COOLABAH CAPITAL INVESTMENTS™

THE INTELLECTUAL EDGE: MAKING EVERY BASIS POINT COUNT

Fund: **Coolabah Long-Short Opportunities Fund - Institutional Class**

Strategy: **Alternatives/Unconstrained Fixed-Income**

Return (since May. 2020): **9.01% pa gross (6.65% pa net)**

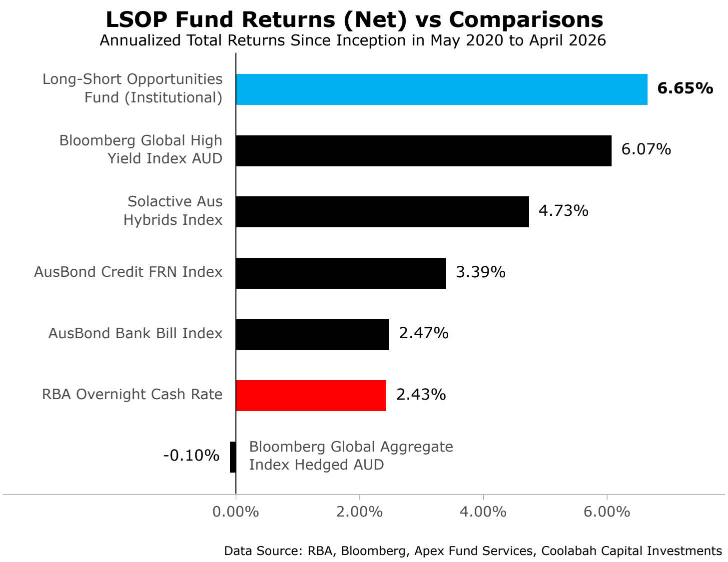
Net return volatility (since May. 2020): **3.13% pa**

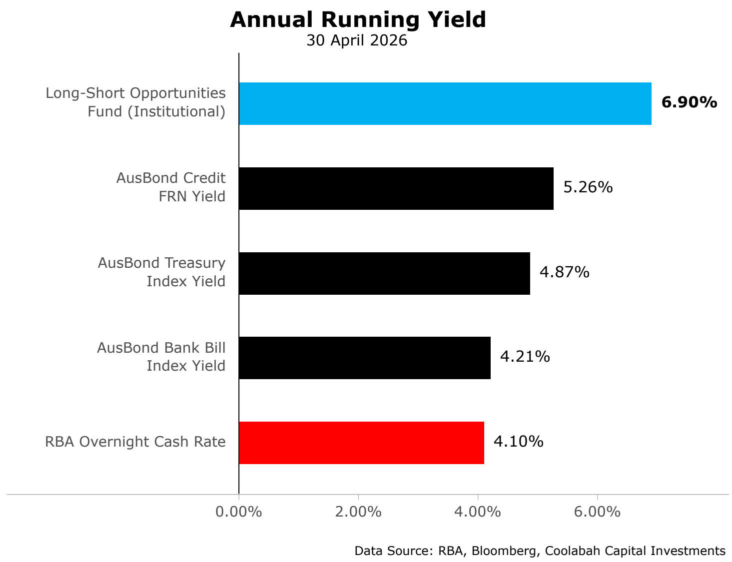
April 2026

Objective: The objective of Coolabah Capital Institutional Investments' (CCII) Long-Short Opportunities Fund is to outperform the RBA Cash Rate plus 8% pa over rolling 3 year periods with a volatility target less than the ASX all ords index over rolling 3 year periods.

Strategy: We add value via active asset-selection using a range of valuation models with the aim of delivering superior risk-adjusted returns, or alpha, to traditional hedge funds. We invest in global senior and subordinated debt securities, hybrids, and derivatives, and can hold a maximum of 20% of the portfolio in bank equities. The Fund can use leverage and targets holding the majority of its portfolio in investment-grade securities. It is managed by Coolabah Capital Institutional Investments.

Period Ending 2026-04-30	Gross Return	Net Return	RBA Cash Rate	Gross Excess Return‡
1 month	**1.32%**	**1.10%**	**0.33%**	**0.99%**
3 months	1.09%	0.87%	0.96%	0.13%
6 months	3.27%	2.59%	1.86%	1.41%
1 year	10.70%	8.66%	3.77%	6.93%
3 years pa	**11.53%**	**9.15%**	**4.08%**	**7.45%**
5 years pa	7.24%	5.39%	2.90%	4.34%
Inception pa May. 2020	**9.01%**	**6.65%**	**2.43%**	**6.58%**





‡ The Excess Return column represents the gross return above the RBA Overnight Cash Rate

Note: all portfolio statistics other than yields and duration are reported on gross asset value

Net Monthly Returns > RBA Overnight Cash Rate	74%	Gearing Permitted?	Yes
Av. Portfolio Credit Rating	AA-	1 Year Av. Gross Portfolio Weight to Cash	4.2%
Portfolio MSCI ESG Rating	AA	Gross Portfolio Weight to AT1 Hybrids	0.0%
No. Cash Accounts	16	Gross Cash Accounts + RBA Repo-Eligible Debt	75.6%
No. Notes and Bonds	188	Gross Portfolio Weight to Equities	0.0%
Av. Interest Rate (Gross Running Yield)	6.90%	Net Annual Volatility (since incep.)	3.13%
Modified Interest Rate Duration	< 0.1 years	**Strategy Ratings:** Superior - More Complex (Foresight)	

