

# Betashares Dynamic Managed Accounts Report

**Quarter ending February 2024**

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## 1. Market Review

A modest easing in global bond yields helped produce solid returns from both global equity and bond markets over the three months to February. An upbeat US earnings reporting season and ongoing optimism around artificial intelligence were further positive factors for equity markets over the quarter.

A weaker Australian dollar also helped boost returns from global equities in unhedged \$A terms.

US bond yields initially dropped sharply over December – and equities rallied – following comments from US Federal Reserve chair Jerome Powell suggesting the next move in official interest rates was likely down in 2024.

Bond markets quickly priced in a US rate cut as early as March 2024, though resilient US economic growth and a higher-than-expected January US CPI result saw markets eventually push back US rate cut expectations until later this year – which in turn saw US bond yields partly retrace some of their December declines.

After having increased by 0.22% over the three months to end-November 2023, US 10-year bond yields eased back overall by 0.08% to 4.25% over the recent three-month period.

### US 10-year Government Bond Yields



Source: Refinitiv.

German and Japanese 10-year bond yields were broadly steady while global high-yield credit spreads narrowed further. As a result, the yield-to-maturity for the Bloomberg Global Aggregate Bond Index fell by 0.13% to 3.80%.

The decline in global yields – together with some income returns – meant the Bloomberg Global Aggregate Bond Index (\$A hedged) returned 1.9% after a 0.5% gain the previous three-month period.

In Australia, lower-than-expected inflation results led markets to more confidently price in local interest rate cuts later this year, with 10-year bond yields declining by 0.28% to 4.14%. The January monthly Consumer Price Index (CPI) report indicated annual headline inflation held steady at 3.4%, while trimmed mean annual inflation eased from 4.0% to 3.8%.

Credit spreads also contracted further and the yields on the Bloomberg Australian Composite Bond Index, also declined by 0.28% to 4.24%. As a result, the Bloomberg Australian Composite Bond Index returned 2.6% over the three months to February, following a 0.5% decline in the previous three-month period.

Gold prices consolidated over the latest three-month period, rising 0.4% in \$US dollar terms after a solid 5.0% gain in the previous three months.

Despite the rebound in bond yields in the early months of 2024, however, equity markets continued to rally. Helping in this regard was resilient global economic growth and ongoing solid US earnings reports, particularly in the technology sector.

US consumer spending has generally remained solid, with ongoing good employment gains and a low unemployment rate of 3.7%. Economic conditions remain more subdued in Europe and to an extent Japan. Thanks to strength in manufacturing production and infrastructure projects, China's economy continues to grow, though concerns about the residential property sector remain.

In short, the overall still encouraging global economic growth and earnings backdrop meant equity markets were able to withstand some rebound in bond yields – and delayed central bank rate cut hopes – so far in 2024.

As a result, the MSCI All-Country World Equity Index returned 10.2% in local currency terms and 12.0% in unhedged \$A terms. Japanese and the US equities enjoyed especially strong returns, as did the global technology sector and the “quality” factor.

### MSCI All Country World Equity Return Index



Source: Refinitiv. \*MSCI All Country World Index Return (Local currency)

Australian equities also performed well, though slightly less than global equities, with the S&P/ASX 200 Equity Index returning 9.4%. Helped by lower bond yields, technology stocks enjoyed especially strong returns, as did the financials and consumer discretionary sectors. Lingering concerns over the Chinese outlook, however, hurt resource stocks.

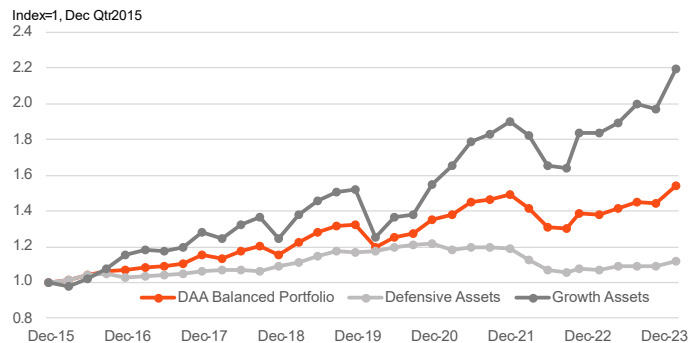
The interest-rate sensitive listed property sector also enjoyed strong returns, with the S&P/ASX 200 A-REITs Index returning 18.1% after slipping back 4.5% in the previous three-month period.

