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Market Trends

January 2024

with Chief Economist
David Bassanese

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Important information

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Cash returns

The RBA cash rate and monetary policy expectations have been broadly steady in recent months. The RBA last raised the cash rate to 4.35% in November 2023.

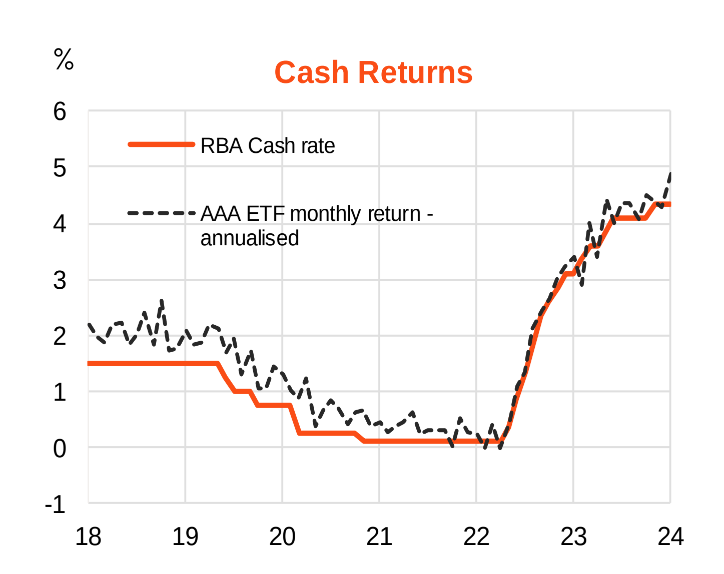
A major local development over the month was the lower-than-expected Q3 CPI in late-January, which heightened talks of RBA rate cuts later this year. That said, rate cut expectations have already been priced into the market in recent months, given an easing in global inflation pressures and rate cut expectations in the US.

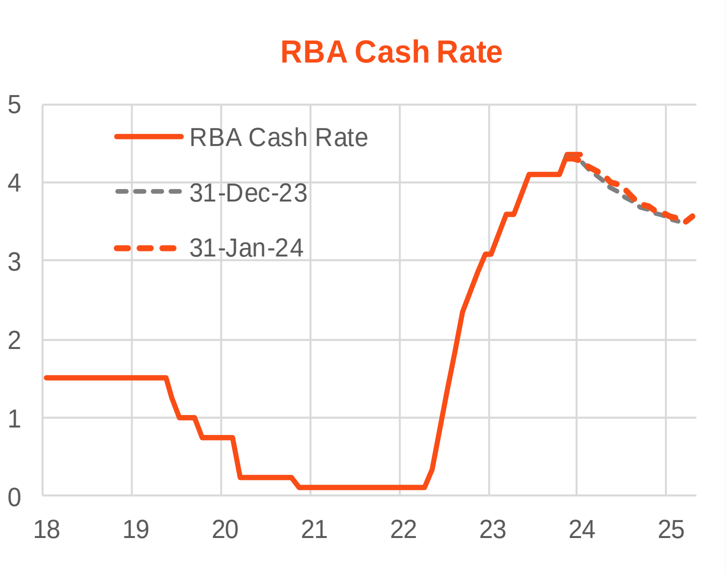
Reflecting the 4.35% p.a. official cash rate, the Bloomberg Bank Bill Index returned 0.4% in January (4.3% annualised), as did the AAA cash ETF. AAA's returns have broadly matched the RBA cash rate since early 2022.

As at end-January, markets were pricing almost three 0.25% p.a RBA rate cuts by end-2024.

My base case is two rates cuts in H2'24.

Cash Returns	Last	Last Mth.	Prev. mth	3-mth	prev. 3-mth	6-mth	12-mth
RBA Cash Rate (%)	4.35	0.00	0.00	0.25	0.00	0.25	1.25
30-day bank bill yield (%)	4.35	-0.01	-0.01	0.00	0.09	0.09	0.97
B/Bg Bank Bill Return Index		0.37%	0.37%	1.09%	1.04%	2.15%	4.00%
AAA ETF		0.40%	0.35%	1.11%	1.06%	2.18%	4.13%





Source: Bloomberg, Refintiv, Betashares. You cannot invest directly in an index. **Past performance is not indicative of future performance of any index or ETF.**

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Floating rate bonds and hybrids

Floating rate bonds (FRBs), as measured by QPON's index, returned 0.4% in January – close to the AAA cash ETF. The relatively steady FRB spread since mid-2022 has seen QPON broadly outperform AAA over this period (5.4% versus 4.1% over the past 12-months).

