

IS THIS TIME DIFFERENT?

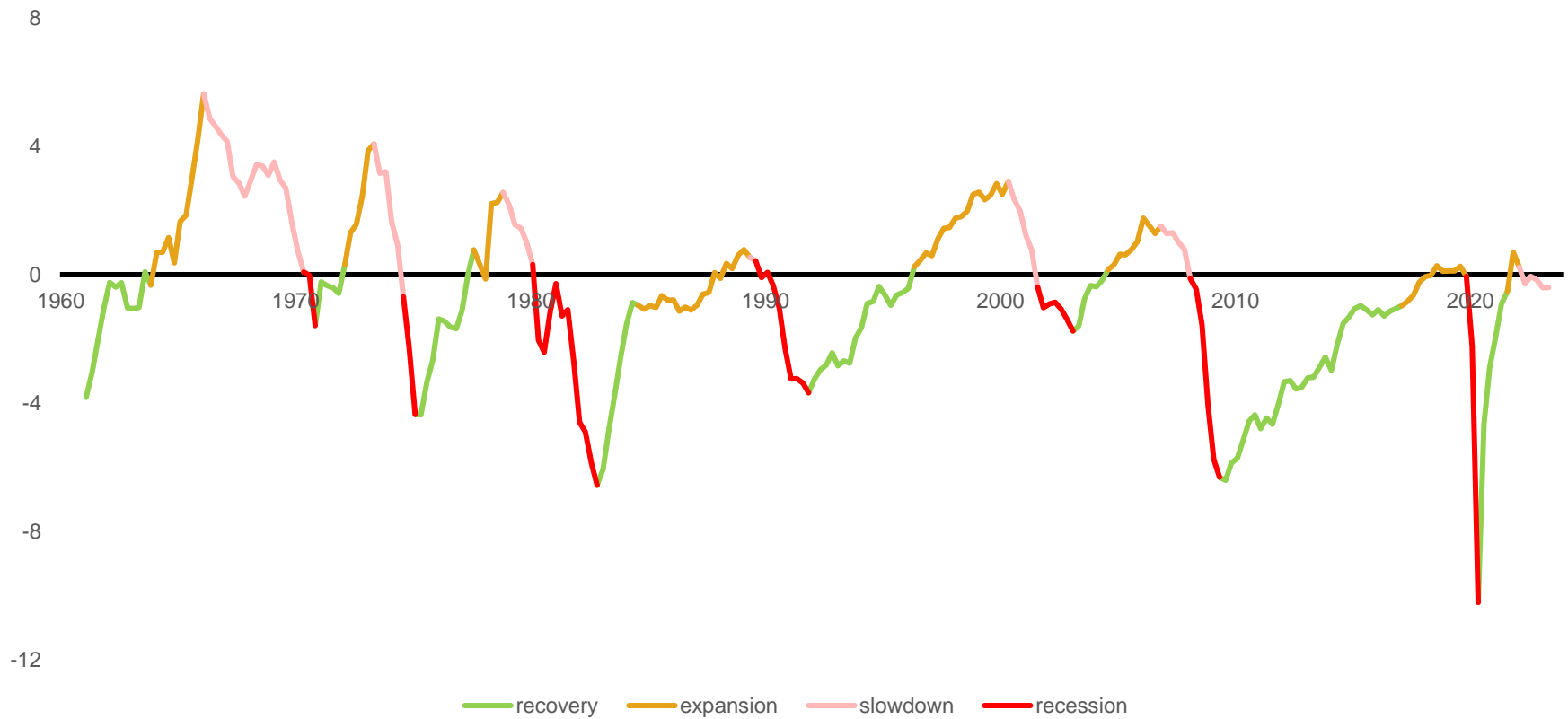
Q3 2023

Alexander Cousley, Investment Strategist



Where are we in the economic cycle?

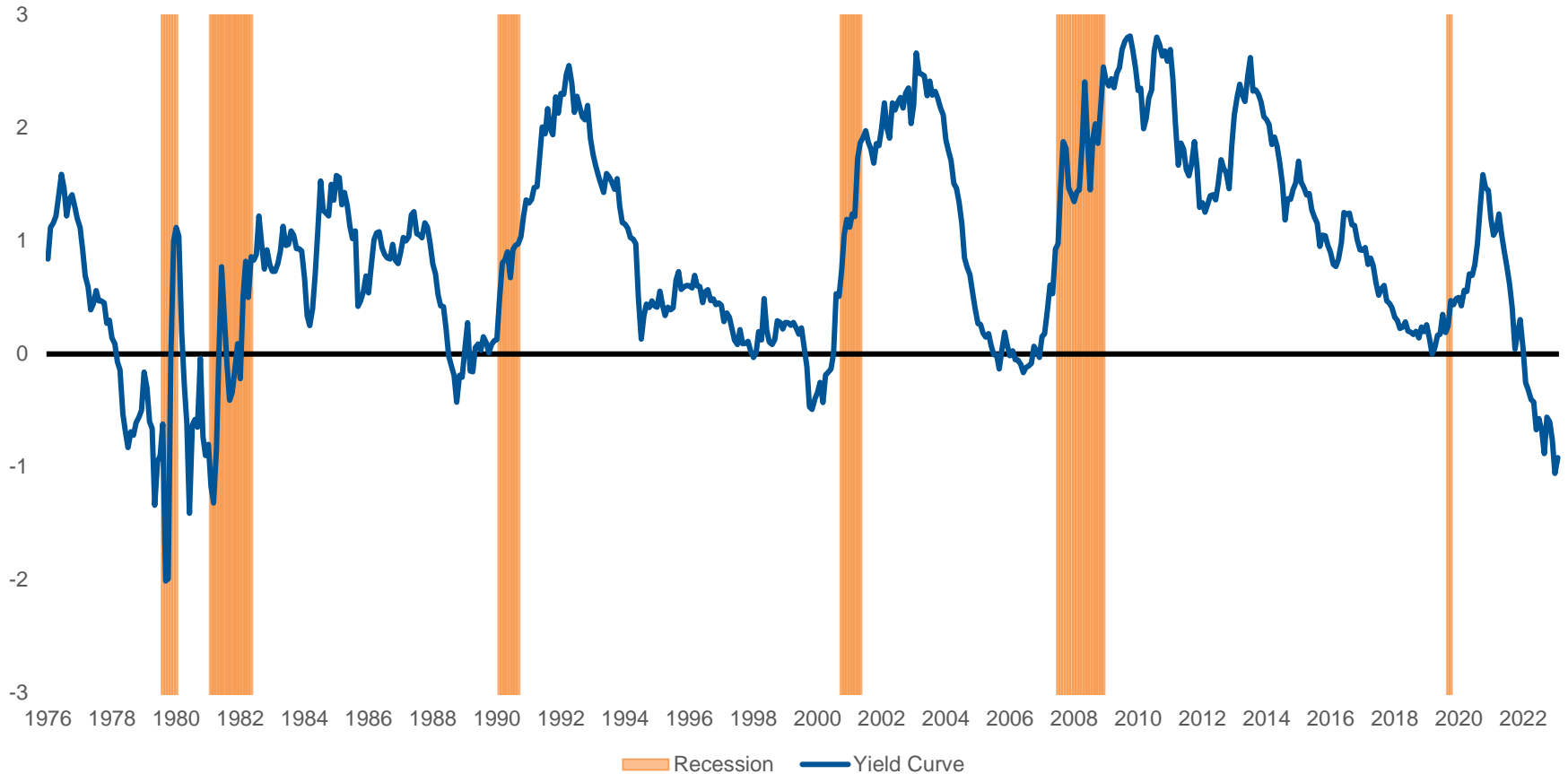
Phases of the business cycle
US output gap, % of potential GDP



