Investment & Economic Snapshot

2024 - Year in Review

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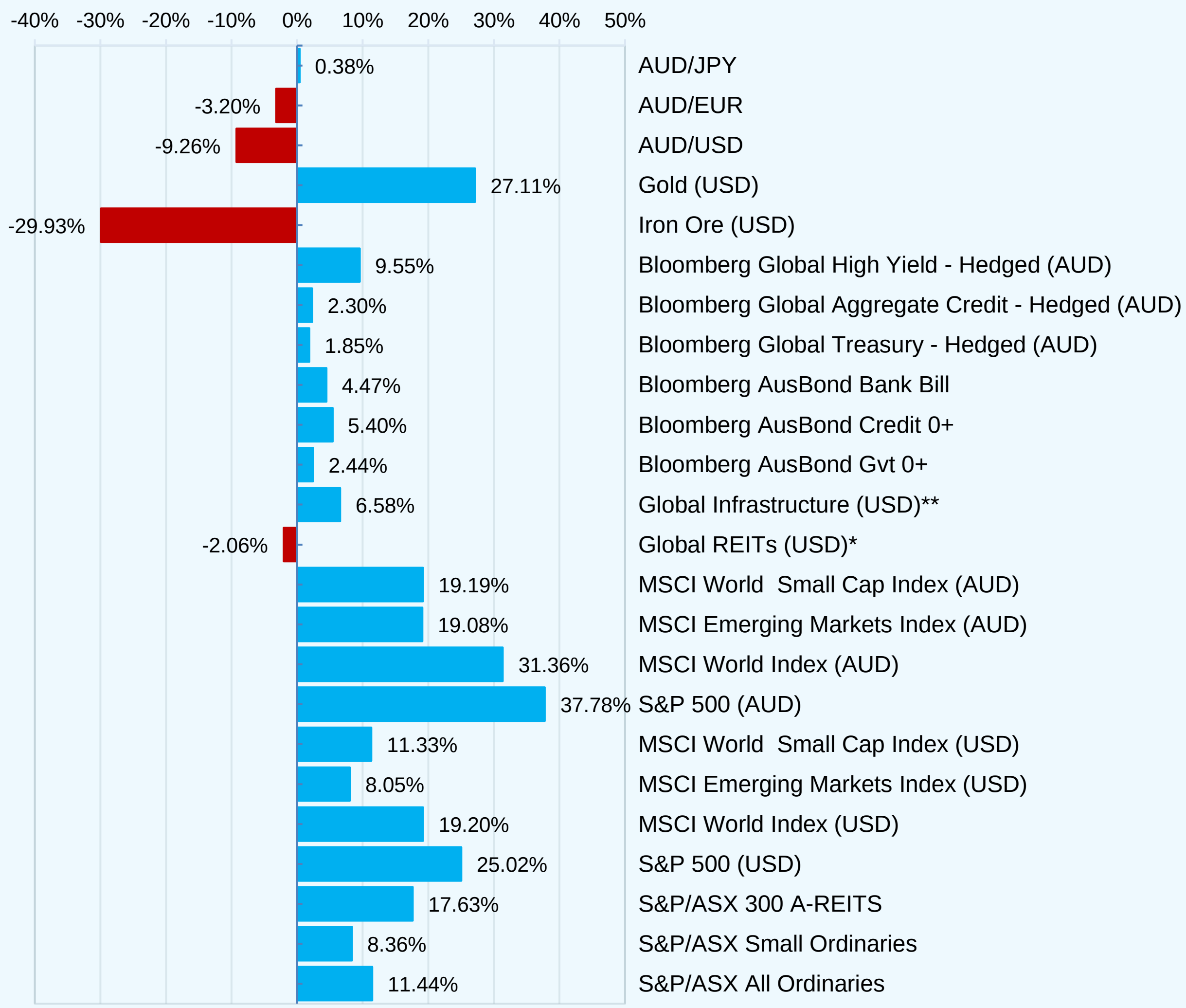
2024 was a strong year for equity investors. Resilient economic growth and robust corporate earnings, particularly from US companies, supported equity markets. Moderating inflation paved the way for easier global monetary policy which further supported equity market sentiment but did little to lift bond markets which ended a volatile year well below their best levels.

