Equity Trustees

December 2024

MONTHLY SUMMARY

MARKET SUMMARY

- **Share markets mostly fell** – Any thought of a Santa Claus rally was thwarted by a more hawkish US Federal Reserve as Chairman Powell signalled a slower than expected easing path in 2025.
    - In local currency, the ASX200 (-3.2%) underperformed the Japanese Nikkei 225 (+4.5%), US S&P500 (-2.4%) and MSCI World ex Australia (global equities -2.7%) during the month.
    - In $A terms, however, global equities <u>rallied</u> 2.6%.
    - The Japanese equity market was supported by speculation the Japanese Government Pension Investment Fund could raise its allocation to Japanese equities and a more dovish outlook from the local central bank.
    - Emerging markets finished the moth higher supported by Chinese equities.
- **US dollar strength was notable** - The $A was hit hard helping unhedged investors in global equities. The AUD/USD fell 5% during the month to 61.88c. Over the December quarter the AUD/USD fell by more than 10%!
    - As shown in the table below, the $A has not been alone with the USD surging against most major currencies over the last 1, 3 and 12 months.
    - A strong US economy, the market pricing in less US rate cuts and expected Trump policies have all assisted the US Dollar (USD) in December.

Performance of major currencies against USD - December 2024

			Performance (%)		
Country	Currency	Last Price	1m %	3m %	12m %
Australia	AUD	0.6188	(5.0)	(10.5)	(9.2)
New Zealand	NZD	0.5594	(5.4)	(11.9)	(11.5)
Canada	CAD	0.6952	(2.6)	(6.0)	(7.9)
China	CNY	0.1370	(0.7)	(3.8)	(2.7)
Europe	EUR	1.0354	(2.1)	(7.0)	(6.2)
India	INR	0.0117	(1.3)	(2.1)	(2.8)
Japan	JPY	157.2000	(4.7)	(8.6)	(10.3)
South Africa	ZAR	0.0531	(4.2)	(8.4)	(2.6)
UK	GBP	1.2516	(1.7)	(6.4)	(1.7)

Source: CLSA, Bloomberg

- **Australian bonds fared better than US bonds which sold off on Fed comments** – Australian bonds (Bloomberg AusBond Comp 0+Y index) gained 0.51%. Australian 10-year bond yields rose 1bps to 4.36%, while US 10-year bond yields soared 40bps to 4.57% as investors priced in less US rate cuts as the US Fed repositioned their dot plot forecasts. US Bonds were also sold on increased concerns about the US debt ceiling and the increase in bond issuance to fund a growing US debt position. European bonds also sold off. Credit (ex MBS) markets remained broadly supportive returning 0.71% over the month.

- **Defensive sectors fared best within the ASX** – The best performers for the month were Consumer Staples (+0.6%), Utilities (+0.4%) and Industrials (+0.3%). The worst performers were Property (-6.0%), Materials (-4.5%) and Information Technology (-4.4%).
    - Property (AREITs) suffered from higher global bond yields and a fall in Goodman Group's (GMG) share price. Global REITs were also sold off aggressively.
    - Taking market capitalisation into account, the top five contributors to the ASX200 were Transurban (+6.2bps), Computershare (+3.9bps), Telstra (+2.7bps), De Grey Mining (+1.6bps) and Coles (+1.4bps). Conversely major banks, BHP and Goodman Group weighed on the market.
    - De Grey Mining received a takeover offer from Northern Star while Insignia Financial (IFL) rejected a takeover offer from Bain Capital.
- **Global Economy: US Fed alters the dot plots.** Overall, global economic activity broadly expanded at a slightly faster pace in December driven by services activity with manufacturing remaining soft. However, trade uncertainty surrounding the new US President elect's policies could dampen international business confidence.
    - The US Federal Reserve cut rates another 25bp to 4.25%-4.5% but the outlook for rate cuts changed with less rate cuts expected in 2025. The US Fed noted a strong undercurrent of economic activity supported by productivity gains. US consumer activity has remained solid. Household balance sheets remain robust while access to credit has started to improve.
    - European dataflow continued to lag the US.
    - Economic data in China has slowly started to improve following policy stabilisation measures. Notably, housing transaction and price dynamics have improved, and local government funding pressures have eased. However, consumption and real estate investment in China remain weak and deflationary pressures persist.
- **Australian economic activity mixed** – GDP was weaker than expected impacted by soft income growth. However, the unemployment rate unexpectedly tightened to 3.9% versus 4.1% previously.
    - National house prices fell 0.2% in December led by Sydney and Melbourne.
    - Elevated government spending remains the key driver of economic activity, while private sector and household demand remains subdued.
- **Commodities broadly under pressure** – Oil (+4.4%) rallied, lithium prices marginally rose (+1%), while base metals (LME Index -2.7%), precious Metals (-2.6%) and iron ore (-5%) lagged.
- **ASX200 valuations remain dear** - In aggregate, ASX200 earnings remained broadly unchanged over the month. ASX200 valuation levels remain rich at 18x forward earnings vs the long-term average of 15x.