



Ellerston Capital

Monthly Newsletter January 2025

Founded on Discovery

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Funds in Focus

Funds	1 Month	3 Months	1 Year	3 Years (p.a.)	5 Years (p.a.)	Since Inception* (p.a.)
Ellerston Australian Emerging Leaders Fund	2.8%	7.8%	34.8%	8.8%	-	5.0%
Ellerston Fixed Income Target Return Fund	0.4%	1.1%	-	-	-	0.8%
Ellerston JAADE Australian Private Assets Fund (Retail)	-	1.6%	12.1%	5.9%	11.0%	16.4%

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

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

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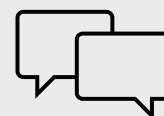
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2025 Market Outlook with James Barker



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Monthly Market Update

Market Overview

In a transient rally to start the new year, the AI theme was rattled by the emergence of DeepSeek's showcased efficiency which went way beyond the market's expectations. This caused sharp sell offs in the likes of Nvidia, dragging the US IT sector well into the red as investors began to seriously question the necessity of the ongoing AI investment boom. President Trump's pending imposition of tariffs on China, Mexico and Canada was also front and centre for investors, coupled with the US Federal Reserve confirming its hawkish pause on rates. Yet against this backdrop of uncertainty, global equities performed strongly, with Europe leading the charge. The MSCI World Index lifted 3.5%, outperforming the MSCI Emerging Markets Index which posted small positive returns and rose 1.6% in local currency terms. Communication Services (+8.7%) and Financials (+6.6%) topped the global sector tables. Information Technology (-1.5%) was the laggard. The S&P 500 rose 2.8% and on the home front, the S&P/ASX200 outperformed, posting a gain of 4.6%. Domestically, the best sectors were Consumer Discretionary (+7.1%), Financials (+6.1%) and Real Estate (+4.7%).

Australia

Australian stocks fell in December, as reduced expectations for Fed hikes in 2025 and a resulting 40bp spike in bond yields were key drivers of year-end volatility.

The RBA's December meeting held the cash rate at 4.35%, as widely expected, but the outlook commentary was more on the dovish side compared to its November statement. The RBA noted "while underlying inflation is still high, other recent data on economic activity have been mixed, but on balance, softer than expected in November." Hence, "some of the upside risks to inflation appear to have eased." The RBA added "wage pressures have eased more than expected in the November SMP". It certainly increases the probability of a cut at the next meeting in February, but of course, will be data dependant.

Australian equities underperformed most developed global peers, with the S&P/ASX 200 Accumulation Index closing down 3.2%, reducing the calendar year 2024 return to +11.4%. In December, Consumer Staples (+0.6%) was the best performing sector, driven by Bega Cheese (+9.3%), followed by Utilities (AGL +0.8%) and the Industrials sector which was led by Auckland International Airport (+10.5%) and Computershare (+6.5%).

The worst performing sectors were Real Estate (due to the rise in bond yields), with REITs dragged down by HMC Capital (-20.0%), Lendlease Group (-13.0%) and Mirvac (-11.2%). Materials, pressured by Liontown Resources (-28.1%), Coronado Global Resources (-17.3%) and Alcoa Corporation (-16.2%) followed suit.

For the final month of the year, the top stocks that made a positive contribution to the Index's return were Transurban Group (+11bp), Computershare (+5bp), Telstra Group (+3bp), De Grey Mining (+2bp) and Coles Group (+2bp). Conversely, the bottom five stocks detracting from the Index's performance were CBA (-36bp), ANZ Group Holdings (-31bp), NAB (-24bp), BHP (-21bp) and Goodman Group (-15bp). The ASX Small Ordinaries closed down 3.1% marginally better than the broader benchmark return of -3.2%. Within the ASX Small Ordinaries, both the Small Industrials and Small Resources closed down 3.1%.

USA

January saw several major developments, most of which were positive for risk assets up until the announcement of tariffs on Canada (25%), Mexico (25%) and China (additional 10%) at month end (announced on 1 February). Not surprisingly, the Federal Reserve FOMC held interest rates steady, in a range of 4.25%-4.5%, pausing to assess the inflation outlook following a string of rate reductions last year. Officials repeated that inflation remains "somewhat elevated," but removed its reference to having made progress toward their 2% goal, also noting the unemployment rate had stabilised at a low level. Strong economic growth, supplemented by a solid labour market has allowed the Fed to wait for further evidence of cooling inflation, giving it time to evaluate the Trump administration policy impacts on the economy, before adjusting rates again.

