Quarterly Economic Wrap

December 2023

Summary

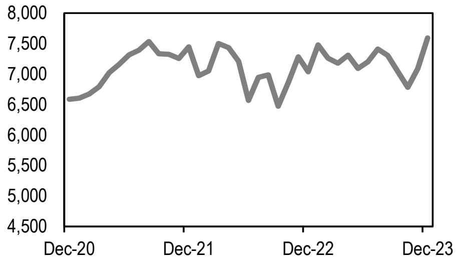
Economic

- According to the World Bank, global growth is projected to slow for the third year in a row, from 2.6% last year to 2.4% in 2024, almost three-quarters of a percentage point below the average of the 2010s. Developing economies are projected to grow just 3.9%, more than one percentage point below the average of the previous decade.
- After disappointing performance last year, low-income countries should grow 5.5%, weaker than previously expected. By the end of 2024, people in about one out of every four developing countries and about 40% of low-income countries will still be poorer than they were on the eve of the COVID pandemic in 2019. In advanced economies, meanwhile, growth is set to slow to 1.2% this year from 1.5% in 2023.

Markets

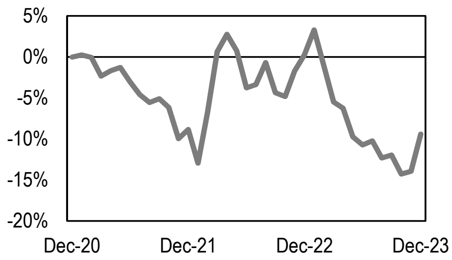
- Share market performance was outstanding for the December quarter. The S&P 500 rose by 11.2%, while the Australian S&P 200 gained 7.7% on a price basis.
- Global shares ex-Australia performed very well during the quarter, producing a return of 5.3% on an unhedged basis. The result was even better for hedged global shares, gaining 9.2%.
- In Australia, Momentum and Quality were the best performing styles for the quarter, while globally, the best performing styles were Growth and Quality.
- Within Fixed income markets, both Australian government bonds and credit gained ground for the quarter. The main Australian fixed interest index, the Bloomberg AusBond Composite 0+ Years Index was up 3.8%, while the Bloomberg AusBond Credit 0+ Years Index gained 3.2% for the quarter.
- Global High Yield bonds, as measured by the Bloomberg Barclays Global High Yield Total Return Index Hedged into AUD had a superb quarter, gaining 7.1%.

1. S&P/ASX 200 Price Index



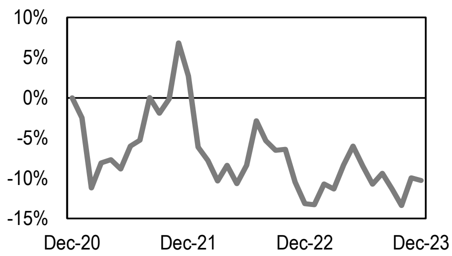
Source: FactSet, Insignia Financial

2. ASX200 vs All-World, US$ terms



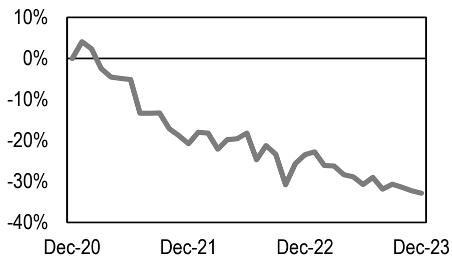
Source: FactSet, Insignia Financial

3. Australia – Growth vs Value stocks



Source: FactSet, Insignia Financial

4. Emerging markets vs Developed Markets, (In USD)



Source: FactSet, Insignia Financial

Sector and stock returns – December 2023

ASX/S&P 200 Sectors (GICS)				
	Monthly	% ∆	Quarterly	% ∆
▲	Consumer Discretionary	6.28	Consumer Discretionary	5.79
▲	Consumer Staples	4.97	Consumer Staples	-0.08
▲	Energy	3.43	Energy	-9.20
▲	Financials ex Property	6.92	Financials ex Property	7.26
▲	Financials	6.21	Financials	6.57
▲	Health Care	9.08	Health Care	13.04
▲	Industrials	5.44	Industrials	5.13
▲	IT	7.37	IT	6.47
▲	Materials	8.82	Materials	13.19
▲	Property Trusts	10.10	Property Trusts	15.08
▲	Telecommunications	7.06	Telecommunications	6.83
▲	Utilities	1.40	Utilities	-3.12

Source: FactSet, Insignia Financial

Best and Worst S&P/ASX 200 Performers			
Top five stocks (%)		Bottom five stocks (%)	
Monthly			
Neuren Pharmaceuticals Limited	+61.1	IDP Education Ltd.	-11.6
HMC Capital Limited	+27.8	Core Lithium Ltd	-10.7
Lovisa Holdings Ltd.	+27.5	De Grey Mining Ltd	-8.4
Credit Corp Group Limited	+25.3	Light & Wonder, Inc. Shs CDIs	-7.4
Magellan Financial Group Ltd	+24.7	PEXA Group Limited	-7.3
Quarterly			
Neuren Pharmaceuticals Limited	+125.8	Liontown Resources Limited	-43.9
Block, Inc. Shs CDIs	+68.9	Core Lithium Ltd	-38.3
Regis Resources Limited	+46.3	IGO Limited	-28.5
Silver Lake Resources Limited	+40.8	Chalice Mining Limited	-26.9
Bega Cheese Limited	+40.5	AMP Limited	-25.9

