Equity Trustees

January 2024

MONTHLY SUMMARY

MARKET SUMMARY

- **Equities rose for the 3rd straight month** – In local currency terms, the ASX200 (+1.2%) underperformed the US S&P500 (+1.6%), performed in-line with the MSCI World ex Australia Index (+1.2%) and outperformed the MSCI Asia Pacific ex Japan Index (-4.8%). Asia was negatively impacted by the Chinese, Hong Kong and Korean markets. Japan's Nikkei surged 8.4%, however, and is up 35.6% over the last 12 months. In AUD terms, the MSCI World ex Australia Net Total Return Index rose 4.94% assisted by the falling Australian dollar (-3.6% to 0.6568 USD). AREITS (property securities) rose 1.31%. Over the last three months the ASX200, MSCI World ex Australia (AUD) index and AREIT 200 Index have risen 13.99%, 11.55% and 25.4% respectively driven by a sharp repricing down of US central bank rate expectations.

- **Sector performance** – In Australia, the best performers for the month were Energy (+5.2%), Financials ex property (+5.0%) and Healthcare (+4.3%). Uranium stocks Boss Energy and Paladin rose 38.2% and 31.5% respectively. The worst performers were Materials (-4.8%), Utilities (-1.5%) and Consumer Staples (0.0%). Industrials outperformed Resources by 6.6% with concerns about the health of the Chinese economy weighing on the miners. Taking size into account, the major banks and CSL contributed most to the ASX200 gains while BHP, Newmont Corp and Lithium stocks weighed on the market.

- **Bond movements were more muted** – After surging in the December quarter, Australian and US 10-year bonds fell slightly with yields rising 5.6bp to 4.01% and 3.3bps to 3.91% respectively. Credit rallied with spreads remaining tight in Australia while being well bid.

- **Australian Economic data** – December quarter inflation was lower than expected rising 4.2% year-on-year (yoy) vs 4.5% forecast expectations. Labour market data surprised with a 107K fall in full-time employment in December. The unemployment rate held at 3.9% but was due to a 0.4% fall in the participation rate. Despite retailers suggesting conditions have been robust, December retail trade declined more than expected -2.7% month-on-month, likely affected by Black Friday sales in November and a weakening consumer. This reinforced views that the RBA is at the peak of the interest rate cycle.

- **Global economy** – US economic data remained supportive. Non-farm payrolls rose 216K and the unemployment rate remained steady at 3.7%. US consumer sentiment rose as did December retail sales. December US headline inflation slowed slightly to 3.4% (yoy) while US 4Q GDP (+3.3% quarter-on-quarter) beat forecasts of 2%. The US Fed Funds rate remains at 5.25-5.5%. Futures markets have continued to price in 150bps of rate cuts in the US in 2024 despite several Federal Reserve speakers pushing back on those views. Chinese authorities have continued to ease policy in an effort to stimulate a depressed real estate sector with little major success so far. China's former property giant Evergrande is being wound up.

- **Commodities** – Thermal Coal (China) and Natural gas tanked 20% and 16.5% respectively while Lithium prices remained under pressure. Iron ore fell 6.2% to US131.80/t while Gold and Base Metals fell slightly. Oil and alumina bucked the trend rising 5.9% and 5.7% respectively.

- **Earnings and valuations** – ASX200 consensus earnings were marginally revised up as we approached February reporting season. Upgrades to Materials offset Energy downgrades. The ASX200 PE (Price-Earnings) ratio is 16x, a 7.6% premium to the long-term average of 14.9x. US reporting season has started with analysts expecting a 6.4% yoy rise in S&P500 earnings. US earnings were revised up in January led by the Tech sector. So, far earnings beats have been broadly in-line with history.