COOLABAH CAPITAL INVESTMENTS™

THE INTELLECTUAL EDGE: MAKING EVERY BASIS POINT COUNT

Fund: **Coolabah Floating-Rate High Yield PIE Fund**

Strategy: **Floating-Rate High Yield**

Return (since Dec. 2023): **8.21% pa net**

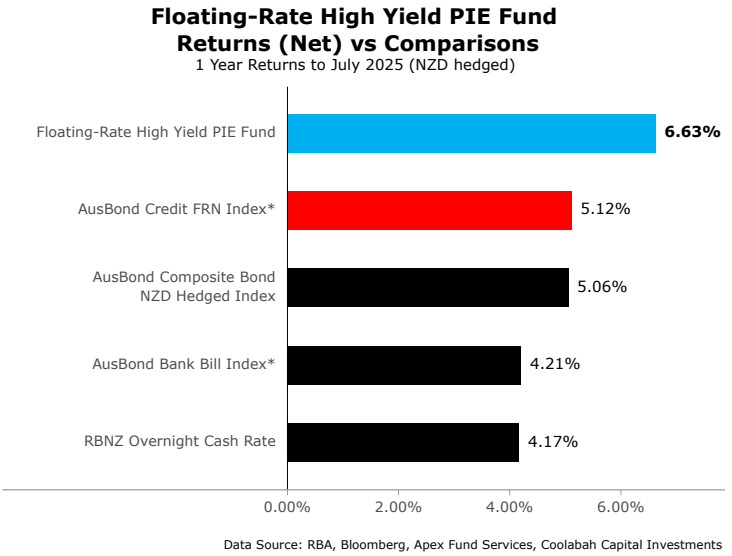
Net return volatility (since Dec. 2023): **1.43% pa**

July 2025

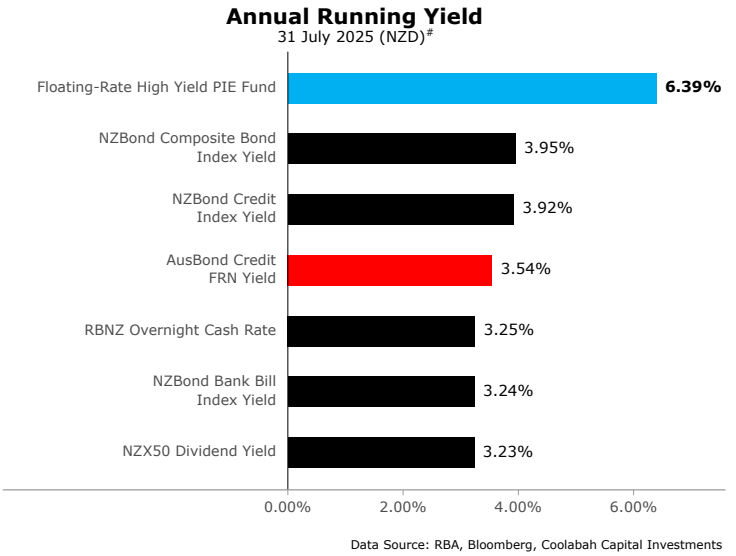
Objective: The Fund aims to provide investors with exposure to a portfolio of investment-grade Australian floating-rate notes with enhanced yields

Strategy: The Fund focusses on generating higher income than other traditional fixed income investments by investing in a portfolio of investment-grade Australian floating rate notes and enhancing the yields (or interest-rate) through the use of gearing (or leverage). It achieves this by holding units in the Coolabah Floating-Rate High Yield Fund (FRHY) fully hedged to New Zealand dollars. FRHY predominantly invests in a portfolio of cash securities and investment grade floating-rate, Australian bank-issued senior and tier 2 bonds. FRHY cannot invest in hybrid securities, equities or property. FRHY will borrow or use leverage to provide additional exposure to these assets. Leverage can amplify gains and also amplify losses.

Period Ending 2025-07-31	Net Return	AusBond Credit FRN Index*	Net Excess Return‡
1 month	0.89%	0.38%	0.51%
3 months	2.68%	1.29%	1.39%
6 months	2.79%	2.22%	0.57%
1 year	**6.63%**	**5.12%**	**1.51%**
Inception pa Dec. 2023	**8.21%**	**5.89%**	**2.31%**
Underlying FRHY Strategy*			
Inception pa Dec. 2022	**10.57%**	**6.03%**	**4.54%**



Data Source: RBA, Bloomberg, Apex Fund Services, Coolabah Capital Investments



Data Source: RBA, Bloomberg, Coolabah Capital Investments

* The underlying strategy is an Australian unit trust. The returns displayed are estimated in NZD based on the actual AUD returns with 1 month forward contracts. ‡ The Excess Return columns represent the gross and net return above the AusBond Credit FRN hedged to NZD. # The yields shown are estimates based on the yield of the underlying strategy hedged to New Zealand Dollar (NZD) using the NZD Bank Bill 3 Month Index (NDBB3M) and the AUD Bank Bill 3 Month Index (BBSW3M).

Note: all portfolio statistics other than yields and duration are reported on gross levered value of the underlying fund hedged to NZD

Av. Portfolio Credit Rating	A+	Modified Interest Rate Duration	0.34 years
Portfolio MSCI ESG Rating	A	Gearing Permitted?	Yes
No. Cash Accounts	17	Gross Portfolio Weight to AT1 Hybrids	0.0%
No. Notes and Bonds	95	Gross Cash Accounts + RBA Repo-Eligible Debt	74.3%
Av. Interest Rate (Gross Running Yield)	6.39%	Net Annual Volatility (since incep.)	1.43%

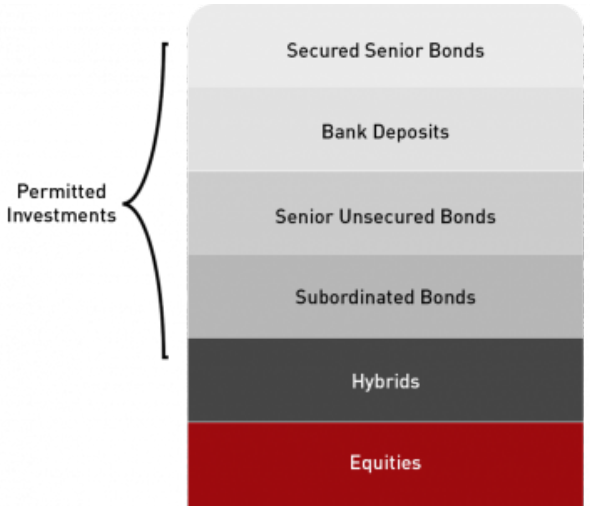
Underlying Strategy Ratings: Superior - Complex (Foresight Analytics); Recommended (Zenith)

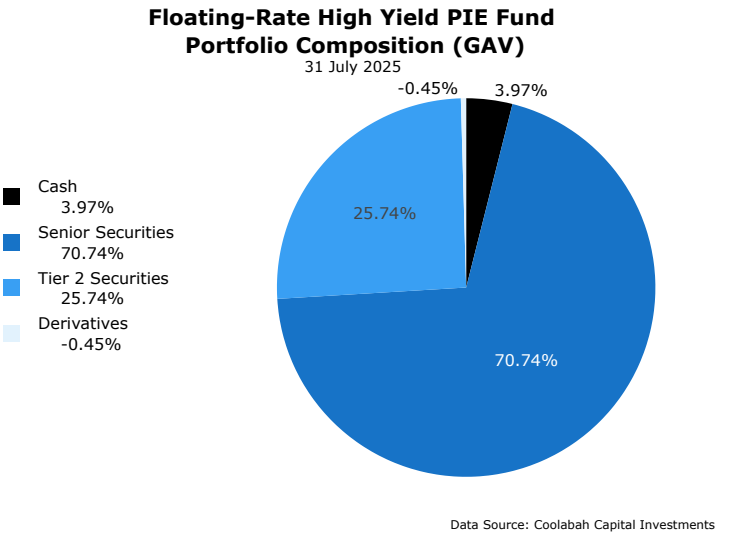
Signatory of: PRI Principles for Responsible Investment

MSCI ESG RATINGS A

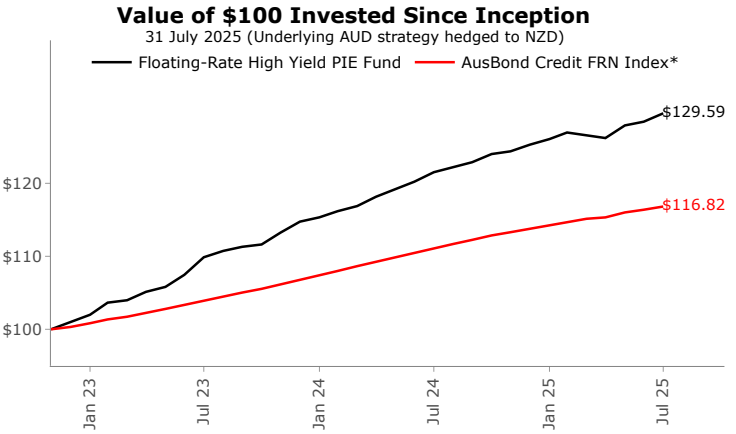
CCC B BB BBB A AA AAA

Asset weighted average rating





Data Source: Coolabah Capital Investments



Data Source: Bloomberg, Coolabah Capital Investments

The since inception net return of 8.21% pa net is the total annual return earned by the fund since Dec. 2023, 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 Floating-Rate High Yield PIE Fund, with quarterly distributions reinvested. Investment return will vary depending upon investment date and any additional investments and withdrawals made. **The annualised volatility estimate of 1.43% pa** is based on the standard deviation of net daily returns since inception, which are then annualised, attributable to the Coolabah Floating-Rate High Yield PIE Fund.