Source: Refinitiv Datastream, Russell Investments 30 August 2023

Yield curve continues to flash caution on the economic cycle

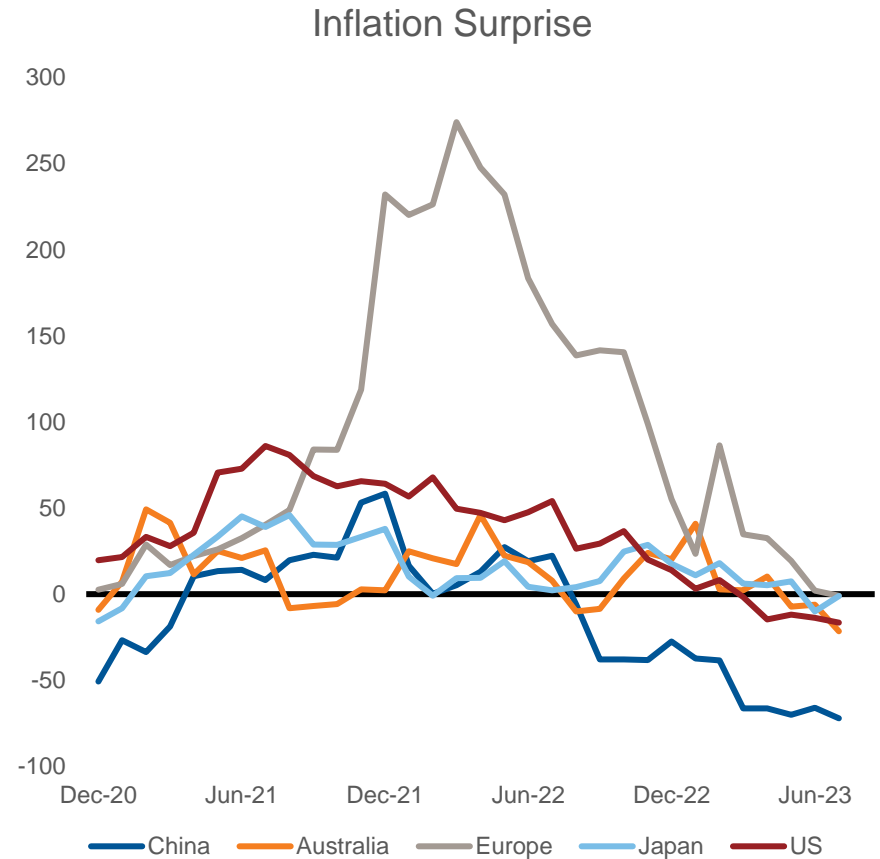
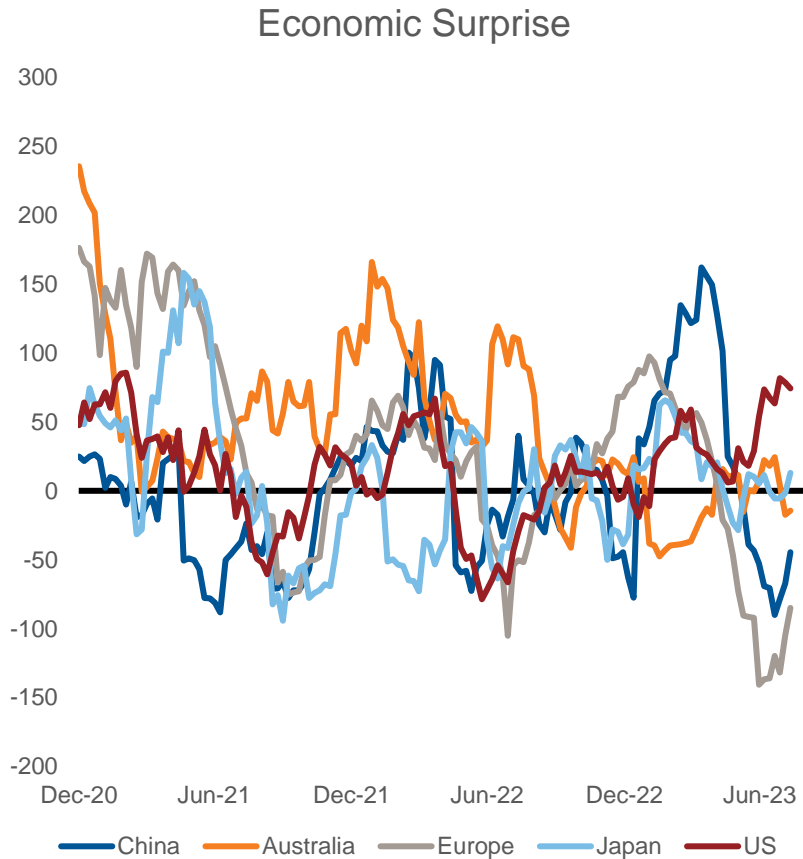
Historically, an inverted yield curve has been a good predictor of recession



Source: Refinitiv Datastream, Russell Investments, 20 August 2023

US economy has been more resilient than most had expected

Inflation surprise has now turned negative for most regions

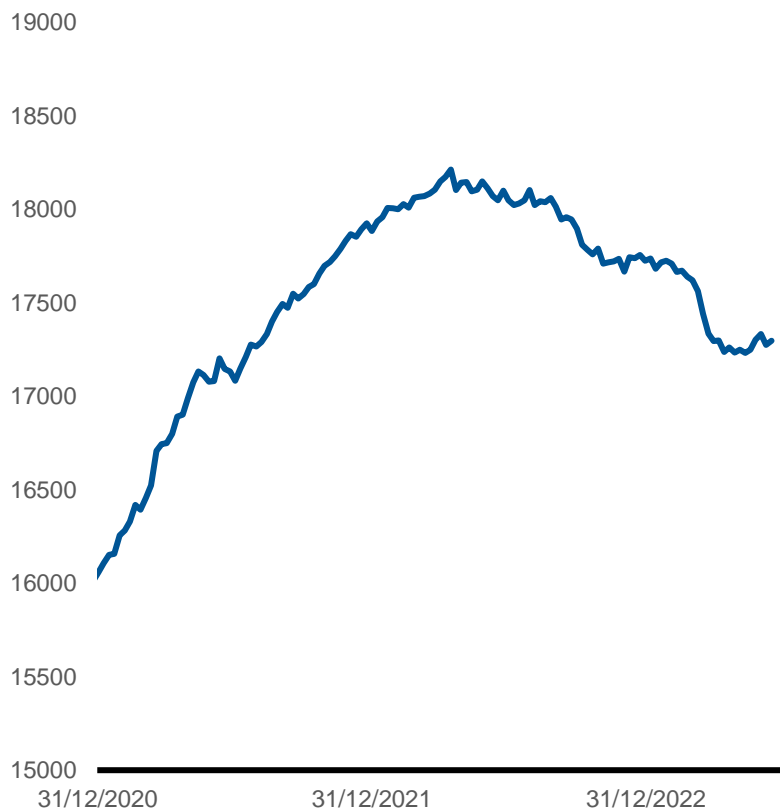


Source: Refinitiv Datastream, 14 August 2023

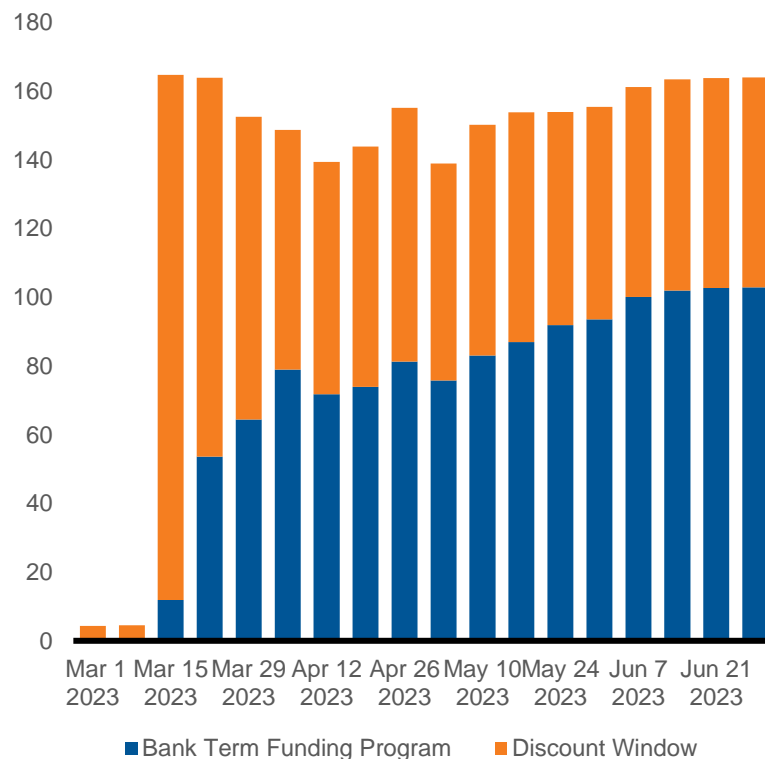
US banking stress – deposit outflows appear to have stopped