Signatory of: PRI Principles for Responsible Investment

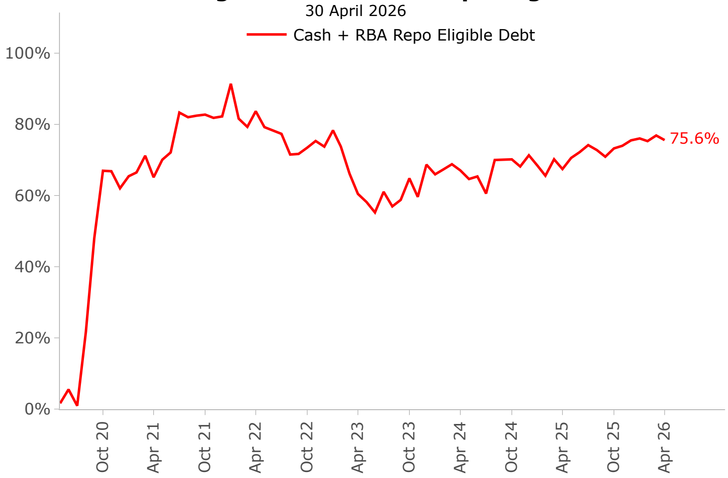
SUPERIOR MORE COMPLEX Foresight Analytics

MSCI ESG RATINGS AA

CCC B BB BBB A AA AAA

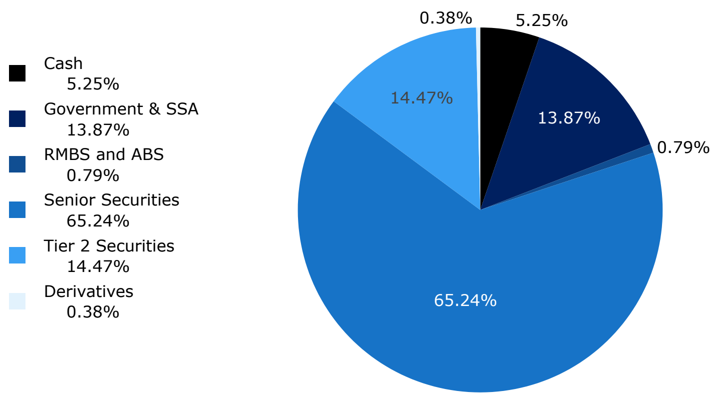
Asset weighted average rating

Portfolio Weights: Cash + RBA Repo Eligible Debt
30 April 2026



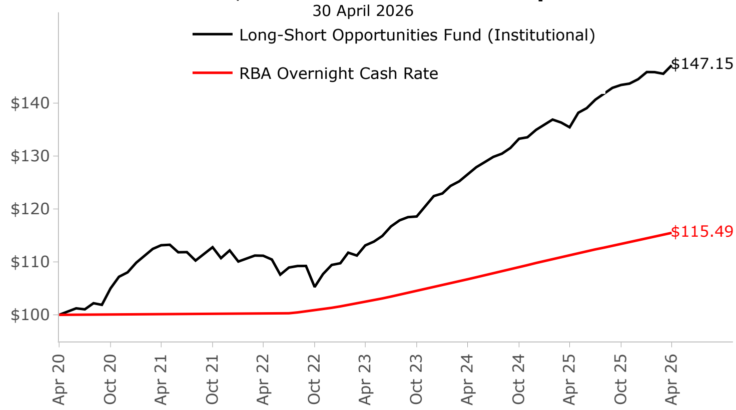
Data Source: Coolabah Capital Investments

LSOP Fund Portfolio Composition (GAV)
30 April 2026



Data Source: Coolabah Capital Investments

Value of $100 Invested Since Inception
30 April 2026



Data Source: Bloomberg, Coolabah Capital Investments

The since inception gross (net) return of 9.01% pa gross (6.65% pa net) is the total annual return earned by the fund since May. 2020, including interest income and movements in the price of the bond portfolio after all fund fees (assuming net returns are calculated from the historic gross returns using the current fee structure as displayed in the Product Disclosure Statement). The net return quoted applies to the Coolabah Long-Short Opportunities Fund - Institutional Class, with quarterly distributions reinvested. Investment return will vary depending upon investment date and any additional investments and withdrawals made. **The annualised volatility estimate of 3.13% pa** is based on the standard deviation of net daily returns since inception, which are then annualised, attributable to the Coolabah Long-Short Opportunities Fund - Institutional Class.

Portfolio Managers	Christopher Joye, Ashley Kabel, Roger Douglas, Fionn O'Leary (Coolabah Capital Investments)		
Asset-Class	Alternatives/Unconstrained Fixed-Income	Fund Inception	01-May-2020
Benchmark	RBA Overnight Cash Rate	Valuations	Daily (earnings accrue daily)
Target Return	Net > RBA Overnight Cash Rate + 8% pa	Mgt. & Admin Fee	1.0% pa
Reporting	Monthly	Performance Fee	20.5% of returns over benchmark +1.0%
Target Volatility	Less than ASX All Ords Index	Investment Manager	Coolabah Capital Institutional Investments

Signatory of: PRI Principles for Responsible Investment

SUPERIOR MORE COMPLEX Foresight Analytics

MSCI ESG RATINGS AA
CCC B BB BBB A AA AAA
Asset weighted average rating

Portfolio commentary: In April, the zero-duration daily liquidity Long-Short Opportunities Fund (LSOP) returned 1.32% gross (1.10% net), outperforming the RBA Overnight Cash Rate (0.33%), the AusBond Bank Bill Index (0.34%), and the AusBond Credit FRN Index (0.47%). Over the previous 3 years, LSOP returned 11.53% pa gross (9.15% pa net), outperforming the RBA Overnight Cash Rate (4.08% pa), the AusBond Bank Bill Index (4.16% pa), and the AusBond Credit FRN Index (5.21% pa). LSOP ended April with a running yield of 6.90% pa, a weighted-average credit rating of AA-, and a portfolio weighted average MSCI ESG rating of AA.

Since the inception of LSOP 6 years ago in May 2020, it has returned 9.01% pa gross (6.65% pa net), outperforming the RBA Overnight Cash Rate (2.43% pa), the AusBond Bank Bill Index (2.47% pa), and the AusBond Credit FRN Index (3.39% pa). Since inception, LSOP's Sharpe Ratio, which measures risk-adjusted returns, has been 1.89x gross (1.35x net). While LSOP's return volatility since inception has been low at around 3.13% pa (measured using daily returns), as a daily liquidity product with assets that are marked-to-market using executable prices, volatility does exist. This contrasts with illiquid credit (eg, loans and high yield bonds) wherein assets that have very high risk can appear to have remarkably low volatility, which is, in fact, just a mirage explained by the inability to properly value these assets using executable prices.

