

Cerutti Macro

Cerutti Macro Fund is an independent active manager of global, but predominantly Australian equities. The Manager applies a detailed investment process, using identified macroeconomic trends as the foundation of its allocation. Coupled with analysis of the liquidity cycle and bottom-up research, we aim to deliver attractive returns to investors over a 3-year time horizon.

The Fund's portfolio is a high conviction portfolio ranging from 15-40 positions in equities, to scale between high/low concentration allocations depending on liquidity conditions. It is the Fund's perspective that financial market liquidity has a large impact on asset prices, thus it being a vital component to the investment process. Cerutti's investment process is:

- Macro Themes
- Liquidity Cycle
- Bottom-up

Monthly Update

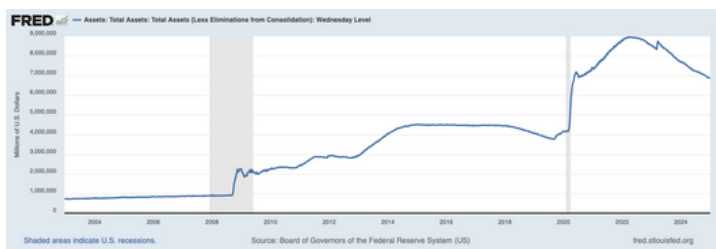
Markets around the world showed mixed performance in December, as it seemed investors were in a holding pattern between the U.S. election results and Trump's inauguration on January 20th. In Australia, the ASX Small Ordinaries Index posted a -3.1% return, while the Cerutti Macro Fund returned -1.2% for December and has returned 19% in the last 12 months.

Our current thinking is largely influenced by three factors: the increasing challenges to liquidity in the U.S., global political shifts mirroring the U.S. election results, and the ongoing economic challenges faced by Australia.

One notable aspect of U.S. government financing under Janet Yellen has been the shift toward issuing more short-term debt through T-Bills. This strategy has allowed the U.S. to capitalize on elevated Reverse Repurchase Program (RRP) balances, as RRP's can only be invested in short-duration government debt. While this approach has temporarily boosted market liquidity by freeing up funds that would otherwise be tied up in U.S. government bonds, the RRP balance has largely been depleted.

This situation arises at a time when the Federal Reserve continues Quantitative Tightening (QT), even as it has reduced interest rates. The simultaneous loosening of financial conditions through rate cuts and tightening through QT has been puzzling. However, we suspect that if liquidity conditions deteriorate further, the Fed's balance sheet could act as a release valve, potentially halting QT or even initiating a new round of Quantitative Easing (QE).

Federal Reserve Balance Sheet



Source: Federal Reserve, January 2025

Overnight RRP Balance Federal Reserve



Source: Federal Reserve, January 2025

U.S. bond yields are rising, and we are observing more frequent large tails in Treasury auctions, signaling challenges in meeting demand for the increasing supply of U.S. Treasuries. To be clear, we are not adopting a doom-and-gloom perspective suggesting the U.S. government will struggle to fund itself. However, we believe it is important not to ignore the apparent difficulties currently facing the U.S. Treasury market.

Fund Performance

	Fund %	Index %	Excess %
1 Month	-1.23	-3.07	1.84
3 Month	-1.34	-1.01	-0.33
1 Year	19.29	8.36	10.93
Since inception (annualised)	16.85	9.43	7.42

Index/Benchmark ASX Small Ordinaries Accum. Index

Fund Overview

Portfolio Management	Chris Judd
No. Investments	15-40
Type of Investments	Long only Australian listed equities Global listed equities
Time Horizon	3+ years
Benchmark	ASX Small Ords Accumulative Index

Past performance is no indication of future performance & returns are post fees with reinvestment of distributions and capital gains.