Fed emergency program take up has stalled

US commercial bank deposits



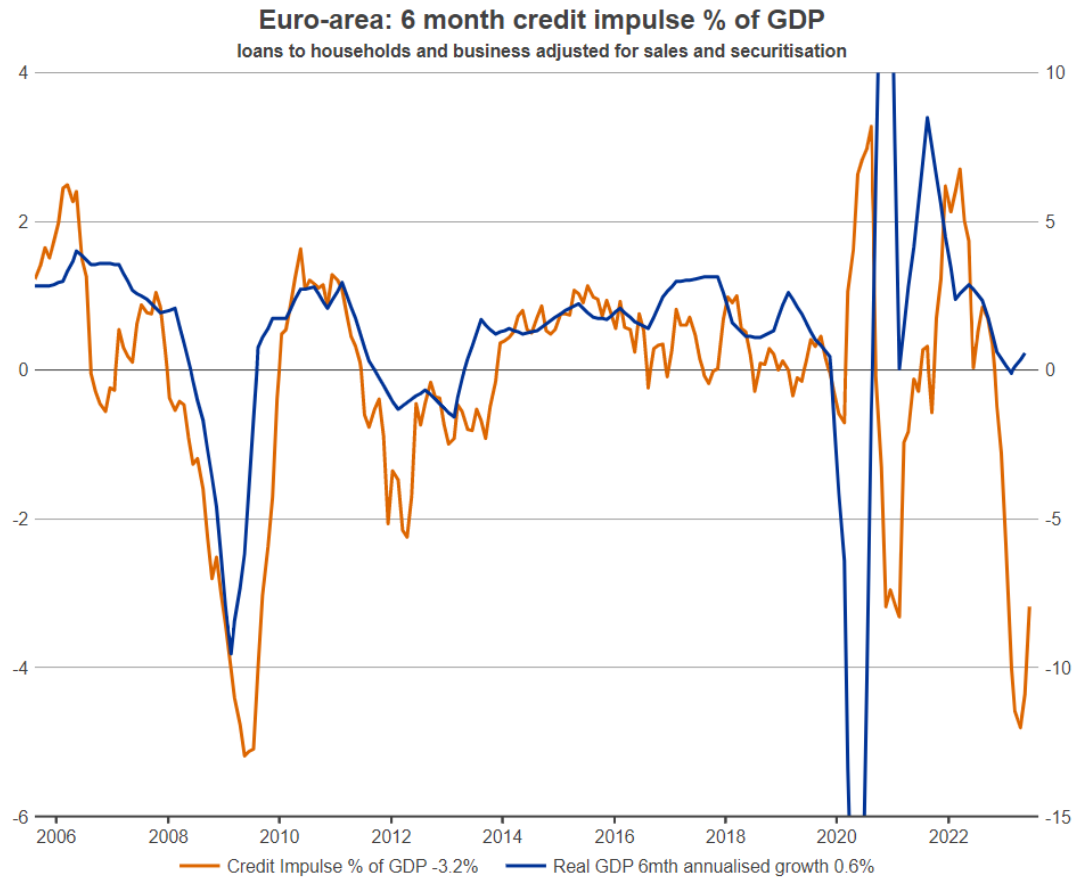
Take up of Fed emergency programs, \$bn



Source: Refinitiv Datastream, Russell Investments, 3 July 2023

European credit impulse points to further weakness

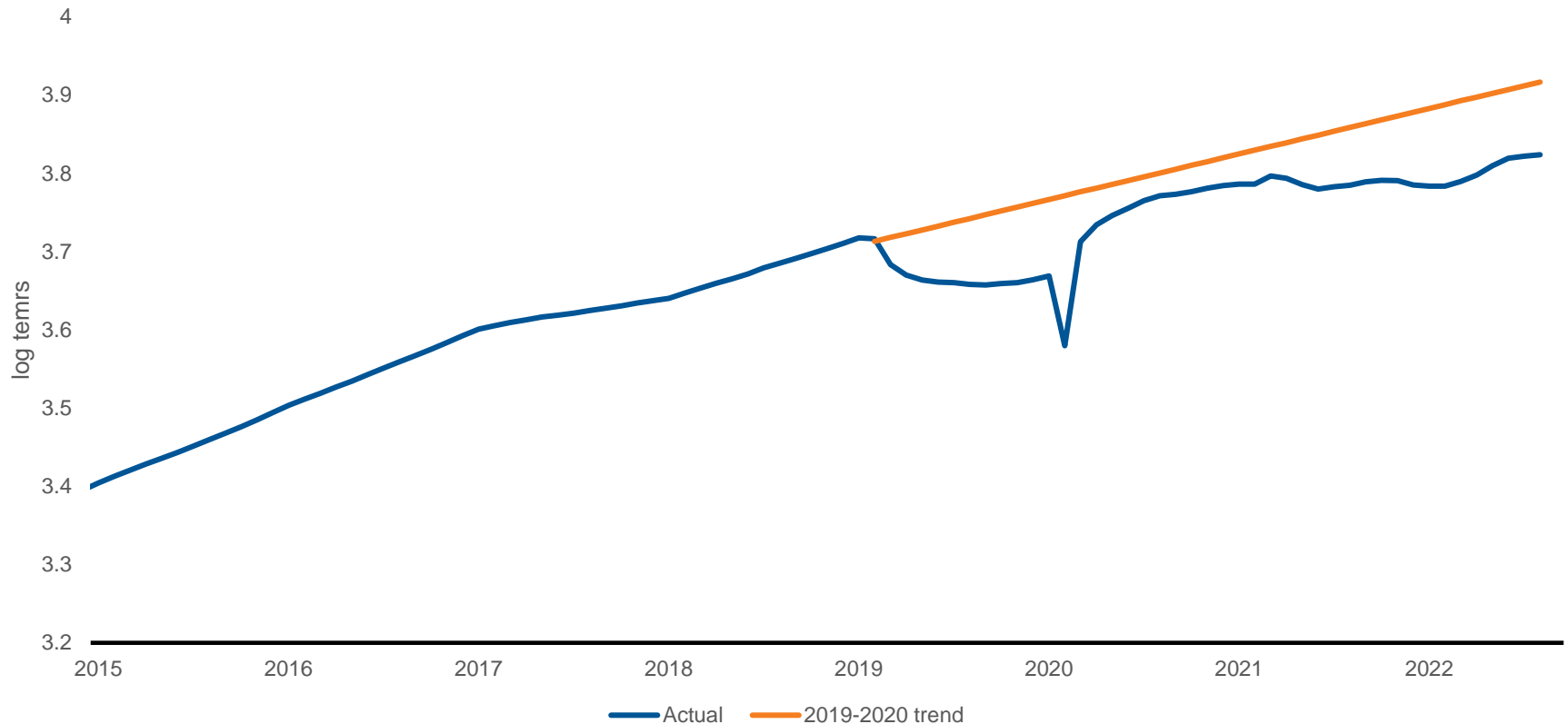
Economic Surprise is now at recession levels



