INVESTMENT AND ECONOMIC SNAPSHOT

2023 YEAR IN REVIEW

HIGHLIGHTS

JANUARY 2023

The year started well, with major market indices showing above-average returns. News of decreasing inflation in the U.S. led to increased investor optimism and speculative buying. The U.S. dollar declined due to positive global economic developments and improved risk sentiment, along with narrowing interest rate differentials. Investors were optimistic about continued economic stability and growth in 2023 following an exceptionally poor and highly unusual 2022 for global financial markets – the first time in recorded history where bonds and stocks fell by more than 10%.

FEBRUARY 2023

February signalled a potential continuation of the bear market, hinting at a slowdown in the recent rally. Global bond yields rose as concerns grew over central banks needing to respond more forcefully to elevated inflation. The RBA and the U.S. Federal Reserve raised rates by 25 bps, while the ECB, BoE, and RBNZ increased rates by 50 bps.

MARCH 2023

This month witnessed the dramatic collapse of U.S. regional banks Silicon Valley Bank and Signature Bank, alongside the European heavyweight Credit Suisse, creating shockwaves in financial markets which could have been worse if not for the swift intervention of the Fed to safeguard depositors. Investors sought refuge in government bonds, causing a significant decline in yields. Meanwhile, the price of gold surged by +8.2% and finished just below $2000/oz by month-end. The U.S, dollar weakened on expectations the deteriorating economic outlook would prompt the Federal Reserve to implement interest rate cuts in the second half of the year.

APRIL 2023

Global financial markets ended the month on a positive note. European exchanges performed well, driven by strong gains in UK and Euro area equities due to currency strength against the U.S. dollar. However, Chinese stocks declined, impacting the overall emerging markets equity benchmark negatively. The RBA surprised markets with a 25 bps rate hike at its early May meeting, while the U.S. Fed delivered a 25 bps rate hike soon after. Notably, both U.S. and Australian 10-year bond yields reached their lowest levels since 2023, standing at 3.31% and 3.19%, respectively. First Republic Bank followed in the footsteps of Silicon Valley Bank and Signature Bank to become the third large-cap U.S. bank to fold when regulators seized it and then sold it to JP Morgan Chase.

MAY 2023

Global assets faced challenges this month due to shifts in investor expectations for the Fed's fund rate, resurfacing U.S. regional bank issues, debt ceiling concerns and disappointing economic data. However, Japan's Nikkei stood out by reaching its highest level since July 1990. The U.S. Senate passed crucial bipartisan legislation just in time, approving the debt ceiling bill and preventing a U.S. government default. Notably, First Republic, a U.S. regional bank, collapsed, marking the second-largest bank failure in U.S. history.

JUNE 2023

The performance of financial markets improved in June, with most major financial markets posting better than expected results. U.S. mega caps, benefiting from market enthusiasm for all things artificial intelligence continued their impressive march. In one day, Nvidia's market cap rose by more than the total market cap of 492 of the 500 members of the S&P 500. After 10 policy hikes in a row, the U.S. Fed decided to pause in June – while simultaneously lifting both growth and core inflation forecasts, indicating they have more to do on interest rates throughout the forecast period.

JULY 2023

Global financial markets improved in July, with most major financial assets generating solid returns for the second consecutive month. Asian markets, especially Chinese investable stocks (+5.4%), led the way with strong returns. Emerging Market equities saw a boost in performance (+6.3%) due to the Chinese rally. U.S. stocks also performed well due to better-than-expected earnings results, fostering investor optimism for a soft landing of the economy. However, safe-haven government bonds experienced a sell-off, pushing up yields on 10-year U.S. Treasuries and Australian government 10-year bonds. The U.S. Federal Reserve increased rates by a further 25 bps, citing concerns about inflation and tight labour markets for its decision.

