Atchison

Market Review
Calendar Year Ended December 2023

2022-23 (CY23) Calendar Year has undeniably been one of turbulence. From geo-political turmoil in Eastern Europe, Middle East, and Africa, to a Chinese real estate crisis, and surging inflation around the world, investors have endured the lot. For markets, CY23 has been dominated by inflation, interest rates, geopolitical concerns, conflict, and fiscal policies. Whist 2023 closed in a stronger position than 2022, investor sentiment and volatility from these macro issues remain heightened.

Despite this volatility and uncertainty, the Australian economy remains resilient with low unemployment and robust Gross Domestic Product (GDP) growth. However, inflation has been stubbornly high peaking at 8.4% in December 2022 to end the year at around 4.5%. The argument that we are close to reaching a peak in interest rates has grown as we move into 2024. Over CY23 the Australian Reserve Bank of Australia (RBA) hiked interest rates five times from 3.10% to 4.35% to quash rising inflation. Definitely annual services inflation (healthcare, education, entertainment, transport etc.) has eased as we moved through CY23 along with annual food inflation. But Australian inflation numbers have been upheld by high housing (attributable to rising rents) and transport (primarily attributable to automotive fuel) still experiencing significant price pressures which threaten to keep Australian inflation higher for longer.

The US is faring better than Australia. Latest GDP figures from the US show an annual rate of 4.9%, supported by increases in consumer spending and inventory investment. Recent US inflation figures revealing an annual inflation rate of just 3.2% (down from highs of 9.1% in June), with a strong indication that the US is close to taking the step to slowly take their foot of the monetary pedal and start easing interest rates down.

However, it has been a different story in the Euro area, which has been teetering for much of the year on the brink of a technical recession (two consecutive quarters of negative growth in real GDP). Just like the US, inflation has come down significantly after the European Central Bank imposed seven interest rate increases over CY23 to end the year on a rate of 4.00%. But industrial activity and GDP growth has been weak, especially in Germany. This economic decline has not gone unnoticed by consumers which is being reflected in recent feeble consumer sentiment data.

The wars in Eastern Europe and the Middle East are likely to continue through Q12024 but the signs are that energy inflation in both the US and Europe returns to 2 to 3% range in 2024. In turn, this paves the way for future rate cuts as most economies grapple with sluggish growth, trade fragmentation and deteriorating fiscal positions.

2024 is shaping up differently, there are some positive factors for the market. Inflation is more under control, and interest rates, while perhaps not immediately coming down may at least be starting to stabilise. Geopolitical tensions, and conflict are still prevalent, but there seem to be signs of a warming relationship between Australia and China that could lead to an improved trade environment.

It is expected that economic growth will continue to slow for at least the first half of 2024, but it is unlikely that Australia will move into a recession. Unemployment remains low, and the resumption of strong immigration, and population growth will likely underpin the economy. While the year ahead is likely to be tricky, the Australian economy appears well positioned to outperform developed market peers.

The good news for investors in 2024 is that much of the risk has now been factored into markets – geopolitical, recession fears, interest rates, inflation, regulation, taxation. There are still headwinds, but this kind of environment is generally an opportune time to invest.

It is anticipated that the average balanced growth superannuation fund (60% – 76% Growth Assets) would have returned 9% for the 12 months to 31 December 2023 and is expected to fully regain the CY22 losses. December was a very strong month for balanced options, returning around 3% for the month. Strong results for the year can be attributed to superior performance from international shares, especially US technology stocks, and the major European sharemarkets. Fixed interest securities bounced back from last year’s negative returns to outperform cash.

Australian Markets

The Australian sharemarket largely underperformed relative to other markets around the world in 2023. The S&P/ASX 200 Accumulation Index rose in the year by 12.4%, but much less compared to the US indices such as the Dow Jones, the S&P 500 and, particularly the tech-heavy Nasdaq Composite.

Throughout much of the year, the Australian market lagged Wall Street, where the price-to-earnings ratio for the S&P 500 hovered around 22, and 12 months return to December 2023 exceeded 24%. Nevertheless, the Australian sharemarket finished the year up 12.4%. However over 97% of 2023's performance occurred in those last two months. Without them, 2023 would have been a disappointing year.

