November 2024

GPS Wealth Monthly Market Update

# RBA Holds Steady

INFORMATION CONTAINED IN THIS REPORT CURRENT AS AT 17 DECEMBER 2024

The ASX 200 gained 3.4% in November with most sectors delivering positive returns, led by Information Technology (+10.1%). Within the Information technology sector, Technology One increased by 24.3% and Xero by 16.2%. The Materials sector (-2.8%), dragged down by Pilbara Minerals (-16.1%) and Mineral Resources (-14.6%), underperformed the broader market. The U.S. share market surged 5.7%, propelled by the prospects of market-friendly Republican policies and robust earnings. European shares edged up 0.3% while the Japanese share market decreased 0.6%. Emerging market shares fell 2.8%, dragged by weak performance in China which decreased by 4%, mainly due to tariff risks from a Trump administration as well as disappointing policy outcomes announced by Chinese officials.

Following a global bond sell-off during October there was a partial reversal in November, with the Australian and US 10-year bond yields ending the month 0.16% and 0.22% lower (prices increasing) respectively. U.S. Treasuries sold off sharply following the election, as the market raised concerns over the new administration's tax, tariffs and budget proposals in lifting fiscal deficit and inflationary risks. Yields fell back upon the nomination of Scott Bessent as Treasury secretary, as the market favoured his perceived nuanced stance on tariffs.

In the US, the jobs report ending November revealed that payrolls increased by 227 thousand with an upwardly revised 36 thousand in October. The 3-month moving average recorded an increase of 173 thousand.

Wage growth remained steady at 4.0% over the year. The market reaction after the release was interesting. The lack of labour market reacceleration set a bullish tone for bonds, while the absence of a collapse was positive for stocks. The labour market was also a weak point of the ISM Services index which showed a decreasing number of industries were hiring. The data suggest a further cut of 0.25% in December. U.S. company profits also beat expectations in the third quarter, helping to buoy markets. Once again, technology companies led the way in reinforcing the sustained artificial intelligence (AI) growth theme. Meanwhile, consumer companies reported strong results and a healthy retail sales report pointed towards the remarkable resilience of the U.S. consumer market which makes up approximately two thirds of US GDP.

Expectations for the first RBA rate cut continue to shift further into the future with the consensus now expecting May 2025 the most likely first move despite the poor growth outcome for the year to September 2024. The breakdown of GDP by component showed almost no domestic demand. The only positive contributors to growth were net exports and government spending. Household consumption contributed negligibly to growth

**Emmanuel Calligeris**
Chairman of the Investment Committee

and it has not contributed for the past two quarters. Private investment was also very weak. Inventories were a drag and if one was to try to put a positive spin on this, the low level may set the scene for some inventory rebuilding by companies in the future. The Reserve Bank of Australia kept the cash rate on hold at 4.35% despite a positive outcome on inflation. The monthly consumer price index was unchanged at 2.1% year-over-year in October, but a touch softer than consensus expectation. Headline inflation was again distorted by the government's energy subsidies effective since July as well as the government's rental assistance, as the trimmed mean (core) inflation rate rose to 3.5% over the year. The monthly trimmed mean CPI for October was driven by an increase in rents and household goods.

Wages in Australia increased by only 3.5% over the year, the softest pace in two-years, according to the quarterly wage price index. However, the labour market remains tight with the unemployment rate falling to 3.9% in November. This echoes with the RBA's call that labour market loosening has stalled and could prompt higher wages in the future. Consumer sentiment increased in November to the highest level in over two years. Improvements were noted in components such as family finances as concerns over further interest rate hikes fade and confidence in the economic outlook increases. There are some signs that building activity is beginning to recover with approvals rising from cycle lows, however house price growth remains subdued with annual growth falling to +5.4%. Month-on-month declines were recorded in Sydney and Melbourne. The NAB monthly business survey showed a broad-based improvement in business confidence, reaching its highest level since early 2023. Business conditions remained unchanged, with trading conditions slightly higher but employment moving lower.

The implications of upside inflationary risks and potential tariffs pushed most currencies lower against the USD, with the Euro lower by -2.8%, the pound -1.2% lower, the Chinese yuan at -2.8% and the Australian dollar at -0.5%. The Japanese yen was an exception, strengthening 1.4% against the USD, as the likelihood for a December interest rate hike by the Bank of Japan increased alongside further stimulus plans from the Japanese government. Stimulus from China has lagged market expectations on a lack of increased public spending to support domestic consumption, despite the announcement of CNY 6 trillion of new bond issuance from local governments to tackle debts. Clearly the markets believe China's economy is in a poorer state than some numbers suggest.

In Europe, more political uncertainties arose with the collapse of Germany's ruling coalition and heightened tensions in reaching an agreement for France's budget. Economic growth has remained weak, with the latest Purchasing Managers' Index (PMI) data showing a contracting private sector activity across the eurozone. The region is facing increasing concerns from a potential trade war, weak demand from China and geopolitical risks. The European Central Bank reduced its interest rate by 0.25% bringing the deposit rate to 3%, its lowest level since March 2023. During the press conference, President Christine Lagarde pointed to better-than-expected growth in the third quarter and an economy that "should strengthen over time". This is despite the fact that the economy has lost some momentum and some sectors found it challenging to remain competitive.

Within the Australian Share market, banking sector reports generated further material share price moves including Commonwealth Bank (+11%) and Westpac (+6%) despite immaterial profit revisions meaning these companies became even more expensive over the month. CBA's net profit after tax was only 0.2% higher in 2024 than the 2017 result. Westpac's result was similar to its net profit after tax back in 2014. It is difficult to see a catalyst that will correct the extend valuation of these companies and regardless of the RBA's higher rates, loan losses remain low. Again, this reflects the low unemployment rate which enables repayments and or low levels of mortgage default. Bank share prices in Australia continue to defy gravity and I maintain it's a source of valuation concern. More broadly stock valuations remain high around the world.

The geopolitical backdrop has shown no signs of cooling and 2025 looks to be an interesting year under the new Trump administration and pending election in Australia.

# Returns

30th November 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 30TH NOVEMBER 2024

| | 1 Month | 3 Months | 6 Months | 1 Year | 3 Years | 5 Years | 10 Years |
|---|---|---|---|---|---|---|---|
| Australian Cash | 0.36 | 1.08 | 2.19 | 4.39 | 3.21 | 1.98 | 1.93 |
| Australian Bonds | 1.14 | -0.46 | 3.02 | 5.16 | -0.93 | -0.61 | 2.09 |
| International Bonds Hedged | 1.16 | 0.70 | 4.42 | 6.23 | -1.75 | -0.34 | 2.01 |
| Australian Listed Property | 2.48 | 6.47 | 14.80 | 40.50 | 7.32 | 6.27 | 9.55 |
| International Property Hedged | 3.10 | 2.12 | 15.21 | 20.95 | -0.53 | 1.02 | 4.68 |
| Australian Shares | 3.79 | 5.47 | 11.53 | 23.42 | 9.55 | 8.28 | 9.08 |
| Emerging Market Shares | -3.07 | 2.35 | 6.28 | 13.85 | 1.56 | 3.98 | 5.99 |
| International Shares | 5.18 | 8.79 | 13.61 | 30.23 | 11.92 | 13.37 | 13.17 |

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