October 2024

Virtuous Wealth Monthly Market Update

Australian Interest Rate Reduction Delayed Again

INFORMATION CONTAINED IN THIS REPORT CURRENT AS AT 25 NOVEMBER 2024

The US Federal Reserve eased monetary policy by 0.25% as expected however introduced uncertainty around the timing of its next move given the continued strength of the economy and the potential for a further easing in fiscal policy following a Trump sweep. The Federal Reserve's statement was relatively unchanged, except for the removal of a segment from the September statement, which highlighted greater confidence in inflation moving sustainably toward its target.

US ECONOMIC AND POLITICAL CONTEXT

Mr Trump's re-election and a Republican sweep in Congress, saw share markets rise strongly, buoyed by expectations of pro-growth policies focused on tax cuts, deregulation and reduced emphasis on the environment. However, while initial reactions were positive, details remain vague and investors grew more cautious towards the end of the month. Trump signalled a 10% across-the-board import tariff, with specific duties reaching as high as 60% for China. The intent is to make U.S. products more competitive and boost domestic investment, however these tariffs will effectively act as a consumer tax, raising prices and potentially driving inflation higher.

Although Mr Trump plans to cut up to USD 2 trillion in government spending, a proposed reduction in corporate taxes threatens to elevate the deficit which has ballooned to 7% of GDP. Cutting spending without alternative growth measures could dampen economic momentum, posing stagflation or “slowbalisation” as coined by the Economist magazine. Investors still expect a 0.25% interest rate cut in December, however there is now a greater chance of a pause at the January Federal Open Markets Committee (FOMC) meeting. Forecasts for interest rate reductions in 2025 have been scaled back considerably in light of the fiscal position in 2025.

Economic data remains firm. The US economy grew at a 2.8% in the third quarter, with consumer spending remaining robust. Non-residential fixed investment was also firm, however, residential investment fell 5.1% as high mortgage rates and a general lack of affordability weighed on the sector. Government spending grew by 5%, led by a 14.9% increase in national defence spending while net trade subtracted 0.6% from headline growth as importers front ran a feared port strike and inventories subtracted 0.2%. As we look to the fourth quarter of 2024, growth forecasts centre around 2.2%, however, a cooling jobs market will become more of a headwind with weaker business surveys suggesting a moderation in growth to around 1.5% for 2025 as a whole.

Emmanuel Calligeris
Chairman of the Investment Committee

AUSTRALIAN ECONOMIC UPDATE

In Australia, The RBA left the cash rate unchanged at 4.35% after its latest meeting. The tone of the monetary policy statement was more balanced, with the RBA seeing inflation risks to the upside but with cuts made to the GDP growth forecasts for 2025. The RBA also pointed to the surge in government spending growth, especially on aged care and national disability insurance schemes, as one of the key reasons behind higher inflation and stronger job growth. Interestingly, the latest Westpac-MI Consumer Sentiment Survey provided an encouraging update on the health of the consumer with an 11.8% rebound over the past two months. Consumers remain confident in the jobs outlook, as evidenced by the labour force survey. Coming off a multi-month above-trend performance, employment growth slowed in October, printing a modest gain of 15.9k. However, that was still enough to keep the employment-to-population ratio unchanged at a record high of 64.4% – a signal that employment is keeping pace with historic population growth.

The NAB business survey showed a stabilisation in business conditions, holding steady at +7 points in October. This aligns with projections that economic growth has reached its nadir, having decelerated to an annual rate of 1.0% mid-year. The recent distribution of tax cuts to consumers and the anticipated easing of monetary policy are contributing to growing business optimism. Westpac forecasts that GDP growth will increase 1.5% annually by the end of the year and further accelerate to 2.4% annually by December 2025.

GLOBAL DEVELOPMENTS - CHINA

Investors globally were anticipating a major fiscal stimulus announcement by the Chinese authorities to help boost China's growth. However, what Chinese authorities delivered instead was more akin to a risk mitigation package that is unlikely to provide a meaningful boost to the economy. The announced RMB 10 trillion package will comprise of RMB 6 trillion of additional local government "special bond" issuance over three years to bring hidden off-balance sheet debt onto their books. The remaining RMB 4 trillion of special bonds are set for issuance over five years and are committed to the same purpose. However, the difference is that these bonds will be counted towards existing special bond issuance quotas.

According to the Ministry of Finance, the combined impact of this debt swap would be an interest saving of around RMB 600 billion over the next five years. While this will ease some pressure on local government balance sheets, it will not provide a substantial boost to their capacity to spend.