Strategy commentary: After positioning defensively coming into March and fading the sell-off in risk in the latter half of that month, Coolabah's portfolios delivered strong across-the-board alpha in April, which we will cover shortly.

The Iran conflict remained the dominant influence on markets in April. Fears around the trajectory of the conflict persisted into the start of the month, but risk assets rallied as April progressed — first on news of a two-week ceasefire, and subsequently after Trump indicated that an agreement with Iran had largely been negotiated, including a commitment from Iran not to close the Strait of Hormuz again. With the Strait nevertheless remaining closed and prospects of a deal fading into month-end, optimism gave way to renewed concern.

Brent crude reached an intra-month low of US$86.01/bbl on the initial optimism before closing at US$114.01/bbl, which still represented a 3.7% decline over April. Notably, both 6-month and 12-month forward oil contracts rose over the month, suggesting investors are pricing in a more prolonged closure of the Strait. Elevated oil prices have started to flow through to inflation, with US and Euro Area March CPI rising 0.9 per cent and 1.3 per cent month-on-month respectively.

Although most G7 central banks held cash rates steady this month, the accompanying rhetoric shifted to a more hawkish tone. Sovereign 10-year yields rose accordingly: JGBs by 17bps, UK Gilts by 10bps and US Treasuries by a more modest 5bps. Part of the underperformance in UK Gilts reflected political instability around Starmer's ability to remain Prime Minister.

French OATs and Italian BTPs were exceptions to the broader move, with 10-year yields falling 3bps and 5bps respectively, and the OAT/Bund and BTP/Bund spreads compressing 6 and 8 basis points. Peripheral compression alongside a hawkish rates backdrop reflects continued investor demand for carry against limited European primary supply.

Despite the move higher in oil and yields, equities rallied to all-time highs. The S&P 500 returned 10.5 per cent over the month — its strongest single-month performance since November 2020 — posting four consecutive weekly gains in a mirror image of March's four consecutive weekly declines. European equities also performed well, with the Eurostoxx 50 returning 6.4 per cent and the Eurostoxx Banks index 10.2 per cent. The Nikkei 225 returned 16.1 per cent and the Nasdaq 15.7 per cent.

Investment-grade cash credit rallied alongside equities. US IG spreads tightened 11bps to 78bps over the month, while European IG spreads tightened 16bps to 81bps. CDX IG narrowed 13bps and iTraxx Main 16bps. Subordinated indices moved further: Financial Senior CDS in Europe tightened 21bps and the Crossover index narrowed 88.5bps.

Strategy commentary cont'd: The firm macro backdrop drove elevated US primary issuance. According to Bank of America, US$201 billion of investment-grade supply was printed in April, split roughly evenly between Financials and Corporates. The standout deal was a US$25 billion issuance from Meta which attracted US$85 billion of demand, as the hyperscalers continued to tap debt capital markets to fund their AI capex programmes. Several deals from Financials also priced, including benchmark HoldCo senior transactions from four of the US Big 6 banks. These deals had average one-day spread performance of 2.3bps.

In contrast, European investment-grade issuance was more modest at €62 billion, of which €25 billion came from Financials — though that marked a pickup from just €8 billion of Financials supply in March. Average subscription rates across Financials deals reached approximately 3.9x, reflecting a combination of muted supply over the past two months and elevated investor cash balances. The most notable deal was a 6-year Belfius senior bond, which drew 5x demand and rallied 8bps in spread terms on the break.

In Australia, A$12.6 billion of investment-grade credit was issued in April, heavily skewed to Financials, which accounted for 90 per cent of total supply after a very quiet March. Despite this, the big four Australian banks stayed away from primary markets. The major Financial deals were senior transactions from MQGAU, UBS and BENAU, which had combined demand of A$13 billion for A$5 billion of total issuance and 3–8bps spread concessions, resulting in strong performance. Several corporate deals priced in the second half of the month, with APA the standout at A$6 billion in demand. In SSAs, AUSTC and EIB attracted demand of A$6 billion and A$4.8 billion respectively, with both deals well received after minimal issuance in the sector since February.

Benchmark	30 Apr 26	31 Mar 26	1m change	12m change
Sovereign rates				
UST 10yr (%)	4.37	4.32	+5 bps	+21 bps
Bund 10yr (%)	3.04	3.00	+3 bps	+59 bps
UK Gilt 10yr (%)	5.01	4.92	+10 bps	+57 bps
OAT 10yr (%)	3.69	3.72	-3 bps	+53 bps
BTP 10yr (%)	3.86	3.91	-5 bps	+30 bps
JGB 10yr (%)	2.52	2.35	+17 bps	+121 bps
ACGB 10yr (%)	5.06	4.97	+9 bps	+90 bps
NZGB 10yr (%)	4.57	4.55	+2 bps	+33 bps
Credit spreads				
CDX IG (bps)	54	67	-13	-17
iTraxx Main (bps)	59	75	-16	-13
CDX HY (bps)	330	397	-67	-89
iTraxx Xover (bps)	293	381	-89	-86
iTraxx Fin Senior (bps)	63	84	-21	-17
US Corp IG OAS (bps)	78	89	-11	-28
EUR Agg Corp OAS (bps)	81	97	-16	-30
AUD 5yr Major Snr (bps)	69.3	75.5	-6	-21
AUD 5yr Major Sub (bps)	121.9	132.9	-11	-60

Strategy commentary cont'd:

Benchmark	30 Apr 26	31 Mar 26	1m change	12m change
Equities, FX and commodities				
S&P 500 (TR %)	7,209	6,529	+10.5%	+31.0%
Nasdaq 100 (PR %)	27,452	23,740	+15.6%	+40.3%
Eurostoxx 50 (TR %)	5,882	5,570	+6.4%	+17.7%
Nikkei 225 (PR %)	59,285	51,064	+16.1%	+64.5%
FTSE 100 (TR %)	10,379	10,176	+2.3%	+26.2%
ASX 200 (TR %)	118,369	115,843	+2.2%	+10.1%
EUR/USD	1.173	1.155	+1.5%	+3.6%
USD/JPY	156.59	158.72	-1.3%	+9.4%
AUD/USD	0.7201	0.6900	+4.4%	+12.5%
Brent (USD/bbl)	114.01	118.35	-3.7%	+80.6%
WTI (USD/bbl)	105.07	101.38	+3.6%	+80.5%
Gold (USD/oz)	4,618	4,668	-1.1%	+40.4%

Source: Bloomberg, Coolabah Capital. TR = Total Return; PR = Price Return.

