Investment & Economic Snapshot

January 2025

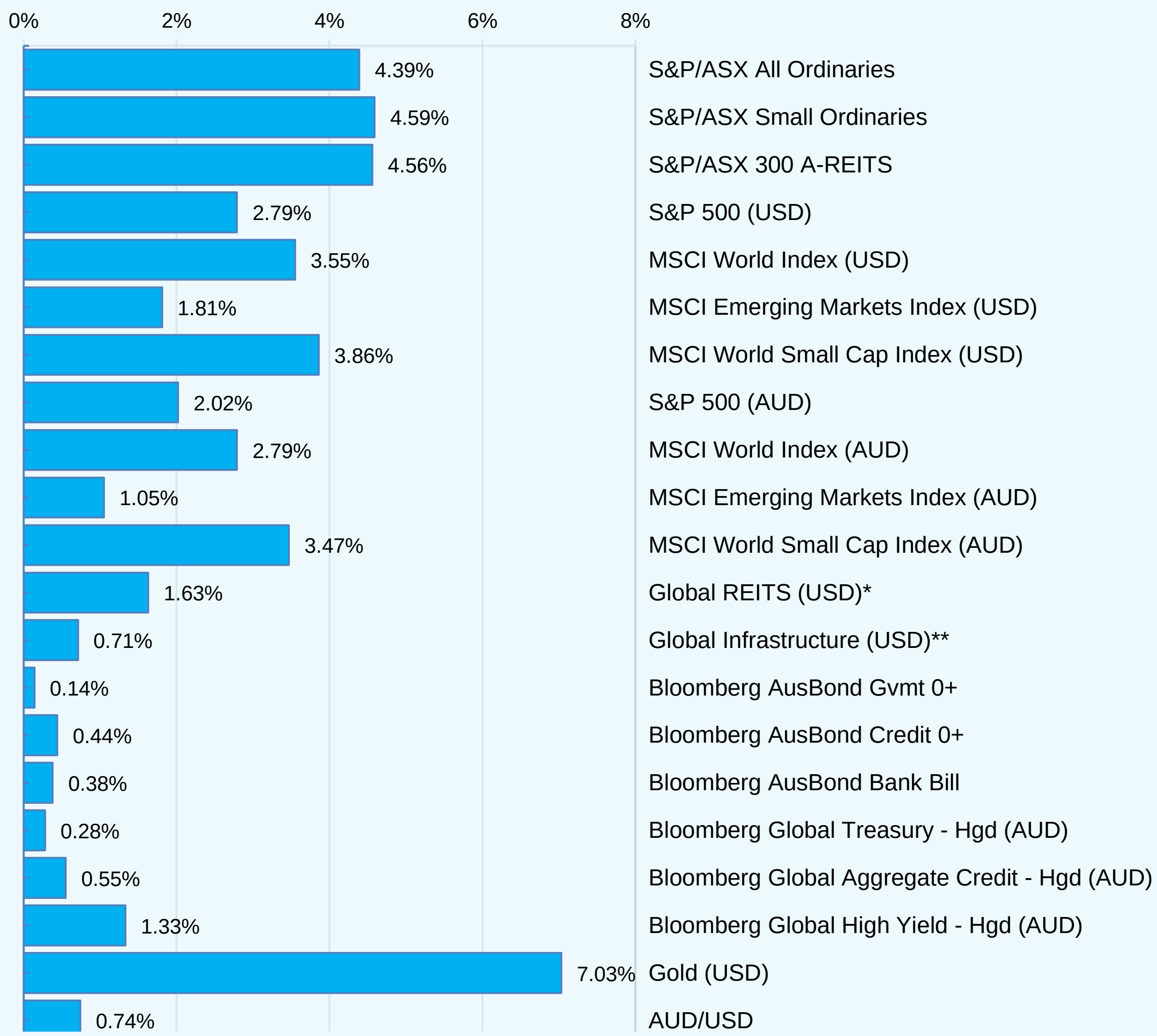
Summary

Global and domestic equity markets rallied to record highs in January, fuelled by expectations of monetary policy easing and resilient economic data.