The big market moving news in January revolved around Chinese artificial-intelligence startup DeepSeek, which put the cat amongst the pigeons. The introduction of DeepSeek's open-source R1 model shocked investors. A record stock market value was wiped off the world's largest company Nvidia, which shed 16.9% in one session on 27 January. This was the biggest drop since March 2020, erasing ~US\$600 billion off its market capitalisation. Nvidia's sell-off rippled through the broader market, given its large weight amongst major indices, causing the S&P 500 to finish down 1.5% and the Nasdaq Composite to close down 3.1% on the day. DeepSeek's low-cost approach reignited concerns that big US

companies have poured excessive capex into developing artificial intelligence. The Chinese firm appears to provide a comparable or superior performance to Western chatbots at a fraction of the price, driving a broader sell-off in technology stocks, with the likes of Oracle down 13.8% on the same day.

In the wash up, the Dow Jones Industrial Average outperformed in January, rising 4.8%, followed by the S&P 500 (+2.8%) and the small cap Russell 2000 (+2.6%), with the NASDAQ Composite index being the clear laggard, finishing up 1.7%.

The best performing sectors were Communication Services (+9.1%), Health Care (+6.8%) and Financials (+6.6%), with the worst performing sector and the only one in the red being Information Technology (-2.9%, clearly impacted by DeepSeek upsetting the AI apple cart), followed by Real Estate (+1.8%) and Consumer Staples (+2.0%).

Europe

The ECB cut rates by 25bp (the fifth), as expected, taking the deposit rate to 2.75%. ECB president Lagarde reinforced the neutral range she stressed in Davos, which was 1.75%-2.25%, suggesting that the ECB has more room to cut rates. Further cuts are also consistent with December projections, which have factored in a policy rate path down to around 2%. This nevertheless showed inflation returning to its target rate this year (and core slipping 0.1% below in 2026 and 2027).

European stocks materially outperformed global indices for the second month in a row, surprising many investors. The Euro STOXX50 Index advanced 8.1%, its best performance since November 2023. The move came as Trump was inaugurated and made no mention of tariffs on European goods. Among the major exchanges, Germany's DAX closed up 9.2%, followed by France's CAC 40 which rose 7.8% as the political situation settled down and the FTSE 100 posted a solid 6.2% return.

Asia

Asian equity markets got caught in the tariff crosswinds, given potential US tariff hikes are the biggest headwind for China's growth this year, and could disrupt supply chains and exports, impact corporate capex and household consumption. China will need to roll out greater policy support at the March NPC meeting, with the market expecting its budget deficit to move towards 4% of GDP, an all-time high. March should provide better clarity of the extent of US tariffs and the NPC responses.

Given the uncertainty, Asian markets generally underperformed, with the Hang Seng in positive territory at +1.2%, followed by Japan's Nikkei and India's SENSEX both down 0.8%. The laggard was China's SSE down 2.8%.



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 Emerging Leaders Fund	2.8	7.8	34.8	8.8	-	-	5.0	ECL6748AU 13/8/21
	S&P/ASX Small Ordinaries Accumulation Index	4.6	2.7	12.3	3.1	-	-	0.3	
	Excess Return	-1.8	5.1	22.5	5.7	-	-	4.6	
	Ellerston Equity Income KIS Fund	3.3	-0.6	5.7	7.3	6.6	-	8.6	ECL7259AU 1/5/19
	S&P/ASX 200 Accumulation Index	4.6	5.1	15.2	11.4	8.0	-	9.4	
	Excess Return	-1.3	-5.8	-9.5	-4.2	-1.4	-	-0.7	
	Ellerston Australian Micro Cap Fund	1.6	2.7	26.5	3.1	9.0	-	14.2	ECL0984AU 1/5/17
	S&P/ASX Small Ordinaries Accumulation Index	4.6	2.7	12.3	3.1	4.3	-	6.9	
	Excess Return	-3.0	-0.0	14.2	-0.0	4.7	-	7.4	
Fixed Income	Ellerston Fixed Income Target Return Fund	0.4	1.1	-	-	-	-	0.8	ECL4489AU 30/8/24
	Ellerston Fixed Income Target Return Fund Benchmark	0.3	0.9	-	-	-	-	1.5	
	Excess Return	0.1	0.2	-	-	-	-	-0.6	
International Equity	Ellerston Global Mid Small Cap Fund - Class A	1.0	5.1	14.9	3.0	7.7	-	10.9	ECL8388AU 1/3/17
	MSCI World Mid Cap Index	3.4	9.3	23.7	9.5	9.7	-	11.3	
	Excess Return	-2.4	-4.3	-8.8	-6.5	-2.1	-	-0.4	
	Ellerston India Fund	-10.5	-7.2	11.6	8.0	9.3	-	9.2	ECL0339AU 4/5/17
	MSCI India Net Return Index	-4.3	-2.1	11.0	11.0	13.5	-	11.8	
	Excess Return	-6.3	-5.1	0.6	-3.0	-4.2	-	-2.6	
Private Assets	Ellerston JAADE Australian Private Assets Fund (Retail)**	-	1.6	12.1	5.9	11.0	-	16.4	ECL2707AU 5/7/19
	Note: The Ellerston JAADE fund results are reported quarterly and therefore are updated as at 31 December 2024								