China's economy is struggling

More stimulus is going to be required

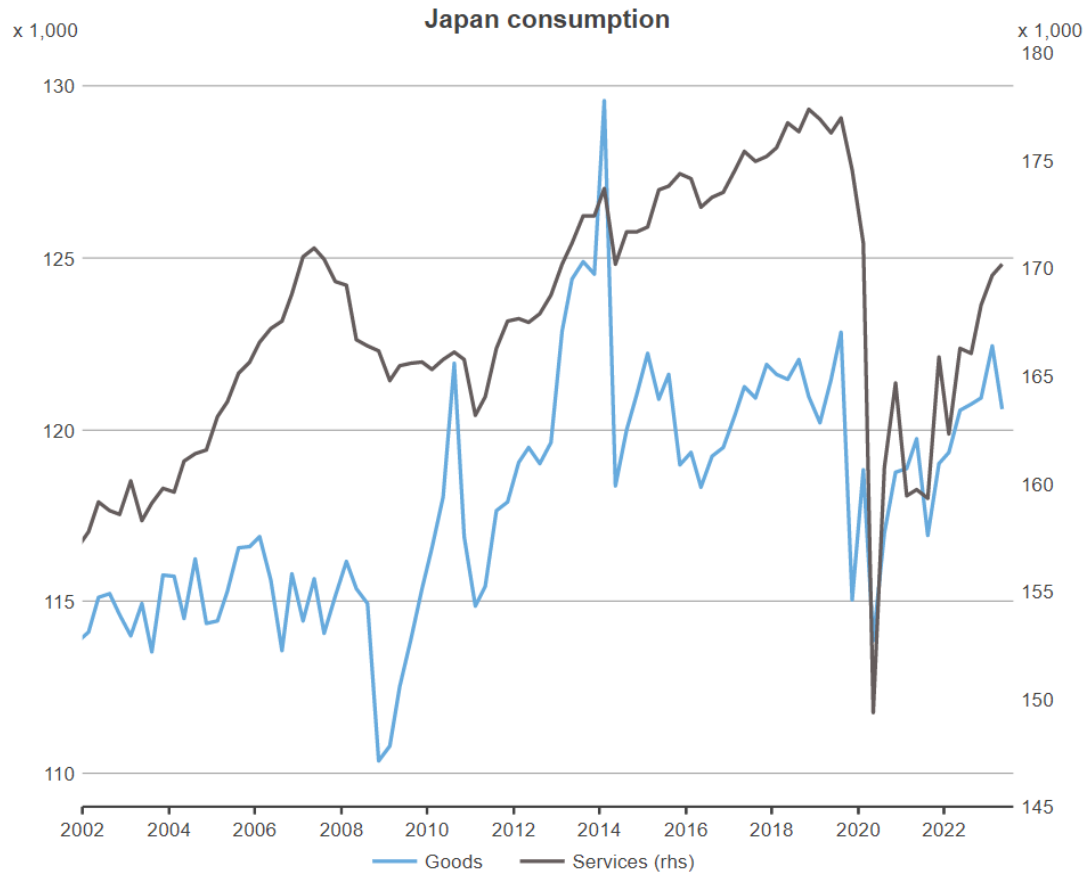
China retail sales (moving annual total)



Source: Refinitiv Datastream, Russell Investments, 29 August 2023

Japan domestic demand is picking up

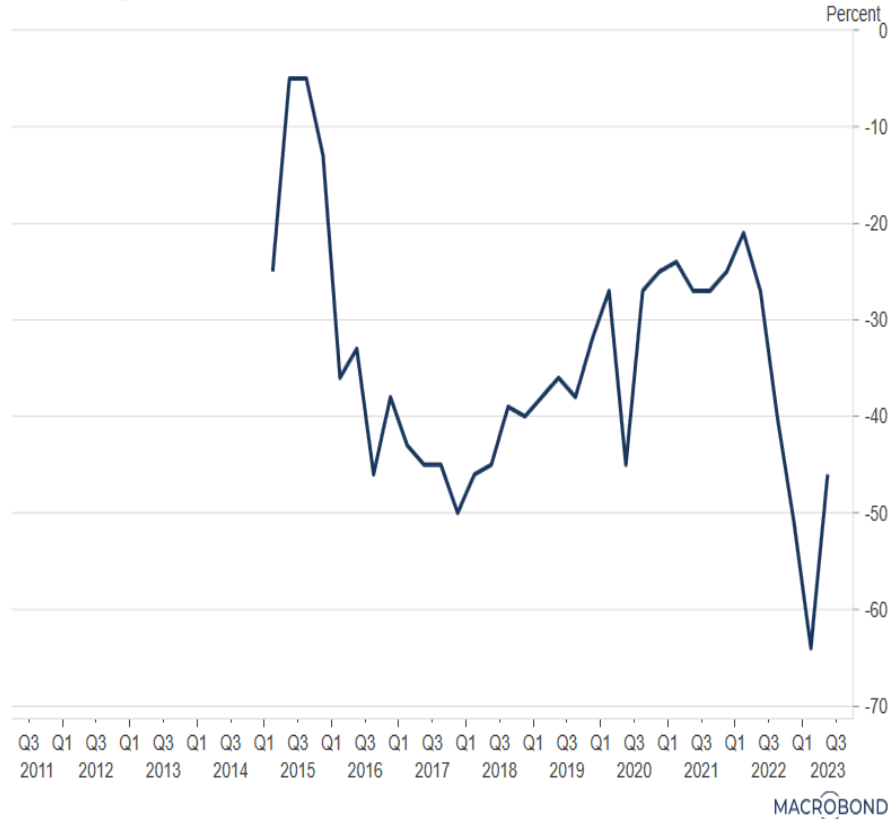
Domestic spending is picking up on reopening, trade balance is improving (partly due to lower energy bills), tourism is rebounding



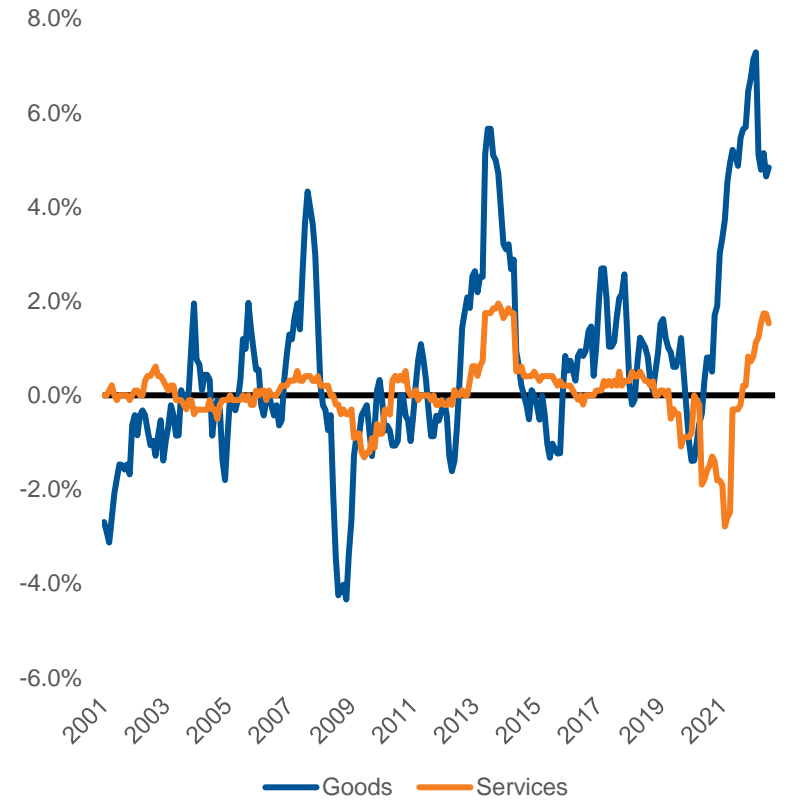
Source: Refinitiv Datastream, May 15, 2023

BoJ are likely to keep making changes to policy

Japan, Economic Surveys, Bank of Japan, Bond Market Survey, Bond Market Functioning, Overall, Diffusion Index, Current Situation



