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Market developments during December 2023 included:

Australian Equities

The ASX 200 finished December up 7.3% with all 11 sectors posting positive returns. The December 'Santa Rally' rang true again, with market sentiment being supported by the indications from the US Federal Reserve that interest rates have peaked. Locally, the monthly returns transpired despite the release of weak data across several economic indicators. Investors also see potential for rate cuts from central banks in 2024, and these factors contributed to the monthly return.

Leading the pack were Property (+11.5%), Health Care (+9.1%), and Materials (+8.8%) while Utilities (+2.5%) and Energy (+3.4%) finished less favourably. Property had double digit returns for the second consecutive month, as investors gave the sector buoyancy following the Fed's dovish tone. Robust gains in the price of iron ore and other commodities were beneficial for Materials shares.

Over the year, Information Technology (+31.3%) was the top performing sector, leveraging off the advances in A.I. technology. Other sectors that finished the calendar year with robust returns were Consumer Discretionary (+22.3%), Property (+17.6%), Communications (+16.6%) and Materials (16.2%). Given the late run, at the conclusion of 2023 the ASX 200 was up 12.4%, marking a strong rebound after the negative return in 2022.

Global Equities

Global equity markets rallied into the end of the year on easing inflation data. Developed markets continued to outperform emerging markets returning 1.8% (MSCI World Ex-Australia Index (AUD)) versus a 1.0% return according to the MSCI Emerging Markets Index (AUD). The CSI 300 Index lost 1.8% (in local currency terms) in December due to investor concern on lack of stimulus from the Chinese government.

US markets continued to gain as the FOMC meeting suggested three interest rate cuts in 2024, sending the S&P500 up 4.5% (in local currency terms), while the Nasdaq rose 5.6% in December, marking a 44.6% increase for 2023 (in local currency terms).

Fixed Interest

In a move reflecting its cautionary approach towards inflation, the RBA kept the cash rate on hold at 4.35%. This pause comes after a rate hike last month and a period of assessment on inflation's trajectory, which has shown signs of moderation, particularly in the goods sector. Despite this, the RBA acknowledges the inflation risks associated with the tight labour market and rising housing prices, emphasising its commitment to reining in inflation to target levels.

Australian bond markets reacted with restraint to the RBA's decision. The 2-Year Bond yield edged down by 40bps, while the 10-Year yield fell by 45bps, as investors digested the mixed signals of a steady cash rate against potential inflation concerns. In global markets, US Treasury yields continued to decline amidst softer inflation data, with the 2- and 10-Year both falling by 45bps. The Bank of England (BoE) held interest rates steady for the third consecutive meeting, as CPI dropped to 3.9%, the lowest in over two years. UK 2- and 10-Year Gilt yields declined by 62ps and 64bps respectively, suggesting market confidence in central bank policies to manage inflation.

The RBA's vigilant stance sets a tone of watchful stability as it monitors the impact of rate adjustments. Investors remain attuned to the Board's signals, especially concerning the evolving global economic landscape and domestic demand trends.

REITs (listed property securities)

The S&P/ASX 200 A-REIT Accumulation index finished the year strongly during December, with the index finishing 11.5% higher. Global real estate equities (represented by the FTSE EPR/NAREIT Developed Ex Australia Index (AUD Hedged)) also performed well, advancing 8.4% for the month. Australian infrastructure continued its positive trend through December, with the S&P/ASX Infrastructure Index TR advancing 4.4%% for the month and 11.3% for the calendar year.

December was relatively muted on the M&A front across the A-REIT sector. Some activity included Charter Hall Retail REIT (ASX: CQR) contracting to sell $225.5mn of shopping centre assets, with the focus on maintaining balance sheet strength. In broader news Cromwell Property Group (ASX: CMW) announced new CFO, Michelle Dance, who was promoted internally. Dexus (ASX: DXS) announced their new CEO Ross Du Vernet who has been a member of the executive team since he joined in 2012.

The Australian residential property market experienced an increase of +0.4% Month on Month (as represented by CoreLogic's five capital city aggregate). Perth was the biggest riser (+1.5%), followed by Adelaide (+1.3%) and Brisbane (+1%). In contrast, Melbourne (-0.3%) was the only city to deliver negative returns in December. CoreLogic's five capital city aggregate returned +9.7% for the calendar year in 2023.

Alternatives

Preliminary estimates for December indicate that the index increased by 2.5 per cent (on a monthly average basis) in SDR terms, after increasing by 4.1 per cent in November (revised). The non-rural sub-index increased in the past month, whilst the base metals sub-index decreased, and the rural sub-index was unchanged. In Australian dollar terms, the index increased by 0.3 per cent in December. Over the past year, the index has decreased by 10.7 per cent in SDR terms, led by lower thermal coal and liquified natural gas prices. The index has decreased by 9.5 per cent in Australian dollar terms.