## 2. Portfolio Review

As noted above, an easing in bond yields and resilient global economic growth supported gains in both bond and equity markets over the three months to end-February.

Using SAA benchmark weights for the balanced portfolio, overall defensive asset returned 2.4% over the period, while growth assets returned 11.5%.

### Dynamic Balanced Portfolio Performance



Source: Bloomberg, Betashares. Past performance is not an indicator of future performance. Growth and defensive asset returns are based on SAA (balanced) ETF weights.

As a result, the suite of dynamic managed accounts produced solid positive returns over this period. The balanced portfolio returned 7.0%, or broadly in line with the benchmark portfolio.

### February Quarter 2024 (Quarterly performance)

	% return Feb Qtr	Balanced Portfolio Weights As at end of November 2023		+/-
		SAA	DAA	
<b>Defensive Assets*</b>	<b>2.4%</b>	<b>50.00%</b>	<b>50.00%</b>	
Cash (AAA)	1.1%	5.00%	2.50%	-2.50%
Aust. Floating-Rate Bonds (QPON)	1.5%	4.50%	4.75%	0.25%
Aust. Fixed-Rate Bonds (OZBD)	3.3%	22.50%	23.75%	1.25%
Global Bonds (VBND)	1.7%	18.00%	19.00%	1.00%
Gold (QAU)	-0.8%			
<b>Growth Assets*</b>	<b>11.5%</b>	<b>50.00%</b>	<b>50.00%</b>	
Aust. Listed Property (VAP)	18.0%	2.50%	2.50%	
Aust. Equities (QOZ)	9.6%	5.25%	5.25%	
Aust. Equities (A200)	9.5%	12.25%	12.25%	
US Equities (QUS)	12.2%	5.00%	5.00%	
US Equities (VTS)	14.3%	11.25%	11.25%	
Non-US Equities (VEU)	8.5%	10.75%	10.75%	
Global Equities (QLTY)	15.8%	3.00%	3.00%	
<b>Quarterly % return</b>		<b>6.9%</b>	<b>7.0%</b>	

\*Defensive and growth asset returns are based on SAA weights.

Attribution equals the difference in each ETF's quarterly return vs. overall SAA portfolio return multiplied by the difference between that ETF's DAA and SAA weights.

### Balanced Portfolio: Performance Attribution

	Feb Qtr	6-months	12-months
<b>Return performance</b>			
DAA	7.0%	6.1%	11.5%
SAA	6.9%	6.1%	11.7%
DAA vs SAA*	0.0%	0.0%	-0.2%
<b>Performance attribution**</b>			
Growth vs. Defensive	-0.0%	-0.0%	-0.2%
Intra defensive	0%	0%	0%
Intra growth	0%	0%	-0%

\* Figures may not add up due to rounding.

\*\*Growth vs. defensive refers to broad dynamic tilts between growth and defensive assets. Intra-defensive and intra-growth refer to tilts within each broad asset type. Attribution equals the difference in each ETF's quarterly return vs. overall SAA portfolio return multiplied by the difference between that ETF's DAA and SAA weights.

Among defensive assets, fixed-rate bonds produced stronger returns than cash and floating-rate bonds due to lower bond yields, with Australian bonds producing stronger returns than global bonds.

Australian fixed-rate bonds, via the OZBD ETF, returned 3.3%. Global fixed-rate bonds, via the VBND ETF, returned 1.7%. Australian floating-rate bonds, via the QPON ETF, returned 1.5%, while the cash AAA ETF returned 1.1%.