AUGUST 2023

Most major financial assets recorded losses as investors worried about the potential impact of persistent inflation, which might lead to further tightening by the Federal Reserve. Additionally, the absence of substantial Chinese stimulus for their slowing domestic economy added to investor concerns. Fitch, an independent credit rating agency, caused a stir by downgrading the U.S. credit rating one notch to AA+ from AAA. Fitch's explanation for the downgrade was that it reflects the expected fiscal deterioration over the next three years, a high and growing general government debt burden and the erosion of governance compared to other AAA-rated economies.

SEPTEMBER 2023

September's reputation for being a poor month for markets came to bear, leading to a widespread sell off across asset classes. The U.S. Federal Reserve held the funds rate steady and made only minor changes to its policy statement. However, significant shifts in economic and interest rate projections, suggesting a "higher (interest rates) for longer" outlook, rattled markets as investors grew cautious. Meanwhile, the RBA, under new Governor Michele Bullock, opted to keep interest rates unchanged, expressing concerns about persistent inflation and acknowledging economic uncertainty.

OCTOBER 2023

In October, the market downturn continued, as strong U.S. economic data led to higher global bond yields. Both stocks and bonds declined for the third month in a row. Surprisingly, despite potential oil supply risks from the Middle East crisis, oil prices fell, indicating concerns about reduced demand. Gold stood out as the best-performing asset, rising amid rising geopolitical tensions, even with increasing real bond yields. The U.S. dollar strengthened due to global demand for its safe-haven status and the strong U.S. economy, making it the only asset to withstand the overall market decline in October. Hamas launched a surprise attack on Israel, escalating into a war. Additionally, the U.S. 10-year bond yield reached 5% due to government debt issuance and a better-than-expected U.S. GDP result.

