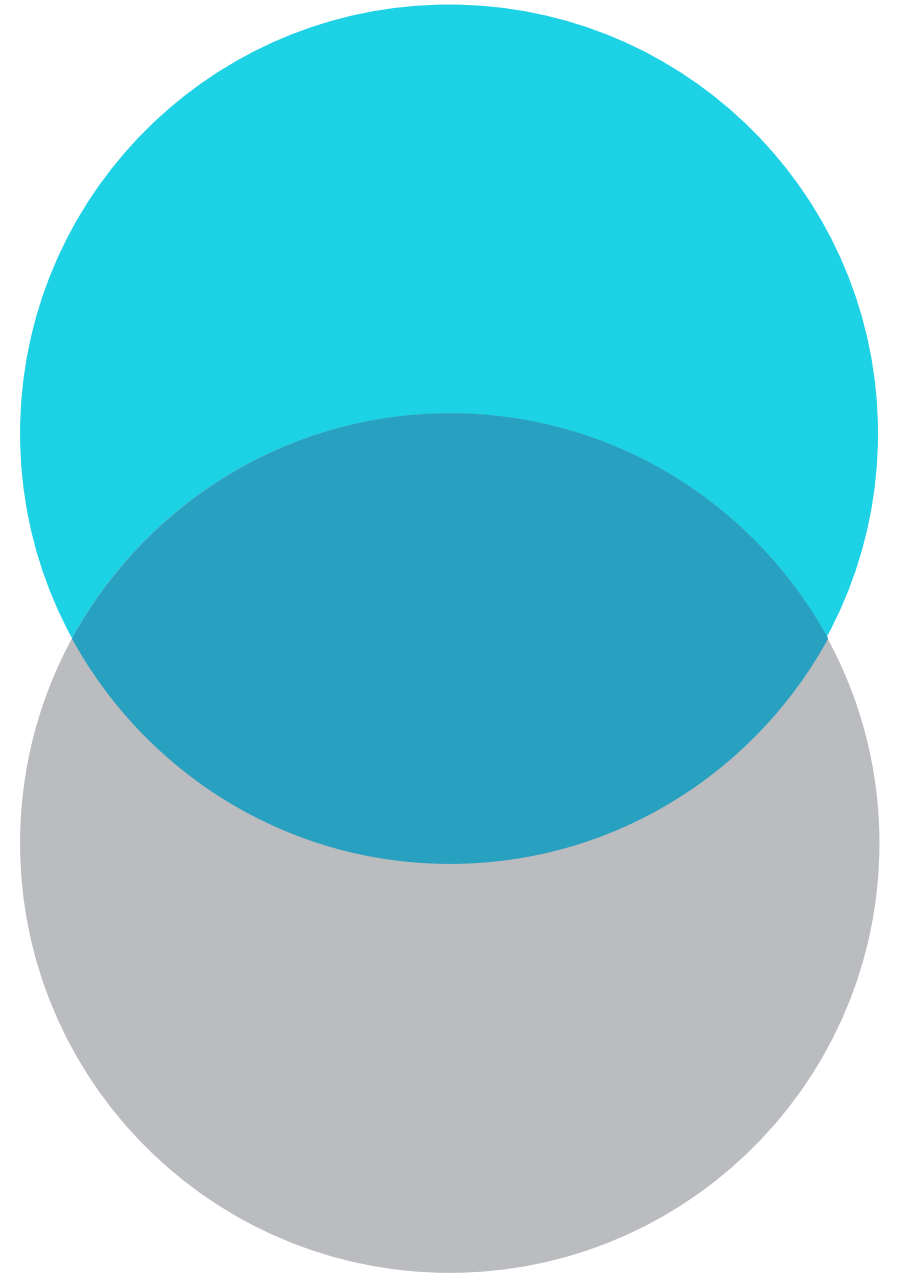
# WE ARE SEEING DISINFLATION IN THE US – MARKETS ARE FORWARD LOOKING, AND THE DIRECTION OF INFLATION HAS CHANGED

