INVESTMENT AND ECONOMIC SNAPSHOT

JANUARY 2024

HIGHLIGHTS

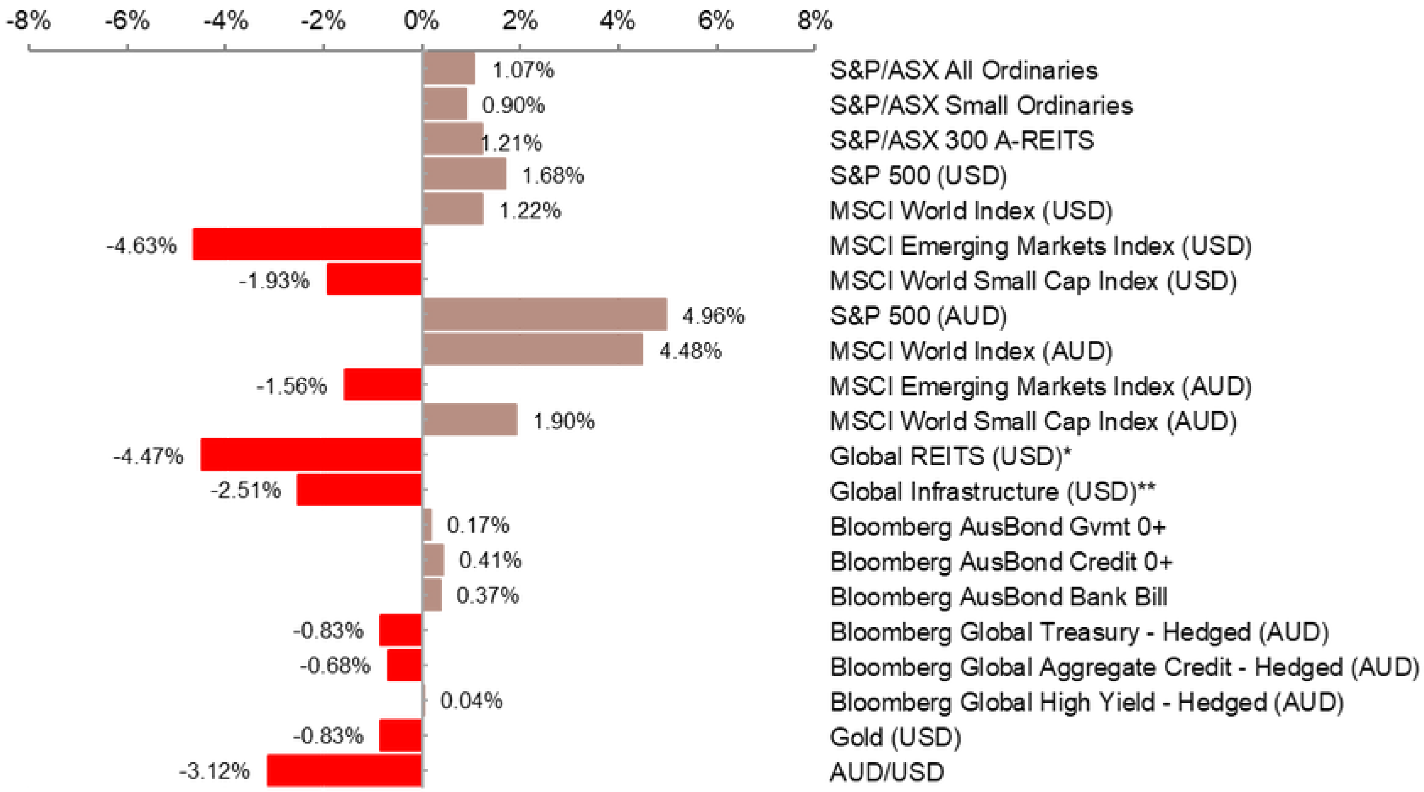
- The Santa Claus rally that began in November 2023 lost steam in January as the Federal Reserve pushed back on optimistic rate cut expectations.