Source: FactSet, Insignia Financial

Share Markets, Returns

Australian Indices		31 Dec 2023 Price	1M return (%)	30 Sep 2023 Price	3M return (%)
▲	S&P/ASX 200	7591	7.10	7049	7.69
▲	All Ordinaries	7830	7.29	7250	8.00
▲	Small Ords	2930	6.99	2713	8.00
US Indices					
▲	S&P 500	4770	4.42	4288	11.24
▲	Dow Jones	37690	4.84	33508	12.48
▲	Nasdaq	15011	5.52	13219	13.56
Asia Pacific Indices					
▲	Hang Seng	17047	0.03	17810	-4.28
▼	Nikkei 225	33464	-0.07	31858	5.04
UK & Europe Indices					
▲	FTSE 100	7733	3.75	7608	1.65
▲	CAC40	1420	4.14	1331	6.70
▲	DAX Index	16752	3.31	15387	8.87

Sources: FactSet, MSCI, FTSE, S&P, Insignia Financial
Note: return is reported on a price basis and in local currency terms e.g., S&P500 performance is in US dollars and excluding dividends.

Equity markets generally enjoyed a strong quarter into the close of 2023. The Hang Seng (-4.28%) was the only market above to deliver a negative return. The Chinese property crisis continues to drag down both housing prices and consumer sentiment, weighing upon all of the sectors within their economy.

The U.K. equity market over the quarter (+1.65%) was also lacklustre relative to its European counterparts (France +6.70% and Germany +8.87%), as the U.K. inflation figures are coming down less quickly than in Europe and expectations that the Bank of England will not be cutting rates in 2024 as soon as the ECB.

Both the S&P 500 and the Nasdaq Composite felt the benefit of the market's shift to when and by how much interest rates would be reduced in 2024. The chart below shows the U.S. market pivot on the 26 October.

S&P500 v Nasdaq Composite: 3 mths to 29/12/2023

Source: tradingview.com. Accessed 19/01/2024

Returns to 31 Dec 2023	1-mth	3-mth	6-mth	1-yr
MSCI World Index	4.2%	10.0%	7.2%	23.7%
Value	4.7%	7.9%	7.1%	11.9%
Value-Weighted	4.4%	8.1%	7.9%	19.8%
Momentum	3.3%	9.7%	7.9%	11.7%
Growth	3.7%	11.8%	7.2%	36.5%
Quality	4.3%	11.2%	8.7%	31.9%
Low volatility	1.7%	5.0%	3.0%	7.8%
Equal weight	5.1%	8.4%	6.0%	17.0%
Small caps	7.1%	10.0%	6.7%	15.9%

Source: FactSet, Insignia Financial, MSCI

Global equities rebounded strongly in local currencies in Q4 2023. Even the lowest performing style, Low Volatility, still delivered a strong 5.0% over the quarter.

Growth and Quality delivered strong returns, as the market pivoted from focusing on current interest rates to the forward view, trying to ascertain when and by how much, interest rates should decline in 2024.

U.S. small cap earnings growth is very underpriced relative to U.S. large cap stocks, while European small cap stock prices may have slightly less near-term earnings prospects, but the value in current pricing is attractive.

Australian equity markets

The Australian market, as measured by the S&P/ASX 200 Index rose 7.7% over the quarter, while the slightly larger market cap MSCI index rose a stronger 9.0%.

Returns to 31 Dec 2023	1-mth	3-mth	6-mth	1-yr
MSCI Australia Index	7.5%	9.0%	8.7%	14.2%
Value	7.8%	9.0%	10.6%	14.2%
Value-Weighted	7.2%	8.1%	9.5%	14.3%
Momentum	8.1%	10.6%	9.6%	14.3%
Growth	7.2%	9.0%	6.9%	14.5%
Quality	8.2%	10.2%	10.9%	20.8%
Low volatility	6.5%	8.2%	6.7%	14.9%
Equal weight	6.9%	7.1%	4.9%	15.6%
Small caps	7.1%	6.4%	5.1%	6.8%

Source: FactSet, Insignia Financial, MSCI

Similar to our global counterparts, the MSCI Australia Quality category outperformed over Q4, however, the Australian growth component was in line with the broader market, as our growth category has significantly less I.T. related stocks when compared to overseas markets.

While Australian small companies are attractive relative to large companies, the Australian economy still has some lingering inflation pressures, and our largest trading partner China continues to have significant headwinds.

Fixed Income

Fixed Income		31 Dec 2023 Yield	1M mvt (bps)	30 Sep 2023 Yield	3M mvt (bps)
	Australian Cash rate	4.35	--	4.10	0.25
▼	10-year Bond Yield	3.96	-0.45	4.49	-0.53
▼	3-year Bond Yield	3.60	-0.41	4.08	-0.48
▼	90 Day Bank Accepted Bills SFE-Day	4.45	-0.23	4.49	-0.04
▼	US 10-year Bond Yield	3.88	-0.48	4.57	-0.69
▼	US 3-year Bond Yield	4.01	-0.44	4.80	-0.78
▼	US Investment Grade spread	1.30	-0.10	1.47	-0.18
▼	US High Yield spread	3.23	-0.47	3.94	-0.71

