CITY OF PARRAMATTA

Monthly Investment Report

August 2023

IMPERIUM MARKETS

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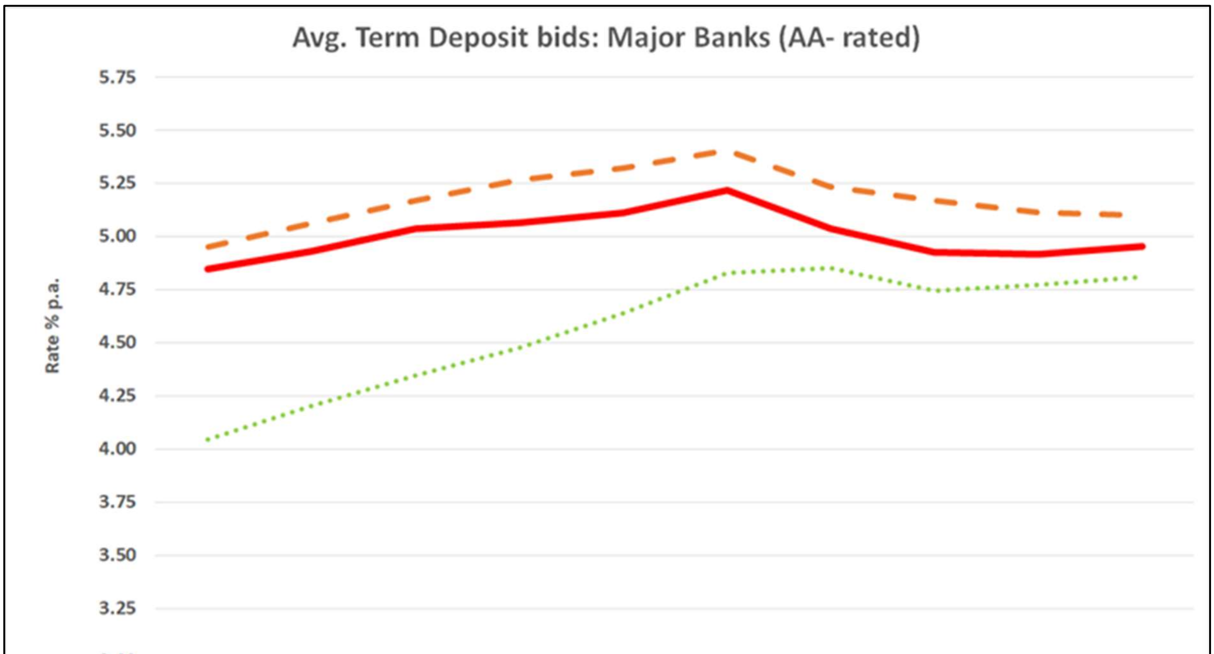
Market Update Summary

Risk markets marginally fell on concerns about the prospects of global growth, led by weaknesses seen in China's economy. Global inflation continues to show signs of decelerating and global interest rates are approaching their peak. But resilient labour forces remain a concern which may keep rates higher for longer. Domestically, the RBA remains on a slight tightening bias, although RBA Governor Lowe commented he hopes "*we're kind of in a world where we're just making, I hope, small adjustments to calibrate policy*", with markets quickly suggesting we may have already reached the peak of the RBA's rate hike cycle.

Over August, major bank deposit rates dropped around 20bp across the 6-12 month part of the curve, reacting to the RBA's pause and signs that inflation is decelerating. The average bids would have drifted even lower if one major bank (CBA) was not offering 'specials' that was up to 40bp higher than the entire market (not only their peers) across the shorter tenors. Deposit rates offered by the major banks continue to be lower in the long-end (2-5 years) compared to the shorter-end (6-12 months), reflective of the major banks believing that rate cuts may be required in future years should economic conditions deteriorate, inflation has decelerated and well under control.



	3M	4M	5M	6M	9M	12M	2Y	3Y	4Y	5Y
Aug-2023	4.85	4.93	5.04	5.07	5.11	5.22	5.04	4.93	4.92	4.95
Jul-2023	4.95	5.06	5.17	5.27	5.32	5.40	5.23	5.17	5.11	5.10
Feb-2023	4.05	4.20	4.35	4.48	4.64	4.83	4.85	4.74	4.77	4.81

Source: Imperium Markets

With recessionary fears being priced in coming years, investors may take an 'insurance policy' against a potentially lower rate environment by investing across 2-5 year fixed deposits and locking in rates above or close to 5% p.a. (small allocation only).

Council's Portfolio Summary

Term Deposits

Term Deposits (fixed and floating) account for around 68% of the total investment portfolio at month-end. Council's term deposit portfolio was yielding 3.52% p.a. at month-end, with a weighted average duration of around 270 days or ~9 months. Where liquidity permits, we recommend increasing the overall duration closer to 12 months incrementally over the current financial year.

Senior FRNs

Council's senior floating rate notes (FRNs) make up around 8% of the total investment portfolio at month-end. The market valuation of Council's FRNs collectively rose around **+0.04% (actual)** in August 2023 (**or +$14,678 in dollar terms**).

Summary	31 July 2023	31 August 2023	Net Flow ($)	Monthly Change %
Face Value	$38,100,000	$41,100,000	+$3,000,00	+7.88%
Market Value	$38,247,353	$41,262,032	+$14,678	+0.04%

We highlight that Council's FRNs are senior ranked assets and high in the bank capital structure. We expect that, if held to maturity, the FRNs will pay back its original face value ($100.00), along with its quarterly coupons throughout the life of the security. That is, we do not expect Council to lose any capital or interest payments from its current holding in its senior FRNs given all banks continue to maintain high capital buffers as required by APRA.

At month-end, Council's FRNs are now marked at an **unrealised capital gain of +$169,086** *(noting some were purchased at a slight discount to par in the secondary market).*

BBB rated senior FRNs

As per all FRNs, we have no issues with Council's investments in "BBB" rated senior FRNs given all counterparties continue to hold robust balance sheets with high levels of capital. On a mark-to-market basis, collectively they rose around +**$4,196 in dollar terms or +0.03% (actual)** for the month:

Summary	31 July 2023	31 August 2023	Net Flow ($)	Monthly Change %
Face Value	$12,050,000	$12,050,000	$0	+0.00%
Market Value	$12,082,795	$12,086,991	+$4,196	+0.03%

At month-end, Council's "BBB" rated FRNs are now marked at an **unrealised capital gain of ~$37,095**.

Senior Bonds

Since September 2020, Council has an outstanding $29m placed in Northern Territory Treasury Corporation (NTTC) fixed bonds rated AA- (same as the domestic major banks), locking in yields between 0.90%-1.40% p.a. The weighted average yield on these investments was 1.09% p.a., with a current weighted average duration of 2.06 years.

We believe these investments were sensible at the time of investment given the unprecedented low rate environment and the RBA's forward guidance at the time of investment (no rate rises "*until at least 2024*"). We reiterate that the NTTC bonds are a 'retail' offering and not 'wholesale' issuances. Given the lack of liquidity and high penalty costs if they were to be sold/redeemed prior to the maturity date, they are considered to be a hold-to-maturity investment and will be marked at par value ($100.00) throughout the term of investment.

During August 2021, Council purchased $600k in the ING (AAA) covered fixed bond at a yield of 1.16% p.a., which we thought was an attractive yield given the super-senior and highly ranked asset. This is likely to be held for at least 3-4 years, with a view to reassess depending on the prevailing market conditions. Given it is now trading at a significant discount to par, we recommend buying additional units if available, to average-in at a more attractive yield.

TCorp Long-Term Growth Fund

The NSW TCorp Fund accounts for ~6% of Council's total investment portfolio. **The Fund returned -0.28% (actual) during August**. Both domestic and international shares were sold off this month, detractive from overall returns of the Fund.

Summary	31 Jul 2023	31 Aug 2023	Investment ($)	Net Return ($)	Net Return (%)
Market Value	$30,815,068	$30,729,846	$0	-$85,222	-0.28%

In recent months, the market narrative with regard to the economic outlook evolved towards a belief that a soft landing for the global economy can be achieved, while inflation gradually eases back toward target. Risk markets were largely embracing this narrative until a flurry of poor economic figures coming out of China during August dampened the recent rally in equity markets.

Global interest rates have been tightened faster and more significantly than any time since the 1970s, yet many central banks continue to push rates higher. Hopes (from markets) for a long 'pause' are ever present but this belief has been put to the sword several times already this cycle. Part of the problem is that governments have been reluctant to wind back spending despite the passing of the pandemic crisis. Thus, monetary policy is carrying more weight to slow growth and pull inflation back to target. For bond markets, lower inflation should be good news for lower yields but the upward pressure on short term yields from central bank tightening has created a negative carry environment that is proving difficult to fight.

The Fund should be looked at with a long-term view, with a minimum holding period of +7 years. Given the exposure to the volatile asset of shares, Council should expect to see, on average, a negative month once every 3 months over a long-term holding period.

CFS Global Credit Income

The CFS Global Credit Income Fund accounts for around 3% of Council's total investment portfolio. **The Fund returned +0.22% (actual) in August**, as the market valuation of the fund's assets in global credit securities marginally increased during the month.

Summary	31 July 2023	31 August 2023	Difference ($)	Difference (%)
Market Value	$14,835,438	$14,868,792	+$33,353	+0.22%

The Fund holds a diverse range of securities across the global credit market. It remains very well diversified by issuer in order to mitigate default risk. It invests in nearly 600 corporate bonds from issuers in various countries and industry sectors. Any spread contraction going forward allows credit and asset-backed holdings to enjoy significant capital gains.

With a running yield of around +5-5½% p.a., we recommend Council retains this "grandfathered" Fund given the alternative to invest in cash and deposits (Council's approval list) are yielding slightly lower.

Cash Accounts

Cash accounts make up around 9% of Council's investment portfolio at month-end. Council's cash accounts are likely to yield up to 0.15% p.a. (at most) above the official cash rate over coming years i.e. yield up to 4.25% p.a. at current yields, but likely higher if the RBA continues to increase official rates. Short-dated term deposits will continue to outperform overnight cash accounts in most cases so we recommend keeping cash levels at a bare minimum to meet ongoing liquidity requirements.

