Monthly Economic Wrap

January 2024

Summary

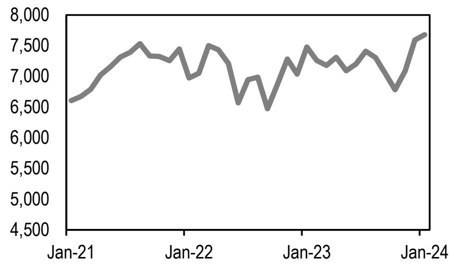
Economic

- According to the International Monetary Fund, the risks to global growth are broadly balanced and a soft landing is a possibility.
- Global growth is projected at 3.1% in 2024 and 3.2% in 2025, with the 2024 forecast 0.2% higher than that in the October 2023 World Economic Outlook (WEO) on account of greater-than-expected resilience in the United States and several large emerging market and developing economies, as well as fiscal support in China.
- The forecast for 2024–25 is, however, below the historical (2000–19) average of 3.8%, with elevated central bank policy rates to fight inflation, a withdrawal of fiscal support amid high debt weighing on economic activity, and low underlying productivity growth. Inflation is falling faster than expected in most regions, in the midst of unwinding supply-side issues and restrictive monetary policy. Global headline inflation is expected to fall to 5.8% in 2024 and to 4.4% in 2025, with the 2025 forecast revised down.

Markets

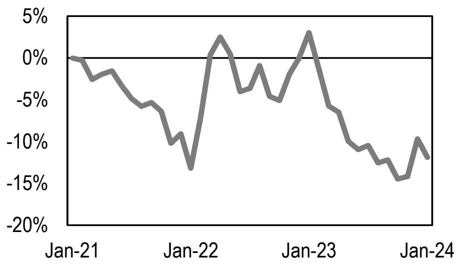
- Share market performance was reasonable for January. The S&P 500 rose by 1.59%, while the Australian S&P 200 gained 1.18% on a price basis.
- Global shares ex-Australia performed very well during January, producing a return of 4.5% on an unhedged basis. The result wasn't as good for hedged global shares, gaining a smaller, but still acceptable 1.8%.
- In Australia, Low volatility and Growth were the best performing styles for the month, while globally, the best performing styles were Momentum and Quality.
- Within Fixed income markets, both Australian government bonds and credit gained a small amount of ground for the month. The main Australian fixed interest index, the Bloomberg AusBond Composite 0+ Years Index was up 0.2%, while the Bloomberg AusBond Credit 0+ Years Index gained 0.4%.
- Global High Yield bonds, as measured by the Bloomberg Barclays Global High Yield Total Return Index Hedged into AUD were flat for the month of January.

1. S&P/ASX 200 Price Index



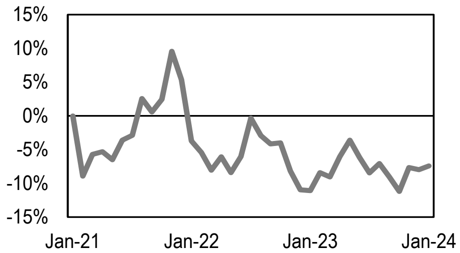
Source: FactSet, Insignia Financial

2. ASX200 vs All-World, US$ terms



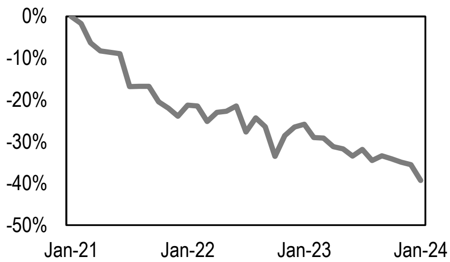
Source: FactSet, Insignia Financial

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 – January 2024

ASX/S&P 200 Sectors (GICS)				
	Monthly	% ∆	Quarterly	% ∆
▲	Consumer Discretionary	2.44	Consumer Discretionary	13.96
▼	Consumer Staples	-0.01	Consumer Staples	4.04
▲	Energy	5.22	Energy	0.76
▲	Financials ex Property	1.18	Financials ex Property	12.67
▲	Financials	4.96	Financials	16.07
▲	Health Care	4.28	Health Care	27.06
▲	Industrials	0.01	Industrials	12.39
▲	IT	1.18	IT	16.54
▼	Materials	-4.80	Materials	8.66
▲	Property Trusts	1.30	Property Trusts	23.80
▲	Telecommunications	1.66	Telecommunications	11.89
▼	Utilities	-1.50	Utilities	-6.15

