**Current Market View – Investment Markets**

The Santa Claus rally failed to materialise in December 2024 which saw markets fade away as the interest rate markets retreated in price terms (rates moved higher). Investors preferred the sidelines as many closed shops early and departed for a much-anticipated break for the festive season.

Most investors are still of the opinion that interest rates and inflation are heading lower over the medium to long term, however these short-term adjustments driven by market data and the US Federal Reserve (the Fed) comments regarding future easing of the target cash rates post the December 19, 2024, FOMC meeting. The Fed lowered the target cash rate by 0.25% to **4.25%-4.50%** at its meeting held on the 19th of December 2024 however, shares and bond markets reacted to what they believed was a hawkish rate cut.

The latest US annual inflation data came in at **2.9% in December** up from 2.7% in November 2024. Investors are now feeling less convinced that the **Fed will continue to ease** at the next Fed meeting following the inflation print. Core inflation Y-O-Y was 3.20% for December 2024. Core inflation excludes volatile items such as food and energy. The next **FOMC meeting on Monetary Policy is the 31/1st of January 2025.**

For Australia, the latest inflation prints for (year-on-year) second quarter of 2024 **was 2.8%** which was down from the 3.8% in the second quarter of 2024 but still elevated. This persistently high data reading on inflation forced the RBA to **hold the target cash rate at 4.35%** at this month’s board meeting on the 10th of December 2024. The **next RBA meeting is on the 17-18th February 2025.**

The domestic house prices are softening in several suburbs as interest rates remain on hold. This year and 2025 will be challenging however, **the broader economy is weathering the storm well** given the mixed support from high immigration levels and the strong level of employment with unemployment drifting higher to 4.0% in December 2024 up from 3.9% in November 2024.

From a risk return perspective, markets are improving:



Source data: Lonsec as of 31st December 2024

From the chart above, you can gain an understanding of why investors over the past year have tilted their exposures towards shares over bonds given the higher risk score resulting in higher returns in most cases.

*The risk measure is simply the one-year annualised standard deviation of the monthly total return time series for each category. The total return is the share or bond price movement monthly including any cash dividends and coupons payable.*

The issues at the forefront of investors thoughts included:

* US Politics – The win by the Republican Party (Donald Trump) is top of mind with expectations for a big shake up for trade tariffs, immigration, and climate. We can now watch to see how this will impact Australia in terms of trade tariffs.
* Political conflict – the ongoing war in the middle east for Israel, Hamas and now Hezbollah, along with Ukraine and Russia, remains a concern for investors. While not panicking, the underlying impact of these events put doubt into expectations for any speedy economic recovery in Europe.
* Global growth and Commodity Prices – for our region, China is the focus with growth prospects the central theme. GDP is resilient around the 4.6% level despite the property market concerns. The benefits of rekindling growth include productivity gains from which Australia will also benefit given, they are our biggest trading partner. The problem is the **falling global growth prospects has impacted the demand prices of oil, iron ore** and other resources, except Gold which remains well supported.
* Inflation numbers are indicating a **slight easing bias Y-O-Y which is aiding optimism**, as the numbers are starting to hit within the target ranges of Central banks. The impact of monetary policy changes typically takes 12 to 18 months to be felt and so markets are watching the economic data closely for signals that will challenge growth expectations.
* Bond markets are **unsettled** post the Central Bank easing. The direction is still lower longer term but short term, volatility remains.
* Market valuations are still challenging along with economic indicators flagging downside risks; however, **investors are encouraged to maintain their cautious optimism**, navigate this period of uncertainty, and expect better conditions to prevail in 2025.

Despite the geopolitical conflict, the investment markets are looking solid underpinned by company profits and the expected **gradual easing interest rates**.

Investors have maintained their risk appetite at **“cautiously optimistic”** short term and remain **“optimistic”** medium term as they await the next round of inflation data and Central Bank activity however, the signals are getting better and **opportunistic buying** is preferred despite the threat of an economic slowdown at some future point but the severity is now seen as limited. We are looking for a **soft landing** for Australia.

