Fiducian Monthly Economic Commentary Report

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ECONOMIC OUTLOOK

GLOBAL ECONOMY

The global economy has been sustaining moderate growth and 'remains remarkably resilient' in the IMF's words, despite the implementation of tight monetary policy by most of the world's major central banks in an attempt to contain inflation. Nevertheless, the IMF notes that 'somewhat worryingly', recent inflation data has been 'pushing upward', although it continues to forecast 'soft landings' (no recessions) for most of the major economies this year.

The global economy has continued to expand at a moderate rate despite the continuation of restrictive measures by most of the world's major central banks to counter what had been rising inflationary pressures. As the International Monetary Fund (IMF) noted in its April 2024 report, 'the global economy remains remarkably resilient, with growth holding steady as inflation returns to target', adding that 'most indicators point to a soft landing'. Nevertheless, 'numerous challenges remain', including the fact that while inflation in most jurisdictions has dropped well below last year's peaks, it mostly remains above target ranges, with the IMF noting that 'somewhat worryingly, the most recent inflation numbers are pushing upward'. In this context, it would be helpful if governments, especially in the larger developed economies, focused more on reducing deficits and 'rebuilding fiscal buffers'. Large government debt levels put pressure on credit markets and make it more difficult to bring down official interest rates, which could remain elevated through the rest of this year.

In the case of the US, inflation readings have come down over the past 18 months but remain above target. As such, it is unlikely that interest rates can be lowered until at least later in the year. Across the developed world, economic activity is mostly weak, with the outlook for the rest of this year 'broadly balanced'.

In the case of the US, the central bank (the 'Fed') last raised rates on 25 July 2023 to the range of 5.25% to 5.5%. 'Fed' Chairman, Jerome Powell, stated on 3 April that 'we continue to believe that the policy rate is likely at its peak for this tightening cycle'. He also noted that 'we do not expect that it will be appropriate to lower our policy rate until we have greater confidence that inflation is moving sustainably down toward 2 percent'. More broadly, tight monetary policy has been effective in slowing activity and the IMF is forecasting global growth of 3.1% this year and 3.2% for 2025 and only 1.5% and 1.8% for the advanced economies, noting that 'with the likelihood of a hard landing receding, risks to the global outlook are broadly balanced'.

AUSTRALIAN ECONOMY

The Australian economy in the December quarter remained in a per capita recession, which it entered in the first half of 2023. Household spending has been curtailed but tight monetary policy is likely to remain in place for some time.

The Australian economy was weak again in the December quarter, growing by only 0.2%. On a per capita basis, it remained in recession, contracting for the third quarter in a row (by 0.3%), with output also likely to have been weak in more recent months. The key factor driving this slowdown has been rate rises by the Reserve Bank. These have weighed on household spending, with discretionary spending down 1.6% for the year. In March, the annual inflation rate came in at 3.5% (and 1.0% for the quarter).

MARKETS

Major share markets experienced high volatility last year until a strong upwards surge began in October before dipping in April. Some markets look cheaper than others, including European markets and global small cap markets, while the US market appears more fully valued, although narrowly based.

Most share markets have been on a broadly upwards trend since last October on the assumption that interest rates had peaked and would soon begin to be reduced. Until recent weeks this was particularly supportive of the more interest rate sensitive sectors of the market, including the technology and property sectors. This year, over the period to 29 April, market movements have included rises of 7% for the broad US market (S&P500), 7% for the technology-focused Nasdaq, 8% for Germany, France 7%, the UK 5%, Japan 13%, China 5% and Australia 2%. The US market appears fully valued but most others still appear attractively priced, especially small caps, assuming that interest rates soon begin to decline.

Major sovereign bond markets saw yields rise after the end of 'quantitative easing' in 2022. However, subsequently, slow growth in key economies encouraged investors back into this 'safe haven' before concerns about stubborn inflation data have seen yields rise more recently.

Major sovereign bond markets have seen yields (interest rates) rise in recent weeks after indications that inflation might not be falling as fast as expected. The US 10-year Treasury bond yield fell to a record low of 0.54% on 9 March 2020 during the pandemic but touched 5.0% in October last year before sliding down and then rising again to 4.61% on 29 April this year. Similarly, the Australian 10-year bond yield was 0.57% on 8 March 2020 but was 4.49% on 29 April 2024. Some bond markets could see yields fall further (and prices rise) over coming months if growth remains soft and if inflation continues to fall back towards targets.

FIDUCIAN FUNDS

Fiducian's diversified funds are slightly above benchmark for growth assets (shares and property). Bond holdings have been increased and cash reduced.

Fiducian's diversified funds are currently slightly above benchmark for international shares, domestic shares and listed property. Exposure to bond markets was lifted last year to around benchmark, while cash holdings have been lowered.