

Balanced

Tactical Asset Allocation (TAA) Changes

Australian Shares increases from 33% to 34%

International Shares increases from 22% to 24%

Australian Fixed Interest reduction in holdings from 17% to 15%

International Fixed Interest reduction in holdings from 14% to 13%

Following the January Quarterly Asset Allocation meeting, I wanted to inform you of the strategic adjustments we have made to your portfolio. These changes are aligned with our commitment to proactively manage your investments and respond to evolving market conditions.

- 1. Reduced Underweight to Growth Assets:** In response to a dynamic shift in market expectations, we have strategically reduced the underweight to growth assets. This decision is rooted in the dramatic change from the anticipation of "higher for longer" interest rates to the possibility of rate cuts in 2024, especially in the US market.
- 2. Trimmed Overweight to Fixed Interest:** Recognizing the rally in bond yields prompted by the pivot in policy rate expectations, we have trimmed the overweight to Fixed Interest asset classes. This adjustment reflects our proactive approach to capturing value and managing potential market volatility.
- 3. Increased Cash Allocations:** Anticipating market fluctuations, we have increased Cash allocations in your portfolio. This adjustment is designed to enhance flexibility and position your investments to navigate potential uncertainties in the coming months.

The rationale for the tactical changes is rooted in several market dynamics:

- There has been a swift change in market expectations around the path of interest rates, especially in the US. The pivot of expectations from "higher for longer" to rate cuts in 2024 has been dramatic.
- Inflation pressures are easing as we thought would happen, but the easy wins have been made. Moving to the 2% target will be harder.
- While economic growth has been resilient in the US, it has not been ubiquitous across other major regions. Moving forward, economic growth, at least across developed markets is expected to be sub-trend.
- However, with potential rate cuts (at least in the US) on the table, we expect less focus on slowing economic growth in 1H24 and more on the likely rebound as financial conditions ease.

- Investor sentiment may improve further should the market look through the short-term and focus on how earnings may react to easing financial conditions.
- The pivot in policy rate expectations also led to a rally in bond yields, driving strong returns from the Fixed Interest asset classes. We see value in now trimming the overweight to the asset class and increasing Cash in anticipation of market volatility.
- The multi-asset portfolios however remain tactically underweight growth assets given both economic and company earnings growth will first slow, and investors may have gotten ahead of themselves around the timing and extent of rate cuts.

Please be assured that our decisions are grounded in a thorough analysis of current market dynamics and a commitment to optimizing your portfolio for long-term success. If you have any questions or would like further clarification, please do not hesitate to reach out to your dedicated financial advisor.

Thank you for your continued trust in our financial planning practice. We look forward to navigating the evolving market landscape together and ensuring your financial goals remain at the forefront of our strategic decisions.