Source: FactSet, Insignia Financial

Australian bond market

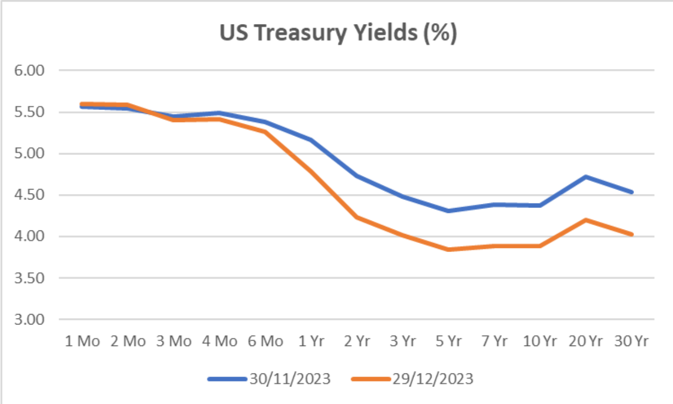
The December quarter was great for bonds. The main Australian Fixed Interest index, the Bloomberg AusBond Composite 0+ Years Index gained 3.8%. Australian yields declined significantly over the quarter, with the short end (3-year) of the curve falling by 48 basis points. At the long end of the curve, the 10-year yield fell by a very significant 53 basis points.

Australian corporate bonds also gained ground over the quarter, with the Bloomberg AusBond Credit 0+ Years Index gaining 3.2%.

The yield to maturity for the Bloomberg AusBond Composite 0+ Years Index at the end of December was approximately 4.1%, with the index having around 5 years duration.

Global bond markets

During December, U.S. Government bond yields fell for all maturities of 3 months or greater. As can be seen in the following chart, the U.S. yield curve fell significantly at the middle to longer end of the curve, most notably for maturities of greater than or equal to 1 year. This was a very similar result to the month of November.



Source: U.S. Department of the Treasury, accessed 17/01/2024

The final quarter of the year was a very positive one for fixed income markets, marking their best quarterly performance in over two decades, according to the Bloomberg Global Aggregate indices. The major driver of this performance was a perceived shift in monetary policy direction, from a “higher-for-longer” stance to prospective rate cuts. Government bond yields fell sharply, and credit markets rallied, outperforming government bonds.

As markets priced in easing conditions, government bond yields fell across the board. The U.S. 10-year Treasury yield fell from 4.57% at the end of Q3 to 3.87% at the end of Q4. The U.K. 10-year gilt yield fell from 4.44% to 3.54%, while the German 10-year Bund yield ended the quarter 0.81% lower at 2.03%.

Despite a slowing growth outlook, the corporate bond market staged an impressive rally on hopes that a deep recession could be averted, as financial conditions eased. High yield markets outperformed investment grade in both the U.S. and Europe, with a tightening of spreads also marking significant outperformance over government bonds.

Currencies

	Currency	31 Dec 2023 Price	1M return (%)	30 Sep 2023 Price	3M return (%)
▲	$A vs $US	0.68	3.18	0.64	5.91
▲	$A vs GBP	0.54	2.26	0.53	1.54
▼	$A vs YEN	96.07	-1.86	96.12	-0.05
▲	$A vs EUR	0.62	1.78	0.61	1.48
▲	$A vs $NZ	1.08	0.47	1.07	0.44
▼	$US vs EUR	0.91	-1.34	0.95	-4.20
▼	$US vs CNY	7.11	-0.22	7.30	-2.49
▼	$US vs GBP	0.79	-0.84	0.82	-4.17
▼	$US vs JPY	141.03	-4.84	149.37	-5.58
▼	$US vs CHF	0.84	-3.86	0.92	-8.09
▼	US Dollar Index	101.33	-2.09	106.22	-4.60

Source: Bloomberg, Insignia Financial

The AUD enjoyed a positive Q4 2023 (+5.9%), however, slightly higher inflation than our developed market peers was only part of the story. USD weakness was the large driver of our currency.

The U.S. Dollar as measured against its major trading partners (DXY) experienced substantial weakness over the quarter. The U.S. dollar declines over the quarter were driven by investors focusing on forecast reductions in U.S. interest rates in 2024, most likely before their developed market peers. This was reflected in the bond market (both U.S. and Australian 10-year bond yields ending the year below 4%) and helping to lift equity market valuations.

While the quarter saw the DXY move 4.6%, this should be put into the context of a volatile 2023 for the U.S. currency relative to its trading partners. During 2023 the DXY has seen a range of “risk on” and “risk off” periods as it oscillated between DXY 99.7 on 13 July to 107.0 on 3 October.

DXY: Calendar Year 2023

Source: tradingview.com. Accessed 19/01/2024

Commodities

	Commodity	31 Dec 2023 Price	1M return (%)	30 Sep 2023 Price	3M return (%)
▲	Aluminium	2336	8.25	2308	1.21
▲	Copper	8476	1.73	8231	2.98
▼	Nickel	16300	-0.21	18510	-11.94
▲	Zinc	2641	6.56	2641	--
▼	Crude Oil - Brent	77.69	-4.93	95.86	-18.95
▼	Natural Gas	2.51	-10.28	2.93	-14.17
▲	Metallurgical Coal	146	10.78	156	-6.36
▼	Thermal Coal	127	-10.77	153	-16.90
▲	Iron Ore	136.37	4.53	120.79	12.90
▲	Gold	2065	1.40	1849	11.71
▼	Silver	24	-5.66	22	7.48

Source: Bloomberg, Insignia Financial

Commodities were mixed in Q4. The -19% fall in Brent crude oil was the standout weakness and the +12.9% rise in Iron ore the standout strength. As commodities are measured in USD, the 12.9% rise in Iron ore in USD terms is only equal to 6.3% in AUD, which is still strong given our major trading partner, China continues to face economic headwinds from its property market.