January	The stock market recovery that began in November 2023 consolidated in January as the Federal Reserve (the Fed) pushed back on optimistic rate cut expectations priced into markets. This saw bonds and interest rate sensitive sectors, like property and infrastructure, experience weakness, while the broader Australian and US equity markets enjoyed modest gains. Japanese stocks were among the best performing asset classes finishing 8.4% higher, driven by strong buying interest from foreign investors, taking advantage of a weaker Japanese Yen. In Australia, inflation came in lower than expected, as retail sales dipped.
February	Fuelled by strong earnings and anticipation of rate cuts, global stock markets surged to record highs. China, buoyed by government intervention, also saw a significant market rebound. The Reserve Bank of Australia (RBA) maintained the cash rate at 4.35%, with Governor Bullock indicating inflation was still too high and data released later in the month showing rent and food inflation was still elevated. In the US, strong jobs data clashed with surprising inflation figures, prompting the Fed to hint at a potential delay in rate cuts.
March	Australian and global stocks continued their good performance in March to cap off a strong first quarter of the year. Markets were broadly supported on a global basis by resilient economic data, moderating inflation, and heightened anticipation for interest rate cuts. The Bank of Japan, however, increased its policy rate for the first time in 17 years. Gold rose 8.3%, driven higher by central bank purchases, while iron ore fell 13.2% as Chinese stockpiles grew. Cocoa, the key ingredient in chocolate, made headlines after its price surged 50% due to continued supply disruptions.

April	After a strong start to the year, stocks and bonds experienced a pullback when inflation data surprised on the upside in Australia and the US, highlighting the stickiness of inflation, particularly in the services sector. This led markets to push out the timing of rate cuts, negatively impacting equity and bond market sentiment. Geopolitical tensions flared again after Iran's missile attack on Israel, pushing gold to new all-time highs. Volatility in commodity markets continued with copper rising 13% and oil rebounding 15.8% as Chinese markets continued to be buoyed by renewed investor sentiment on the back of much-needed economic stimulus measures.
May	Global markets rebounded in May, led by the US, up almost 5%. Chipmaker NVIDIA experienced gains of 25.5% following strong earnings which beat expectations. The Australian stock market posted modest gains of 0.87%. The RBA held the cash rate steady at 4.35% but communicated a more cautious outlook following higher than expected inflation data from April. In the US, the Fed calmed markets by reiterating the next interest rate move would not be a hike. In China, the government announced a USD240 billion rescue package to support the property sector which had been a significant drag on the economy.
June	Global stocks rose in June, led by the US and, in particular, technology stocks as the Nasdaq rose by 5.97%. Investors breathed a sigh of relief as US inflation data matched expectations. The European Central Bank reduced interest rates by 0.25%. Global markets started to consider the impact that upcoming elections in the US, UK, and France may have on economies. The ASX welcomed Guzman Y Gomez Ltd (GYG) onto the exchange. This was the largest listing on the ASX since 2021 with GYG gaining 36% on its trading debut.
July	Global equities saw significant gains despite increased volatility. Australian and US equities reached new all-time highs. A sector rotation was evident, as high-performing growth stocks retreated in favour of small-cap, cyclical, and value-oriented companies. Consumer discretionary and financials led Australian gains with Commonwealth Bank becoming the largest Australian company by market capitalisation. The US market saw strong small-cap performance, with the Russell 2000 up 10.1%. Commodity prices weakened, except gold, which surged 4.1%. Lower inflation and easing rate expectations boosted Australian and US bond markets. Globally, disinflation and softening labour markets suggested central banks are more likely to ease rates.
August	Global markets experienced significant volatility before ending well off their lows. The MSCI World Index (AUD) fell 1.18%, driven by weak US labour data, the unwinding of the yen carry trade and geopolitical tensions. Australian equities saw mixed performance, with the S&P/ASX All Ordinaries up 0.4% but small caps down 2.02%. US markets rebounded, supported by strong GDP data and earnings, while Asian and European equities showed mixed results. Bond markets rallied as inflation moderated, and rate cuts became more likely globally. Inflation cooling and earnings optimism supported a Soft Landing outlook.