Source: FactSet, Insignia Financial

Best and Worst S&P/ASX 200 Performers			
Top five stocks (%)		Bottom five stocks (%)	
Monthly			
Boss Energy Limited	+38.2	Sayona Mining Ltd.	-43.7
Megaport Ltd.	+38.2	Liontown Resources Limited	-37.6
Paladin Energy Ltd.	+31.5	Chalice Mining Limited	-34.2
Alumina Limited	+28.7	Domino's Pizza Enterprises Limited	-32.7
Elders Limited	+19.3	Nanosonics Limited	-32.3
Quarterly			
Neuren Pharmaceuticals Limited	+120.3	Sayona Mining Ltd.	-46.7
Block, Inc. Shs CDIs	+69.4	Core Lithium Ltd.	-45.8
Polynovo Limited	+64.9	Chalice Mining Limited	-37.7
IRESS Limited	+64.3	Liontown Resources Limited	-36.0
Elders Limited	+51.4	Domino's Pizza Enterprises Limited	-21.9

Source: FactSet, Insignia Financial

Share Markets, Returns

	Australian Indices	31 Jan 2024 Price	1M return (%)	31 Oct 2023 Price	3M return (%)
▲	S&P/ASX 200	7681	1.18	6781	13.27
▲	All Ordinaries	7913	1.06	6968	13.57
▲	Small Ords	2956	0.87	2561	15.39
	US Indices				
▲	S&P 500	4846	1.59	4194	15.54
▲	Dow Jones	38150	1.22	33053	15.42
▲	Nasdaq	15164	1.02	12851	18.00
	Asia Pacific Indices				
▼	Hang Seng	15485	-9.16	17112	-9.51
▲	Nikkei 225	36287	8.43	30859	17.59
	UK & Europe Indices				
▼	FTSE 100	7631	-1.33	7322	4.22
▲	CAC40	1430	0.71	1300	9.99
▲	DAX Index	16904	0.91	14810	14.13

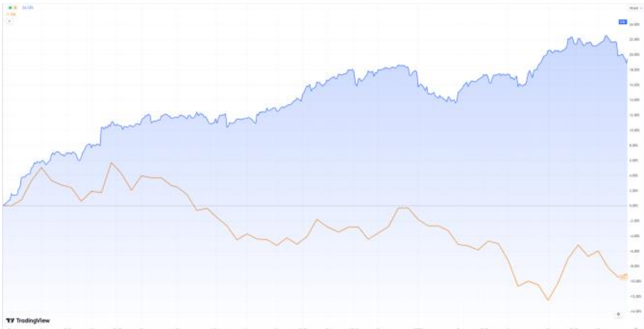
Sources: FactSet, MSCI, FTSE, S&P, Insignia Financial
Note: return is reported on a price basis and in local currency terms e.g., S&P500 performance is in US dollars and excluding dividends.

Apart from two exceptions (Hang Seng: -9.16% and FTSE 100: -1.33%), equity markets continued to enjoy the positive momentum coming from the strong year-end rally. It could be argued that the markets are expensive, especially “growth” and “quality”, given the rhetoric from developed market Central Banks that interest rates would not be reducing as quickly or as much as the bond and equity markets are factoring in.

The Hang Seng (-9.16%) continues to be challenged by the Chinese property crisis and its negative flow on effects into Chinese consumer sentiment, housing prices and domestic demand.

The U.K.’s FTSE 100 (-1.33%) was also lacklustre, as the U.K. inflation was stronger than expected and weak Chinese data weighed on commodity stocks.

Nasdaq vs Hang Seng: Nov 2023 – Jan 2024



Source: tradingview.com. Accessed 15/02/2024. Indices in local currency. Nasdaq Composite index in Blue, Hang Seng in Orange.

Returns to 31 Jan 2024	1-mth	3-mth	6-mth	1-yr
MSCI World Index	1.8%	14.9%	6.0%	18.3%
Value	0.9%	12.3%	4.4%	8.4%
Value-Weighted	1.3%	13.1%	5.5%	13.7%
Momentum	6.6%	18.6%	12.9%	18.5%
Growth	2.7%	17.4%	7.5%	28.5%
Quality	3.3%	16.7%	9.3%	28.9%
Low volatility	3.0%	9.3%	5.3%	9.5%
Equal weight	0.3%	13.4%	2.8%	9.5%
Small caps	-1.1%	14.8%	1.6%	6.1%

Source: FactSet, Insignia Financial, MSCI

Momentum as a factor was exceptionally strong in January. Even more so than Growth or Quality. This may be reflective of investors buying into the market leading “Magnificent 7” even after the exceptional year they had in 2023.

Interestingly, after the robust capital protection provided by value investing in 2022, the investment style has been sadly left behind in January and over the past 12 months. The performance of the market leading stocks has also weighed on small cap company prices, however, the undervaluation of global small caps is creating opportunities for investment managers to buy good robust earnings growth at lower multiples.

Australian equity markets

The Australian market, as measured by the S&P/ASX 200 Index rose 1.2% in January, while the larger market cap MSCI index rose by a slightly stronger 1.6%.