Inflation Slowing  
YoY % Change

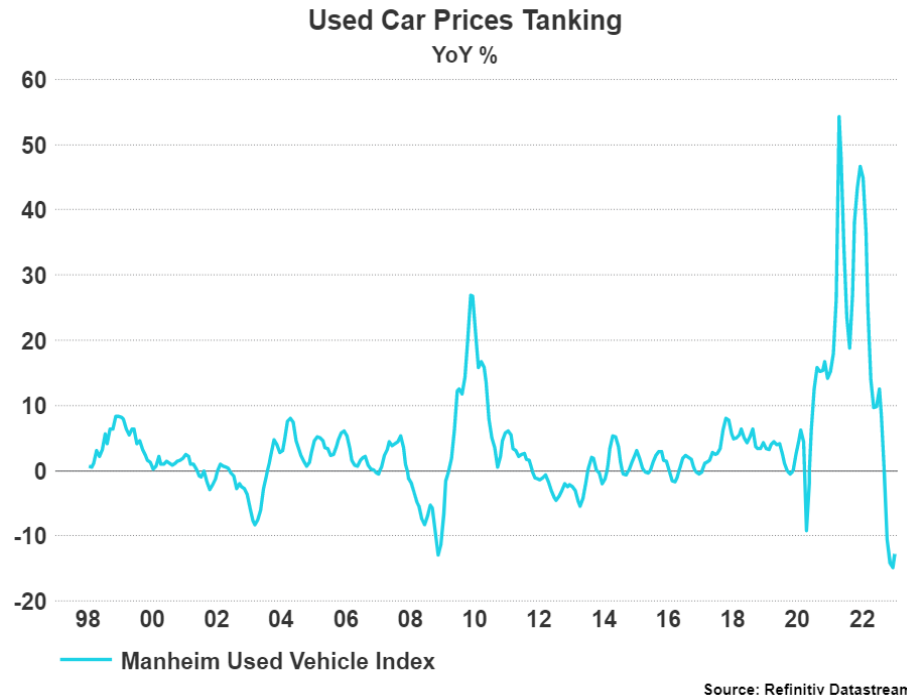


US lead the way up,  
will it lead the way  
down?

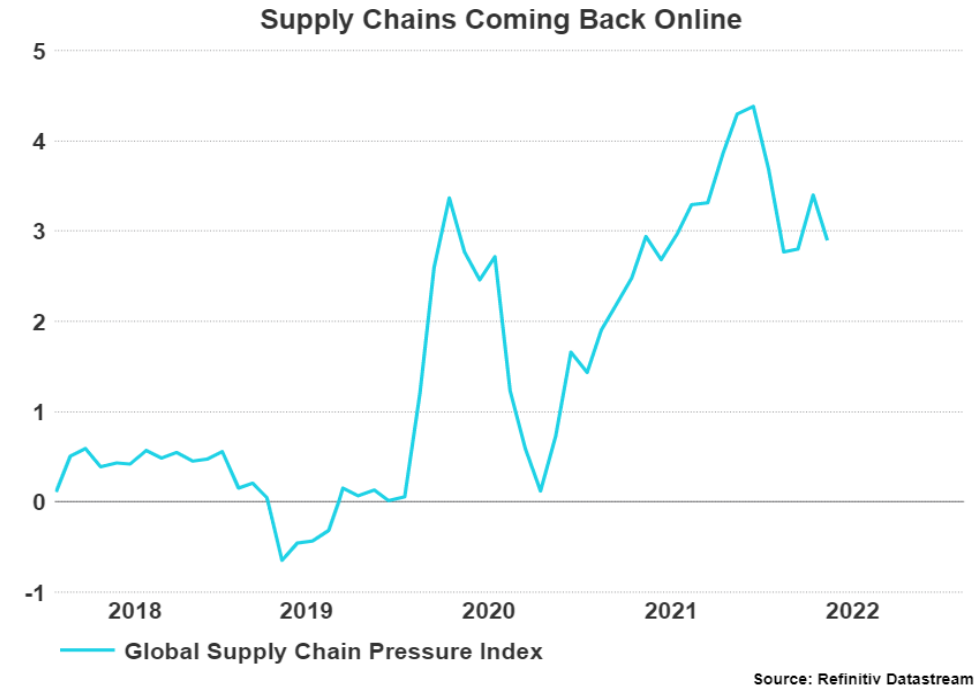
# OUTLOOK



# DEMAND IS COMING OFF AND SUPPLY IS COMING BACK WHICH MEANS INFLATION WILL CONTINUE TO COME DOWN



- Used car prices signs of excess demand falling sharply
- Cooling significantly in sharp reversal



- Remain elevated but the trend is looking to keep going downwards
- Backlogs are clearing relative to a year ago (at its worst)