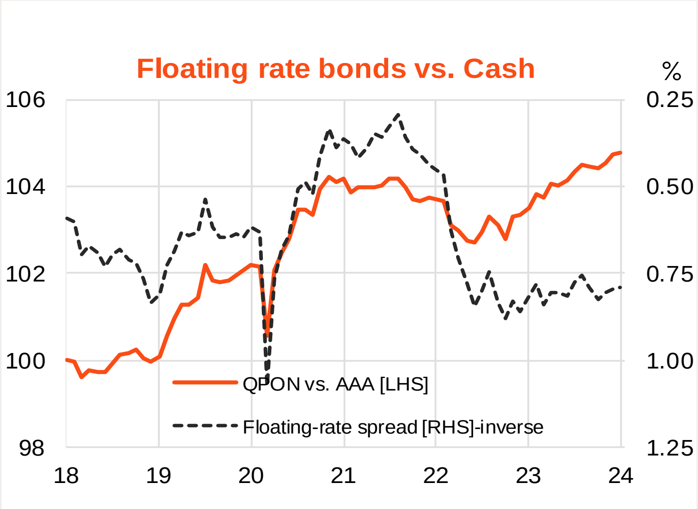
The FRB spread has remained broadly in line with its pre-Covid average over the two years.

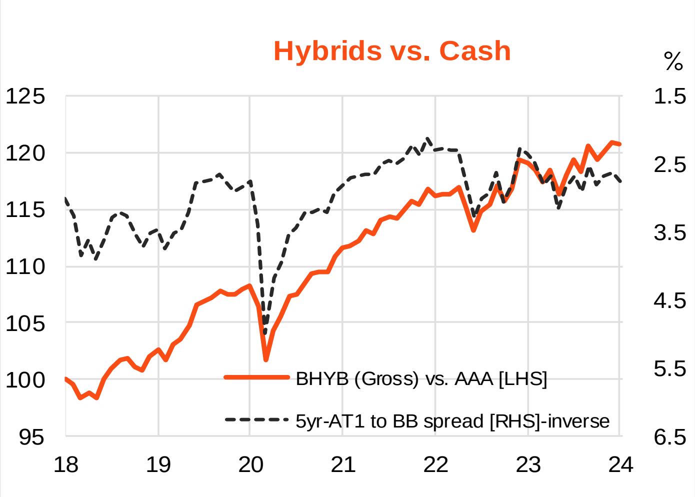
Bank hybrids, as measured by BHYB's index, returned 0.27% in November, with the hybrid spread remaining broadly steady over the month. Over the past 12-months, bank hybrid gross returns were 5.6%.

The hybrid spread has also been in a choppy sideways range in recent months, though remains somewhat tighter than the average spread of around 3.5% in the two years prior to the 2020 Covid crisis.

FRBs and Hybrids	Last	Last Mth.	Prev. mth	3-mth	prev. 3-mth	6-mth	12-mth
FRB spread[1] (%)	0.80	-0.01	-0.02	0.01	-0.03	-0.02	-0.06
FRB Yield (%)	5.14	-0.02	-0.02	-0.04	0.14	0.10	0.95
FRB Return (%)		0.4%	0.51%	1.41%	1.21%	2.64%	5.08%
QPON's index		0.41%	0.54%	1.46%	1.13%	2.60%	5.41%
Hybrid Spread[2] (%)	2.75	0.13	-0.06	-0.05	0.13	0.08	0.41
Hybrid yield (%)	7.10	0.12	-0.07	-0.05	0.22	0.17	1.38
BHYB's index		0.27%	0.99%	2.25%	1.04%	3.31%	5.59%

Source: Bloomberg, Refintiv, Betashares. Refer to page 12 for more additional information. Shows the performance of the index that QPON and BHYB seeks to track, and not the ETF itself. Does not take into account ETF management fees and costs (0.22% p.a. for QPON and 0.35% p.a. for BHYB). You cannot invest directly in an index. **Past performance is not indicative of future performance of any index or ETF.**





Source: Bloomberg, Refintiv, Betashares. Shows the performance of the index that QPON and BHYB seeks to track compared to the AAA ETF, and not QPON or BHYB itself. Does not take into account QPON or BHYB's management fees and costs (0.22% p.a. for QPON and 0.35% p.a. for BHYB). You cannot invest directly in an index. **Past performance is not indicative of future performance of any index or ETF.**

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Fixed-rate Australian bonds

Long-term bond yields were broadly steady over January, with multiple RBA rate cuts still priced into the market.

Australian 10-year bond yields rose 0.06% to 4.01% p.a., while the yield on the Bloomberg AusBond Composite Index rose 0.01% to 4.12% p.a. As a result, the AusBond Composite Index returned 3.0% in the month, while OZBD's index returned 0.2%.