The year began with a surge of enthusiasm with the ASX gaining 8% by mid-February. It took until late in the year to return to those levels on a total return basis. In fact, December 2023 was an absolute Christmas cracker! When you add in November's 5.2% total return, the two-month close to the year added 12.6% compared to an annual total return of 12.4%.

Overall, the Australian sharemarket proved to be remarkably robust. Apart from the realisation that inflation is poised to fall further, potentially leading the RBA to commence lowering interest rates towards the end of 2024, making this asset class attractive. The other factor that also played a crucial role in this resilience was the unexpected strength of China's demand for Australian resources. As a result, companies like Rio Tinto and Fortescue reached all-time high share prices in 2023, lifting the mining sector, and contributing to the overall positive performance of the local market.

Looking ahead to 2024, the Australian sharemarket seems poised for further growth. Several key factors support this optimistic outlook. First, the market is not considered overpriced, with a price-to-earnings ratio of around 17 times. Additionally, during the recent Annual General Meeting (AGM) season, there were more upgrades than downgrades of company guidance, indicating a positive sentiment among companies themselves.

As we assess the performance of various sectors in 2023, the property trust sector (REITs) stands out as an opportunity for investors. This sector faced challenges due to higher-than-expected interest rates and a shift in working patterns, but these headwinds may turn into tailwinds in the year ahead.

Similarly, the healthcare sector, which struggled in CY2023, may find a more favourable climate in 2024. Stocks like Resmed, and Ramsay Healthcare are expected to rebound.

Global Markets

Global markets confounded gloomy expectations in 2023. Global stocks rallied, and bonds reversed heavy losses made early in the year as recession fears were replaced by growing confidence that US policy makers would achieve an economic soft landing.

Many major share indices recorded double-digit gains during the year, helped by a strong rally in November and December as falling inflation made traders more hopeful of an interest rate cut in 2024.

At start of the year, many investors were expecting corporate earnings to decline as the US economy was dragged into recession by high borrowing costs. But it avoided a downturn, despite US interest rates rising to a 22-year high. Growth had beaten forecasts, while US corporate profits hit a near record in July-September quarter, to an annualised rate of US$3.28 trillion. This rise in profits showed that US companies have been able to adjust to the post-COVID operating environment, which includes higher wages and higher borrowing costs.

However, Britain's FTSE 100 index lagged the global rally, gaining less than 4% in 2023. With the Bank of England raising the base interest rate five times during 2023, from 3.5% to 5.25%, UK stocks remained jittery, and the FTSE 100 closed the year at 7,733 points.

While geopolitics cast a shadow over the markets, firms linked to artificial intelligence soared as investors backed the potential of the technology. Relief at the US's strong growth in 2023 helped counter concerns over China's recovery, and the slow pace of the European economy, which ended the year teetering near recession.

Developed market equities had a rollicking year, as represented by the MSCI World ex-Australia Index (with net dividends reinvested) unhedged returned a healthy 23.8% for the 12 months to December 2023 and 21.7% on a hedged basis. This index tracks shares in 47 countries. Trading was volatile, though – with share prices going up through the first half of 2023, before sliding from August until October. Then rallying in the final two months of CY23 spurred on by hopes of interest rate cuts on both side of the Atlantic.

America's S&P 500 index, a broad gauge of US stocks, gained 25% over CY23, notching up a record high. The tech-focused Nasdaq Composite jumped by about 45%, led by the "Magnificent Seven" – Alphabet, Amazon, Apple, Meta, Microsoft, Nvidia and Tesla. And the Nasdaq 100 index of large tech stocks had its best year since the dotcom bubble burst, rising by more than 50% to end 2023 at a record high, driven mainly by these mega tech stocks. However, it should be noted that about 70% of S&P 500 stocks underperformed the index during the year, with roughly a third falling in 2023.

European markets also racked up solid gains as they bounced back from a torrid 2022. Germany's Dax climbed by 20%, despite a lacklustre year for Europe's largest economy, and Italy's FTSE MIB rallied by almost 30%.

Emerging Market equities held well over the year returning 10% when considering consistent interest rate hikes caused volatility across emerging markets equities in 2023. Supported by markets such as Taiwan, Korea, India, Mexico, and Brazil while China and most Middle Eastern countries suffered.

