



# Ellerston Capital

Monthly Newsletter December 2023

Founded on Discovery

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# Ellerston Capital

## Monthly Newsletter December 2023



### Monthly Returns – Top 3 Performers

Fund	1 Month	1 Year	3 Years (p.a.)	5 Years (p.a.)	Since Inception* (p.a.)
Ellerston Australian Micro Cap Fund	9.2%	12.5%	-1.3%	12.9%	12.6%
Ellerston Australian Emerging Leaders Fund	7.7%	11.8%	-	-	-6.6%
Ellerston Equity Income KIS Fund	6.4%	11.7%	10.4%	-	9.3%

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

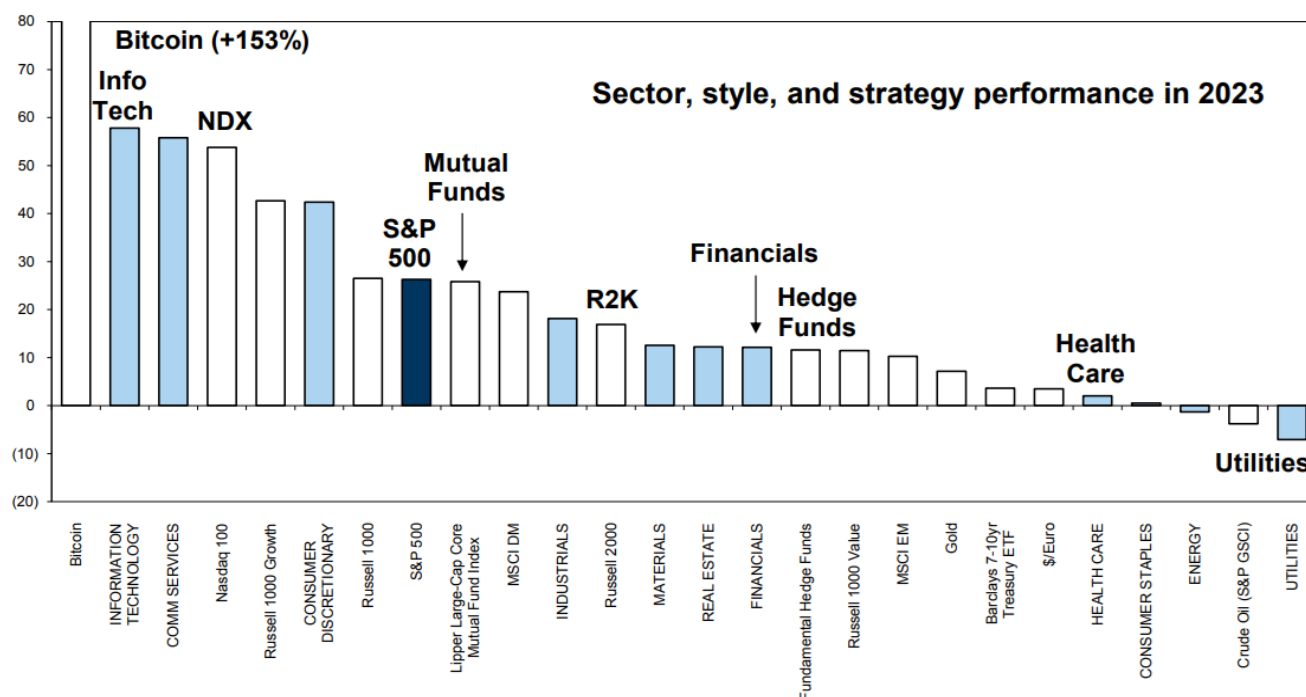
\*Please refer to a summary of fund performance page for Fund inception dates and APIR codes.