- Australian inflation is moderating, dropping from a peak of 7.8% a year ago to 4.1%, surprising the RBA which predicted inflation to come in at 4.5%.

- Australian retail sales declined in December, reflecting increased cost pressures and the pull-forward effect of November’s Black Friday sales.

- The recent U.S. Employment Report indicated the U.S. labour market is in decent shape, contradicting the downward trends that other measures including job openings, hiring intentions and the quits rate are indicating.

SELECTED MARKET RETURNS JANUARY 2024



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

JANUARY KEY DEVELOPMENTS

MARKETS REACT TO NEWS THAT A MARCH RATE CUT IS LIKELY

The global financial rally that characterised late 2023, experienced a slowdown as the new year commenced, triggering a widespread sell-off in early January and mixed results across financial markets as the month progressed.

Chinese stocks took a significant hit, declining by -6.3% for the month. This downturn also affected related assets like emerging market equities and industrial metals which are especially sensitive to Chinese economic and market conditions.

In contrast, following a brief dip at the close of 2023, government bond yields saw an increase in January, driven by a shift in market expectations favouring a delayed pivot to rate cuts.

In the U.S., despite a sluggish beginning, the S&P 500 ended the month on a positive note. Other global equity markets also ended the month in the black. The standout performer was the Japanese equity market (Nikkei), experiencing a robust 8.4% gain. This surge was propelled by strong buying interest from foreign investors, coinciding with a weaker Japanese yen.

DECEMBER QUARTER SEES ANOTHER EASE IN INFLATION

In the December 2023 quarter, annual inflation stood at 4.1%, showing a decline from the 5.4% rise observed in the September 2023 quarter. This marks the fourth consecutive quarter of decreasing annual inflation and a material fall from the peak of 7.8% recorded in the December 2022 quarter. The trimmed mean annual inflation of 4.2% also registered a decrease in comparison to 5.1% inflation in the September 2023 quarter and the peak of 6.8% in December 2022.

Furthermore, the inflation figures signify the fifth successive quarter of reduced annual inflation for goods, moving down from the peak of 9.6% in the September 2022 quarter.

Annual inflation for various goods, including clothing, footwear, furniture, and household appliances, moderated in the December 2023 quarter compared to the same period a year ago. Annual services inflation also experienced a decline for the second consecutive quarter, stepping down from the peak of 6.3% in the June 2023 quarter.

This unexpected outcome was met with general approval. It undoubtedly presents a point of consideration for the RBA in their upcoming policy meeting, given their prediction that inflation would finish the year at 4.5%.

AUSTRALIAN RETAIL SALES FALL IN DECEMBER

In December 2023, retail sales dropped by 2.7% following a 1.6% increase in November. This decline resulted from consumers shifting their usual December spending to November to take advantage of Black Friday deals. Despite the seasonal drop, there was a slight 0.1% increase in retail turnover overall, indicating restrained underlying spending.

The impact was felt across various non-food industries, with household goods retailing experiencing the most significant decline at -8.5%. Sectors like department stores and clothing also saw notable falls. In the food-related sector, cafes and restaurants had a 1.1% reduction, while food retailing increased modestly by 0.1%.

This downturn affected all states and territories, with most experiencing declines exceeding 2.0%. Retailers noted slow trading conditions in early December, but business picked up closer to Christmas and Boxing Day sales. The data highlights the growing impact of events like Black Friday on consumer behaviour and the ongoing challenge that cost of living pressures are having on retail spending.

JANUARY KEY DEVELOPMENTS CONT.

A MIXED REPORT CARD FOR THE U.S. ECONOMY

In December, the U.S. economy continued to shine. Consumer spending, a pivotal growth factor, exceeded expectations by rising 0.5%. Inflation pressures showed some relief as the core price measure dropped from 3.2% to 2.9%, just below predictions but still above the Fed's 2% target. The U.S. Employment Report added to the positive momentum, reporting a robust increase of 353 thousand in nonfarm employment, surpassing the expected slowdown to 185 thousand. Job gains were widespread, spanning industries like professional services, health care, manufacturing, retail and transportation.