Coolabah Strategy Performance

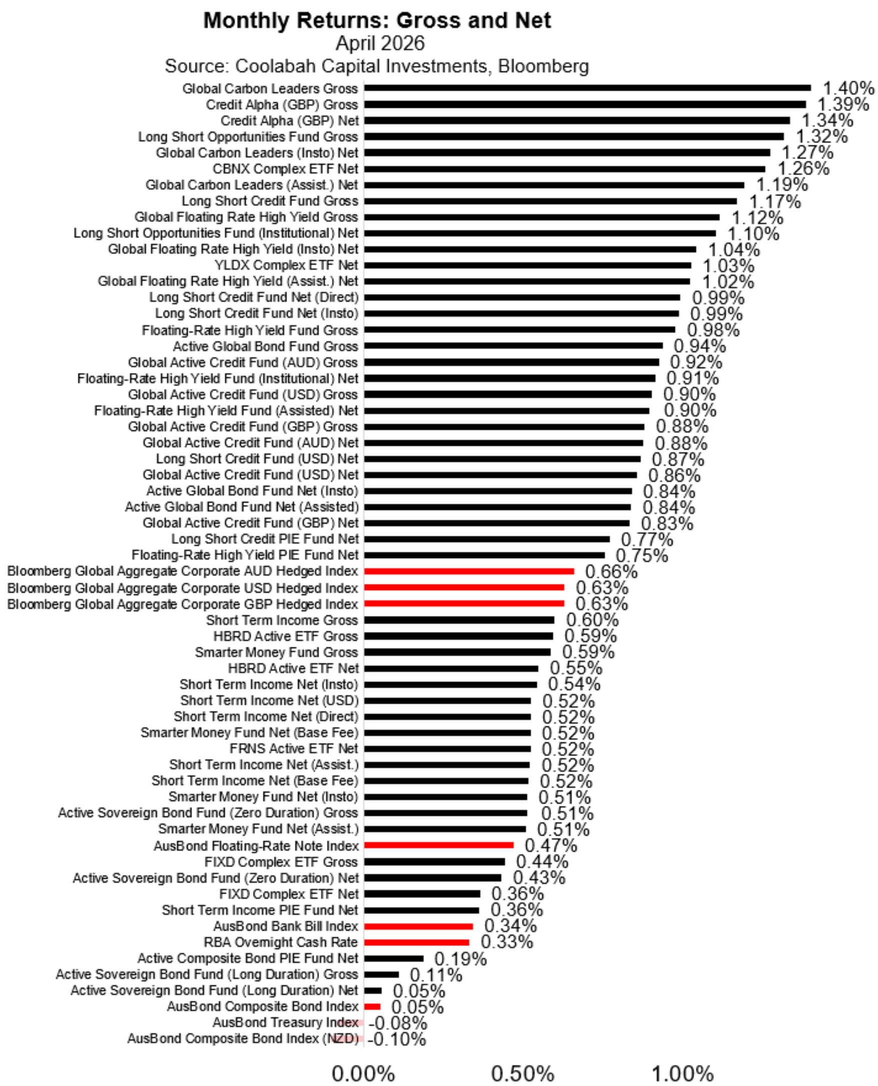
After a resilient month of March characterised by substantial outperformance over peers, Coolabah's portfolios performed particularly robustly in April and over the last 12 months to April inclusive. This has been a function of defensive positioning heading into March and the decision to capitalise on mispricings in credit markets in the latter half of that month, which paid dividends in April. Highlights included:

- **Global Carbon Leaders Fund (ETF: CBNX): 1.19% to 1.27% net in April (no 12mth data)**
  - A+ av. rated, daily liquidity, near-zero duration
- **Long Short Opportunities Fund: 1.1% in April net; 8.6% net over 12 months to April net**
  - AA- av. rated, daily liquidity, near-zero duration
- **Global Floating Rate High Yield Fund (ETF: YLDX): 1.0% in April net; 8.1% over 12 months to April net**
  - A+ av. rated, daily liquidity, near-zero duration
- **Long Short Credit Fund: 1.0% in April net; 7.7% to 7.9% over 12 months to April net**
  - AA- av. rated, daily liquidity, near-zero duration
- **Floating-Rate High Yield Fund: 0.9% in April net; 7.4% to 7.6% over 12 months to April net**
  - A+ av. rated, daily liquidity, near-zero duration
- **Active Global Bond Fund: 0.84% in April net vs Bloomberg Global Aggregate Corporate's 0.66%; 6.1% to 6.5% over 12 months to April net, which is 1.6% to 2.0% net over index**
  - A av. rated, daily liquidity, 5.7 years duration
- **HBRD: 0.55% in April net vs Solactive Hybrids Index's 0.18%; approx. 5.4% to 5.6% over 12 months to April net, which is 1.0% to 1.2% over index**
  - A av. rated, daily liquidity near-zero duration