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## Monthly Market Update

### Market Overview

Global equity markets kept rising in December, with the MSCI World Index up 4.2% in local currency terms. Dovish signalling on US interest rates by the Federal Reserve (Fed) sparked a particularly strong run up in stocks, bonds and the Australian dollar. The Fed pivot drove the US 10-year bond yield back to 3.9%, with markets now pricing at least six interest rate cuts in the US and up to three in Australia. The S&P500 rose 4.5% and domestically, the S&P/ASX 200 index closed slightly lower at 7590.8 on the last trading day of the year, flirting with near all-time highs. That was not enough, however, to spoil accumulated monthly gains of 7.3%, the best December rally in three decades. Real Estate (+11.3%) and Healthcare (+9.1%) were the stand out performers.



Source: Goldman Sachs

## Australia

The RBA held the cash rate at 4.35%, as expected after November's hike of 25bps. Employment continues to grow at a solid clip, increasing 61k in Nov compared to consensus +11.5k. Despite the strong rise in employment, there was also a material increase in the supply side of the labour market. This came from a lift in the participation rate and upward revisions to the civilian population, which drove an increase in the unemployment rate to 3.9 per cent (from a recent cycle low of 3.4 per cent). For the time being, it appears that the RBA will stay on the sidelines.

The A\$ closed the month up 3% to US\$0.68, a beneficiary of higher iron ore prices, but mainly the weaker greenback which was down 2% on a trade weighted basis, as US Treasury yields fell sharply.

The S&P/ASX 200 Accumulation Index surged in December, with the ASX 200 rising 7.3% and lifting the 2023 return to +12.4%, including dividends. This was largely driven by PE expansion, which contributed +16.0% to returns, more than offsetting the 8.1% fall in forward EPS over 2023, with dividends contributing 4.6% to total returns. Real Estate, Healthcare and Materials led the performance charts. The Real Estate sector (up 11.3%), was the best performer, spurred on by Goodman Group (+11.9%), followed closely by Healthcare (+9.1%) driven by CSL's impressive 9.3% gain and Materials (+8.8%). The bottom three sectors were Utilities (+2.5%), dragged down by AGL Energy (+0.5%), Energy (+3.4%) and Consumer Staples (+5.1%).

## USA

The Federal Reserve's FOMC meeting on 12/13 December unsurprisingly left the target range for the federal funds rate unchanged. The median dot in the Summary of Economic Projections showed 75bps of cuts in 2024, 25bps more than in the September projections. The Fed moved towards the market's thinking by lowering their core inflation expectations and is now factoring in three rate cuts in 2024. The statement and dot plot screamed of a 'Goldilocks' soft landing, which the market clearly relished.

The S&P 500 and the Dow Jones Industrial Average were up 4.5% and 4.9% respectively, with the NASDAQ Composite Index, rising 5.6% for the month. Way out in front, was the small cap Russell 2000 Index, with an impressive return of +12.2% in December.

## Europe

As expected, the ECB also decided to keep its three key interest rates unchanged in December, but ECB President Christine Lagarde delivered a gentle but resolute pushback against market expectations of policy rate cuts in early March. The BoE, in step, kept rates on hold, singing from the same hymnbook - "the committee continues to judge that monetary policy is likely to need to be restrictive for an extended period of time." Unexpectedly, Norges Bank bucked the trend, with a 25bps rate hike to 4.5% to its key interest rate.

The Euro STOXX50 Index finished the month up 3.2%. Among the major exchanges, UK's FTSE 100 was up 3.9%, whilst both Germany's DAX and France's CAC 40 finished 3.3% higher.

## Asia

China's top leadership held their Central Economic Work Conference (CEWC) in December, explicitly listing the challenges the Chinese economy faces. These included: insufficient demand, overcapacity in certain key industries, weak social expectations, blockages in domestic circulation and rising complexity, difficulty and uncertainty in the external environment. With this frank assessment, the leadership highlighted economic development as the central work of the CPC. It also urged timely policy implementation to achieve sustained high-quality development. Later in the month, the PBOC injected US\$50bn into Policy Banks, the largest since November 2022, suggesting the central bank may be ramping up financing for housing and infrastructure projects to support the economy, with focus shifting from the demand to the investment side.