Returns to 31 Jan 2024	1-mth	3-mth	6-mth	1-yr
MSCI Australia Index	1.6%	14.6%	7.5%	8.9%
Value	1.3%	12.9%	7.6%	8.5%
Value-Weighted	1.8%	13.3%	7.5%	9.3%
Momentum	0.4%	12.5%	9.4%	8.3%
Growth	1.9%	16.3%	7.4%	9.6%
Quality	1.3%	15.2%	10.1%	13.8%
Low volatility	2.2%	13.8%	7.0%	11.2%
Equal weight	1.2%	13.2%	3.0%	9.6%
Small caps	0.0%	13.1%	1.3%	0.8%

Source: FactSet, Insignia Financial, MSCI

Momentum was less of a driver of the Australian market during January than for our global counterparts. However, similar to global peers, Australian Smaller companies have also lagged the broader market.

Low price volatility companies performed well in January, while Growth investing continued to be strong over the month and the quarter, despite having significantly less technology and A.I. related stocks than overseas markets.

Fixed Income

Fixed Income	31 Jan 2024 Yield	1M mvt (bps)	31 Oct 2023 Yield	3M mvt (bps)
Australian Cash rate	4.35	--	4.10	0.25
▲ 10-year Bond Yield	4.01	0.06	4.92	-0.91
▼ 3-year Bond Yield	3.57	-0.03	4.40	-0.83
90 Day Bank Accepted Bills SFE-Day	4.45	--	4.62	-0.17
▲ US 10-year Bond Yield	3.95	0.07	4.90	-0.94
▼ US 3-year Bond Yield	4.00	-0.01	4.89	-0.89
▼ US Investment Grade spread	1.29	0.00	1.64	-0.34
▲ US High Yield spread	3.44	0.21	4.37	-0.93

Source: FactSet, Insignia Financial

Australian bond market

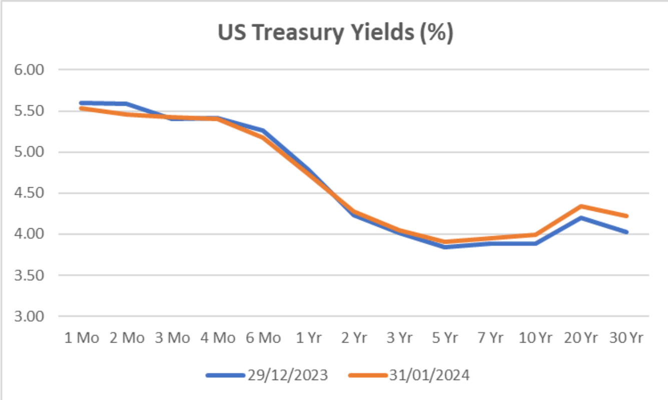
January was a relatively quiet month for Australian bonds. The main Australian Fixed Interest index, the Bloomberg AusBond Composite 0+ Years Index gained 0.2%. Australian yields compared to the recent past, didn't move very much during January, with the short end (3-year) of the curve falling by 3 basis points. At the long end of the curve, the 10-year yield rose by 6 basis points.

Australian corporate bonds also gained a small amount of ground over the month, with the Bloomberg AusBond Credit 0+ Years Index gaining 0.4%.

The yield to maturity for the Bloomberg AusBond Composite 0+ Years Index at the end of January was approximately 4.2%, with the index having around 5 years duration.

Global bond markets

During January, U.S. Government bond yields also didn't move very far. As can be seen in the following chart, the U.S. yield curve rose marginally at the middle to longer end of the curve, most notably for maturities of greater than or equal to 5 years. The short end of the curve fell with the exception of 3 months, which rose by 2 basis points.



Source: U.S. Department of the Treasury, accessed 12/02/2024

In January, global government bond markets saw a partial reversal in the positive performance experienced late in 2023. Despite encouraging news on disinflation, the enthusiasm for near-term rate cuts subsided as the U.S. economy continued to demonstrate robust growth.

Yields rose across all major government bond markets, meaning prices fell, with the U.K. 10-year rising from 3.54% to 3.80%. German 10-year yields also moved higher from 2.03% at the end of December to 2.16%.

Globally, investment grade corporate bonds posted negative returns, yet they still managed to outperform government bonds with new issuance being absorbed well and spreads tightening further on the hopes of a soft landing. Within high yield, the eurozone was the notable outperformer, with tighter spreads and positive total returns that exceeded their investment grade counterparts.

