

Market Watch December 2024

Key events in December 2024

- Global shares prices fell in December given fading hopes for US interest rate cuts in 2025. Concerns over the intensifying conflicts in the Middle East and Ukraine also provided a headwind to global share prices. The sharp fall in the Australian Dollar mitigated this negative share performance, allowing global shares (unhedged) to make a strong gain in December.
- Wall Street share prices declined from their historic highs given persistent inflation and strong US economic activity data. US consumer inflation came in at 2.7% in the year to November which was the highest in the past five months. While the US central bank cut interest rates by 0.25% in December, the Federal Reserve (FED) raised their inflation and interest rate forecasts for 2025.
- Chinese shares made solid gains with the government's assurances that China's economic growth will meet their 5% growth target even with the property sector's woes. Japanese shares made strong gains with the central bank holding interest rates steady and a weakening currency.
- Australian shares fell given a more cautious assessment on the prospect for lower interest rates in both Australia and globally. The real estate sector led the falls given their sensitivity to interest rates. There were also sharp falls for the previously strong performers in the financial sector shares and information technology. There were only modest pockets of gains in the consumer staples and utilities sectors.
- Australia's subdued economy was confirmed with the September quarter's weak GDP result. Australia's economy expanded by only 0.3% in the September quarter and 0.8% for the past year. In more encouraging news, there is strong jobs growth and a low unemployment rate of 3.9% with the benefit of government health and infrastructure spending. The Reserve Bank of Australia ("RBA") also appears more open to cutting interest rates in 2025 given the "softer than expected" Australian economic activity and recent milder inflation results.

Asset class summary

Asset class returns in Australian dollars - periods to 31 December 2024

	CYTD %	1 month %	3 months %	1 year %	3 years pa %	5 years pa %	10 years pa %
Australian shares	11.4	-3.1	-0.8	11.4	7.1	8.0	8.5
Global shares (hedged)	19.5	-1.7	1.2	19.6	5.7	9.5	9.5
Global shares (unhedged)	29.4	2.7	10.9	29.5	11.2	12.9	12.3
Emerging markets (unhedged)	18.4	5.1	3.1	18.5	3.5	4.3	6.6
Australian property securities	17.6	-5.8	-6.1	17.6	3.2	6.0	8.6
Global property securities (hedged)	2.8	-6.4	-7.5	2.8	-5.6	-1.4	2.6
Global listed infrastructure (hedged)	12.0	-5.1	-3.4	12.1	2.1	2.9	5.9
Australian bonds	2.9	0.5	-0.3	2.9	-0.8	-0.2	2.0
Global bonds (hedged)	2.2	-0.9	-1.2	2.2	-1.9	-0.5	1.8
Global high yield bonds (hedged)	5.4	-0.6	-0.4	5.4	0.8	2.5	4.4
Australian inflation-linked bonds	2.2	0.2	-0.4	2.2	1.9	2.3	2.6
Cash	4.5	0.4	1.1	4.5	3.2	2.0	1.9
AUD/USD	-9.3	-5.0	-10.8	-9.3	-5.2	-2.5	-2.8

Past performance is not a reliable indicator of future performance.

Sources: Australian shares - S&P/ASX 300 Total Return Index; Global shares (hedged) - MSCI All Countries World (A\$ hedged, Net); Global shares (unhedged) - MSCI All Countries World in A\$ (Net); Emerging markets - MSCI Emerging Markets in A\$ (Net); Australian property securities - S&P/ASX 300 A-REIT Accumulation Index; Global property securities - FTSE EPRA/NAREIT Developed (A\$ hedged, Net); Global listed infrastructure - FTSE Global Core Infrastructure 50/50 (Hedged \$A);

Australian bonds - Bloomberg AusBond Composite 0+ Yr Index; Global bonds (A\$ hedged) - Barclays Global Aggregate (A\$ hedged, Gross); Global high yield bonds (A\$ hedged) - Barclays US High Yield Ba/B Cash Pay x Financials (\$A Hedged); Australian inflation-linked bonds - Bloomberg AusBond Inflation Government 0+ Yr Index; Cash - Bloomberg AusBond Bank Bill Index; AUD/USD - WM/Reuters Daily (4 pm GMT).