Monthly Update

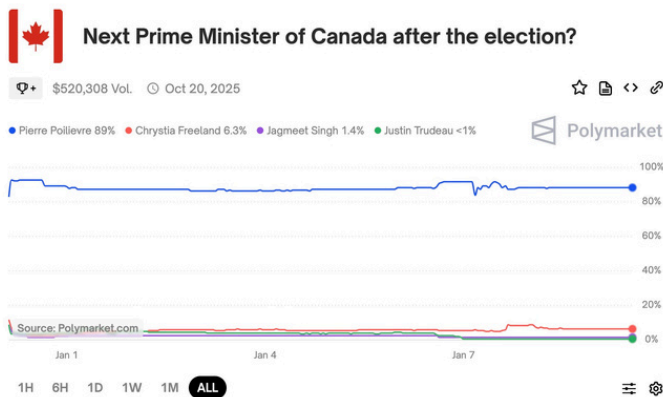
Outside of the U.S. election and current liquidity conditions, the global political landscape is also capturing our attention. This week, we saw Justin Trudeau "walk the plank" ahead of the Canadian elections, leaving Pierre Poilievre and the Conservative Party as overwhelming favourites to win at the ballot, which is scheduled to occur on or before October 20th of this year. Poilievre's policies focus on supporting the common man by reducing the size of government, rather than relying on handouts. While many attribute Trump and his "anti-elite" philosophies as the starting point for a worldwide political movement, we believe it began earlier. Notable examples include Javier Milei in Argentina and, on a smaller scale, Nayib Bukele in El Salvador—both of whom have strongly rejected elite globalist agendas and been rewarded by their constituents.

Poilievre's policies to increase domestic resource production are clear, as demonstrated by the following statements:

- "My common-sense plan is to repeal anti-resource law Bill C-69 and replace it with a law that protects our environment, consults First Nations, and greenlights good projects in 12 months, not 12 years. We will support Newfoundland's plan to double its energy production, ending funding of overseas dictators altogether."
- "One energy project. One review. 18 months, not 18 years. Bring home powerful resource-sector paychecks for our people. That's my common-sense plan."

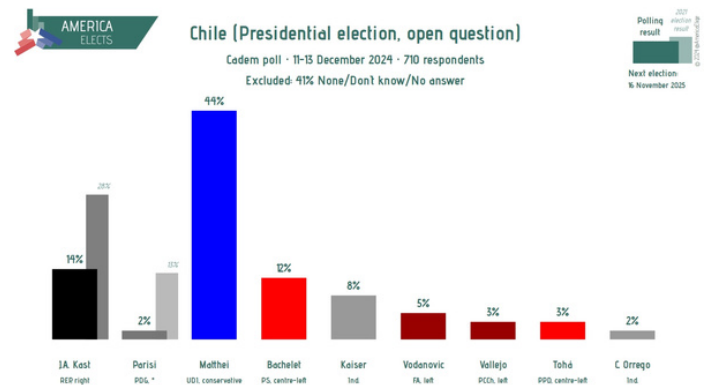
These policies align with the views previously expressed by Trump, Milei, and Bukele. While such a reversal of restrictive ESG-style policies is broadly positive for economic growth and provides relief to everyday citizens facing cost-of-living pressures, we believe it could become a headwind for commodity prices over the longer term. This potential impact is especially relevant if the trend toward pro-business, anti-regulation leaders continues, with similar leaders emerging in South American countries.

Canada Election Odds



Source: Polymarkets, January 2025

Chile Presidential Election Polling



Source: America Elects, December 2024

A pro-mining stance impacts everyone globally, but it holds particular significance for countries like Australia, where a substantial portion of the economy depends on resource production. Excluding the recession caused by COVID-19, Australia's last technical recession (defined as two consecutive quarters of negative GDP growth) occurred in the early 1990s.

While China's accession to the World Trade Organization in 2001 and the subsequent strength in commodity prices—particularly iron ore and coal—have been crucial to Australia's economic resilience, incredibly high housing prices have also created a wealth effect that has boosted economic growth. However, the real "secret sauce" behind Australia's consistent GDP growth has been immigration. Beneath the surface of headline GDP figures, per capita GDP tells a different story. Australia is coming off its seventh consecutive quarter of negative per capita GDP growth.

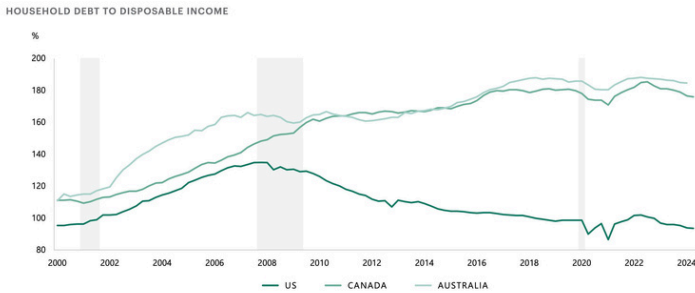
It is surprising that this prolonged weakness in the Australian economy hasn't caught more attention outside financial circles. Amazingly politicians continue to trot out the headline GDP number and most accept that the growth must just be better than the economy feels.