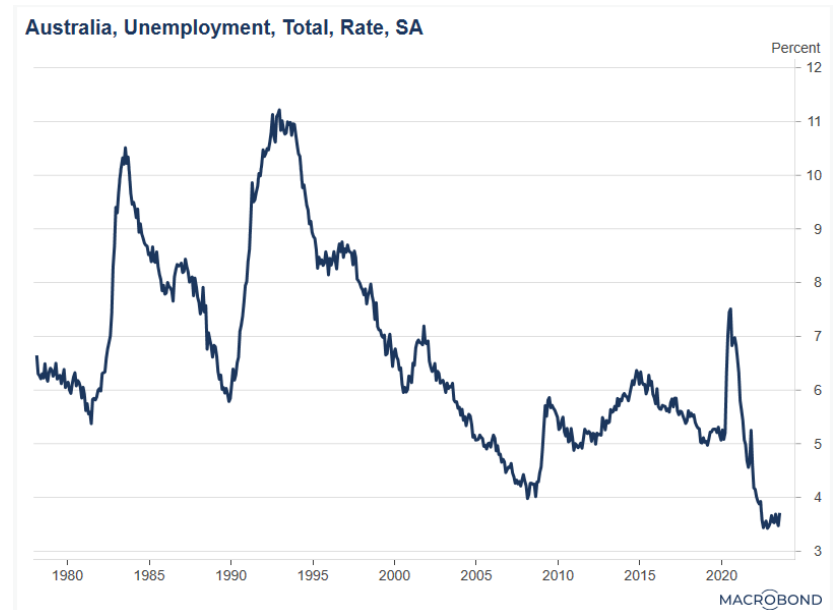
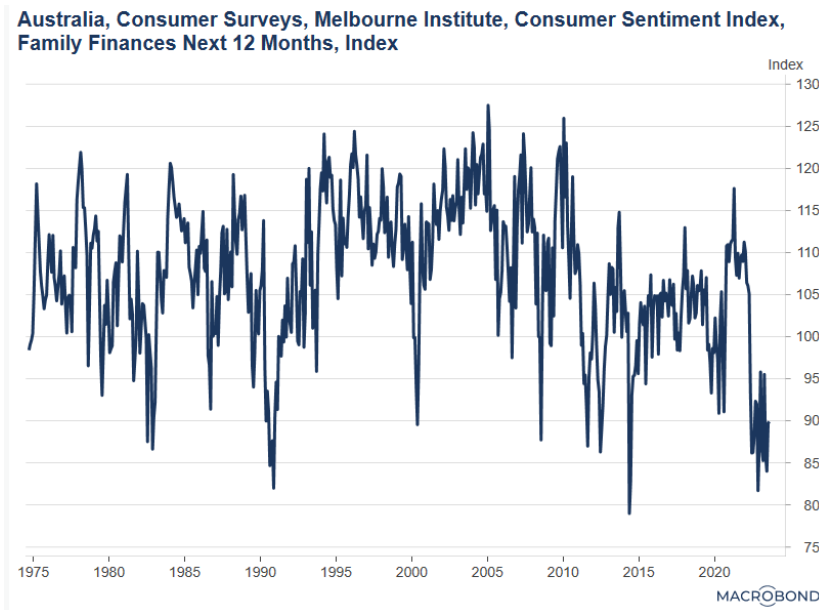
Japan Inflation



Source: Macrobond, Refinitiv Datastream, Russell Investments, 10 August 2023

Australian economy will continue to slow, but should skirt recession

Consumer is feeling the pinch, the labour market should start to loosen over the next 6 months



Source: Macrobond, 30 August 2023

We are at or very close to peak cash rates

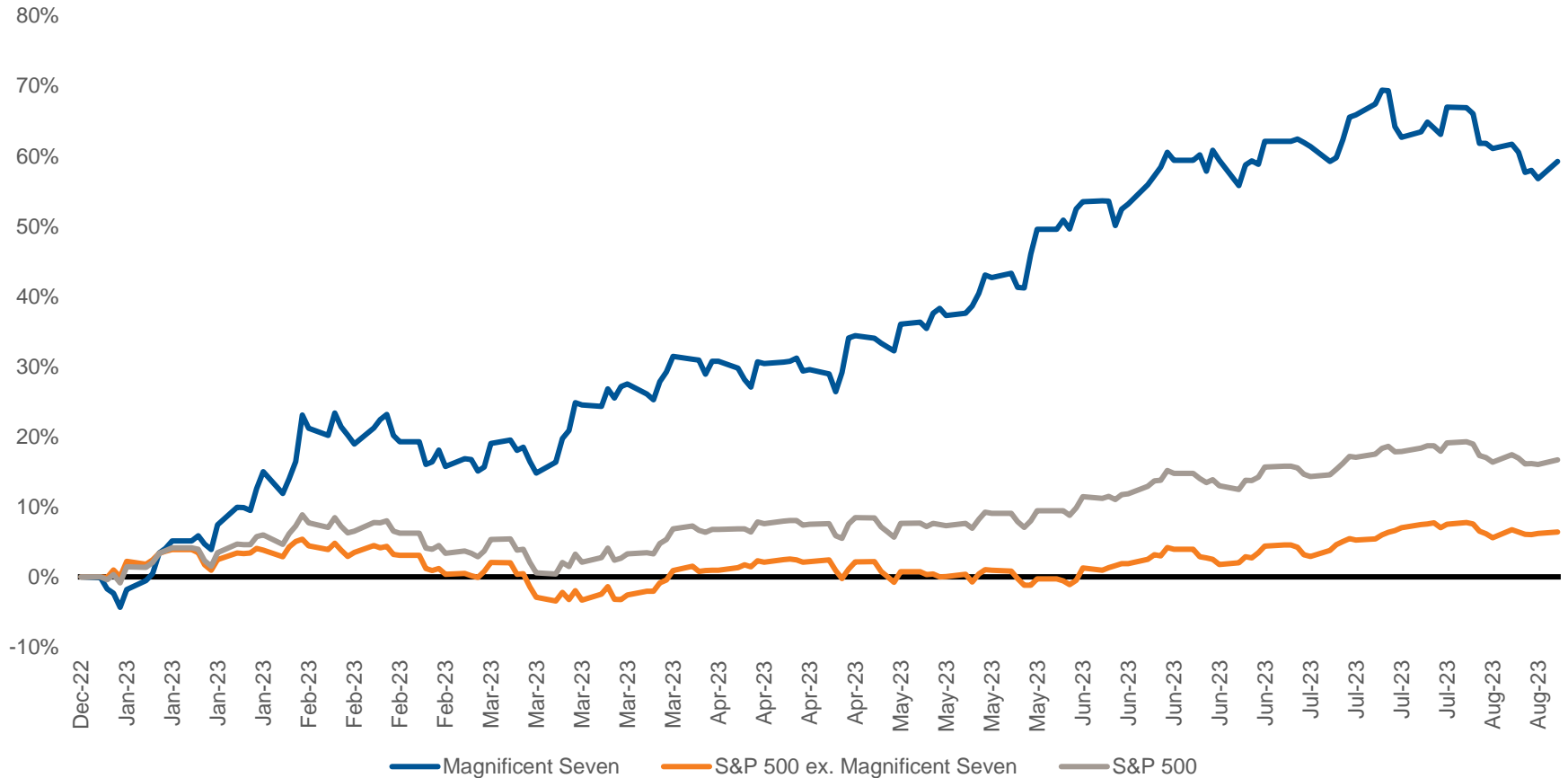
Market pricing tends to agree

Central Bank	Current	Market Expected Peak	Amount above r* at market implied peak
Fed	5.375%	5.50%	297 bps
ECB	3.75%	3.81%	206 bps
BOE	5.25%	5.83%	318 bps
BOC	5.00%	5.20%	270 bps
RBA	4.1%	4.17%	117 bps
RBNZ	5.5%	5.60%	

Source: Refinitiv Datastream, August 25 2023. The amount above r* calculations are based on Russell Investments' internal estimates of r* for each region.