Currencies

	Currency	31 Jan 2024 Price	1M return (%)	31 Oct 2023 Price	3M return (%)
▼	$A vs $US	0.66	-3.65	0.63	3.61
▼	$A vs GBP	0.52	-3.27	0.52	-0.74
▲	$A vs YEN	96.52	0.47	96.12	0.42
▼	$A vs EUR	0.61	-1.68	0.60	1.33
▼	$A vs $NZ	1.07	-0.41	1.09	-1.31
▲	$US vs EUR	0.92	2.04	0.95	-2.23
▼	$US vs CNY	7.10	-0.19	7.32	-2.96
▲	$US vs GBP	0.79	0.34	0.82	-4.20
▲	$US vs JPY	146.92	4.18	151.66	-3.12
▲	$US vs CHF	0.86	2.35	0.91	-5.37
▲	US Dollar Index	103.27	1.92	106.66	-3.18

Source: Bloomberg, Insignia Financial

Investors may have been over enthusiastic on when and by how much the U.S. interest rate cutting cycle would proceed during 2024. January saw a rebound in U.S. yields, with the U.S. 10-year up from 3.88% (31 Dec) to 4.18% (24 Jan) before easing into month end. The thematic behind the move was the markets over aggressiveness in pricing in multiple cuts to U.S. interest rates starting in March 2024. The Federal Reserve pushed back, managing expectations that March was off the table for any rate cuts. Despite this the USD as measured by the DXY was stronger by 1.92% during January.

The AUD also gave back some of its November and December rally. This was due in part to the USD strength, but also due to a better-than-expected inflation during Q4, coming in below consensus and the RBA forecast for end of 2023. Combined with softer retail sales investors became optimistic that RBA rate cuts were closer than initially expected.

DXY: 31 Jan 2023 – 31 Jan 2024

Source: tradingview.com. Accessed 13/02/2024

Commodities

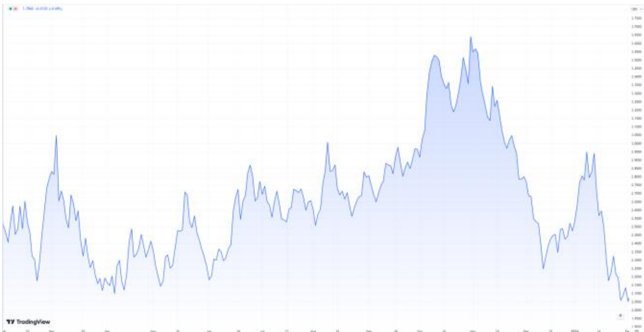
	Commodity	31 Jan 2024 Price	1M return (%)	31 Oct 2023 Price	3M return (%)
▼	Aluminium	2232	-4.43	2235	-0.13
▲	Copper	8513	0.44	8038	5.91
▼	Nickel	16070	-1.41	17825	-9.85
▼	Zinc	2552	-3.37	2433	4.89
▲	Crude Oil - Brent	80.53	3.66	86.82	-7.24
▼	Natural Gas	2.10	-16.47	3.58	-41.26
▼	Metallurgical Coal	118	-19.33	127	-7.30
▲	Thermal Coal	142	11.83	162	-12.71
▼	Iron Ore	135.13	-0.91	118.91	13.64
▼	Gold	2040	-1.21	1984	2.85
▼	Silver	23	-3.77	23	0.44

Source: Bloomberg, Insignia Financial

On average, commodities were weaker as we started 2024, however, as the prices are measured in USD, the currency's strength over the month exacerbated the move (Measured in AUD, Nickel, Iron Ore and Gold were positive in January).

Severe U.S. winter weather mid-January drove natural gas consumption to a monthly record, but prices for the heating fuel have dropped to their lowest level since April last year. The shift lower in prices is due to a lack of new buying interest and the resilience of short sellers. Despite the recent cold snap, the northern hemisphere winter has been mild, and traders have adapted to changing weather forecasts. The U.S. Energy Information Administration (EIA) expect inventories at the end of this winter to remain 15% above the previous 5-year average.

Natural Gas Price: 31 Jan 2023 – 31 Jan 2023



Source: tradingview.com. Accessed 13/02/2024

Australia

Australia's December Inflation data was a nice surprise on the downside; however, core and services inflation remain sticky. Unemployment is edging up, relieving some pressure in the economy, but the labour market remains robust relative to history. Consumers were cautious following a Melbourne Cup rate hike, as December retail sales fell with people pulling back their spending and seeking out bargains.

Monetary Policy

There has been no change to rates since November. Cost pressures in the country continued to ease, but inflation remained high as prices of services were not falling quickly enough.

Inflation

Australia's inflation rate was at 4.1% YoY in Q4 of 2023, down from 5.4% in Q3 and below both market expectations and the RBA's forecast of 4.3% and 4.4% respectively. Goods inflation eased for the fifth consecutive quarter (3.8% vs 4.9% in Q3) and services inflation slowed for the second straight quarter (4.6% vs 5.8%). Inflation moderated for food (4.5% vs. 4.8%), housing (6.1% vs 7.0%), and recreation & culture (0.5% vs 5.6%). Costs fell for clothing (-1.1% vs 0.9%) and furnishing & household services (-0.2% vs 2.5%). Prices quickened for alcohol & tobacco (6.6% vs 4.9%), and furniture (6.9% vs. 4.9%). The Core CPI increased by 4.2% YoY down from 5.2% in Q3.