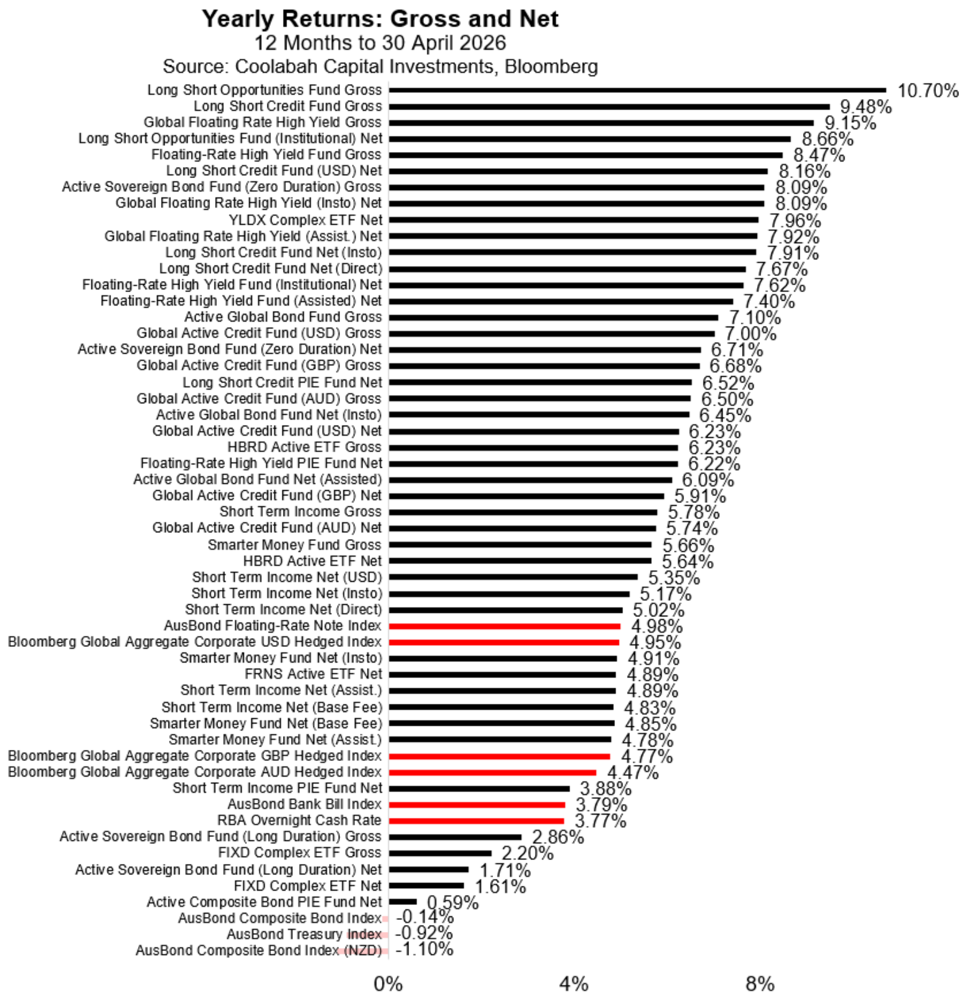
Strategy commentary cont'd:

- **Short Term Income (ETF: FRNS): 0.52% to 0.54% in April net; 5.0% to 5.2% over 12 months to April net**
  - A+ av. rated, daily liquidity, near-zero duration
- **Active Sovereign Bond Fund: 0.43% in April net; 6.71% over 12 months to April net**
  - AAA av. rated, daily liquidity, near-zero duration
- **FIXD: 0.36% net in April (vs Composite Bond Index's 0.05%); 1.75% net over the index over the last 12mths**
  - A av. rated, daily liquidity, 4.8 years duration
- **Note that the RBA cash rate delivered 3.77% over the last year**

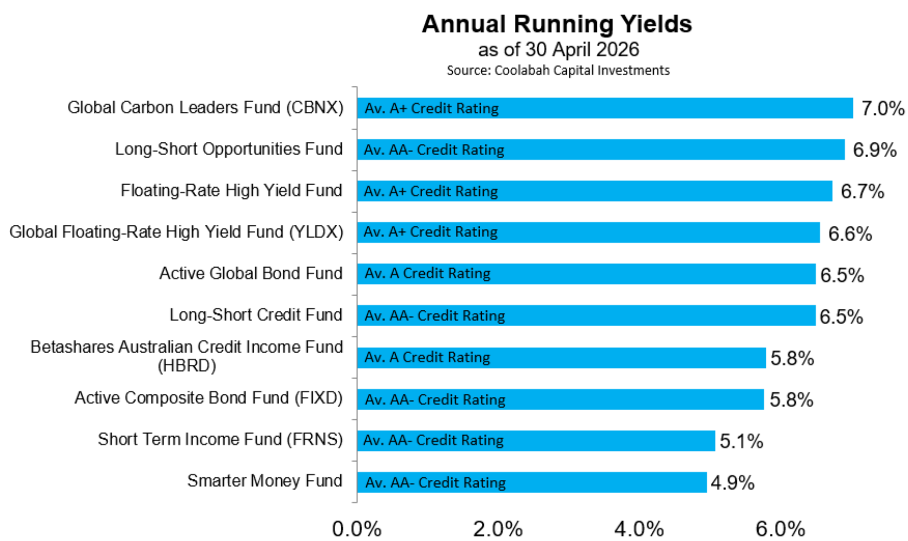
The two charts below summarise gross and net returns for the full Coolabah strategy suite for April 2026 and over the trailing twelve months, ranked from highest to lowest, with benchmark indices highlighted in red.



Strategy commentary cont'd:



The chart below shows gross running yields across all core strategies. Please note that past performance is no guide to future returns and investors should consult the product disclosure statement to better understand its risks and consult an independent financial adviser.



Strategy commentary cont'd: Equities are pricing in a benign rate outlook that the data does not support

The puzzle for global equity valuations is that US markets are not pricing in any further interest rate increases, despite data that we think implies they should be considerably higher. Core inflation in the United States was already accelerating before the energy price shock in March. The Federal Reserve's preferred measure, core PCE, rose 3.0 per cent over the twelve months to February, and 3.4 per cent on a six-month annualised basis. That means US inflation was running more than 50 per cent above the Fed's 2 per cent target before the increases in oil, gas and fertiliser prices started to flow through to the broader basket of consumer goods.

