Atchison

Monthly Market Update
January 2024

Key Events in January 2024

- Australian inflation is falling faster than the RBA expected (except for insurance and rents) inflation fell to 4.1% year-on-year in the December quarter, well below the RBA's forecast of 4.5%, and a peak of 7.8% a year ago.
- Australian retail sales plunged 2.7% in December more than reversing the Black Friday driven 1.6% rise in November. The fall was concentrated in discretionary items more than reversing their Black Friday boost.
- Global economic data released in January highlighted the divergence between weakness in Europe and the strength in the US.
- US GDP growth surprised on the upside at an annualised 3.3% pace in the December quarter, Eurozone GDP was flat both in the quarter and year.
- January 2024 saw a mixed bag of returns from asset classes following the stellar returns in the final quarter of 2023.
- Segments of risk assets were buoyed by as economic data further fuelled a "soft landing." But optimism was slightly tempered at the end of the month when the US Federal Reserve (US Fed) struck a less dovish tone in January.
- Developed market equities (ex-Australia) were up +4.5% (unhedged), while emerging market equities were down -3.5%, despite newly announced stimulus from the People's Bank of China (PBOC).
- Core government bonds reversed some of last year's gains, as markets scaled back the number of rate cuts priced for 2024.
- Global government bonds were down -0.3% over the month, but it was UK Gilts that remained the major laggard, as sticky services inflation and still elevated wage growth made the prospect of imminent rate cuts from the Bank of England (BoE) look unlikely.
- Global real estate investment trusts, which are sensitive to interest rates, struggled as markets pared back the magnitude of rate cuts priced for the US Fed in 2024 and ended the month down -3.4% (hedged).
- Australian house price growth slowed further in January with a 0.2% m/m increase in national prices.
- Commodities continued to perform well, with the broad Bloomberg Commodity Index rising +2.9% in Australian dollar terms over January. Oil prices rallied as tensions in the Middle East worsened and disruption to shipping through the Suez Canal continued. Drone attacks on Russian energy infrastructure added to the uncertainty in the global oil market.

Asset Class Summary
Table 1: Asset Class Returns – Periods to 31 January 2024

Sector	1 Month %	3 Months %	1 Year %	3 Years % pa	5 Years % pa	10 Years % pa
Australian Shares	1.2	14.0	7.1	9.6	9.7	8.4
Australian Small Companies	0.9	15.8	2.1	1.3	5.4	6.4
International Shares (unhedged)	4.5	11.3	25.7	14.2	14.3	12.9
International Shares (Hedged)	1.8	14.2	16.6	8.2	10.5	10.0
Emerging Markets (Local)	-3.5	5.8	-0.1	-4.5	3.6	5.7
Australian Property Securities	1.3	25.4	10.2	7.6	5.1	9.3
Global Property Securities (Hedged)	-3.4	14.0	-3.5	0.7	-0.7	4.1
Listed Infrastructure (Global)	3.1	5.3	7.5	8.0	6.9	7.6
Australian Bonds	0.2	6.0	2.5	-2.5	0.6	2.6
Global bonds (hedged)	-0.3	6.0	2.8	-3.0	0.2	2.4
Cash	0.4	1.1	4.0	1.8	1.4	1.8
	Change over the month %					
AUD/USD	-3.6					

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 finished the month climbing +1.2% in January to finish at a record high close of 7,680.7 points. The previous record closing high came in August 2021, when the index to 7,628. The index returned a massive +14% for the quarter.

Energy topped the table in January, gaining +5.2%, with Financials a close second at 5.0%. Other sectors in the green were Healthcare +4.3%, Consumer Discretionary +2.5% , and Telecoms +1.7%. Meanwhile, Materials lagged during January, falling -4.8%, while Utilities was down -1.5% and Consumer Staples were flat.

Stocks that absolutely smashed it in January were Boss Energy Ltd +38%, Megaport Ltd +38%, Alumina Limited +29%, and Elders Ltd +19%

Small caps also rose but by a muted +0.9%.

Global Markets

The best performing major equity market in January was the Japanese TOPIX Index up +7.8% on the month., continuing the strong performance seen last year.

In the US, the S&P 500 Index propelled to record highs early in January as optimism around a “soft landing” scenario continued to rally in the “Magnificent Seven” stocks. The S&P 500 Index returned +4.8% for the month.

The MSCI Europe Index delivered positive returns of +3.1% in January. The European Central Bank (ECB) kept rates on hold at its January meeting and re-iterated its commitment to remain data dependent. The composite purchasing managers’ index (PMI) rose 0.3 pts to a preliminary 47.9 in January, its highest level since July. The manufacturing measure beat expectations by 1.8 points, suggesting that activity in the sector bottomed out in the third quarter.

UK equities stalled in January, with the FTSE All-Share falling -1.3%. On the one hand, there have been signs of growth momentum accelerating in the UK, with the flash composite PMI increasing 0.4 points to 52.5, and consumer confidence hitting a two-year high in January. This optimism was tempered by the latest retail sales print, which fell sharply by 3.2% month-on-month, sparking some concerns of an impending slowdown.

In China, the domestic economy continued to struggle, with disappointing retail sales and further deterioration in housing activity. Fourth quarter GDP grew 5.2% year-on-year, in line with expectations, but still historically weak. Ongoing concerns around the economic outlook for China likely contributed to the weak performance of the MSCI Asia ex-Japan Index and the MSCI Emerging Markets Index, which declined -5.4% and -4.6% on the month.

Bonds

As the bond market decouples itself from equities, fixed income markets appear to be in their prime, central banks are expected to cut rates in 2024, a positive for bonds and equity markets.

The Australin fixed interest market returned +0.21% for January but up +6.0% for the quarter, whilst global fixed interest returned -0.31% but also a healthy +6.0% for the quarter.

Outlook

Lower Inflation Here We Come !

After two years of increasing and higher interest rates, inflation seems to be waning. As we have experienced, high inflation is bad for investment markets because it means, higher interest rates, higher economic ambiguity, and for shares, a reduced quality of earnings. All of which means that shares tend to trade on lower price to earnings multiples (PEs) when inflation is high. Conversely, when rates are falling, borrowing costs reduce, spending increases, and future company profits become less valuable especially on new or growing companies where most profits are still years away, and P/E multiples increase, as witnessed with some of the technology companies.

For conservative investors looking for income in 2024, rate cuts, as opposed to rate hikes, call for a different approach to investing. Here are some investments to think about when rates inevitably begin to come down:

- Term deposits
- Long dated government bonds
- Real Estate Investment Trusts (A-REITs & G-REITs)
- Preference shares
- High dividend paying companies (fully franked)

.

Atchison

Atchison Consultants
Level 4, 125 Flinders Lane,
Melbourne Vic 3000

Level 3, 63 York Street,
Sydney NSW 2000

P: +61 (0) 3 9642 3835
enquiries@atchison.com.au
www.atchison.com.au

ABN: 58 097 703 047
AFSL Number: 230846

To obtain further information,
please contact:

Jake Jodlowski
Principal
P: +61 3 9642 3835 Ext: 403

E: jake.jodlowski@atchison.com.au

Mishan Dahia
Investment Analyst
P: +61 3 9642 3835 Ext: 411

E: mishan.dahia@atchison.com.au