Market Update – January 2024

Asset class total return to 31/01/2024	1M (%)	3M (%)	6M (%)	1Y (%)	3Y (% p.a.)	5Y (% p.a.)	Current Yield (%)
Cash	0.4	1.1	2.1	4.1	2.0	1.5	4.4
Fixed Term Deposits	0.4	1.2	2.5	5.0	2.4	1.9	5.0
Australian Bonds	0.2	6.0	3.2	2.5	-2.5	0.6	4.1
Australian Bank Hybrids	0.3	1.7	2.2	3.4	3.6	3.5	5.3
Australian Property	1.2	25.1	10.0	9.5	7.8	5.4	4.2
Australian Shares	1.2	14.0	5.8	7.1	9.6	9.7	3.9
Global Shares (unhedged)	4.5	11.2	7.3	25.1	13.6	13.7	1.8
Global Infrastructure (hedged)	-2.2	7.0	-3.1	-4.7	3.9	3.3	3.5

Total returns and yields are before franking credits. Source: RBA cash rate, 12M Bank term deposit, Bloomberg Austbond Composite Index, Solactive Aust Banking Preferred shares Index, S&P/ASX 300 A-REIT Index TR, S&P/ASX 200 TR, MSCI World ex-Aust unhedged TR, FTSE Developed Core Infrastructure 50/50, hedged, TR.

Financial Indicator movement	31/01/24	1M	3M	6M	1Y
AUD/USD (cents)	0.66	-0.03	0.02	-0.02	-0.05
Aust. 10-year bond yield (%)	4.05	0.09	-0.89	-0.01	0.49
Gold US$/ounce	2037	-1.2%	2.7%	3.7%	6.0%
Brent oil US$/bbl	82	6.1%	-6.5%	-4.5%	-3.3%
Iron ore US$/t	135	-0.7%	13.4%	20.5%	7.1%
Copper US$/pound	3.90	0.6%	7.2%	-2.3%	-7.7%

Source: Refinitiv. Note: Past performance is not a reliable indicator of future performance.

Global

Global equity markets remained buoyant into the new year on expectations that inflation would continue to retreat and interest rates would ease this year. However, the US Federal Reserve (the Fed) has been pushing back against the narrative that interest rates could ease in the next few months. Indeed, recent US payroll data has been stronger than expected, which has seen the USD and bond yields rise, while US rate cuts have been pushed back from March to June 2024.

China's slow motion property crisis continues with its largest property developer, Evergrande, entering liquidation in January and with Country Garden likely to be next. So far, the impact on the Chinese economy seems to be contained but we note that commodity prices have generally been weakening into 2024.

Even the escalation of tensions between the US and Iran-backed military groups hasn't materially impacted the oil price (thus far) but is one issue to watch closely. Any rally in the oil price, along with a recent spike in freight costs, could upset the disinflation theme.

Australia

The news was mostly positive in January, with December quarter inflation falling to 4.1%, which was lower than expected. In addition, the Government is moving ahead with Stage 3 tax cuts by mid-year but only after tinkering with the income tax brackets to distribute more of the tax breaks to low and middle-income earners. It seems the Coalition will support the revised Stage 3 tax cuts.

While tax cuts will provide a welcome boost to disposable income from July onwards, they could have the unintended consequence of delaying rate cuts, as the RBA would be wary of adding any further stimulus, while the inflation dragon is still to be slayed.

We still expect the RBA to delay easing until late 2024, or nearly six months later than the Fed, which should lead to strength in the AUD/USD during the year. This hasn't happened to date because the Fed has been pushing out its own easing plans.

As mentioned above, commodity prices have been weakening with China's slowdown and this has led to pockets of pain within the economy, particularly within industrial metals such as nickel, aluminium, lithium and rare earths.

Outlook

A soft landing now seems probable with growth and employment remaining resilient, while inflation eases. Interest rates look to have peaked and should ease by mid-2024 onwards. Falling interest rates are a key driver of equity markets and accordingly we remain relatively bullish on the outlook.

However, the above view is largely consensus, and it is worth noting the risks to that view, which include a potential recovery in inflation (could be geopolitical related) or a growth shock (could be China related). Longer term issues that concern us are the trajectory of budget deficits and public debt in Japan and the US. That said, there are always risks but markets usually overcome them over time.

Overall, we retain a cautiously optimistic outlook. We note that company balance sheets are in good shape and that an easing in inflation and interest costs should boost company earnings. Our focus on quality, value and yield will continue to be important in driving returns and minimising risk.

The next key events on the calendar include:

- 1H24 Aust. Reporting season – February 2024
- RBA meeting – 18/19 March 2024
- Fed meeting – 19/20 March 2024

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Warnings, Disclosures and Disclaimer

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