GPS Wealth Monthly Market Update

Goldilocks Scenario Continues

INFORMATION CONTAINED IN THIS REPORT CURRENT AS AT 14 FEBRUARY 2024

The S&P/ASX 200 Accumulation Index ended 1.2% higher in January again following the US market higher. Global equities started the year with a third consecutive month of positive returns (MSCI World +4.5%) on the back of several US economic indicators that showed continued resilience in the economy. Economic growth in the US was well above consensus in the last quarter of 2023 (+3.3% annualised) and whilst inventory building and net exports were significant drivers, real final domestic demand remained robust at +2.7%. The strong pace growth has continued into early 2024. Preliminary estimates from the Atlanta Fed's GDPNow model foresee a GDP increase of 3.4% in the first quarter of 2024, thanks in large part to a 3.2% increase in consumer spending.

For now, the Goldilocks soft landing scenario continues to play out with price pressures continuing to cool. The US Employment Cost Index delivered a positive signal that the disinflation process is intact. The slowdown to 0.9% came in softer than expected and marks the slowest pace of quarterly increase since the second quarter of 2021. The reading is broadly consistent with the Federal Reserve's 2% inflation target. Importantly, leading indicators of the labour market suggest that the wage disinflation process will continue going forward. Even though the results of the latest JOLTS survey (job openings and labour turnover) show the hiring rate ticked up in December, it has been on a general downtrend since January 2022. Similarly, the job openings rate and quits rate – all of which lead wage growth – have also been falling, suggesting that wage growth will continue decelerating.

The ECB kept rates on hold again in January despite increasing concerns over economic growth. Our previous reports have highlighted the sluggishness of the manufacturing economies in Europe and in particular - Germany. In a bit of good news, the manufacturing PMIs of both Germany as well as the Eurozone are recovering and the services sector could follow. The ZEW economic expectation survey sent a slightly positive signal on German investor sentiment. It rose to an 11-month high – beating consensus estimates of a decline. This increased optimism about the outlook reflects an expectation that the ECB will pivot to an interest rate easing stance, with over half of the respondents anticipating a continued easing of inflation and lower short-term interest rates in the Eurozone.

In China, manufacturing data indicates that growth conditions remain sluggish. Although the composite Purchasing Managers Index (PMI) recorded 50.9, the manufacturing PMI remains in contraction at 49.2, marking the fourth consecutive month below the 50 boom-bust line. The new orders and new export orders components of both

Emmanuel Calligeris
Chairman of the Investment Committee

the manufacturing and non-manufacturing PMIs remain in contraction, indicating that demand is still weak. In addition, the sub-50 readings on the output prices series of both PMIs reveals that deflationary pressures persist. Meanwhile, the employment indices of both the manufacturing and non-manufacturing PMIs fell further below 50, pointing to an increased pace of deterioration in the labour market. The implication is that the stimulus measures adopted by policy makers have not been sufficient to revive the economy. Commodity prices were mixed in January. After rising 27% from July to September 2023, the iron ore price fell 6.7%. Crude prices were higher and supported by further uncertainty around developments in the Middle East. Copper prices were flat.

Expectations are mounting for further stimulus measures from Chinese authorities following the Chinese New Year, which are anticipated to bolster commodity prices significantly.

The Australian share market increased for the third consecutive month. Australian shares benefited from weaker inflation data, lowering the probability of a rate rise in February. Trimmed mean inflation for the 12 months to December 2023 slowed to +4.2% and is now 30bps below the RBA's last forecast in November. Inflation in domestic market services prices slowed sharply to 1.1% over the quarter (from 1.7%) alongside a continued fall in goods prices. Retail sales in December were weaker than expected and the unemployment rate remained at 3.9% with a decline in full-time employment above expectations. The most recent NAB business survey indicated business confidence remains below average and business conditions continue to weaken to around their long-run average, driven lower by declining trading conditions. Consequently, there are no further interest rate increases expected this cycle however, rate cuts are still some way off. The RBA Board will need to be sufficiently comfortable that inflation will decline into the 2–3% target band. It will also want to be confident of a recovery in productivity.

Short-term yields declined giving investors a small gain within fixed income assets in their portfolios. The AUD depreciated by -3.6% on the month which increased the return of unhedged portfolios.

Expectations hold the key to 2024, particularly in the US.

Inflation is deemed slayed and an expectation the Federal Reserve will cut interest rates now that the villain has been captured, prompts the biggest question for investors- how many cuts and how quickly? While the rates markets had paired expectations a little through January, the implied yield for December 2024 is still around 4% in the US and likely to be comparable for Australia too.

Returns

31st January 2024

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 31ST JANUARY 2024

	1 Month	3 Months	6 Months	1 Year	3 Years	5 Years	10 Years
Australian Cash	0.36	1.08	2.13	4.07	1.99	1.48	1.79
Australian Bonds	0.21	5.96	3.17	2.45	-2.49	0.56	2.55
International Bonds Hedged	-0.31	5.98	2.89	2.82	-3.02	0.23	2.43
Australian Listed Property	1.31	25.40	10.39	10.18	7.60	5.09	9.25
International Property Hedged	-3.74	14.42	-0.49	-3.57	2.31	0.62	5.42
Australian Shares	1.19	13.99	5.79	7.09	9.56	9.71	8.39
International Shares	4.52	11.16	7.35	25.09	13.62	13.68	12.31
Emerging Market Shares	-1.57	2.50	-4.18	3.47	-2.80	2.99	5.76

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