Council's Budgeted Income for FY2023-2024

Council's budgeted income for FY2023-2024 has been set to $16.516m. Based on an average total investment portfolio size of around $480m, that equates to a budgeted yield of around 3.44% for the current financial year.

For the financial year to date, the cumulative interest revenue earned was roughly $631k above the revised budgeted income. In the upcoming financial year, we exercise caution given the volatility from the TCorp Long-Term Growth Fund during any month.

Month-End	Cumulative Budget	Cumulative Investment Revenue	Difference ($)
Jul 2023	$1,376,321	$2,157,596	$781,275
Aug 2023	$2,752,643	$3,384,092	$631,449
Sep 2023	$4,128,964		
Oct 2023	$5,505,285		
Nov 2023	$6,881,606		
Dec 2023	$8,257,928		
Jan 2024	$9,634,249		
Feb 2024	$11,010,570		
Mar 2024	$12,386,891		
Apr 2024	$13,763,213		
May 2024	$15,139,534		
Jun 2024	$16,515,855		

We remain cautious given that risks remain to the downside, particularly if there is another selloff in equities and/or bonds as the market factors in a global recession in 2024.

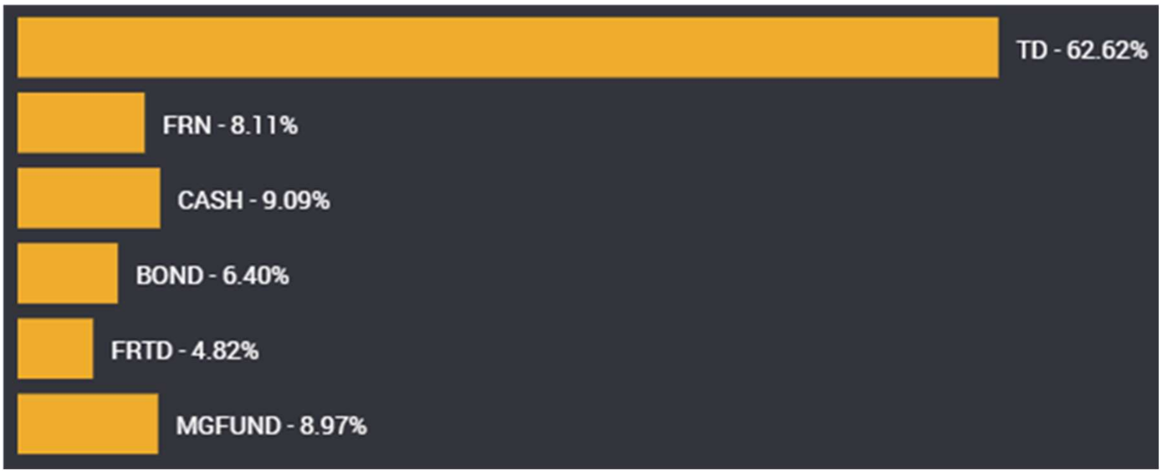
Council's Portfolio & Compliance

Asset Allocation

As at the end of August 2023, the portfolio was mainly directed to fixed and floating rate term deposits (68%). The remaining portfolio is directed to FRNs (8%), overnight cash accounts (9%), bonds (7%), and the managed funds with CFS Global Credit Income Fund and NSW T-Corp Long Term Growth Fund (9%, combined).

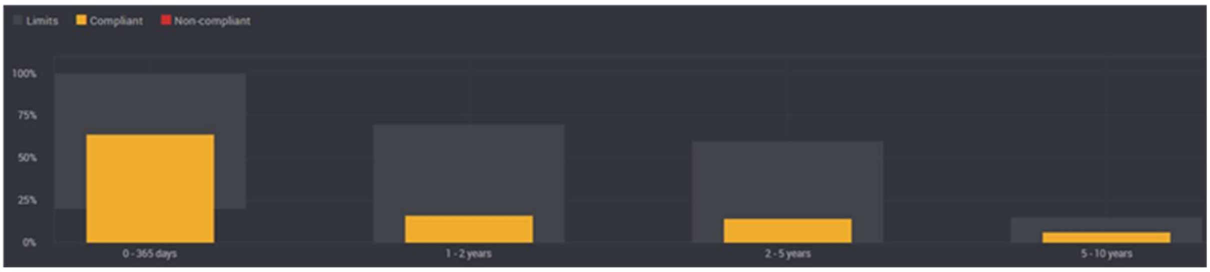
Senior FRNs remain relatively attractive as spreads have generally widened over the past 12-18 months – new issuances should now be considered again on a case by case scenario. In the interim, staggering a mix of fixed deposits between 9-12 months to 3 years remains a more optimal strategy to maximise returns over a longer-term cycle.

With recessionary fears being priced in coming years, investors can choose to allocate a small proportion of longer-term funds and undertake an insurance policy against any potential future rate cuts by investing across 3-5 year fixed deposits, locking in and targeting yields close to or above 5% p.a.



Term to Maturity

Overall, the portfolio remains well diversified from a maturity perspective with around 14% of assets directed to medium-term assets (2-5 years). All minimum and maximum criteria meet within the Policy guidelines:



Where liquidity permits, we recommend new surplus funds be directed to 1-3 year horizons given this is where the most attractive value can be found. We suggest this be allocated to any remaining attractive fixed term deposits (refer to respective sections below).

Compliant	Horizon	Invested ($)	Invested (%)	Min. Limit (%)	Max. Limit (%)	Available ($)
✓	0 - 365 days	$325,132,892	63.93%	20%	100%	$183,447,936
✓	1 – 2 years	$81,117,489	15.95%	0%	70%	$274,889,091
✓	2 – 5 years	$71,600,601	14.08%	0%	60%	$233,547,896
✓	5 – 10 years	$30,729,846	6.04%	0%	15%	$45,557,278
		$508,580,828	**100.00%**			

Counterparty

As at the end of August 2023, Council did not have an overweight position to any single ADI. Overall, the portfolio is well diversified across the entire credit spectrum, including some exposure to the unrated ADIs.

Compliant	Issuer	Rating	Invested ($)	Invested (%)	Max. Limit (%)	Available ($)
✓	BoQ Covered	AAA	$903,901	0.18%	50.00%	$253,386,513
✓	Bendigo Covered	AAA	$5,215,009	1.03%	50.00%	$249,075,405
✓	Suncorp Covered	AAA	$540,196	0.11%	50.00%	$253,750,218
✓	ING Covered	AAA	$1,507,282	0.30%	50.00%	$252,783,132
✓	ANZ	AA-	$5,564,643	1.09%	40.00%	$197,867,688
✓	CBA	AA-	$32,394,964	6.37%	40.00%	$171,037,367
✓	NAB	AA-	$111,273,245	21.88%	40.00%	$92,159,086
✓	Northern Territory	AA-	$32,000,000	6.29%	40.00%	$171,432,331
✓	Westpac	AA-	$24,500,000	4.82%	40.00%	$178,932,331
✓	Citibank NA	A+	$1,001,147	0.20%	25.00%	$126,144,060
✓	Macquarie	A+	$29,355	0.01%	25.00%	$127,115,852
✓	Suncorp	A+	$2,502,930	0.49%	25.00%	$124,642,277
✓	UBS AG	A+	$3,244,450	0.64%	25.00%	$123,900,757
✓	CFS Global CI	A	$14,868,792	2.92%	25.00%	$112,276,416
✓	ICBC	A	$89,551,326	17.61%	25.00%	$37,593,881
✓	Aus. Military Bank	BBB+	$8,000,000	1.57%	15.00%	$68,287,124
✓	Aus. Unity Bank	BBB+	$9,000,000	1.77%	15.00%	$67,287,124
✓	BankVIC	BBB+	$5,000,000	0.98%	15.00%	$71,287,124
✓	Bank of Us	BBB+	$10,000,000	1.97%	15.00%	$66,287,124
✓	BoQ	BBB+	$10,502,171	2.06%	15.00%	$65,784,954
✓	Bendigo-Adelaide	BBB+	$4,867,612	0.96%	15.00%	$71,419,512
✓	Hume Bank	BBB+	$4,500,000	0.88%	15.00%	$71,787,124
✓	QT Mutual Bank	BBB+	$997,249	0.20%	15.00%	$75,289,875
✓	AMP Bank	BBB	$5,166,750	1.02%	15.00%	$71,120,375
✓	Auswide Bank	BBB	$18,000,000	3.54%	15.00%	$58,287,124
✓	Bank Australia	BBB	$2,712,835	0.53%	15.00%	$73,574,289
✓	CUA	BBB	$2,507,124	0.49%	15.00%	$73,780,000
✓	G&C Mutual	BBB	$5,000,000	0.98%	15.00%	$71,287,124
✓	MyState	BBB	$5,000,000	0.98%	15.00%	$71,287,124
✓	P&N Bank	BBB	$14,000,000	2.75%	15.00%	$62,287,124
✓	Police Bank	BBB	$3,000,000	0.59%	15.00%	$73,287,124
✓	Judo Bank	BBB-	$18,000,000	3.54%	15.00%	$58,287,124
✓	QBank	BBB-	$4,000,000	0.79%	15.00%	$72,287,124
✓	The Mutual	BBB-	$8,500,000	1.67%	15.00%	$67,787,124

Compliant	Issuer	Rating	Invested ($)	Invested (%)	Max. Limit (%)	Available ($)
✓	Summerland CU	Unrated	$5,000,000	0.98%	0.98%	$0
✓	Transport CU	Unrated	$2,000,000	0.39%	0.98%	$3,000,000
✓	Unity Bank	Unrated	$5,000,000	0.98%	0.98%	$0
✓	Warwick CU	Unrated	$2,000,000	0.39%	0.98%	$3,000,000
✓	TCorpIM LTG	Unrated	$30,729,846	6.04%	10.00%	$20,128,236
			$508,580,828	**100.00%**		

ANZ's takeover of Suncorp was blocked by the Australian Competition and Consumer Commission (ACCC) in early August 2023, with the watchdog saying it was unconvinced the deal would deliver the public benefits claims put forward by ANZ (although ANZ has since appealed the decision).

