Atchison

December 2024

Monthly Market Update

Illuminating
the way forward

Key Events December 2024

Interest rates, global growth, and geopolitical shifts defined a resilient yet uncertain 2024.

- Despite running out of steam and pulling back in December the Australian share market delivered solid performance in CY2024 returning +11% (including dividends), hitting no less than 24 new highs over the 12 months.
- US shares were the star performers with Wall Street's S&P 500 and Nasdaq Composite indices up +25% and +31% respectively in CY2024, before dividends, driven by Trump's US election victory, interest rate cut optimism and excitement around artificial intelligence (AI).
- As widely expected, the RBA at its December meeting left rates at 4.35% noting that data since the last meeting was consistent with its expectations. Stating "whether further tightening of monetary policy will be required…will depend upon the data and the evolving assessment of risks".
- September quarter GDP and other data released leave no doubt that the Australian household sector is getting hit hard by rate hikes. Annual GDP growth was stronger than expected at 2.1%yoy, this reflected upwards revisions to past quarters with September quarter GDP growth coming in well below expectations at 0.2%qoq.
- ANZ job ads fell again in November and are down 17% on a year ago pointing to a softer jobs market.
- Geopolitical tensions continued over the last week with the fall of the Assad regime in Syria, adding further instability in the Middle East. But implications for investment markets are minimal.
- The US Fed cut interest rates in December by 25 basis points to 4.25% - 4.5%, signalling progress toward its dual goals of maximum employment and price stability.
- While the Fed's statement showed minimal changes, it introduced a new qualifier on the "extent and timing" of future rate cut, suggesting a slower pace in 2025 than previously anticipated. Inflation remains stubborn.
- The Fed has not yet started modelling President elect Donald Trump's proposal on trade, taxation and immigration into their economic projections.
- Meanwhile, the drum beat of global rate cuts continues with the Bank of Canada, the ECB and Swiss National Bank cutting rate again. BoC cut by 0.5% to 3.25%, the ECB cut its rates by 0.25% taking the deposit rate to 3.0%.
- Economic data in China has slowly improved following policy stabilisation measures. Notably housing transaction and price dynamics have improved. But consumption and real estate investment in China remain weak.

Asset Class Summary

Table 1: Asset Class Returns – Periods to 31 December 2024

Sector	1 Month %	3 Months %	1 Year %	3 Years % pa	5 Years % pa	10 Years % pa
Australian Shares	-3.06	-0.50	11.34	7.38	7.96	8.36
Australian Small Companies	-2.86	-1.24	6.94	-2.24	3.36	6.73
International Shares (Unhedged)	2.56	12.03	31.14	12.29	14.19	13.24
International Shares (Hedged)	-1.72	2.21	20.44	6.39	10.58	10.11
Emerging Markets (Unhedged)	3.85	1.25	17.35	2.10	2.96	5.44
Australian Property Securities	-5.98	-7.49	8.35	-0.24	2.73	7.54
Global Property Securities (Hedged)	-6.82	-7.79	2.43	-6.74	-1.63	
Global Listed Infrastructure (Hedged)	-5.24	-2.24	12.01			
Australian Bonds	0.45	-0.50	2.70	-0.94	-0.35	1.78
Global Bonds (Hedged)	-0.66	-1.50	1.38	-2.81	-1.09	
Cash	0.39	1.15	4.58	3.26	2.04	
Change over the month						
AUD/USD	-4.60%	US$ 0.6217				

Past performance is not a reliable indicator of future performance.
Source: iShares Core S&P/ASX 200 ETF, iShares S&P/ASX Small Ordinaries ETF, Vanguard International Shares Index, Vanguard MSCI Index Intl Shrs (H) ETF, iShares MSCI Emerging Markets ETF, VanEck Australian Property ETF, VanEck FTSE Intl Prop Hdg ETF, iShares Core FTSE Global Infrastructure (AUD Hedged), iShares Core Composite Bond ETF, Vanguard Global Aggregate Bd Hdg ETF, iShares Core Cash ETF

Australian Markets

The Australian share market fell -3.1% in December, the worst monthly return of 2024. The fall effectively erased November's +3.8% gain. Over CY2024 the Australian share market lagged the global market but still returned a healthy +11.3%. This gain was achieved broadly across the market cap spectrum with the emerging company sector (microcap stocks) producing the strongest one-year return of +15.7%.

