Market Update

View from the Investment Team

December 2024

MARKETS

Share markets generally retraced most of their strong November gains in December, as the Federal Reserve Board made a "hawkish cut" at their 18 December meeting by reducing their expectation of the number of rate cuts that will be delivered during 2025. Subsequent commentary suggests that they updated their forecasts to reflect expectations of the policy agenda of a Trump presidency.

Government bond markets took this badly, with long-end yields rising back to the highpoint of 2024, but credit markets did not react because the US economy is strong, and spreads remained near their lowest levels since early 2022.

Real assets took the adjusted rate outlook hard, with listed infrastructure and property marking some of the largest declines among all asset classes.

Bitcoin finally, and briefly, broke above US$100,000, while the US dollar strengthened on the revised interest rate outlook, resulting in the Australian dollar ending the year just a whisker below its post-GFC low, at around US$0.62.

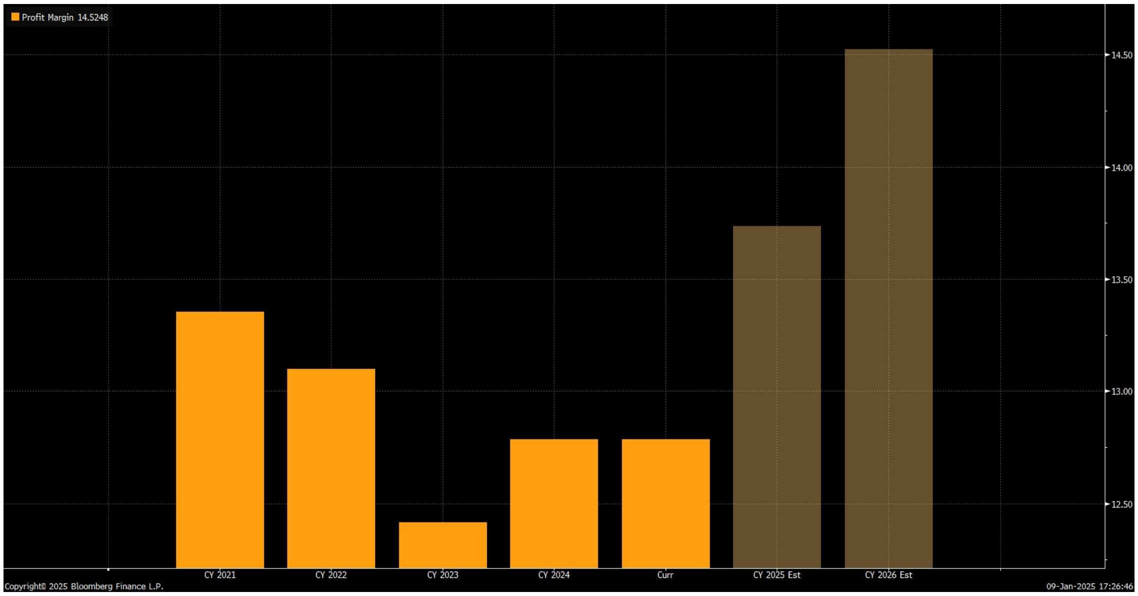
DATA AND EVENTS

Inflation is still what really matters and for the RBA, that's the 'trimmed mean', which rose to 3.5% for October (released in December though not all components are sampled monthly). The general trend however remains lower, supporting AMP's view of three rate cuts in 2025 (here's hoping!).

The big one for markets is, of course, US CPI. Or core CPI. Or Super core CPI. We all know the weaknesses of the inferred property rent components and so does the Fed, so let's just look at the numbers. Core US CPI (i.e., ex food and energy) has been stuck at around 3.25% for half a year and this didn't change in December. The good news though is that as we roll through the next few months, the high readings of Q1 2024 (0.35%-0.5%) will roll out of the trailing one-year data, so there's the potential for the US core CPI rate to drop below 3% as we move into Q2.

CHART OF THE MONTH

The chart below shows the historical and forecast profit margins for the S&P-500 index. If profit margins do indeed deliver according to these expectations, then we can expect bumper earnings reports throughout the next couple of years.



Source: Bloomberg, AMPI

We read a lot of sell-side reports talking about how US equities are expensive, but we disagree. People make fun of the expression "this time is different", but successful investing, i.e. outperforming the pack, is about identifying how the future will be *different* to today, understanding what that means for investible assets and then investing according to that view.

The bearish pundits fail to recognise the productivity benefits of AI (by which we mean large language models). But it's not just AI, there's so much more amazing innovation happening right now. If productivity growth is higher, then GDP growth is higher. This usually means that earnings are higher and that shares are higher. We think this is likely to continue.

MARKET RETURN SUMMARY

Asset class (% change)	1 month %	3 months %	1 year %	3 years (% p.a.)
Cash	0.4	1.1	4.5	3.2
Australian Fixed Interest	0.5	-0.3	2.9	-0.8
International Fixed Interest	-0.9	-1.2	2.2	-1.9
International Fixed Interest – High Yield	-0.3	0.9	9.6	2.2
Australian Equities	-3.1	-0.8	11.4	7.1
International Equities – Unhedged	2.6	12.1	31.2	12.2
International Equities – Hedged	-1.9	1.9	20.7	6.4
Emerging Market Equities	5.1	3.1	18.5	3.5
Global Listed Property	-6.8	-7.7	2.7	-6.3
Global Listed Infrastructure	-5.3	-2.3	12.4	-
Australian Listed Infrastructure	0.6	1.7	7.3	7.5
Direct Property	0.3	1.0	-5.8	-2.4

Source: AMPI. Returns are shown on a total return basis as at 31 December 2024. Past performance is not a reliable indicator of future performance.