Domestic versus International

Noting Council's (internationally) demographic ratepayer base, we summarise where its investments are currently placed:

ADI Category by APRA / Country of Region	Amount Invested	Percentage
Australian Owned ADI	**$345,146,218**	**67.86%**
Australia	$345,146,218	67.86%
Branches of Foreign Bank	**$117,295,776**	**23.06%**
China	$89,551,326	17.61%
Switzerland	$3,244,450	0.64%
United States	$24,500,000	4.82%
Foreign Subsidiary Banks	**$540,196**	**0.11%**
Netherlands	$540,196	0.11%
Global^	**$45,598,638**	**8.97%**
International	$45,598,638	8.97%
Total	**$508,580,828**	**100.00%**

Source: https://www.apra.gov.au/register-of-authorised-deposit-taking-institutions

^Global: The NSW TCorpIM LTGF and CFS Global Credit Income Fund invests in hundreds of underlying securities globally, from which the portfolio composition is likely to change regularly.

Overall, approximately 68% of Council's total investment portfolio is placed with domestic ADIs, while the remaining 32% is placed with international banks and corporate entities. In response to global financial crisis (GFC), the Financial Stability Board (FSB) came up with a range of financial metrics to ascertain which banks were effectively deemed "*too big to fail*". A list of Globally Systemic Important Banks (G-SIBs) was developed, in which these banks required to hold much higher levels of capital compared to their smaller peers to ensure their financial stability under various stress test scenarios (e.g. another GFC).

We note that Council's exposure to the international banks are generally with such Globally Systemic Important Banks (G-SIBs), including ICBC (China), ING Bank (Netherlands), UBS (Switzerland) and Citibank (US).

Overall, we have no concerns with Council's exposure to international banks given they are largely considered to be globally systematic important banks that are '*too big to fail*'.

Fossil Fuel Investments

What is Council's current exposure to institutions that fund fossil fuels?

Using the following link http://www.marketforces.org.au/banks/compare, based on the Council's investment portfolio balance as at 31/08/2023 ($508.56m), we can roughly estimate that ~51% of the investments have some form of exposure.

Council's exposure is summarised as follows:

Counterparty	Credit Rating	Funding Fossil Fuel
BoQ Covered	AAA	Yes
Bendigo Covered	AAA	No
Suncorp Covered	AAA	No
ING Covered	AAA	Yes
ANZ	AA-	Yes
CBA	AA-	Yes
NAB	AA-	Yes
Northern Territory	AA-	Yes
Westpac	AA-	Yes
Citibank NA	A+	Yes
Macquarie	A+	Yes
Suncorp	A+	No
UBS AG	A+	No
CFS Global Credit^^	A	Yes
ICBC	A	No
Aus Military Bank	BBB+	No
Aus Unity Bank	BBB+	No
BOQ	BBB+	No
Bank of Us	BBB+	No
BankVIC	BBB+	No
Bendigo-Adelaide	BBB+	No
Hume Bank	BBB+	No
QT Mutual Bank	BBB+	No
AMP Bank	BBB	Yes
Auswide Bank	BBB	No
Bank Australia	BBB	No
CUA	BBB	No
G&C Mutual	BBB	No
MyState	BBB	No
P&N Bank	BBB	No
Police Bank	BBB	No
QBank	BBB-	No
Judo Bank	BBB-	No
The Mutual Bank	BBB-	No
Summerland CU	Unrated	No
Transport Mutual CU	Unrated	No
Unity Bank	Unrated	No
Warwick CU	Unrated	No
T-CorpIM LTG Fund^^	Unrated	Yes

^^The underlying exposure in these managed funds includes the domestic major banks.

Source: https://www.marketforces.org.au/info/compare-bank-table/

Summary	Amount	Invested %
Yes	$249,607,988	49%
No	$258,972,840	51%
	$508,580,828	**100%**

Transition to investments without major exposure to fossil fuels

Council has not made a decision to divest from the current portfolio of investments which have exposure to fossil fuels. To do so would have unfavourable implications to the credit quality, rating and interest income forecasts.

However, where possible, and within the ministerial and policy guidelines, Council will continue to favour newly issued fossil fuel free investment products, providing it does not compromise the risk and return profile.

In time it is Councils intention to move to a more balanced portfolio which has less exposure to fossil fuels, providing it is prudent to do so.

What would be implications on our portfolio credit rating?

By adopting a free fossil fuel policy or an active divestment strategy, this would eliminate the major banks rated “AA-“ as well as some other “A” rated banks (Citi, Macquarie and ING). Council would be left with a smaller sub-sector of banks to choose to invest with.

What would be risks and implications on Council’s portfolio performance?

Some implications include:

- High concentration risk – limiting Council to a selected number of banks;
- Increased credit/counterparty risk;
- May lead to a reduction in performance (e.g. most of the senior FRN issues are with the higher rated ADIs);
- Underperformance compared to other Councils which could result in a significant loss of income generated – could be in excess of hundreds of thousands of dollars per annum.

It may actually be contrary to Council’s primary objective to preserve capital as the investment portfolio’s risk would increase (all things being equal). Council may not be maximising its returns – this is one of the primary objectives written in the Investment Policy.

Credit Quality

Following the most recent adopted Policy, all aggregate ratings categories are currently within the Policy limits:

Compliant	Credit Rating	Invested ($)	Invested (%)	Max. Limit (%)	Available ($)
✓	AAA Category	$8,166,389	2%	100%	$500,414,439
✓	AA Range or Major Banks	$205,732,853	40%	100%	$302,847,975
✓	A Category	$111,198,000	22%	80%	$295,666,663
✓	BBB Category	$138,753,740	27%	30%	$13,820,508
✓	Unrated ADI Category	$14,000,000	3%	10%	$36,858,083
✓	TCorpIM Funds	$30,729,846	6%	25%	$96,415,361
		$508,580,828	**100.00%**		

The portfolio remains well diversified across the entire credit spectrum, including some exposure to the unrated ADI sector. There is high capacity to invest in the higher rated ADIs (A or higher), particularly after the downgrades of BoQ and AMP Bank over the past few years, as all have now fallen back into the "BBB" rated category (previously in the "A" rated category).

Performance

Council's performance (actual returns) for the month ending August 2023 is summarised as follows:

Performance (Actual)	1 month	3 months	6 months	FYTD	1 year	2 years	3 years
Official Cash Rate	0.34%	1.02%	1.94%	0.68%	3.39%	1.90%	1.31%
AusBond Bank Bill Index	0.37%	1.04%	1.94%	0.74%	3.37%	1.86%	1.25%
PCC Internal Benchmark*	0.38%	1.34%	2.50%	0.89%	4.47%	2.38%	2.08%
PCC Cash Portfolio	0.36%	1.08%	2.07%	0.73%	3.63%	1.97%	1.52%
PCC T/D Portfolio	0.30%	0.84%	1.49%	0.59%	2.67%	2.06%	1.85%
PCC FRN Portfolio	0.45%	1.32%	2.53%	0.91%	4.57%	3.18%	2.69%
PCC Bond Portfolio	0.09%	0.28%	0.56%	0.19%	1.11%	1.10%	-
PCC Credit Fund	0.22%	2.38%	3.22%	1.43%	6.41%	1.76%	2.36%
PCC TCorp Growth Fund	-0.28%	3.43%	5.85%	1.48%	9.17%	0.01%	5.99%
PCC's Total Portfolio	**0.28%**	**1.10%**	**2.07%**	**0.72%**	**3.40%**	**1.95%**	**1.98%**
Rel. Perf. (BBI)	**-0.08%**	**0.06%**	**0.13%**	**-0.02%**	**0.03%**	**0.09%**	**0.73%**
Rel. Perf. (Int. Bench.)	**-0.10%**	**-0.23%**	**-0.43%**	**-0.17%**	**-1.07%**	**-0.43%**	**-0.10%**

**The Internal Benchmark returns are based on Council's individual benchmarks across the various asset classes it invests within its own portfolio. The following individual benchmark's are used for each asset class that Council invests in:*
Cash: RBA Cash Rate
Term Deposits: Deposit benchmark based on Council's weighted average duration using multiple ADIs average monthly rate
FRNs: AusBond Credit FRN Index
CFS Global Credit Income Fund: AusBond Credit Index
NSW TCorpIM Long-Term Growth Fund: Fund's return itself

For the month of August, the total investment portfolio (including cash) provided a return of +0.28% (actual) or +3.36% p.a. (annualised), underperforming the AusBond Bank Bill Index return of +0.37% (actual) or +4.39% p.a. (annualised), and Council's internal benchmark return of +0.38% (actual) or +4.57% p.a. (annualised).

The longer-term outperformance continues to be anchored by the handful of longer-dated deposits, as well as the FRNs locked in at attractive margins, boosted by the strategic sales implemented over the past few years. This is now reflected in the longer-term returns with the FRN portfolio now ahead of fixed term deposits over 1-3 year time periods (also driven recently during the RBA's rate hike cycle).