However, markets experienced periods of volatility, with global bond yields spiking before stabilising near their initial levels.

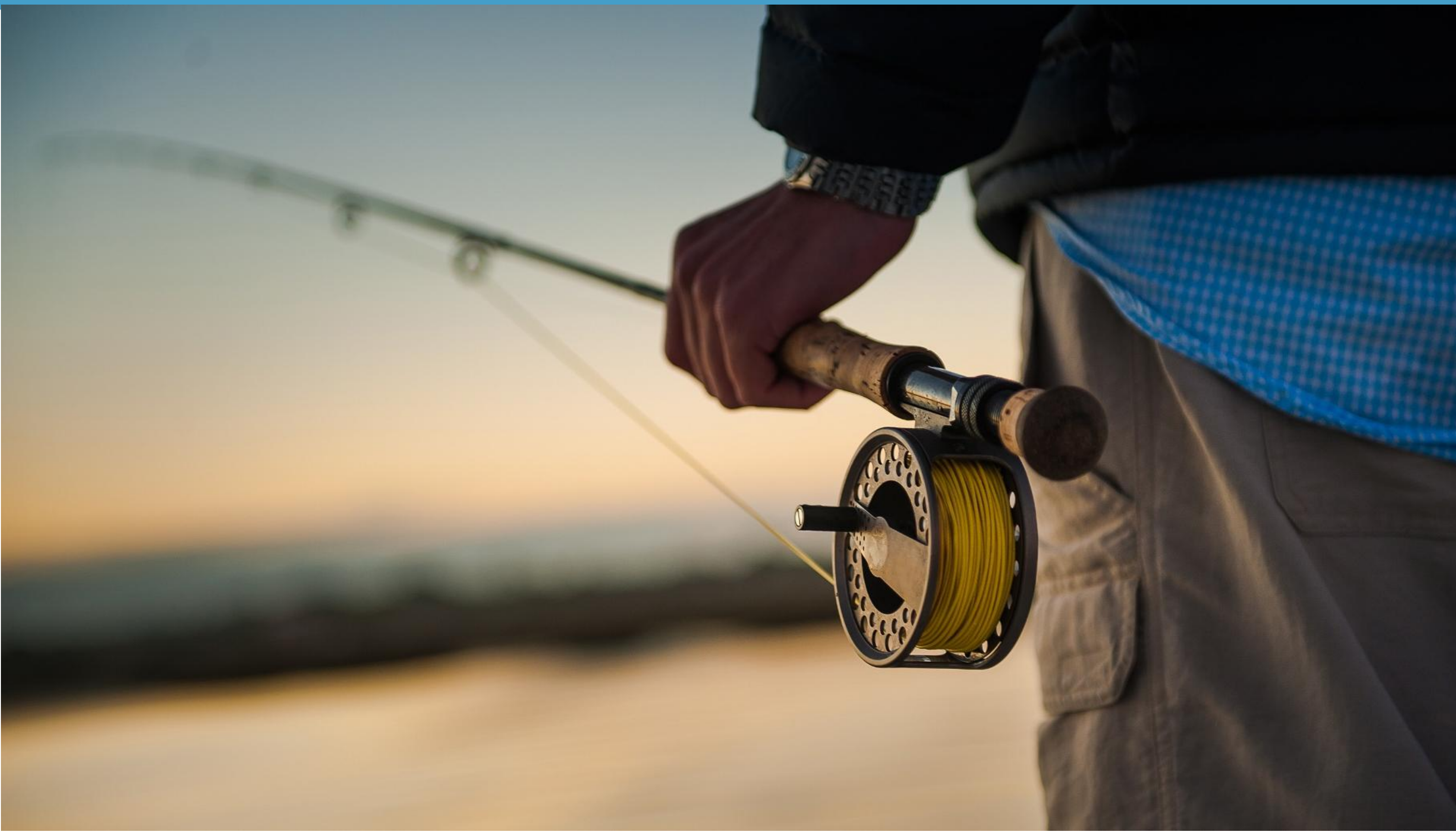
US equities were particularly volatile as concerns emerged over the sustainability of growth in Artificial Intelligence (AI) related companies.