Ukraine and Israel conflict is still a major concern for investors however, we are a long way from the conflict zone and the global economic data is improving slowly but the main influence on our market remains from offshore, especially China.

China has recently made several fiscal and monetary policy announcements to consolidate economic growth, **targeting 5%,** in response to an expected increase in US tariffs after President Trump is sworn into office in January 2025. We will wait and see the impact in the coming months.

**The following total returns across the asset classes are as of 31st December 2024:**



Source data: Lonsec as of 31st December 2024

The developed markets asset classes finished stronger for the month. The AUD/USD finished lower at 0.6217 (-4.60%) for the month which benefitted returns for unhedged holdings.

**Asset Class Performance**



Data Source: Lonsec as of 31st December2024 & Fox Asset Management

**Investment Climate**

The underlying investment climate remains **“cautiously optimistic”** in the short term as investors are encouraged by the anticipated gradual easing of interest rates however, the unsettled nature of the bond markets clouds the short-term direction of shares. The soft-landing expectations and economic recovery are still supported, despite the interest rate retreat and the European and middle east conflict.

The risk is that the conflict in the middle east may escalate and involve neighbours which could then inflame the situation. While this situation continues and further sanctions are introduced, investors will be cautious around exposure to Europe, oil, and gas, however any fall in interest rates will spur buying in asset classes that have been oversold in recent months (property) however, the volatility of prices is a concern.

Consumption is firm and holding up well with **retail sales YOY in Australia rising by (+3.00%)** in November 2024 which will impact company profit expectations in the short-term and worry the RBA from an inflation perspective.

The **medium-term view remains positive** for returns following the US Fed Chair, Jerome Powels comments and the expected further easing of interest rates in the US over 2025.

**Longer term investors are optimistic** for a goldilocks period ahead. Global Central Banks continue to indicate a resolve to get inflation under control however, the economic data is showing signs of an easing in inflation and every indication is for future easing in monetary policy expectations for the first half of 2025. Remember **markets are forward looking** so the support now is reflecting the expectations for conditions in September 2025.

**The following commentary is based on month-end closing prices as of 31st December 2024:**

Global share markets over December were mixed with returns impacted the USD strengthening against the AUD resulted in currency gains for unhedged US investors of (+4.60%). The AUD/USD weakened from 0.6517 to 0.6217. The AUD/USD has since continued to fall trading at 0.6189 (10th of January 2025) in recent trading (down -0.45%) from the December 2024 month end close after trading as low as 0.6144 in recent days.

The US has continued the easing bias in monetary policy by lowering the target range for federal funds by 0.25% to **4.25%-4.50%** when it met on the 17-18th December 2024. Investors are gaining more confidence that the economy is headed for a soft landing. The underlying theme is positive for shares however, the sharp retracement moves in the bond market in October to December had stalled further aggressive risk-on trades however, since the Republican election victory, investors see positive signs for 2025.

We expect the first quarter of 2025 to be volatile as traders return to their desks after the festive break and test the market’s resilience.

**Summary of global share returns in AUD terms:**



Data Source: Lonsec as of 31st December2024

The situation in Russia/Ukraine conflict remains unchanged however the latest conflict between Israel, Gaza (Hamas) and now Lebanon is showing signs of abating with cease fire talks underway.

Unfortunately, a resolution to the regional conflict may be a way off however, the underlying economies elsewhere are emerging with a more growth orientated momentum after such an extended period of uncertainty.

**Investor Focus**

**For Australia**, investors focussed on the following issues:

* **Cost of living expenses** and the impact on **consumer spending**.
* **Commodity prices** (post China policy changes) **and the impact on company profits**
* The level of **interest rates** and the delicate position of the RBA given the elevated inflation level.
* **Inflation** (Y-O-Y) remains elevated at 2.8% down from 3.8% in the second quarter of 2024 which is finally heading in the right direction.
* **Government spending** and the rising debt level.
* **China growth prospects** – Now that the PBoC has released the next round of policy changes, the markets have reacted positively. There are still concerns about whether they have done enough however, it has given a much-needed boost to markets.