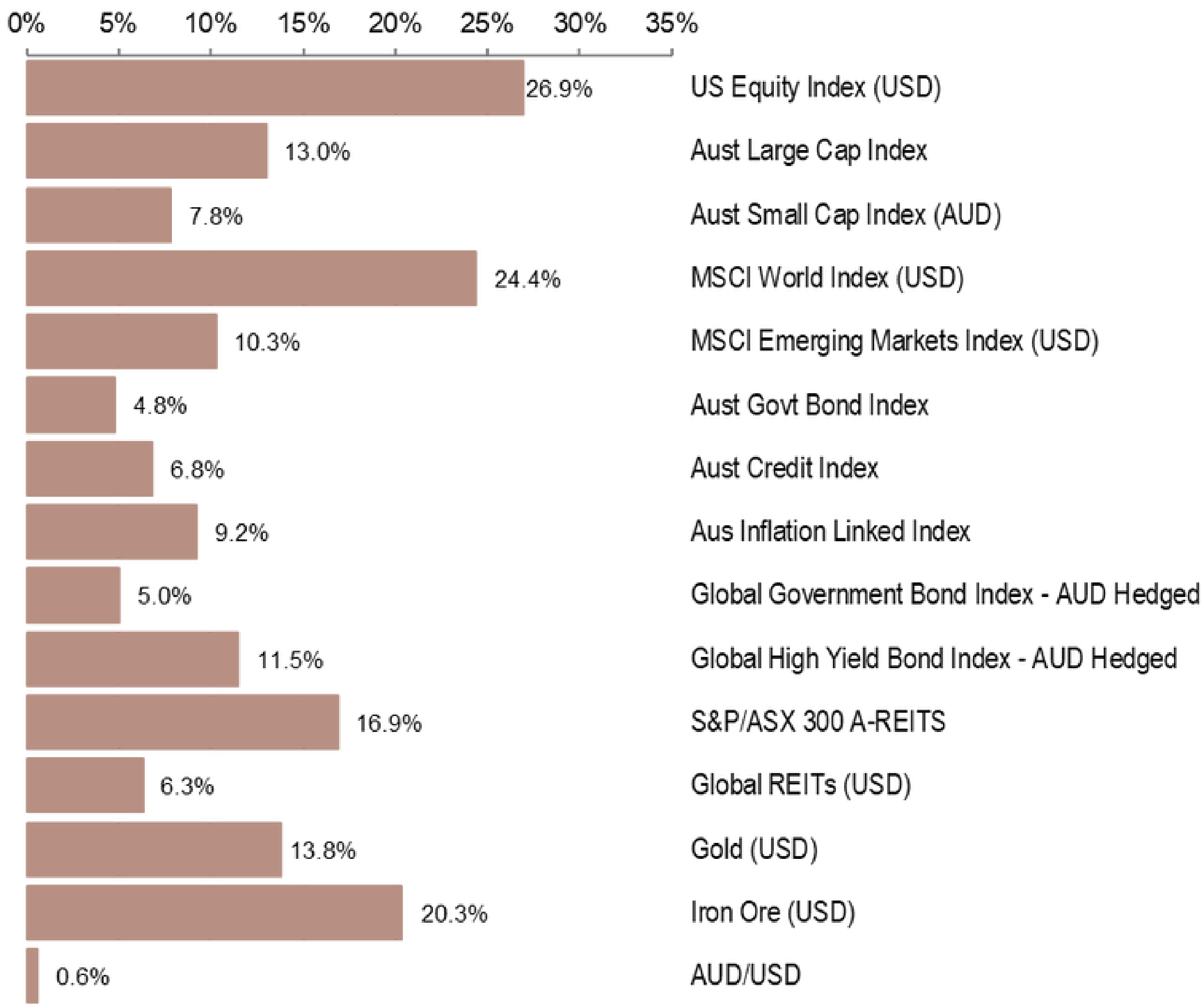
NOVEMBER 2023

Investors received an early Christmas present as global financial markets delivered exceptional gains in November. The anticipation of substantial Federal Reserve rate cuts in 2024 propelled the market higher. The RBA lifted the cash rate by 25 bps to a 12-year high of 4.35%. Governor Michele Bullock's post-meeting speech underscored that although inflation is moderating, it remains too high and is more persistent than anticipated. The statement left open the possibility of another rate increase, highlighting that future incoming data and the evolution of risks will determine whether the RBA lifts interest rates again.

DECEMBER 2023

Financial markets ended 2023 on a high note, with stocks and bonds rallying on easing inflation fears and consensus expectations of a soft landing. With inflation under control and the U.S. economy showing resilience, investors became more optimistic on the outlook for 2024. No doubt this was aided by comments made by Federal Reserve Chair, Jerome Powell stating that most committee members of the Fed believe rates are at or near the peak and that no members expect additional rate hikes in 2024. Investors reacted positively to this dovish pivot, pricing in 140 bps of rate cuts by the end of 2024. While many stock markets ended the year with strong returns, the U.S. market proved to be the key driver of global returns during 2023, sweeping all before it. The Australian market lagged the U.S. market given that banks, resources and defensive names did not keep pace with returns in high-flying global sectors.

SELECTED MARKET RETURNS 2023



Sources: Thomson Reuters, Bloomberg

OUTLOOK

Despite the notable absence of the widely anticipated recession in 2023, our attention remains fixed on the potential risks of an economic downturn that could impact major economies and financial markets in 2024. Recent signs of output growth slowdowns in response to tighter monetary policy and rising cost of living pressures are worth noting. Labour markets, while still tight, are gradually easing with declining job vacancies, increasing delinquencies and a return of personal savings to pre-COVID levels.

Several global central banks have hit the pause button on hiking cash rates, deeming financial conditions sufficiently restrictive. Market sentiment aligns with this decision, pricing in rate cuts for the U.S. in anticipation that central banks' next move will be to ease. This is consistent with recent remarks made by the Federal Reserve Chair, Jerome Powell, who is on the record as saying that most committee members (of the U.S. Federal Reserve) believe rates are at or near the peak and that no members expect additional rate hikes in 2024.

Focusing on Australia, it is apparent that its economic cycle lags behind its global peers. Slow implementation of rate hikes compared to other developed market economies, coupled with stubbornly high inflation driven by wage growth and immigration, poses unique domestic challenges. A further rate hike could exert downward pressure on domestic activity, causing both domestic bonds and equity indices to trail their international counterparts.