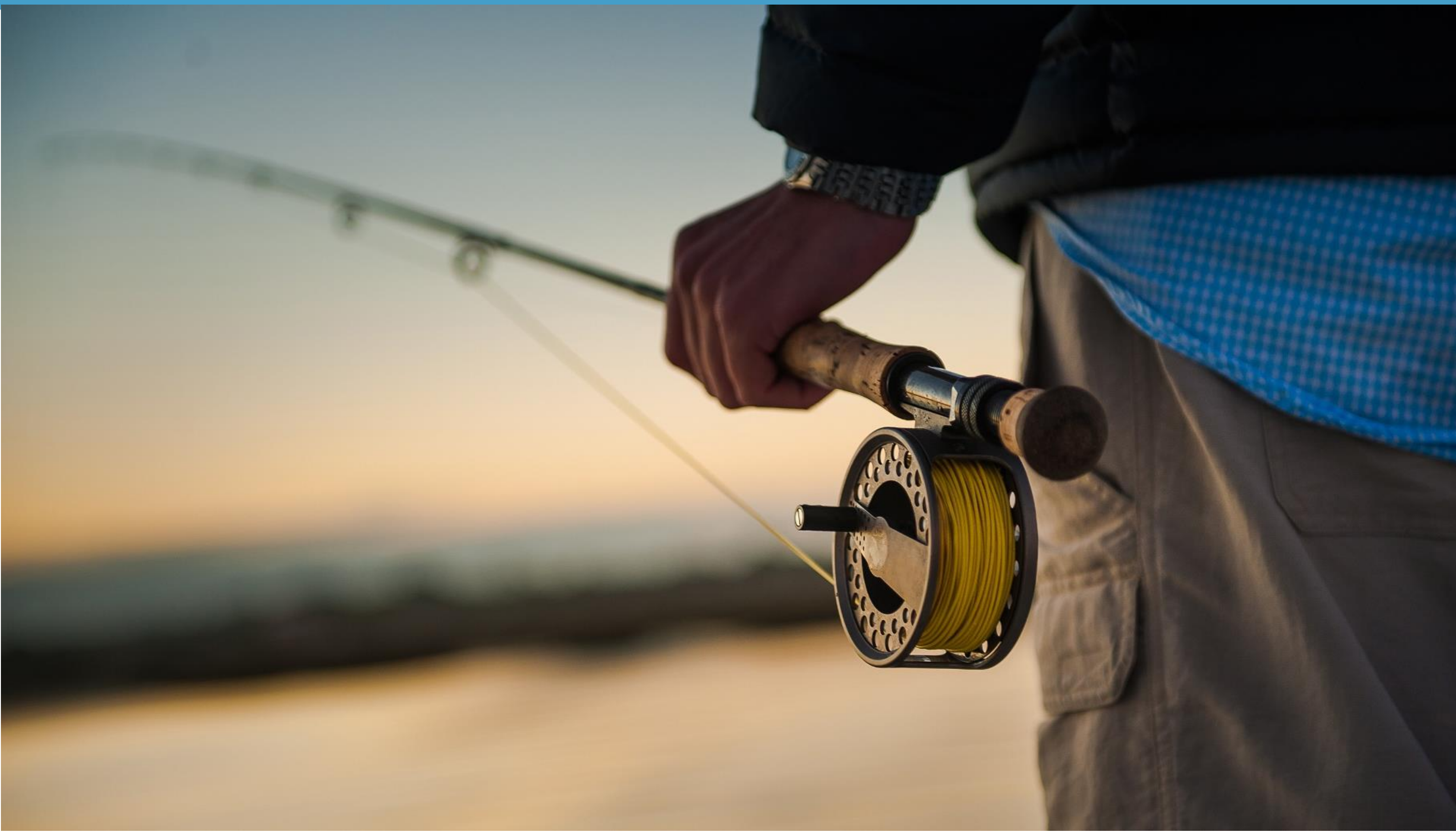
September	Global equity markets surged, buoyed by a significant 50-basis point rate cut by the Fed. Aggressive Chinese stimulus measures lifted Chinese shares with the Shanghai Composite Index rallying 21%. The MSCI World Index (USD) rose 1.87%, with Australian equities reaching record highs as the S&P/ASX All Ordinaries gained 3.45%. Materials and technology sectors led gains, while defensive sectors lagged. Commodities rallied, with gold up 6.2% and copper rising 12.9%. Inflation cooled globally, supporting monetary easing, but risks of economic slowdown persisted as labour markets softened and consumer trends continued to show signs of weakness.
October	Equity markets pulled back marginally in October however, government bonds saw high levels of volatility amidst a significant sell-off. Strong economic growth in the US and resilient labour market data both domestically and in the US led to a recalibration of interest rate expectations resulting in higher bond yields. The Australian dollar depreciated sharply as the US dollar gained against major currencies. The US Presidential election added to market volatility as investors responded to swings in the election polls. The US earnings season produced broadly stronger earnings which were overshadowed by disappointing outlooks from some mega-cap technology companies.
November	Equity markets rallied following a resounding US election victory for Donald Trump, with his administration widely expected to introduce domestically focused growth policies. US and Australian share markets gained significantly, while other global markets, especially emerging markets, lagged as capital flowed to sectors expected to benefit from the Trump administration's expected policy direction. The S&P 500 Index (USD) increased by 5.9%, the biggest monthly gain of the year, but gains were more pronounced for small caps with the S&P Small Cap 600 Index rising by 10.9%. Bond markets experienced initial volatility post the election but ultimately stabilised, with US bonds ending the month stronger.
December	Global equities experienced a subdued finish to the year, with the MSCI World Index declining by 2.6% in December. While the Fed announced an anticipated third consecutive interest rate cut, bond and equity markets reacted negatively. The Fed's outlook proved more hawkish than expected, indicating only a 0.5% reduction in rates is anticipated for 2025. As US bond yields increased, the US dollar strengthened, exerting further pressure on the Australian dollar, which continued its downward trend. This recalibration of interest rate expectations did not overshadow a strong year for equity investors. The MSCI World Index achieved a substantial 19.2% gain while Australian equities delivered a respectable 11.4% return. However, the US market remained the primary driver of global equity returns, experiencing a remarkable 25% gain for the year, a rare occurrence of consecutive years with returns exceeding 20%.

