

Ellerston Capital

Monthly Newsletter October 2023

Founded on Discovery

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Ellerston Capital

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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)	2.9%^	11.3%	10.3%	-	17.6%
Ellerston Pre - IPO Fund	2.5%^	-6.4%	1.2%	-	3.9%
Ellerston India Fund	-1.0%	4.4%	10.4%	-	7.6%

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 this represents the 3 month figure as at 30 September 2023

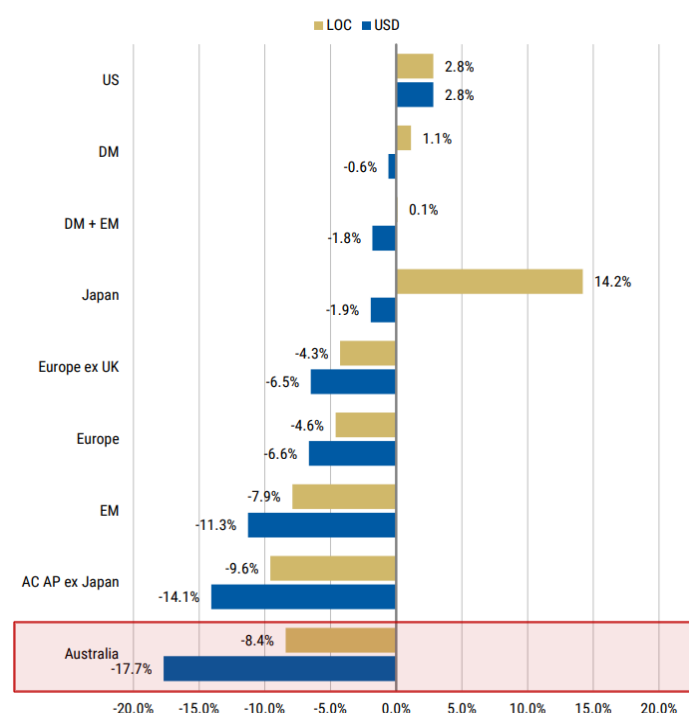
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Monthly Market Update

Market Overview

World equity markets struggled in October with the onset of the Middle East crisis and a growing realisation that official interest rates are set to remain higher for longer, prompting risk-off trading. The MSCI Developed Markets suffered over the month, falling 2.6% in local currency terms, while the S&P 500 fell 2.1%. The domestic market underperformed Developed Markets, finishing down 3.8%. Utilities and Info Tech were the best performing sectors globally, whilst locally, Utilities and Materials were the best performers.

MSCI Global Country/Regional Indices Performance CYTD to October



Source: Morgan Stanley.

Australia

The RBA kept rates on hold for the fourth consecutive time at its October meeting, maintaining a "wait and see" policy stance. An unexpected bounce back in the September CPI to 1.2% from 0.8% the previous quarter (5.4% YoY), coupled with a strong September retail sales print of 0.9% (up from 0.3% the previous month and well above expectations), has increased the probability of a rate hike at the RBA's meeting on Cup Day in November. In an uneventful period of trading, the A\$ closed the month 1% down to US\$0.63.

The S&P/ASX 200 Accumulation Index was down 3.8% in October. Utilities, Materials and Communication Services led the performance charts. The Utility sector (up 1.7%), was the best performer, spurred on by Origin Energy (+4.0%), followed by Materials (-0.8%) and Communication Services (-2.9%). The bottom three sectors were Information Technology (-7.6%) dragged down by Wisetech Global (-10.6%), Health Care (-7.2%) and Industrials (-6.4%).

For the month, the top stocks that made a positive contribution to the Index's return were Fortescue Metals (+11bps), Rio Tinto (+7bps), Northern Star Resources (+7bps), Newcrest Mining (+6bps) and BHP Group (+5bps). Conversely, the bottom five stocks detracting from the Index's performance were CSL (-41bps), CBA (-28bps), Woodside Energy (-21bps), NAB (-16bps) and ANZ (-14bps).

The ASX Small Ordinaries closed down 5.5%, underperforming the broader benchmark. Within the ASX Small Ordinaries, the Small Resources did much better at -1.0%, versus the Small Industrials, which dropped 7.0%, dragged down by Credit Corp Group and City Chic.

