GPS Wealth Monthly Market Update

When Bad News is Good News

INFORMATION CONTAINED IN THIS REPORT CURRENT AS AT 11 DECEMBER 2023

Financial markets rebounded strongly in November as bad economic news in Australia was seen as good news that we may be nearing an end to monetary policy tightening for this cycle. Whilst the ASX 200 index returned 5.03% for the month, it was the interest rate sensitive and long duration parts of the market that performed well. In particular Australian REITS increased 11% over the month and the health care (+11.77%) and information technology (+8.02%) sectors also bounced strongly as bond yields in the US and Australia fell. Small companies outperformed the broader market by 2% however continue to lag by 4.5% over the year. **The US share market increased by 8.92% over the month to be 11.95% higher over the year.**

The Australian economy slowed to a limp in the third quarter expanding by just 0.2%. Growth over the year was 2.1%, less than population growth over the same period. While the population surge earlier in the year has supported demand overall, it is now rolling over and will not provide the same support in 2024. Australian households are clearly feeling the pinch of cost pressures and higher interest rates as reflected by consumption. Westpac released its Retail Spending Pulse report which looks at the card spending data of its customers. The report highlighted that spending growth has continued to slow in recent months in line with the trends seen in the broader economy. The slowdown in spending was most notable discretionary items. The report pointed to soft spending appetites heading into the holiday shopping season.

Even with consumption as weak as it has been, household income was weaker. Nominal household disposable income barely increased in the quarter (+0.1%), despite strong growth in labour income due to inflation. The measured household saving ratio declined to just 1.1% recording over 20% during the pandemic. Business investment was also soft likely because of the ending of tax incentives. Infrastructure activity was positive, expanding by 2.3% over the quarter to be 9.3% higher over the year as investment in the energy transition lifts. Net exports were negative for activity. Exports declined by -0.7%, with a 1.9% rise in services more than offset by a -1.2% decline in goods centred on a reduction in resource shipments, down -3.7%. Imports increased by 2.1%, led by an 8.4% rise in services as more of us holidayed abroad. Dwelling investment remained subdued, however, rising only 0.2% in the quarter to still be down on the year. The housing construction industry remains supply constrained. **Not surprisingly, the RBA opted to leave the official cash rate unchanged at its December Board meeting but retained a clear tightening bias.**

In the US, the headline personal consumption expenditure - a core inflation metric for the Federal Reserve was 3.0%

Emmanuel Calligeris
Chairman of the Investment Committee

over the year. This was the lowest level since March 2021 and the good news was taken by the market that no further tightening was required. The University of Michigan's Consumer Survey sent an optimistic signal about the attitude of the US consumer. Its increase was driven by a considerable improvement in consumer expectations which jumped to a 5-month high as well as a rebound in current conditions. Lower inflation expectations boosted overall sentiment. Median 1-year inflation expectations collapsed to 3.1% - its lowest since March 2021. 5-year inflation also cooled, falling to 2.8% from 3.2% in November. The release is consistent with the soft-landing narrative that has boosted risk sentiment since late-October. Although short-term inflation expectations have been extremely volatile over the past year, they have been on a general downtrend since the Fed started hiking in March 2022. Meanwhile, long-term expectations remain relatively well-anchored, though they remain above their pre-pandemic level.

> A further positive for the future of the US economy was the Conference Board's consumer confidence index which also came in above expectations in November.

It ended a 3-month decline and reinforced the Goldilocks narrative for the US economy. The yield on the 10-year government bond traded at its lowest level since mid-September, falling some below 4.3%. The two-year yield declined more than 0.30% towards 4.6%, suggesting a near 90% chance of a rate cut by mid-2024.

European bond yields also decreased. Preliminary annual inflation in the eurozone fell to 2.4% in November, down from 2.9% last month. It was the lowest figure since July 2021 and is approaching the ECB's target. Annual core inflation also declined, recording 3.6% from 4.2% in October. Despite the better outcome, the European Central Bank continued to dismiss the idea that rates will be cut anytime soon. ECB President Lagarde reiterated that the ECB expects to maintain “interest rates at current levels for a sufficiently long duration”, to make “substantial contribution to restoring price stability” and that it is “not the time to start declaring victory”. The labour market continued to show signs of softening as German unemployment increased to 5.9%.

In China, the manufacturing sector surprisingly grew in November, with the Caixin PMI measuring 50.7 (compared to the projected 49.6). This was up from 49.5 in October and was the quickest expansion in three months. The Caixin PMI deviates from the most recent official PMI, which fell to 49.4, suggesting that further stimulus will be needed by the government to boost growth despite its reluctance to do so.

> The performance of major countries and regions this year has been desynchronised.

Each has had its own growth trajectory and economic narrative with the United States concluding the year on a generally strong note whilst the performance in China softer than expected and the euro area looks to have now entered recession. There are significant structural differences among the major economies and these differences are likely to continue into 2024. The coming year will see dozens of national elections—Elections will be held this year in countries including Taiwan (January), Russia (March), India (April-May), the United Kingdom (likely April or May), Mexico (June), the European Parliament (June), Venezuela (H2), and the United States (November). The outcome of these elections will influence the tone and trajectory of economic performance in these countries and frame major features of the geopolitical landscape.

Returns

30th November 2023

ASSET CLASS RETURNS ARE BASED ON

Australian Cash
RBA Bank accepted Bills 90 Days

Australian Bonds
Bloomberg AusBond Composite 0+ Yr TR AUD

International Bonds Hedged
BarCap Global Aggregate TR Hdg AUD

Australian Listed Property
S&P/ASX 200 A-REIT TR

International Property Hedged
FTSE EPRA/NAREIT Dv REITS TR Hdg AUD

Australian Shares
S&P/ASX 200 TR

International Shares
MSCI World Ex Australia NR AUD

Emerging Market Shares
MSCI EM GR AUD

RETURNS TO THE 30TH NOVEMBER 2023

	1 Month	3 Months	6 Months	1 Year	3 Years	5 Years	10 Years
Australian Cash	0.35	1.04	2.10	3.88	1.75	1.40	1.76
Australian Bonds	2.97	-0.47	-1.18	0.20	-3.64	0.41	2.42
International Bonds Hedged	3.20	0.46	-0.02	0.89	-3.98	0.18	2.29
Australian Listed Property	11.00	-4.45	1.41	1.14	2.04	4.14	7.83
International Property Hedged	9.36	-2.04	0.85	-4.13	1.78	0.29	5.29
Australian Shares	5.03	-1.80	2.05	1.45	7.15	8.72	7.26
International Shares	4.43	-0.73	6.18	14.37	10.93	12.18	11.96
Emerging Market Shares	3.13	-1.26	2.09	5.26	-0.60	4.34	5.45

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