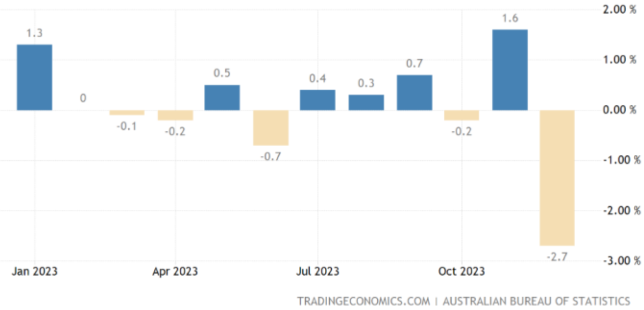
Labour Market

Australia's seasonally adjusted unemployment rate edged up to 3.9% in December matching November's 18-month high and matching forecasts. The number of unemployed individuals edged down by 0.8k to 573.6k, with those seeking full-time jobs declining by 7.3k. Employment declined by 61.5k to 14.20m, missing forecasts of a 17.6k gain. Full-time employment fell by 106.6k to 9.79m. The participation rate eased to 66.8% down from November's record of 67.3% and below forecasts of 67.1%.

Retail Sales

Retail sales in Australia declined by 2.7% month-over-month in December after a 1.6% growth in November. It was the steepest drop in retail trade since August 2020, missing market estimates (+0.1%) as consumers brought some of their December spending to November to take advantage of Black Friday sales. Sales shrank for most retail industries, namely household goods retailing (-8.5% vs 6.5% Nov), department stores (-8.1% vs 4.1%), and clothing, footwear, & personal accessories (-5.7% vs 2.2%), Food retailing stayed muted (0.1% vs 0.0%).

Retail Sales MoM: Jan 2023 – Dec 2023



Source: tradingeconomics.com, ABS, Accessed 15/02/2024

Purchasing Managers Index

The Judo Bank Australia Composite PMI increased to 48.1 in January from 46.9 in a month earlier, showing the fourth month in the contraction zone as business activity declined.

The larger part of the composite index, the Judo Bank Australia Services PMI rose to 47.9 in January, after posting 47.1 a month earlier. It marked the fourth consecutive month of contraction in the services sector due to a fall in new business. Sentiment improved within the Australian service sector on the back of hopes of economic conditions improving in 2024. Firms also continued to hire, although at a slowing pace relative to late 2023. Cost pressures rose sharply due to higher transport and input material costs. Australian service providers shared their increased cost burdens at a slower rate as demand deteriorated.

Balance of Trade

Australia's trade surplus on goods declined to AUD 10.96 bn in December, below AUD 11.76 bn in the previous month and forecasts of AUD 11 bn. Exports increased 1.8% to a seven-month high of AUD 47.13 bn, while imports rose 4.8% to AUD 36.17 bn. Within exports non-rural goods rose by 0.9% boosted by mineral fuels (6.7%) and metals (15.3%), while rural goods increased 0.5% supported by meat & meat preparations (4.0%) and wool & sheep skins (+29.2%). Imports increased due to non-industrial transport equipment (15.8%), textiles, clothing & footwear (14.9%) and parts for transport equipment (36.7%).

United States

Job openings surged from the previous month to 9.026 million in December 2023, the highest in three months and above the market consensus. Headline inflation decreased in January, but came in above forecasts.

Growth / Economic Activity

The Conference Board Leading Economic Index (LEI) for the U.S. fell by 0.1% in December 2023 to 103.1 (2016=100), following a 0.5% decline in November. The LEI contracted by 2.9% over the six-month period between June and December 2023, a smaller decrease than its 4.3% contraction over the previous six months.

"The U.S. LEI fell slightly in December, continuing to signal underlying weakness in the U.S. economy," said Justyna Zabinska-La Monica, Senior Manager, Business Cycle Indicators, at The Conference Board. "Despite the overall decline, six out of ten leading indicators made positive contributions to the LEI in December. Nonetheless, these improvements were more than offset by weak conditions in manufacturing, the high interest-rate environment, and low consumer confidence. As the magnitude of monthly declines has lessened, the LEI's six-month and twelve-month growth rates have turned upward, but remain negative, continuing to signal the risk of recession ahead. Overall, we expect GDP growth to turn negative in Q2 and Q3 of 2024, but begin to recover late in the year."

Labour Market

The number of job openings surged by 101,000 from the previous month to 9.026 million in December 2023, the highest in three months and above the market consensus of 8.75 million. During the month, job openings increased in professional and business services (+239,000), but decreased in wholesale trade (-83,000). Regarding regional distribution, job openings rose in the South (+115,000) and the Northeast (+12,000), but fell in the Midwest (-22,000) and the West (-4,000).

The unemployment rate in the United States held at 3.7% in January 2024, unchanged from the previous month and slightly below the market consensus of 3.8%. The activity rate was also flat at 62.5% last month, remaining at the lowest level since February 2023. The number of unemployed individuals decreased by 144,000 to 6.12 million, while the count of employed individuals dropped by 31,000 to 161.15 million.