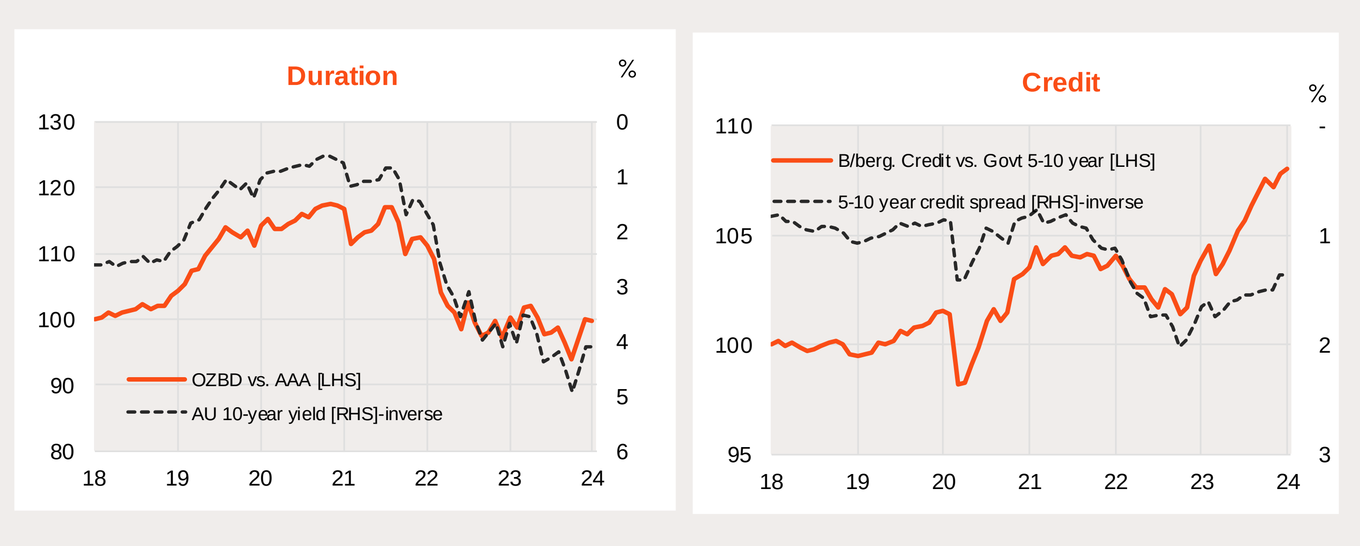
Bonds have outperformed cash since the peak in bond yields in October 2023.

Corporate fixed-rate credit spreads continue to creep lower, supporting outperformance of corporate bonds over government bonds.

Fixed-Rate Bonds	Last	Mth	Prev. mth	3-mth	prev. 3-mth	6-mth	12-mth
RBA 12-mth expect.[3]	3.74	-0.02	-0.53	-0.78	0.22	-0.56	0.06
Aust. 10-yr yield	4.01	0.06	-0.46	-0.91	0.87	-0.05	0.46
AusBond Comp. yield	4.12	0.01	-0.41	-0.82	0.64	-0.18	0.43
AusBond Comp. Return Index		0.2%	2.7%	6.0%	-2.6%	3.2%	2.5%
OZBD ETF		0.2%	3.5%	7.4%	-3.1%	4.0%	3.5%

Long-duration credit	Last	Mth	Prev. mth	3-mth	prev. 3-mth	6-mth	12-mth
5-10yr spread[4]	1.36	-0.01	-0.13	-0.14	-0.05	-0.19	-0.29
5-10yr Govt Bonds		0.2%	3.5%	7.7%	-4.1%	3.3%	1.9%
5-10yr Credit		0.4%	4.0%	8.2%	-2.4%	5.6%	6.1%
Credit vs Govt		0.2%	0.5%	0.5%	1.7%	2.3%	4.1%

Source: Bloomberg, Refintiv, Betashares. Refer to page 12 for more additional information. Shows the performance of the index that OZBD seeks to track, and not the ETF itself. Does not take into account ETF management fees and costs (0.19% p.a.). You cannot invest directly in an index. **Past performance is not indicative of future performance of any index or ETF.**



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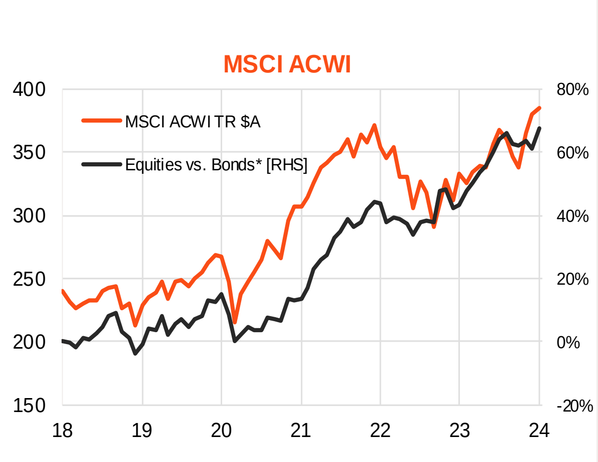
Global equities