The annualised returns as of August 2023 are shown in the following table:

Performance (% p.a.)	1 month	3 months	6 months	FYTD	1 year	2 years	3 years
Official Cash Rate	4.10%	4.10%	3.89%	4.10%	3.39%	1.90%	1.31%
AusBond Bank Bill Index	4.39%	4.20%	3.88%	4.44%	3.37%	1.86%	1.25%
PCC Internal Benchmark*	4.57%	5.41%	5.03%	5.37%	4.47%	2.38%	2.08%
PCC Cash Portfolio	4.35%	4.35%	4.14%	4.35%	3.63%	1.97%	1.52%
PCC T/D Portfolio	3.57%	3.39%	2.99%	3.54%	2.67%	2.06%	1.85%
PCC FRN Portfolio	5.46%	5.36%	5.08%	5.50%	4.57%	3.18%	2.69%
PCC Bond Portfolio	1.11%	1.11%	1.11%	1.11%	1.11%	1.10%	-
PCC Credit Fund	2.68%	9.80%	6.49%	8.69%	6.41%	1.76%	2.36%
PCC TCorp Growth Fund	-3.21%	14.30%	11.94%	9.04%	9.17%	0.01%	5.99%
PCC's Total Portfolio	**3.36%**	**4.45%**	**4.14%**	**4.30%**	**3.40%**	**1.95%**	**1.98%**
Rel. Perf. (BBI)	**-1.03%**	**0.24%**	**0.26%**	**-0.14%**	**0.03%**	**0.09%**	**0.73%**
Rel. Perf. (Int. Bench.)	**-1.22%**	**-0.96%**	**-0.88%**	**-1.07%**	**-1.07%**	**-0.43%**	**-0.10%**

Recommendations for Council

Term Deposits

As at the end of August 2023, Council's **deposit** portfolio was yielding **3.52% p.a.** (up 12bp from the previous month), with a weighted average duration of around 270 days (~9 months). We recommend Council increases its weighted average duration closer to 12 months incrementally over the current financial year.

Please refer to the section below for further details on the Term Deposit market.

Securities

Primary (new) Senior **FRNs** (with maturities between 3-5 years) continue to be appealing (particularly for those investors with portfolios skewed towards fixed assets) and should be considered on a case by case scenario. Please refer to the section below for further details on the FRN market.

Council FRNs – Recommendations for Sale/Switches

At the end of August (settlement early September), Council sold out of the following low yielding FRNs:

Issuer	Rating	Maturity Date	ISIN	Face Value	Trading Margin	Capital Price ($)	Realised Gain ($)
Suncorp	A+	30/07/2024	AU3FN0049144	$2,000,000	+59.0bp	$100.192	$4,800
NAB	AA-	30/05/2025	AU3FN0069373	$2,000,000	+57.0bp	$100.548	$9,316

Council realised capital gains over +$14k and was able to switch into the newly issued 5 year ANZ (AA-) FRN at +93bp, resulting in an overall pick up in yield of over 0.30% p.a.

We will inform Council when there is an opportunity to sell out of any future sub-optimal FRNs and switch into a higher yielding complying asset. This strategy has worked very well as Council has ultimately boosted the overall returns of the investment portfolio (up to hundreds of thousands of dollars in previous financial years). There will be an opportunity to switch/sell out of the following FRN(s) in coming months:

Issuer	Rating	Maturity Date	ISIN	Face Value	Trading Margin	Capital Price ($)	~Unrealised Gain ($)
Suncorp	AAA	24/04/2025	AU3FN0053880	$700,000	+65.5bp	$100.718	$5,023

This strategy has boosted overall returns and will continue to do so going forward. The current financial year's realised gains are shown as follows:

Issuer	Rating	Maturity Date	ISIN	Face Value	Trading Margin	Capital Price ($)	Realised Gain ($)
NAB	AA-	21/01/2025	AU3FN0052510	$2,000,000	+53.0bp	$100.345	$6,900
Suncorp	A+	30/07/2024	AU3FN0049144	$2,000,000	+59.0bp	$100.192	$4,800
NAB	AA-	30/05/2025	AU3FN0069373	$2,000,000	+57.0bp	$100.548	$9,316
				Total Realised Gains FY2023-2024			**$21,016**

Council's Senior Fixed Bonds

Since September 2020, Council placed parcels in NTTC (AA-) fixed bonds as follows:

Investment Date	Maturity Date	Principal	Rate % p.a.^	Remaining Term (Yrs)	Interest Paid
30/09/2020	15/12/2023	$2,000,000	1.00%	0.29	Annually
24/11/2020	16/12/2024	$1,000,000	0.90%	1.30	Annually
16/02/2021	16/06/2025	$1,000,000	0.90%	1.79	Annually
16/02/2021	15/06/2026	$5,000,000	1.00%	2.79	Annually
12/05/2021	17/06/2024	$3,000,000	0.80%	0.80	Annually
12/05/2021	16/06/2025	$3,000,000	1.10%	1.79	Annually
12/05/2021	15/06/2026	$3,000,000	1.30%	2.79	Annually
20/05/2021	16/06/2025	$3,500,000	1.10%	1.79	Annually
09/09/2021	16/12/2024	$2,500,000	0.90%	1.30	Semi-Annually
09/09/2021	15/12/2026	$5,000,000	1.40%	3.29	Semi-Annually
	Totals / Wgt. Avg.	**$29,000,000**	**1.09%**	**2.06 yrs**	

At the time of investment, these investments were relatively attractive especially after the rate cut delivered in early November 2020 to 0.10% and its subsequent forward guidance on official interest rates (no rate rises "*until at least 2024*"). The NTTC bonds are a 'retail' offering and not 'wholesale' issuances. Given the lack of liquidity and high penalty costs if they were to be sold/redeemed prior to the maturity date, they are considered to be a hold-to-maturity investment and will be marked at par value ($100.00) throughout the term of investment.

During August 2021, Council also purchased into the following AAA rated covered fixed bond with ING Bank Australia. With yields rising significantly over the past 12 months, Council may consider purchasing additional units in this security in the secondary market at the current yield to 'average-in' a better overall purchase price.

Issuer	Rating	Maturity Date	ISIN	Face Value	Purchase Yield	Current Yield	Unrealised Gain / Loss ($)
ING	AAA	19/08/2026	AU3CB0282358	$600,000	1.16%	4.74%	-$58,058

CFS Global Credit Income Fund

For the month of August, the CFS Global Credit Income Fund returned +0.22% (actual), underperforming the AusBond Bank Bill Index return of +0.37% (actual) and the AusBond Credit Index return of +0.99% (actual).

The big surprise in 2023 has been fiscal spending, which has remained more persistent than expected, underpinned by large increases to benefits and salaries and support for the Ukraine war effort. As fiscal spending feeds directly into the economy is has underpinned the jobs market, household incomes and therefore spending. The impact of monetary tightening is gradual and importantly felt differently between countries depending on lending practices. That said, higher rates are a drag on growth but for households and business there can be winners (e.g. savers) and losers (e.g. borrowers). Key for the economy is when this is accompanied by a tightening of lending conditions, which is taking place, the combination of monetary over-tightening and excessive tightening of credit conditions has resulted in recession every time in the past.

Although it has been a relatively volatile environment for credit over the past few years, it has been one of Council's best performing assets over the longer-term. The portfolio continues to accumulate high running-income in excess of the benchmark across all corporate and financial sectors. The Fund holds a diverse range of securities across the global credit market. It remains very well diversified by issuer in order to mitigate default risk. It invests in nearly 600 corporate bonds from issuers in various countries and industry sectors. Any spread contraction going forward allows credit and asset-backed holdings to enjoy significant capital gains.

With a running yield of ~5-5½% p.a., we recommend Council to retain this investment given the alternative investments in complying fixed interest products are largely earning below this rate of return.

NSW T-CorpIM Growth Fund

The Growth Fund returned -0.28% (actual) for the month of August. Domestic shares (S&P ASX 200 Accumulation Index -2.08%) and international shares (MSCI World ex-Australia -2.50%) were the main detractors to performance this month. Offsetting these losses were bonds (AusBond Composite Bond Index gained +0.74%).

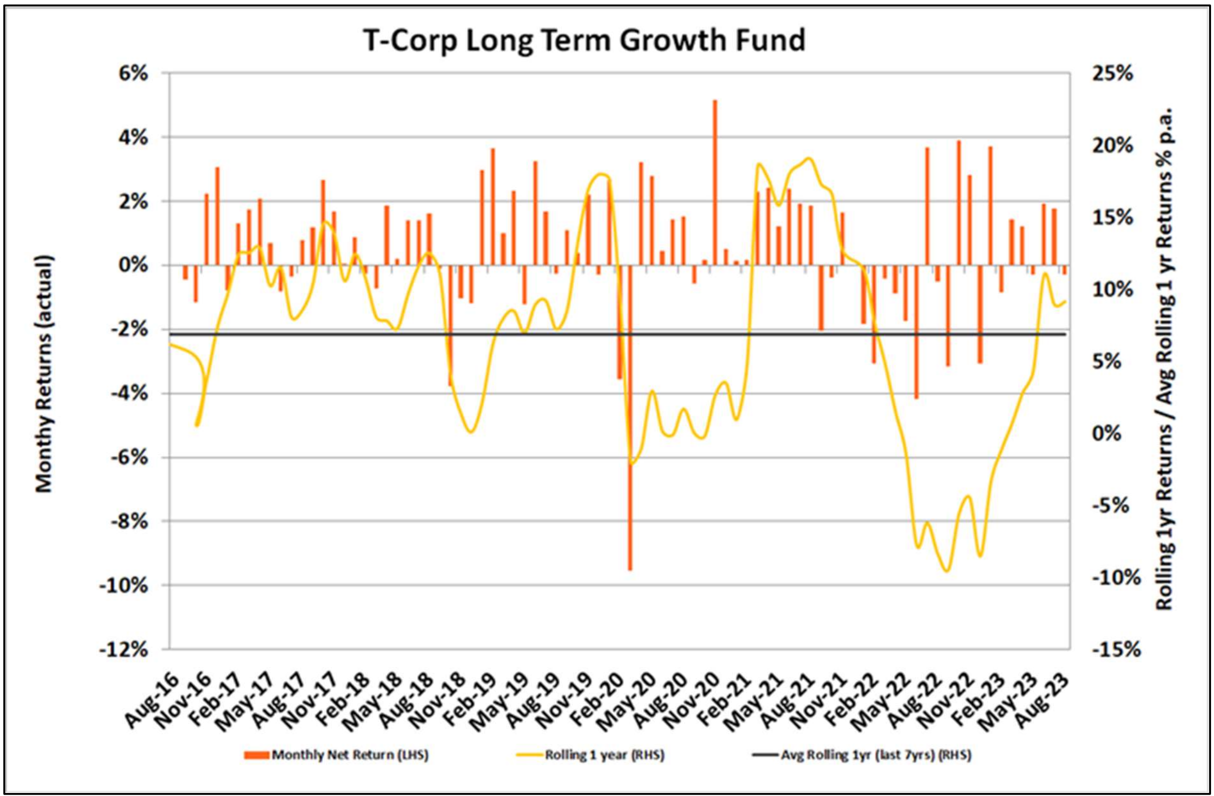
In recent months, the market narrative with regard to the economic outlook evolved towards a belief that a soft landing for the global economy can be achieved, while inflation gradually eases back toward target. Risk markets were largely embracing this narrative until a flurry of poor economic figures coming out of China during August dampened the recent rally in equity markets.

