Four big insights from Perpetual’s fund managers on our 2023 roadshow

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By Perpetual Asset Management
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Perpetual’s investment experts Vince Pezzullo, Anthony Aboud, Matt Sherwood, Vivek Prabhu and Cory Martin have spent the past few weeks travelling around Australia, speaking with advisers.

Here are some of their top insights:

Multi Asset

System-wide stresses are manageable in their current form, despite recent banking sector fears that have put global markets on edge, said Matt Sherwood, Head of Investment strategy, Multi Asset.

Sherwood favoured a conservative approach as markets absorbed the impact of changes to the cost of capital.

But there were opportunities to be had in the UK, EU and emerging markets, he said.

“All markets have their issues at the moment but valuations in these three are attractive. Our job is to build a bridge to the next bull market for clients.”

Immigration returning to pre-Covid levels would help Australia avoid recession, he said.

Find out about Perpetual’s Multi Asset funds

Australian Equities

Our Head of Australian Equities Vince Pezzullo warned against “recency bias” when assessing markets.

He pointed to Atlassian’s share price as an example of the difference a few months can make.

Actual cash flow and capital allocation mattered in a rising rate world — and a return from narratives to fundamentals was a positive for the Perpetual investment philosophy, he said.

This was a key theme of the Feb-March ASX reporting season, which he described as “the revenge of the incumbents.

“The rising cost of capital is calling out concept stocks and helping well capitalised incumbents.

“Balance sheets and profits will be more important to the market going forward.”

Australia needed to prepare for a “my resource, your problem world”, however. We risk losing our natural advantage if long-term industrial decisions aren’t carefully thought through.

Find out about Perpetual’s Australian Equities funds

Credit & Fixed income

The biggest withdrawal of liquidity in the history of financial markets has our Head of Fixed Income, Vivek Prabhu, rotating to quality while considering his suite of risk management tools.

Credit and fixed income markets had grappled with a sharp reduction in liquidity and tightening of financial conditions over the past year, Prabhu said.

Management of risk exposures and exploitation of idiosyncratic relative value opportunities were rewarded into 2023.

“As a result of long and variable lags of monetary policy impacts, the risk of policy errors is elevated,” Prabhu said.

“We remain well positioned to withstand liquidity stresses while also retaining the capacity to quickly take advantage of relative value opportunities presented by potential market

dislocations.”

Find out about Perpetual’s Credit and Fixed Income funds

Global Equities

The US Federal Reserve’s next move on rates, the likelihood of a US recession and a hard or soft landing are common questions among investors right now.

But are they the right ones?

“These are all short-term questions that most investors do a poor job of predicting, as they are unlikely to be consistently correct,” said Cory Martin, CEO and Executive Director of Barrow Hanley, a US based asset manager, part of Perpetual Asset Management International.

Barrow Hanley prioritised its view on a company’s long-term prospects rather than changes to security prices as a result of investor psychology, he said

Will the value cycle continue?

The unwinding of exuberant valuations could take a long time, said Martin.

The performance of value stocks through the business cycle showed they do best in recessions or early in the business cycle, he said.

Find out about Barrow Hanley’s Global Equities funds

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