India's SENSEX was the standout performer in the Asian region, up a solid 7.8%, followed by Korea's KOSPI up 4.7%. The Hang Seng rose 0.2%, the Nikkei closed 0.1% higher and the laggard was China's SSE, down 1.9%. Hong Kong's Hang Seng finished the year down 10.6%, worse than China's SSE, which fell 6.3%.

## Commodities.

Iron ore prices edged higher, rising 6% to US\$140/tonne and coking coal prices marked time at US\$324 per tonne. The base metals complex improved, with aluminium rising 9% and copper up 8%. Crude prices continued to slide, with Brent down 7% to US\$77/barrel, despite ongoing Middle East tensions and the new OPEC+ production cuts expected to kick in for 1Q24, with a headline curtailment of a 2.2Mb/d. The cut in supply included the existing Saudi/Russian voluntary curtailments, plus an addition 0.2Mb/d from Russia and 0.7Mb/d from six other members that have been struggling to meet their existing quotas. Focus remains on compliance. Gold ticked 1% higher to US\$2063/oz, surprisingly less than one would expect given the weaker US dollar and massive move down in bond yields.

The key feature in commodity markets was that lithium carbonate and spodumene continued to sell off in December, falling 16% and 31% respectively. The slump for the year saw lithium carbonate prices down 83% and spodumene benchmark price collapsing by 85%. The destocking in the EV battery supply chain continues!

## Bonds

The US 10-year bond yield was down another 46bps last month to 3.88%, due to the Fed's dovish pivot. On the domestic front, the Australian 10-year bond yield also fell in step with the global trend, falling by 45bps to close at 3.96%. Surprisingly, the US and Australian 10-year bond yields at the start of the year were 3.88% and 4.05% respectively, so virtually no change, but the journey felt like a white knuckle, wild roller coaster ride!