Inflation

The annual inflation rate in the U.S. fell back to 3.1% in January 2024 following a brief increase to 3.4% in December, but came in higher than forecasts of 2.9%. Energy costs dropped 4.6% (vs -2.0% in December), with gasoline declining 6.4% (vs -1.9%), utility (piped) gas service falling 17.8% (vs -13.8%), and fuel oil sinking 14.2% (vs -14.7%). Meanwhile, prices increased at a softer pace for food (2.6% vs 2.7%), shelter (6.0% vs 6.2%), new vehicles (0.7% vs 1.0%), apparel (0.1% vs 1.0%), medical care commodities (3.0% vs 4.7%), and transportation services (9.5% vs 9.7%), and continued to decline for used cars and trucks (-3.5% vs -1.3%). Compared to the previous month, the CPI edged up 0.3%, the most in four months, and above forecasts of 0.2%. Also, annual core inflation held steady at 3.9%, compared to expectations it would slow to 3.7%. The monthly rate edged up to 0.4%.

Interest Rates / Fed Policy

The Federal Reserve kept the Fed funds rate unchanged at a 23-year high of 5.25%-5.50% for a fourth consecutive meeting in January 2024, in line with expectations. Policymakers added that they do not expect it will be appropriate to reduce the rates until they have gained greater confidence that inflation is moving sustainably toward 2%.

During the press conference, Chair Powell said it will be appropriate to begin reducing rates sometime this year, but the central bank will continue to make decisions on a meeting-by-meeting basis, and he doesn't think a March cut is likely. Meanwhile, the Fed removed reference to further rate hikes from the statement, saying that the risks to achieve its employment and inflation goals are moving into better balance, but noting it would be prepared to adjust the stance of monetary policy, as appropriate, if risks emerge that could impede the attainment of such goals. The central bank noted that inflation has eased over the past year but remains elevated.

China

China's economy continues to struggle deflationary pressures and a property crisis that is dragging both housing prices and consumer sentiment with it. GDP slightly beat the Chinese 5% official target due to robust Industrial Production.

Monetary Policy

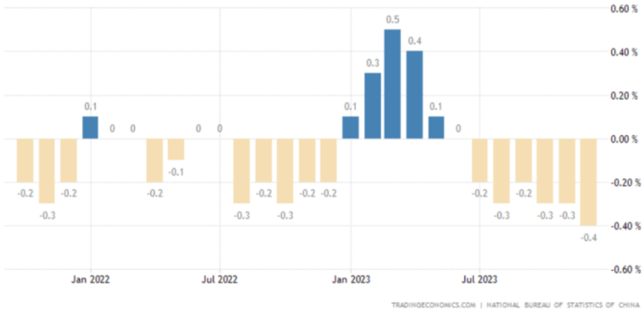
While the People's Bank of China (PBoC) left interest rates unchanged in January, it injected liquidity to the major lending banks via its medium-term policy.

Inflation

China's consumer prices fell by 0.3% YoY in December, the third month of YoY declines. Data was slightly better than forecasts (vs -0.4%) and moderated from November (-0.5%). Food prices declined at a slower pace (-3.7% vs -4.2% Nov). Non-food inflation edged higher (+0.5% vs +0.4%), as cost continued to rise for clothing (+1.4% vs +1.3%) and health (+1.4% vs +1.3%). December YoY Core CPI was unchanged from November (+0.6%). Monthly, the CPI inched up by +0.1%, but below the consensus (+0.2%).

Housing

New House Prices (MoM) Oct 2021 – Dec 2023



Source: Tradingeconomics.com, NBS China, Accessed 14/02/2024

China's new home prices dropped by 0.4% YoY in December, as demand remained sluggish despite Beijing having issued measures to boost demand. The latest reading marked the sixth consecutive month of decline. On a monthly basis, new home prices fell by 0.4% in December (vs -0.3% Nov).

GDP

The Chinese economy expanded 5.2% YoY in Q4 of 2023, faster than the 4.9% growth in Q3, but less than forecasts of 5.3%. Industrial production rose the most in almost two years, but retail sales increased the least in three months and the surveyed jobless rate edged up to a four-month high (off a record low base). Excluding the pandemic years, 2023 GDP growth is the slowest pace of growth since 1990, reflecting the impacts of the prolonged property crisis, persistently weak consumption, and global turmoil.

Industrial Production

China's industrial production grew by 6.8% year-on-year in December, up from a 6.6% gain in November and beating forecasts of 6.6%. Production was boosted by robust activity in both mining (4.7% vs 3.9% Nov) and manufacturing (7.1% vs 6.7%). By industries, production accelerated for coal mining & washing (5.8% vs 5.2%), oil & natural gas extraction (3.5% vs 1.8%), and non-ferrous metals (12.9% vs 10.2%).