Notable mover in CY23 was the poster child of AI investing Nvidia, its share price more than tripled in 2023. The chip maker reported swelling revenues and profits as demand for the high-powered processors needed to train the latest AI models grew even faster than Wall Street expected.

But even Nvidia's 240% surge in 2023 was not enough to keep pace with Symbotic, which has developed an AI-powered robotic technology platform for warehouses which it says can move goods faster and more efficiently. Symbotic shares climbed by about 350% during the year, as the company reported higher revenues and smaller losses.

In healthcare, weight-loss drugs captured most market attention. Denmark's Novo Nordisk became Europe's most valuable company thanks to its obesity drug Wegovy, which helps patients lose weight, and reduces the risk of stroke. Other pharma companies tried to compete, but in December Pfizer scrapped the twice-daily version of its experimental weight loss pill after finding it caused a high rate of side effects, knocking its share price.

The past 12 months have been a mixed time for the banking sector. Although many reported bumper profits, rising interest rates left them nursing losses on their government bonds. Some did not survive the year. In early March, US crypto-focused lender Silvergate failed, closely followed by Silicon Valley Bank. The latter was the largest US bank failure since the 2008 financial crisis, and followed a bank run whose speed surprised regulators. Days later, fears over the health of Credit Suisse rattled the markets, wiping more than £75bn off the FTSE 100 in a day as the Swiss bank lurched towards rescue by UBS. In the UK, NatWest, dogged by its de-banking row with Nigel Farage, fell by almost 18% in 2023 while Barclays lost 3%.

Australian and International Property and Infrastructure

After a torrid CY22 for real estate and infrastructure assets, in CY23 these assets returned to exhibit their defensive characteristics amid volatility. However, assets that provided solid returns in CY23 were not only those that can pass on rising costs but also have successfully hedged interest rate risk and maintained low gearing levels and strong balance sheets.

The Australian listed property index as represented by the S&P/ASX A-REIT 200 Accumulation Index returned 17.6% for CY23 outperforming the S&P/ASX 200 Accumulation Index by 5.2%. Whist the international listed property index, represented by the FTSE EPRA/NAREIT Developed TR Index Hdg (AUD) returned 7.9% for the 12 months to December 2023. These performances can be attributed to an extent to the market view that the end of monetary tightening cycle is near. Infact REITs only performed well in the last two-and -half months of the year. The Australian index returned 16.6% for the quarter ended December 2023 and the international index returned 12.7% over the same period.

REIT returns were broad-based across sectors with data-centre REITs leading the way, followed by regional malls, lodging/resorts, and single-family rental REITs. The only sector to finish 2023 in negative territory were free-standing retail REITs.

The picture for unlisted property trusts in CY23 was somewhat different. Several unlisted property funds acted to modify or restrict redemptions in response to sharply rising interest rates that have created heightened uncertainty and impacted net capital flows into real estate. Long duration assets such as real estate can be sensitive to changes in interest rates (i.e. the risk-free rate e.g. 10 Yr government bond rate) leading to repricing of assets. Historically rising interest rates and falling cap rates applied to real estate valuations have a negative effect on property valuations.

Unlisted property funds by their very nature offer limited liquidity. Direct property funds such as Cromwell Diversified Property Fund, Chater Hall Direct PFA Fund etc. have provided status and liquidity windows to their investors.

In respect Infrastructure assets, their investment characteristics are, to a certain degree, like the property asset class. Sharp rising bond yields in the first nine months of CY23 did have a negative impact on valuations even though infrastructure assets, on average, are less sensitive to inflation due to the pricing structure of many infrastructure assets e.g. have inflation linked pricing and inelastic demand (when price increase demand remains static). Infrastructure is therefore viewed as an inflation hedge.

In the final quarter of CY23 the infrastructure asset class returned produced stellar returns to erase the accumulated earlier nine months negative investment performance.

Interestingly, much of the anticipated growth in the infrastructure asset class will emanate from the funding and development of renewable energy projects such as wind and solar. The infrastructure sector has and will have a critical role in meeting the world's energy transition.

As it turns out, expectations of the death of Australia's residential property market this time last year was wide of the mark. Despite rising interest rates, and evidence of mortgage stress, according to CoreLogic national average home values increased 8.1% in CY23, reversing previous years losses.