Selected Market Returns (%)
January 2025



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

Key Developments in January



Financial Markets

Global shares had a strong start to the year, with the MSCI World Index (USD) rising 3.6% to record highs. Despite increasing trade tensions between the US and key trading partners, solid US economic growth and labour data bolstered investor sentiment. Australian and US Consumer Price Index (CPI) data eased market fears of a reacceleration in inflation.

Australian Equities

The S&P/ASX All Ordinaries reached record highs, closing 4.4% higher in January. Optimism over a likely Reserve Bank of Australia (RBA) rate cut in February boosted consumer discretionary stocks by 7.1%, while financials gained 6.1%. Utilities was the only negative sector, falling by 2.4%. Broad-based buying across the market cap spectrum resulted in the S&P/ASX MidCap 50 and S&P/ASX Small Ordinaries rising 5.6% and 4.6%, respectively.

Commodities

Precious metals saw strong gains with gold rallying 7%, breaking through previous all-time highs to close at $2832/ounce. Industrial metals also advanced, with copper up 6.3% and iron ore up 4.5%. Crude oil prices were up 0.9%, closing at $72.53/ barrel and continued to trade in a broader sideways trading range.

Global Equities

US equities continued their upward trend, with the S&P 500 (USD) rising 2.8% to new all-time highs. US shares pared their gains as volatility emerged after news of a competitive, cost-effective large language model developed by Chinese AI firm DeepSeek reached investors. The semiconductor sector was the hardest hit with Nvidia falling 17%, weighing on the tech-heavy Nasdaq (USD) which underperformed the broader US market during January, finishing 1.64% higher.

US earnings season has begun, with approximately one-third of companies reporting, 75% of which exceeded earnings estimates. The tech sector retracted 1.6% despite reporting strong earnings results. Healthcare rebounded 7% after recent weakness while financials also rallied as solid results from Banks lifted the sector by 6.6%.

Developed market equities performed well, particularly in Europe, where the Euro 100 (EUR) rose 6.3% as the European Central Bank (ECB) continued its aggressive monetary policy easing. Emerging markets lagged global peers, up 1.8%, due to softer performances by Indian and mainland Chinese shares.

Bond Markets

Global bond markets experienced similar volatile trading patterns. Both Australian and US bond markets reacted negatively to concerns that the Trump administration's policies, including tariffs and increased fiscal spending, would increase inflation and strain government finances. Despite initial weakness, bond markets retraced most of their intra-month losses.

The US benchmark 10-year yield reached a high of 4.8% before closing the month 2 basis points lower at 4.55%. Similarly, the Australian 10-year benchmark yield ended the month 12 basis points higher at 4.43%, well below its peak of 4.72%.

Economic Developments

Encouraging trends in Australian inflation raise rate cut expectations

Australia's Q4 headline CPI came in at 2.4% year-on-year, below the expected 2.5%. Trimmed mean CPI also continued to moderate from 3.6% to 3.2%, coming in lower than the 3.3% consensus estimate. While services inflation remained elevated at 4.3%, price increases in some stickier subcategories such as insurance and rents have shown signs of slowing. Money markets reacted positively and are now pricing in a high probability that the RBA will cut the cash rate by 25 basis points in February.

Employment data was considerably stronger than expected with 56.3 thousand jobs created in December. The unemployment rate, despite ticking up from 3.9%, remains low at 4% and well below the RBA's forecasts. Consumer confidence data eased slightly but remains far higher than levels recorded a year ago. Business conditions, encouragingly, proved resilient, with retail businesses reporting their first overall positive reading since 2023.

US economic resilience and inflation relief

The US labour market remains healthy despite being in a cooling trend. The unemployment rate dipped below expectations to 4.1% from 4.2% while payroll data was also strong, rising by 256 thousand, much higher than the 164 thousand expected.

December Personal Consumption Expenditure (PCE) inflation, the Fed's preferred inflation gauge, matched expectations at 2.6% allaying market concerns of a reacceleration in inflation. Preliminary data for US Q4 Gross Domestic Product (GDP) missed estimates slowing to an annualised 2.3% but remains above trend. The softer headline number, however, hid a positive acceleration in consumer spending. The Fed held rates unchanged at its January meeting, as markets had expected, but made mention of the considerable uncertainty that the Trump administration's new policies may have on the economic environment.

