



# Ellerston Capital

Monthly Newsletter September 2023

Founded on Discovery

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# Ellerston Capital

## Monthly Newsletter September 2023



### Monthly Returns – Top 3 Performers

Fund	1 Month	1 Year	3 Years (p.a.)	5 Years (p.a.)	Since Inception* (p.a.)
Ellerston JAADE Australian Private Assets Fund (Retail)	5.3%^	7.2%	14.5%	-	17.9%
Ellerston India Fund	0.8%	10.0%	11.9%	8.9%	7.9%
Ellerston Income KIS Fund	-1.6%	8.3%	9.5%	-	7.4%

Performance figures shown are net of fees and expenses. Past performance is not a reliable indication of future performance.

\*Please refer to a summary of fund performance page for Fund inception dates and APIR codes.

^Performance reported Quarterly and therefore updated as at 30 June 2023

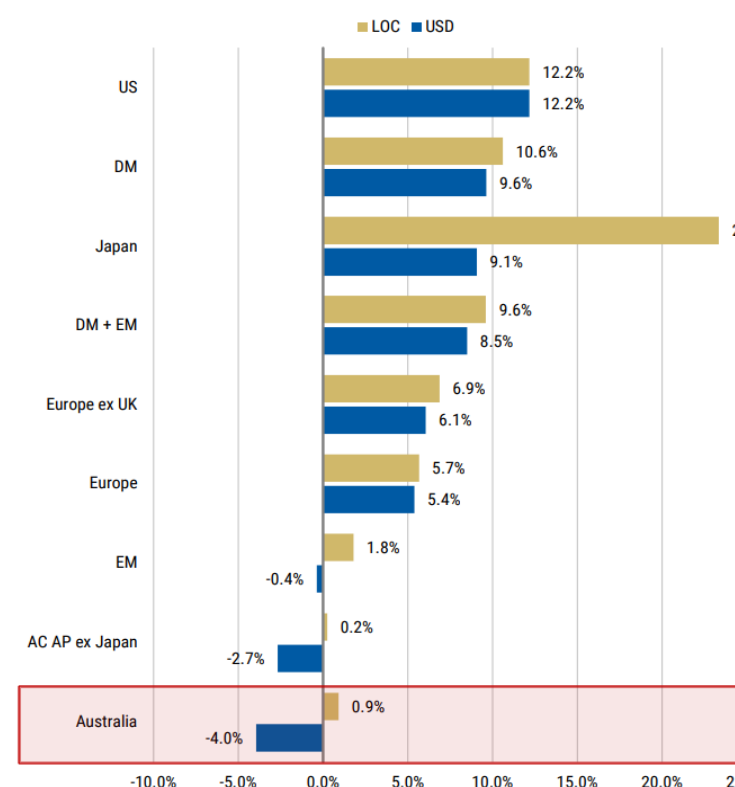
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## Monthly Market Update

### Market Overview

Investors took a cautious stance in September, a period where bond yields shot through their cycle highs. The MSCI Developed Markets suffered over the month, falling 3.7% and underperforming their Emerging Market counterparts (-2.0%), while the S&P 500 fell 4.8%, in local currency terms. The domestic market outperformed Developed Markets, finishing down 2.8%, but still underperformed the CYTD. Energy and Financials were the best performing sectors globally, as well as locally.

### MSCI Global Country/Regional Indices Performance CYTD to September



Source: Morgan Stanley.

### Australia

The A\$ closed the month 1% down to US\$0.64. A stronger US dollar offset the benefit of stronger commodity prices.

The RBA kept rates on hold at the September meeting, maintaining its "wait and see" policy stance. Expectations are that the new RBA Governor will continue to hold rates at 4.1% at its October meeting, in what should be the fourth consecutive hold decision. An unexpected bounce back in the August CPI from 4.9% to 5.2%, coupled with a strong employment rebound of 65k following a 1.5k fall in July, highlight that core services inflation could raise hawkish risks for the RBA going forward. There is of course scope for changes in the Statement given the somewhat stronger than expected inflation outcomes. That said, the market now generally sees a final rate hike at the forecast update meeting in November.