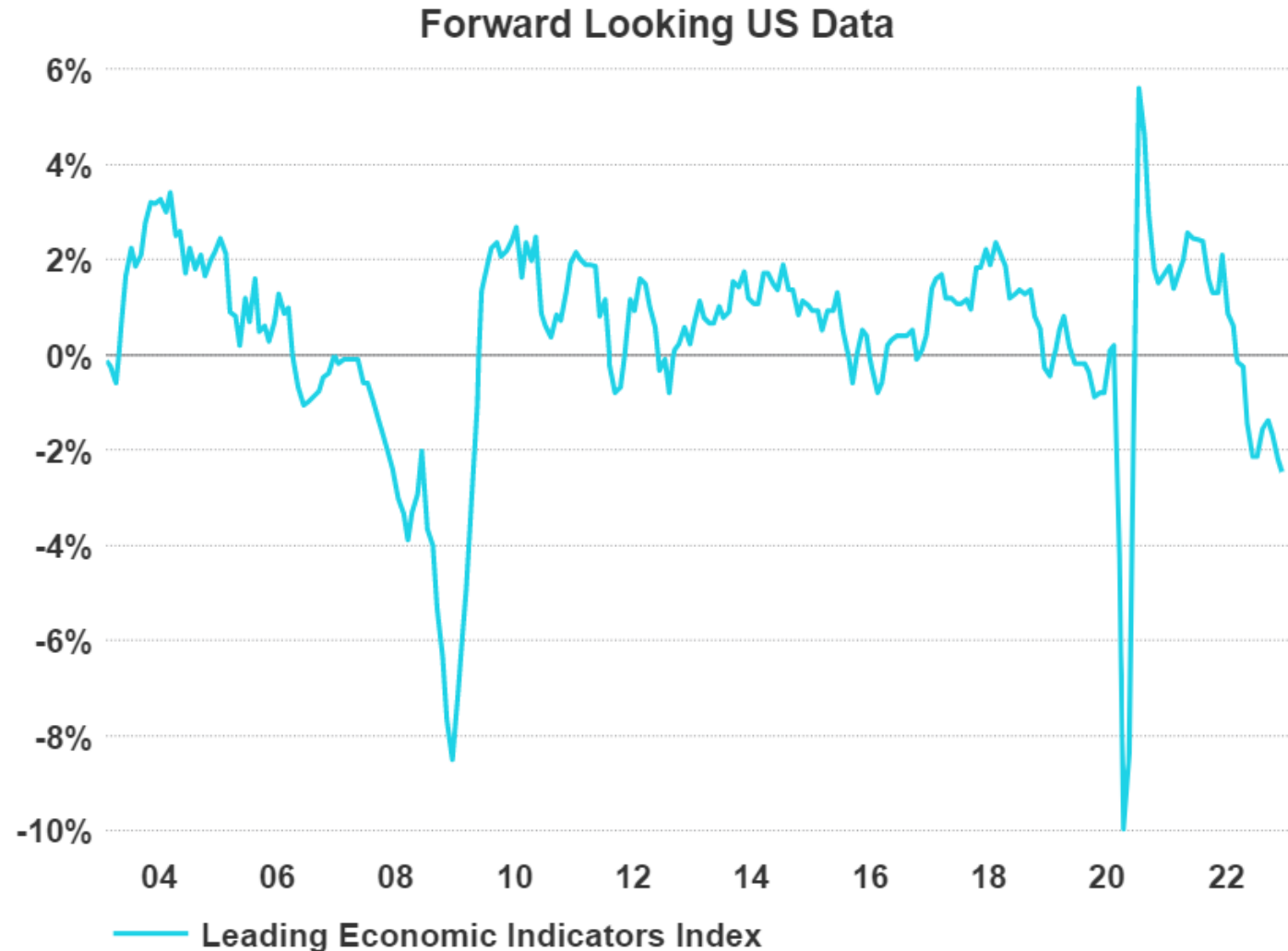


# SUPPLY CHAINS ARE IMPROVING – COST OF SHIPPING IS DOWN



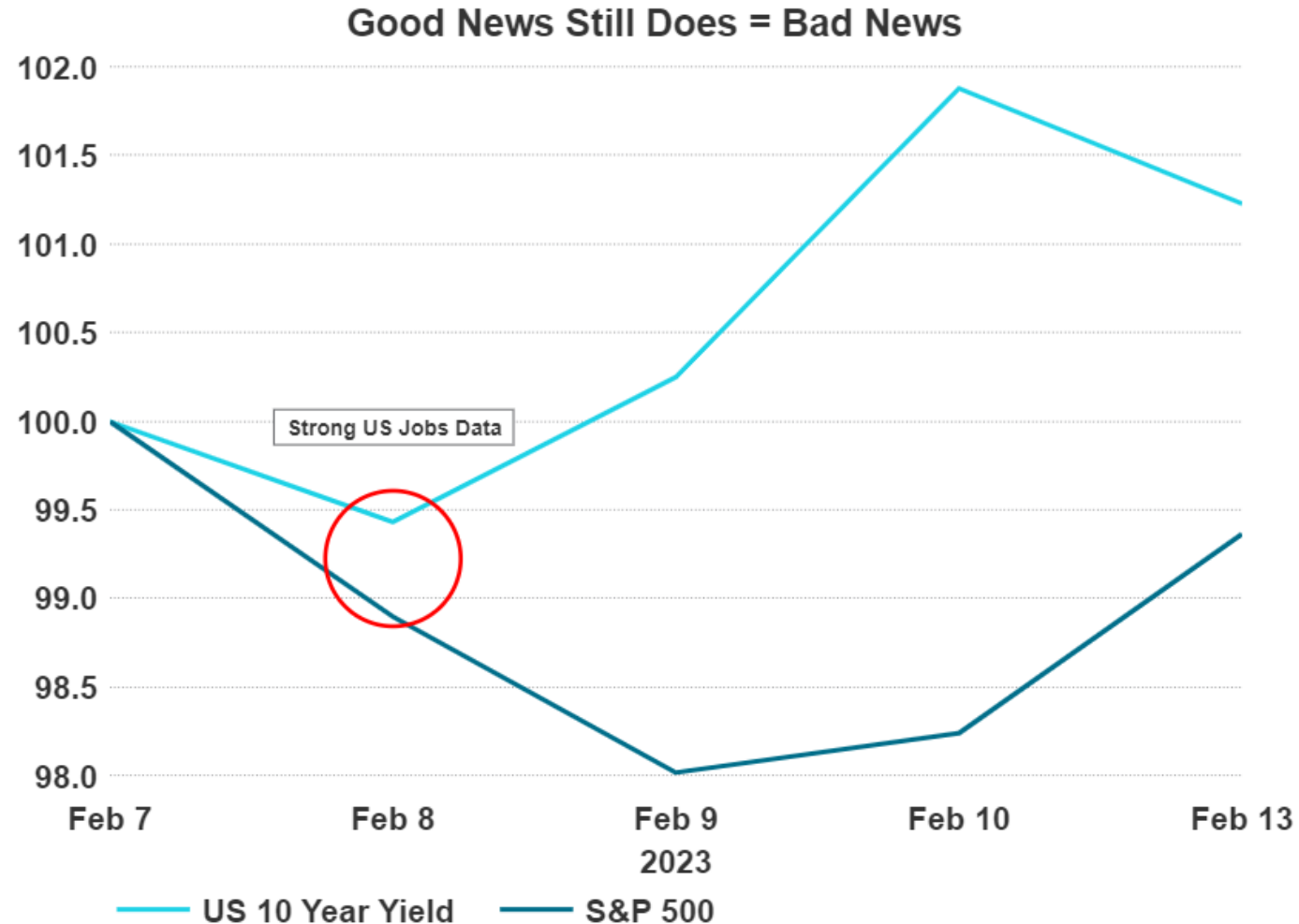
Source: Refinitiv Datastream

# LEADING ECONOMIC INDICATORS SUGGEST A SLOWING OF GROWTH



Source: Refinitiv Datastream

# WHEN GOOD ECONOMIC NEWS IS RELEASED, MARKETS FALL SINCE CENTRAL BANKS CONTINUE TO RAISE INTEREST RATES



Source: Refinitiv Datastream