Portfolio Managers	Christopher Joye, Ashley Kabel, Roger Douglas, Fionn O'Leary (Coolabah Capital Investments)		
Fund Inception	6-Dec-2023	Distributions	Quarterly
Asset-Class	Levered Floating-Rate Notes	Target Return	8% - 9% pa yield
Min. Investment	NZD$1,000	Withdrawals	Daily Requests (funds normally in 4 days)
Buy/Sell Spread	0.00%/0.050%	Investment Manager	Coolabah Capital Investments (Retail)
Supervisor	Public Trust	Manager	FundRock NZ
Mgt. & Admin Fee	1.00% pa	Perf. Fee	Not Applicable

*In the commentary below, returns indicated with * are estimated returns in NZD based on AUD returns hedged to NZD with 1m forward contracts. All other returns are NZD Denominated where unit classes in NZD exist, and estimated from AUD returns hedged to NZD using 1m forward contracts before the inception of the NZD unit class. Strategy commentary is for the AUD Market.*

Portfolio commentary: In July, the zero-duration daily liquidity Floating-Rate High Yield PIE Fund (NZYLDP) returned 0.89% net, outperforming the AusBond Bank Bill Index* (0.26%), the RBNZ Overnight Cash Rate (0.27%), and the AusBond Credit FRN Index* (0.38%). Over the previous 12 months, NZYLDP returned 6.63% net, outperforming the RBNZ Overnight Cash Rate (4.17%), the AusBond Bank Bill Index* (4.21%), and the AusBond Credit FRN Index* (5.12%). NZYLDP ended July with a running yield of 6.39% pa, a weighted-average credit rating of A+, and a portfolio weighted average MSCI ESG rating of A.

Since the inception of NZYLDP in December 2023, it has returned 8.21% pa net, outperforming the RBNZ Overnight Cash Rate (4.69% pa), the AusBond Bank Bill Index* (4.73% pa), and the AusBond Credit FRN Index* (5.89% pa). Since inception, NZYLDP's Sharpe Ratio, which measures risk-adjusted returns, has been 2.46x net. While NZYLDP's return volatility since inception has been low at around 1.43% 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 the volatility of April and June, July afforded some relative respite. Coolabah's core macro theses remain:

- cash rates drifting lower;
- a widening differential between short-term interest rates and long-term interest rates in response to greater fiscal policy, public borrowing, and inflation uncertainty;
- a shallow cutting cycle defined by a higher-for-longer new normal with neutral rates in Australia and the US around 3-3.5%; and
- the advent of greater geo-political stability after a period of unusually elevated uncertainty.

The biggest risks are the classic known unknowns and unknown unknowns (to borrow from Donald Rumsfeld). We think, for example, that US capex could surprise with its speed and strength in response to the trade war. There might be a risk-friendly transition of power in China later this year, although this is subject to tremendous debate. And we hope for a resolution of the conflict between Russia and Ukraine.

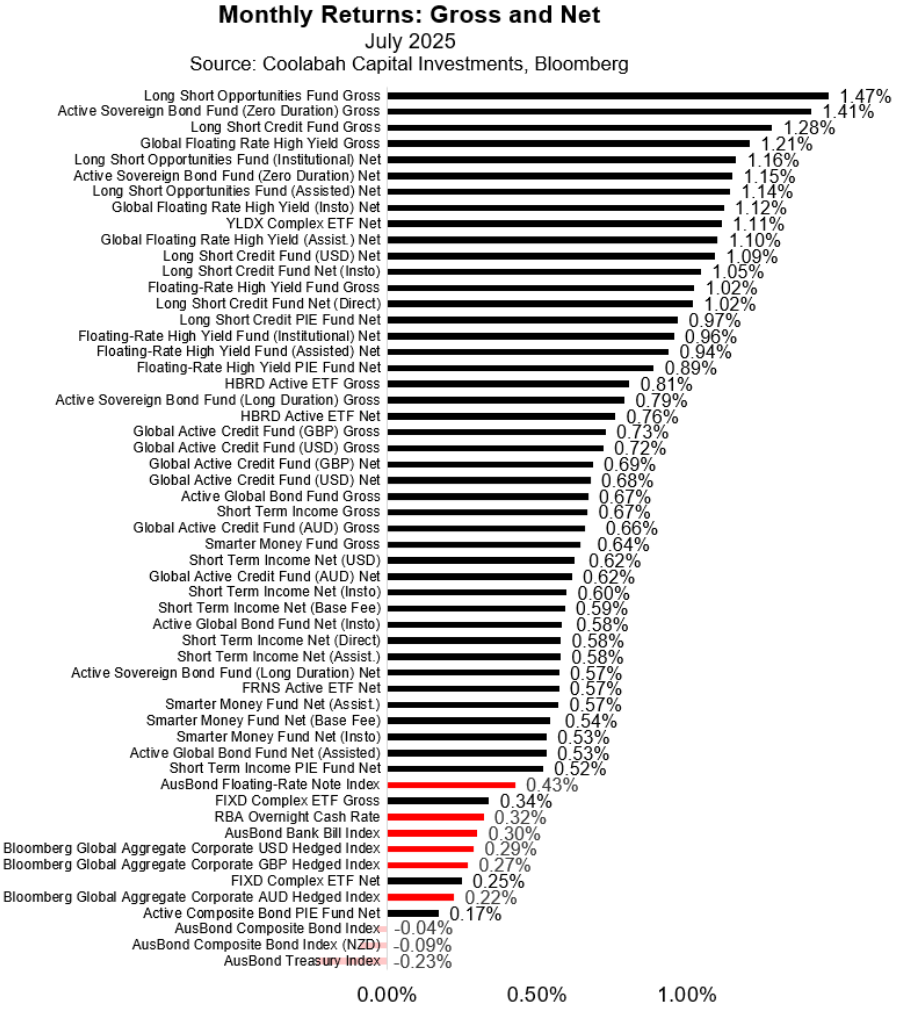
Coolabah was once again active in July, trading over $6.4 billion of bonds and participating in 33 different bond issues in the US, Europe and the Antipodes. We generated robust alpha across all portfolios.

Our best performing retail strategy in the month was the A+ rated, daily liquid Long Short Opportunities Fund, which returned 1.14% to 1.16% net of all fees, closely followed by the AAA rated, daily liquid Active Sovereign Bond Fund (zero duration unit class), which returned 1.15% net of fees, and the recently launched, A+ rated, daily liquidity Global Floating-Rate High Yield ETF (YLDX), which returned 1.10% to 1.12% net of fees.

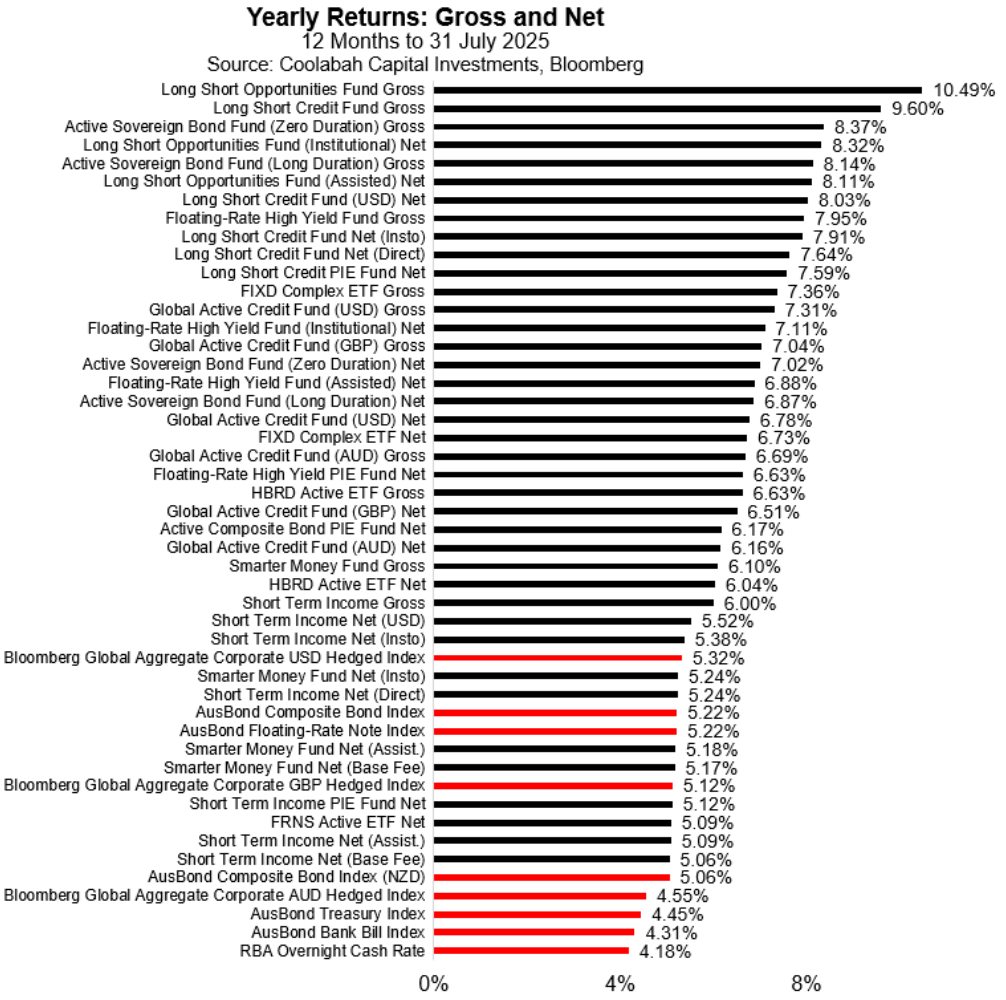
Coolabah's index aware products continued to outperform their benchmarks, such as the Active Global Bond Fund (0.58% net in July vs the Bloomberg Global Aggregate Corporate Index's AUD hedged 0.22%) and the Active Composite Bond Fund (0.25% net in July vs the Composite Bond Index's -0.04%).