AI has been the driving force for 2023

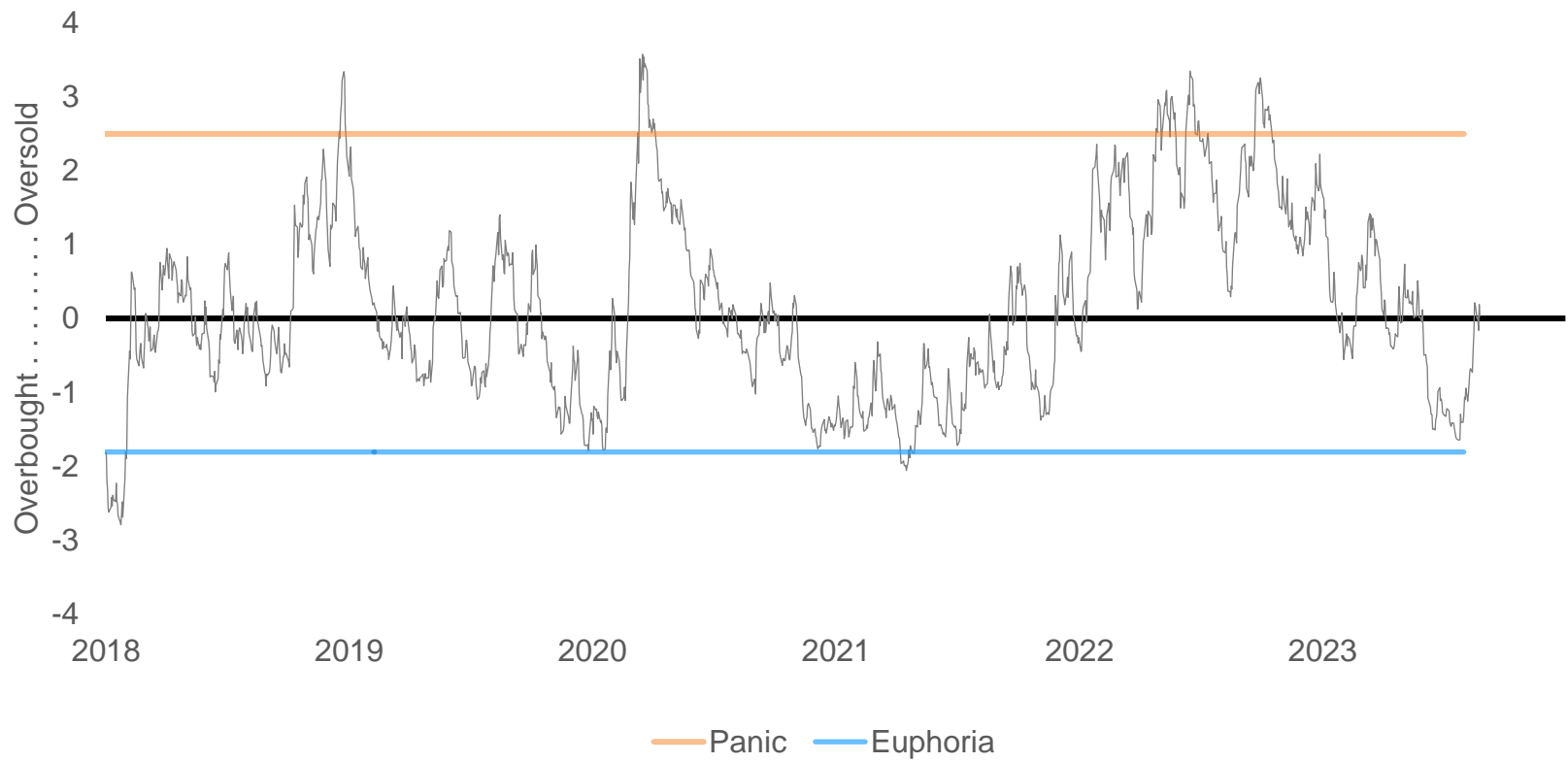
The magnificent seven have accounted for 70% of the gains this year



Source: Russell Investments, Refinitiv Datastream, 15 August 2023

Equity sentiment has moved from overbought to neutral

Composite Contrarian Indicator



Source: Russell Investments, 25 August 2023

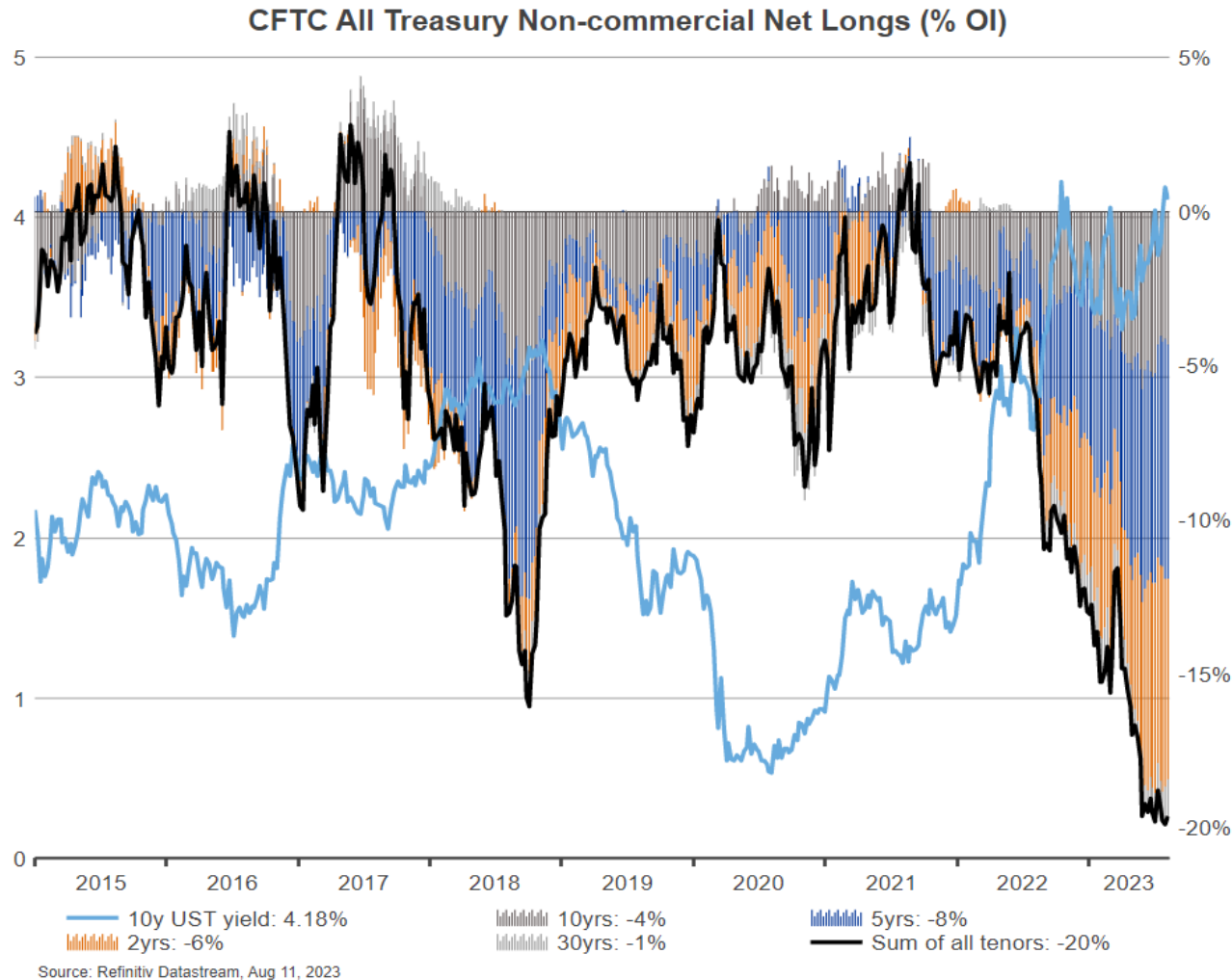
Quality factor stands out as attractive in our CVS analysis

Menu															
MSCI ACWI		04-Aug-2023		Cycle Details		PM Inputs		Roadmap							
04-Aug-2023	Cycle	Earnings	Economic	Policy	Valuation	B/P	S/P	Adj. E/P	EBITDA/EV	Sentiment	Stable Momentum	Stable Acceleration	Simple Momentum	% of companies above 200d MA	Agg. Signal
MSCI Global RFP Value	-0.17	-0.13	-0.40	0.00	1.41	1.05	1.63	0.91	2.05	-0.20	-0.08	-0.89	0.26	-0.08	0.29
MSCI Global RFP Momentum	-0.12	-0.67	0.32	0.00	-0.51	-0.31	-0.15	-0.34	-1.22	-0.62	-1.37	-0.34	-0.73	-0.03	-0.38
MSCI Global RFP Quality	0.55	0.24	0.84	0.59	-0.05	-0.20	-0.15	-0.82	0.98	0.57	0.29	1.22	-0.07	0.84	0.38
MSCI Global RFP Low Volatility	0.51	0.29	0.65	0.59	-0.63	-0.24	-0.08	-0.39	-1.79	-0.61	-0.64	-0.40	-0.44	-0.97	-0.17
MSCI Global RFP Growth	-0.54	-0.17	-0.56	-0.89	-1.66	-1.13	-1.21	-1.25	-3.04	0.59	-0.07	1.53	-0.03	0.91	-0.54
MSCI ACWI Large Cap					-0.90	-1.25	-0.50	-0.35	-1.50	0.85	0.81	0.95	0.69	0.96	-0.02
Benchmark															