Key events in global markets over the last three months to December 2024

Global shares (hedged) increased by 1.2% over the quarter given persistent inflation and fading hopes for US interest rate cuts over the coming year. Concerns over the escalating conflicts in the Middle East and Ukraine also weighed on share prices. Global shares (unhedged) recorded an exceptionally strong 10.9% return given the sharp decline in the Australian dollar.

Wall Street's benchmark S&P 500 Index made historic highs and delivered a solid 2.3% quarterly return in local currency terms. The exuberant optimism on Artificial Intelligence (AI) and technology shares are the tailwind behind Wall Street's ascent. Donald Trump's election as the next US President in November is also seen as positive for US shares given the potential for lower corporate taxes and extension of personal tax rate cuts.

European shares disappointed with a negative return despite lower inflation and the European Central Bank (ECB) cutting interest rates. Slow economic growth and modest corporate profits are weighing on Europe.

Asian share markets delivered mixed performances. Chinese shares have slipped back in the past three months after an extraordinary recovery in September. Investors have once again become cautious about China's prospects given the struggling property market. However, Japanese share markets have made strong gains given that the Japanese central bank has paused on raising interest rates in recent months.

Global bonds (hedged) posted a weak -1.2% quarterly return. More persistent inflation in the United States and a more cautious outlook for 2025 from the US central bank has diminished expectation for lower interest rates in 2025. Australian bonds delivered a weak return (-0.3%) given a more cautious assessment of the prospects for lower global interest rates in the coming year.

Key events in Australia over the last three months to December 2024

Australian shares delivered a weak quarterly return of -0.8%. The resources sector was the weakest link with a disappointing -11.2% return given more concern over China's growth prospects which resulted in lower commodity prices. There was also a disappointing return of -6.1% for property securities given higher bond yields. There were some pockets of strength with solid gains for financial sector shares (5.9%), industrials (3.2%) and communication services (2.2%). However, these gains were not enough to compensate for the broader market weakness.

Australia's economy continued to display subdued economic activity. The negative impact of high consumer prices, mortgage interest rates and rents continued to squeeze budgets. Australia is regrettably in a 'per capita' recession where annual population growth was greater than economic growth in the year to September. Yet there has been some more encouraging news in terms of solid jobs growth and milder inflation. Australia's annual inflation rate declined to 2.1% in October. This moderation in price rises reflects the benefit of government electricity subsidies. According to the Australian Bureau of Statistics, "Electricity prices fell 35.6% in the 12 months to October"¹. Given the "softer than expected" Australian economic activity and milder inflation results, the RBA appears more open to cutting interest rates in 2025 judging by their commentary from the December 2024 meeting.

Global prospects

Global share prices made very strong gains in 2024 despite some challenges. The enthusiasm for AI and technology were the key factors supporting global rising share prices. There was also confidence that with inflation gradually falling across the world, central banks would make further cuts to interest rates. A lower interest rate environment should be more supportive of corporate profits and thereby share prices in the long run.

However, these exuberant expectations may be challenged by considerable global political risks in 2025 with the continuing Russian-Ukraine war as well as the intensifying conflict in the Middle East. The return of Donald Trump to the White House in January 2025 could also generate concerns for the global economy with the potential imposition of large tariff increases for America's trading partners (particularly China and Europe) as well as the threatened deportation of illegal immigrants.

Given these complex and significant risks, investors should maintain a disciplined and diversified strategy.

¹ Australian Bureau of Statistics, media release 27/11/2024, "Monthly CPI Indicator rose 2.1% in the year to October 2024"

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