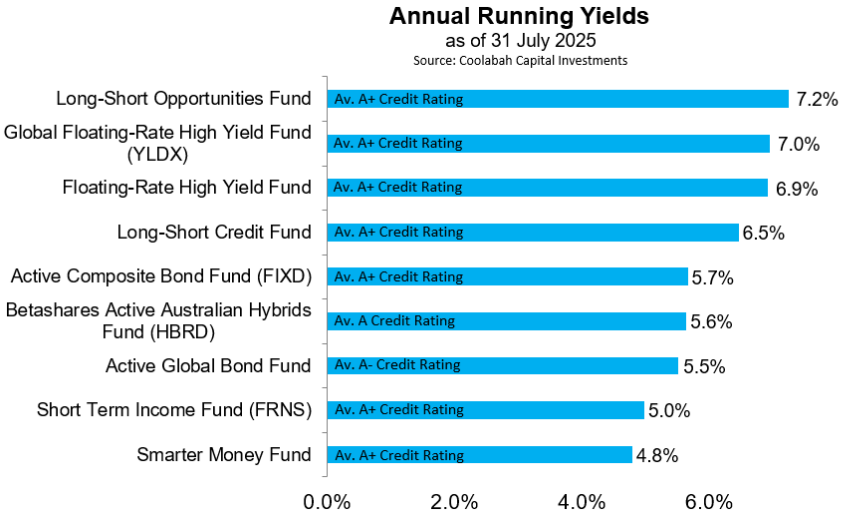
Over the 12 months to 31 July, the stand-out performers have been the Long Short Opportunities Fund (8.11% to 8.32% net), the Long Short Credit Fund (7.64% to 7.91% net), the Floating Rate High Yield Fund (6.88% to 7.11% net), and the Active Sovereign Bond Fund (7.02% net). The charts below highlight current yields and one month and 12 month returns. Past performance is no guide to future returns. Please read the product PDS to better understand risks.

Strategy commentary cont'd:



Strategy commentary cont'd:





July was a fascinating month insofar as you had a decoupling of duration (yields up, bond prices down) and equities, which hit new highs. Generally, 10-year government bond yields rose in the United States (+15bps), Australia (+10bps), Germany (+9bps), the UK (+8bps), France (+6bps), and Italy (+3bps). New Zealand was an outlier insofar as yields declined by 3bps.

Strategy commentary cont'd: At the same time, equities rallied in the UK (FTSE 100 up 4.24%), the US (S&P 500 and Nasdaq up 2.17% and 2.41% respectively), Europe (Eurostoxx 50 (sx5e) up 0.40% and Eurostoxx banks index up 9.33%), and the Antipodes (ASX 200 up 2.36% and NZX 50 up 1.75%). Credit spreads compressed in sympathy in Europe (12bps tighter), the US (8bps tighter), the UK (8bps tighter), and Australia (5bps tighter).

Within the Aussie capital stack, 5-year major bank subordinated bond spreads led the way on the back of yield-based buying with 22bps of compression followed by 5-year hybrid spreads (18bps tighter) and 5-year senior spreads (7bps tighter). Investors are naturally looking for replacements for the $40 billion AUD bank hybrid market, which is being phased out by the regulator. Coolabah's YLDX strategy offers a superior 7.0% yield to the 5.8% yield on 5-year major bank hybrids with a better A+ credit rating compared to the BBB rating on ANZ, CBA, NAB and Westpac hybrids.

Demand for AUD fixed-income remains very high with record issuance in 2025 compared to prior years. This demand is multi-faceted and includes significant offshore investor appetite, super funds internalising fixed-income teams that have a domestic focus, rising comfort with direct bond ownership amongst HNW investors, and the ongoing strength in fixed-income orientated ETF flows. This is in turn encouraging issuance in AUD relative to other currencies.

As a consequence of higher yields, fixed-rate bonds struggled while floating-rate notes performed well. For example, the duration-hedged version of the Bloomberg Global Aggregate Corporate Index climbed 1.00% compared to the 5.7 year duration core index, which gained only 0.22%.

Across other sectors, oil prices ascended 6-7%, Bitcoin jumped another 8.26%, while gold prices hardly moved (-0.40%).

The return of the term premium

The rise in bond yields from low pre-pandemic levels reflects the return of a more normal positive term premium - where investors need to be compensated for the risk taken in buying long-term bonds - and higher expected short-term interest rates.

Bond yields can be split into expected future short-term interest rates and a term premium using either a statistical model or relying on survey data.

Nominal bond yield = expected future short-term interest rates + term premium

The most common statistical approach relies on the ACM model that was developed by NY Fed economists, which is widely used by central banks and official issuers.

Survey data are patchy, but the term premium can also be estimated by subtracting surveyed expected future short rates from the bond yield.

In the US, the Federal Reserve Bank of New York polls market participants on the expected Federal funds rate over the next 10 years, but this series only has a short history. The Federal Reserve Bank of Philadelphia has a much longer history of economist expectations for the future 3-month Treasury bill rate over the next 10 years, but unfortunately these are annual data that require interpolation.

Another less common, but insightful approach uses the DKW model that was developed by Fed economists at the Board of Governors. This model provides a finer split of bond yields, comprising the expected real short rate, expected inflation, an inflation risk premium, and the real term premium.

Using the ACM and survey estimates to split the US 10-year bond yield into the expected future short rate and the term premium, the results broadly show that the very low bond yields of the 2010s were due to low expected future short rates and a practically non-existent term premium, which was frequently negative.

Strategy commentary cont'd: Low expected short rates were consistent with both low inflation and a low neutral policy rate at the time, where expected short rates are understandably correlated with estimates of the neutral rate (however, they are not identical as shown by NY Fed polling of market participants).

A non-existent and often negative term premium runs counter to the idea that investors should be compensated for the risk they take in buying long-term assets.

It likely reflected strong demand for bonds in the wake of the global financial crisis, where there was a global glut of savings and the Fed both bought bonds to stimulate the economy and signalled interest rates would stay low.

Low and relative stable inflation also reduced that small part of the premium related to inflation volatility according to the separate DKW model estimates.

In the wake of the pandemic, the Fed raised interest rates to contain inflation and 10-year bond yields increased from an average of 2.5% prior to COVID to about 4.5% in 2025 to date.

The ACM model and survey estimates suggest that about 1-1.25pp of this near-2pp increase reflects the return of a more usual positive term premium, with 0.75-1pp due to a higher expected future short rate.

In the first half of this year, the expected future short rate has averaged about 3.25-3.75% on these two approaches, which is similar to the 3-4% range of the neutral policy rate based on Fed estimates and market pricing.

Over the same period, the term premium on these two approaches has averaged about 0.75-1%, which is still below the experience of the 1990s and 2000s when the premium sometimes averaged as much as 2%.

In terms of the outlook, US 10-year bond yields could range between 4-5.5% with a midpoint of 4.75% assuming the expected future short rate ranges between 3-4%, in line with the neutral rate, and if the term premium moves into a slightly higher range of 1-1.5% given the worse outlook for the US budget.

Although poor demographics, including planned deportations, will weigh on expected future short rates, this influence is likely to be countered by fiscal stimulus and increased spending on AI and defence.

The term premium is harder to judge, but excess global savings and Fed buying of bonds is behind us, and US public debt is likely to reach a new record high as a share of GDP. The end of globalisation would also add a little to the term premium as it raises the risk that supply shocks lead to more volatile inflation than in the past.