Gold rose 11.7% in USD terms, but only rose 5.1% in AUD over the quarter.

Brent crude oil declined 19% in USD terms or -23.7% in AUD terms. The Chinese data continues to show a sluggish economy, which is offsetting the soft or no recession expectation for the U.S. economy. Further, the war in the middle east did not drag Iran into the conflict, as initially feared in early October, and the market appears to be relieved that there has been no oil supply impacts from this conflict yet.

Brent Oil Spot Contract: 3 months to 29 Dec

Source: tradingview.com. Accessed 19/01/2024

Australia

Australian GDP continues to deliver small, but positive real growth in Q3. Inflation continues to ease; however, we wait for more guidance on the pathway to lower rates. The tight labour market induces more people into the workforce and home values have grown 8.1% in 2023. The balance of trade remains in surplus, but the level and contribution to economic growth has varied as commodity prices have eased.

Monetary Policy

There has been no change to rates since November. We now wait until February for guidance for 2024.

Inflation

The monthly CPI indicator rose by 4.3% in the year to November, down from 4.9% in October and below market forecasts of 4.4%. Price rises moderated for Food (4.6% vs 5.3% in Oct), transport prices (3.6% vs 5.9%), and health (5.2% vs 6.3%). Prices declined for furnishings, household equipment & services (-0.3% vs 0.4%), and clothing & footwear (-0.9% vs -1.5%). Housing costs bucked the trend, rising at a faster pace (6.6% vs 6.1%). The monthly CPI indicator excluding volatile items & travel increased by 4.8% (vs 5.1%).

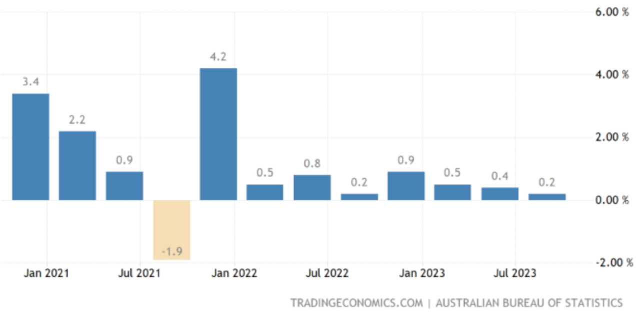
Labour Market

Australia's seasonally adjusted unemployment rate edged up to 3.9% in November, coming in above market expectations and October's rate of 3.8%. The number of unemployed individuals increased by 18.8k to 572k, with those seeking full-time jobs rising by 10.6k. Employment increased by 61.5k to 14.26m, surpassing market forecasts of a 11k gain, of this increase, full-time employment surged by 57k to 9.91m. The participation rate rose to a record level of 67.2%.

Growth Economic Activity

The Australian economy advanced 0.2% in Q3, below market forecasts and Q2's growth of 0.4%. Fixed investment (1.1% vs 2.9% in Q2) was boosted by public investment (8.9% vs 8.2%) on the back of transport, communication, & utility projects. Government spending rose faster (1.1% vs 0.6%), helping to offset zero growth in Household consumption. Government benefits and rebates reduced spending on essential services such as electricity. The household savings ratio dropped to 1.1%, the lowest since Q4 of 2007. Simultaneously, net trade contributed negatively in Q3 with Exports falling (-0.7%), while Imports grew (2.1%).

Australia: GDP Growth Rate: Q4 2020 to Q3 2023

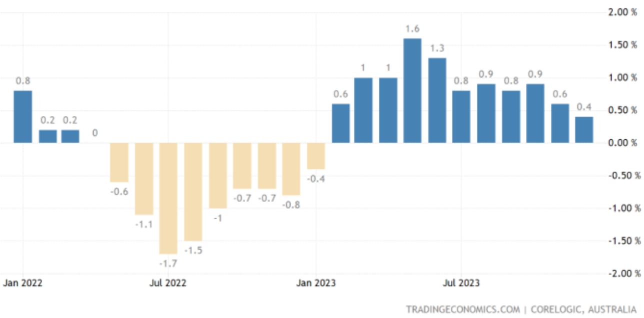


Source: Tradingeconomics.com, ABS. Accessed 18/01/2024

Australian Home Value Index

Australia's CoreLogic Home Value Index rose 0.4% in December, slowing from a 0.6% increase in November. The increase results in an 8.1% growth over 2023, a turnaround from the -4.9% drop in 2022. "*Monthly growth in home values peaked in May. A rate hike in June and another in November, along with persistent cost of living pressures and worsening affordability challenges have progressively taken some heat out of the market through the second half of the year,*" noted Tim Lawless, CoreLogic's Research Director. Perth (1.5%) and Adelaide (1.3%) rose the most in December, while Melbourne (-0.3%) and Hobart (-0.3%) declined.

Corelogic Dwelling Prices MoM: Jan 22 – Dec 23



Source: Tradingeconomics.com, Corelogic. Accessed 18/01/2024

Balance of Trade

Australia's trade surplus on goods increased to A$11.44 bln in November from A$7.66 bln in October, surpassing market forecasts of A$7.5 bln. Exports rose (1.7%), while imports slumped (-7.9%). Exports were boosted by coal, coke, and briquettes. Meanwhile, imports plunged to a nine-month low of A$34.88 bln, mainly dragged down by non-industrial transport equipment, and food & beverages.