Despite prevailing risks, including ongoing geopolitical tensions, there are opportunities investors can leverage in this uncertain environment. In the bond market for example, our preference leans towards the safety and stability offered by government bonds, expected to exhibit resilience in a potential recession and upside. Infrastructure also emerges as an intriguing opportunity, given its defensive characteristics, ability to shield against inflation surges, high yield potential, and robust global policy support.

A further consideration for markets to contemplate in 2024 is whether the exceptional market rally experienced in November and December 2023 can continue. While possible, our view is that this is unlikely to be the case given high valuations and flat earnings growth prospects. Furthermore, the outlook for inflation and interest rates, which is uncertain, remains a pivotal driver of future market direction. Despite a gradual decline in inflation over the past 12 months, central bankers continue to wrestle to bring it under control. Challenges in controlling wages growth and related services inflation could impact the timing and pace of future monetary easing.

Another risk lies in the sustainability of economic growth. Despite the U.S. defying expectations of a recession in 2023 with better-than-expected growth, there are signs emerging indicating that the labour market is easing, delinquencies are on the rise, and personal savings levels are starting to dry up.

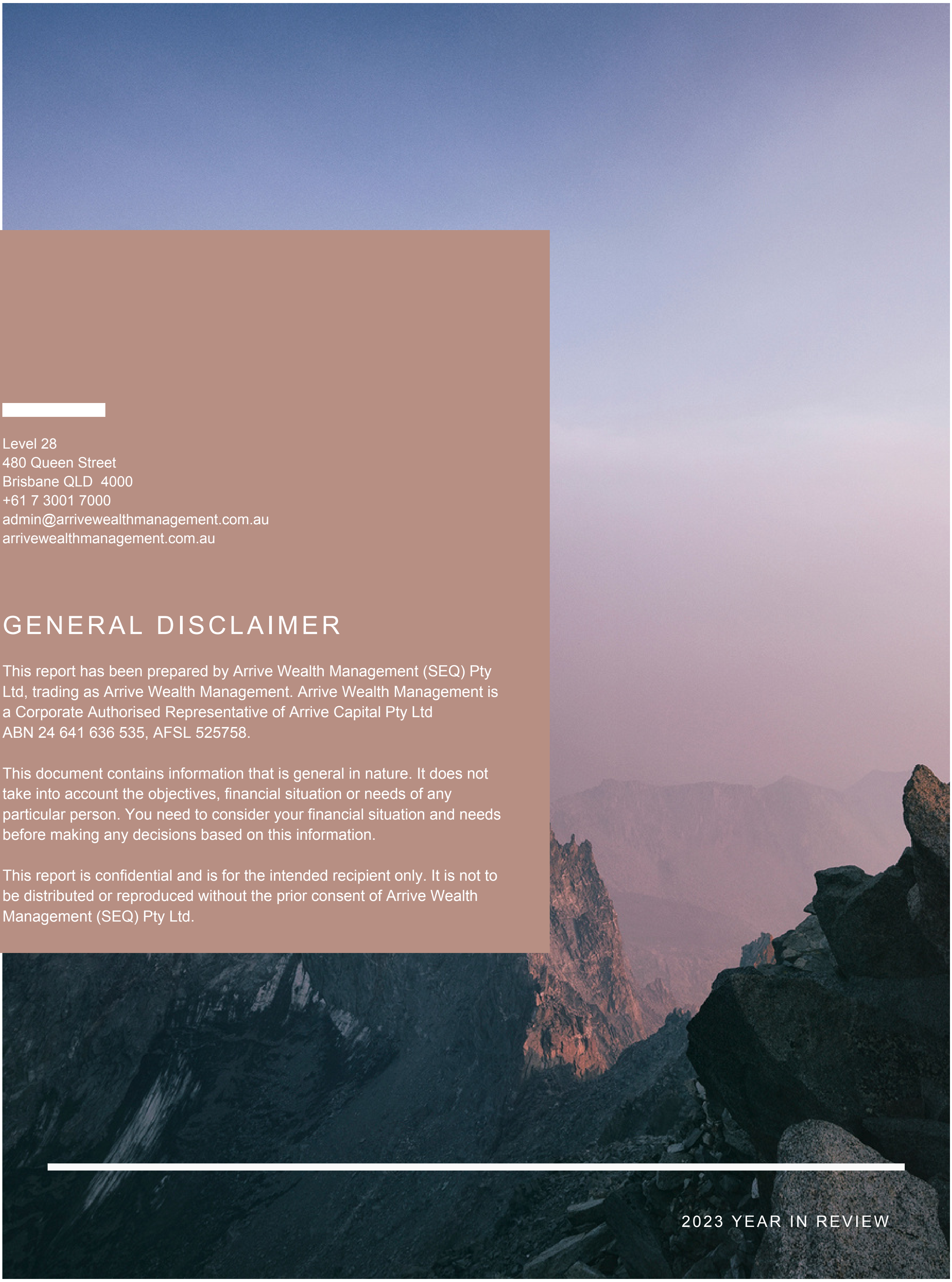
We advocate for continued caution as we enter the new year. Markets are currently priced for perfection, anticipating a best-case (soft landing) scenario in 2024. However, as 2023 demonstrated, each year carries risks that can disrupt even the best-laid plans, leading to disappointment and weaker-than-expected investment returns. Patience is therefore recommended as we climb a new wall of worry and await potential opportunities arising from the onset of a recession and subsequent central bank interventions.

