Year in review

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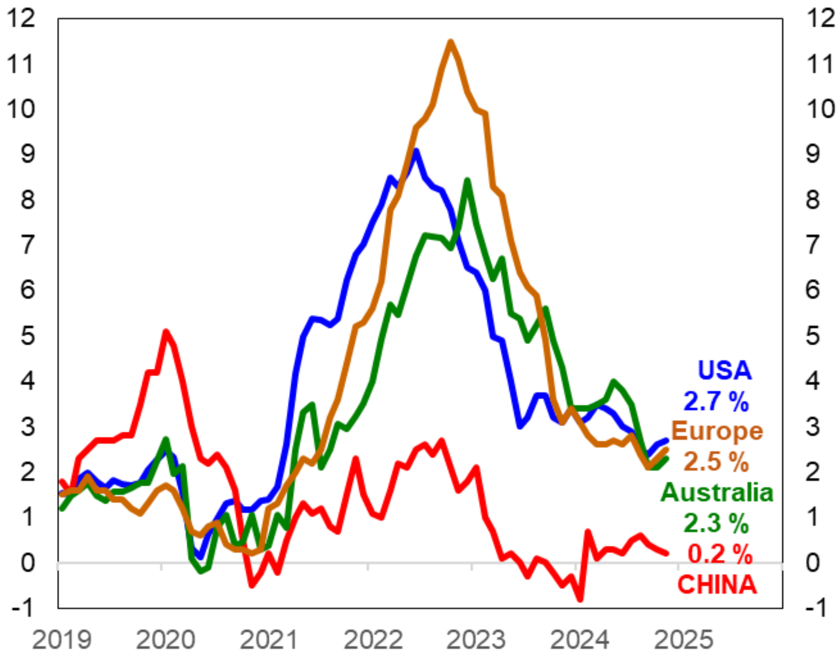
January 2025

"A remarkable year for global shares given investor optimism over Artificial Intelligence (AI) prospects and more encouraging signs for inflation and interest rates."

Inflation is falling but the 'cost of living' is still challenging for consumers and governments

Global inflation gradually cooled in 2024 (Chart 1). Milder prices for electricity and energy as well as improving production and transport supply chains lowered annual inflation. Notably inflation in both Europe and the US fell from above 3% in 2023 towards circa 2.5% by the end of 2024. By contrast, China has struggled to maintain price pressures given slower economic growth and a weak property sector.

Chart 1: Global consumer inflation

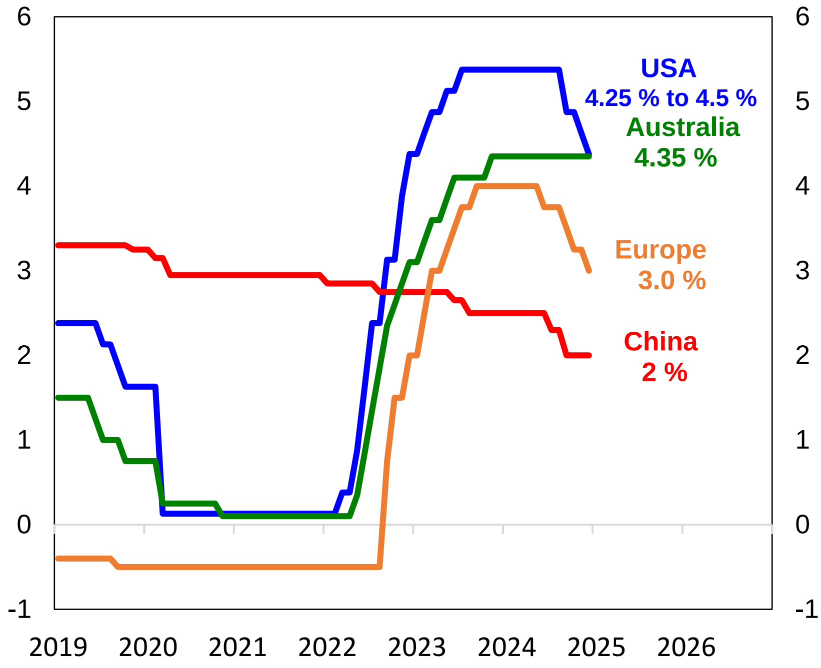


Sources: Australian Bureau of Statistics, Eurostat, National Bureau of Statistics of China, and US Bureau of Labor Statistics.

Yet consumers around the world remain angry with the "cost of living." There are still persistent price pressures in health care, insurance and rents that continue to squeeze consumers budgets. Consumers expressed this anger at the ballot box in 2024. Notably there were either changes in governments (witness Britain, France and the US) or voters chose to scale back their support for the incumbent government (witness India and Japan). This serves as a warning for those governments that are seeking re-election in 2025 in terms of Australia, Canada and Germany.