The S&P/ASX 200 Accumulation Index was down 2.8% in September. Energy, Financials and Consumer Staples led the performance charts. The Energy sector (up 1.6%), was the best performer, spurred by Whitehaven Coal (+16.7%), followed by Financials (-1.6%) and then Consumer Staples (-1.8%). The bottom three sectors were Real Estate (-8.5%), dragged down by Goodman Group (-8.2%), Information Technology (-7.9%) and Health Care (-6.2%).

For the month, the top stocks that made a positive contribution to the Index's return were BHP (+14bps), QBE Insurance (+5bps), ANZ Group (+5bps), Whitehaven Coal (+4bps) and Fortescue Metals (+4bps). Conversely, the bottom five stocks detracting from the Index's performance were CSL (-47bps), CBA (-17bps), Macquarie Group (-16bps), Goodman Group (-15bps) and Westpac (-13bps).

The ASX Small Ordinaries closed down 4.0%, underperforming the broader benchmark. Within the ASX Small Ordinaries, the Small Resources did much better at -1.2%, versus the Small Industrials, which dropped 5.0%.

## USA

The Federal Reserve, at its September FOMC meeting, left rates unchanged with the committee pencilling in one more hike for the balance of the year in either early November, or mid-December. Chair Jerome Powell made it clear that the central bank was close to done raising interest rates, but his colleagues delivered the message that resonated: borrowing costs must remain higher for longer amid renewed strength in the economy. The big takeaway for investors from the Fed's quarterly economic projections, released following the policy meeting, was the revelation that policymakers see fewer rate cuts than previously anticipated in 2024 (50bps versus 100bps), in part due to a stronger labour market. This, along with rising US bond yields and a US dollar that hit a 10-month high, set the tone for US equities. Worries that higher interest rates were beginning to affect the U.S. consumer and housing market also contributed to market weakness. Sales of newly built homes in the U.S. fell in August as interest rates and home prices stayed elevated, dampening buyer demand. U.S. new-home sales fell 8.7% to an annual rate of 675,000 in August, from a revised 739,000 in the prior month. New-home sales were down to the lowest level since March 2023. The Consumer Confidence Index fell to a four-month low, coming in at 103 in September, reflecting angst about rising interest rates, still-high inflation and a budget stalemate in Washington, as well as consternation about high gasoline prices.

In the wash up, the Dow Jones Industrial Average and S&P 500 were down 3.4% and 4.8% respectively, with the NASDAQ Composite Index, the laggard, falling 5.8% for the month, but is still way out in front with a +27.1% return for the CYTD. The Small Cap Russell 1000 also struggled, retreating 4.7% and the Russell 2000 fell by 5.9%, contracting their CYTD returns to 13.0% and 2.5%, respectively.

## Europe

Not unexpectedly, the European Central Bank again hiked rates by 25bps to a record 4.0%, with President Christine Lagarde commenting; "can't say if this will be the peak", but at the same time admitting that growth will be "very, very sluggish". Elsewhere, the Bank of England halted the most aggressive cycle of interest-rate rises in more than three decades amid falling inflation and mounting fears of a pending recession. The central bank held its key rate at 5.25%, ending a series of 14 successive hikes since December 2021, when rates were just 0.1%. In contrast, Norges Bank raised the policy rate 25bps to 4.25% and surprisingly, the Committee said, "there will likely be one additional policy rate hike, most probably in December".

The Euro STOXX50 Index finished the month down 2.8%. Among the major exchanges, UK's FTSE 100 was 2.4% higher, France's CAC 40 was down 2.4% and Germany's DAX was again the laggard, falling 3.5%.

## Asia

China's key activity data was overall a strong beat on low expectations, but economic stimulus to date is still not hitting the tarmac. The PBOC cut banks' required reserves for a second time this year by 25 bps, to an average 7.4%, freeing up over 500 billion yuan (US\$70b) in an attempt to stimulate its sluggish economy. After relaxing home purchase restrictions in more tier-two cities in an effort to boost China's depressed property market, Guangzhou relaxed home purchase restrictions, becoming the first among tier-one cities to take such a step, with expectations that Beijing, Shanghai, and Shenzhen will follow suit to prop up the sluggish home market. China property group Evergrande's woes continued, with the shares plunging again and then being suspended after the heavily indebted developer missed another debt payment and former executives were detained by the authorities.