United States

The number of job openings in the U.S. is now at the lowest level since March 2021. Inflation increased in December, from a five-month low in November. Rate cuts are now being factored in for the U.S.

Growth / Economic Activity

The Conference Board Leading Economic Index (LEI) for the U.S. declined by 0.5% in November 2023 to 103.0 (2016=100), following a (downwardly revised) decline of 1.0% in October. The LEI contracted by 3.5% over the six-month period between May and November 2023, a smaller decrease than its 4.3% contraction over the previous six months (November 2022 to May 2023).

“The U.S. LEI continued declining in November, with stock prices making virtually the only positive contribution to the index in the month,” said Justyna Zabinska-La Monica, Senior Manager, Business Cycle Indicators, at The Conference Board. “Housing and labour market indicators weakened in November, reflecting warning areas for the economy. The Leading Credit Index and manufacturing new orders were essentially unchanged, pointing to a lack of economic growth momentum in the near term. Despite the economy’s ongoing resilience, as revealed by the U.S. CEI, and December’s improvement in consumer confidence, the U.S. LEI suggests a downshift of economic activity ahead. As a result, the Conference Board forecasts a short and shallow recession in the first half of 2024.”

Labour Market

The number of job openings decreased by 62,000 from the previous month to 8.790 million in November 2023, marking the lowest level since March 2021 and falling below the market consensus of 8.85 million. It was the third consecutive month of declines in U.S. job openings, reflecting the ongoing easing of labour market conditions. During the month, job openings decreased in transportation, warehousing, and utilities (-128,000) and in federal government (-58,000). On the other hand, job openings increased in wholesale trade (+63,000). Regarding regional distribution, job openings fell in the South (-128,000), the Northeast (-29,000) and the West (-7,000), but rose in the Midwest (+102,000).

The unemployment rate in the United States held at 3.7% in December 2023, unchanged from the previous month and slightly below the market consensus of 3.8%, influenced by a slowdown in new entries into the labour force. The activity rate declined to 62.5% last month from November's 62.8%. Additionally, there was an increase of 6,000 in the number of unemployed individuals, totalling 6.27 million, while the count of employed individuals dropped by 683,000 to 161.2 million.

Inflation

The annual inflation rate in the U.S. went up to 3.4% in December 2023 from a five-month low of 3.1% in November, higher than market forecasts of 3.2%, as energy prices went down at a slower pace. Energy costs dropped 2% (vs -5.4% in November), with gasoline declining 1.9% (vs -8.9%), utility (piped) gas service falling 13.8% (vs -10.4%) and fuel oil sinking 14.7% (vs -24.8%). Meanwhile, prices increased at a softer pace for food (2.7% vs 2.9%), shelter (6.2% vs 6.5%), new vehicles (1% vs 1.3%), apparel (1% vs 1.1%), medical care commodities (4.7% vs 5%) and transportation services (9.7% vs 10.1%) and continued to decline for used cars and trucks (-1.3% vs -3.8%). Annual core inflation rate eased to 3.9%, below 4% in the previous period, but above expectations of 3.8%. Compared to November, consumer prices went up 0.3%, the most in three months and above forecasts of 0.2%.

Interest Rates / Fed Policy

The Federal Reserve ended 2023 with an unexpected pivot in policy.

Central bankers signalled in December during their final meeting of the year that their nearly two-year battle against inflation has finally come to an end, and that a series of rate reductions are in the pipeline.

Updated quarterly economic projections laid out after the meeting show that a majority of Federal Open Market Committee officials expect rates to fall to 4.6% by the end of 2024, suggesting that there will be at least 0.75% of rate cuts next year. Policymakers also pencilled in additional rate cuts in 2025 and 2026.

China

China's economy continues to struggle deflationary pressures and a property crisis that is dragging both housing prices and consumer sentiment with it. The shining light continues to be year on year Retail Sales; however, it comes off of last year's lows.

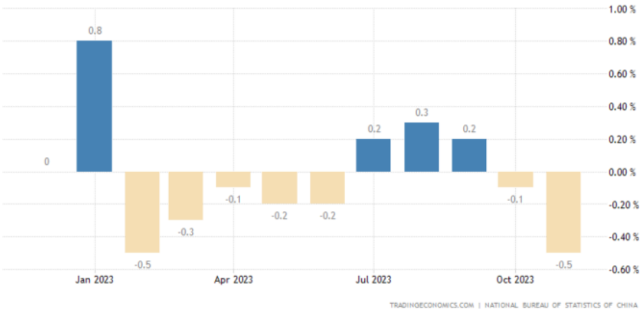
Monetary Policy

The People's Bank of China (PBoC) maintained the current interest rates during December.

Inflation

China's consumer prices fell by 0.5% year-on-year in November, steeper than the 0.2% drop in October, and below market forecasts of -0.1%. The cost of food decreased at the fastest pace in over two years (-4.2% vs -4.0% in Oct), amid a further fall in pork prices. Meantime, non-food inflation slowed (0.4% vs 0.7%), due to a quicker drop in transport prices (-2.4% vs -0.9%) and a moderation in education costs (1.8% vs 2.3%). Core consumer prices rose by 0.6% YoY in November, unchanged from October. Monthly, the CPI also dropped by 0.5%, below consensus and October's figure of -0.1%.