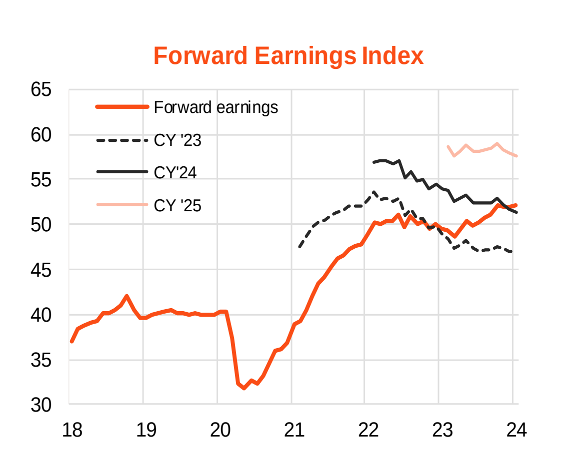
The MSCI All-Country World Index returned 1.2% in January on an unhedged (local currency) basis, following a strong 4.1% gain in December. After a large decline in December, bond yields were steady in January, with a small decline in the equity risk premium instead modestly boosting the PE ratio to 16.9. Forward earnings remained flat. A weaker AUD boosted returns in unhedged AUD terms to 3.8%.

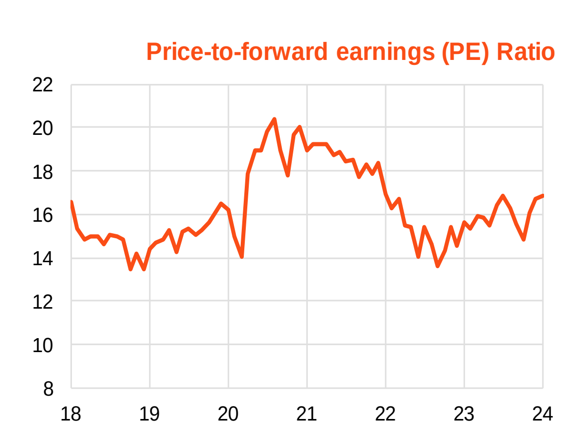
Easing fears of a global recession remains the major global market theme, with the US Federal Reserve signaling the next move in rates is likely down. The only near-term debate is how quickly the Fed will cut, with markets potentially at risk in the short term if the Fed delays until H2'24.

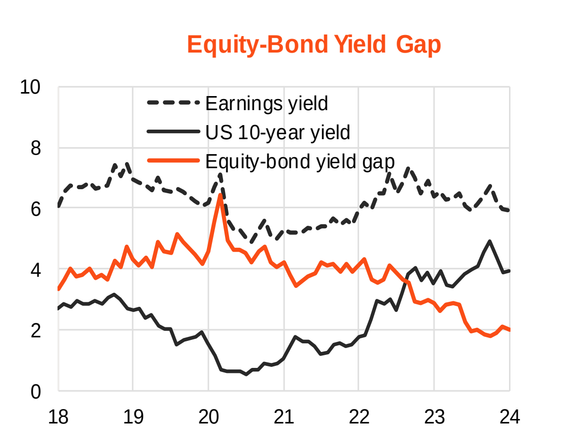
That said, at 16.9x and 2.0% respectively, the PE ratio and equity risk premium appear a little stretched by recent historic standards, suggesting further equity gains may require a decent further decline in bond yields or a lift in forward earnings. Central bank rate cuts should help push down bond yields, while positive CY'25 earnings expectations also suggest a further lift in forward earnings. The earnings outlook is worth watching, with a modest downgrade to expectations seen over the past two months.

Global Equities	Last	Mth	Prev. mth	3-mth	prev. 3-mth	6-mth	12-mth
US 10-yr yield	3.91	0.03	-0.45	-1.02	0.97	-0.05	0.40
Equity-risk premium[5]	2.01	-0.09	0.21	0.22	-0.18	0.04	-0.88
Earnings yield[6]	5.92	-0.06	-0.24	-0.80	0.79	-0.01	-0.47
PE ratio[7]	16.9	1.0%	3.9%	13.5%	-11.8%	0.2%	8.0%
Forward Earnings[8]		0.2%	0.0%	0.0%	3.8%	3.8%	5.2%
MSCI ACWI Price Index		1.2%	3.9%	13.5%	-8.4%	3.9%	13.6%
Dividend		0.1%	0.1%	0.3%	0.4%	0.7%	2.0%
Total Return-hedged		1.2%	4.1%	13.8%	-8.1%	4.7%	15.6%
$A vs World		-2.5%	2.2%	3.2%	-4.4%	-1.4%	-5.5%
Total return-$A basis		**3.8%**	**1.8%**	**10.3%**	**-3.8%**	**6.1%**	**22.3%**









Source: Bloomberg, Refintiv, Betashares. **Past performance is not indicative of future performance.**

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Global equity themes

Technology and quality were again among best performing equity themes in January, with HNDQ's index returning 1.9%, while HQLT's index returned 3.2%. Health care also did well, with DRUG's index returning 3.7%.

