Market Update – November 2024

Asset class total return to 30/11/2024	1M (%)	3M (%)	6M (%)	1Y (%)	3Y (% p.a.)	5Y (% p.a.)	Current Yield (%)
Cash	0.4	1.1	2.2	4.4	3.2	2.0	4.4
Fixed Term Deposits	0.4	1.2	2.4	5.0	3.4	2.2	4.9
Australian Bonds	1.1	-0.5	3.0	5.2	-0.9	-0.6	4.4
Australian Bank Hybrids	0.0	1.8	4.2	7.2	3.6	3.5	5.3
Australian Property	2.4	6.2	14.3	39.2	7.1	6.4	3.3
Australian Shares	3.8	5.5	11.5	23.4	9.6	8.3	3.4
Global Shares (unhedged)	5.2	8.8	13.6	30.2	11.9	13.4	1.7
Global Infrastructure (hedged)	3.9	5.3	12.5	21.0	6.5	4.6	3.4

Total returns and yields are before franking credits. Source (in order): 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	30/11/24	1M	3M	6M	1Y
AUD/USD (cents)	0.65	-0.01	-0.03	-0.01	-0.01
Aust. 10-year bond yield (%)	4.36	-0.15	0.39	-0.05	-0.03
Gold US$/ounce	2,654	-3.3%	6.0%	14.0%	30.3%
Brent oil US$/bbl	73	-0.3%	-7.4%	-10.6%	-11.9%
Iron ore US$/t	102	-1.5%	1.4%	-13.2%	-21.2%
Copper US$/pound	4.08	-5.3%	-1.6%	-11.5%	6.6%

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

Global

US growth remains robust at 2.8% and inflation is expected to moderate in the short-term. The soft-landing scenario looks intact and indeed expectations are for a Trump Administration to be pro-growth. However, there are concerns over a resurrection in inflation given Trump's tariff policies. At this stage, the Fed remains on track for another 0.25% rate cut at its December 18 meeting but is likely to be more cautious from here. As we mentioned in the last update, there will likely be a major difference between election rhetoric and reality, once the Trump administration is appointed from 20 January 2025. Indeed, it was pleasing to see bond yields settle down in November after spiking ahead of the US election. US equities have continued a strong rally on expectations that US growth will remain robust under a Trump administration.

China will be wary of what a Trump administration means for its exports. We doubt Trump will apply the mooted 60% tariff on all Chinese goods, which would hurt US consumers as much as China. We see tariffs being applied selectively, and for a short period of time, as a negotiating tool to extract benefits from trading partners. Sure, there will be negative implications for China's trade surplus but on the other hand it will force the Chinese administration to look internally for growth. This is starting to happen with a number of fiscal and monetary stimulus programs being rolled out over the past quarter. One major initiative is a 10 trillion-yuan debt swap between the central government and local governments. This removes a major debt overhang on local governments, which are responsible for housing development. We wouldn't be surprised to see Chinese economic growth surprise on the upside from here and for commodity prices to recover.

Australia

Australian GDP growth remains weak at 0.8% but nonetheless remains positive. Government spending and income tax cuts seem to be providing support during a challenging period for the private sector. The RBA has maintained the cash rate at 4.35% for a year now and rate cuts continue to be delayed into the first half of 2025. Headline inflation has retreated to 2.8% (helped by government electricity subsidies) but core inflation at 3.5%, remains above the RBA's 2-3% target range. The quarterly inflation numbers are due in late January 2025, which means February's meeting is the earliest the RBA could cut rates. The market is pricing in a 26% chance of a rate cut in February, a 72% chance by April and 100% chance by May.

So, it looks like the RBA will be cutting interest rates immediately before a Federal Election which is due before 17 May 2025. And we are likely to see a number of fiscal stimulus programs announced ahead of the election. This should provide buoyant conditions for companies and indeed the local share market has been strong, despite current earnings growth being soft.

The outlook for China will also impact exports but we note that China has already removed all of its tariffs on Australian exports, which is a positive. That said, the commodity outlook is currently mixed but as we mentioned above, we wouldn't be surprised to see China's growth surprise to the upside, due to internal stimulus programs.

Outlook

In the short term, the growth outlook seems to be improving, and inflation is retreating to target. Concerns over what a Trump Presidency means for geopolitics, global trade, inflation and the US budget deficit are real, but very hard to predict. There seems to be as much chance of positive outcomes versus negative outcomes. For example, will Musk and the Department of Government Efficiency (DOGE) finally solve the US budget deficit issue?

Overall, we remain positive on the outlook for global growth and inflation in 2025 and retain our bullish outlook. Our main concern is around Trump's policies having unintended consequences.

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 for global trade, inflation and the US budget deficit
4. Geopolitics and/or climate change events impacting financial markets

The next key events on the calendar include:

- 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
- Australian Federal election – due before 17 May 2025

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Warnings, Disclosures and Disclaimer

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