Not helping the mood was nervousness across Asian bourses amid increased worries about China's property sector as a result.

Asian equity markets were mixed but did a little better than the rest of the world. Korea's KOSPI was the standout at -3.6%, the Hang Seng fell 2.6% and the Nikkei 225 was down 1.7%. Japanese equities fared well against the backdrop of sovereign yields which rose sharply amid rumours that the BOJ planned to terminate its ultra-dovish monetary policy and initiate another bond-buying plan to bring down yields, currently standing at 10-year highs. China's SSE finished down 0.6% and India's SENSEX was the outperformer, up 1.5%.

## Commodities

Commodities were mixed in September as stimulus attempts in China kept bulk commodities elevated. Iron ore prices finished flat at US\$120/tonne and coking coal prices rallied 24% to US\$333 per tonne, given on going supply issues in Australia. The base metals complex continued to weaken, with nickel falling 8% and copper down 2%, however aluminium bucked the trend and was the standout, closing up 8%. The Brent oil price pushed 10% higher to US\$95/barrel, with Saudi Arabia tightening its grip on supply by extending its 1m bpd unilateral production cut to the end of this year, with Russia also rolling forward its 0.3bn bpd cut to December. Gold ticked down 5% to US\$1,849 per ounce, on the stronger US Dollar. Lithium carbonate prices continued to weaken, - 22% in September and spodumene prices were 11% lower, as major battery producers continued destocking in China and new capacity ramped up.

## Bonds

The US 10-year treasury yield rose 47bps in September to 4.57%, its highest level since 2007, with continuation of the Fed's hawkish tone at the September FOMC meeting re-iterating that rates must remain higher for longer amid renewed strength in the economy. On the domestic front, the Australian 10-year bond yield also rose in step with the global trend, up 46bps to 4.49%.

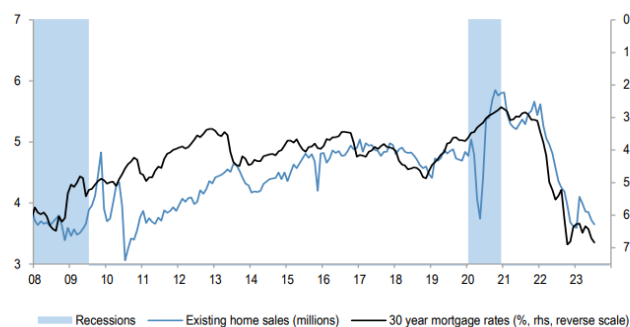
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## Charts of the Month

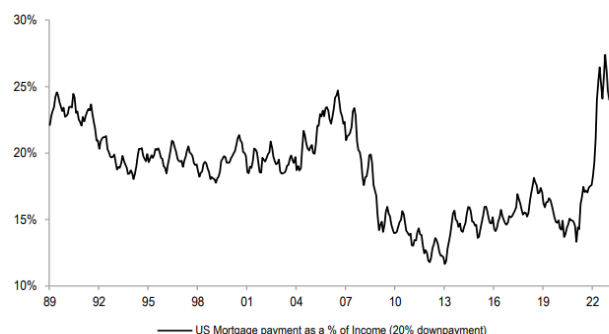
### Consumer has been resilient so far, will that continue?