Gold, via the currency hedged QAU ETF, produced a small negative decline of 0.8%.

Among growth assets, listed property produced the strongest returns, followed by global equities and then Australian equities.

Global equities overall returned 12.0%, with a stronger 14.3% return for US equities (VTS) compared to 8.5% for non-US equities (VEU). Australian equities produced modestly lower returns than global equities with the A200 ETF returning 9.5%. Listed property, via the VAP ETF, produced a strong 18% return.

Among "smart beta" equity exposures, the global quality ETF (QLTY) outperformed global equities with a 15.8% return. The equally-weight US stock ETF (QUS) returned 12.2%, modestly underperforming its market-cap weighted counterpart (VTS) due to ongoing relative strength of large-cap US technology stocks.

In Australia, the fundamentally weighted equity ETF (QOZ) broadly matched its market-cap weighted counterpart (A200), with a 9.6% return.

### Managed Account ETF Historic Returns

	Feb Qtr	Nov Qtr	6-months	12-months
<b>Defensive Assets</b>	<b>2.4%</b>	<b>0.0%</b>	<b>2.4%</b>	<b>4.2%</b>
<b>Cash (AAA)</b>	<b>1.1%</b>	<b>1.1%</b>	<b>2.2%</b>	<b>4.2%</b>
<b>Aust. Bonds</b>	<b>3.0%</b>	<b>-0.4%</b>	<b>2.6%</b>	<b>4.7%</b>
Aust. Floating-Rate Bonds (QPON)	1.5%	1.1%	2.7%	5.4%
Aust. Fixed-Rate Bonds (OZBD)	3.3%	-0.7%	2.6%	4.5%
<b>Global Bonds (VBND)</b>	<b>1.7%</b>	<b>0.4%</b>	<b>2.2%</b>	<b>3.4%</b>
<b>Gold, \$US (QAU)</b>	<b>-0.8%</b>	<b>4.1%</b>	<b>3.3%</b>	<b>9.7%</b>
<b>Growth Assets</b>	<b>11.5%</b>	<b>-1.5%</b>	<b>9.8%</b>	<b>19.5%</b>
<b>Aust. Listed Property (VAP)</b>	<b>18.0%</b>	<b>-4.5%</b>	<b>12.7%</b>	<b>14.8%</b>
<b>Aust. Equities</b>	<b>9.5%</b>	<b>-1.5%</b>	<b>7.9%</b>	<b>11.0%</b>
Aust. Equities (QOZ)	9.6%	-0.9%	8.7%	11.9%
Aust. Equities (A200)	9.5%	-1.8%	7.6%	10.7%
<b>Global Equities</b>	<b>12.0%</b>	<b>-1.2%</b>	<b>10.6%</b>	<b>25.0%</b>
US Equities (QUS)	12.2%	-3.1%	8.8%	16.6%
US Equities (VTS)	14.3%	-1.0%	13.2%	33.1%
Non-U.S. Equities (VEU)	8.5%	-1.1%	7.3%	16.8%
Global Equities (QLTY)	15.8%	0.5%	16.3%	39.7%

Past performance not an indicator of future performance.

### 3. Market Outlook and Portfolio Positioning

#### Summary of Key Investment Themes - as at end February 2024

Investment Theme	Investment Strategy	Comment / Analysis
<b>Immaculate disinflation</b>	Neutral growth vs. defensive assets	Global inflation is continuing to decline against the backdrop of resilient economic growth. Falling inflation reduces the risk that central banks will need to tip the global economy into recession. Some near-term caution is warranted, however, given high US equity valuations.
<b>End of policy tightening cycle</b>	Overweight bonds in defensive assets	Easing inflation means central banks have now likely completed their tightening cycles, with rate cuts likely by late 2024. Fall bond yields should favour the outperformance of fixed-rate bonds over cash.
<b>Neutral growth vs. value</b>	Neutral Australian vs. Global Equities & Bonds	While a soft-landing scenario ordinarily favours “high beta” equity exposure such as growth and technology – which are more represented in global markets – there is potential for catch-up performance by cheaper more value-oriented exposures such as Australia.