China Inflation Rate (MoM) Dec 2022 – Nov 2023



Source: Tradingeconomics.com, National Bureau of Statistics of China, Accessed 16/01/2024

Industrial Production

China's industrial production rose 6.6% YoY in November beating market forecasts of 5.6% and the 4.6% gain in October. Mining production expanded (3.9% vs 2.9% in Oct), as did manufacturing (6.7% vs 5.1%) and utilities (9.9% vs 1.5%). Production expanded at a softer rate for non-ferrous metals (10.2% vs 12.5%) and chemicals (9.6% vs 12.1%).

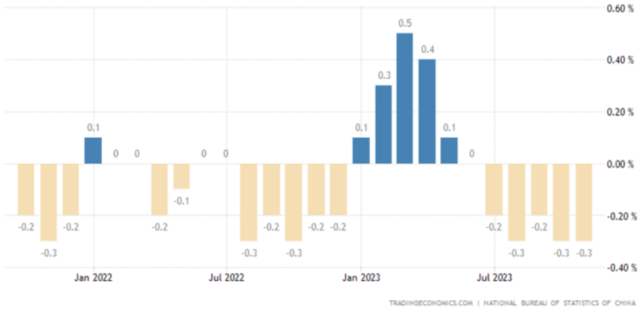
Employment

China's surveyed urban unemployment rate was 5% in November, unchanged from the previous two months. The surveyed unemployment rate of the population with local household registration was 5.1% (vs 5% in Oct) and for the population with non-local household registration it was 4.7% (vs 4.9%). The jobless rate in 31 large cities was unchanged at 5%.

Housing

China's new home prices dropped by 0.2% YoY in November, as demand remained sluggish despite Beijing having issued measures to boost demand. The latest reading marked the fifth consecutive month of decline, as prices shrank at a faster pace in Shenzhen (-3.1% vs -2.8% in Oct) and Guangzhou (-2.4% vs -2.0%). Beijing prices rose at a slower pace (1.9% vs 2.1%). Meanwhile, upward pressure was observed in Shanghai (4.7% vs 4.4%), and Tianjin (2.0% vs 0.9%). On a monthly basis, new home prices fell by 0.3% in November, the same pace as in October.

New House Prices (MoM) Oct 2021 – Nov 2023



Source: Tradingeconomics.com, NBS China, Accessed 16/01/2024

Retail Sales

China's retail sales expanded by +10.1% YoY in November, much faster than the +7.6% in October, but below expectations of +12.5%. This was assisted by an acceleration in sales of clothing (22.0% vs 7.5% in Oct), communications equipment (16.8% vs 14.6%), and autos (14.7% vs 11.4%). Sales fell for cosmetics (-3.5% vs 1.1%) and office supplies (-8.2% vs 7.7%), while home appliances sales growth eased (2.7% vs 9.6%).

Trade

China's trade surplus increased to US$75.34 bln in December from US$70.65 bln last December, surpassing forecasts of US$74.75 bln. Exports rose by +2.3%, beating forecasts of +1.7%, while imports edged up by +0.2%, below market forecasts of +0.3%. For the 2023 full year, the country posted a surplus of US$823 bln, with exports falling 4.6% to US$3.38 trillion, while imports dropped 5.5% to US$2.56 trillion.

Europe

According to Eurostat, the seasonally adjusted jobless rate in the Euro Area hit 6.4% in November 2023, aligning with June's historic low. The inflation rate in the Euro Area rose to 2.9% year-on-year in December 2023, climbing from an over two-year low of 2.4% seen in November.

Growth / Economic Activity

According to the ECB, the euro area economy weakened in the second half of 2023, dragged down by tighter financing conditions, subdued confidence and competitiveness losses. It is now expected to recover at a slightly slower pace than foreseen in the September 2023 ECB staff macroeconomic projections. Short-term indicators suggest weak economic activity in the fourth quarter of 2023. However, growth is expected to strengthen from early 2024, as real disposable income rises, supported by declining inflation, robust wage growth and resilient employment, and export growth catches up with improvements in foreign demand. The impact of the ECB's monetary policy tightening, and adverse credit supply conditions continues to feed through to the economy, affecting the near-term growth outlook. These dampening effects are expected to fade later in the projection horizon, supporting growth. Overall, annual average real GDP growth is expected to slow down from 3.4% in 2022 to 0.6% in 2023, before recovering to 0.8% in 2024 and stabilising at 1.5% in 2025 and 2026. Compared with the September 2023 projections, the outlook for GDP growth has been slightly revised down for 2023-2024, on the back of the recent data releases and weak survey data.

Inflation

The inflation rate in the Euro Area rose to 2.9% year-on-year in December 2023, climbing from an over two-year low of 2.4% seen in November, yet slightly below the market consensus of 3%, a preliminary estimate showed. It was the first uptick in inflation since April and was primarily propelled by energy-related base effects. Energy prices saw a decline of 6.7% (vs -11.5% in November), while services inflation remained steady at 4.0%. Moreover, the pace of price rises moderated for both food, alcohol & tobacco (6.1% vs 6.9%) and non-energy industrial goods (2.5% vs 2.9%). The core rate, excluding volatile food and energy prices, also cooled to 3.4%, aligning with expectations and marking its lowest point since March 2022. On a monthly basis, consumer prices increased by 0.2% in December, following a 0.6% drop in November.