The 4-5.5% range with a midpoint of 4.75% is higher than estimates from the NY Fed's survey of market participants, which suggests that the 10-year bond yield will fluctuate between about 4.25-4.5% over the next couple of years, with a median estimate of about 4.25%.

The difference in calculations reflects market participants factoring in a smaller expected future short rate of between 3-3.5% over the next ten years with a median of 3.25% and assuming that the term premium holds broadly steady at about 1%, not responding to a larger supply of bonds.

In Australia, the AOFM also uses the ACM model to provide a disaggregation of bond yields but unfortunately survey data on expected short-term interest rates – which can also be used to back out the term premium – are not as accessible.

The AOFM calculations tell a similar story to the US ACM model and survey splits of US bond yields, with the low Australian 10-year bond yield over the 2010s reflecting low expected future short rates and a non-existent and regularly negative term premium.

Like the US, low expected short rates in Australia post the global financial crisis were consistent with both low inflation and a low neutral policy rate.

Strategy commentary cont'd: Similarly, the non-existent and frequently negative term premium likely reflected strong demand for bonds in the years after the crisis, where there was a global glut of savings (the RBA also bought bonds, albeit on a smaller scale, to stimulate the economy and signalled interest rates would stay low).

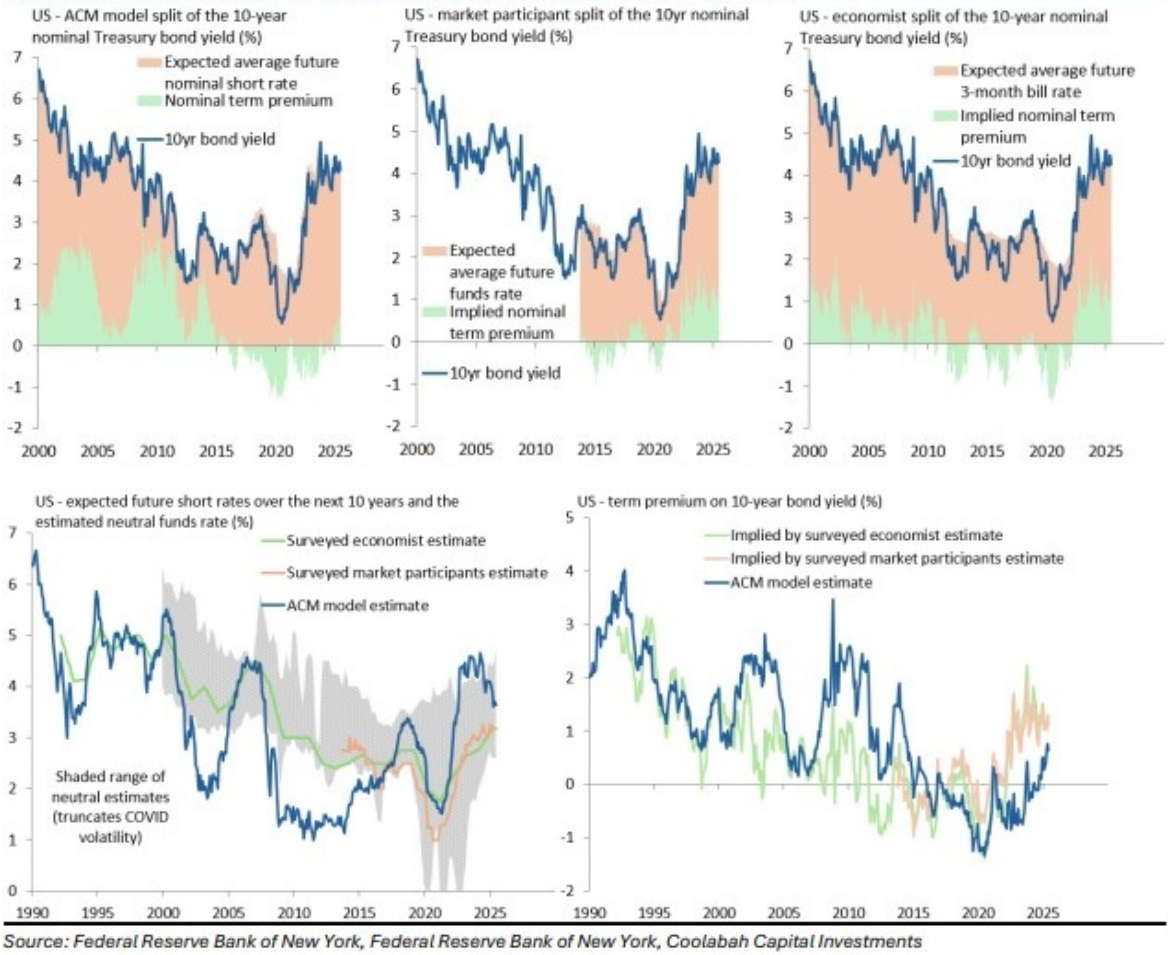
Also like the US, the ACM model suggests that the increase in Australian bond yields from an average of about 2.75% prior to COVID to around 4.25% in 2025 to date reflects the return of a more usual positive term premium and higher expected future short rates.

So far this year, the Australia term premium has rounded to about 0.75% and could move into the 0.75-1% range reflecting global trends and depending on the extent of the deterioration in the Commonwealth budget.

Using current economist estimates for the neutral policy rate as a proxy for the expected future short rate, they range between 2.25-4.25% with a median of 3.5%. Adding an assumed term premium of 0.75-1% would put the Australian 10-year bond yield at between 3-5.5%, with a midpoint of about 4.25%, matching the average rate so far this year.

All this reinforces how interest rates are likely to stay high for some time and that the ultra-low rates of the pre-pandemic years are behind us.

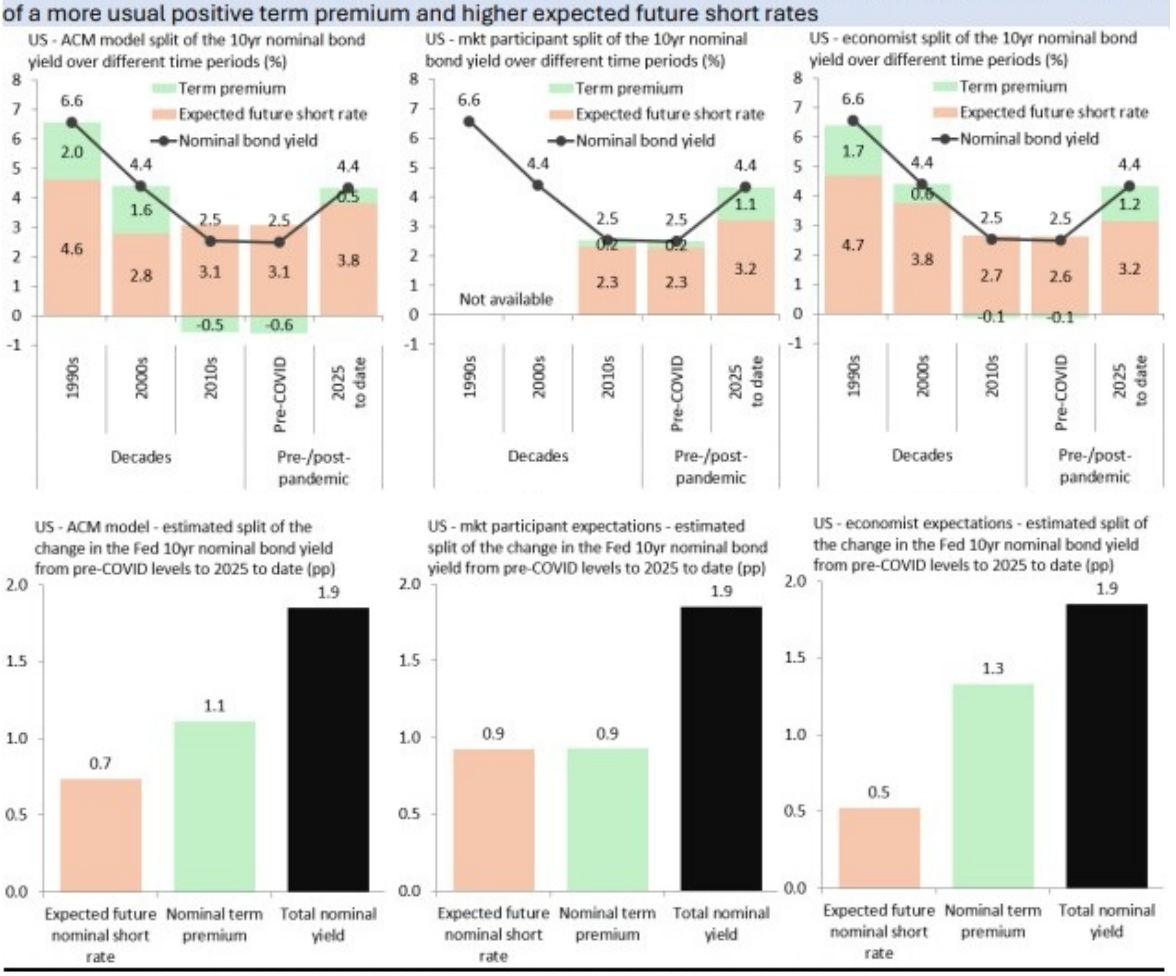
Figure 1: Model and survey estimates suggest that low US bond yields of the 2010s were due to a non-existent and frequently negative term premium and low expected future short rates



