Fiducian Monthly Economic Commentary Report

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ECONOMIC OUTLOOK

GLOBAL ECONOMY

The global economy has continued to expand despite ongoing implementation of tight monetary policy by most major central banks. Since June. most major central banks have begun to lower their official interest rates as they seek to engineer 'soft landings' for their economies. In the IMF's view, 'the global battle against inflation has largely been won', while there is a need for 'reforms that boost technology and innovation'.

The global economy has continued to sustain solid growth and avoid recession despite the implementation since 2022 of tight monetary policy by most of the world's major central banks in an effort to lower inflation. Over the past year, inflation has been trending downwards, leading the International Monetary Fund (IMF) in its October report to report that 'the global battle against inflation has largely been won'. In its latest report (January), however, the IMF noted that while global disinflation continues, it remains 'elevated in a few cases'. Nevertheless, official interest rates have been coming down, with the US central bank (the 'Fed') and the European Central Bank both lowering rates in recent months and with the IMF noting that 'monetary policy rates of major central banks are expected to continue to decline'. The IMF is also expecting tighter fiscal policy and would like to see 'domestic reforms that boost technology and innovation, improve competition and resource allocation, further economic integration and stimulate productive private investment'.

In the case of the US, the change in administration following the win in the recent election by President Donald Trump is seeing actions taken to boost economic activity, including likely cuts in the corporate tax rate, a boost to oil and gas drilling, further de-regulation of the economy and an attempt to reduce wasteful government spending.

In the case of the US, the US presidential election held last November saw the return to government from 20 January this year of an administration led by President Donald Trump. This 4-year term of government is expected to resemble Trump's first term, during which he initiated a number of measures that supported economic activity and lifted the international competitiveness of much of the US economy. In particular, Trump has indicated that he would like to see the corporate tax rate cut from the current 21% (set in Trump's first term after he cut it from 35%) to 15% for companies willing to bring manufacturing back to the US. He is also trying to boost oil and gas production, which could see a lift in US exports as well as a potential drop in inflation. Regulation is also expected to be cut significantly, as is the overall level of government spending.

AUSTRALIAN ECONOMY

The Australian economy entered a per capita recession in 2023 and remains weak, with households under cost-of-living pressure. Discretionary spending has fallen but some loosening of monetary policy is likely in the near-term.

The Australian economy remains weak, growing by only 0.3% in the September quarter. On a per capita basis, it remained in recession, contracting for the seventh quarter in a row (by 0.3%), with the economy unlikely to have gained much momentum since then. A key factor driving this slowdown has been tight interest rate policy by the Reserve Bank (RBA). This has weighed on household spending, with discretionary spending contracting over the year. In December, the RBA's preferred measure of annual inflation moved into the target range at 2.7%, opening the way for a potential small cut in interest rates in February.

MARKETS

Major share markets mostly rose over the course of 2024, with US markets in 'bull market' territory (up over 20% in a year). However, markets still mostly appear fairly priced, assuming that recession can be avoided.

Most share markets have been on a broadly upwards trend since October 2023 on the assumption that interest rates had peaked and would soon begin to be reduced. This has been particularly supportive of the more interest rate sensitive sectors of the market, including the technology and property sectors. Last year, market movements included rises of 23% for the broad US market (S&P500), 29% for the technology-focused Nasdaq, 19% for Germany, the UK 6%, Japan 19%, China 13%, India 8% and Australia 11%.

Major sovereign bond markets saw yields rise after the end of 'quantitative easing' in 2022. However, since then, slow growth in key economies has encouraged investors back into these 'safe havens' in many instances.

Major sovereign bond markets have been volatile this year, with yields (interest rates) rising and falling in line with the outlook for inflation. The US 10-year Treasury bond yield fell to a record low of 0.54% on 9 March 2020 during the pandemic but touched 5.0% in October last year before sliding down, then rising again. It was 4.53% on 30 January this year. Similarly, the Australian 10-year bond yield was 0.57% on 8 March 2020 but was 4.38% on 30 January 2025. Some bond markets could see yields fall (and prices rise) over coming months if growth remains soft and if inflation continues to fall back towards targets.

FIDUCIAN FUNDS

Fiducian's diversified funds are above benchmark for growth assets (shares and property). Bond holdings are around benchmark and cash below.

Fiducian's diversified funds are currently above benchmark for international shares and listed property and around benchmark for domestic shares. Exposure to bond markets is close to benchmark, while cash holdings have been lowered.