This might not be a concern if it were a one-off event that central banks could simply look through. However, the Fed has now allowed inflation to materially exceed its 2 per cent target for more than half a decade, with the last on-target print coming in late 2020. The picture is complicated by an unusually activist US president who has consistently pushed for lower rates and applied pressure on the Fed's independence. The central bank's inflation-fighting credibility is being eroded the longer this continues.

All of this is occurring against a US economy that is running strongly. The jobless rate has fallen to 4.3 per cent as fiscal and monetary stimulus combine with substantial AI-related capital spending to support growth. US GDP expanded solidly through the first three quarters of 2025, before the Trump government shutdown disrupted the data for several months and contributed to pressure on the Fed to lower rates. New business openings have surged, with business incorporations in 2026 running 20 per cent above year-ago levels as entrepreneurs look to capitalise on the AI cycle. As a net energy exporter, the US is also benefiting from the spike in oil prices, with crude exports rising from 4 million to 5.5 million barrels per day.

Our modelling of the neutral Fed cash rate suggests it has risen from a low of around 1.5 per cent in 2020 to approximately 3.75 per cent today. Combined with a very low jobless rate, this implies there is little spare capacity in the economy, which underpins our view that the Fed should be raising — not lowering — its cash rate by around 50 basis points to bring inflation back to target.

Our concern with the incoming Fed Chair, Kevin Warsh, is that he proves overly dovish in deference to Trump, which would reinforce the current inflation shock and risk de-anchoring consumer inflation expectations. That, in turn, could feed into wage claims and a nascent wage-price spiral.

Markets have very little margin for error priced in at current levels. They are therefore likely to react poorly if the Fed pivots and begins discussing rate increases. On most measures, US equity valuations look stretched. According to the Fed's preferred model of the equity risk premium, the S&P 500 is approximately 40 per cent overvalued relative to its long-term trend. US equities typically pay a one-year forward earnings-yield premium of 4.7 per cent over inflation-adjusted government bond yields. Pre-pandemic, that premium sat above 6 per cent. It has now compressed to just 2.8 per cent — the lowest level since the tech bust of 2000–2001, which preceded a recession in which the S&P 500 fell 49 per cent and the Nasdaq fell 80 per cent.

In Australia, the picture is similar. The S&P/ASX 200's gross dividend yield of 4.2 per cent sits materially below the AAA-rated 10-year government bond yield of 5.0 per cent. Equity holders are accepting a lower running yield from a residual equity claim than they could receive risk-free at the top of the capital structure, which on most conventional metrics is not an attractive risk-reward proposition.

Another rate-hiking cycle is the central risk

Although the eventual resolution of the Iran conflict will bring some relief on the energy side, our central concern is that a further wave of rate increases is now underway and could ultimately trigger the next recession. In late 2021 and 2022 we argued for a material increase in interest rates that we expected would precipitate the worst default cycle since the global financial crisis. That cycle subsequently played out — but the wave of borrowers in distress was largely bailed out by the rate-cutting cycle delivered by central banks across 2024 and 2025.

Strategy commentary cont'd: Global central banks felt able to reduce the cost of capital as inflation fears appeared to moderate. That was predicated on the assumption that the post-pandemic moderation in inflation was a persistent trend. In practice, much of the observed decline in inflation reflected a temporary fall in goods prices as supply chains reopened. Once that goods deflation had passed, consumer price pressures intensified again, with wage-sensitive services inflation that has never normalised back to its pre-pandemic path.

In the shadow of the pandemic, the world is left with a persistent services inflation problem that has prevented central banks from meeting their price stability targets. It is being driven by elevated government spending exhausting labour supply and pushing productivity-adjusted wage growth higher. As entitlements and tax rates have expanded, the incentive to work that little bit harder has weakened. Combined, this has contributed to the weak productivity outcomes evident across the developed world.

In February, the Reserve Bank of Australia became the first major central bank to begin raising rates again to address inflation, effectively reversing the 2025 cuts. This puts Australians in a difficult position: a second hiking cycle with no obvious end in sight. Other monetary policy authorities have followed, with the European Central Bank and the Reserve Bank of New Zealand signalling that they are likely to be compelled to raise rates because they too have failed to meet their inflation targets.

We have long warned investors to prepare for the risk of higher rates and a hawkish pivot from the Fed. The next move in US rates may well be up rather than down.

Markets expect further rate increases in Australia, which would take the RBA target cash rate to around 4.65 per cent — approximately 100bps above last year's low. Our modelling implies it could go higher. Five per cent or more is not out of the question.

The RBA's task is complicated by elevated government spending. The NDIS, which the Productivity Commission originally sized at $20 billion a year and which now runs at $50–60 billion annually, exceeds the entire Medicare budget of $36 billion and approaches the entire defence budget. Since 2019, Australian governments have accumulated around $800 billion in additional debt, or approximately $28,000 per person. Combined with high immigration, this has contributed materially to the rise in our cost of living. Roy Morgan's government confidence index is sitting near its lowest level since the series began in 2010.

If the Iran conflict ends sooner than the consensus expects, it will still leave a substantial supply-side price shock that risks bleeding into inflation expectations. The last time central banks hit their price stability targets was more than five years ago. At some point their credibility on inflation will be tested, and we think that process is already underway. The scenario we worry about is one in which higher inflation expectations feed into wage claims and produce a wage-price spiral, with the end point potentially being the double-digit inflation rates seen in the early 1980s after the late 1970s oil shock.

That outcome could push the RBA cash rate above 5 per cent. In the absence of meaningful fiscal consolidation, the alternative would be a recession deep enough to destroy demand and bring inflation back under control. That would mean a substantial increase in defaults and insolvencies, which would be problematic for marginal borrowers.

Jeffrey Gundlach of DoubleLine has been a vocal commentator on the looming credit cycle: "A lot of lending to small/midsize companies is for a term of five to seven years. A great deal of debt issued [between 2020 and 2021] is therefore coming due these days. Interest rates were near zero in that issuance time window. They are much higher today. The consequence of those stupidly low rates back then is coming home to roost now with debt roll needs by small/midsize companies."