However, amidst these positive trends, cracks are starting to appear. Bankruptcies and corporate defaults have seen a significant uptick. Despite the job market holding up well, job openings and hiring metrics have started to deteriorate, signalling a potential softening in labour demand in 2024.

DEFLATIONARY HEADWINDS DOMINATE IN CHINA

China's economic situation at the end of 2023 showed mixed signals. On the positive side, December's trade data surpassed expectations, with a 0.2% year-on-year growth in imports and a rise in exports from 0.5% to 2.3% year on year in USD terms, hinting at a potential recovery in both domestic and foreign demand.

However, there were concerns in the inflation data, which remained negative. In December, both the Consumer Price Index and Producer Price Index contracted, standing at -0.3% and -2.7% year on year, respectively.

OUTLOOK

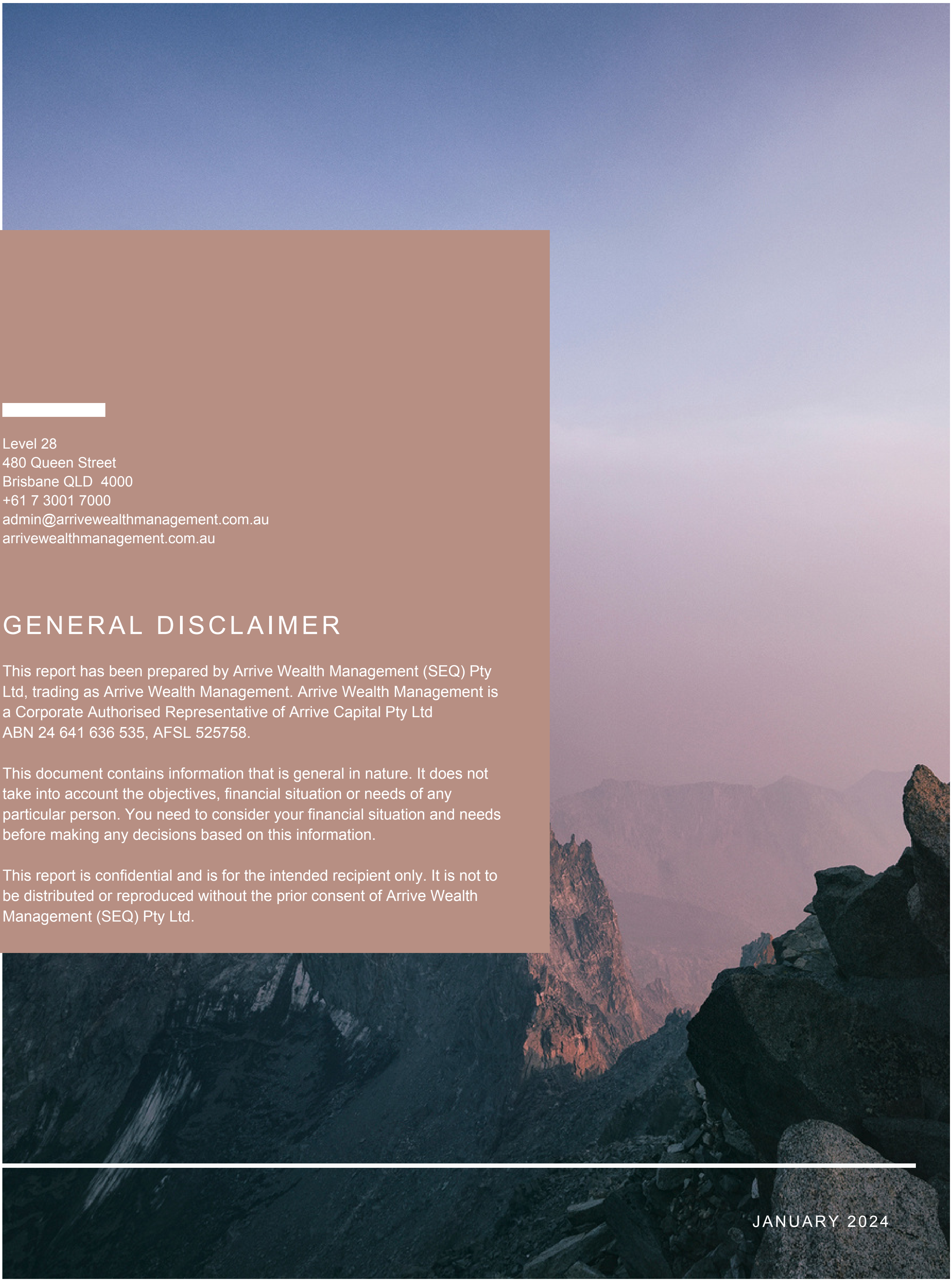
After two years of interest rate increases in most developed markets, and with inflation coming down from its peak, we expect central banks to keep rates steady in the first half of 2024 before considering rate cuts. As inflation moves closer to the targets set by central banks, monetary policy will start to feel more restrictive. The resilience shown by global economies in 2023 is likely to fade as the impact of COVID-era fiscal policies and excess savings diminish.