USA

The Federal Reserve, at its October FOMC meeting, left the fed funds target rate unchanged at 5.25 to 5.5%, with forward guidance left open to the possibility of further hikes. Chair Powell again stressed that further tightening would be data dependent. He emphasized that the FOMC was not even thinking about, nor talking about rate cuts. He also watered down suggestions that the policy bias was now "neutral", indicating that the question the Fed should be asking itself is "should we hike more?" Recent key data points have been stronger than expected, with the 3Q GDP increasing at an annual rate of 4.9%, compared to the 2Q increase of 2.1%. In addition, retail sales were surprisingly stronger at +0.7% MoM and the headline CPI came in higher than expected at 3.7% YoY. At the other end of the spectrum, more subprime borrowers were falling way behind on their car loans, as repayments surged. Those with 60 plus days in arrears hit 6.1%, the highest level since 1994.

The Dow Jones Industrial Average and S&P 500 were down 1.3% and 2.1% respectively, with the NASDAQ Composite Index, the laggard, falling 2.8% for the month. However, the NASDAQ is still way out in front with a +23.6% return for the CYTD.

Review of US 3Q23 earnings now that 72% of S&P 500 companies having reported.

Beats/Misses: 81% beat EPS estimates, surprising positively by 6% with EPS growth at +2% YoY. Eight out of the eleven sectors printed healthy EPS growth, while commodity sectors and Healthcare were down on a YoY basis. Excluding these sectors, all the other sectors posted robust growth, leading to higher revisions in S&P 500 3Q blended EPS.

On the top line, 49% of companies beat sales estimates. Overall revenue growth was +2% y/y. At a sector level, Energy, Materials, Tech and Utilities saw negative growth.

Overall, earnings beats were rewarded (avg. excess performance: +0.4%), though misses were punished far more (-3.2%). So far, Industrials (+0.7%) and Utilities (+0.6%) exhibited the best 1D average excess performance for beats + misses. The biggest spread in 1D average excess performance (vs. market) have been within the Discretionary (Beat: -1.0%, Miss: -10.0%), Healthcare (Beat: -0.1%, Miss: -8.4%) and Financials sectors (Beat: 1.4%, Miss: -3.0%).

Europe

Euro-area inflation eased to its lowest level in more than two years, falling to 2.9% from 4.3% in the prior month, as the bloc's economy shrank following an unprecedented ramp-up in interest rates. The European Central Bank (ECB) kept interest rates unchanged at 4.5 per cent, ending a streak of 10 consecutive rate hikes. ECB President Christine Lagarde commented; "The economy is likely to remain weak for the rest of this year, but as inflation falls, further household real incomes recover and the demand for euro-area exports picks up, so the economy should strengthen over the coming years."

Following several downbeat corporate updates and escalating tensions in Gaza, the Euro STOXX50 Index finished the month down 2.6%. Among the major exchanges, France's CAC 40 was down 3.5%, UK's FTSE 100 was 3.7% lower, and Germany's DAX was again the laggard, falling 3.7%.

Asia

Recent "new" China stimulus measures included a budgeted "revision" that allows issuance of slightly over RMB1trn of additional central government bonds, worth 0.8% of GDP. Fiscal policy has also aimed to stimulate growth in China over the last few quarters. It is rare for the central government's fiscal plans to be revised outside the usual budget cycle, so this recent move signals a clear concern about near-term growth prospects. The last budget revision was in 2008 to raise funds for reconstruction after the Sichuan earthquake. The proceeds are therefore likely to be spent rapidly and local governments have been given the go-ahead.

Korea's KOSPI was again the standout underperformer at -7.6%, followed by the Hang Seng which was down 3.9%, China's SSE finished 3.1% lower, the Nikkei 225 fell 3.1% and India's SENSEX was the outperformer, down 2.9%. Other key Asian equity markets also retreated.

