



# Market Update

16<sup>th</sup> April 2024



## WATERSHED

Funds Management

### *Market Wobbles: Current Positioning & Performance*

#### **Key Points:**

- **The 'soft landing' consensus is coming under pressure** from stickier inflation and geopolitical uncertainty in the Middle East
- **Higher for longer interest rates** would make it harder for equity markets to hold current valuation levels
- **Watershed's multi-asset portfolios are well positioned** in the event of higher inflation and/or market selloff environments
- **Our process and positioning** allows us the flexibility to buy the equity market and bond market dips throughout this cycle, adding value over time

We are currently having a bit of a market wobble (as has been long overdue) driven by stickier inflation and renewed geopolitical uncertainty in the Middle East.

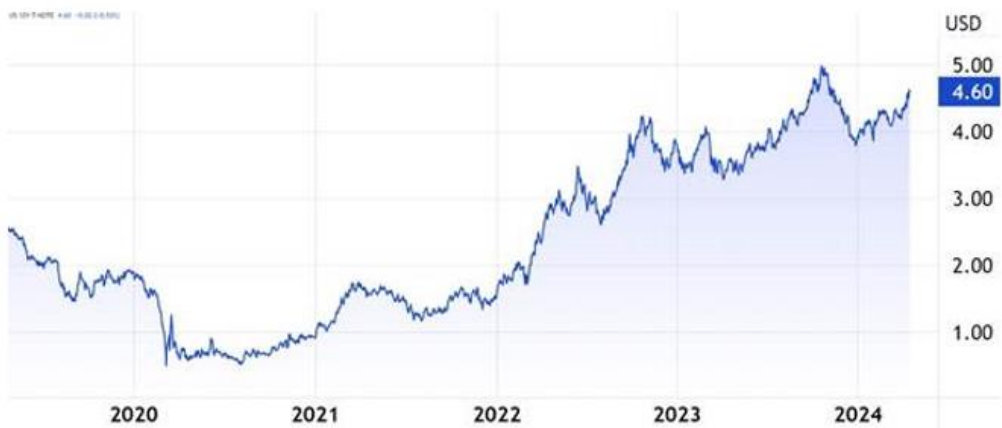
The risks of stickier inflation is a theme we have discussed extensively during our recent national roadshow and market updates. Most recently, we saw stronger US retail sales overnight, which followed much stronger employment data than forecast last week. Markets are reacting by pushing rate cuts back to the end of this year, which makes it far harder for equity markets to hold current valuation levels (PE expansion driven by rate cut expectations).

The following charts provide more detail on how the current environment is evolving:

**US 10 Year Bond Yield** has backed up to 4.6%. Market has moved from pricing 6 rate cuts (150 bps) in 2024 at the start of this year, to now less than 2, with the first rate cut not coming until late in the year.

**US 10 Year Bond Yield (5 Years to 16th April 2024):**

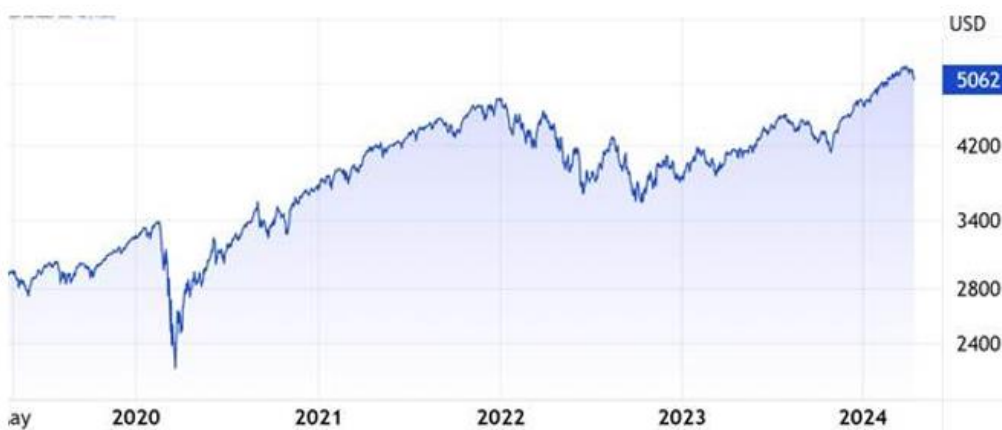
**US 10 Year Bond Yield (5 Years to 16th April 2024):**