Best performing ASX sectors for the year were Technology +51%, Financials +36% and Consumer Discretionary +26%. At the other end of the spectrum, Energy -15%, Materials -13% and Consumer Staples -1% suffered the steepest losses.

Valuations remain expensive, in aggregate forward price-to-earnings (P/E) ratio on the ASX 200 is around 19x versus the long-term average of 15x.

Global Markets

Global stock markets finished 2024 with a whimper rather than a bang, closing for the month of December +2.5% on an unhedged basis and +1.7% on a hedged basis. As the Australian dollar weakened. Equity weakness signalled a perception that global share markets are currently expensive. But over the year to December as the global economy remained robust and interest rates began to move lower global shares soared returning +31.1% unhedged and +20.4% on a hedged basis.

Over CY2024 the global stock market returns were driven by continued strength in US share markets, which are heavily exposed to surging demand for AI applications. The S&P500 gained +23%, while the more technology-focussed US Nasdaq soared +30%.

However, 12-month returns were more muted in Europe (8.1% and Asia ex-Japan +12.5%). But China +19.8% benefitted from government stimulus in the second half, while a weak yen and corporate governance reform supported Japanese shares +20.5%. Worst performing share markets were Latvia -35% and Russia -20%.

Bonds

Australian bonds fared better than US bonds which sold off on US Fed comments in December. Australian bonds gained +0.45% over the month, whilst the 10-year bond yields rose 1 bps to 4.36%, while the US 10-year bond yields soared 40 bps to 4.57% as investors priced in less US rate cuts. Global bonds returned -0.66% on a hedged basis.

European bonds also sold off, whilst credit markets remained broadly supportive returning 0.71% over December.

Over CY2024 long bond yields reinforces the role of bonds in a diversified portfolio as a yield enhancer and as growth insurance.

Currencies

The $A was hit hard helping unhedged investors in global equities. The AUD/USD fell -4.6% during the month to .62.17 cents. Over the December quarter the AUD/USD fell by more than 10%.

What Easing Interest Rates Mean for Asset Prices

Over the past year, global central banks have shifted from a hawkish stance, characterised by interest rate hikes and quantitative tightening – to a more dovish, accommodative policy stance, leading us into what many economists call a global easing cycle. This shift can have a wide-ranging implication for asset class returns such as shares, bonds to commodities and real estate.

Lower interest rates generally benefit **shares**, as they make borrowing cheaper for businesses and can lead to higher levels of corporate expansion. Additionally, reduced rates lower the discount rate used in stock valuations, often making equities more attractive to investors. If the easing cycle does not signal an impending recession, the stock market might see gains, particularly in sectors which are sensitive to borrowing costs.

Fixed income assets tend to perform well during the easing cycle. When central banks lower rates, existing bonds with higher yields become more attractive pushing up bond prices. Furthermore, lower interest rates would mean new issuances in the future will be at lower yields, which benefits bond investors holding longer-duration bonds with locked in higher rates.

Commodity markets have a mixed relationship with easing cycles. Lower rates in the US relative to other currencies, can lead to a weaker USD, which is typically positive commodities priced in USD e.g. gold and oil.

Real estate often benefits from an easing cycle because lower borrowing costs make it easier for consumers and investors to finance property purchases and subsequently drive property prices up. However commercial real estate may face challenges, especially in an economic down-turn, as businesses may reduce their demand for space.

As central banks potentially enter a new phase of rate cuts, investors need to recalibrate their portfolios to account for these shifts. For equity investors, growth orientated sectors could offer opportunities, while high yielding quality bonds and real estate may benefit from lower interest rates. Commodities, like gold may see increased demand, while emerging markets might attract new inflows as investors seek higher yields.

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