US existing home sales and mortgage rates



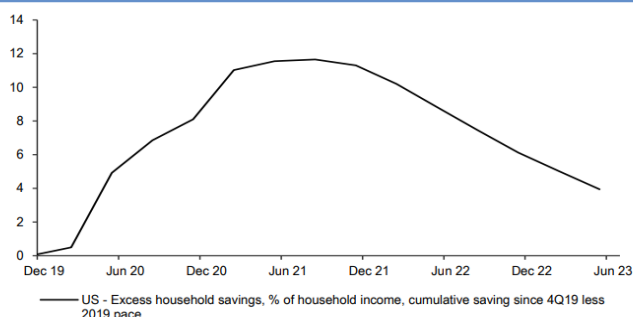
Source: J.P. Morgan

US homebuyer affordability - % of spending on mortgage payments



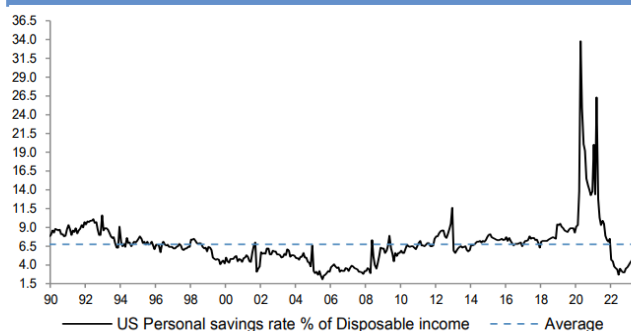
Source: J.P. Morgan US Homebuilders Research

US excess savings



Source: J.P. Morgan Economics Research

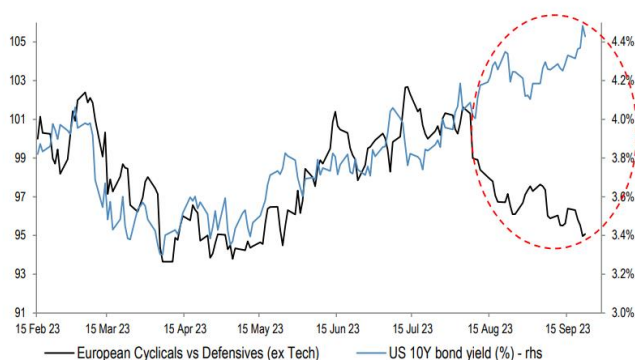
US savings rate



Source: Bloomberg Finance L.P.

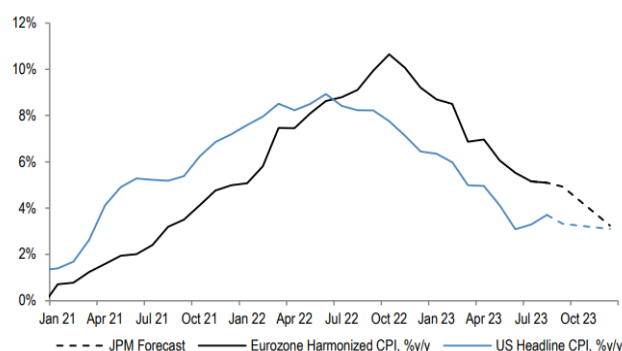
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European Cyclical vs Defensives and US 10Y bond yield



Source: J.P. Morgan

JPM inflation projections



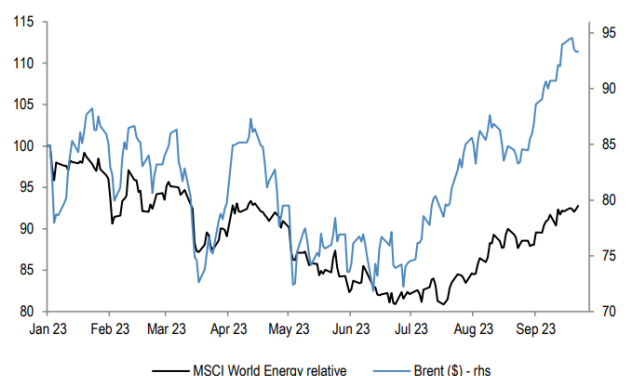
Source: J.P. Morgan

US and Europe EPS Growth consensus projections

	EPS Growth		
	2023e	2024e	2025e
S&P 500	1.1%	11.6%	12.4%
Stoxx 600	-0.6%	7.2%	8.5%

