

Investment commentary

September quarter investment update

The SA Metropolitan Fire Service Scheme (Scheme) performed strongly in the quarter ended 30 September 2024 (refer Table 1). Chart 1 illustrates the annual performance of the investment options over the last 5 years.

The High Growth investment option, the scheme default for SA Metropolitan Fire Service, returned +3.7% for the quarter, taking the 1-year return to 12.9%. The key driver of the High Growth return was the Australian Equities asset class which rose more than 8.0% over the period.

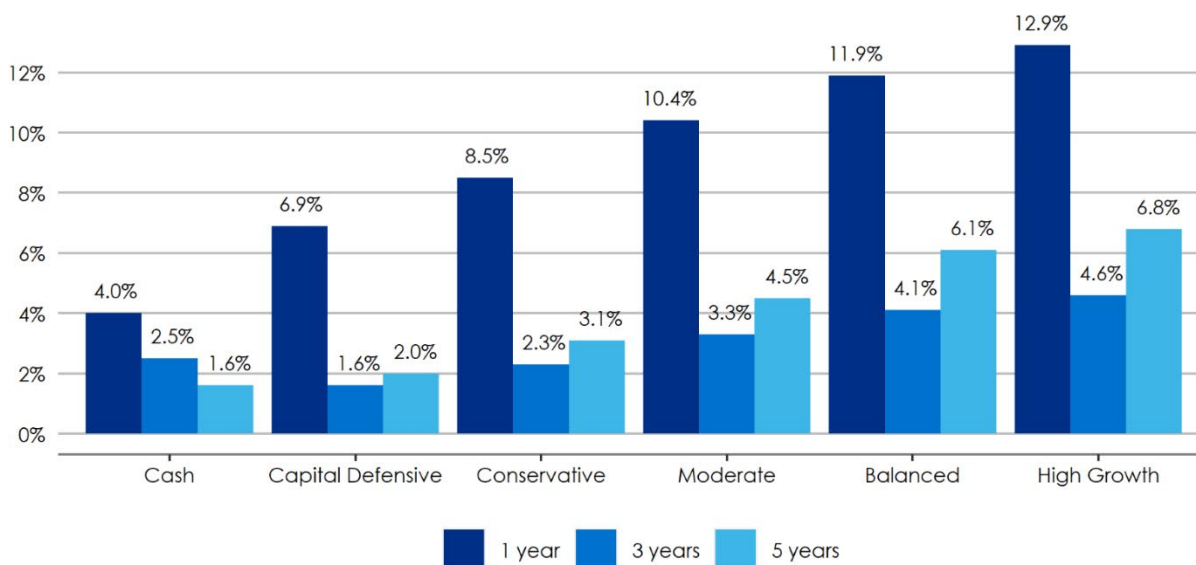
SAMFS Taxable investment options at 30 September 2024

Investment option	3 months %	FYTD %	1 year %	3 years % p.a.	5 years % p.a.	7 years % p.a.	10 years % p.a.
Cash	1.0	1.0	4.0	2.5	1.6	1.6	1.7
Capital Defensive	2.4	2.4	6.9	1.6	2.0	2.7	3.0
Conservative	2.7	2.7	8.5	2.3	3.1	3.8	4.2
Moderate	3.1	3.1	10.4	3.3	4.5	5.1	5.4
Balanced	3.4	3.4	11.9	4.1	6.1	6.5	6.7
High Growth	3.7	3.7	12.9	4.6	6.8	7.5	7.9

Note. Due to rounding, the excess return shown may not exactly equal the difference between the portfolio and benchmark returns.

Chart 1: Taxable investment options annualised returns to 30 September 2024

Returns are net of fees and tax



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Across the Scheme's investment options, the Australian and International Equities, Fixed Interest, Credit, and Core Infrastructure asset classes were the key drivers of the positive performance. Private Markets and Property detracted. Property valuations have declined over the quarter, mostly in the office sector, though recent data points highlight the pace of the decline has slowed. The foreign currency hedge program also added to performance.