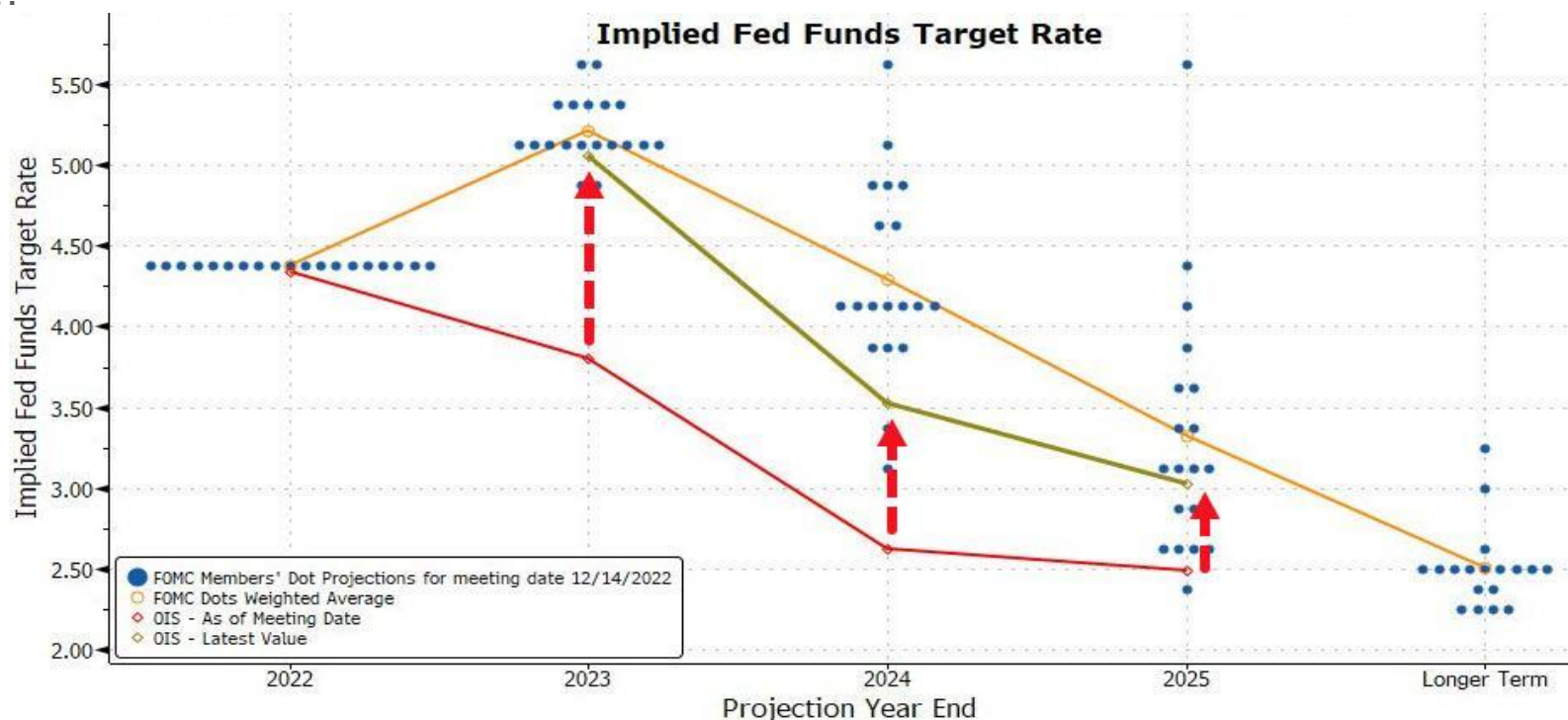
# EQUITIES OUTLOOK

- Most of the bad news has been priced in
- Equities tend to do well after 5-7 months of the peak (terminal rate) getting hit as this generally moves close to the beginning of rate cuts
- Quality companies generally do better during recessions... let alone recessions with elevated inflation
  - This quality can come from Value or Growth Managers (not speculative growth or deep low-quality value)
  - Growth companies tend to do better through recessions than value (cyclical value)
- Constructive on equities generally across the year but more so towards the end of the year as the hiking cycle comes to an end