Source: IBES

Energy sector relative performance vs oil price



Source: J.P. Morgan



		1M (%)	3M (%)	CYTD (%)	1Y (%)	3Y (% p.a)	5Y (% p.a)	10Y (% p.a)
Australia	S&P ASX 50	-2.5	-0.6	4.2	14.2	12.0	7.1	7.2
	<b>S&amp;P ASX 200</b>	<b>-2.8</b>	<b>-0.8</b>	<b>3.7</b>	<b>13.5</b>	<b>11.0</b>	<b>6.7</b>	<b>7.4</b>
	<i>S&amp;P ASX 200 Industrial</i>	-3.6	-1.0	3.6	11.3	8.8	5.1	7.0
	<i>S&amp;P ASX 200 Resources</i>	-0.7	-0.2	4.1	19.4	18.0	11.8	8.4
	<b>S&amp;P ASX Small Ordinaries</b>	<b>-4.0</b>	<b>-1.9</b>	<b>-0.6</b>	<b>6.8</b>	<b>2.6</b>	<b>1.6</b>	<b>5.1</b>
	<i>S&amp;P ASX Small Industrials</i>	-5.0	-1.9	1.7	8.4	0.5	0.7	5.1
	<i>S&amp;P ASX Small Resources</i>	-1.2	-1.9	-6.7	2.9	10.7	5.4	4.7
	MSCI Australia Value	-1.1	1.4	4.7	19.2	18.9	8.2	6.7
	MSCI Australia Growth	-3.9	-1.9	5.0	11.0	5.1	5.2	7.8

ASX 200 Sectors	Energy	1.6	11.2	14.2	23.1	29.3	3.7	2.1
	Utilities	-1.9	-1.9	5.3	34.9	12.5	7.1	9.9
	Financials	-1.6	2.4	2.8	14.0	17.1	5.1	6.1
	Materials	-1.8	-2.4	2.5	18.1	15.0	13.5	10.8
	Industrials	-3.2	-2.9	7.5	15.4	7.6	4.5	8.7
	Real Estate	-8.5	-3.1	0.3	10.8	3.7	1.1	6.8
	Consumer Discretionary	-3.7	5.3	15.4	20.2	8.3	7.6	9.1
	Health Care	-6.2	-8.6	-8.2	-6.5	-2.7	5.0	12.5
	Information Technology	-7.9	-5.8	23.3	26.4	-0.1	7.7	11.0
	Consumer Staples	-1.8	-5.9	1.2	3.0	4.2	5.0	5.7
	Communication Services	-3.5	-1.6	9.1	13.9	13.3	8.0	3.0

#### Local CCY

World	MSCI World Index	-3.7	-2.6	12.1	20.4	9.5	8.0	9.4
	MSCI EM (Emerging Markets)	-1.8	-1.4	4.0	10.9	0.6	2.7	4.9
	MSCI AC World ex AU	-3.5	-2.5	11.3	19.4	8.3	7.3	8.9
	MSCI World Mid Cap	-3.9	-3.0	5.1	14.1	7.4	5.1	7.7
Americas	S&P 500	-4.77	-3.3	13.1	21.6	10.2	9.9	11.9
	DJ Industrial Average	-3.4	-2.1	2.7	19.2	8.6	7.1	10.8
	NASDAQ Composite Index	-5.77	-3.9	27.1	26.1	6.6	11.4	14.5
	Russell 2000	-5.9	-5.1	2.5	8.9	7.2	2.4	6.6
Asia Pac	Hang Seng Index	-2.6	-4.2	-6.8	7.2	-5.8	-5.5	1.0
	Japan Nikkei 225	-1.6	-3.3	24.4	25.4	13.4	7.9	10.3
	MSCI AC Asia ex JP	-1.9	-1.9	2.4	10.9	-0.6	2.3	5.1
	MSCI India	2.0	4.1	8.7	12.8	20.1	13.2	13.1

		SPOT	1M (%)	3M (%)	CYTD (%)	1Y (%)	3Y (% p.a)	5Y (% p.a)	10Y (% p.a)
FX	AUD/USD	0.6454	-0.3	-3.0	-4.8	0.4	-3.4	-2.3	-3.6
	AUD/EUR	0.6096	2.2	-0.1	-4.1	-7.1	-0.1	-0.4	-1.2
	AUD/GBP	0.5288	3.5	1.0	-6.2	-8.2	-1.6	-1.0	-0.9
	AUD/JPY	96.3098	2.1	0.1	7.6	3.5	8.4	3.2	0.5





