# Current Market View

**Investment Markets**

November 2024 saw markets ramp up after the US federal elections. Investors were pleased with the US election results and added further risk-on trades. Most are still of the opinion that interest rates and inflation are heading lower over the medium to long term, which was backed up by the US Federal Reserve Bank (the Fed) decision to ease the target cash rate by 0.25% to **4.50%-4.75%** at its meeting held on the 6th of November 2024.

This decision was in line with most economists’ expectations following the previous 0.50% move back in September 2024. The FOMC press release mentioned that:

*”Economic activity has continued to expand at a solid pace. Since earlier in the year, labor market conditions have generally eased, and the unemployment rate has moved up but remains low. Inflation has made progress toward the Committee’s 2 percent objective but remains somewhat elevated”.* ***Source:*** *FOMC policy statement, The Federal Reserve Bank.*

As part of its policy decision, the Federal Open Market Committee voted to direct the Open Market Desk at the Federal Reserve Bank of New York, until instructed otherwise, to execute transactions in the System Open Market Account in accordance with the following domestic policy directive:

* Conduct standing overnight repurchase agreement operations with a minimum bid rate of 4.75 percent and with an aggregate operation limit of $500 billion.
* Conduct standing overnight reverse repurchase agreement operations at an offering rate of 4.55 percent and with a per-counterparty limit of $160 billion per day.
* Roll over at auction the amount of principal payments from the Federal Reserve's holdings of Treasury securities maturing in each calendar month that exceeds **a cap of $25** billion per month. Redeem Treasury coupon securities up to this monthly cap and Treasury bills to the extent that coupon principal payments are less than the monthly cap.
* Reinvest the amount of principal payments from the Federal Reserve's holdings of agency debt and agency mortgage-backed securities (MBS) received in each calendar month that exceeds **a cap of $35 billion per month** into Treasury securities to roughly match the maturity composition of Treasury securities outstanding.

The latest US annual inflation data came in at **2.7% in November** up from 2.6% in October 2024. Investors are now feeling more convinced that the **Fed will continue to ease** at the next Fed meeting following the inflation print. Core inflation Y-O-Y was unchanged at 3.30% for November 2024. Core inflation excludes volatile items such as food and energy. The next **FOMC meeting on Monetary Policy is the 18th of December 2024 followed by 31/1st of January 2025.**

The US Federal Elections held on the 5th of November 2024 with the **Republican party led by Donald Trump** winning 312 electoral college votes to the Democrats 226 votes with 97% of the votes counted. The new President will be sworn into office in 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 improving to 3.9% in November 2024 down from 4.1% in October 2024.

From a risk return perspective, markets are improving:

****

 Source data: Lonsec as of 30th November 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 Republican Party, led by **Donald Trump** is now America’s president-elect. 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.

New measures announced by the Peoples Bank of China (PBoC) targeting market liquidity (seven-day reverse repo rate eased by 0.20% to 1.5%) and helping existing domestic lending to mortgages by cutting mortgage rates by 0.50%. Share markets also get help via two swap facilities: Non-bank financial institutions swapping assets for cash to buy equities and funds to allow commercial banks to lend to listed companies.

**The following total returns across the asset classes are as of 30th November 2024:**



Source data: Lonsec as of 30th November 2024

The developed markets asset classes finished stronger for the month. The AUD/USD finished lower at 0.6517 (-0.79%) for the month which benefitted returns for unhedged holdings.

**Asset Class Performance**



Data Source: Lonsec as of 30th November2024 & 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) which is showing signs of recovery post June 30, 2024, valuation reporting.

Consumption is firm and holding up well with **retail sales YOY in Australia rising by (+3.40%)** in October 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.

**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 latter part of 2024 and early 2025. Remember **markets are forward looking** so the support now is reflecting the expectations for conditions in August 2025.

**The following commentary is based on month-end closing prices as of 30th November 2024:**

Global share markets over November were mixed with losses experienced across Europe, Asia, and the Emerging Markets. Central Banks are responding to the economic climate by easing interest rates. Switzerland eased by 50 basis points to 0.50% and the European Central Bank pushed their target cash rate down by 25 basis points. The US Fed is expected to ease their target cash rates further by another 0.25% despite the unsettled nature of bond markets when it meets on the 17-18th December 2024.

Debt markets prices fell after running too far to fast following the election results. The easing programme is expected to **slowly re-enforce growth prospects** for the global economy. Markets are already showing support for a pause in the easing programme in 2025 which is mitigating the expectations for a more concerted effort.

**Summary of global share returns:**



Data Source: Lonsec as of 30th November2024

The situation in Russia/Ukraine conflict remains unchanged however the latest conflict between Israel, Gaza (Hamas) and now Lebanon has prompted investors to avoid that region. Unfortunately, a resolution to the regional conflict is a way off currently 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 30th November 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 (0.6517 from 0.6569) which had a **positive impact of (+0.79%) 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 30th November 2024

In AUD terms, the global share markets posted one month return of (+5.22%). The US posted returns of (+6.45%), Asia ex Japan (-1.60%), Japan (+1.21%), the UK (+1.94%), Europe (-1.13%) and the Emerging Markets (-0.36%).

**Australian Shares**

Australian shares posted positive returns reflecting the market sentiment despite the impact of the soft interest rate environment. Shares finished (+3.79%) for the month and (+5.47%) 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$102.44 per tonne at the end of November 2024 with a monthly loss of (-1.29%) and gains of (+3.79%) for the previous three months. Oil (WTI) closed lower at US$68.00 a barrel at the end of November 2024 resulting in losses of (-1.82%) for the month and down (-7.55%) 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 30th November 2024

Information Technology aws the best performing sector posting gains of (+10.45%).

Materials was the worst performing sector finishing (-2.64%) for the month.



Source data: Lonsec as of 30th November 2024

## Debt Market Returns

Bonds and Fixed Interest markets finished in **positive territory** as global bond prices pushed higher (down 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 **3.92%** on the 17th of December 2024 and longer dated 10-year bonds trading at **4.334%.**

Global Bonds ended up (+1.18%) and Australian Bonds ended up (+1.14%) for the month of November 2024 and up (+0.60%) and (-0.45%) 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 (**4.177%**) for the month down in yield (-0.104%) from the previous month close of (4.281%).

The Australian Government 10-year bonds finished higher in yield in November 2024 at (**4.372%**) down in yield (-0.146%) from (4.518%) in October 2024.



Source data: Lonsec as of 30th November 2024

## Currency

The $A closed weaker AUD/USD 0.6517 at the end of November 2024 which was a positive for returns for investors who held offshore assets unhedged (+0.79%) over the month and (+4.25%) over the last three months.

 

Currency forecasters see the AUD/USD range between:

**0.6250 and 0.7250** 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 fell to 3.9% in November 2024 down from 4.1% in October 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 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 weaker at 4.2% up from 4.1% in November 2024 helps 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 17/12/2024. 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.