The Nasdaq and quality exposure remains in relative performance uptrends compared to more value-oriented exposures such as financials, resources and energy.

Selected Betashares Global Equity Indices – January Performance

Global Equitiy Returns[9]	Mth	Prev. mth	3-mth	prev. 3-mth	6-mth	12-mth
MSCI ACWI	**1.2%**	**4.1%**	**13.8%**	**-8.1%**	**4.7%**	**15.6%**
HNDQ	1.9%	5.5%	19.1%	-8.4%	9.1%	42.4%
HQLT	3.2%	4.2%	17.0%	-6.7%	9.2%	25.8%
FUEL	-1.2%	0.0%	-1.1%	1.0%	-0.1%	-2.3%
BNKS	0.9%	6.3%	16.2%	-9.3%	5.3%	3.6%
DRUG	3.7%	3.1%	11.0%	-5.8%	4.6%	7.5%
FOOD	-4.0%	3.9%	2.2%	-12.7%	-10.8%	-11.3%
MNRS	-9.0%	-0.5%	-2.0%	-8.9%	-10.8%	-15.3%

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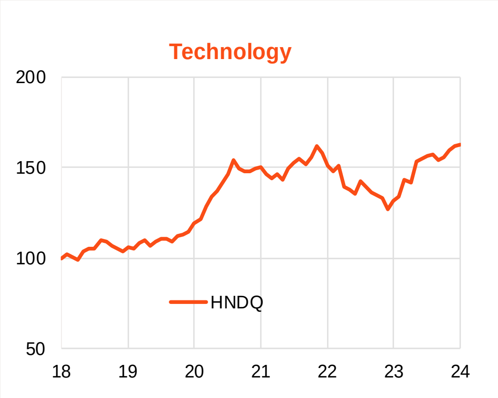
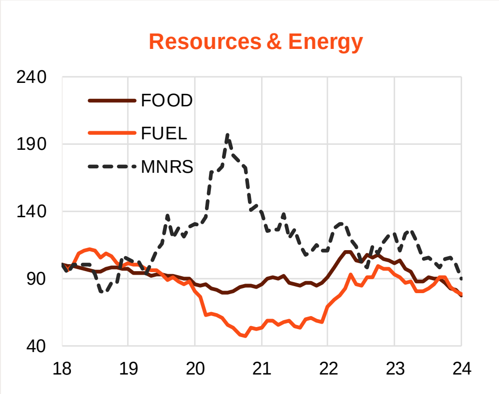
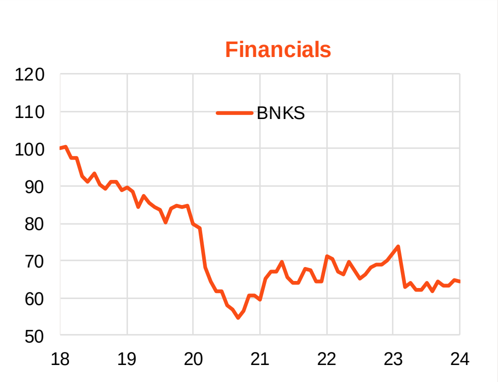
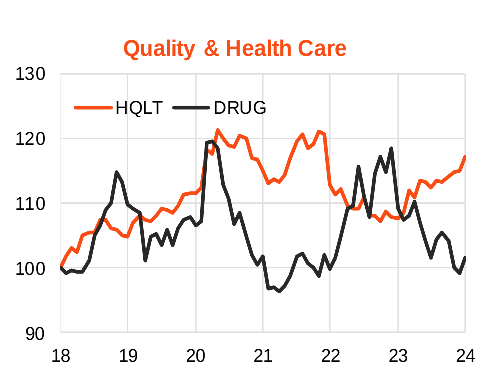
Selected Betashares Global Equity Index Exposures

*Relative Performance Indices**









Source: Bloomberg, Betashares. International ETF indices vs. MSCI ACWI. Index performance is used to show long term performance of the asset class. Chart shows performance of the index which the relevant ETF aims to track, not the actual past performance of the ETF. Index performance does not take into account ETF fees and costs. You cannot invest directly in an index. ETF may not have been in existence for entire period specified in the chart. Past performance is not an indicator of future

Australian equities

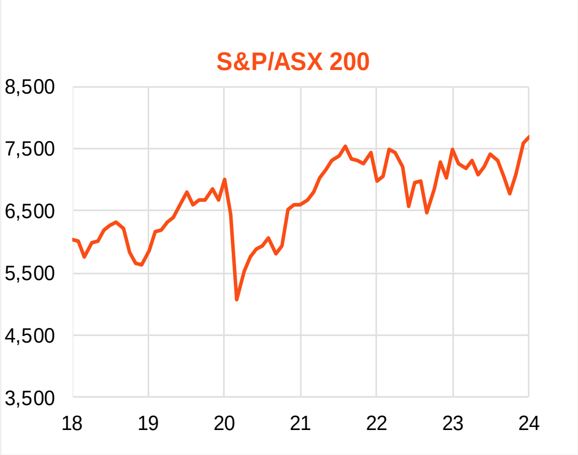
The S&P/ASX 200 Index returned 1.2% in January. In turn, this reflected a small fall in the PE ratio to 16.3 with steadier bond yields in the month after large falls in December.