Global interest rates have been tightened faster and more significantly than any time since the 1970s, yet many central banks continue to push rates higher. Hopes (from markets) for a long 'pause' are ever present but this belief has been put to the sword several times already this cycle. Part of the problem is that governments have been reluctant to wind back spending despite the passing of the pandemic crisis. Thus, monetary policy is carrying more weight to slow growth and pull inflation back to target. For bond markets, lower inflation should be good news for lower yields but the upward pressure on short term yields from central bank tightening has created a negative carry environment that is proving difficult to fight.

Overall, we remain cautious on the future performance of the T-Corp Growth Fund given the high volatility associated with a diversified growth fund, which generally allocates a range of 60%-80% in domestic and international shares. Investors are seeking relief from the elevated levels of inflation and hoping that we are at the peak of the interest rate cycle.

The Fund should be looked at with a long-term view, with a minimum holding period of +7 years. Given the exposure to the volatile asset of shares, Council should expect to see, on average, a negative month once every 3 months over a long-term holding period.

Since Inception	T-Corp Long Term Fund
Negative Months	141 (~1 in 3 months)
Positive Months	269
Total Months	410 (34.17 yrs)
Average Monthly Return	+0.64% (actual)
Median Monthly Return	+1.02% (actual)
Lowest 1 year Rolling Return	-21.12% p.a. (Nov 2008)
Highest 1 year Rolling Return	+29.89% p.a. (Jan 1994)



Term Deposit Market Review

Current Term Deposit Rates

As at the end of August, we see value in:

ADI	LT Credit Rating	Term	T/D Rate
P&N Bank	BBB	5 years	5.10% p.a.
P&N Bank	BBB	4 years	5.05% p.a.
ING Bank	A	2 years	5.05% p.a.
ING Bank	A	3 years	5.00% p.a.
P&N Bank	BBB	3 years	4.95% p.a.
Westpac	AA-	2 years	4.94% p.a.
P&N Bank	BBB	2 years	4.93% p.a.
NAB	AA-	2 years	4.90% p.a.
CBA	AA-	2 years	4.88% p.a.

The above deposits are suitable for investors looking to maintain diversification and lock-in a slight premium compared to purely investing short-term.

For terms under 12 months, we believe the strongest value is currently being offered by the following ADIs (dependent on daily funding requirements):

ADI	LT Credit Rating	Term	T/D Rate
AMP Bank (rollovers only)	BBB	11-12 months	5.30% p.a.^
CBA (>$2m)	AA-	12 months	5.27% p.a.
NAB	AA-	10-12 months	5.15% p.a.
CBA (>$2m)	AA-	6 months	5.13% p.a.
NAB	AA-	6-9 months	5.10% p.a.
ING Bank	A	12 months	5.10% p.a.
AMP Bank (rollovers only)	BBB	5-8 months	5.10% p.a.^
Westpac	AA-	12 months	5.08% p.a.
Bendigo	BBB+	9-12 months	5.00% p.a.
BoQ	BBB+	6-12 months	5.00% p.a.
NAB	AA-	3 months	4.90% p.a.

^Contact us to get an additional 20bp rebated commission. Aggregate limits temporarily lifted to $10m (from $5m).

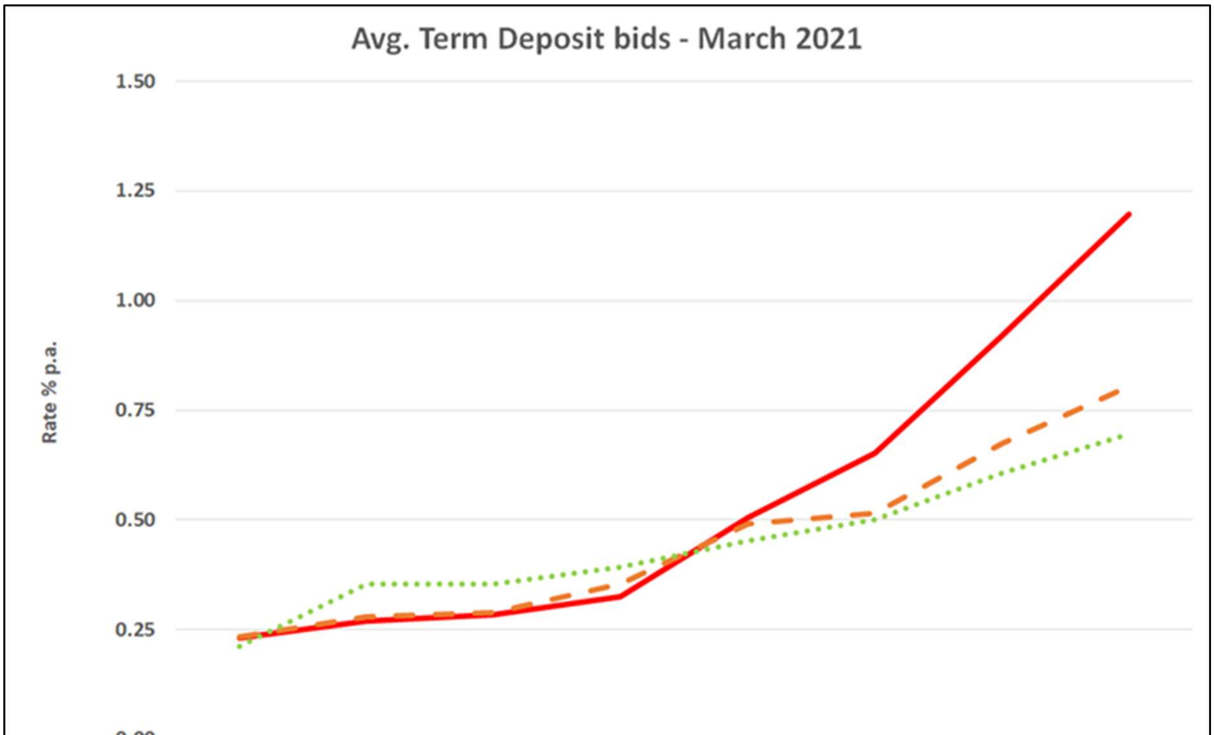
If Council does not require high levels of liquidity and can stagger a proportion of its investments across the longer term horizons (1-5 years), it will be rewarded over a longer-term cycle. Investing a spread of 12 months to 3 year horizons is likely to yield, on average, up to ¼-½% p.a. higher compared to those investors that entirely invest in short-dated deposits (under 6-9 months).

With recessionary fears and a global economic slowdown being priced in coming years, investors should consider allocating some longer term surplus funds and undertake an insurance policy by investing across 2-5 year fixed deposits and locking in rates close to or above 5% p.a. (mainly available from the lower rated ADIs). This will provide some income protection if central banks decide to cut rates in future years, assuming inflation has stabilised.

Term Deposit Rates Analysis

Pre-pandemic (March 2020), a 'normal' marketplace meant the lower rated ADIs (i.e. BBB category) were offering higher rates on term deposits compared to the higher rated ADIs (i.e. A or AA rated). But due to the cheap funding available provided by the RBA via their Term Funding Facility (TFF) since mid-2020[1], allowing the ADIs to borrow as low as 0.10% p.a. fixed for 3 years, those lower rated ADIs (BBB rated) did not require deposit funding from the wholesale deposit from the likes of Council. Given the higher rated banks had more capacity to lend (as they have a greater pool of mortgage borrowers), they subsequently were offering higher deposit rates. In fact, some of the lower rated banks were not even offering deposit rates at all. As a result, most investors placed a higher proportion of their deposit investments with the higher rated (A or AA) ADIs over the past three years.

Term Deposit Rates – 12 months after pandemic (March 2021)



	3M	6M	9M	12M	2Y	3Y	4Y	5Y
Majors	0.23	0.27	0.29	0.33	0.51	0.65	0.92	1.20
A Rated	0.23	0.28	0.29	0.35	0.49	0.52	0.68	0.81
BBB Rated	0.21	0.36	0.35	0.39	0.45	0.50	0.61	0.70