## Asset Class Returns

Returns across the various asset classes ended mixed over the month:



Source data: Lonsec as of 31st December 2024

## Global Share Returns

For share markets, the focus remains on **inflation, employment** and the momentum **of interest rate easing** for Central Banks to look at over the longer time horizon should inflation data continue to drift lower. Unhedged global shares had returns enhanced by a weakening USD/AUD (0.6217 from 0.6517) which had a **positive impact of (+4.60%) in AUD returns** over the month for unhedged investors.

Most investors are content to **stay invested and opportunistically add to their positions** which has proven the correct strategy over the recent medium-term trend.



Source data: Lonsec as of 31st December 2024

In AUD terms, the global share markets posted one month return of (+2.61%). The US posted returns of (+2.71%), Asia ex Japan (+4.05%), Japan (+4.87%), the UK (+2.32%), Europe (+2.67%) and the Emerging Markets (+5.12%).

**Australian Shares**

Australian shares posted negative returns reflecting the market sentiment and the impact of the soft interest rate environment. Shares finished (-3.15%) for the month and (-0.80%) over the last three months.

The focus for investors was:

* **Cost of living expenses** and the impact on consumer spending.
* **Commodity Prices** and their impact on company profits and forward earnings guidance.
* **Consumer confidence** post the offshore interest rate changes and inflation impacts.
* **Mortgage stress** and the impact on domestic house prices and banks.
* **Inflation** and the response by the RBA to hold the target cash rate at 4.35%.

Commodity markets ended mixed with Iron Ore closing at US$103.61 per tonne at the end of December 2024 with a monthly gain of (1.14%) and gains of (+10.42%) for the previous three months. Oil (WTI) closed higher at US$71.72 a barrel at the end of December 2024 resulting in gains of (5.47%) for the month and down (5.21%) over the last three months. China remains our main export market followed by Japan.

**Australian Industry Returns**

Industry sectors posted mixed results for November 2024. The industry sector performance results for the last month were:



Source data: Lonsec as of 31st December 2024

Communication Services was the best performing sector posting gains of (+1.39%).

Real estate investment trusts (REITS) were the worst performing sector finishing (-5.95%) for the month.



Source data: Lonsec as of 31st December 2024

## Debt Market Returns

Bonds and Fixed Interest markets finished in **negative territory** as global bond prices pushed lower (up in yield) following on the trend established last month when Central Banks began to ease their target cash rates. Not all economies are experiencing inflation falls and remain focussed on the longer-term for both inflation and cash rates to come down. Australian bonds have been caught up in the post US election sell-off however, the market settled and the short-dated 2-year Government bonds trading at **3.96%** on the 17th of January 2025 and longer dated 10-year bonds trading at **4.528%.**

Global Bonds ended down (-0.98%) and Australian Bonds ended up (+0.51%) for the month of December 2024 and down (-1.36%) and (-0.26%) respectively for the previous three months.

The RBA left the **target cash rate at 4.35%** following the 10th of December 2024 board meeting and stated that:

*“Sustainably returning inflation to target within a reasonable timeframe remains the Board’s highest priority. This is consistent with the RBA’s mandate for price stability and full employment. To date, longer term inflation expectations have been consistent with the inflation target, and it is important that this remains the case. While headline inflation has declined substantially and will remain lower for a time,* ***underlying inflation is more indicative of inflation momentum****, and it remains too high. The November SMP forecasts suggest that it will be some time yet before inflation is sustainably in the target range and approaching the midpoint. Recent data on inflation and economic conditions are still consistent with these forecasts, and the Board is gaining some confidence that inflation is moving sustainably towards target“.*

*Michelle Bullock, Governor, RBA Monetary Policy Board meeting, 10th December 2024.*

The US 10-year Government bonds closed at (**4.572%**) for the month up in yield (+0.395%) from the previous month close of (4.177%).

The Australian Government 10-year bonds finished lower in yield in December 2024 at (**4.367%**) down in yield (-0.005%) from (4.372%) in November 2024.



Source data: Lonsec as of 31st December 2024

## Currency

The $A closed weaker AUD/USD 0.6217 at the end of December 2024 which was a positive for returns for investors who held offshore assets unhedged (+4.60%) over the month and (+10.31%) over the last three months.