Commodities

Commodities were volatile with the Middle East crisis affecting oil and precious metals, with further China stimulus attempts keeping bulk commodity prices elevated. Iron ore prices finished 4% higher at US\$123/tonne and coking coal prices rallied a further 5% to US\$350 per tonne. The base metals complex continued to weaken on soft demand and destocking concerns, with aluminium falling 4%, nickel down 3% and copper closing 2% down. The Brent oil price initially fell 12% on US-Saudi Arabia diplomatic deal headlines, whereby Saudi would increase production. However, crude prices then rebounded when Hamas struck in Israel, but still finished down 8% to US\$87/barrel for the month. Gold took off post the geo-political crisis unfolding, rising 7% to US\$1,985 per ounce, as short-covering and safe haven demand from investors continued, with idiosyncratic factors affecting other traditional safe havens such as the JPY, US\$ and US Treasuries. Lithium carbonate prices stabilised after falling 40% in the last three months, however, the destocking in the EV battery supply chain caught up with Spodumene prices, which fell another 24% in October.

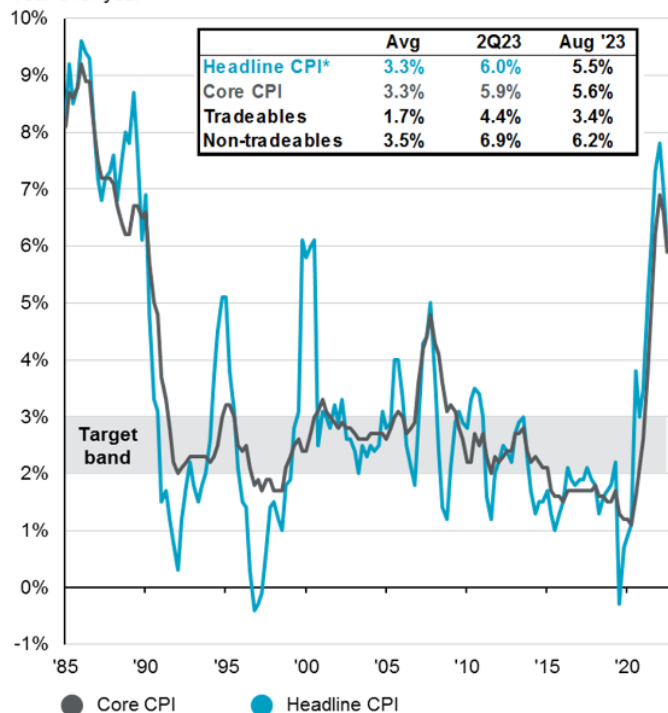
Bonds

The US 10-year treasury yield rose 32bps in October to 4.89%, its highest monthly level since 2007. Stronger than expected economic data and the continuation of the Fed's hawkish tone at the October FOMC meeting (re-iterating that rates must remain higher for longer) did not help bond market sentiment. On the domestic front, Australian 10-year bond yields also rose in step with the global trend. A surprisingly hot domestic inflation print, keeping inflation well above the global trend and above the RBA target of 2-2% y/y for a record 10 quarters, drove yields up 44bps to 4.93%.