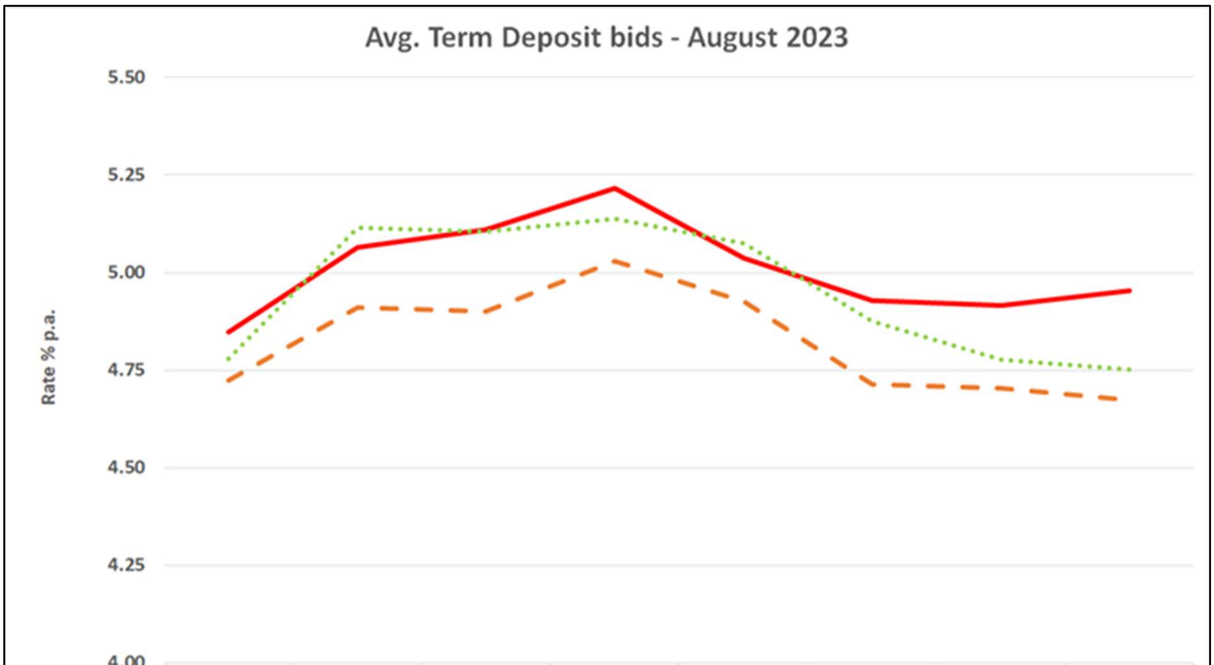
Source: Imperium Markets

The abnormal marketplace experienced during the pandemic is starting to reverse as the competition for deposits increases. We are now starting to see some of the lower rated ADIs ("BBB" rated) offering slightly higher rates compared to the higher rated banks ("A" or "AA" rated) on different parts of the curve (i.e. pre-pandemic environment). Some of this has been attributed to lags in adjusting their deposit rates as some banks (mainly the lower rated ADIs) simply set their rates for the week.

[1] The RBA's Term Funding Facility (TFF) allowed the ADI to borrow as low as 0.10% fixed for 3 years: https://www.rba.gov.au/mkt-operations/term-funding-facility/overview.html

Going forward, Council should have a larger opportunity to invest a higher proportion of its funds with the lower rated institutions (up to Policy limits), from which the majority are not lending to the Fossil Fuel industry. We are slowly seeing this trend emerge, although this month was an exception due to CBA (AA-), who was offering 'specials' on parcel sizes greater than $2m, paying up to 40bp above the entire market on shorter tenors:

Term Deposit Rates – Currently (August 2023)



	3M	6M	9M	12M	2Y	3Y	4Y	5Y
Majors	4.85	5.07	5.11	5.22	5.04	4.93	4.92	4.95
A Rated	4.72	4.91	4.90	5.03	4.92	4.71	4.70	4.67
BBB Rated	4.78	5.12	5.10	5.14	5.08	4.87	4.78	4.75

Source: Imperium Markets

Regional and Unrated ADI Sector

During August 2023, the ACCC confirmed it would deny authorisation for ANZ's proposed acquisition of Suncorp Group's banking business stating that *"the proposed acquisition of Suncorp Bank by ANZ would further entrench an oligopoly market structure*".

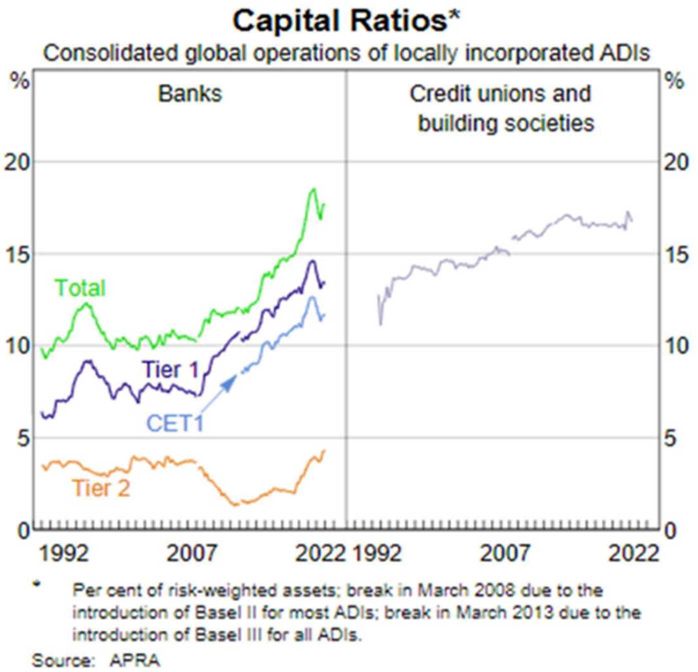
Ratings agency S&P has commented that "*mergers remain compelling for mutuals lenders*" in providing smaller lenders greater economies of scale and assisting them in being able to price competitively and will see *"the banking landscape will settle with a small number of larger mutual players*". S&P expects that consolidation to continue over the next two years.

We remain supportive of the regional and unrated ADI sector (and have been even throughout the post-GFC period). They continue to remain solid, incorporate strong balance sheets, while exhibiting high levels of capital – typically, much higher compared to the higher rated ADIs. Some unrated ADIs have up to 25-40% more capital than the domestic major banks, and well above the Basel III requirements.

Overall, the lower rated ADIs (BBB and unrated) are generally now in a better financial position then they have been historically (see the Capital Ratio figure below). The financial regulator, APRA has noted that the Common Equity Tier 1 capital of Australian banks now exceeds a quarter of a trillion dollars. It has increased by $110 billion, or more than 70%, over the past nine years. Over the same time, banks' assets have grown by 44%. Some of the extra capital is supporting growth in the banking system itself but clearly, there has been a strengthening in overall resilience and leverage in the system is lower.

We believe that deposit investments with the lower rated ADIs should be considered going forward, particularly when they offer 'above market' specials. Not only would it diversify the investment portfolio and reduce credit risk, it would also improve the portfolio's overall returns. The lower rated entities are generally deemed to be the more 'ethical' ADIs compared to the higher rated ADIs.

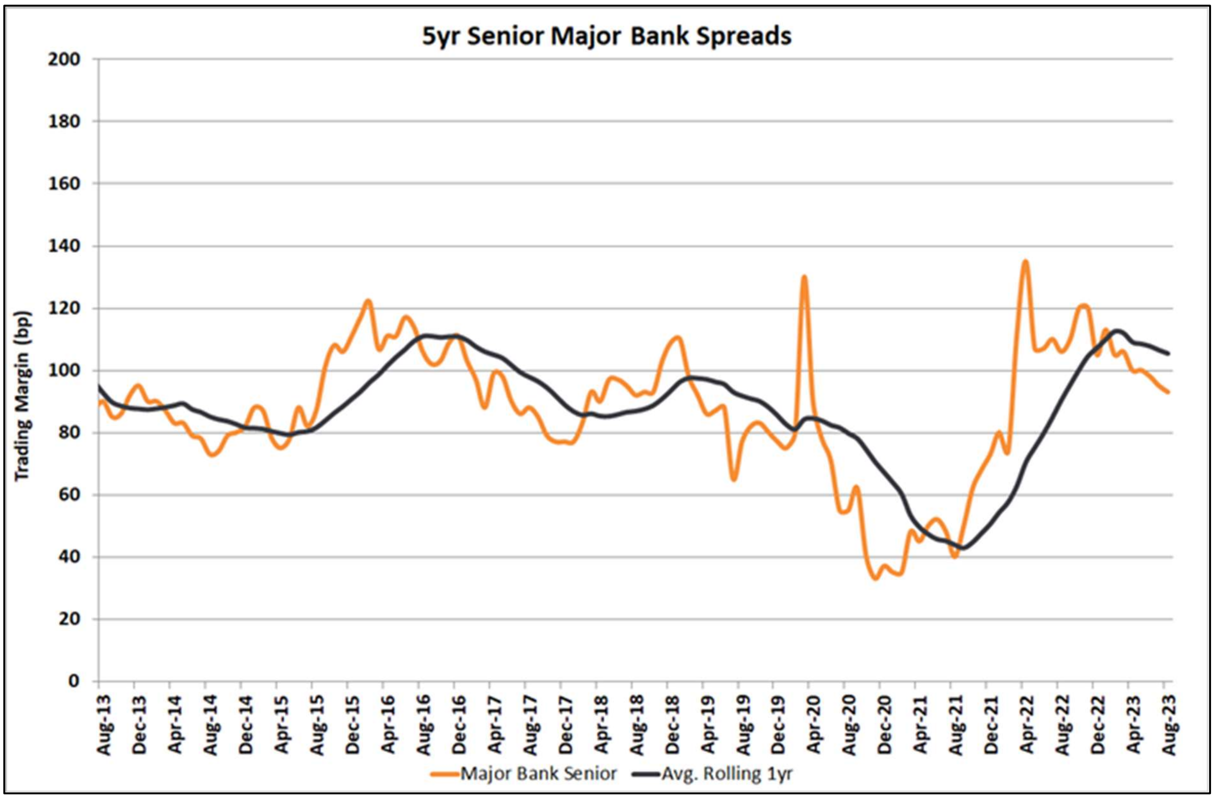
In the current environment of high regulation and scrutiny, all domestic (and international) ADIs continue to carry high levels of capital. There is minimal (if any) probability of any ADI defaulting on their deposits going forward – this was stress tested during the GFC and the pandemic period. **APRA's mandate is to "*protect depositors*" and provide "*financial stability*".**



Senior FRNs Market Review

Over August, amongst the senior major bank FRNs, physical credit securities tightened by around 2bp at the very long-end of the curve. Major bank senior securities remain at fair value in the rising rate environment (5 year margins above +90bp level). During the month, two major banks issued dual 3 and 5 year senior deals:

- CBA (AA-) issued a 3 and 5 year senior security at +75bp and +95bp respectively
- ANZ (AA-) issued a 3 and 5 year senior security at +75bp and +93bp respectively



Source: IBS Capital

Outside of the major banks, there were a handful of other new (primary) issuances during August:

- 3yr Bank of China (A) senior FRN at +105bp
- 3yr Agricultural Bank of China (A) senior FRN at +90bp
- ~5½yr Treasury Corporation of Victoria (AA) senior FRN at +11½bp

Amongst the "A" and "BBB" rated sector, the securities remained relatively flat at the longer-end of the curve. Credit securities are looking much more attractive given the widening of spreads over the past ~18 months. FRNs will continue to play a role in investor's portfolios mainly on the basis of their liquidity and the ability to roll down the curve and gross up returns over future years (in a relatively stable credit environment).