Selected Market Returns (%) 2024 Calendar Year



Sources: *Refinitiv G-7 Diversified REIT Index, **FTSE Global Core Infrastructure 50/50 Index

Outlook



As we enter 2025, we maintain a constructive outlook for global economic growth and the performance of both equity and bond markets. However, the path of returns is unlikely to be smooth, with various risks that could influence our expectations as the year unfolds.

Global Economic Growth

Global economic growth is expected to improve slightly in 2025. The US economy will remain a key driver, supported by pro-growth policies under the Trump administration. In Australia, the economy is poised to improve from subdued levels, though much of this recovery will depend on a rebound in private sector activity. Meanwhile, China's continued policy measures to stimulate its economy should begin to backstop consumer demand, while modest improvements in the European economy are also anticipated as monetary policy is eased.

Inflation and Central Bank Policies

Elevated inflation has dominated investor concerns in recent years. Encouragingly, global inflationary trends are moving closer to central bank targets. In Australia, inflation has proven stickier compared to global peers however, the RBA has grown more confident in its forecasts. This confidence has led to markets pricing in a high likelihood of the first cut in the cash rate in early 2025 which should support the domestic economy.

In the US, inflation moderated sufficiently allowing the Fed to cut rates aggressively in late 2024. However, the outlook for US interest rates remains unclear, with fewer cuts priced in for 2025 than previously anticipated. A key risk is the potential for a significant reacceleration of inflation in the US which would necessitate monetary policy recalibrations and lead to a rise in equity and bond market volatility.

Fixed Income Markets

Bond markets may remain volatile as interest rate and inflation expectations evolve. However, higher starting yields in 2025 could present an opportunity for bond investors should economic growth falter or if economic data fails to meet high expectations. Conversely, the risk to the upside also exists for bond yields as the Trump administration begins to implement its pro-growth platform, posing challenges to investors. We expect the yield curve to steepen and normalise, especially if growth remains resilient.

Credit markets are likely to remain resilient as stable economic growth and easier monetary policy support a tight-spread environment both in the US and domestically.