## Charts of the Month

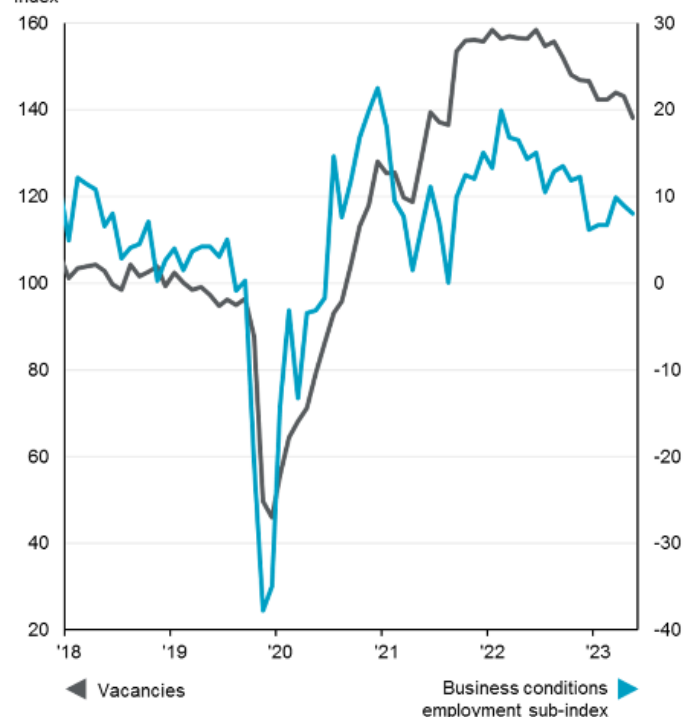
### Unemployment and wage growth

Seasonally adjusted



### Vacancies and employment

Index

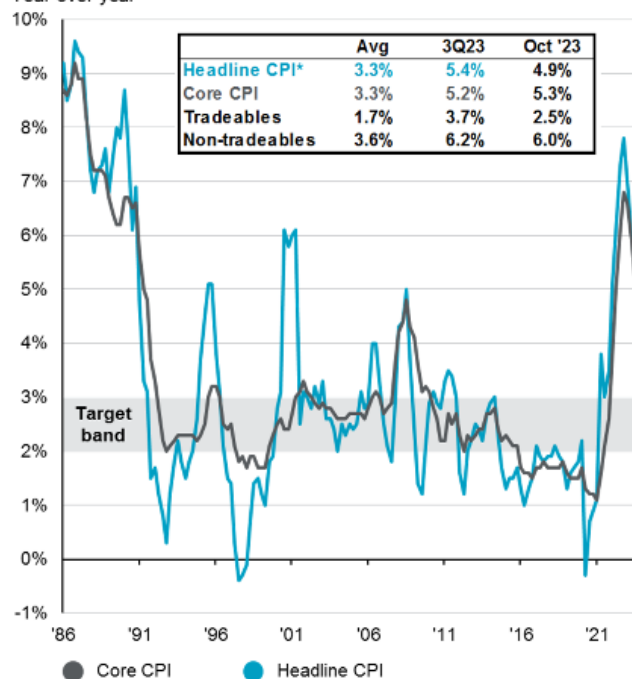


Source: FactSet, J.P. Morgan Asset Management; (Left) ABS, (Right) ANZ-Indeed, National Australia Bank.

Guide to the Markets – Australia. Data as of 31 December 2023.

### CPI and core CPI inflation

Year-over-year

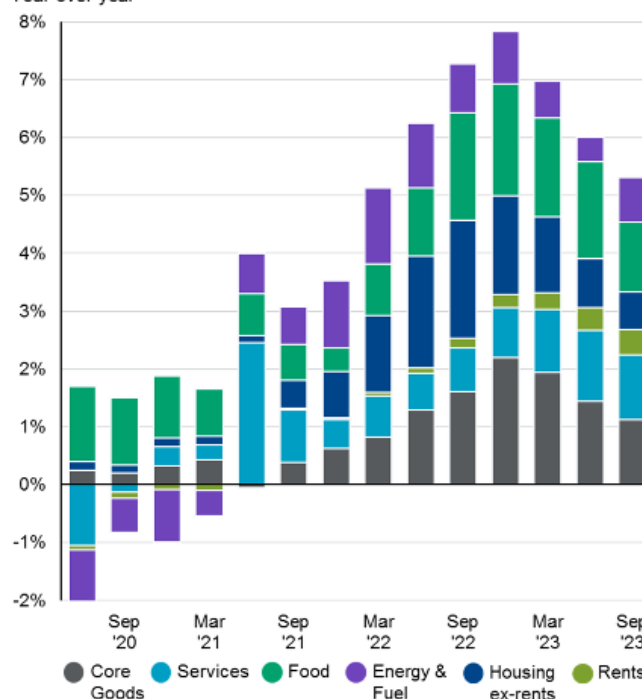


Source: Australian Bureau of Statistics, FactSet, J.P. Morgan Asset Management. \*CPI is the Consumer Price Index, core CPI is the average of the trimmed mean and weighted median measures of inflation. Tradeables represent approximately 35% of the CPI basket and non-tradeables 65%. Core goods CPI is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

Guide to the Markets – Australia. Data as of 31 December 2023.

### Inflation components contribution

Year-over-year





		1M (%)	3M (%)	CYTD (%)	1Y (%)	3Y (% p.a)	5Y (% p.a)	10Y (% p.a)
Australia	S&P ASX 50	7.3	8.9	13.4	13.4	10.6	10.5	7.7
	<b>S&amp;P ASX 200</b>	<b>7.3</b>	<b>8.4</b>	<b>12.4</b>	<b>12.4</b>	<b>9.2</b>	<b>10.3</b>	<b>7.9</b>
	<i>S&amp;P ASX 200 Industrial</i>	7.0	8.4	12.3	12.3	7.4	8.7	7.4
	<i>S&amp;P ASX 200 Resources</i>	7.9	8.4	12.8	12.8	14.7	15.6	9.1
	<b>S&amp;P ASX Small Ordinaries</b>	<b>7.2</b>	<b>8.5</b>	<b>7.8</b>	<b>7.8</b>	<b>0.9</b>	<b>6.4</b>	<b>6.0</b>
	<i>S&amp;P ASX Small Industrials</i>	8.5	9.5	11.4	11.4	-0.3	5.5	5.9
	<i>S&amp;P ASX Small Resources</i>	3.7	5.8	-1.3	-1.3	6.0	10.0	6.2
	MSCI Australia Value	7.8	9.0	14.2	14.2	14.2	11.3	7.2
	MSCI Australia Growth	7.2	9.0	14.5	14.5	6.4	9.1	8.4