Senior FRNs (ADIs)	31/08/2023	31/07/2023
“AA” rated – 5yrs	+93bp	+95bp
“AA” rated – 3yrs	+75bp	+74bp
“A” rated – 5yrs	+118bp	+115bp
“A” rated – 3yrs	+92bp	+95bp
“BBB” rated – 3yrs	+120bp	+125bp

Source: IBS Capital

We now generally recommend switches (‘benchmark’ issues only) into new primary issues, out of the following senior FRNs that are maturing:

- **On or before 2025 for the “AA” rated ADIs (domestic major banks)**;
- On or before mid-late 2024 for the “A” rated ADIs; and
- Within 6-9 months for the “BBB” rated ADIs (consider case by case).

Investors holding onto the above senior FRNs (‘benchmark’ issues only) are now generally holding sub-optimal investments and are not maximising returns by foregoing, potentially significant capital gains. In the current challenging economic environment, any boost in overall returns should be locked in when it is advantageous to do so, particularly as switch opportunities become available.

Primary (new) FRNs are now looking more appealing and should be considered on a case by case scenario.

Senior Fixed Bonds Market Review

As global inflationary pressures remain, this has seen a significant lift in longer-term bond yields over the past 12-18 months (valuations fallen) as markets have reacted sharply.

This has resulted in some opportunities in the secondary market. We currently see value in the following fixed bond lines, with the majority now being marked at a significant discount to par (please note supply in the secondary market may be limited on any day):

ISIN	Issuer	Rating	Capital Structure	Maturity Date	~Remain. Term (yrs)	Fixed Coupon	Indicative Yield
AU3CB0265403	Suncorp	A+	Senior	30/07/2024	0.92	1.85%	4.96%
AU3CB0266377	Bendigo	BBB+	Senior	06/09/2024	1.02	1.70%	5.05%
AU3CB0268027	BoQ	BBB+	Senior	30/10/2024	1.17	2.00%	5.14%
AU3CB0287498	Bendigo	BBB+	Senior	17/03/2025	1.55	3.00%	5.14%
AU3CB0273407	UBS	A+	Senior	30/07/2025	1.92	1.20%	5.34%
AU3CB0293967	Bendigo	AAA	Covered	11/11/2025	2.21	5.10%	5.02%
AU3CB0280030	BoQ	BBB+	Senior	06/05/2026	2.69	1.40%	5.33%
AU3CB0282358	ING	AAA	Covered	19/08/2026	2.97	1.10%	4.87%
AU3CB0284149	BoQ	BBB+	Senior	27/10/2026	3.17	2.10%	5.41%

Economic Commentary

International Market

Risk markets marginally fell on concerns about the prospects of global growth, led by weaknesses seen in China's economy.

Across equity markets, the S&P 500 Index fell -1.77%, whilst the NASDAQ dropped -2.17%. Europe's main indices also experienced losses, led by UK's FTSE (-3.38%), Germany's DAX (-3.04%) and France's CAC (-2.42%).

US July core PCE deflator rose by +0.2% as expected, lifting the annual rate to +4.3% from +4.2%. The US unemployment rate fell to 3.5% in July, near 50 year lows, after adding +187k jobs for the month.

US retail sales exceeded expectations on all measures: headline +0.7% against +0.4% consensus.

The US FOMC minutes for the July meeting showed most participants continue to see upside risks to inflation which could require further tightening of monetary policy, but that there was uncertainty about policy lags and some officials saw downside risks to growth despite the resilience shown thus far.

China's CPI and PPI for July fell together for the first time since 2020. CPI fell -0.3% y/y which is the first decline since February 2021. China's retail sales fell -0.06% for July, down from an increase of +0.23% in the prior month, bringing the annual rate to +2.5%.

Eurozone core CPI was 0.1% higher than expected at +5.5% y/y vs. +5.4% expected.

UK GDP grew +0.2% q/q, higher than the 0.0% expected. UK annual inflation fell to +6.8% in July from +7.8% in June, driven by lower gas and electricity prices. Core inflation was marginally higher than expected and was unchanged at +6.9% from the previous month.

The Bank of England raised interest rates 25bp in line with expectations at its August meeting, bucking the trend of other central banks and follows a surprise 50bp hike in June. Inflation in the UK remains the highest of the G7 countries.

The RBNZ left rates unchanged at 5.5% at the August Monetary Policy Statement. It was the second consecutive meeting the Official Cash Rate was left on hold and was unanimously expected by economists.

The MSCI World ex-Aus Index fell -2.50% for the month of August:

Index	1m	3m	1yr	3yr	5yr	10yr
S&P 500 Index	-1.77%	+7.84%	+13.97%	+8.80%	+9.21%	+10.69%
MSCI World ex-AUS	-2.50%	+6.68%	+13.97%	+6.83%	+6.67%	+7.52%
S&P ASX 200 Accum. Index	-2.08%	+2.51%	+8.07%	+10.18%	+6.72%	+7.82%

Source: S&P, MSCI

Domestic Market

The RBA kept official interest rates unchanged at 4.10% in its meeting in August (consensus was split), but maintained its hawkish bias. Importantly, extended inflation forecasts has CPI inflation within 2-3% by late 2025. The final paragraph was little changed, with "*some further tightening of monetary policy may be required to ensure that inflation returns to target in a reasonable timeframe, but that will depend upon the data and the evolving assessment of risks*".

The RBA downgraded its near-term growth forecasts for the economy. It expects real GDP to expand by just +0.9% for 2023, down from its previous forecast of +1.2% and below the current rate of +2.3%. Outside the pandemic, it would be the slowest rate of growth since the early 1990s recession.

Employment disappointed in July, falling -15k (consensus +15k), and the unemployment rate rose 0.2% to 3.7% (consensus 3.6%).

The Monthly CPI Indicator for July fell to +4.9% y/y from +5.4%. Inflation has moderated over recent months, with the RBA now seeing a credible path back to target without further interest rate increases.

The wage price index (WPI) rose +0.8% q/q and +3.6% y/y, a little below consensus and RBA forecasts for +0.9% q/q. Year-ended wages growth ticked down from +3.7% to +3.6%.

The ACCC confirmed it would deny authorisation for ANZ's proposed acquisition of Suncorp Group's banking business stating that "*the proposed acquisition of Suncorp Bank by ANZ would further entrench an oligopoly market structure*".

Home loan approvals were at their weakest level since June 2020 and a slump in new home loan commitments over 2023 suggests a bleak outlook for future housing activity.

The June monthly trade surplus beat expectations with the surplus at $11.3bn (consensus $10.8bn) from a downwardly revised $10.5bn previously. Exports fell -1.7% m/m (or -$1.0bn), while imports dropped far larger at -3.9% m/m (or -$1.8bn).

The Australian dollar fell -2.95%, finishing the month at US64.85 cents (from US66.82 cents the previous month).

Credit Market

The global credit indices marginally widened over August. They are now back to their levels in early 2022 (prior to the rate hike cycle from most central banks):

Index	August 2023	July 2023
CDX North American 5yr CDS	64bp	63bp
iTraxx Europe 5yr CDS	71bp	68bp
iTraxx Australia 5yr CDS	78bp	72bp

Source: Markit

Fixed Interest Review

Benchmark Index Returns

Index	August 2023	July 2023
Bloomberg AusBond Bank Bill Index (0+YR)	+0.37%	+0.37%
Bloomberg AusBond Composite Bond Index (0+YR)	+0.74%	+0.52%
Bloomberg AusBond Credit FRN Index (0+YR)	+0.46%	+0.46%
Bloomberg AusBond Credit Index (0+YR)	+0.99%	+0.85%
Bloomberg AusBond Treasury Index (0+YR)	+0.61%	+0.49%
Bloomberg AusBond Inflation Gov't Index (0+YR)	+0.70%	+0.92%