Employment

China's surveyed urban unemployment rate inched up to 5.1% in December from the 5.0% data published over the previous three months. After being suspended for 5 months, the December data saw the return of the unemployment rate for the population aged 16-24 coming in at 14.9% (*using a new method)* down from a record peak of 21.3% in June.

Retail Sales

China's retail sales increased by 7.4% YoY in December, below consensus of 8.0% and slowing from 10.1% in November. This marked the 12th consecutive month of rise in retail trade, with sales accelerating for grain & food oil (5.8% vs 4.4%), clothing (26.0% vs 22.0%), gold, silver, & jewellery (29.4% vs 10.7%), and oil products (8.6% vs 7.2%). At the same time, sales fell for personal care (-5.9% vs 3.5%), home appliances (-0.1% vs 2.7%) and office supplies (-9.0% vs -8.2%).

Trade

China's trade surplus increased to US$75.34 bn in December from US$70.65 bn in the same period the previous year, beating forecasts of US$74.75 bn. Exports rose by 2.3%, beating forecasts of 1.7% growth, while imports edged up by 0.2%, less than expectations of a 0.3% rise. For the 2023 full year, the country posted a surplus of US$823 bn, with exports falling 4.6% to US$3.38 trillion, while imports dropped 5.5% to US$2.56 trillion. Trade with the U.S. was at USD 664 bn in 2023, down 11.6% from 2022, the first decline since 2019. Meanwhile, trade between China and Russia reached USD 240.1 bn, hitting a new record high in 2023, growing 26.3% from a year earlier.

Europe

According to Eurostat, the seasonally adjusted jobless rate in the Euro Area remained at 6.4% in December 2023, equalling the record low. The inflation rate in the Euro Area fell marginally to 2.8% year-on-year in January 2023, down from 2.9% the previous month. Meanwhile, core inflation reached its lowest level since March 2022.

Growth / Economic Activity

According to Reuters, the euro zone's economy stagnated last year, underperforming the rest of the world, as Germany struggled with an industrial malaise that has no end in sight.

The 20 countries that share the euro barely avoided a recession in the last quarter of 2023, even as the global economy expanded and the euro zone's largest trading partner, the United States, chalked up impressive growth.

The euro area's underperformance was mostly due to weakness in Germany, which has seen its business model relying on cheap energy from Russia and intense two-way trade with China upended by geopolitical events.

Europe's largest economy shrank by 0.3% in the last three months of 2023, while the bloc as a whole saw steady output, helped by expansions in Spain and Italy, Eurostat's flash estimate showed.

That marked the sixth consecutive quarter of no or little growth. Economists expect more of the same in the coming months before a timid recovery in the summer, which should lead to another year of meagre growth for the euro area.

Inflation

The inflation rate in the Euro Area went down to 2.8% year-on-year in January 2024 from 2.9% in the previous month, in line with market expectations, a preliminary estimate showed. Meanwhile, the core rate, which excludes volatile food and energy prices, continued to ease to 3.3%, above forecasts of 3.2%, but still reaching its lowest level since March 2022. Energy prices saw a decline of 6.3% (vs -6.7% in December), while services inflation remained steady at 4.0%. Moreover, prices slowed for food, alcohol, and tobacco (5.7% vs 6.1%), and non-energy industrial goods (2.0% vs 2.5%). On a monthly basis, consumer prices fell by 0.4% in January, after a 0.2% increase in December.

Labour Market

According to Eurostat, the seasonally adjusted jobless rate in the Euro Area was unchanged at 6.4% in December 2023, aligning with the market forecasts and remaining historically low, as the number of unemployed individuals declined by 17,000 from the prior month to 10.909 million. Meanwhile, the youth unemployment rate, reflecting those under 25 seeking employment, edged down to 14.4% from 14.5% in November. Across the major Euro Area economies, Spain reported the highest jobless rate at 11.7%, followed by France at 7.3% and Italy at 7.2%. In contrast, Germany boasted the lowest rate at 3.1%.