Economic developments over the past few months have remained broadly encouraging. Global inflation continues to ease, economic growth remains resilient and simmering geopolitical tensions have not escalated.

Accordingly, expectations for “immaculate disinflation” - an easing in global inflation back to pre-COVID levels without the need for a recession - are now firmly priced into equity and bond markets.

Indeed, earnings growth expectations remain upbeat, whilst at the same time bond markets are pricing in interest rate cuts by many central banks later this year.

We broadly concur with this expectation. We anticipate further declines in US inflation especially, with an easing in housing and service sector inflation as catch-up to the declines in goods sector inflation already seen. This should prevent the Federal Reserve from raising interest rates further and likely encourage it to pivot to supporting economic growth through rate cuts later this year.

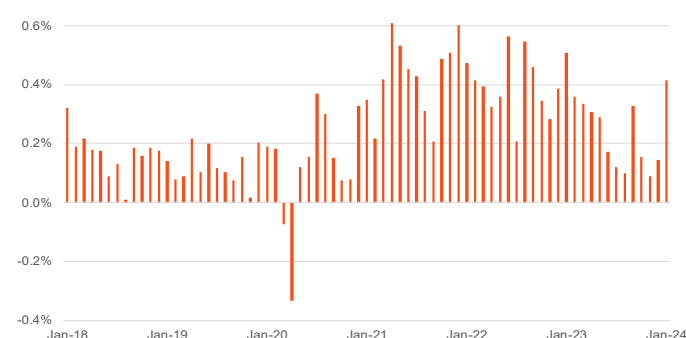
In the meantime, US corporate and household balance sheets are in good shape and seem able to withstand the current elevated level of interest rates until the Fed eventually cuts interest rates.

The outlook, however, is not without risk. Countering this widespread optimism, we note global equity valuations are now at best only fair-value, with lingering concerns over the sustainability of high valuations for US large-cap technology stocks – the “magnificent 7” - in particular.

US consumer prices also surprised on the upside in January and, while seasonal adjustment distortions are thought to blame, markets will not take kindly to another upside surprise in the February report. Disruptions to global shipping have also reemerged to a degree, due to attacks on the cargo ships in the Red Sea. Global supply chain pressures have increased, though remains well below COVID levels.

With labour markets still tight and consumer spending firm, there remains a small chance that the US economy may still require a sharper economic slowdown than seen to date – through higher interest rates – to sustainably bring down inflation toward the Federal Reserve 2% target level.

#### US Core Private Consumption Deflator (mom %)



Source: LSEG Datastream.

Another concern in the United States is that the Federal Budget deficit remains large, with a growing public debt burden.

But judging if and when financial markets will ultimately demand higher yields to absorb rising government bond supply is difficult - indeed, market concerns with the US budget deficit late last year did not last long, with bond yields falling notably soon thereafter.

#### Global Supply Chain Pressure Index



Source: LSEG Datastream.

There are also lingering concerns over the Chinese economic outlook, with the Government continuing to disappoint would-be investors into the Chinese market by not delivering a stronger fiscal stimulus package. For their part, Chinese officials to date seem more accepting of slower but more financially sustainable economic growth going forward.

In Australia, share prices have lagged global performance in recent times due to weaker corporate earnings – which in turn reflects a correction back in mining/energy sector earnings and an absence of large profitable technology companies as evident in the United States.

Australian economic growth slowed to a crawl late last year, with only 0.2% GDP growth in the December quarter. Despite record levels of immigration, the economy only grew by 1.5% over 2023 due to very weak consumer spending and a downturn in housing activity.