Source: Bloomberg

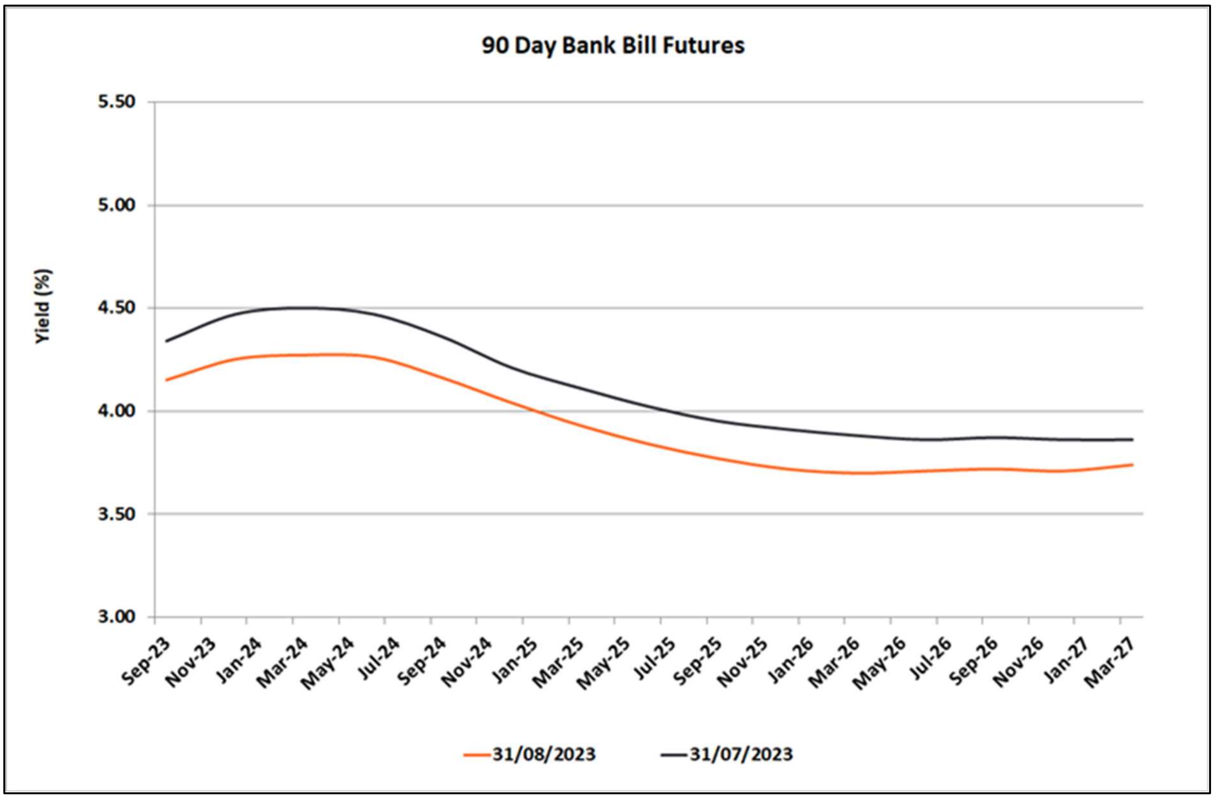
Other Key Rates

Index	August 2023	July 2023
RBA Official Cash Rate	4.10%	4.10%
90 Day (3 month) BBSW Rate	4.13%	4.26%
3yr Australian Government Bonds	3.74%	3.87%
10yr Australian Government Bonds	4.02%	4.05%
US Fed Funds Rate	5.25%-5.50%	5.25%-5.50%
2yr US Treasury Bonds	4.85%	4.88%
10yr US Treasury Bonds	4.09%	3.97%

Source: RBA, AFMA, US Department of Treasury

90 Day Bill Futures

Bill futures fell across the board this month, with momentum gathering pace and signs that overall inflation is steadily declining. Markets have been quick to revise their interest rate forecasts, with largely no additional rate hikes priced into the futures pricing. The bills market continues to factor in the possibility of a recession over the next few years, highlighted by the drop in the futures pricing by mid-late 2024:



Source: ASX

Fixed Interest Outlook

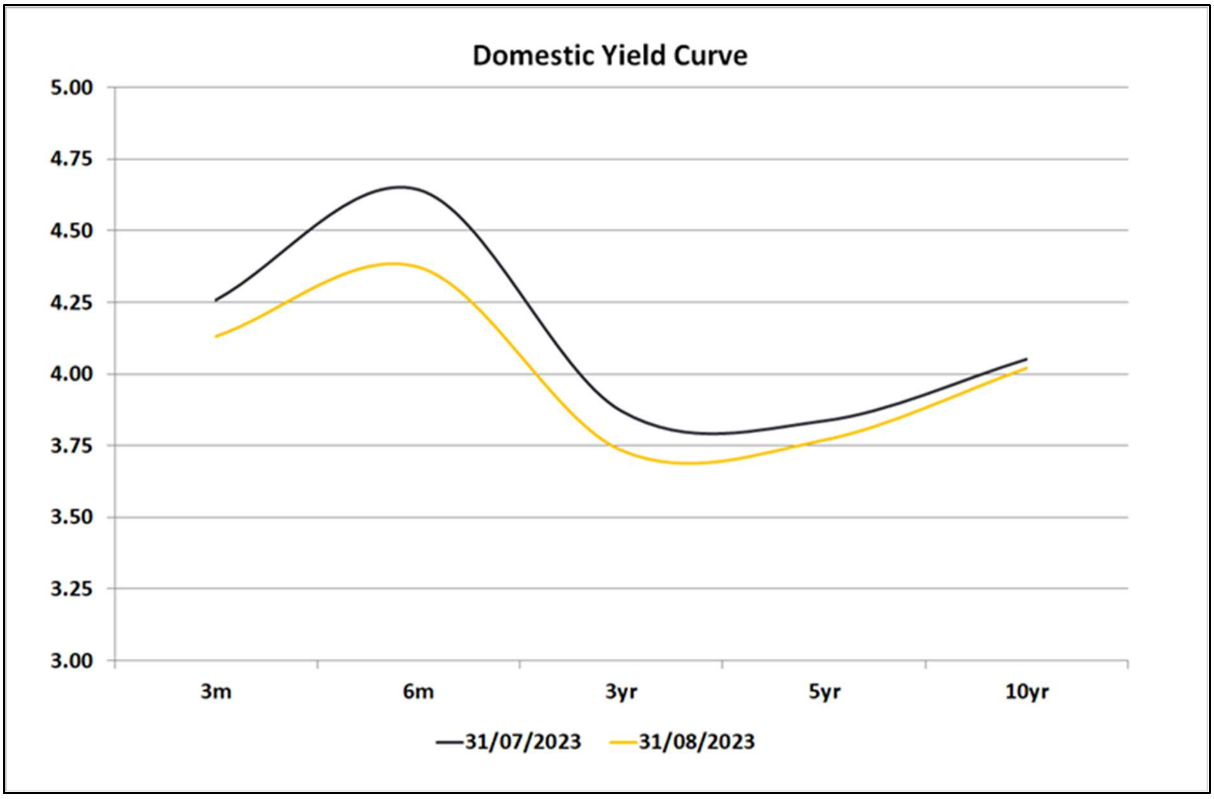
Global inflation continues to show signs of decelerating, although there are a few concerns that incremental falls from here could be difficult. Global policy rates are near peaks, but resilient labour forces remain a concern and could keep rates higher for longer.

After the US Fed lifted rates to 5.25%-5.50%, markets continue to price around a 40% chance of a follow up hike by December, though pricing of cuts extended with over 100bp of cuts thereafter by the end of 2024.

Domestically, the RBA's practice of using the latest data to base their forecasts leaves them exposed to potentially another hike should Q3 CPI print high as some forecasters expect. Nevertheless, the RBA over recent months also appears to be more concerned around the outlook for growth, particularly the consumer, even though headline activity forecasts were little changed. This suggests that they may well be approaching the peak of their interest hike cycle.

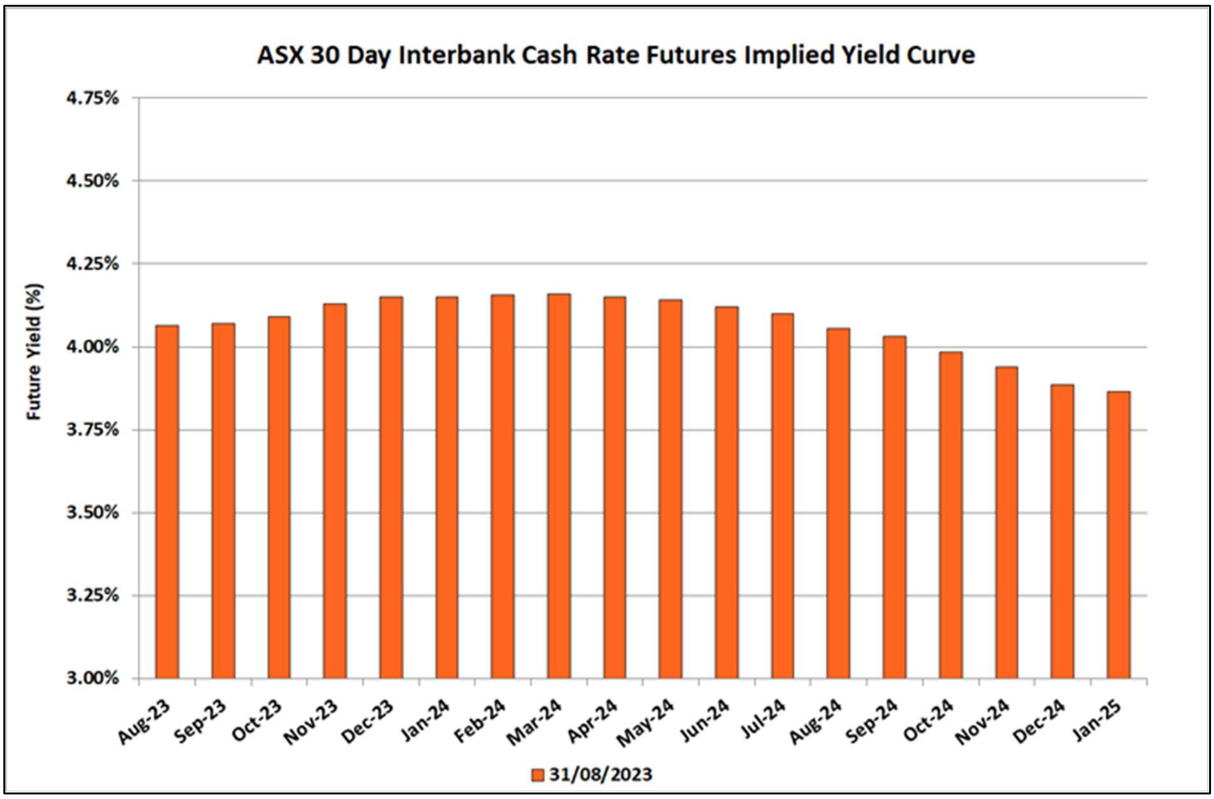
The RBA's August SoMP key statement was "*members observed that there was a credible path back to the inflation target with the cash rate staying at its present level*". This was made in the context of a better than expected outcome for inflation in Q2. The board forecast core trimmed mean inflation at +3.9% y/y by end-2023, +2.9% y/y by mid-2025 and at +2.8% y/y by end-2025.

Over the month, yields fell up to 27bp at the short-end of the curve, with markets parring back the chances of another rate hike:



Source: AFMA, ASX, RBA

Markets have been quick to revise their interest rate forecasts with now only potentially only one more rate hike priced this cycle. Interestingly, rate cuts are now more likely being forecasted, but not at least until Q3-Q4 2024.



Source: ASX

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