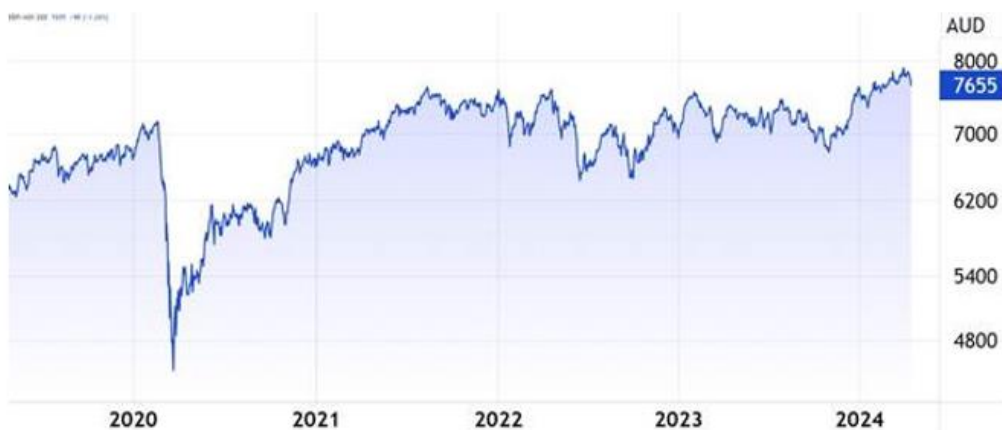
**Equity markets are now selling off, after a very strong run (and off very full valuations):**

The US market traded to 5,200 or a PE of 22x and the Australian Market reached almost 7,900 (PE of 17.5x).

**US S&P 500 (5 Years to 16th April 2024):**

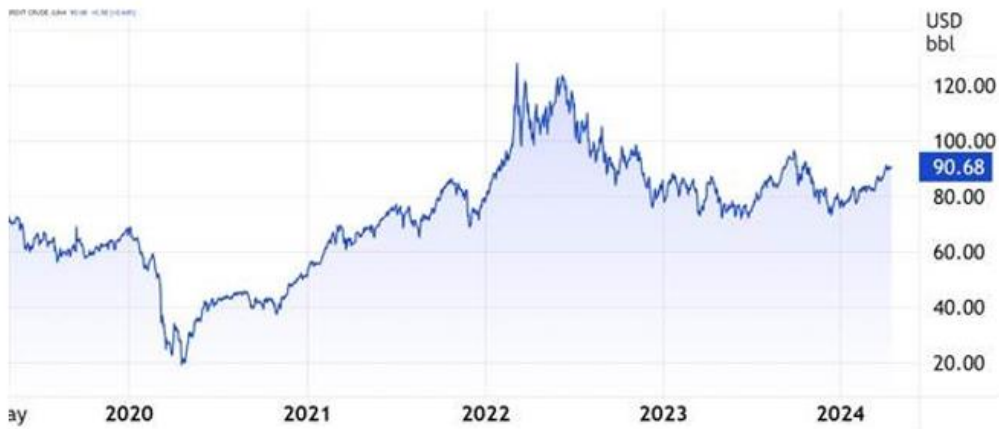


**ASX 200 (5 Years to 16th April 2024):**

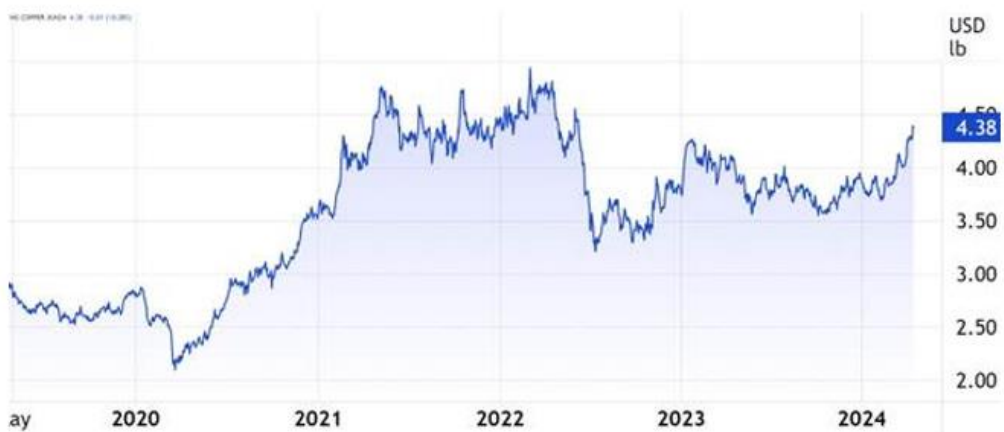


Increasing geopolitical tensions (and continued supply slippage- a recurring annual thematic) is driving **higher commodity prices**, which in turn is creating more inflationary pressure (negative feedback loop).