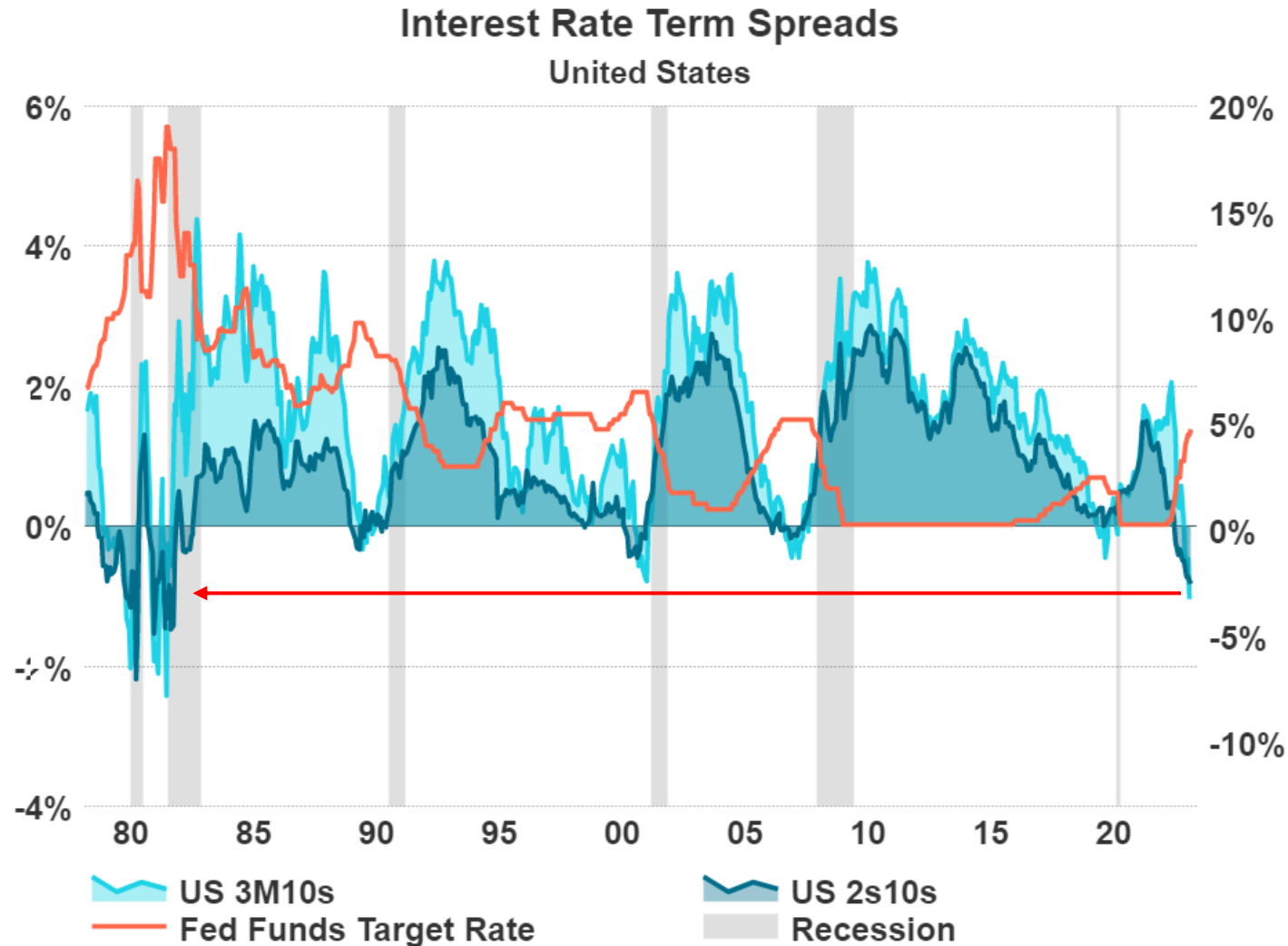


# FIXED INCOME OUTLOOK

- Nearing peak rates – likely to be hit in the coming months
- From there what happens?
  - Central banks may keep them elevated – cutting cycle likely to show itself at some point
- The path to rate cuts will however be very bumpy – hot economic data will cause volatility within interest rate expectations
- Rate cuts that **were** priced in for the end of 2023 have mostly moved to be in line with what the Federal Reserve is suggesting...