Elsewhere, China's GDP growth accelerated to 5.4% in Q4 ahead of expectations, boosting annual growth to 5%, supported by stimulus measures. In contrast, the Eurozone economy remains weak with sentiment indicators continuing to point to sluggish growth. This, coupled with easing inflation, led the ECB to cut its deposit facility by 25 basis points with another cut expected in March.

Outlook

The investment outlook remains mixed. Positive factors include resilient growth, moderating inflation, solid earnings, and a global trend of easing monetary policy. However, as domestic and international equity markets test all-time highs and earnings remain buoyant, optimistic expectations and relatively high valuations pose a risk. Conflicting US policies add to uncertainty, with fiscal stimulus and deregulation supporting growth, while tariffs and trade conflicts raise inflation and growth concerns.

Further market volatility and sentiment shifts are expected given the evolving conditions. An active, yet prudent, portfolio management approach remains optimal in the current uncertain environment.

Major Market Indicators

	31-Jan-25	31-Dec-24	30-Nov-24	Qtr change	1 year change
Interest Rates (at close of period)					
Aus 90 day Bank Bills	4.26%	4.44%	4.42%	-15.5	-9.5
Aus 10yr Bond	4.43%	4.31%	4.54%	+16.4	+28.3
US 90 day T Bill	4.20%	4.23%	4.39%	-24.0	-102.0
US 10 yr Bond	4.55%	4.57%	4.19%	+26.5	+59.9
Currency (against the AUD)					
US Dollar	0.624	0.619	0.651	-4.77%	-5.64%
British Pound	0.501	0.496	0.513	-1.20%	-3.32%
Euro	0.599	0.597	0.617	-1.04%	-1.37%
Japanese Yen	96.37	97.39	97.64	-3.56%	-0.08%
Trade-Weighted Index	59.60	59.70	61.50	-3.09%	-2.93%
Equity Markets					
Australian All Ordinaries	4.4%	-3.1%	3.7%	4.9%	15.1%
MSCI Australia Value (AUD)	4.1%	-3.3%	3.5%	4.2%	12.1%
MSCI Australia Growth (AUD)	4.6%	-2.7%	6.2%	8.1%	22.8%
S&P 500 (USD)	2.8%	-2.4%	5.9%	6.2%	26.4%
MSCI US Value (USD)	4.5%	-7.0%	5.4%	2.5%	18.8%
MSCI US Growth (USD)	1.8%	1.7%	7.0%	10.8%	35.0%
MSCI World (USD)	3.6%	-2.6%	4.6%	5.6%	21.9%
Nikkei (YEN)	-0.8%	4.5%	-2.2%	1.4%	11.0%
CSI 300 (CNY)	-2.8%	0.6%	0.8%	-1.5%	22.7%
FTSE 100 (GBP)	6.2%	-1.3%	2.6%	7.6%	18.0%
DAX (EUR)	9.2%	1.4%	2.9%	13.9%	28.6%
Euro 100 (EUR)	6.3%	1.0%	-0.1%	7.3%	12.1%
MSCI Emerging Markets (USD)	1.8%	-0.1%	-3.6%	-1.9%	15.3%
Commodities					
Iron Ore (USD)	4.5%	-2.9%	1.0%	2.5%	-21.5%
Crude Oil WTI U$/BBL	0.9%	6.1%	-1.9%	5.1%	-4.2%
Gold Bullion $/t oz	7.0%	-1.3%	-3.0%	2.5%	37.2%

Source: Quilla and Refinitv

Townsville Office

Location	11 Ross River Rd, Mysterton Townsville QLD 4812
Postal	PO Box 3143, Hermit Park Townsville QLD 4810
Phone	(07) 4753 9999

Ayr Office

Location	146 Queen Street, Ayr QLD 4807
Postal	PO Box 1425, Ayr QLD 4807
Phone	(07) 4783 1767