The key source of weakness in China presently is domestic demand which the package has not addressed. In this sense, the announced fiscal package fell short of market expectations, given that there were widespread rumours the plan would incorporate an expansion of the consumer goods trade-in and business equipment upgrade programs that are currently scheduled to finish at the end of 2024.

EQUITY, FIXED INCOME AND CURRENCY MARKETS

The S&P/ASX 200 Total Return Index fell 1.31% in October, dragged down by a 6.3% decline in the ASX100 resources. The ASX100 industrials fell by just -0.2%. This was a sharp reversal from September when the ASX100 resources rose by 9.5% due to expectations that the Chinese government would deliver substantial fiscal stimulus. Financials (+3.3%) was the best performing sector. The banks reported in line with expectations, with bad debts still at extremely low levels. Health Care also outperformed, proving the sector's defensive credentials and reporting solidly for the quarter (CSL (CSL) +0.2%, ResMed (RMD) +5.6%). Utilities (-7.2%) was the worst performing sector, on no material news flow, albeit with increasing concerns regarding grid stability in the face of a disjointed energy transition (AGL Energy (AGL) -11.4%, APA Group (APA) -10.2%). Consumer Staples (-7.0%) also underperformed, with poor updates for the quarter, citing margin pressure across grocery as a particularly challenging issue (Woolworths Group (WOW) -10.0%, Coles Group (COL) -2.6%).

In October financial markets saw a sharp rise in bond yields as the market became more certain of a Trump victory in the US presidential election. The US 10-year yield rose by 50bp, while the Australian 10-year yield rose by 52bp. The US dollar strengthened significantly during the month, with the US dollar index (DXY) rising by 3.2%. The AUD fell by 4.8% against the USD. This combination of a stronger USD and higher interest rates weighed on global equity markets with the USD return for MSCI China -5.9%, MSCI Korea -7.5%, MSCI Europe (ex UK) -6.0% and MSCI Australia -7.0%. The 50bp rise in the US 10-year bond yield in October was the fourth largest monthly gain in the past five years.

ASX200 earnings were downgraded by 1.3% over the month, taking the negative revisions this calendar year to -5%. The ASX200 consensus earnings growth for FY25 is currently just +0.8%, however this is dragged down by materials -11.7%, energy -5.0%, utilities -2.7%, and banks near zero. There is still strong growth in health care +11.5%, industrials +16.5%, technology +26.7% and communications (i.e. the portal stocks such as REA, SEK, CAR) +26.3%. Consistent with this view, October saw many companies provide trading updates at their AGMs. These were generally softer with a few notable exceptions such as HUB24 and Resmed.

There continues to be significant takeover activity at the smaller end of the market. Takeover premiums are in the range of 75-100% with a number of outliers well above 100% including education software company Schrole which sold for a 200% premium earlier in the year. Given the intrinsic value that remains at the smaller end of the ASX industrials market, the trend is likely to continue.

The Trump Rally was running hot, and indexes hit new highs before economists and investors began discussing “Trumpflation” again. The mood changed on a coin. This can be expected because the starting point for share market valuations are high. In the US, the leading economic indicator continues to signal stronger economic activity ahead and is consistent with The Conference Board expectation for moderate growth at the close of 2024 and into early 2025. In Australia economic growth is expected to accelerate however it is clear that the normalised level of interest rates is higher than those of pre covid levels. The interest rate market believes this may be as high as 3.5%, which infers only 3-4 cuts may be forthcoming for this cycle.

Returns

31st October 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 OCTOBER 2024

	1 Month	3 Months	6 Months	1 Year	3 Years	5 Years	10 Years
Australian Cash	0.37	1.09	2.19	4.39	3.08	1.93	1.92
Australian Bonds	-1.88	-0.39	2.26	7.08	-0.62	-0.68	2.11
International Bonds Hedged	-1.51	0.53	4.02	8.37	-1.89	-0.61	2.01
Australian Listed Property	-2.51	4.46	14.20	52.18	8.02	6.24	9.27
International Property Hedged	-3.57	4.19	15.79	28.29	-1.85	0.20	4.64
Australian Shares	-1.31	2.10	8.44	24.89	8.01	8.17	8.32
Emerging Market Shares	1.21	3.26	7.66	21.13	3.17	4.99	6.52
International Shares	3.92	2.14	10.20	29.31	11.39	13.27	13.18

Virtuous Wealth is a Corporate Authorised Representative CAR No.1302201 of GPS Wealth Ltd | AFSL 254 544 | ABN 17 005 482 726

84 Victoria Street
New Lambton NSW 2305
02 4086 4724
contact@virtuouswealth.com.au
www.virtuouswealth.com.au

Prepared by DWA Managed Accounts Pty Ltd
ABN 89 104 065 250 | AFSL 264 125