Source: Federal Reserve Bank of New York, Federal Reserve Bank of New York, Coolabah Capital Investments

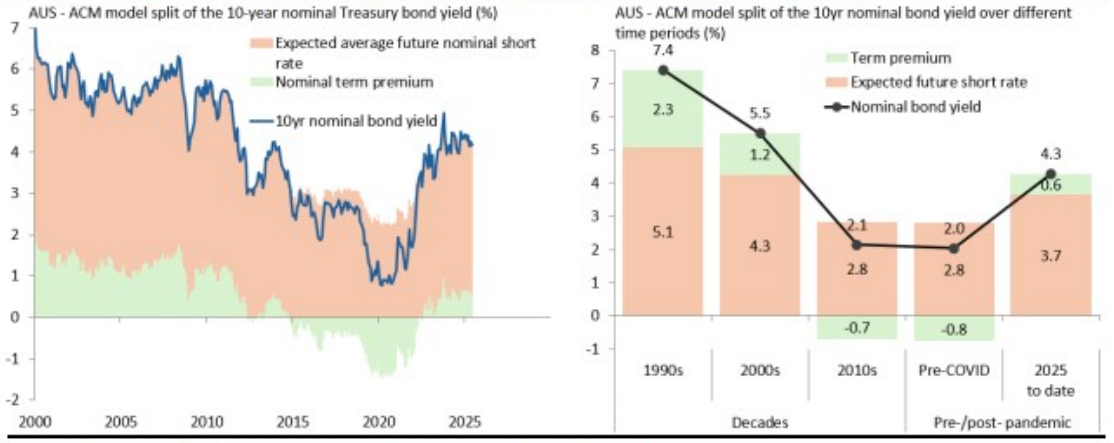
Strategy commentary cont'd:

Figure 2: The same estimates suggest that the increase in bond yields from pre-COVID lows reflects the return of a more usual positive term premium and higher expected future short rates



Source: Federal Reserve Bank of New York, Federal Reserve Bank of New York, Coolabah Capital Investments

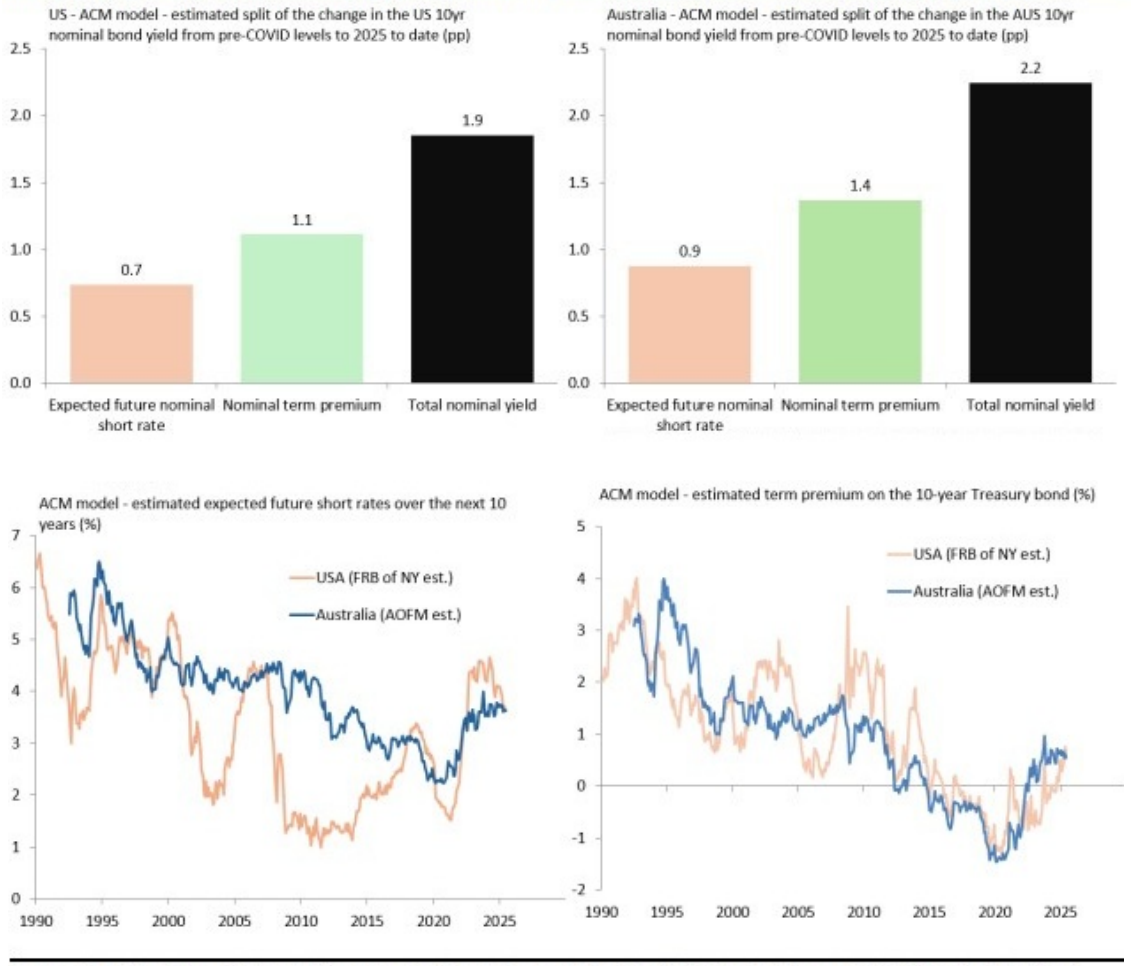
Figure 3: Like the US, model estimates suggest that the low Australian bond yields of the 2010s were due to a non-existent and frequently negative term premium and low expected future short rates



Source: Australian Office of Financial Management, Coolabah Capital Investments

Strategy commentary cont'd:

Figure 4: Also like the US, the ACM model suggests that the increase in Australian bond yields from pre-COVID lows reflects the return of a more usual positive term premium and higher expected future short rates



Source: Australian Office of Financial Management, Federal Reserve Bank of New York, Federal Reserve Bank of New York, Coolabah Capital Investments

The Fed should cut interest rates

US consumer spending has stalled, with the level of monthly spending showing no change in real terms over the first half of this year, something normally only seen in either a recession or a sharp downturn. Spending has been held down by falling expenditure on durable goods and barely any growth in spending on services.

At the same time, core PCE inflation has picked up, with an increase that rounded up to 0.3% in June, in line with market expectations after factoring in small revisions to history. This was the largest monthly rise since larger seasonally-distorted gains at the start of the year, with annual inflation steady at 2.8%. Other measures of core inflation, such as the core market prices and trimmed mean PCE series, showed the same pick-up in June.

The increase was driven by a 0.4% tariff-driven gain in core goods prices, matching increases at the start of 2025. Annual core goods inflation has picked up from zero in January to 0.6%. In contrast, core services prices were better behaved, up another 0.2% in June, with annual inflation steady at 3.4%.

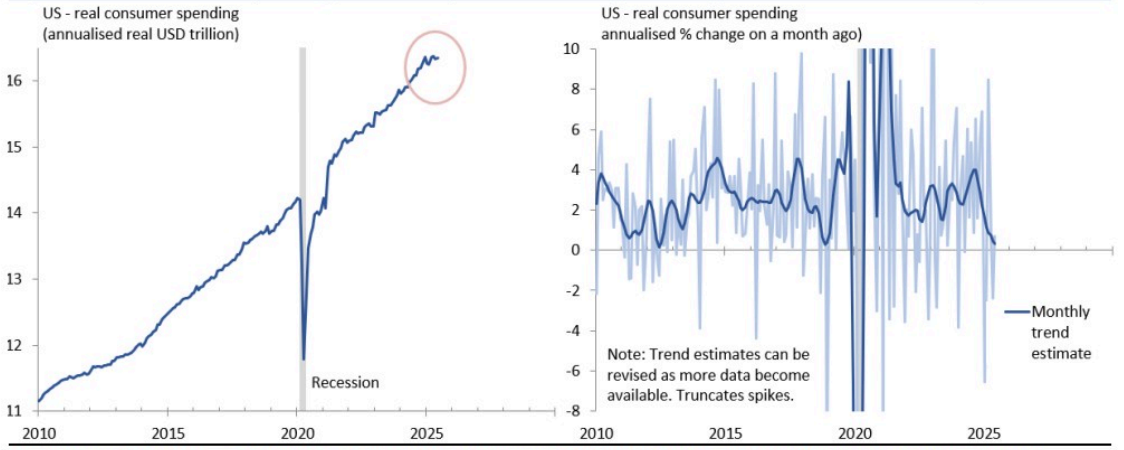
At this stage, core inflation is tracking slightly below a simple linear interpolation of the FOMC's median forecast that core PCE inflation will reach 3.1% in Q4 this year. This, combined with the pronounced weakness in consumer spending, suggests that the Fed should resume cutting interest rates in September, particularly when most measures of inflation expectations remain contained.