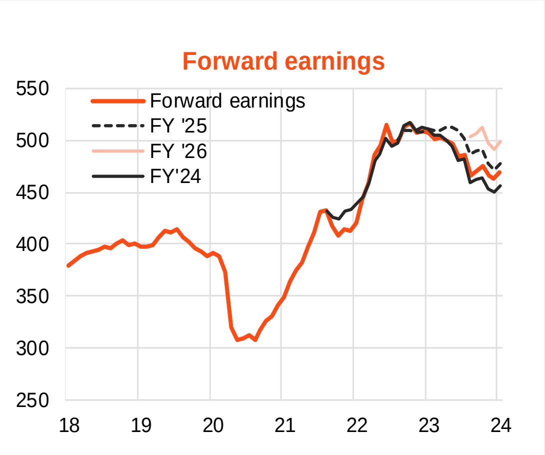
Forward earnings rose 1.5% with an encouraging uptick in earnings expectations over the month.

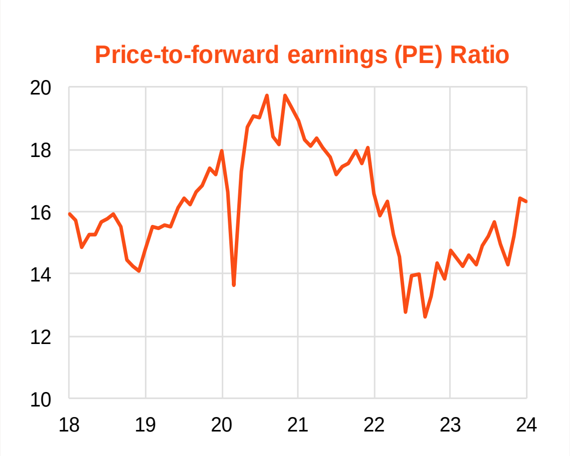
After enduring a choppy sideways range over the past two years (with a recovery in PE valuations offset by declining forward earnings) the market broke through the top of its range in January. As with global markets, PE valuations are getting a little stretched and the equity-risk premium low. Sustained further gains seem to require a decent decline in bond yields (without a recession!) or a further gain in forward earnings.

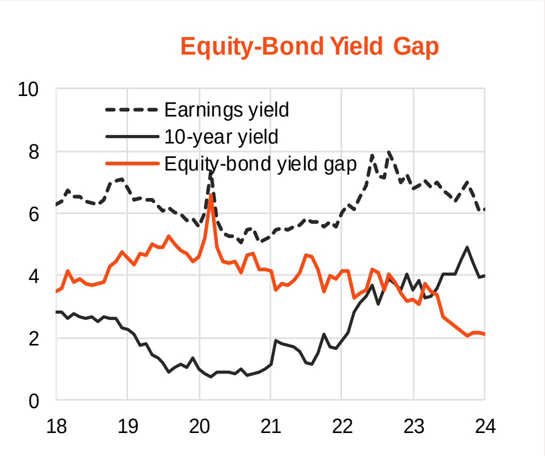
With a local and global economic soft landing now achievable, the outlook is encouraging.

Australian Equities	Last	Mth	Prev. mth	3-mth	prev. 3-mth	6-mth	12-mth
Aust. 10-yr yield	4.01	0.06	-0.46	-0.91	0.87	-0.05	0.46
Equity-risk premium[5]	2.11	-0.03	-0.02	0.03	-0.43	-0.40	-1.12
Earnings yield[6]	6.12	0.02	-0.48	-0.89	0.44	-0.45	-0.66
PE ratio[7]	16.3	-0.4%	7.9%	14.5%	-6.3%	7.3%	10.8%
Forward Earnings[8]		1.5%	-0.7%	-1.1%	-2.4%	-3.4%	-7.3%
S&P/ASX 200 Price Index		1.2%	7.1%	13.3%	-8.5%	3.6%	2.7%
Dividend		0.0%	0.2%	0.7%	1.3%	2.1%	4.4%
Total Return		**1.2%**	**7.3%**	**14.0%**	**-7.2%**	**5.8%**	**7.1%**









Source: Bloomberg, Refintiv, Betashares. **Past performance is not indicative of future performance.**

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Australian equity themes

Local financials had a good January with QFN's index returning 5.0% - buoyed by soft landing hopes and the lower-than-expected Q4 CPI result.