CoreLogic reported that price gains were not uniform or widespread Perth (15.2%), Brisbane (13.1%), Sydney (11.1%), and Adelaide (8.8%) led the way up, whilst Darwin (-0.1%) and Hobart (-0.8%) bucked the trend.

Residential property investors benefitted from an 8.2% increase in rents over CY23, down on the 9.6% return the previous year, but more than four times the pre-COVID decade average of 2% per year. As with prices, rental returns are patchy across the country, with total returns (from rents and prices) leaping 20.7% in Perth down 3.2% in Hobart.

Cash, Fixed Interest and Corporate Bonds

The RBA instigated five interest rate increases in CY23, taking the cash rate on unsecured overnight loans between banks from 3.10% to 4.35% at the end of the 2023, to take heat out of the economy and curb inflation. The RBA maintain its stance about returning inflation to the 2 to 3% target.

Cash yields remain high but can only be locked in overnight, and they could decline quickly, especially if central banks start cutting policy rates. Investors risk missing out by holding cash too long while trying to time a re-entry into markets.

Bond traders endured a year to forget for most of 2023, before the biggest two-month rally on record in the debt market lifted their spirits. Initially through most of 2023, bond prices weakened amid concerns that major central banks would keep increasing interest rates to quell inflation.

In October, US Treasury prices hit their lowest level since 2007, with yields (the interest rate on the bonds) rising over 5% for the first time in 16 years. UK government bonds hit their weakest point since 2008 in August. This left bond funds facing a third straight year of losses for the first time in about 40 years. But this all turned around in November, on growing optimism that inflation was cooling, and interest rates would soon be lowered. Investors piled into treasury bonds, which drove up prices and helped trigger a powerful market rally.

The Bloomberg Barclays Global Aggregate Total Return Index rose by nearly 10% over November and December, its best two-month run in data going back to 1990, returning on a hedged basis 5.3% for the 12 months to December 2023.

But Vincent Chaigneau, head of research at Generali Investments, warns that this wave of optimism could falter, if the US Federal Reserve (US Fed) starts tempering expectations of quick cuts, or if the US economy suddenly comes to a halt.

The Australian bond market, as represented by the Bloomberg AusBond Composite 0+ Years Index also demonstrated that bonds are on the way back, returning 5.1% for the year.

The outlook for fixed income investments is broadly appealing, given attractive yields and valuations as well as the potential for resilience across multiple economic scenarios. Such resilience is especially important in the wake of the increase in geopolitical risk and market volatility over the past two years. Because attractive yields can be found in high quality bonds, investors therefore may not need to step down in credit quality.

Starting yields, which historically are highly correlated with returns, are still near the highest levels in 15 years, offering both attractive income and potential downside cushion. Inflation-adjusted yields also remain elevated as inflation continues to abate. Inflation protected securities are currently reasonably priced source of inflation protection, should upside inflation risks materialize.

With attractive interest rates, the corporate bond market was active in CY23 for investors seeking yield and rewarded investors that stayed the course. Overall credit spreads tightened over the year. Longer duration bonds finished strongly. For investment grade corporate bonds seem to have normalised by year end, returns being supported by a combination of an expectation that major economies may have avoided a recession, declined long-term interest rates, and tightened credit spreads. Credit sensitive areas, like bank loans and high yields bonds, even provided equitylike returns.

Commodities

Oil has had a volatile year, with prices both pushed down by fears of a global downturn and lifted by concerns that geopolitical tensions would hurt supply. In the end, the price of crude ended the year down by about 10%, despite the Opec cartel's best efforts to prop up prices by cutting production. Having started January at $86 a barrel, moved towards $100 a barrel to finish the year about 10% lower than at the start of year, at $77.50.

Among other commodities, iron ore prices gained more than 50%, as China tried to prop up its troubled property sector.

Cocoa prices rose by about 72% to their highest level in four decades as global shortages bit – and pushed up costs for chocolate makers.

But other agricultural commodities have struggled. The price of wheat has fallen by more than 20% in 2023, corn is down more than 30% and soya beans have lost almost 14% this year, thanks to a loosening of supply bottlenecks and increased production.

Geopolitical tensions and easing inflation rates helped to push the gold price up by more than 10% in CY23, which was its best performance in three years. Having begun the year at $1,824 an ounce, gold ended 2023 on about $2,065.