Strategy commentary cont'd: As for wages, the private-sector excluding commissions etc measure of the employment cost index continued to grow at a quarterly rate of about 0.8-0.9% in Q2 on CCI's seasonal adjustment, a little above the average growth prevailing prior to COVID.

As for the supply of labour, the latest data show that the government has more than doubled the monthly rate of internal detention of immigrants and refugees, with a smaller pick-up in deportations.

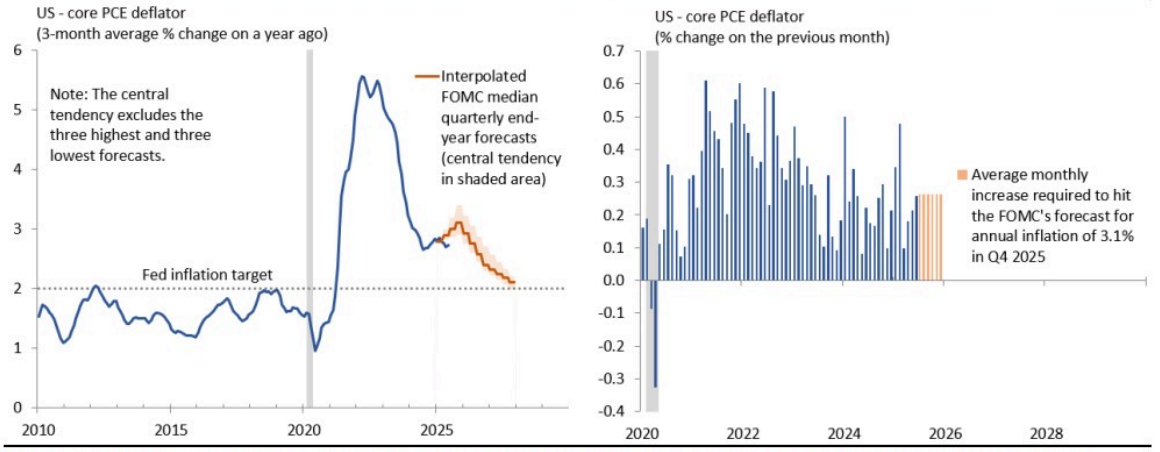
The US population is currently growing at an annualised rate of about 0.5%, which is the slowest growth in the history of the republic, excluding the COVID-era distortions. Deportations should slow growth further, placing downward pressure on economic growth and upward pressure on inflation.

Figure 1: US consumer spending has broadly stalled, showing no change over the first half of this year



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

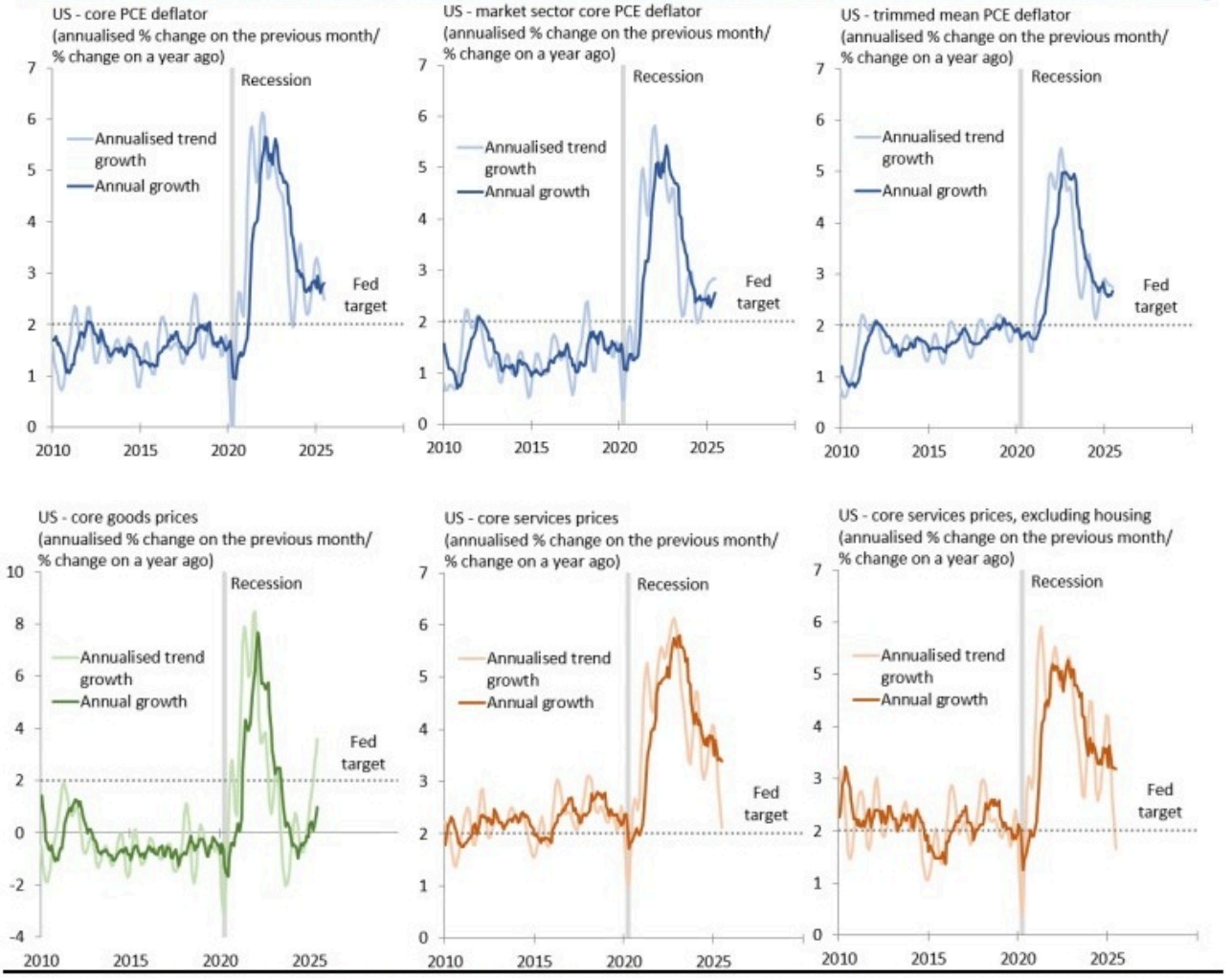
Figure 2: US core inflation is tracking slightly below the simple interpolation of the Fed's end-year forecast



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

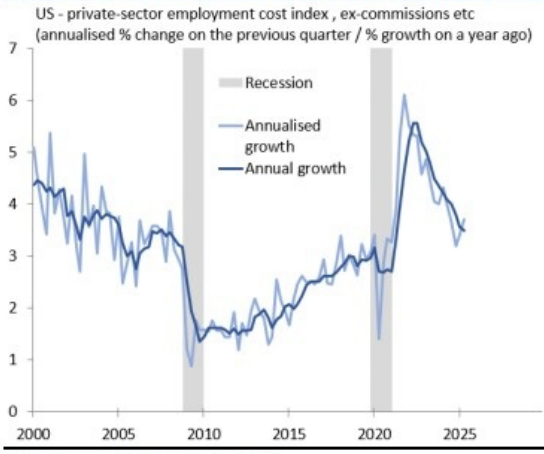
Strategy commentary cont'd:

Figure 3: The US government's new tariffs are boosting core goods prices, adding to overall core inflation



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

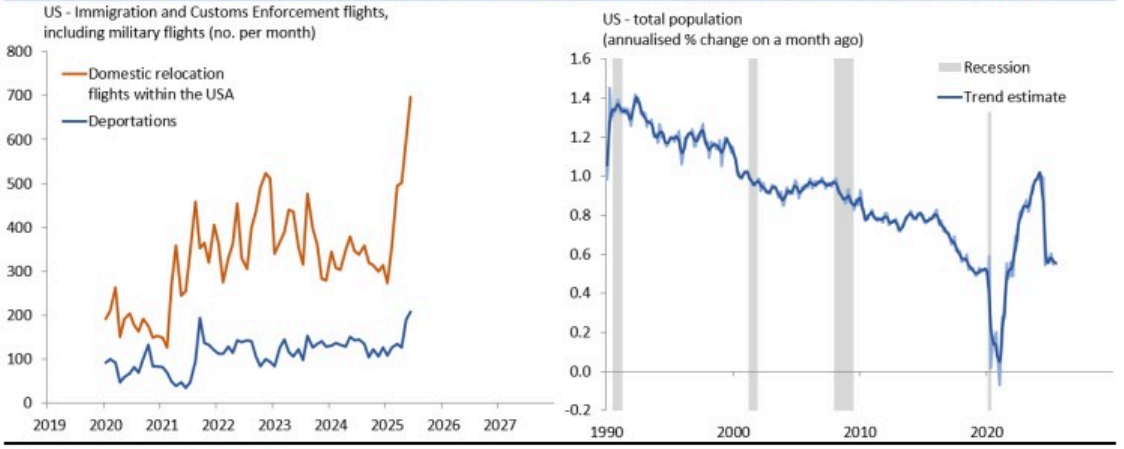
Figure 4: US wages growth is slightly above pre-pandemic experience



Note: Seasonally adjusted by CCI.
Source: Federal Reserve Bank of St Louis, Coolabah Capital Investments

Strategy commentary cont'd:

Figure 5: Record low US population growth should slow further as the government detains more people



Note: Seasonally adjusted by CCI.
Source: Bureau of Economic Analysis, Witness at the Border, Coolabah Capital Investments

Is the RBA forward-looking like the ECB and the Fed?