We anticipate policy interest rates will either reach their highest point or stay close to it in the first half of 2024, potentially slowing down economic activity. In 2024, the U.S. and other developed markets might experience slower growth, with a chance of entering mild recessions. This economic slowdown, combined with inflation reaching target levels, leads us to believe that central banks will begin to ease policy in the latter half of 2024.

MAJOR MARKET INDICATORS

	31-Jan-24	31-Dec-23	30-Nov-23	Qtr change	1 year change
Interest Rates (at close of period)					
Aus 90 day Bank Bills	4.35%	4.35%	4.38%	+14.0	+103.0
Aus 10yr Bond	4.03%	4.19%	4.58%	-60.0	+42.2
US 90 day T Bill	5.22%	5.20%	5.25%	-11.0	+64.0
US 10 yr Bond	3.95%	3.87%	4.34%	-96.1	+41.9
Currency (against the AUD)					
US Dollar	0.661	0.682	0.663	4.41%	-6.19%
British Pound	0.518	0.537	0.523	-0.82%	-9.08%
Euro	0.608	0.618	0.606	1.42%	-6.37%
Japanese Yen	96.45	96.09	97.79	0.58%	5.14%
Trade-Weighted Index	61.40	62.60	61.50	1.99%	-1.60%
Equity Markets					
Australian All Ordinaries	1.1%	7.4%	5.2%	14.2%	7.3%
MSCI Australia Value (AUD)	1.8%	7.2%	3.7%	13.3%	9.3%
MSCI Australia Growth (AUD)	1.9%	7.2%	6.4%	16.3%	9.6%
S&P 500 (USD)	1.7%	4.5%	9.1%	16.0%	20.8%
MSCI US Value (USD)	0.5%	5.5%	7.2%	13.7%	6.4%
MSCI US Growth (USD)	2.6%	3.9%	11.4%	18.7%	36.4%
MSCI World (USD)	1.2%	4.9%	9.4%	16.2%	17.6%
Nikkei (YEN)	8.4%	0.1%	8.5%	17.8%	35.6%
CSI 300 (CNY)	-6.3%	-1.8%	-2.1%	-9.9%	-20.7%
FTSE 100 (GBP)	-1.3%	3.9%	2.3%	4.9%	2.1%
DAX (EUR)	0.9%	3.3%	9.5%	14.1%	11.7%
Euro 100 (EUR)	2.2%	2.8%	5.9%	11.3%	10.7%
MSCI Emerging Markets (USD)	-4.6%	3.9%	8.0%	7.1%	-2.5%
Commodities					
Iron Ore (USD)	-6.7%	7.6%	7.8%	8.2%	2.3%
Crude Oil WTI U$/BBL	6.1%	-4.9%	-7.4%	-6.5%	-3.3%
Gold Bullion $/t oz	-0.8%	1.4%	2.1%	2.6%	6.2%

Source: Quilla and Refinitv



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