Bitcoin

The world's largest cryptocurrency jumped by 150% in CY23, despite starting the year overshadowed by the collapse of crypto currency exchange FTX in November 2023. It jumped from about $16,500 at the beginning of the year, to about $42,227 at the end of the year.

Bitcoin's rally was fuelled by ongoing speculation that America's SEC would approve a bitcoin exchange-traded fund (EFT). This would be a milestone for investors, allowing large institutions to buy cryptocurrencies for the first time.

Australian Dollar (AUD) Exchange Rate

The US dollar has gone from strength to strength this year, boosted by many tailwinds. US energy resilience, the carry advantage of US interest rates versus currencies such as the euro and the yen, and safe-haven demand have all helped the dollar to become one of the best performing currencies this year. A tailwind for Australian businesses with offshore earnings but raised the costs of imports.

Against the Australian dollar the AUD to the USD exchange rate range was 0.6199 USD to 0.7585 USD with an average exchange rate of 0.6948 USD.

Overall, it is expected that the AUD will remain below USD 0.75 subject to US economy not falling into a recession in 2024.

Australian versus the Global Economy

Australia paints an upbeat picture when compared to the global economy.

CY24 is expected to be a “happy new year” for the Australian economy driven on the expectation that the stubborn inflation, which peaked around 8% on an annual basis in December 2022, will continue its downward trajectory. The most recent monthly CPI numbers had annual price rises at 4.3% over the year to November down from 4.9% in October, better than expected. Forecasts now have traders on the financial markets fully pricing in a RBA interest rate cut by September this year, on hopes that inflation will be close to coming within the RBA's 2-3% target by then, and still on a clear downward trend. Many are of the opinion the first rate cut might come as early as June.

The second cause for optimism is that wage growth exceeded price growth for the past couple of quarters, meaning working Australians overall are no longer suffering continued real wage cuts. Figures showed, while wages growth was around 4% overall over the year to September, it was 6.7% for the lowest paid group and around 5% for the second lowest paid quintile of workers. That was largely due to a big increase in minimum and award wages from July 1 last year, which mostly affected lower income workers.

That brings us to the third cause for optimism, a rise in disposable incomes. This time for those higher income earners whose pay-packets generally has not been rising as quickly. From July 1 this year, someone with taxable earnings of $200,000 a year will see their income tax bill fall by $9,075 from close to $61,000 a year to less than $52,000. That's a 15% tax cut and, instead of paying more than 30% of their taxable earnings to the ATO, they'll be paying less than 26%. Or, to put it another way, 6.5% take home pay rise.

Net result should be, falling inflation, falling interest rates, falling income tax rates, and rising wages — should they occur as expected — will be a big rise in real disposable incomes after close to a decade of stagnation, and lately, two years of decline. It is expected that Australia will continue to be an economic outperformer when compared to developed market peers in 2024, supported by population growth and immigration.

2024 Outlook

CY23 started with low and declining expectations for global growth and heightened fears of a recession. However, China’s reopening, large fiscal stimulus in the U.S. and Europe, and the residual strength of U.S. consumers stabilized growth. Additional market optimism was related to ChatGPT, luxury goods, weight loss drugs, the expectation of US Fed interest rate cuts and the bitcoin rally, resulting in a broadly positive performance for risk markets. That was despite the largest increase in interest rates in decades, major wars, an energy crisis, a regional banking crisis, recession in parts of the eurozone and emerging signs of credit and consumer deterioration in the US.

Heading into 2024, the outlook is for a gradual U-shaped recovery composed of seemingly chaotic movements in economic data with turning points in policy rates and earnings growth. We expect that there may be a turning point in policy rates and earnings growth, but they may not be easy to identify in real time. Investors may have to step back a bit to see the bigger picture and look beyond the noise and volatility. Focusing too closely or too near-term on specific developments in the economy, markets, or politics in 2024 can risk missing the bigger picture and broader trend.

The big picture we see for 2024 is of a shallow U-shaped recovery in global economic and earnings growth, rather than the V-shape seen in the last two global recessions of 2008-09 and 2020. If in 2023 the global economy experienced a soft landing with growth for much of the Group of Seven countries (Canada, France, Germany, Italy, Japan, United States, and United Kingdom) stalling but not contracting much, then it's also likely that a soft recovery gets slowly underway during 2024, with growth rebounding only modestly (and unevenly) throughout the year. Global stocks may react with heightened volatility to the seemingly chaotic data points as parts of the global economy move in different directions, with a broader stabilization and recovery only visible over time. Patient investors in global stocks with an eye on the big picture may benefit despite an uneven path higher should markets discount better growth ahead supported by interest rate cuts among major central banks.