		Return Type	1M (%)	3M (%)	CYTD (%)	1Y (%)	3Y (% p.a)	5Y (% p.a)	10Y (% p.a)
Australia	S&P/ASX 50	Total	4.3	4.9	4.3	14.6	12.5	8.0	8.4
	S&P/ASX 200	Total	4.6	5.1	4.6	15.2	11.4	8.0	8.6
	S&P/ASX 200 Industrial	Total	4.8	7.4	4.8	23.5	13.1	8.2	8.4
	S&P/ASX 200 Resources	Total	3.6	-3.0	3.6	-8.5	5.7	7.4	9.8
	S&P/ASX Small Ordinaries	Total	4.6	2.7	4.6	12.3	3.1	4.3	7.7
	S&P/ASX Small Industrials	Total	3.3	4.0	3.3	13.6	3.8	3.1	7.1
	S&P/ASX Small Resources	Total	8.3	-0.7	8.3	8.3	1.4	9.2	10.0
	MSCI Australia Value	Net	4.0	2.0	4.0	6.3	11.9	8.8	6.6
	MSCI Australia Growth	Net	4.6	8.0	4.6	22.7	13.2	6.7	10.0

ASX 200 Sectors	Energy	Total	3.0	2.6	3.0	-15.7	8.4	-0.2	2.2
	Utilities	Total	-2.4	6.9	-2.4	16.4	14.5	6.9	8.9
	Financials	Total	6.1	8.8	6.1	35.2	19.7	12.4	8.5
	Materials	Total	4.0	-3.3	4.0	-5.7	5.3	9.3	11.7
	Industrials	Total	3.4	9.7	3.4	19.0	12.4	5.2	9.6
	Real Estate	Total	4.7	0.8	4.7	20.3	7.5	4.1	7.1
	Consumer Discretionary	Total	7.1	13.6	7.1	29.5	12.3	11.3	11.9
	Health Care	Total	3.2	4.2	3.2	6.4	6.7	1.7	11.7
	Information Technology	Total	4.2	10.0	4.2	54.3	18.6	13.6	15.6
	Consumer Staples	Total	0.7	2.4	0.7	-0.4	2.1	0.8	5.7
	Communication Services	Total	2.4	3.9	2.4	6.9	7.2	7.8	1.2

Local Currency

World	MSCI World Index	Net	3.5	6.4	3.5	23.0	10.8	12.8	11.0
	MSCI EM (Emerging Markets)	Net	1.6	0.0	1.6	19.1	2.8	5.6	6.0
	MSCI AC World Index ex Australia	Net	3.3	5.8	3.3	22.8	9.9	12.1	10.5
	MSCI World Mid Cap	Net	4.0	5.3	4.0	18.8	7.1	9.4	8.7

Americas	S&P 500	Net	2.8	6.1	2.8	25.9	11.4	14.6	13.1
	Dow Jones Industrial Average	Net	4.8	7.0	4.8	18.3	9.8	11.1	11.7
	NASDAQ Composite	Net	1.7	8.6	1.7	30.1	11.9	17.1	-
	Russell 2000	Total	2.6	4.5	2.6	19.1	5.6	8.7	8.4

Asia Pac	Hang Seng Index	Net	1.2	0.1	1.2	36.6	-1.6	-1.9	1.5
	Nikkei 225 Stock Average	Net	-0.8	1.4	-0.8	10.6	15.4	13.0	10.1
	MSCI AC Asia ex Japan	Net	0.8	-0.5	0.8	22.5	2.8	5.4	5.5
	MSCI India	Net	-2.4	-4.0	-2.4	9.2	12.0	16.3	11.2

		SPOT	1M (%)	3M (%)	CYTD (%)	1Y (%)	3Y (% p.a)	5Y (% p.a)	10Y (% p.a)
FX	U.S. Dollar per Australian Dollar	0.6238	0.7	-4.8	0.7	-5.6	-4.0	-1.4	-2.2
	Euro per Australian Dollar	0.6000	0.4	-0.5	0.4	-1.4	-1.5	-0.1	-1.4
	British Pounds per Australian Dollar	0.5020	1.5	-1.5	1.5	-3.3	-1.5	-0.2	-0.3
	Japanese Yen per Australian Dollar	96.5877	-0.7	-3.2	-0.7	0.0	6.0	5.9	0.5

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Disclaimer

The net return figure is calculated after fees and expenses. Past performance is not a reliable indication of future performance.

*Since Inception

** Since inception performance is calculated from 30 September 2019, which is the date from which the Ellerston JAADE Australian Private Assets Fund (Retail) made its first investment into the Ellerston JAADE Australian Private Assets Fund (Wholesale).

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