Net Returns		1M (%)	3M (%)	1Y (%)	3Y (% p.a)	5Y (% p.a)	10Y (% p.a)	S.I.* (% p.a)	APIR Code / Inception Date
Australian Equity	Ellerston Australian Share Fund	-2.0	-3.5	11.8	14.5	5.5	6.6	8.4	ECL0005AU 31/3/09
	S&P/ASX 200 Accumulation Index	-2.84	-0.8	13.5	11.0	6.7	7.4	9.2	
	Excess Return	0.8	-2.7	-1.7	3.5	-1.2	-0.9	-0.8	
	Ellerston Income KIS Fund	-1.6	-3.4	8.3	9.5	-	-	7.4	ECL7259AU 1/5/19
	S&P/ASX 200 Accumulation Index	-2.8	-0.8	13.5	11.0	-	-	6.6	
	Excess Return	1.2	-2.6	-5.1	-1.5	-	-	0.8	
	Ellerston Australian Micro Cap Fund	-2.3	-0.3	4.3	0.7	8.4	-	11.9	ECL0984AU 28/4/17
	S&P/ASX Small Ordinaries Accumulation Index	-4.0	-1.9	6.8	2.6	1.6	-	4.9	
	Excess Return	1.7	1.6	-2.5	-1.8	6.8	-	7.0	
International Equity	Ellerston Australian Emerging Leaders Fund	-2.7	1.0	3.5	-	-	-	-11.6	ECL6748AU 13/8/21
	S&P/ASX Small Ordinaries Accumulation Index	-4.0	-1.9	6.8	-	-	-	-8.6	
	Excess Return	1.3	2.9	-3.4	-	-	-	-3.1	
	Ellerston Global Mid Small Cap Fund - Class A	-5.6	-3.0	18.9	8.0	8.2	-	10.5	ECL8388AU 28/2/17
	MSCI World Mid Cap Index	-4.3	-1.0	14.9	9.1	6.5	-	8.9	
	Excess Return	-1.3	-2.0	4.0	-1.1	1.7	-	1.7	
	Ellerston Asia Growth Fund (Hedge Fund)^	-3.5	-1.5	-	-	-	-	-1.2^^	ECL1411AU 1/6/2023
	MSCI Asia ex Japan (non- accumulation)	-2.5	-1.1	-	-	-	-	-1.8	
	Excess Return	-1.0	-0.4	-	-	-	-	0.6	
	Ellerston India Fund	0.8	3.2	10.0	11.9	8.9	-	7.9	ECL0339AU 4/5/17
	MSCI India Net Return Index	2.0	5.9	9.7	19.0	12.4	-	10.6	
	Excess Return	-1.2	-2.8	0.3	-7.1	-3.5	-	-2.8	

Private Assets	Ellerston JAADE Australian Private Assets Fund (Retail)	-	5.3	7.2	14.5	-	-	17.9	ECL2707AU 5/7/19
	Ellerston Pre - IPO Fund	-	0.6	-7.7	3.9	-	-	3.4	ECL0405AU 31/3/20
<b>Note: The above two (Ellerston Pre-IPO and Ellerston JAADE) fund results are reported quarterly and therefore are updated as at 30 June 2023. Given the private nature of the underlying assets, September quarterly performance takes longer to calculate and will be issued with each respective Newsletter towards the end of the month.</b>									

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The net return figure is calculated after fees and expenses. Above figures are those available as at 9 October 2023. Past performance is not a reliable indication of future performance.