Labour Market

According to Eurostat, the seasonally adjusted jobless rate in the Euro Area hit 6.4% in November 2023, aligning with June's historic low and slightly surpassing the market forecast of 6.5%, as the number of unemployed individuals declined by 99,000 from the prior month to 10.970 million. Meanwhile, the youth unemployment rate, reflecting those under 25 seeking employment, fell to 14.5% from the previous month's 14.8%. Across the major Euro Area economies, Spain reported the highest jobless rate at 11.9%, followed by Italy at 7.5% and France at 7.3%. In contrast, Germany and the Netherlands boasted the lowest rates at 3.1% and 3.5%, respectively.

Policy

In mid-December, the Governing Council decided to keep the three key ECB interest rates unchanged. While inflation has dropped in recent months, it is likely to pick up again temporarily in the near term. According to the latest Eurosystem staff projections for the euro area, inflation is expected to decline gradually over the course of next year, before approaching the Governing Council's 2% target in 2025. Overall, staff expect headline inflation to average 5.4% in 2023, 2.7% in 2024, 2.1% in 2025 and 1.9% in 2026. Compared with the September staff projections, this amounts to a downward revision for 2023 and especially for 2024.

The Governing Council is determined to ensure that inflation returns to its 2% medium-term target in a timely manner. Based on its current assessment, the Governing Council considers that the key ECB interest rates are at levels that, maintained for a sufficiently long duration, will make a substantial contribution to this goal. The Governing Council's future decisions will ensure that its policy rates will be set at sufficiently restrictive levels for as long as necessary.

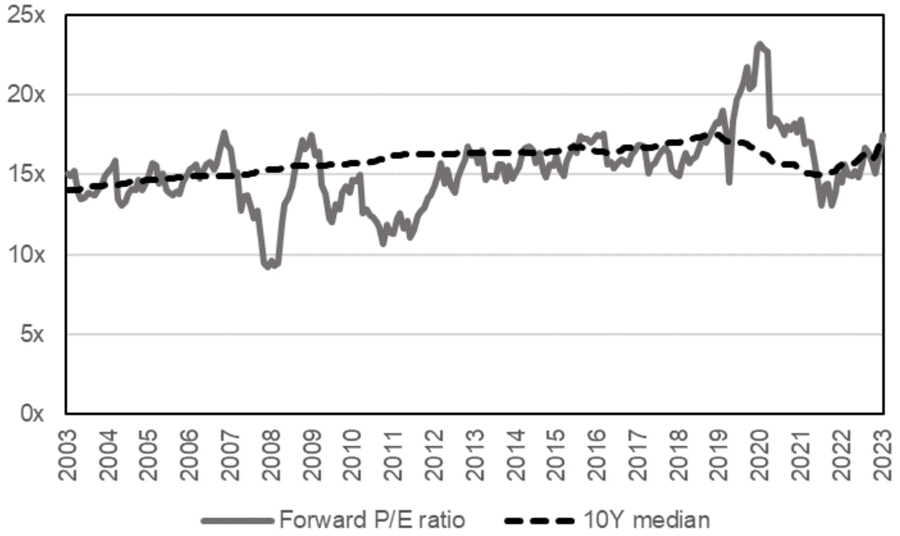
Economic Scorecard – As of 22 January 2024

The below summarises the current position of major markets across Growth, Inflation, Interest Rates and Currencies. It also provides Insignia Research's view on the likely direction of these economic indicators over the next 12 months. **Please note that these views are not guarantees, and a range of factors could impact their direction such that the end outcomes are different to our predictions.**

	USA			Australia			EuroZone			China		
	Current	**Direction**	**1 year forward**	**Current**	**Direction**	**1 year forward**	**Current**	**Direction**	**1 year forward**	**Current**	**Direction**	**1 year forward**
Growth (Latest Qtr GDP)	1.2% (Above trend)	Moderating	Below trend / Recession	0.2% (Below trend)	Fairly flat	Below trend / Recession	-0.1% (Below trend)	Weakening	Recession / Below trend	1.0% (About trend)	Moderating Slightly	Below trend
Inflation (Headline CPI)	3.4% (Above target)	Slowly falling	Very slightly above target	5.4% (Significantly Above target)	Falling	Lower, but still above target	2.9% (Slightly above target)	Slowly falling	Likely top of target range	-0.3% (Below target)	Slowly returning towards trend	Target / Slightly below target
Interest Rates (official cash rate or equivalent)	5.25%-5.50%	Decreasing	4.50%-4.75%	4.35%	Slightly decreasing	4.10%	4.50%	Decreasing	4.00%	3.45%	Decreasing	3.15%
		AUD/USD										
Currencies (relative PPP basis)	0.661 (PPP 0.705) less than 1 Std Dev	Risk off	Still within fair value range									

Market valuations (Forward P/E vs 10Y median Forward P/E)

Australian Shares Forward P/E – spot vs trailing 10Y median (December-13 to December-23)



Sources: FactSet, MSCI, S&P (December 2023)

Australian Shares based on the S&P/ASX 200 Index.