**Oil Price (ICE Brent Crude - 5 Years to 16th April 2024):**

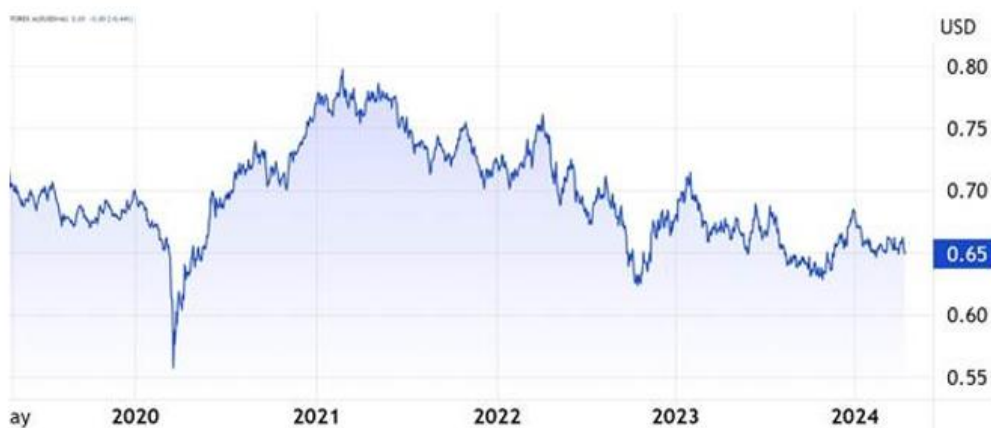


**Copper Price (Comex Copper Composite Futures – 5 years to 16th April 2024):**



Economic, Market and Geopolitical Uncertainty is as always, putting **downward pressure on the Australian Dollar** (flight to safety of the USD).

**AUD/USD (FX Spot Rate – 5 years to 16th April 2024):**



## **Current Positioning and Performance**

Pleasingly, the Watershed Multi-Asset Portfolios have managed to outperform their respective benchmarks in the strong bull market over the past year, despite increasingly defensive positioning and more pleasingly are now falling significantly less than benchmark this month:

### **Underweight Equities** (high cash weight plus small, short positions)

- International Share Cash weight **17.3%**
- Australian Share cash weight **14.5%** plus **6.3%** market short
- Emerging Leaders cash weight **32%**
- International ETF cash weight **17%** plus market short of **6.1%**

In addition to our overall underweight equities stance, the following positions within asset classes provide further diversification in the even of a higher inflation and/or market selloff environments for the Watershed Multi-Asset Portfolios:

### **Overweight Energy and Materials (with some gold exposure)**

Within the Australian Share SMA we are overweight Energy, Materials and have some gold exposure (via Woodside, Santos, Origin, BHP, Rio Tinto, Mineral Resources and Newmont) and also hold Beach Petroleum in the Emerging Leaders Portfolio.

### **Unhedged:**

Almost all of the International Equity Exposure within the Multi Asset Portfolios is currently unhedged: The international Share Sleeve is in USD, and the Japanese (IJP), most European (ESTX, F100) and Emerging Markets exposure is all unhedged.

### **Alternatives:**

While the Pimco Trends Fund underperformed last year, during the strong Bull Market (having outperformed significantly in 2022 when both equity and fixed income markets fell sharply) is again delivering positive returns in a down market.

### **Underweight Duration (Developed Market Bond Exposure):**

Within the Income SMA we retain a large exposure to floating rate securities (approximately 60%) that have held up well in the recent bond market sell off (rising rate environment).

## Performance:

So far this month the Watershed Multi Asset Portfolios have fallen significantly less than benchmark and should continue to do so if uncertainty persists for a period:

### Model Portfolio Performance – April month-to-date:

Watershed Conservative Portfolio (01/04/24 to 12/04/24)	
Portfolio return for the period	-0.57%
Morningstar AUS Con Tgt Alloc NR AUD return for the period	-0.86%
Value added for the period	0.29%

Watershed Balanced Portfolio (01/04/24 to 12/04/24)	
Portfolio return for the period	-0.71%
Morningstar AUS Balance Tgt Alloc NR AUD return for the period	-1.34%
Value added for the period	0.63%

Watershed Growth Portfolio (01/04/24 to 12/04/24)	
Portfolio return for the period	-0.84%
Morningstar AUS Growth Tgt Alloc NR AUD return for the period	-1.55%
Value added for the period	0.71%

Watershed High Growth Portfolio (01/04/24 to 12/04/24)	
Portfolio return for the period	-0.87%
Morningstar AUS Agg Tgt Alloc NR AUD return for the period	-1.62%
Value added for the period	0.75%

We will as always continue to monitor the economic, geopolitical and market environment and have significant capital to deploy into any market weakness. As we have done through previous periods of market volatility, our process and positioning allows us the flexibility to buy the equity market and bond market dips throughout this cycle, adding value over time.

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