\*Since Inception

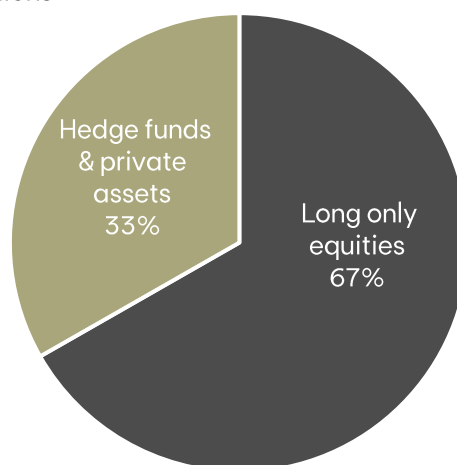
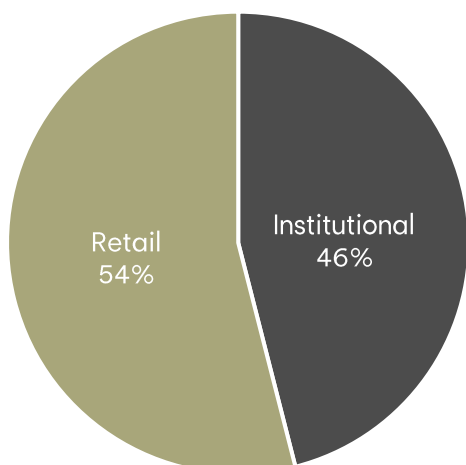
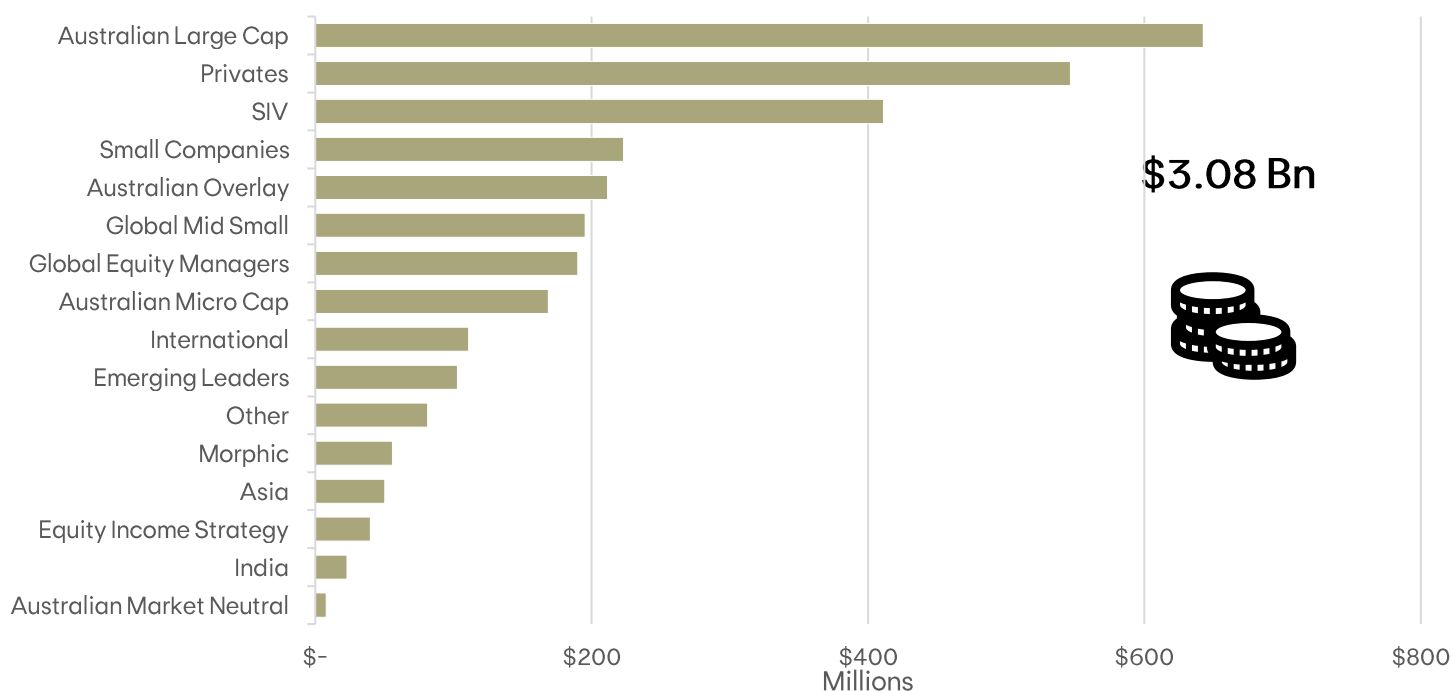
^The Ellerston Asia Growth Fund (Hedge Fund) was formerly known as the Ellerston Asia Growth Fund with a strategy inception date of 4 January 2017. The performance was reset following a restructure of the fund into an exchange traded managed fund which took effect on 1 June 2023.

^^ Cumulative return since inception

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## Funds Under Management



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For further information about any of our funds, please contact National Account Manager Nathan Boroughs at [nboroughs@ellerstoncapital.com](mailto:nboroughs@ellerstoncapital.com) or 0466 775 961.

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