While Australia's inflation fell to 2.3%, in the year to November 2024, this moderation in price rises largely reflects the benefit of government electricity subsidies. According to the Australian Bureau of Statistics (ABS), "electricity prices fell 21.5 per cent in the 12 months to November"[1]. Even with lower electricity prices, the struggle to keep food on the table and a roof over our heads continues. Egg prices increased by 11.6%, insurance costs by 11% and rents by 6.6% in the past year. If you wanted to take a holiday from these rising prices, the cost of domestic travel increased by 4.9%.

Chart 2: Global central banks reduced interest rates but Australia was an exception



Sources: Federal Reserve Economic Data (FRED) St Louis Fed and LSEG DataStream.

Another encouraging sign is that global interest rates are finally falling (Chart 2). Most central banks are lowering their cash interest rates given that inflation is heading back to their circa 2% targets. The most prominent central banks lowering interest rates were the European Central Bank and US Federal Reserve with both cutting interest rates by 1% in 2024. China's central bank was more cautious only cutting interest rates by 0.5%. The clear exception to this global shift to lower interest rates is the Reserve Bank of Australia (RBA) which has kept interest rates at 4.35% since November 2023.

Apart from surprising election outcomes across the globe, the past year also provided dramatic and terrible events. The Middle East remains cursed by brutal violence. The conflict between Hamas and Israel continues in Gaza while Israel and Iran have exchanged missiles and threats. Russia's devastating invasion of Ukraine in 2022 is still casting a shadow over Europe and remains a threat to political stability. Fortunately, Ukraine's brave defence has ensured a stalemate against the larger Russian armed forces.

The astonishing election of Donald Trump as the next US President has the potential to see more dramatic twists and turns in 2025. Trump's campaign promises such as the imposition of large tariff increases for China and Europe and the mass deportation of illegal US immigrants could provide significant shocks for global economics and politics in 2025. The global economy and financial markets are likely to be tested by the 'new' US President with a capacity to shoot from the hips as well as the lips.

[1] ABS, media release 08/01/2025, "Monthly CPI indicator rises 2.3% in the year to November 2024".

The global economy has provided both positive and negative surprises in 2024

Global economic activity has been 'multi-speed' in the past year. The US economy remains the primary source of strength. American business and consumers kept spending despite the headwind of higher interest rates. Strong jobs growth allowed the unemployment rate to remain stable at around 4% and supported solid wages growth. Notably the US economy recorded annual gross domestic product (GDP) growth of 2.7% in the year to September 2024 compared to potential growth estimates of around 1.8%. Hence the US is punching well above its heavyweight status in the global economy.

By contrast, European economic growth was only 1% over the past year. Germany has struggled given weaker global demand for their luxury cars and chemicals. The United Kingdom modestly improved from their post 2016 Brexit malaise but is still characterised by low business investment and poor weather.

China's economic growth in the past year remains constrained by a cautious consumer and weak property market. Falling property construction activity and apartment prices undermined confidence in China's economy. Amongst Australia's other major trading partners, economic growth has also been disappointing. Japan also struggled with subdued consumer spending and weak exports. India's economic growth slowed to 5.4% in the year to September 2024 compared to 7.8% in 2023.

Australia's economic performance is a mix of the extraordinary and the ordinary

The negative impact of inflation, high mortgage interest rates and rising rents has generated a very 'painful squeeze' for Australian consumers. Australia's sluggish economy was confirmed with a weak GDP result for the September quarter. Australia's economy expanded by only 0.3% and 0.8% for the past year. Essentially economic activity is barely registering a pulse. Notably Australia is in a 'per capita' recession where population growth exceeds economic growth. Yet there is a 'silver lining in this dark cloud' judging by RBA commentary in December. The RBA now appears more open to cutting interest rates in 2025 given the "softer than expected" Australian economic activity and recent milder inflation results.

In even more encouraging news, Australia is recording strong jobs growth. In the year to November, circa 388,000 new jobs were generated in Australia. The ABS noted that "Health care and social assistance continued to be a key driver of labour market strength"[2] with an annual growth of 11.4%. However there has also been a rising number of workers holding "multiple jobs" in the past two years. The ABS estimates that 6.6% of workers are now juggling different jobs. Hence, this "cost of living" crisis is exacting a high toll.

The key benefit of this strong jobs market is that Australia has a low unemployment rate of 3.9% and wages growth is solid. Notably wages growth was 3.5% in the year to September which is higher than inflation. Finally, Australian workers are starting to see that their pay packet increases are outpacing rising consumer prices.

A strong year for share returns

Global shares delivered very strong returns in 2024. Optimism over the promise of Artificial Intelligence (AI) as well as progress towards lower global inflation and interest rates were the major positive drivers of global share markets. This comes despite the tragic Russian-Ukraine War, the Hamas-Israel conflict and the concern that these tragic events could escalate further.

Global shares (hedged) recorded a 19.6% return for the year in local currency terms. Given the weakness in the Australian dollar over the past year, global share (unhedged) delivered an exceptionally strong 29.5% return.

[2] ABS, media release 06/12/2024, "16 million filled jobs in September 2024".