Charts of the Month

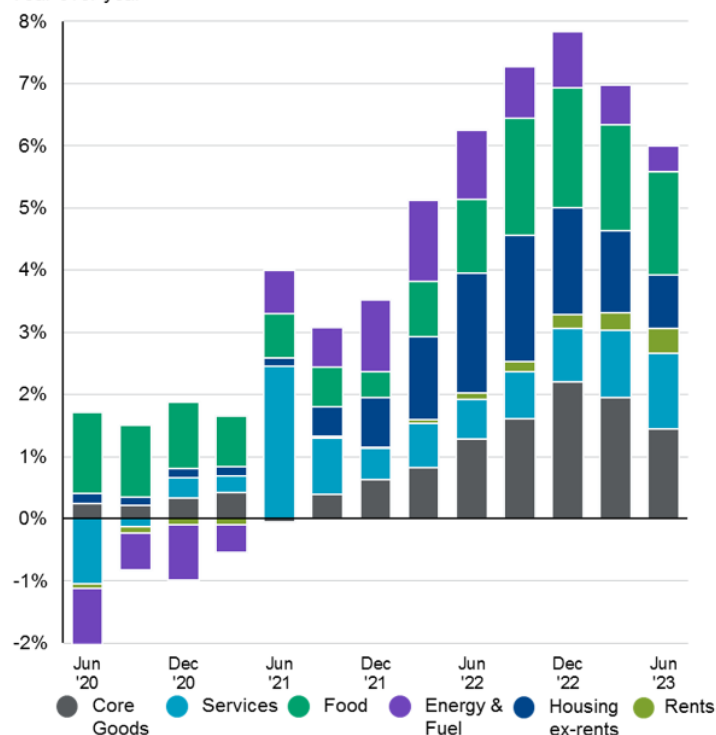
CPI and core CPI inflation

Year-over-year



Inflation components contribution

Year-over-year

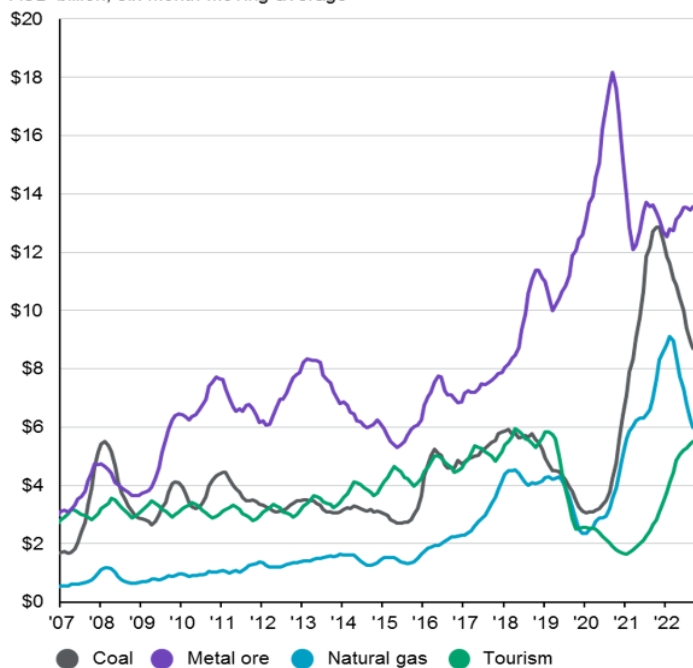


Source: Australian Bureau of Statistics, FactSet, J.P. Morgan Asset Management. *CPI is the Consumer Price Index, core CPI is the average of the trimmed mean and weighted median measures of inflation. Tradables represent approximately 35% of the CPI basket and non-tradables 65%. Core goods CPI is goods CPI excluding volatile items. Monthly CPI series not shown on chart.

Guide to the Markets – Australia. Data as of 30 September 2023.

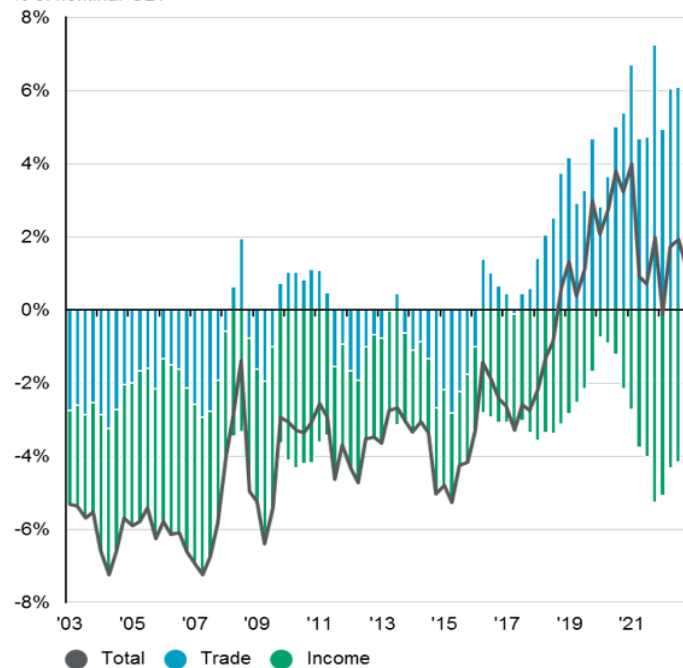
Exports by type

AUD billion, six-month moving average



Current account

% of nominal GDP



Source: Australian Bureau of Statistics, FactSet, J.P. Morgan Asset Management.

Guide to the Markets – Australia. Data as of 30 September 2023.