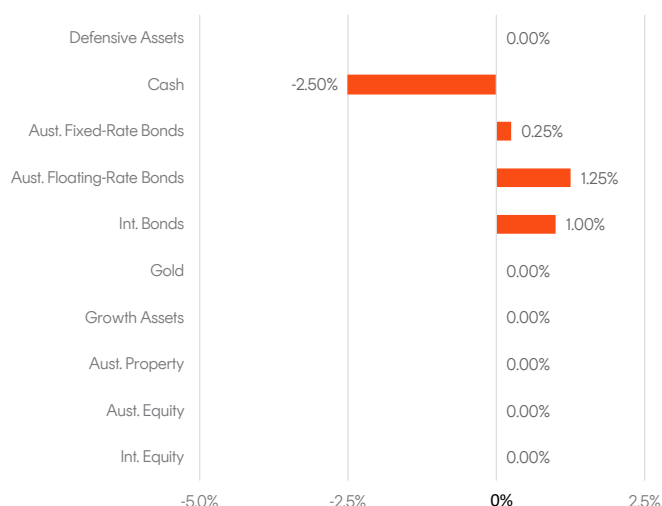
Local inflation, however, has continued to surprise modestly on the downside. Goods inflation has declined notably though, as evident around the world, service sector inflation has to date declined more slowly.

In view of these various considerations, at its recent meeting, the Investment Committee decided to retain current dynamic asset allocation tilts for the period ahead. This implies on ongoing neutral exposure to growth assets over defensive assets and an overweight to fixed-weight bonds over cash within defensive assets.

Other tactical allocations – such as between Australian and global bonds and listed property, Australian and global equities – also remain neutral. While cheaper valuations may favour Australian equities, the earnings outlook is not as bright as that globally. As regards bonds, we still consider global monetary policy cycles as broadly aligned, proving limited scope for divergent Australian versus global bond performance.

While listed property is also starting to benefit from declining bond yields, a neutral exposure is retained at this stage - especially given structural challenges facing the sector in light of high office vacancy rates and the post-COVID work-from-home phenomena.

#### Balanced Portfolio - Dynamic Tilts, end-February 2024



Source: Betashares. As at February 2024.

### Investment Committee Voting Members



**David Bassanese**  
Chief Economist and  
Chair of Investment  
Committee



**Louis Crous**  
Chief Investment Officer



**Thong Nguyen**  
Head of Equities



**Chamath De Silva**  
Head of Fixed Income



**Cameron Gleeson**  
Senior Investment  
Strategist



## Managed Accounts Weightings (as at end February 2024)

The Strategic and Dynamic Managed Accounts weights are detailed in the table below.