Table 1: Asset class returns in Australian dollars – periods to 31 December 2024

Asset class	Returns			
	1 year	3 yrs (pa)	5 yrs (pa)	10 yrs (pa)
Cash	4.5%	3.2%	2.0%	1.9%
Australian bonds	2.9%	-0.8%	-0.2%	2.0%
Global bonds (hedged)	2.2%	-1.9%	-0.5%	1.8%
Global high yield bonds (hedged)	5.4%	0.8%	2.5%	4.4%
Global listed infrastructure (hedged)	12.1%	2.1%	2.9%	5.9%
Global property securities (hedged)	2.8%	-5.6%	-1.4%	2.6%
Australian shares	11.4%	7.1%	8.0%	8.5%
Global shares (unhedged)	29.5%	11.2%	12.9%	12.3%
Global shares (hedged)	19.6%	5.7%	9.5%	9.5%
Emerging markets (unhedged)	18.5%	3.5%	4.3%	6.6%

Past performance is not a reliable indicator of future performance.

Sources: FactSet, MLC Asset Management Services Limited. Benchmark data: Bloomberg AusBond Bank Bill Index (cash), Bloomberg AusBond Composite 0+ Yr Index (Aust bonds), Bloomberg Global Aggregate Bond Index Hedged to $A (global bonds), Barclays US High Yield Ba/B Cash Pay x Financials ($A Hedged) (global high yield bonds) FTSE Global Core Infrastructure 50/50 Index Hedged to $A, FTSE EPRA/NAREIT Developed Index (net) hedged to $A (global property securities), S&P/ASX300 Total Return Index (Aust shares), MSCI All Country World Indices hedged to $A and unhedged (net) (global shares), and MSCI Emerging Markets Index (net) unhedged to $A (emerging markets).

Investor's enthusiasm for technology has been the key positive driver of global share returns. The largest AI chipmaker in Nvidia led the charge with a 171% price gain for the year. Notably, Nvidia had briefly become the "world's most valuable company" in both June 2024 and November 2024 before Apple regathered the title with a 30% annual gain. There were also very strong price gains from the other five large technology companies which comprise the 'Magnificent 7' such as Meta / Facebook (65%), Tesla (63%), Amazon (44%), Alphabet / Google (36%) and Microsoft (12%). These extraordinary gains allowed the US technology focused NASDAQ 100 index to post a 29.6% annual return and for the broader S&P 500 Index to return 24.5% (both in local currency terms).

European shares made a more modest 5.9% return for the year. Notably the best performing sector has been European banks (25%) while the European auto sector experienced a major breakdown with a -12% decline.

Asian share markets made strong returns. Chinese share prices made a strong recovery with a 19.5% annual gain (MSCI China in local currency). Lower interest rates and assurances from China's government of more support for economic activity have countered concerns over China's weak property market. Japan's share market made a very strong annual gain of 20.7% (MSCI Japan in local currency) even with the central bank finally raising interest rates to combat inflation.

Emerging markets also delivered strong returns but this was a mixed performance across countries. Taiwan (43.6%) and India (14.4%), in local currency terms, were key positive contributors. Yet India's share price gains were tempered in June by the failure of Prime Minister, Narendra Modi, to secure a clear parliamentary majority. By contrast, there were very weak performances for Brazil (-29.5%) and Korea (-12.4%) as political turmoil weighed on these markets (both in local currency terms).

Australian shares as measured by the ASX 300 made a strong 11.4% return for the year. The sharpest gains were in the Information Technology sector (48.5%) which accords with the global enthusiasm. Financial sector shares delivered surprisingly strong gains of 33.6% despite the challenge of higher inflation and interest rates squeezing consumers. The clear standouts were banks with Westpac (41.1%), CBA (37.1%) and NAB (20.8%).

However, Australia's Resources sector was a major disappointment with a -14.9% return given concerns over China's growth prospects and falling commodity prices. Notably there were sharp price falls for BHP (-21.5%) and Fortescue (-37.1%) in the past year given lower iron ore prices.

Australian bonds managed a mild 2.9% annual return while global bonds (hedged) delivered a modest 2.2% return. Bond markets have seen considerable turbulence in the past year given the shifting sands on economic activity, inflation and political risks. Global high yield bonds (hedged) made a solid 5.4% annual return as investors considered that the current elevated yields are particularly attractive.

Global prospects

Global share prices made very strong gains in 2024 despite some challenges. The enthusiasm for AI and technology were the key factors supporting global rising share prices. There was also confidence that with inflation falling across the world, central banks would make further cuts to interest rates. A lower interest rate environment should be more supportive of corporate profits and thereby share prices in the long run.

However, these exuberant expectations may be challenged by considerable global political risks in 2025 with the continuing Russian-Ukraine war as well as the intensifying conflict in the Middle East. The return of Donald Trump to the White House in January 2025 could also generate concerns for the global economy with the potential imposition of large tariff increases for America's trading partners (particularly China and Europe) as well as the threatened mass deportation of illegal immigrants.

Given these complex and significant risks, investors should maintain a disciplined and diversified strategy.

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