A deeper dive into US core inflation

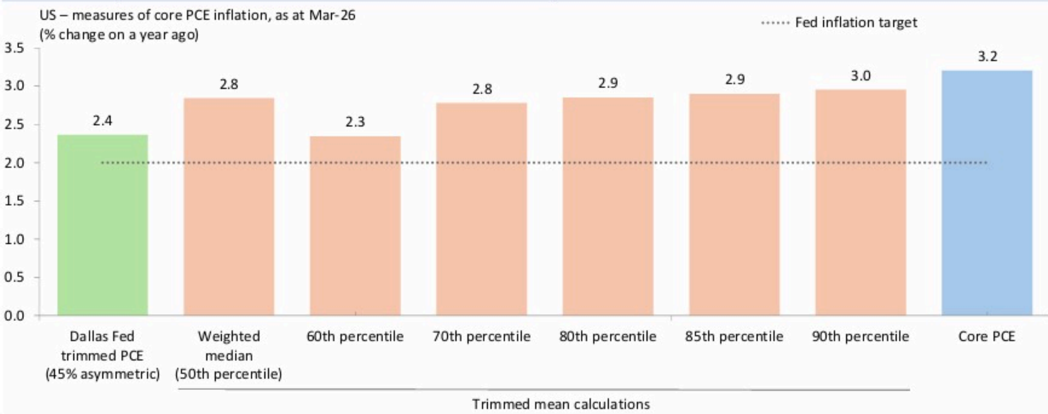
Incoming Fed Chair Kevin Warsh has argued publicly for lower US interest rates on the basis that a less commonly used measure of inflation — the trimmed mean — is close to the Fed's 2 per cent target.

Strategy commentary cont'd: Setting aside the obvious challenges with this argument (it may have been overtaken by events in the Middle East; persuading other Fed officials will be difficult; and there is a risk of further damage to the Fed's credibility from advocating a lower measure after five years of overshooting the 2 per cent target), our work suggests Warsh's underlying empirical claim has merit. A couple of trimmed-mean measures do perform best at approximating the trend rate of inflation. These measures are close to target, but that proximity may prove short-lived. They have picked up recently on an annualised basis, and our analysis suggests further gains would tend to drift them towards the other series which show higher inflation rates.

To recap how these series are constructed: the traditional core PCE deflator excludes food and energy prices from the calculation of inflation. The trimmed-mean series takes a different approach by trimming large price falls and large price rises from the ranked distribution of price changes and calculating the average from the remaining components. The decision on how much of the distribution to exclude varies across central banks and statistical agencies. A 60th-percentile trimmed mean, for example, excludes 40 per cent of price changes — the top 20 per cent and the bottom 20 per cent. A 50th-percentile trimmed mean is the weighted median inflation rate. The Dallas Fed series is unusual in taking a more aggressive and asymmetric approach: it covers only 45 per cent of the distribution, trimming 31 per cent off the top and 24 per cent off the bottom.

In normal times, the different measures move together. Currently, they do not. Most trimmed-mean measures place annual core inflation in a 2¾–3 per cent range, modestly below the traditional core PCE rate of approximately 3¼ per cent. Two trimmed-mean measures — the Dallas Fed series and the 60th-percentile trimmed mean — put the inflation rate considerably lower at around 2¼–2½ per cent. Setting aside likely spillovers from the Iran war, these differences matter: the lower readings from the Dallas Fed and 60th-percentile series would justify a lower policy rate given they are much closer to the Fed's 2 per cent target.

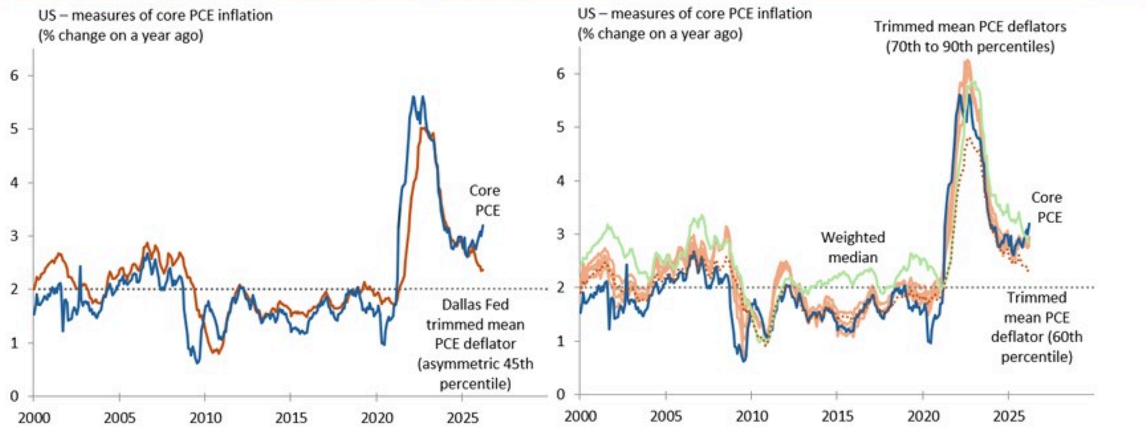
Figure 1: Most trimmed mean measures put core inflation at 2¾-3%, modestly better than the core PCE inflation rate of 3¼%, but not as low as the Dallas Fed and the 60th percentile trimmed mean series at about 2¼-2½%



Source: Bureau of Economic Analysis, Board of Governors of the Federal Reserve System, Federal Reserve Bank of Dallas, Coolabah Capital Investments

Strategy commentary cont'd:

Figure 2: The gap between the Dallas Fed and the 60th percentile trimmed mean series and the other inflation series is the largest since the start of the pandemic



Source: Bureau of Economic Analysis, Federal Reserve Bank of Dallas, Coolabah Capital Investments

This raises the question of which measure has been more reliable in tracking the trend. That is a non-trivial empirical question because the trend itself is unobservable. As an approximation, central banks often rely on a long-centred moving average of actual inflation. A series of tests we have conducted suggests that the trimmed-mean measures all outperform core PCE in tracking the trend, with the 60th-percentile trimmed mean performing best, followed closely by the Dallas Fed measure. COVID did not appear to alter the findings: splitting the sample across pandemic and pre-pandemic periods did not change the results materially, although it is difficult to statistically differentiate between the 60th-percentile and Dallas Fed series. Some of the tests suggest a modest payoff from averaging the two.