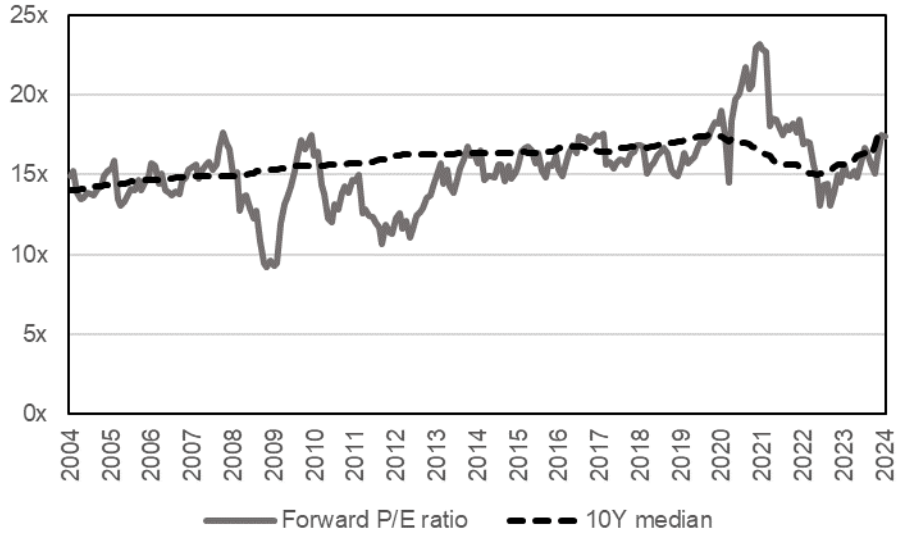
Policy

At its meeting on 25 January 2024, the Governing Council decided to keep the three key ECB interest rates unchanged. The incoming information broadly confirmed its previous assessment of the medium-term inflation outlook. Aside from an energy-related upward base effect on headline inflation, the declining trend in underlying inflation has continued, and the past interest rate increases keep being transmitted forcefully into financing conditions. Tight financing conditions are dampening demand, and this is helping to push down inflation.

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.

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

Australian Shares Forward P/E – spot vs trailing 10Y median (January-14 to January-24)



Sources: FactSet, MSCI, S&P (January 2024)

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

Performance as of 31 January 2024

					Annualised						
		1-mth	3-mth	6-mth	1-yr	3-yr	5-yr	7-yr	10-yr	15-yr	20-yr
Shares	Australia	1.2%	14.0%	5.8%	7.1%	9.6%	9.7%	8.8%	8.4%	9.9%	8.9%
	Australia - mid cap	-2.2%	10.2%	-3.5%	-0.5%	6.6%	10.3%	9.8%	11.4%	11.1%	9.7%
	Australia - small cap	0.9%	15.8%	3.7%	2.1%	1.3%	5.4%	6.4%	6.4%	7.1%	5.6%
	Australia - micro cap	-5.2%	4.6%	-9.0%	-11.9%	0.4%	10.9%	7.0%	7.3%	8.1%	5.2%
	World ex Australia	4.5%	11.2%	7.3%	25.1%	13.6%	13.7%	12.8%	12.3%	11.2%	8.5%
	World ex Australia (Hedged)	1.8%	14.2%	5.0%	16.5%	8.2%	10.5%	9.8%	10.0%	12.7%	9.1%
	World - small cap	0.4%	11.6%	1.6%	9.8%	6.4%	9.1%	9.1%	9.7%	11.4%	8.6%
	Emerging Markets	-1.6%	2.5%	-4.2%	3.5%	-2.8%	3.0%	5.5%	5.8%	6.4%	7.1%
Property & Infrastructure	A-REITS	1.3%	25.4%	10.4%	10.2%	7.6%	5.1%	6.5%	9.2%	9.8%	5.8%
	Global REITs	-0.9%	11.3%	2.4%	3.0%	5.2%	1.9%	4.0%	6.1%	-	-
	Global REITs (hedged)	-3.4%	14.0%	0.0%	-3.5%	0.7%	-0.7%	1.5%	4.1%	9.0%	-
	Global infrastructure	0.7%	5.4%	-0.6%	3.6%	8.8%	6.0%	7.7%	8.7%	-	-
	Global infrastructure (Hedged)	-1.8%	7.9%	-2.7%	-3.9%	3.4%	3.2%	5.0%	6.6%	10.1%	-
Fixed income	Australia Total Market	0.2%	6.0%	3.2%	2.5%	-2.5%	0.6%	1.6%	2.5%	3.6%	4.4%
	Australia government bonds	0.2%	6.4%	3.1%	2.0%	-2.9%	0.4%	1.4%	2.5%	3.4%	4.4%
	Australia corporate bonds	0.4%	4.4%	4.0%	5.0%	-0.5%	2.0%	2.7%	3.3%	4.6%	5.0%
	Australia floating rate bonds	0.4%	1.4%	2.6%	5.1%	2.3%	2.3%	2.4%	2.7%	3.8%	4.1%
	Global Total Market (Hedged)	-0.3%	6.0%	2.9%	2.8%	-3.0%	0.2%	1.1%	2.4%	4.4%	5.0%
	Global government bonds (Hedged)	-0.4%	5.2%	2.6%	2.8%	-3.1%	0.0%	1.0%	2.4%	4.0%	-
	Global corporate bonds (Hedged)	-0.2%	8.0%	4.0%	3.5%	-3.4%	0.9%	1.6%	2.9%	5.8%	-
	Global high yield bonds (Hedged)	0.0%	8.2%	5.5%	7.6%	-0.1%	2.1%	2.7%	4.2%	9.6%	7.6%
Cash	Bloomberg AusBond Bank Bill Index	0.4%	1.1%	2.1%	4.0%	1.8%	1.4%	1.6%	1.8%	2.5%	3.4%

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