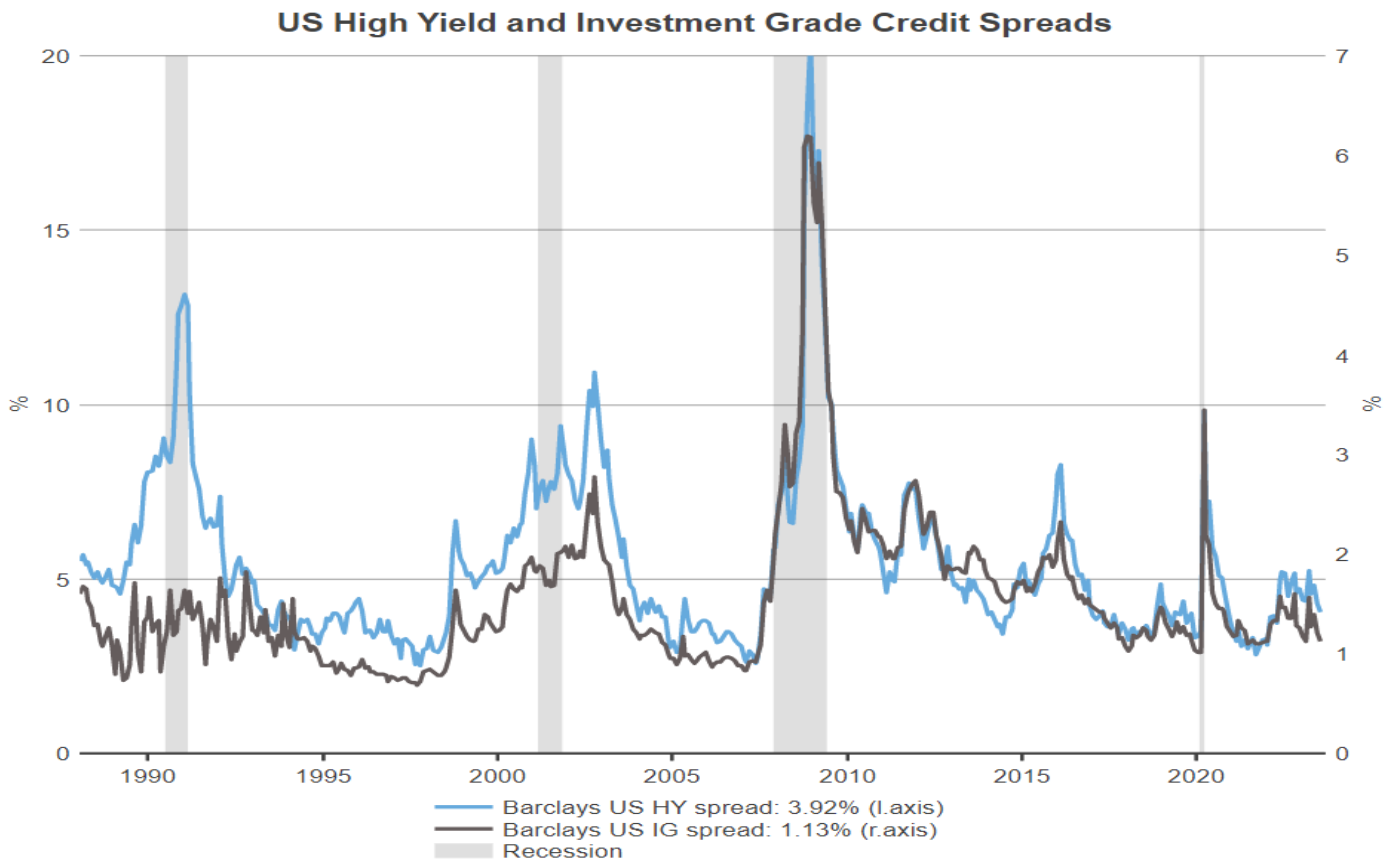
Source: Russell Investments, 5 August 2023

Market is quite short Treasuries

Some of this can be explained by hedge funds taking advantage of basis trades, but nevertheless positioning seems one-sided



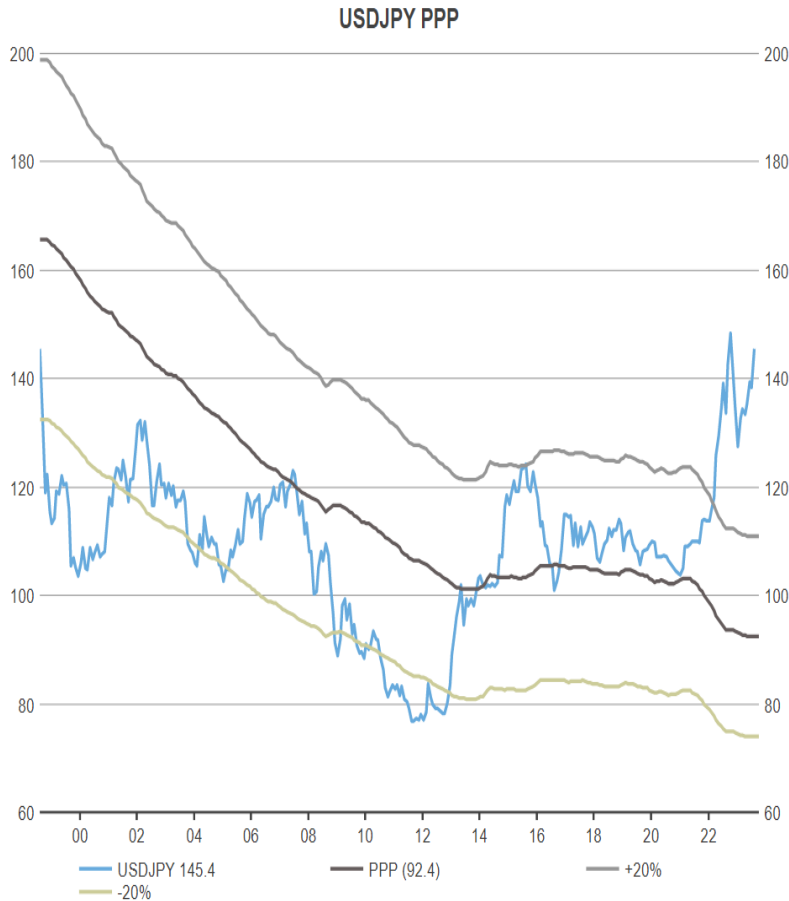
Hard to get excited about credit spreads at these levels



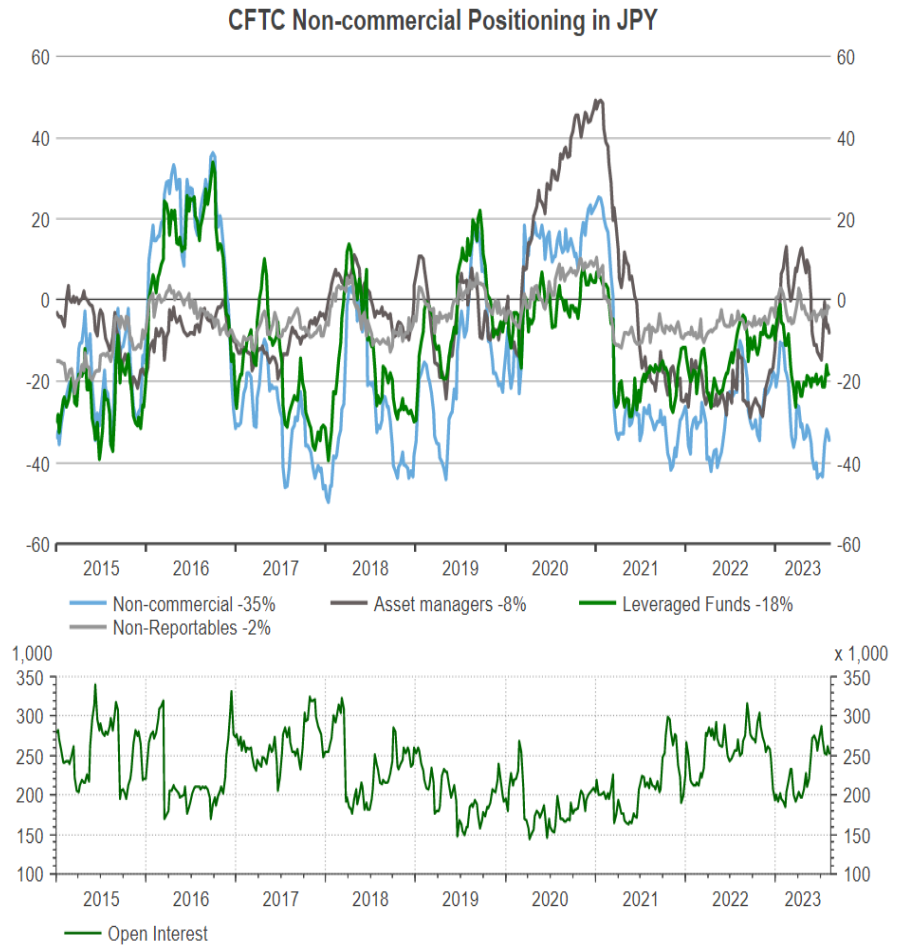
Source: Refinitiv Datastream, Aug 11, 2023