The 2023 global downturn concentrated in manufacturing and trade (things that tend to go in a cardboard box), was evidenced in falling factory output, trade volumes and even demand for corrugated fibreboard (what most cardboard boxes are made from). In particular, the November reading for the Global manufacturing purchasing managers' index (PMI) marked the 15th month in a row below the 50 level that divides growth from contraction. While this downturn is nowhere near as deep as most of the past manufacturing downturns, its extended duration is unique, marking a recession in duration, if not in depth. Declining new orders indicate production weakness likely continues into the early months of 2024 before firming as inventories are drawn down and demand stabilizes. Therefore, economies more exposed to manufacturing and trade have been among the weakest, such as the German economy, which has likely contracted in three of 2023's four quarters. Economies that are more services-focused, like France and the United States, have fared better.

The 2024 forecasts from the OECD (Organization for Economic Cooperation and Development) published recently reflect these reversing trends. Germany's GDP is expected to accelerate out of recession in 2024 while growth in France and the US is expected to slow. The different trajectories of the manufacturing and services sectors adds to the noise in the individual data points we might see in 2024, making the big picture a challenge for investors to discern.

The biggest economy outside of the G7, China, is also likely to struggle with growth in 2024. China has announced accelerated infrastructure spending, and the fiscal deficit was raised to 3.8% from 3.0%, a rare intra-year move, likely indicating a sense of urgency and to provide a floor from which the stabilization can build. However, the recovery is likely to be uneven, and investors may need to get used to slower growth from China due to its weak property market, the past buildup of debt, and the size of its economy.

Geopolitics are likely to remain a source of market volatility. Despite their unimaginable human toll, these developments had only a marginal impact on most markets around the world in 2023, consistent with historical precedent. Geopolitical developments are difficult to forecast, but we anticipate they may again take a back seat to the economic outlook as the main driver of markets in 2024.

CY24 is likely to see positive returns helped by falling interest rates but constrained and volatile given the risks associated with the timing of rate cuts, recession risks and geopolitical landscape. However, investors should remain vigilant and keep their eye on; sticky inflation, central bank hints on interest rates, Chinese economy, US presidential election, and in Australia how the consumer, and home prices respond to the lagged impact of high rates, including signs of rising unemployment.

In conclusion: Overall, Atchison Consultants see the following implications for asset classes in CY24:

- Australian shares are likely to outperform global shares, after underperforming in CY23, assisted to an extent by more attractive valuations.
- Global equities are expected to perform in a volatile and constrained manner over the first half of the year as growth weakens and valuations are deemed less attractive than a year ago. However, as interest rate cuts start to have their impact, and bond yields drop, global shares should ultimately provide positive return. Expect slight outperformance from emerging market shares.
- Bonds are likely to provide returns in line with their coupon or bit more, as inflation slows, and central banks cautiously cut rates.
- Cash and bank deposits are expected to fall in the second half of the year to somewhere in the 3% range.
- Unlisted commercial property returns are likely to be negative again due to the lagged impact of high bond yields and continued impact of WFH, however opportunities exist in other sectors.
- Australian home prices will fall marginally on the back of customers rolling off fixed rate home loans and rise in unemployment. However, continued supply shortfall should prevent a sharper fall. Expect there to be a disparity in the degree (and direction) of price movements between major cities.
- US dollar towards the end of CY23 started to retract against other currencies on the back of expected US Fed has finished with its aggressive campaign of interest rate increases, and we expect the pace of selling USD to increase in the first half of CY24. A$ is likely to move to US$ 0.72.