ASX 200 Sectors	Energy	3.4	-9.1	3.8	3.8	15.9	6.7	1.5
	Utilities	2.5	-2.1	3.2	3.2	13.8	7.4	9.7
	Financials	6.2	8.2	11.2	11.2	12.2	8.5	6.5
	Materials	8.8	13.4	16.2	16.2	14.3	17.6	11.6
	Industrials	6.1	5.9	13.8	13.8	7.9	7.0	9.2
	Real Estate	11.3	15.8	16.1	16.1	4.4	5.3	8.5
	Consumer Discretionary	6.3	6.0	22.3	22.3	6.6	12.3	9.4
	Health Care	9.1	13.1	3.8	3.8	1.7	9.5	13.3
	Information Technology	7.4	6.5	31.3	31.3	-5.2	12.4	11.3
	Consumer Staples	5.1	0.2	1.3	1.3	2.1	6.4	5.6
	Communication Services	7.1	6.8	16.6	16.6	11.4	13.0	3.1

#### Local CCY

World	MSCI World Index	4.2	9.8	23.1	23.1	8.7	13.2	9.5
	MSCI EM (Emerging Markets)	3.1	5.6	9.9	9.9	-2.5	5.4	5.2
	MSCI AC World ex AU	4.0	9.4	21.8	21.8	7.2	12.3	9.1
	MSCI World Mid Cap	6.1	9.7	15.2	15.2	5.3	10.7	8.0
Americas	S&P 500	4.5	11.6	25.7	25.7	9.5	15.1	11.4
	DJ Industrial Average	4.9	13.1	16.2	16.2	9.4	12.5	11.1
	NASDAQ Composite Index	5.6	13.8	44.6	44.6	6.0	18.8	14.8
	Russell 2000	12.2	14.0	16.9	16.9	2.2	10.0	7.2
Asia Pac	Hang Seng Index	0.2	-3.9	-10.6	-10.6	-11.8	-5.0	0.2
	Japan Nikkei 225	0.1	5.2	30.4	30.4	8.5	12.6	9.1
	MSCI AC Asia ex JP	2.9	4.2	6.4	6.4	-4.4	4.7	4.9
	MSCI India	7.9	12.2	22.0	22.0	17.4	16.1	13.4

		SPOT	1M (%)	3M (%)	CYTD (%)	1Y (%)	3Y (% p.a)	5Y (% p.a)	10Y (% p.a)
FX	AUD/USD	0.6824	2.9	5.7	0.6	0.6	-4.0	-0.6	-2.7
	AUD/EUR	0.6177	1.6	1.3	-2.8	-2.8	-0.7	0.1	-0.5
	AUD/GBP	0.5353	2.2	1.2	-5.1	-5.1	-1.8	-0.6	-0.1
	AUD/JPY	96.1977	-1.9	-0.1	7.5	7.5	6.5	4.5	0.2