For the quarter, the Australian All Ordinaries index returned +6.6%. Asian markets were also higher with Hong Kong's Hang Seng and China's CSI 300 indices +19.3 and +12.5% respectively. US equities continued their bull run, the S&P500 +5.5% and the tech heavy NASDAQ +2.6%. European markets lagged other markets, the MSCI AC Europe index +1.1% (refer Chart 3).

Global bond yields fell heavily (prices rose) during the period as weak economic data from major economies including the US and China increased recessionary fears amongst investors and caused the market to bring forward interest cut expectations. The Australian government 10-year bond yield fell to 3.9% from 4.4% over the quarter. US 10-year treasury yield fell even further to 3.7% from 4.3%.

Despite the escalations in Middle East conflict, the oil price declined -16% over the period while gold gained 9%.

Market volatility remains high with several themes continuing to dominate markets including the trajectory of global inflation and the pace of interest rate cuts from Central Bank's, conflicts in the Middle East and Ukraine, both of which appear to have no end in sight, and an upcoming US election which may deliver a higher debt pile regardless of the winner. China, at the end of September, added further complexity to the investment outlook with the announcement of a raft of major stimulus measures designed to boost economic activity and reverse the deflationary spiral that has taken hold.

The key near term driver of global markets remains interest rates and how quickly (or not) global Central Bank's will ease target policy rates after nearly 4-years of increases (refer Chart 2.). Central Banks around the world have begun to cut. Australia's RBA, to date, has resisted market calls to cut the overnight cash rate despite recent data confirming inflation has retreated back to their target band.

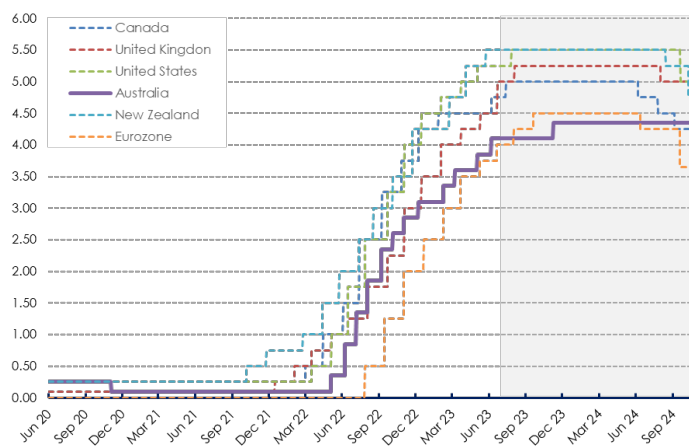
The investment team at Funds SA remains positive with a neutral to marginal overweight to growth assets across the investment options. Increasing equity valuations and geopolitical risks, amongst others, weigh heavily on investment decisions in the current market.

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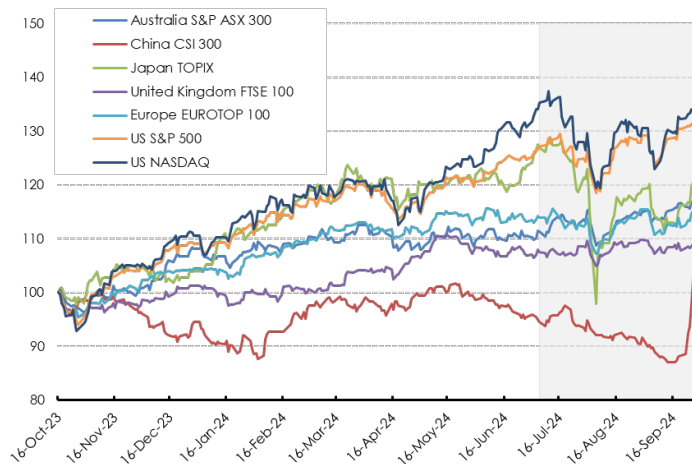
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Chart 2. Global official interest rates



Source: FactSet

Chart 3. Global equity indices.



Source: FactSet

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