Figure 3: The 60th percentile trimmed mean and the Dallas Fed measure perform best at tracking trend inflation, as approximated by a long-centred moving average

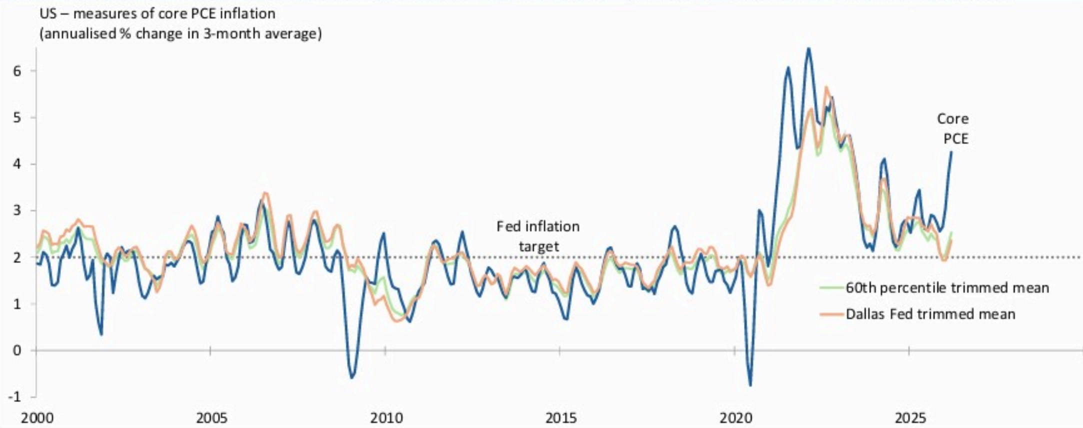
Forecast evaluation of different measures of core inflation against trend inflation (2000-2024)	RMSE	MAE	MAPE	SMAPE	Theil U1	Theil U2
1. Dallas Fed trimmed mean	0.79	0.61	31.8	30.4	0.16	7.9
2. Core PCE deflator	1.30	0.91	45.8	46.7	0.26	12.1
3. Various trimmed mean measures:						
- 90th percentile	1.04	0.81	41.8	42.5	0.21	10.1
- 85th percentile	0.94	0.73	38.0	37.2	0.19	9.3
- 80th percentile	0.88	0.68	35.9	34.0	0.17	8.8
- 70th percentile	0.83	0.64	34.6	30.5	0.16	8.7
- 60th percentile	0.72	0.56	28.4	27.8	0.15	7.0
- 50th percentile	0.99	0.79	45.0	35.8	0.19	11.9

Note: RMSE = root mean squared error. MAE = mean absolute error. MAPE = mean absolute percentage error. SMAPE = symmetric mean absolute percentage error. Theil U1 and U2 = Theil's inequality coefficients.
Source: Bureau of Economic Analysis, Federal Reserve Bank of Dallas, Coolabah Capital Investments

Given that the Dallas Fed and 60th-percentile series have historically been better trend trackers, this supports the argument that inflation is currently somewhat lower than implied by core PCE and hence closer to the Fed's 2 per cent target. However, the low annual readings on these measures will likely prove short-lived. Annualised inflation has recently picked up for both, from approximately 2 per cent late last year to between 2½ and 2¾ per cent — and that was before the Iran energy shock.

Strategy commentary cont'd:

Figure 4: The recent improvement in the 60th percentile trimmed mean and the Dallas Fed measure appears short-lived, as the annualised inflation rate for both series has picked up from about 2% to around 2½%



Source: Bureau of Economic Analysis, Federal Reserve Bank of Dallas, Coolabah Capital Investments

Further analysis on how gaps between the various measures are typically closed over a one-year horizon provides modest support for the view that gaps between the Dallas Fed / 60th-percentile measures and other core inflation indicators usually — though not always — narrow through adjustment in the lower series, rather than the other way around. That suggests the noisier measures still contain real information about the trend, and that the current gaps could be partially closed by a further pick-up in the Dallas Fed and 60th-percentile measures. The implication is that inflation may not have sustainably returned to target prior to the Iran shock — and the shock is now in the data.

Figure 5: Analysis suggests that gaps between both the Dallas Fed and 60th percentile trimmed means and other measures of inflation tend to be closed by an adjustment in the Dallas Fed and 60th percentile series

Testing for how gaps between different inflation measures tend to be resolved over a 1-year horizon (2000-2025)

1. Gap between:	Gap resolved by:	p-value	R-bar-squared
- Dallas Fed trimmed mean PCE deflator - most other trimmed mean PCE deflators	- Dallas Fed tends to adjust towards the most other trimmed mean measures	0.00	0.14
2. Gap between:	Gap resolved by:	p-value	R-bar-squared
- Dallas Fed trimmed mean PCE deflator - core PCE deflator	- Dallas Fed tends to adjust towards the core PCE deflator	0.00	0.30
3. Gap between:	Gap resolved by:	p-value	R-bar-squared
- 60th percentile trimmed mean - most other trimmed mean PCE deflators	- no clear adjustment from either series	..	..
4. Gap between:	Gap resolved by:	p-value	R-bar-squared
- 60th percentile trimmed mean - core PCE deflator	- 60th percentile measure tends to adjust towards the core PCE	0.00	0.12

Source: Bureau of Economic Analysis, Federal Reserve Bank of Dallas, Coolabah Capital Investments

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CCC B BB BBB A AA AAA
Asset weighted average rating