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	5.4	7.5	10.0	12.7	9.9	7.2	8.8	ECL0005AU 31/3/09
	S&P/ASX 200 Accumulation Index	7.3	8.4	12.4	9.2	10.3	7.9	9.6	
	Excess Return	-1.9	-0.9	-2.4	3.4	-0.4	-0.8	-0.8	
	Ellerston Overlay ASF	5.4	7.2	7.3	9.8	8.1	6.4	7.3	ECL0012AU 1/7/11
	S&P/ASX 200 Accumulation Index	7.3	8.4	12.4	9.2	10.3	7.9	8.9	
	Excess Return	-1.8	-1.2	-5.1	0.6	-2.2	-1.5	-1.6	
	Ellerston Equity Income KIS Fund	6.4	10.6	11.7	10.4	-	-	9.3	ECL7259AU 1/5/19
	S&P/ASX 200 Accumulation Index	7.3	8.4	12.4	9.2	-	-	8.1	
	Excess Return	-0.9	2.2	-0.7	1.2	-	-	1.2	
	Ellerston Australian Micro Cap Fund	9.2	7.1	12.5	-1.3	12.9	-	12.6	ECL0984AU 27/4/17
	S&P/ASX Small Ordinaries Accumulation Index	7.2	8.5	7.8	0.9	6.4	-	6.0	
	Excess Return	1.9	-1.4	4.7	-2.3	6.5	-	6.6	
	Ellerston Australian Emerging Leaders Fund	7.7	11.0	11.8	-	-	-	-6.6	ECL6748AU 16/8/21
	S&P/ASX Small Ordinaries Accumulation Index	7.2	8.5	7.8	-	-	-	-4.6	
	Excess Return	0.5	2.5	4.0	-	-	-	-2.0	



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	4.9	0.2	15.3	4.3	11.8	-	10.2	ECL8388AU 28/2/17
	MSCI World Mid Cap Index	4.2	5.7	14.8	7.5	10.8	-	9.4	
	Excess Return	0.8	-5.5	0.5	-3.2	1.0	-	0.8	
	Ellerston Global Mid Small Cap Fund - Class B	4.9	0.1	15.2	4.9	-	-	7.0	ECL3306AU 18/8/20
	MSCI World Mid Cap Index	4.2	5.7	14.8	7.5	-	-	9.6	
	Excess Return	0.8	-5.5	0.4	-2.6	-	-	-2.6	
	Ellerston Asia Growth Fund (Hedge Fund)^	-1.3	-1.9	-	-	-	-	-3.1^^	ECL1411AU 1/6/2023
	MSCI Asia ex Japan (non-accumulation)	0.4	0.4	-	-	-	-	-1.4	
	Excess Return	-1.8	-2.3	-	-	-	-	-1.7	
Private Assets	Ellerston India Fund	3.0	4.1	14.3	9.8	8.3	-	8.2	ECL0339AU 4/5/17
	MSCI India Net Return Index	5.0	5.8	20.1	16.7	12.5	-	11.2	
	Excess Return	-2.1	-1.7	-5.8	-6.8	-4.2	-	-2.9	
Private Assets	Ellerston JAADE Australian Private Assets Fund (Retail)	2.9	2.9	11.3	10.3	-	-	16.8	ECL2707AU 1/9/19
	Ellerston Pre IPO Fund	2.5	2.5	-6.4	1.2	-	-	3.9	ECL0405AU 1/4/20
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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#### Disclaimer

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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Ellerston Capital is a specialist investment manager providing a range of innovative Australian and international investment strategies. As a firm majority owned by its principals and employees, our clients' objectives are our objectives.

At Ellerston, we aim to do one thing exceptionally well: grow and protect our clients' wealth through investing. We are passionate about creating value for our clients by identifying outstanding investment ideas and designing portfolios that perform over the long term. Our funds target a diverse range of strategies including, but not limited to, long only Australian, global and Asian equities, Australian and global long-short equity and private equity (as tabled below).

Australian Equities	Global Equities	Alternatives	Private Assets
			
Australian Large & Mid Cap Australian Yield Strategy 2050/Sustainable Strategy Emerging Leaders Small Caps Micro Caps	Global Mid-Small Caps Asian Large & Mid Caps Indian Equities	Global Long/Short Strategy <u>Bespoke</u> Global Portfolios	Australian P/E Strategy – Tech & Healthcare Unlisted / Pre-IPO Venture Capital <u>Bespoke</u> Unlisted Strategies

Ellerston Capital has been managing money since 2002. Our clients include Sovereign wealth, industry and corporate superannuation funds, international funds, family offices and high net worth investors.

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## Find out more.

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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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