MAJOR MARKET INDICATORS

	31-Dec-23	30-Nov-23	31-Oct-23	Qtr change	1 year change
Interest Rates (at close of period)					
Aus 90-day Bank Bills	4.35%	4.38%	4.21%	+22.0	+118.0
Aus 10 yr Bond	4.19%	4.58%	4.63%	-2.3	+63.7
US 90-day T Bill	5.20%	5.25%	5.33%	-12.0	+90.0
US 10 yr Bond	3.87%	4.34%	4.91%	-70.7	+3.5
Currency (against the AUD)					
US Dollar	0.682	0.663	0.633	5.73%	0.62%
British Pound	0.537	0.523	0.523	1.55%	-4.60%
Euro	0.618	0.606	0.599	1.23%	-2.80%
Japanese Yen	96.09	97.79	95.89	0.04%	7.51%
Trade-Weighted Index	62.60	61.50	60.20	2.45%	1.95%
Equity Markets					
Australian All Ordinaries	7.4%	5.2%	-3.9%	8.7%	13.0%
MSCI Australia Value (AUD)	7.2%	3.7%	-2.8%	8.1%	14.3%
MSCI Australia Growth (AUD)	7.2%	6.4%	-4.5%	9.0%	14.5%
S&P 500 (USD)	4.5%	9.1%	-2.1%	11.7%	26.3%
MSCI US Value (USD)	5.5%	7.2%	-2.8%	9.9%	9.2%
MSCI US Growth (USD)	3.9%	11.4%	-1.8%	13.7%	46.7%
MSCI World (USD)	4.9%	9.4%	-2.9%	11.5%	24.4%
Nikkei (YEN)	0.1%	8.5%	-3.1%	5.2%	31.0%
CSI 300 (CNY)	-1.8%	-2.1%	-3.1%	-6.8%	-9.1%
FTSE 100 (GBP)	3.9%	2.3%	-3.7%	2.3%	7.9%
DAX (EUR)	3.3%	9.5%	-3.7%	8.9%	20.3%
Euro 100 (EUR)	2.8%	5.9%	-2.8%	5.8%	16.8%
MSCI Emerging Markets (USD)	3.9%	8.0%	-3.9%	7.9%	10.3%
Commodities					
Iron Ore (USD)	7.6%	7.8%	2.1%	18.3%	20.3%
Crude Oil WTI U$/BBL	-4.9%	-7.4%	-10.1%	-20.8%	-10.4%
Gold Bullion $/t oz	1.4%	2.1%	7.5%	11.2%	13.8%

Source: Quilla and Refinitv

ARRIVE
WEALTH MANAGEMENT



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