Asset Class Summary

Table 1: Market Performance – Periods to 31 December 2023

31-Dec-23 Sector	1 Month %	3 Months %	1 Year %	3 Years % pa	5 Years % pa	10 Years % pa
Australian Shares	7.3	8.4	12.4	9.2	10.3	7.9
Australian Small Companies	7.2	8.5	7.8	0.1	6.4	6
International Shares (Unhedged)	1.9	5.4	23.9	12.3	14.2	12.3
International Shares (Hedged)	3.9	9.2	21.7	7.3	11.6	9.5
Emerging Markets (Local Currency)	3.2	5.7	10.3	-2.2	5.8	5.6
Australian Property Securities (Listed)	11.5	16.6	17.6	5.7	6.1	9.2
Global Property Securities (Hedged)	8.3	12.7	7.9	1.7	1.9	4.5
Global Listed Infrastructure (Unhedged)	-0.4	4.6	3.8	6.8	6.6	7.6
Australian Bonds	2.7	3.8	5.1	-2.7	0.6	2.6
Global bonds (Hedged)	3.0	5.4	5.3	-3.1	0.5	2.6
Cash	0.4	1.1	3.9	1.7	1.4	1.8
	Change over the month					
AUD/USD	3.1					

Past performance is not a reliable indicator of future performance.
Source: S&P ASX 200 Accum Index, S&P ASX Small Ordinaries Accum Index, MSCI World EX Australia, MSCI Emerging Markets AUD, MSCI Emerging Markets in Local Currency, S&P ASX 200 A-REIT Accum Index, FTSE EPRA/NAREIT Developed TR Hdg (AUD), MSCI World Infrastructure in (AUD) , Bloomberg AusBond Composite 0+Yr Index, Barclays Global Aggregate TR Hdg AUD, Bloomberg AusBond Bank Bill Index
Currency Change (Iress-Pro)

Australian Markets

The S&P/ASX 200 returned +7.3% for the month, +8.4% for the quarter and a stellar +12.4% for the past 12 months. In December, all sectors were stronger with Real Estate stocks and Healthcare stock among the best performers, up 11.3% and 9.1%, respectfully. Utility stocks were the worst performing this month, albeit still making a gain of +2.5% this month.

Small caps posted a similar rise for the month returning +7.2% and the ASX MidCap 50 up +6.9%.

December's return was on the back of anticipated lower rates and strong demand for iron ore and coal as China is now making more EVs than the rest of the world combined. It is worth mentioning last month's job gain was almost six times than expected while the unemployment rate is still under 4% which could support wage inflation.

Resource stocks topped the winners in December with Arrow Minerals (AMD) topping the leader board +2.33%, followed by Battery Minerals Ltd +216%, and Entyr Limited +200%. AMD in December announced it had appointed iron ore executive and previous MD of Atlas Iron, David Flanagan.

Global Markets

As 2023 ended, the global stock market experienced a notable surge in December. This upswing was fuelled by global markets responding positively to comments from the US Federal Reserve, which stated an end to rate hikes and hinted at potential rate cuts in the future.

The MSCI World ex Australia Index (with net dividends reinvested) in AUD returned +1.9% for the month and +3.9% on a hedged basis, and +23.7% and 21.7% respectively for the CY23.

The S&P 500 reflected this optimism by posting a substantial gain of +4.5% for the month. In economic indicators, the November US CPI revealed a 3.1% increase YoY, slightly lower than October's 3.2%. Furthermore, core inflation maintained a 4% YoY increase, mirroring the figures observed in October.

European equities were also stronger. The EuroStoxx 50 was up +3.2%. In the UK, the FTSE 100 up +3.8%. Japanese equities were largely flat for December, with the Nikkei down -0.1% and the Topix down -0.4%. Other Asian equities followed the global trend, with the MSCI Asia Ex-Japan Index up +3.4%.

Emerging markets had a stellar month up+6.2% in local currency terms on the back of expected US Fed rate cuts in 2024. Egypt, was the top performing market, followed by Korea where tech-related stocks rallied strongly. China was some way behind the index with economic data released in November somewhat mixed.

Fixed Income

Sovereign bond yields continued to fall in the month of December as investors reacted to comments from the US Federal Reserve confirming that there would be no more hikes, but rather rate cuts. US 10-year Treasury yields fell a further 45 basis points over the month, back below the 4% mark, settling around 3.9%.

The RBA held rates steady this month at 4.35%. In contrast to other central banks, the RBA remained concerned inflation could remain higher for an extended period. Overall, Australian Bonds returned 2.7%, and Global Bonds returned 3.0%, respectively, as measured by Bloomberg indices.

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