February 2024

GPS Wealth Monthly Market Update

More Mouths to Feed

INFORMATION CONTAINED IN THIS REPORT CURRENT AS AT 15 MARCH 2024

In February, the Australian share market increased 0.80%, supported by a reasonable reporting season and corporate merger and acquisition activity. We witnessed a new high in the ASX 200 index albeit still lagging offshore performance as the S&P500 Index was 5.3% higher and NASDAQ 6.2% higher over the month given continued fervour over technology stocks. The resilience of the US economy and the hotter-than-anticipated inflation readings led to a selloff in US Treasury bonds which posted losses. The Bloomberg Global Aggregate bond index posted a fall of 0.80% to be 3.9% higher over the year. Investors unwound their aggressive rate cut expectations for this year, bringing them more in line with the Federal Open Market Committee's (FOMC) December Summary of Economic Projections. The Australian bond market fell by 0.30% in February to be 3.5% higher over the year. The Australian listed property market saw another strong increase of 4.8% over the month to be 15.1% higher over the year.

In Australia, GDP recorded and increase of just 0.2% over the December quarter to be 1.5% over the year. The result may best be described as a case of "more mouths to feed" as the weak result is much weaker when one considers population growth. In fact, on a per capita basis, GDP growth went backwards to the tune of -2.5% akin to significant recessionary conditions. Consumer spending increased just 0.1% over the quarter following a decline of -0.2% in the third quarter (revised down from 0%) to be broadly unchanged over the year. Encouragingly, household real disposable income increased 1.5% in line with the gross income gain from lower inflation, interest costs and tax payments offset – but given its weak performance over the past year (0.3%yr), consumer financial health remains fragile. Other parts of the domestic economy were also soft. The main detractor from domestic demand was housing investment, contracting -3.8% over the quarter, with weakness in both new dwelling construction (-3.5%) and renovation activity (-4.2%). Business investment was unable to take up the slack despite increasing 0.7%. If it were not for the ongoing support of government spending which increased by 0.4% and 4.7% over the quarter and year respectively, the domestic economy would have been weaker still. **The Australian economy is likely to experience sub-par growth for the remainder of 2024.**

In the US, the employment report showed total nonfarm payrolls increased by 275 000 jobs in February, however, the previous two months' numbers were revised lower by 167 000 jobs. Manufacturing payrolls contracted and January's manufacturing job growth was revised lower from 23 000 to 8 000. Although manufacturing employment is a relatively small share of total US payrolls, it is highly sensitive to the business cycle and provides an

Emmanuel Calligeris
Chairman of the Investment Committee

early read on economic conditions. The unemployment rate recorded its highest rate in 2 years, increasing from 3.7% to 3.9% and average hourly earnings decreased from 4.4% to 4.3% over the year and suggest decelerating wage growth pressures. The report is consistent with other indicators that the labour market is gradually softening but still overall resilient. At the time of writing, the US recorded another higher than anticipated reading on inflation. Consumer prices accelerated from 0.3% to 0.4% month on month in February bringing the annual rate of change in the headline index to 3.2%. The core inflation rate which excludes volatile food and energy prices slowed from 3.9% to 3.8% however this was still higher than expected.

> Despite these two key data points remaining relatively strong, Federal Reserve Chair Jerome Powell indicated that interest rate cuts may not be too far off if inflation signals cooperate.

At the beginning of the year, market analysts were forecasting that the Federal Reserve would start easing interest rates in March and keep going until it had cut six or seven times this year. The outlook now is for the first cut to come in June, with four reductions totalling just 1 percentage point by the end of 2024.

In Japan, despite a downward revision to consumer spending there was a significant upward adjustment to business spending that saw the nation's GDP be revised from -0.40% to +0.4% in the December quarter. Japanese shares and government bonds sold off and the yen strengthened following the release of the revised report as the economy avoided technical recession, however the data still underscores that the economy remains frail.

> The bond and currency moves suggest that the market anticipates that the Bank of Japan will likely end negative rates with some market participants speculating that the central bank could hike as soon as next week.

Results of the Shunto wage negotiations are also a key factor that policymakers will consider when timing the end of ultra loose policy. The BoJ is looking for evidence that a positive wage-inflation cycle is underway. Given the fragility of the consumer, it is likely that if we indeed see a rate hike, it will be a one-off move to end the negative rate policy as opposed to the beginning of a tightening cycle.

The European Central Bank kept policy on hold, however it's most recent forecasts anticipate growth of 0.6% for 2024, down from 0.8% in December. Importantly, the Bank expects inflation to average 2.3% in 2024 and 2% in 2025. This was a downward revision to the previous forecast of 2.7% and 2.1% respectively. With inflation gradually coming down but not undershooting the target and growth returning to potential later this year, it seems that the central bank's macroeconomic outlook doesn't offer a lot of room for a longer series of rate cuts. The European labour market is showing early signs of cooling. The growth rate of employment has decelerated, which historically precedes a slowdown in the compensation per employee. The previous weakening of credit flows points to a small contraction in employment by the end of the year, which will accentuate the downward pressures on wage growth. The decline in households' 12-month ahead inflation expectations is also consistent with weaker underlying wage pressures which should open the door to easier policy settings beginning in June.

In China the government work report set the key economic targets for the year.

> The GDP growth target was left unchanged at 5%, which signalled that growth stability will remain a priority this year.

This outcome had largely been expected, especially after provincial growth targets were set. The inflation target was kept unchanged at 3% and the labour market targets were also left unchanged, in line with expectations. This "no deviation" stance, continues to show commitment to ensuring job market stability. Overall, there was little surprise that the GDP growth target was unchanged, as lowering the target would have further weakened confidence. With that said, it will be a more challenging path to repeating 5% growth in 2024 as many of the boosts to the economy coming out of anti-pandemic measures will gradually wane.

Real estate will likely remain a drag on the economy. While consumption was the key driver of growth in 2023, weak consumer confidence and a negative wealth effect are significant headwinds that will make it difficult for consumption to carry the load again in 2024.

As mentioned in last month's monthly update, how many cuts and how quickly are the questions that market analysts continue to grapple with many once again pushing their expectations further into the future. We continue to anticipate that the combined effect of slowing household consumption and less supportive government spending is expected to dampen economic activity in 2024 both in Australia and the US. The extent and duration of the slowdown will likely depend on the timing of the first cut in official rates but remain in the no recession camp for now.

Returns

29th February 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 29TH FEBRUARY 2024

	1 Month	3 Months	6 Months	1 Year	3 Years	5 Years	10 Years
Australian Cash	0.30	1.10	2.10	4.10	2.10	1.50	1.80
Australian Bonds	-0.30	2.60	2.10	3.50	-1.40	0.30	2.50
International Bonds Hedged	-0.80	1.90	2.30	3.90	-2.80	0.10	2.30
Australian Listed Property	5.10	18.70	13.40	16.10	10.40	5.80	9.30
International Property Hedged	0.10	4.70	2.60	0.30	1.00	0.50	4.90
Australian Shares	0.80	9.40	7.40	10.60	9.30	8.60	8.00
Emerging Market Shares	6.30	5.70	4.40	12.60	-0.70	3.70	6.30
International Shares	5.90	12.70	11.90	29.80	15.20	13.70	12.60

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