Currency forecasters see the AUD/USD range between:

**0.6050 and 0.7050** cents in the medium term and most likely to trade within the:

**0.5500 to 0.7500** range in the longer term.

## Australian Economy

Australia’s latest GDP data for the third quarter of 2024 revealed an **annual growth rate of 0.8%** which was down from 1.00% in the second quarter of 2024. Unemployment moved higher to 4.0% in December 2024 up from 3.9% in November 2024. The Y-O-Y **inflation rate fell to 2.8%** in the third quarter of 2024 down from 3.8% in the second quarter 2024, which is just within the Reserve Bank’s targeted 2% to 3% target range.



**Current Market View – Domestic View**

The overall investment view for shares in the short-term remains **“cautiously optimistic”** and **optimistic** **over the long run** as interest rates are **expected to ease in March 2025** along with inflation.

All eyes are on when the next Australian Federal election will be called and how the State Governments are going to tackle the growing debt burden and the impact on consumer spending. Needless to say: **Higher spending=higher demand=higher prices=higher inflation=higher for longer interest rates.** Both State and Federal debt levels are rising and it is unclear how they are going to reign in this spending. **Government debt is now 43.80% of GDP**.

### Global View

Global share market returns are supported by the strength of the US economy and the pace of Central Bank easing. The recent bond price sell-off post the US Fed decision has unsettled bond investors short-term. The unemployment data coming in a little firmer at 4.1% down from 4.2% in December 2024 does not help with any monetary policy easing that may be considered by the Fed.

Despite the uncertain geopolitical situation with the Russia-Ukraine, Israel-Hamas, Hezbollah and Houthi conflict, and economic slowdown concerns, we expect the **medium-term outlook to reflect reasonable opportunities for investors**. Post the US election, short-term, we expect Q4 to reflect cyclical factors (festive season spending), improving company results plus conservative company forward guidance, will help support investor appetite as interest rates search for equilibrium somewhere between the current supply and demand for capital.

**Where to From Here?**

**For Australia**, a **soft landing is still on the cards**. Markets take the lead from what is happening in the global markets as this directly impacts our markets given there is alignment in trade terms but the fallout remains mitigated given our immigration, agricultural and resource assets.

At this time in the business cycle, the festive season will result in markets drifting with bouts of volatility as the bulk of investors take a break. Thin markets will mean **share prices may not accurately reflect the underlying fundamentals** so be mindful of these times when making changes to your portfolio.

All eyes focussed on the **Middle East political unrest.** Let us hope the situation will be contained and a solution that ceases further aggression and violence is forthcoming.

**Global markets** have already weathered tough conditions over 2023/24 and now there is economic evidence pointing to a potential **soft landing** rather than a mild recession in the US and eventually Europe down the track.

The **political unrest** is a concern for global growth prospects with conflict being experienced in several countries around the world. We hope in each situation, a peaceful solution can be reached and any violence avoided.

**Markets are forward looking**, so it is likely they have **found a bottom and now seeing a clearer picture of what lies ahead.** We suspect we have just seen the start of that recovery process and **the recent volatility is simply the ebb and flow of markets**.

Fingers crossed monetary policy direction remains accommodative and trending towards further easing in the months ahead which hopefully, will lead to a moderation in prices and the start of a more stable global growth platform.

**Footnote**

This market update written by Graham Fox for and on behalf of HNW Planning on 17/01/2025. Graham Fox is an external asset consultant and consults to the HNW Investment Committee. Graham has enjoyed a career in financial services covering several private, corporate and investment banking institutions including, Genesys Wealth Advisers (research), Standard & Poor’s Australia (fund ratings), Westpac Private Bank (research, strategy and product), Gold Link Capital (sales and marketing), Challenger Financial Services Group (COO asset management), Deutsche Funds Management (head of treasury), Canadian Imperial Bank of Commerce (regional head of FX), Banque Nationale de Paris, (F/X) and Commercial Bank of Australia (International and Treasury). Graham references material made available from HNW Planning’s' contracted research houses including Lonsec and Morningstar.