Forecasting is a necessary evil for central banks because policy-makers should be forward-looking when setting interest rates given it can take 1-2 years for rates to affect inflation.

The downside to relying on forecasts is that they are often wrong, which is why central banks also pay attention to both nowcasts – which are just economic forecasts of the current quarter – and recent history.

CCI recently looked at the forecast performance of the Reserve Bank of Australia (RBA) with respect to unemployment and inflation, which are two key inputs into decisions about interest rates.

This first involved comparing RBA and economist forecasts to judge their performance. It next involved looking at whether the RBA reacts more to recent history, nowcasts and/or forecasts when setting interest rates, relative to the European Central Bank (ECB) and Federal Reserve.

The initial analysis suggested that both the RBA and the market often underestimate underlying inflation over a time horizon of up to two years. At the same time, the RBA and the market have regularly overestimated unemployment.

There is no guarantee that history will repeat itself, but this suggests there is always a chance that inflation turns out higher than expected and a good chance that unemployment is lower than forecast.

In judging who is the better forecaster, a magnifying glass is needed to separate them because the differences in forecast errors are small, but neither the RBA nor the market has a consistent edge in forecasting underlying inflation, although the RBA is generally better at forecasting unemployment.

Still the absolute forecast errors are large, which means that uncertainty around the outlook is significant. For example, using forecast errors since the start of inflation targeting in the early 1990s to gauge this uncertainty, we calculate that the 95% confidence interval around the RBA's current forecast of 2.6% underlying inflation in a year's time is very large at 0.7% to 4.5%.

The story is the same for the unemployment rate, where we calculate that the 95% confidence interval around the RBA's current forecast of 4.3% unemployment in a year's time is 2.5% to 6.1%.

Turning to how the RBA uses its forecasts when setting interest rates relative to the ECB and the Fed, we estimated four versions of a simple interest rate rule, where the policy rate was determined by the real neutral rate, inflation, and unemployment rate relative to the NAIRU.

Strategy commentary cont'd: The four versions of the rule reflected different inputs. The first version used the latest available inflation and unemployment rates, while the second version used central bank nowcasts of inflation and unemployment. The third version relied on central bank 1-year-ahead forecasts of inflation and unemployment, while the fourth version used central bank 2-year-ahead forecasts of inflation and unemployment. The real neutral rates and NAIRUs that were common to the four versions of the rule were either central bank or economist estimates.

The analysis showed that all central banks find it hard to forecast inflation and unemployment, although the ECB and, more so, the Fed generally do a bit better than the RBA. The RBA might argue that it is harder to forecast inflation and unemployment in a small commodity-driven economy like Australia, but the larger economies have been buffeted by significant shocks over the years.

Nowcast errors are naturally smaller, but the ECB and particularly the Fed generally do a bit better, albeit where the latter were assessed over a smaller time span. Moreover, we found that nowcast mistakes influence the RBA's longer term forecast misses. For example, about one-quarter of 1-year-ahead forecast error for underlying inflation can be attributed to mistakes in forecasting the current quarter, with about one-third of the 1-year-ahead forecast error for unemployment explained by nowcast misses.

Estimating the four versions of the simple interest rate rule suggested that when setting interest rates:

- The RBA looks at forecast inflation, while the ECB and Fed look at both recent and forecast inflation.
- The RBA and ECB are both sensitive to recent and forecast unemployment, with the Fed more sensitive to recent unemployment. No central bank pays attention to its long-term forecasts of unemployment.
- Neutral policy rates matter to all three central banks, even though policy-makers often publicly downplay their importance.

The analysis also suggested that the RBA pays more attention to recent inflation and unemployment than its forecasts, based on testing which version of the interest rate rule was most accurate. In contrast, the ECB and the Fed were forward-looking, with the test results suggesting they set interest rates by looking at both recent history and their forecasts.

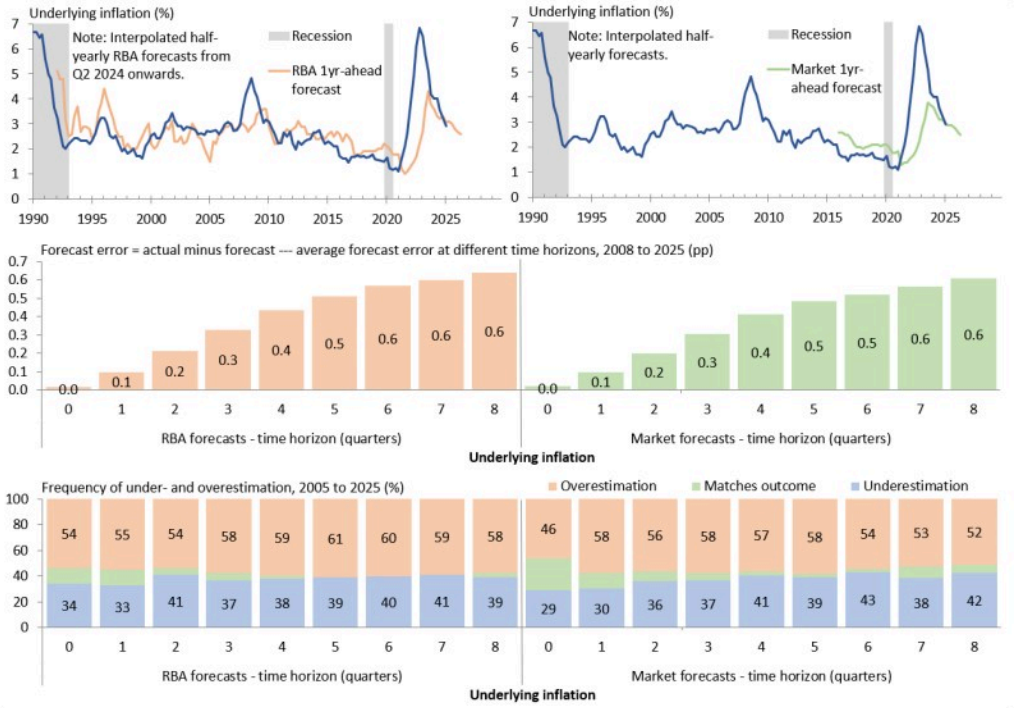
The differences in approach could reflect the preferences of past policy-makers over the period of the analysis, where the Governor Macfarlane and, less so, Governor Stevens seemed very sceptical of the usefulness of forecasts.

This scepticism could also have been related to the unusual make-up of the RBA Board and its odd inclusion of business people, where the board of 2024 was almost the same as the one outlined in legislation a century earlier (i.e., the 1924 Act establishing the board of the RBA's predecessor stated it should be managed by a board "consisting of the Governor, the Secretary to the Treasury, and six other persons, 'who are or have been actively engaged in agriculture, commerce, finance, or industry'").

However, recent extensive reforms stemming from the review of the RBA, where the RBA is adopting many of the standards of its peers, raises the prospect that it will become more forward-looking when setting policy. For example, the new Monetary Policy Board has a slightly different structure and has a sole focus on setting interest rates, where there already seems more engagement with staff in considering forecasts scenarios when deciding on policy.

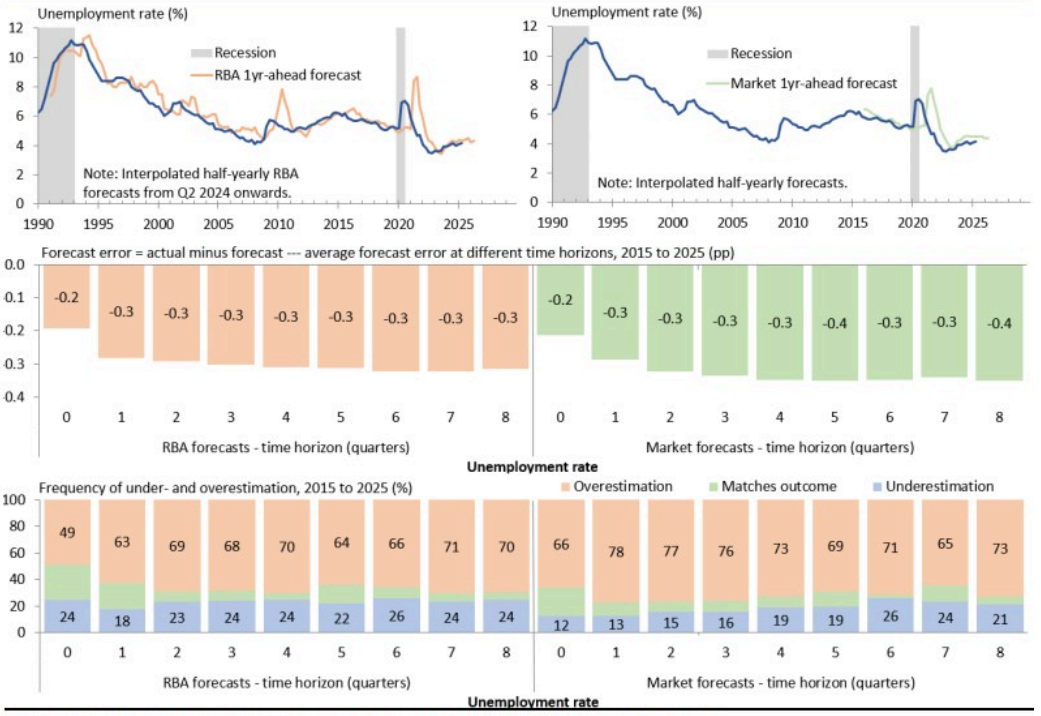
Strategy commentary cont'd:

Figure 1: The RBA often underestimates underlying inflation and neither the RBA nor the market has a consistent edge in forecasting inflation



Source: Australian Bureau of Statistics, Reserve Bank of Australia, Coolabah Capital Investments

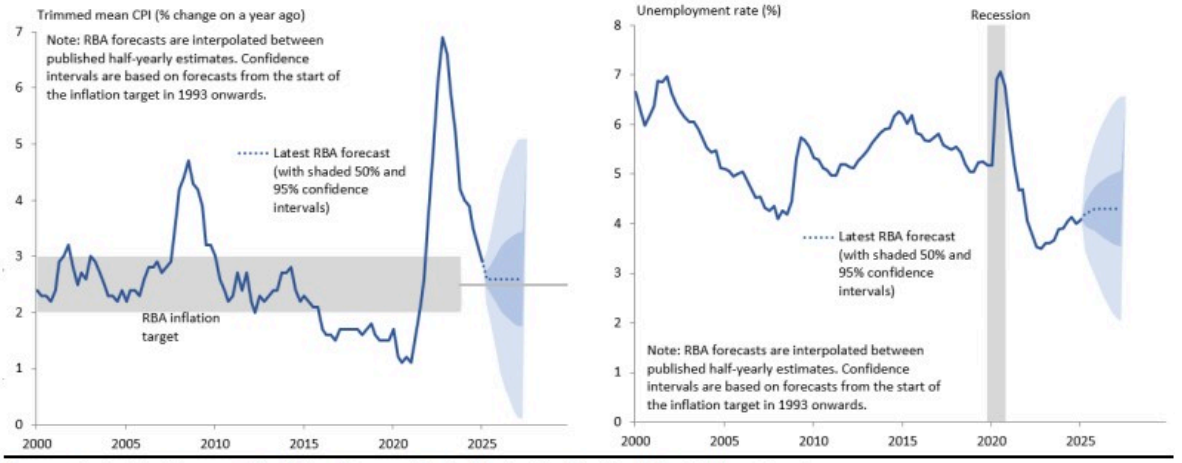
Figure 2: The RBA regularly overestimates the unemployment rate, although it does a little better in forecasting unemployment than the market



Source: Australian Bureau of Statistics, Reserve Bank of Australia, Coolabah Capital Investments

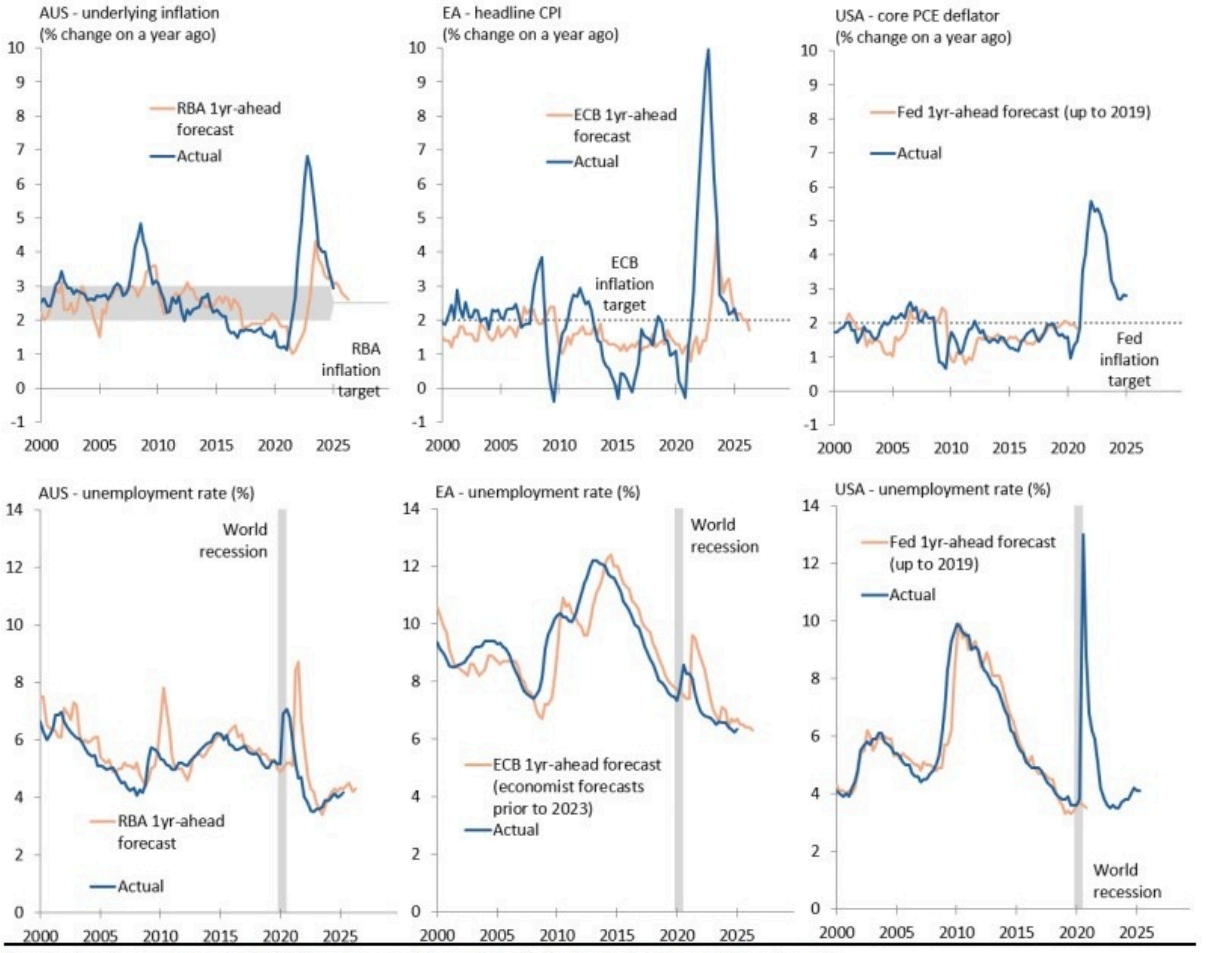
Strategy commentary cont'd:

Figure 3: Large forecast errors suggest that the uncertainty around the RBA's outlook is significant



Source: Australian Bureau of Statistics, Reserve Bank of Australia, Coolabah Capital Investments

Figure 4: All central banks find it hard to forecast inflation and unemployment, although the ECB and more so the Fed do a bit better than the RBA



Source: Australian Bureau of Statistics, Reserve Bank of Australia, Coolabah Capital Investments

Strategy commentary cont'd:

Figure 5: The analysis suggests that the RBA pays more attention to recent history, while the ECB and the Fed set interest rates by looking at both recent history and their forecasts

	Estimation period	Neutral rate	Inflation	Unemployment	R-bar-sq	Test of which is the preffered model
1. Reserve Bank of Australia						
- model using historical values	2000-25	Significant	..	Significant	0.89	Winner
- model using nowcast values	2000-25	Significant	Significant	Significant	0.86	..
- model using 1-year-ahead forecasts	2000-25	Significant	Significant	Significant	0.86	..
- model using 2-year-ahead forecasts	2000-25	Significant	Significant	..	0.85	..
2. European Central Bank						
- model using historical values	2000-25	Significant	Significant	Significant	0.60	Equal winner
- model using nowcast values	*not available over 2000-25*					
- model using 1-year-ahead forecasts	2000-25	Significant	Significant	Significant	0.58	Equal winner
- model using 2-year-ahead forecasts	2000-25	Significant	Significant	..	0.56	Equal winner
3. Federal Reserve						
- model using historical values	2000-19	Significant	Significant	Significant	0.53	Equal winner
- model using nowcast values	*not available over 2000-19*					
- model using 1-year-ahead forecasts	2000-19	Significant	Significant	..	0.50	Equal winner
- model using 2-year-ahead forecasts	2000-19	Significant	Significant	..	0.56	..

Source: Australian Bureau of Statistics, Reserve Bank of Australia, Coolabah Capital Investments

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