# INVERSION DEEPENS WHICH FURTHER CEMENTS THE VIEW OF A RECESSION



Deepest inversion on 2s10s since Oct 1981

# FIXED INCOME OUTLOOK

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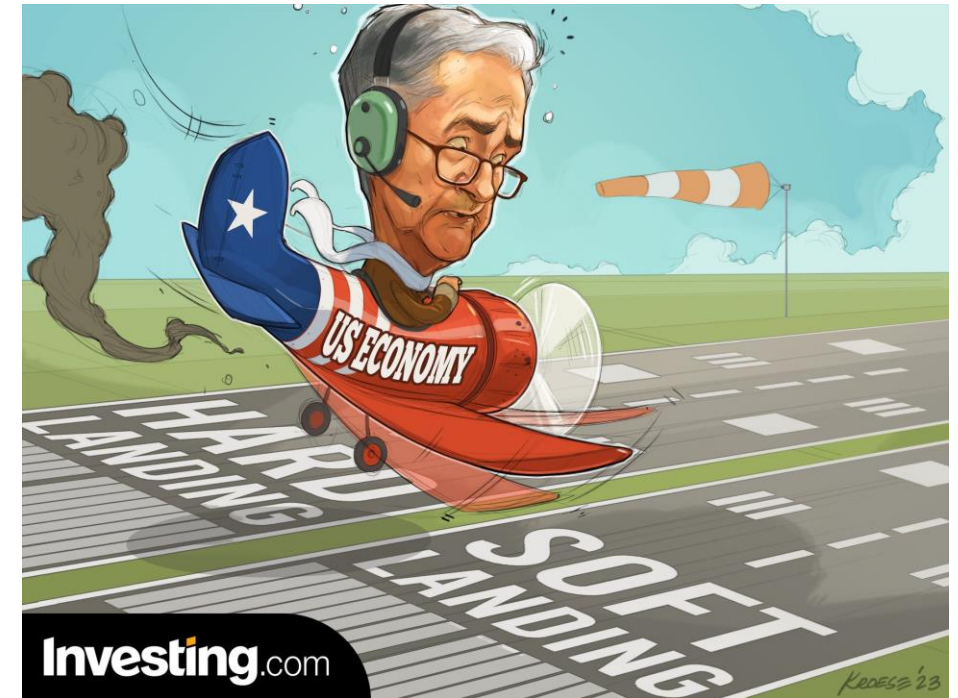
- General reweighting back to longer duration managers to occur across this year
- Avoiding HY credit managers as a tightening cycle will cause a default cycle (magnitude unknown)
  - Defaults in property development, low quality zombie companies to come first
  - FitchRatings – HY and Leveraged Loan defaults to continue to climb in 23 and 24
- Government bonds look to have the higher potential and minimal risk as a strong duration trade could occur within these years



# OUTLOOK SUMMARY

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- Economies to continue to slow across 2023
- This doesn't necessarily mean equities will be hurt badly (forward looking and a lot of bad news is priced in)
  - Inflation surprises and lack of economic slowing through strong economic numbers could prolong the pain
- Quality equities in both the value and growth factor to be focussed on
- 2022 – quality lagged due to the cyclical bounces in material and energy
- **Equity Scenarios:**
  - Deep value could again outperform if a structural energy bull market is in place (low probability through a recession)
  - Lower quality growth would do well in a very severe recession that brings on disinflation/deflation (mid/low probability for extremely severe recession like GFC)
  - Quality value and growth to stack up in a mild recession with elevated inflation
- Longer duration to start to outperform the more economies slow and downward pressure on inflation builds
  - This could still be some time away as the short-term remains highly volatile





An aerial photograph of a rugged, dark rock coastline. On the left, the ocean is turbulent with white-capped waves crashing against the rocks. On the right, a rectangular swimming pool with a wooden deck is built into the cliffside. The water in the pool is a clear, light green color. Several people are visible swimming in the pool. The overall scene is dramatic and scenic.

**What is keeping you  
up at night?**

## POLLING QUESTIONS

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**What is keeping your clients up at night?**

ⓘ Start presenting to display the poll results on this slide.

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**What is keeping you up at night?**

ⓘ Start presenting to display the poll results on this slide.

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**What is your value proposition to clients?**

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**What strategy do you use?**

① Start presenting to display the poll results on this slide.

## POLLING DISCUSSION

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What is most important when choosing a portfolio/SMA?

1. Investment process
2. Performance
3. Level or risk – Standard deviation
4. Underlying investments being rated
5. Benchmark used
6. Fees
7. Platform availability
8. Client objective
9. Invest philosophy
10. Asset allocation – Investment mix
11. Does the portfolio conduct DAA or TAA – is there alpha in this process
12. Governance process
13. Experience of the team
14. Liquidity
15. Track record
16. Available resources
17. Comparisons
18. Has the portfolio/SMA achieved its stated objective
19. Comparing costs to relative ETFs or Managed funds – can the strategy be replicated

## INITIATIVES 2023

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SMA project – Launching by July 2023

- Core plus Satellite – With Tactical and Dynamic asset allocation
- Income model – Based on the Retirement models

Asset consultant support for SMAs

Enhanced reporting to support advisers

Regular video content for advisers to use

Digital APL



# THANK YOU

Questions