		1M (%)	3M (%)	YTD (%)	1Y (%)	3Y (% p.a)	5Y (% p.a)	10Y (% p.a)
Australia	S&P ASX 50	-3.1	-6.0	0.9	4.7	10.4	7.7	6.4
	S&P ASX 200	-3.8	-7.2	-0.2	3.0	8.9	7.2	6.6
	S&P ASX 200 Industrial	-4.7	-8.5	-1.3	-1.6	6.1	5.4	6.0
	S&P ASX 200 Resources	-1.3	-3.8	2.8	16.1	18.0	13.1	8.0
	S&P ASX Small Ordinaries	-5.5	-10.5	-6.1	-5.1	0.5	2.5	4.3
	S&P ASX Small Industrials	-7.0	-13.0	-5.4	-6.1	-2.1	1.5	4.0
	S&P ASX Small Resources	-1.0	-3.1	-7.7	-1.8	10.4	6.6	4.5
	MSCI Australia Value	-2.2	-4.7	2.4	10.3	16.8	8.9	5.9
	MSCI Australia Growth	-4.5	-7.7	0.4	0.1	3.1	5.5	6.9

ASX 200 Sectors	Energy	-5.1	-3.0	8.4	6.8	27.4	4.9	1.6
	Utilities	1.7	-4.1	7.1	27.9	13.6	8.4	9.9
	Financials	-3.6	-5.9	-0.9	-2.0	13.3	5.7	5.1
	Materials	-0.8	-4.6	1.7	17.3	15.2	14.6	10.3
	Industrials	-6.4	-11.3	0.6	1.3	6.7	4.2	7.7
	Real Estate	-6.1	-12.7	-5.8	-4.9	1.5	0.6	5.8
	Consumer Discretionary	-4.8	-3.1	9.8	5.0	6.0	8.4	8.2
	Health Care	-7.2	-13.9	-14.9	-13.8	-5.5	5.0	11.1
	Information Technology	-7.6	-16.6	14.0	10.8	-5.4	8.6	9.8
	Consumer Staples	-4.0	-8.7	-2.8	-0.9	1.2	5.2	5.0
	Communication Services	-2.9	-7.0	5.9	5.4	12.4	9.0	2.3

Local CCY

World	MSCI World Index	-2.6	-7.9	9.1	9.5	9.7	8.9	8.7
	MSCI EM (Emerging Markets)	-3.6	-9.8	0.3	9.8	-1.1	3.6	4.2
	MSCI AC World ex AU	-2.7	-8.1	8.3	9.6	8.3	8.3	8.2
	MSCI World Mid Cap	-4.9	-11.0	0.0	1.5	6.0	6.0	6.9
Americas	S&P 500	-2.1	-8.3	10.7	10.1	10.4	11.0	11.2
	DJ Industrial Average	-1.3	-6.6	1.4	3.2	9.8	8.0	10.3
	NASDAQ Composite Index	-2.8	-10.2	23.6	18.0	6.4	12.9	13.8
	Russell 2000	-6.8	-16.7	-4.5	-8.6	3.9	3.3	5.6
Asia Pac	Hang Seng Index	-3.9	-14.1	-10.5	20.8	-7.9	-4.2	0.4
	Japan Nikkei 225	-3.1	-6.3	20.6	14.2	12.5	9.3	10.1
	MSCI AC Asia ex JP	-3.6	-10.4	-1.3	13.0	-2.5	3.6	4.4
	MSCI India	-2.7	-1.9	5.8	5.2	18.3	13.8	11.8

		SPOT	1M (%)	3M (%)	YTD (%)	1Y (%)	3Y (% p.a)	5Y (% p.a)	10Y (% p.a)
FX	AUD/USD	0.63	-1.9	-6.0	-6.6	-1.0	-3.4	-2.2	-3.9
	AUD/EUR	0.60	-1.7	-2.0	-5.7	-7.4	-0.2	-0.9	-1.5
	AUD/GBP	0.52	-1.3	-0.4	-7.4	-6.1	-1.3	-1.2	-1.2
	AUD/JPY	95.89	-0.4	0.2	7.2	0.9	9.3	3.7	0.3