		80.0% 20.0%				65.0% 35.0%				50.0% 50.0%				30.0% 70.0%				10.0% 90.0%			
Asset Class	ETF	Conservative				Moderate				Balanced				Growth				High Growth			
		SAA	DAA	+/-	change	SAA	DAA	+/-	change	SAA	DAA	+/-	change	SAA	DAA	+/-	change	SAA	DAA	+/-	change
Defensive		80.0%	80.0%			65.0%	65.0%			50.0%	50.0%			30.0%	30.0%			10.0%	10.0%		
Cash	AAA	15.00%	10.00%	-5.00%		10.00%	6.00%	-4.00%		5.00%	2.50%	-2.50%		3.00%	3.00%						
Aust.Bonds - Floating	QPON	6.50%	7.00%	0.50%		5.50%	6.00%	0.50%		4.50%	4.75%	0.25%									
Aust.Bonds - Fixed Govt	AGVT																				
Aust.Bonds - Fixed Corp	CRED																				
Aust.Bonds	OZBD	32.50%	35.00%	2.50%		27.50%	29.00%	1.50%		22.50%	23.75%	1.25%		15.00%	15.00%			10.00%	10.00%		
Int. bonds	VBND	26.00%	28.00%	2.00%		22.00%	24.00%	2.00%		18.00%	19.00%	1.00%		12.00%	12.00%						
Gold (SUS)	QAU																				
Growth		20.0%	20.0%			35.0%	35.0%			50.0%	50.0%			70.0%	70.0%			90.0%	90.0%		
Aust. A-REITs	VAP									2.50%	2.50%			3.00%	3.00%			3.50%	3.50%		
Aust. Equities	QOZ	2.50%	2.50%			4.25%	4.25%			5.25%	5.25%			7.50%	7.50%			9.75%	9.75%		
Aust. Equities	A200	5.50%	5.50%			9.75%	9.75%			12.25%	12.25%			17.50%	17.50%			22.75%	22.75%		
Int. Equities	QLTY	2.50%	2.50%			2.50%	2.50%			3.00%	3.00%			4.25%	4.25%			5.25%	5.25%		
US Equities	QUS	2.50%	2.50%			3.50%	3.50%			5.00%	5.00%			6.75%	6.75%			8.75%	8.75%		
US Equities	VTS	3.25%	3.25%			7.50%	7.50%			11.25%	11.25%			16.00%	16.00%			20.50%	20.50%		
Non-US Equities	VEU	3.75%	3.75%			7.50%	7.50%			10.75%	10.75%			15.00%	15.00%			19.50%	19.50%		
Total		100.0%	100.0%			100.0%	100.0%			100.0%	100.0%			100.0%	100.0%			100.0%	100.0%		
MER <sup>1</sup>		0.19%	0.19%			0.17%	0.18%			0.17%	0.17%			0.15%	0.15%			0.14%	0.14%		

1. These are the weighted average management costs of the underlying funds in the managed accounts and can be expected to change over time as asset allocations and underlying investment vehicles change. These costs do not include certain other costs, such as any transaction costs (e.g. brokerage and bid-offer spreads) that might be incurred when implementing managed accounts.

## Betashares Managed Accounts: Performance Summary

The historical performance of the Strategic and Dynamic Managed Accounts is detailed in the table below.

	Conservative	Moderate	Balanced	Growth	High Growth
<b>Dynamic Managed Accounts</b>					
<i>Total Return Performance<sup>1</sup></i>					
3-months	4.1%	5.4%	7.0%	8.7%	10.6%
6-months	3.9%	4.9%	6.1%	7.6%	9.0%
12-months	7.1%	9.3%	11.5%	14.5%	17.6%
3-year	1.1%	2.9%	4.7%	7.1%	9.8%
Since incept. <sup>2</sup>	3.0%	4.3%	5.4%	6.9%	8.7%
Volatility <sup>2</sup>	3.3%	4.6%	6.1%	8.2%	10.8%
Net Yield <sup>3</sup>	2.8%	2.5%	2.3%	2.1%	2.0%
Gross Yield <sup>3</sup>	2.9%	2.7%	2.6%	2.4%	2.4%
<b>Strategic (Benchmark) Managed Accounts</b>					
<i>Total Return Performance<sup>1</sup></i>					
3-months	4.0%	5.4%	6.9%	8.7%	10.6%
6-months	3.9%	4.9%	6.1%	7.6%	9.0%
12-months	7.2%	9.4%	11.7%	14.9%	18.0%
3-year	1.1%	2.9%	4.7%	7.3%	10.0%
Since incept. <sup>2</sup>	3.1%	4.5%	5.7%	7.3%	9.1%
Volatility <sup>2</sup>	3.2%	4.4%	6.0%	8.2%	10.8%
Net Yield <sup>3</sup>	2.8%	2.6%	2.4%	2.1%	2.0%
Gross Yield <sup>3</sup>	2.9%	2.8%	2.6%	2.4%	2.4%

1. Portfolios are rebalanced on a quarterly basis.

2. Since inception 31 December 2015

3. Trailing 12-months, as at 29 February 2024

Past performance is not an indicator of future performance.

Information regarding the weightings and performance of the Dynamic Income and Pension Risk-Managed suite of Managed Accounts is provided [here](#).

Information regarding the Betashares current capital asset pricing assumptions is provided [here](#).

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