Market Update – October 2024

Asset class total return to 31/10/2024	1M (%)	3M (%)	6M (%)	1Y (%)	3Y (% p.a.)	5Y (% p.a.)	Current Yield (%)
Cash	0.4	1.1	2.2	4.4	3.0	2.0	4.4
Fixed Term Deposits	0.4	1.2	2.4	5.0	3.2	2.2	4.5
Australian Bonds	-1.9	-0.4	2.3	7.1	-0.6	-0.7	4.6
Australian Bank Hybrids	0.8	1.9	3.2	8.3	3.6	3.5	5.1
Australian Property	-2.6	4.3	13.8	50.8	7.7	6.4	3.4
Australian Shares	-1.3	2.1	8.4	24.9	8.0	8.2	3.2
Global Shares (unhedged)	3.9	2.1	10.2	29.3	11.4	13.3	1.7
Global Infrastructure (hedged)	-0.8	4.4	13.6	24.5	4.4	3.6	3.6

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	31/10/24	1M	3M	6M	1Y
AUD/USD (cents)	0.66	-0.03	0.00	0.01	0.02
Aust. 10-year bond yield (%)	4.52	0.55	0.40	0.09	-0.42
Gold US$/ounce	2744	4.1%	12.1%	20.0%	38.4%
Brent oil US$/bbl	73	1.9%	-9.4%	-16.7%	-16.3%
Iron ore US$/t	104	10.6%	-1.9%	-6.3%	-12.6%
Copper US$/pound	4.31	-4.1%	3.6%	-5.6%	18.3%

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

Global

The most notable development in financial markets over the past month has been a material increase in bond yields, even as Central Banks continue to ease cash rates. This could relate to improving prospects for global growth in 2025 but could also relate to a Trump Presidency.

A Trump Presidency is expected to bring lower taxes, higher tariffs and the deregulation of some industries, e.g. oil and gas. In turn, this could increase inflation and raise concerns over the trajectory of the US deficit and debt. The deregulation of oil and gas could increase the supply of fossil fuels and slow the clean energy transition.

The initial market implications seem to be: 1) positive for US equities, 2) negative for US bonds and 3) negative for China and commodities generally. However, it is early days, and it is yet to be seen what policies are actually implemented versus election rhetoric. Often policies can be watered down after Treasury feedback, debate within the party and feedback from industry and other countries.

Investors also need to remember that monetary policy is currently being eased in the G7 countries, while China is providing additional fiscal stimulus. In addition, the oil price has retreated after Israel's attack on Iran was contained and Donald Trump won the US Presidency. As a result, we remain positive on the outlook for global growth and inflation in 2025.

Australia

While Europe and the US begin to ease interest rates, the RBA has remained on hold. Headline inflation has fallen to 2.8% (helped by government electricity subsidies) but core inflation at 3.5%, remains above the RBA's 2.0-3.0% target range. It seems the RBA will need to see core inflation move closer to 3.0% before it will be comfortable easing interest rates. That could take another 1-2 quarterly inflation prints and implies February 2025 as the earliest date for a rate cut or more likely April/May 2025.

Meanwhile, economic conditions remain challenging, but growth is still positive, and the unemployment rate remains low at 4.1%. It seems government spending and income tax cuts have provided a boost to the economy, but in turn this is delaying rate cuts.

Recent Bank results for FY24 (September) have generally shown negative to flat earnings growth but nonetheless Bank stocks remain buoyant on the hope of an economic recovery in 2025. It's a similar story for most of the market, where stocks have rallied ahead of any real earnings recovery. This means most of the market rally relates to P/E expansion rather than EPS growth. Accordingly, there are risks around the RBA continuing to delay rate cuts or China disappointing on growth.

Outlook

In the short term, inflation is gradually retreating to target, and a soft-landing scenario looks probable. Interest rates are already easing in the G7 countries, with Australia likely to follow suit in 2025.

Concerns over what a Trump Presidency means for geopolitics, inflation and the US deficit are more medium-term issues which we will monitor closely. Our major concern is going to be around any persistent strength in bond yields, which is generally a negative for growth assets.

Overall, we remain positive on the outlook for global growth and inflation in 2025 and retain our bullish outlook.

Key known risks

1. The RBA continuing to delay rate cuts on inflation concerns
2. China continuing to disappoint on growth
3. Trump Presidency and its implications inflation and the US budget deficit
4. Geopolitics and/or climate change events impacting global trade and financial markets

The next key events on the calendar include:

- Australian AGM season – November 2024
- G20 meeting – 18/19 November 2024
- RBA meeting – 10 December 2024
- US Federal Reserve meeting – 18 December 2024
- US President inauguration – 20 January 2025
- Australian December quarter CPI – 29 January 2025
- RBA meeting – 18 February 2025

Bill Keenan

Principal, Portfolio Manager

Bill Keenan is the founder of Sunbird Portfolios. Sunbird provides independent advice to leading financial advisers across Australia.

Bill has 30 years' experience in financial markets and holds a Bachelor of Business in Accounting and a Graduate Diploma in Finance and Investment.

Warnings, Disclosures and Disclaimer

Date issued: Tuesday, November 12, 2024

This document is provided by Sunbird Portfolios Pty Ltd (Sunbird) |ABN 91 620 481 218 | AFSL 503266.

Warnings

Any advice provided in this document is general in nature only and does not take into consideration your objectives, financial situation or needs. Before acting on the advice, you must consider whether it is personally appropriate considering your financial circumstances or should seek independent financial advice on its appropriateness. Past performance is not a reliable indicator of future performance.

Disclosures

Sunbird DOES NOT accept fees or gifts from companies or product issuers. Sunbird and its respective officers may have an interest in the financial product of any entities referred to in this material. See www.sunbirdportfolios.com.au for a list of Director shareholdings. All views expressed in this report accurately reflect the author's personal views about the subject investment theme and/or company securities.

Disclaimer

The material in this report has been obtained from sources reasonably believed to be true and neither Sunbird nor its associates make any representation or warranty concerning the accuracy, or reliability or completeness of the information or the performance of the companies or portfolios referred to in this report.

Any opinions and/or recommendations expressed or implied in this material are subject to change without notice and Sunbird is not under any obligation to update or keep current the information contained herein. References made to third parties are based on information believed to be reliable but are not guaranteed as being accurate. Every attempt has been reasonably made by Sunbird to verify the accuracy of the information contained in the report. Sunbird, its associates, officers, directors, employees and agents are not liable for any errors or omissions (except any statutory liability which cannot be excluded) in connection with this report. Except for any liability which cannot be excluded, Sunbird, its directors, employees and agents accept no liability or responsibility for any loss or damage of any kind, direct or indirect, arising out of the use of all or any part of this report.

This report is intended for certain recipients only. It is confidential and may contain information which is privileged or personal. If you are not an intended recipient, you must not disclose or use this report for any purpose. If you have received this report in error, please call us and then destroy the report or delete it from your computer system.

W www.sunbirdportfolios.com.au

E support@sunbirdportfolios.com.au

M 0403534426

T 03 8840 7886

A Exchange Tower, Level 1, 530 Little Collins Street, Melbourne, VIC 3000