Ellerston Capital Limited
Summary of Fund Performance

31 October 2023

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	-5.6	-11.2	1.9	12.2	5.7	5.5	7.9	ECL0005AU 31/3/09
	S&P/ASX 200 Accumulation Index	-3.8	-7.2	3.0	8.9	7.2	6.6	8.8	
	Excess Return	-1.9	-4.0	-1.0	3.3	-1.4	-1.1	-0.9	
	Ellerston Australian Emerging Leaders Fund	-3.4	-4.2	-5.4	-	-	-	-12.6	ECL6748AU 13/8/21
	S&P/ASX Small Ordinaries Accumulation Index	-5.5	-10.5	-5.1	-	-	-	-10.5	
	Excess Return	2.0	6.2	-0.3	-	-	-	-2.1	
	Ellerston Income KIS Fund	-4.5	-10.8	-1.0	7.4	-	-	6.1	ECL7259AU 1/5/19
	S&P/ASX 200 Accumulation Index	-3.8	-7.2	3.0	8.9	7.2	6.6	5.6	
	Excess Return	-0.7	-3.6	-4.0	-1.5	-	-	0.6	
	Ellerston Australian Micro Cap Fund	-8.1	-10.0	-8.1	-2.8	8.3	-	10.3	ECL0984AU 28/4/17
	S&P/ASX Small Ordinaries Accumulation Index	-5.5	-10.5	-5.1	0.5	2.5	4.3	4.0	
	Excess Return	-2.7	0.5	-3.0	-3.3	5.7	-	6.3	
	Ellerston 2050 Fund	-4.7	-7.5	-6.1	-	-	-	-6.5	ECL5651AU 30/5/22
	S&P/ASX Small Ordinaries Industrial Accumulation Index	-7.0	-13.0	-6.1	-	-	-	-7.4	
	Excess Return	2.4	5.6	0.0	-	-	-	1.0	



Ellerston Capital Limited
Summary of Fund Performance

31 October 2023

Net Returns		1M (%)	3M (%)	1Y (%)	3Y (% p.a.)	5Y (% p.a.)	10Y (% p.a.)	S.I.* (% p.a.)	APIR Code / Inception Date
International Equity	Ellerston Global Mid Small Cap Fund - Class A	-9.0	-13.5	-0.3	3.7	8.0	-	8.9	ECL8388AU 28/2/17
	MSCI World Mid Cap Index	-3.5	-7.3	3.1	7.5	7.3	9.8	8.2	
	Excess Return	-5.5	-6.2	-3.4	-3.8	0.7	-	0.7	
	Ellerston Asia Growth Fund (Hedge Fund)^	-1.2	-6.2	-	-	-	-	-2.4^^	ECL1411AU 1/6/23
	MSCI Asia ex Japan (non-accumulation)	-2.0	-7.2	-	-	-	0.3	-3.8	
	Excess Return	0.8	1.0	-2.5	-3.5	-0.6	-	1.4	
	Ellerston India Fund	-1.0	0.3	4.4	10.3	9.6	-	7.6	ECL0339AU 4/5/17
	MSCI India Net Return Index	-1.1	3.0	5.2	17.3	13.3	-	10.3	
	Excess Return	0.1	-2.7	-0.8	-7.0	-3.7	-	-2.7	
Private Assets	Ellerston JAADE Australian Private Assets Fund (Retail)	-	2.9	11.3	10.3	-	-	17.6	ECL2707AU 5/7/19
	Ellerston Pre - IPO Fund	-	2.5	-6.4	1.2	-	-	3.9	ECL0405AU 31/3/20
Note: The above two (Ellerston Pre-IPO and Ellerston JAADE) fund results are reported quarterly and therefore are updated as at 30 September 2023									

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The net return figure is calculated after fees and expenses. Above figures are those available as at 8 November 2023. Past performance is not a reliable indication of future performance.