We have moved into the yen on the recent sell-off

Valuation looks attractive and sentiment is very one-sided



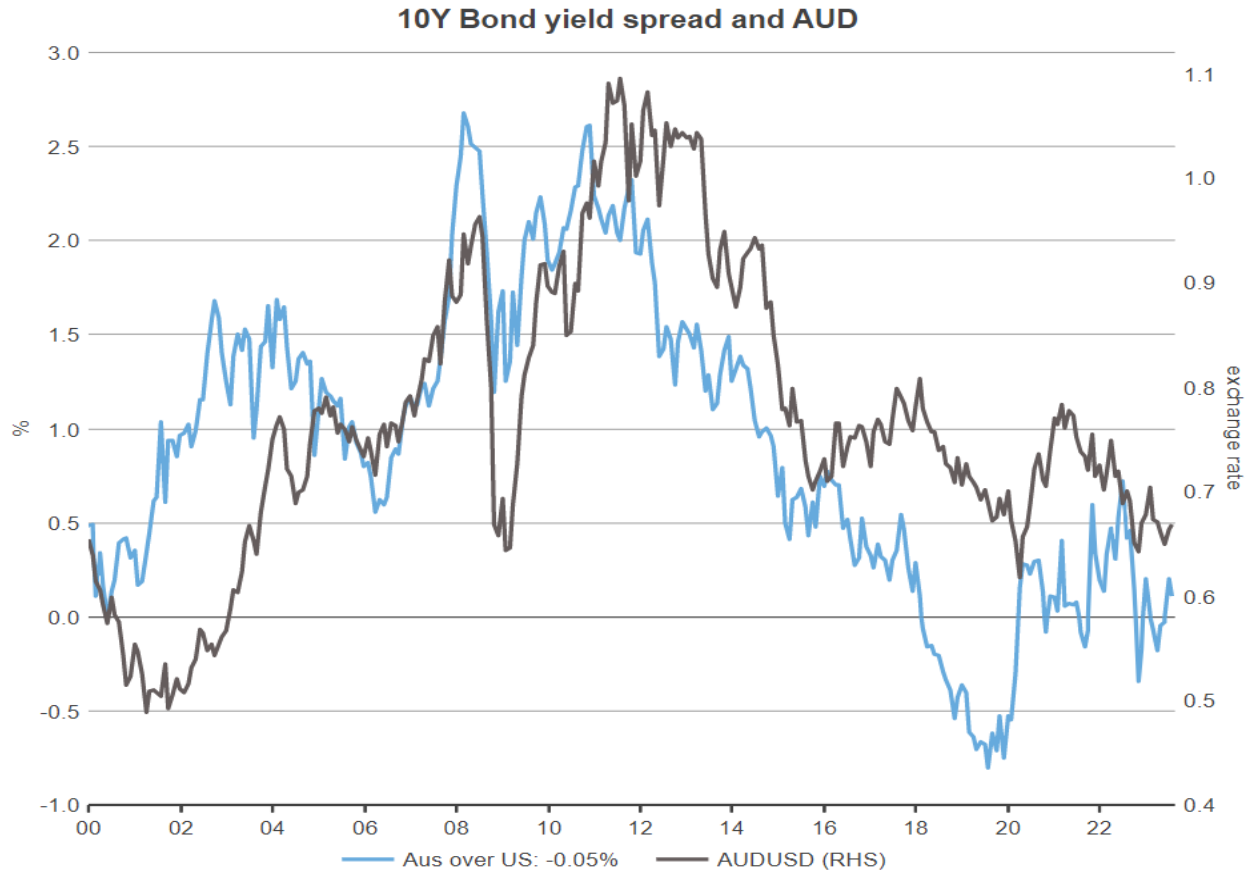
Source: Refinitiv Datastream, Aug 14, 2023



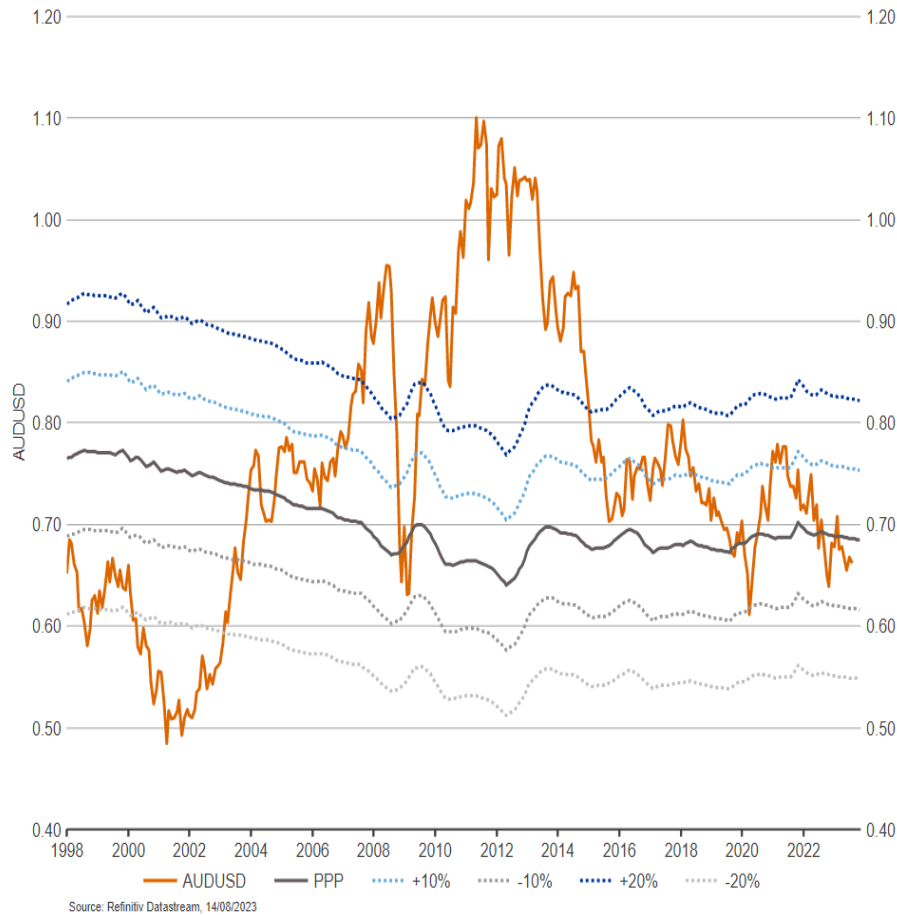
Source: Refinitiv Datastream, Aug 08, 2023

We think AUD can reach 70 cents in next 6-12 months

Added some exposure at 63 cents recently



Looks modestly cheap relative to PPP and also to a fair value based on industrial metals and rates



Premium business support



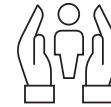
Investment
insights



Interactive
tools



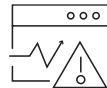
Adviser
resources



Client-ready
resources



Practice
management



Market volatility
toolkit



Effective client
meetings hub



Strategy
desk

We are here to help

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