Monthly Update

Another challenge facing Australia is its Total Private Non-Financial Sector Debt Service Ratio—in simpler terms, house prices and debt levels are excessively high relative to wage growth. Immigration, while beneficial for economic expansion, can exacerbate these challenges. Population growth helps suppress wage inflation but drives up housing costs, forcing individuals to take on increasing levels of debt to enter the housing market.

Adding to these pressures are government misallocations of resources and persistent inflation. Lowering interest rates to reignite the housing market poses risks, both from societal and economic fragility perspectives. However, without interest rate relief, negative per capita GDP figures may persist. We anticipate a potential rate cuts in Australia beginning in the first half of the year (possibly as early as February), but we do not envy the Reserve Bank of Australia’s policy dilemmas. While Australian asset prices could benefit significantly from lower interest rates, even in the context of a weak economy, we remain cautious about investing in companies reliant on Australian consumers’ discretionary spending.

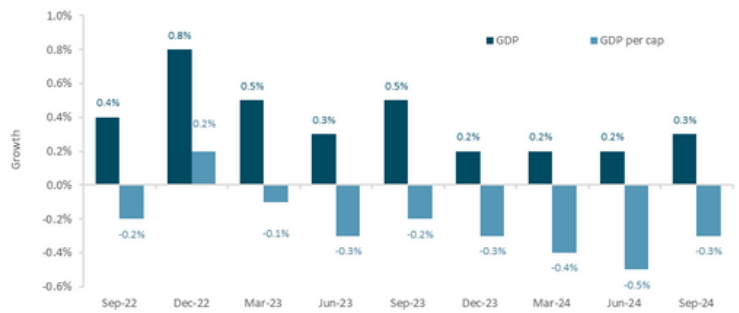
Household debt/disposable income



Data as of June 2024.
Sources: Statistics Canada, Reserve Bank of Australia, Bloomberg, Apollo Chief Economist

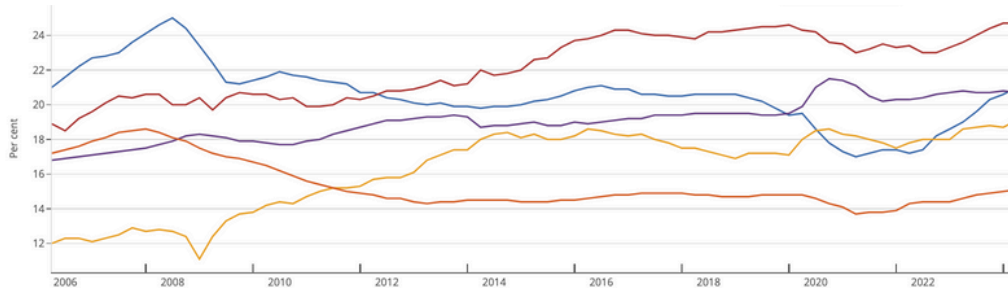
Source: RBA/Apollo, June 2024

Australia GDP/Capita



Source: ABS, December 2024

Non-financial credit/debt service ratio



Time series	Unit (Unit multiplier)	Start & End date Frequency	Data set
Q.AU.P Australia	Per cent	1999-Q1 - 2024-Q2 Quarterly	Credit / Debt service ratios ⓘ ⚙
Q.CA.P Canada	Per cent	1999-Q1 - 2024-Q2 Quarterly	Credit / Debt service ratios ⓘ ×
Q.CN.P China	Per cent	1999-Q1 - 2024-Q2 Quarterly	Credit / Debt service ratios ⓘ ×
Q.FR.P France	Per cent	1999-Q1 - 2024-Q2 Quarterly	Credit / Debt service ratios ⓘ ×
Q.US.P United States	Per cent	1999-Q1 - 2024-Q2 Quarterly	Credit / Debt service ratios ⓘ ×

Source: BIS Statistics, January 2025

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