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 remains a need for 'ambitious 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. This year, inflation has been coming down, leading to the International Monetary Fund (IMF) indicating in its latest report (October) that 'the global battle against inflation has largely been won'. As a result, official interest rates have also been coming down, with the European Central Bank cutting three times and the US central bank (the 'Fed') twice this year. The IMF notes that this 'will support activity at a time when many advanced economies' labour markets are showing signs of weakness, with rising unemployment rates'. The IMF would also like to see a pivot towards tighter fiscal policy (less government spending) as well as the implementation of 'ambitious 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 could see actions taken to boost economic activity, including further cuts in corporate tax, 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 on 5 November will see the return to government on 20 January 2025 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 expected 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 last year and remains weak, with households under cost-of-living pressure. Discretionary spending has fallen but tight monetary policy is likely to remain in place for some time.

The Australian economy remains weak, growing by only 0.2% in the June quarter. On a per capita basis, it remained in recession, contracting for the fifth quarter in a row (by 0.4%), with the economy unlikely to have gained much momentum since then. The key factor driving this slowdown has been tight interest rate policy by the Reserve Bank. This has weighed on household spending, with discretionary spending contracting. In October, the Reserve Bank's preferred measure of annual inflation remained above target at 3.5%.

MARKETS

Major share markets have been trending upwards strongly for most of this year, with US markets in 'bull market' territory (up over 20% in a year). However, most markets still 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. This year, up to 30 November, market movements have included rises of 27% for the broad US market (S&P500), 28% for the technology-focused Nasdaq, 17% for Germany, the UK 7%, Japan 14%, China 12%, and India and Australia each 11%. Most markets still appear fairly priced, assuming that recession can be avoided.

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 4.17% on 30 November this year. Similarly, the Australian 10-year bond yield was 0.57% on 8 March 2020 but was 4.34% on 30 November 2024. 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 have been increased and cash reduced.

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