Structural Themes and Key Risks

The constructive growth outlook, moderating inflation, lower interest rates, resilient labour markets, and optimism around structural growth themes like artificial intelligence (AI), provide a favourable backdrop for financial markets in 2025.

However, these dynamics should be viewed alongside potential risks. Uncertainty around the Trump administration's policies could have positive and negative implications for various segments of global markets, including Australia. Additionally, any unexpected shocks to growth, inflation, or corporate earnings could derail market expectations.

Equity Markets and Corporate Earnings

The corporate earnings outlook is an encouraging factor for equity markets. Earnings are expected to exhibit stronger and broader growth across sectors, particularly in the US, with a similar pattern expected for Australian companies.

However, we are cognisant of equity market risks. Optimistic earnings forecasts may face challenges, especially as equity market valuations, particularly for large-cap stocks in the US and Australia, appear stretched relative to historical levels. These elevated valuations could leave markets vulnerable to sell-offs if earnings results disappoint. In contrast, valuations in the small- and mid-cap sectors are more reasonable, particularly when viewed alongside improving earnings prospects. These dynamics are also positive for the private equity sector whose returns may be further supported by improving capital market liquidity and activity.

Rising bond yields also pose a risk to equity markets, with the US 10-Year bond yield in focus if it approaches the psychologically important 5% level.

Investment Implications

Portfolios should remain well-diversified and strategically positioned to optimise returns while managing for uncertainties. A disciplined approach to risk management is critical in navigating 2025's opportunities and challenges.
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Major Market Indicators

	31-Dec-24	30-Nov-24	31-Oct-24	Qtr change	1 year change
Interest Rates (at close of period)					
Aus 90-day Bank Bills	4.44%	4.42%	4.41%	+2.0	+9.0
Aus 10yr Bond	4.31%	4.54%	4.27%	+39.1	+12.6
US 90-day T Bill	4.23%	4.39%	4.44%	-29.0	-97.0
US 10 yr Bond	4.57%	4.19%	4.28%	+78.3	+70.7
Currency (against the AUD)					
US Dollar	0.619	0.651	0.655	-10.75%	-9.26%
British Pound	0.496	0.513	0.507	-4.27%	-7.64%
Euro	0.597	0.617	0.606	-3.77%	-3.35%
Japanese Yen	97.39	97.64	99.92	-1.95%	1.35%
Trade-Weighted Index	59.70	61.50	61.50	-4.94%	-4.63%
Equity Markets					
Australian All Ordinaries	-3.1%	3.7%	-1.3%	-0.9%	11.4%
MSCI Australia Value (AUD)	-3.3%	3.5%	-1.6%	-1.6%	9.6%
MSCI Australia Growth (AUD)	-2.7%	6.2%	-0.3%	3.0%	19.6%
S&P 500 (USD)	-2.4%	5.9%	-0.9%	2.4%	25.0%
MSCI US Value (USD)	-7.0%	5.4%	-1.2%	-3.1%	14.3%
MSCI US Growth (USD)	1.7%	7.0%	-0.3%	8.5%	36.0%
MSCI World (USD)	-2.6%	4.6%	-2.0%	-0.1%	19.2%
Nikkei (YEN)	4.5%	-2.2%	3.1%	5.4%	21.3%
CSI 300 (CNY)	0.6%	0.8%	-3.0%	-1.7%	18.2%
FTSE 100 (GBP)	-1.3%	2.6%	-1.4%	-0.2%	9.7%
DAX (EUR)	1.4%	2.9%	-1.3%	3.0%	18.8%
Euro 100 (EUR)	1.0%	-0.1%	-2.6%	-1.7%	7.8%
MSCI Emerging Markets (USD)	-0.1%	-3.6%	-4.3%	-7.8%	8.1%
Commodities					
Iron Ore (USD)	-2.9%	1.0%	-7.3%	-9.1%	-29.9%
Crude Oil WTI U$/BBL	6.1%	-1.9%	1.2%	5.4%	0.8%
Gold Bullion $/t oz	-1.3%	-3.0%	4.1%	-0.3%	27.1%

Source: Quilla, Refinitiv, and Datastream

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