Performance as of 31 December 2023

					Annualised						
		1-mth	3-mth	6-mth	1-yr	3-yr	5-yr	7-yr	10-yr	15-yr	20-yr
Shares	Australia	7.3%	8.4%	7.6%	12.4%	9.2%	10.3%	8.5%	7.9%	9.4%	8.8%
	Australia - mid cap	6.9%	4.8%	3.0%	7.8%	7.0%	11.8%	10.2%	11.3%	10.7%	9.8%
	Australia - small cap	7.2%	8.5%	6.4%	7.8%	0.9%	6.4%	5.9%	6.0%	6.7%	5.6%
	Australia - micro cap	6.5%	5.3%	-0.2%	-0.4%	3.5%	13.1%	8.2%	8.0%	8.1%	5.6%
	World ex Australia	1.8%	5.3%	4.9%	23.2%	11.8%	13.6%	11.7%	11.7%	10.9%	8.3%
	World ex Australia (Hedged)	3.9%	9.2%	6.1%	21.7%	7.3%	11.6%	9.8%	9.5%	12.0%	9.1%
	World - small cap	6.5%	6.4%	4.9%	15.0%	7.2%	10.4%	8.6%	9.7%	11.4%	8.8%
	Emerging Markets	1.0%	2.0%	2.1%	9.2%	-1.1%	4.3%	5.9%	5.5%	6.7%	7.4%
Property & Infrastructure	A-REITS	11.5%	16.6%	13.1%	17.6%	5.7%	6.1%	5.6%	9.2%	9.0%	5.7%
	Global REITs	6.4%	9.1%	5.9%	9.0%	5.4%	3.5%	3.5%	6.4%	-	-
	Global REITs (hedged)	8.2%	12.7%	6.9%	7.9%	1.7%	1.9%	1.9%	4.5%	8.3%	-
	Global infrastructure	1.5%	4.8%	-0.5%	1.6%	8.1%	6.7%	7.1%	8.8%	-	-
	Global infrastructure (Hedged)	3.3%	8.5%	0.5%	-0.8%	3.5%	4.9%	5.4%	6.8%	10.0%	-
Fixed income	Australia Total Market	2.7%	3.8%	3.5%	5.1%	-2.7%	0.6%	1.6%	2.6%	3.6%	4.4%
	Australia government bonds	2.9%	4.0%	3.4%	4.8%	-3.1%	0.5%	1.5%	2.6%	3.4%	4.3%
	Australia corporate bonds	2.1%	3.2%	4.5%	6.8%	-0.7%	2.0%	2.7%	3.4%	4.7%	5.0%
	Australia floating rate bonds	0.5%	1.3%	2.7%	5.1%	2.2%	2.3%	2.4%	2.7%	3.8%	4.1%
	Global Total Market (Hedged)	3.0%	5.4%	3.2%	5.3%	-3.1%	0.5%	1.1%	2.6%	4.4%	5.0%
	Global government bonds (Hedged)	2.8%	4.9%	2.6%	5.0%	-3.2%	0.2%	1.0%	2.6%	4.0%	-
	Global corporate bonds (Hedged)	3.6%	6.9%	4.8%	7.0%	-3.6%	1.3%	1.7%	3.1%	5.8%	-
	Global high yield bonds (Hedged)	3.6%	7.1%	7.3%	11.5%	-0.2%	2.9%	2.9%	4.2%	10.1%	7.7%
Cash	Bloomberg AusBond Bank Bill Index	0.4%	1.1%	2.1%	3.9%	1.7%	1.4%	1.5%	1.8%	2.5%	3.5%

Sources: FactSet, Lonsec

Appendix – Index sources

Asset class	Index
Australian equities (S&P/ASX 200)	S&P/ASX 200 Accumulation Index
Australian equities - Mid caps	S&P/ASX Accumulation Midcap 50 Index
Australian equities - Small caps	S&P/ASX Accumulation Small Cap Ordinaries Index
Australian equities - Micro caps	S&P/ASX Emerging Companies Total Return Index
International equities	MSCI World ex Australia Net Total Return (in AUD)
International equities (Hedged)	MSCI World ex Australia Hedged AUD Net Total Return Index
International equities - Small caps	MSCI World Small Cap Net Total Return USD Index (in AUD)
Emerging Markets equities	MSCI Emerging Markets EM Net Total Return AUD Index
Australian REITs	S&P/ASX 200 A-REIT Accumulation Index
Global REITs	FTSE EPRA/NAREIT Developed Index Net Total Return (in AUD)
Global REITs (Hedged)	FTSE EPRA/NAREIT Developed Index Net Total Return (Hedged to AUD)
Global Infrastructure	FTSE Global Core Infrastructure 50/50 Net Total Return in AUD
Global Infrastructure (Hedged)	FTSE Global Core Infrastructure 50/50 100% Hedged to AUD Net Tax Index
Australian bonds	Bloomberg AusBond Composite 0+ Yr Index
Australian bonds – government	Bloomberg AusBond Govt 0+ Yr Index
Australian bonds – corporate	Bloomberg AusBond Credit 0+ Yr Index
Australian bonds - floating rate	Bloomberg AusBond Credit FRN 0+ Yr Index
Global bonds (Hedged)	Bloomberg Barclays Global Aggregate Total Return Index Value Hedged AUD
Global bonds - government (Hedged)	Bloomberg Barclays Global Aggregate Treasuries Total Return Index Hedged AUD
Global bonds - corporate (Hedged)	Bloomberg Barclays Global Aggregate Corporate Total Return Index Hedged AUD
Global bonds - High Yield (Hedged)	Bloomberg Barclays Global High Yield Total Return Index Hedged AUD
Cash (AUD)	Bloomberg AusBond Bank Bill Index