*Since Inception

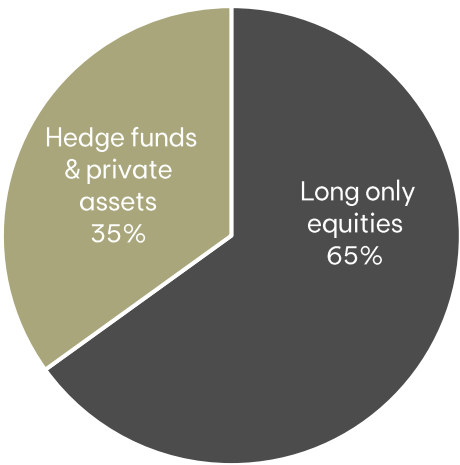
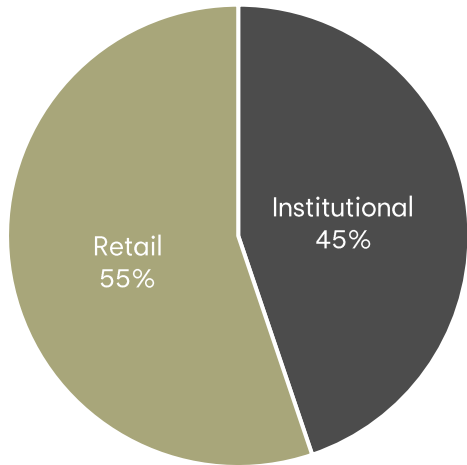
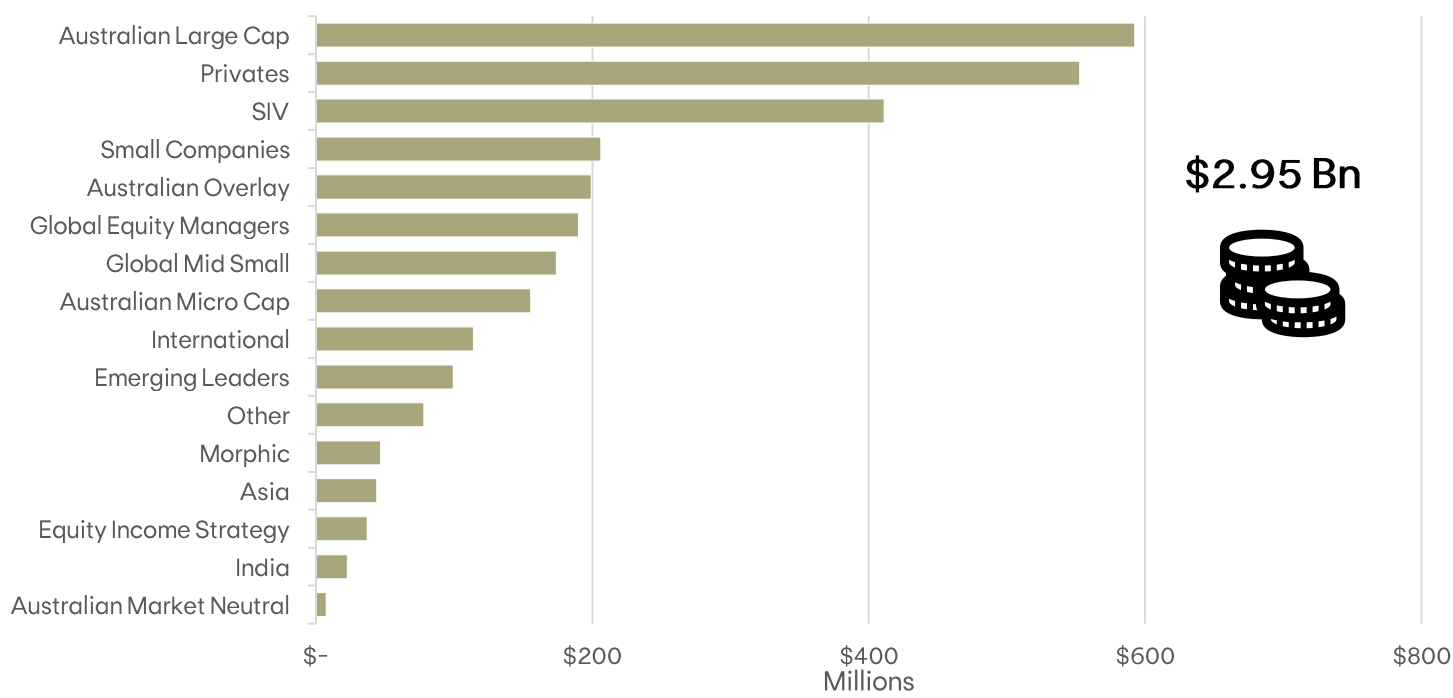
^The Ellerston Asia Growth Fund (Hedge Fund) was formerly known as the Ellerston Asia Growth Fund with a strategy inception date of 4 January 2017. The performance was reset following a restructure of the fund into an exchange traded managed fund which took effect on 1 June 2023.

^^ Cumulative return since inception

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About Ellerston Capital

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 or 0466 775 961.

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