The local technology-related index that ATEC aims to track returned 1.2%, while Australian quality stocks, as measured by AQLT's index, returned 2.5%. Resources fared less well with QRE's index down 3.6% - likely reflecting ongoing concerns with the Chinese economic outlook.

Over the past six to 12 months, three of the selected Australian equity theme indices - financials, technology and quality - have tended to outperform the broader market. After a very strong 2022, relative performance of the resources sector has since pulled back.

Selected Betashares Australian Equity Indices – January Performance

Aust. Equity Returns[9]	Mth	Prev. mth	3-mth	prev. 3-mth	6-mth	12-mth
S&P/ASX 200	**1.2%**	**7.3%**	**14.0%**	**-7.2%**	**5.8%**	**7.1%**
ATEC	1.2%	8.3%	18.8%	-10.6%	6.2%	24.9%
QFN	5.0%	6.2%	17.8%	-5.9%	10.9%	10.5%
QRE	-3.6%	7.9%	5.9%	-3.8%	1.9%	1.1%
AQLT	2.5%	7.7%	17.4%	-7.4%	8.7%	11.3%

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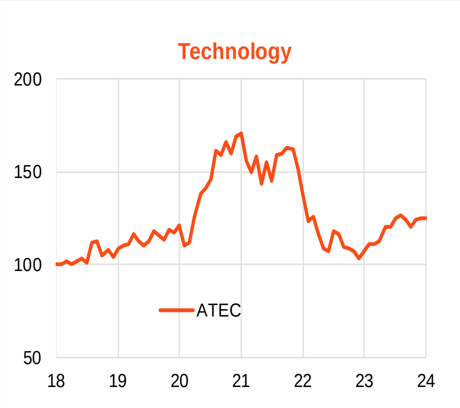
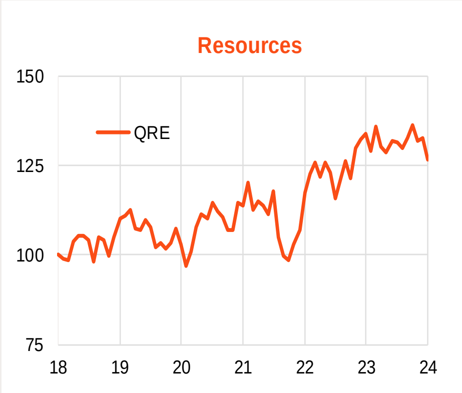
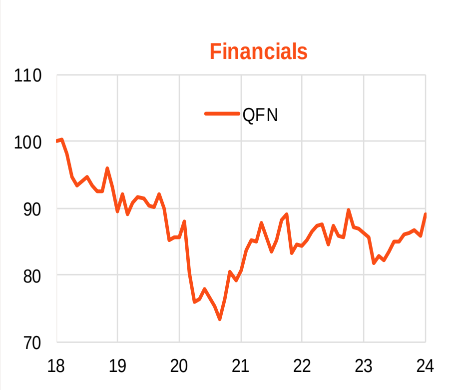
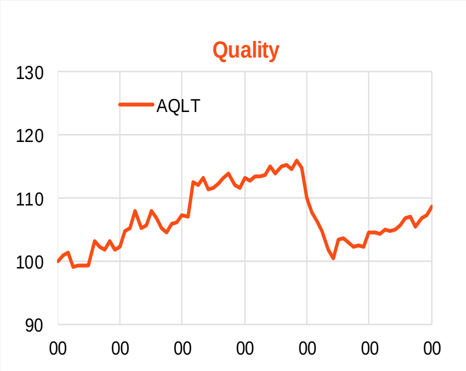
Selected Betashares Australian Equity Index Exposures

*Relative Performance Indices**









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Additional information

1. FRB yield and return is based on that of the Bloomberg Floating Rate Bond Index. FRB spread is its yield difference to the 30-day bank bill rate.
2. Hybrid yield refers to average yield on 5-year to call AT1 hybrids. Hybrid spread is the difference in the hybrid yield and the 30-day bank bill rate. Hybrid returns are gross returns, which include franking credits. The actual after-tax hybrid return for investors will depend on their overall tax situation and ability to benefit from franking credits.
3. 12-month forward RBA expectation is the market implied expected change in the RBA cash rate over the coming 12 months, based on interest rate futures.
4. Yields and returns relating to 5–10-year government and credit exposures related to the Bloomberg 5-10 Year maturity Australian Government Bond Index and the 5-10 Year Bloomberg Australian Credit Index.
5. The equity-risk premium is defined as the difference between the equity market's forward-earnings yield (reciprocal of the forward PE ratio) and the 10-year government bond yield.
6. Forward earnings yield is the market's level of forward earnings divided by the equity price index.
7. The price to forward earnings (PE ratio) is the ratio of forward earnings to the equity price index.
8. Forward earnings are a time weighted pro-rata average of the expected level of earnings for the current and following financial year. The weight on next year's earnings in the calculation grows as the new year approaches.
9. Global equity total returns includes estimated reinvested dividends and are in local currency terms. Australian equity returns also include estimated reinvested dividends and are in Australian dollar terms.

Further information on the complete range of Betashares exchange traded products can be found here.

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Considerations when investing

Investment risk

The value of an investor's portfolio can go down as well as up. Risks include:

- Market risk with equities
- Currency risk with international investments
- Interest rate risk with cash and bonds.

No guarantees

Future outcomes are uncertain – desired return outcome may not be achieved.

General information only

Today's discussion does not take into account any person's individual circumstances and is not personal financial advice.

Professional advice

Investors should seek professional financial advice before investing.

Research

See relevant Product Disclosure Statement for more information about risks and other features of each fund and consider the relevant Target Market Determination which sets out the class of consumers that comprise the target market for the relevant fund.

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Written by David Bassanese

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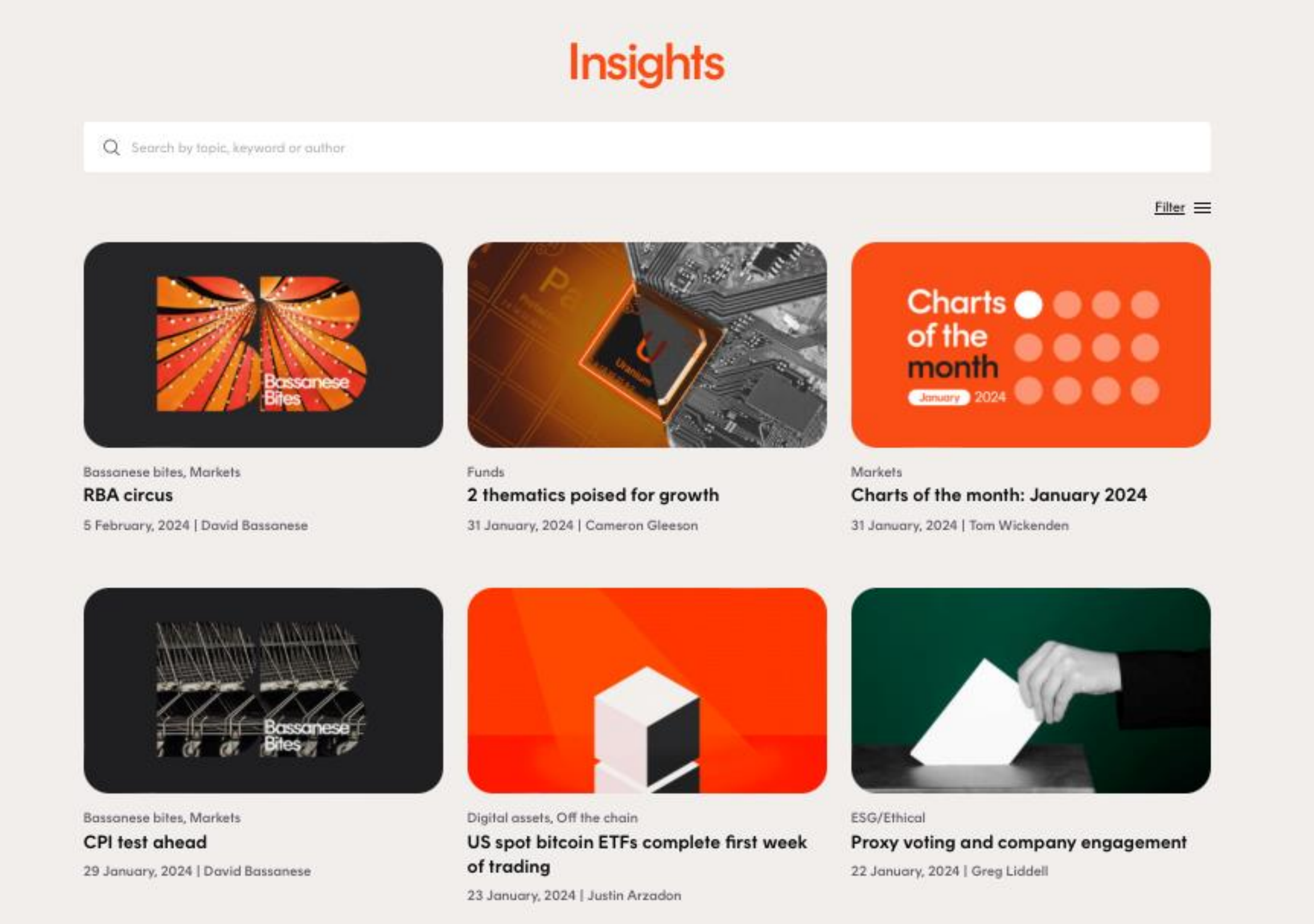

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