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Market wrap

December 2024

ECONOMICS OVERVIEW

Manufacturing PMI in November increased to roughly 50, hovering near the breakpoint between expansion and contraction. Conversely, Global Services PMI remained firmly in expansionary territory at 53.1.

Global

- The Global PMIs highlight a two-track global economy with strong services sectors still pressuring inflation while manufacturing activity remains soft.
- Treasury yields moved higher during December as markets priced in this slower return to neutral rates. Benchmark US 10-year Treasury yields ended the month 40bps higher at 4.57%.
- The MSCI World Equity Index finished the month 2.7% lower having reached an all-time record high of 3855 on the 6th of December.

US

- The US economy added 227k jobs in November, exhibiting a muted bounce from strikes and hurricanes and printing largely in-line with expectations. The unemployment rate rose to 4.2%, versus projections for 4.1%.
- The 0.31%MoM core CPI figure was at the higher end of the forecast range. PPI rose 0.4%, which was stronger than expected but with a softer 0.1% increase in the core figure.
- The Federal Reserve subsequently lowered interest rates by 25bps, bringing the target range to 4.25% - 4.50%. The market had all but priced in the move. Cleveland Fed President Beth Hammack cast the only dissenting vote to the policy decision, preferring a rate-hold.
- Updates to the Fed's summary of economic projections were more hawkish than the market expected, with just two 25bps cuts implied for 2025 (vs three expected). The Fed also revised its 2025 Core PCE forecast up to 2.5% (vs 2.1% prior) and unemployment down to 4.3% (vs 4.4% prior).
- President Joe Biden signed a short-term funding bill on Saturday 21 December to avert a US government shutdown. The bill is set to fund the government through to March 14.

Australia

- 3Q GDP came in at 0.3% QoQ (vs consensus 0.5%), taking over-the-year growth to 0.8%.
- The RBA held its final meeting for the year on 10 December and held rates steady at 4.35%, as widely anticipated.
- The Board was, however, more dovish than the market had expected, indicating that they were "gaining some confidence that inflation is moving sustainably towards target", and clarifying they just need one good inflation print to start lowering the cash rate.
- The November Labour Force Survey, however, surprised to the upside, with 36k jobs added and the

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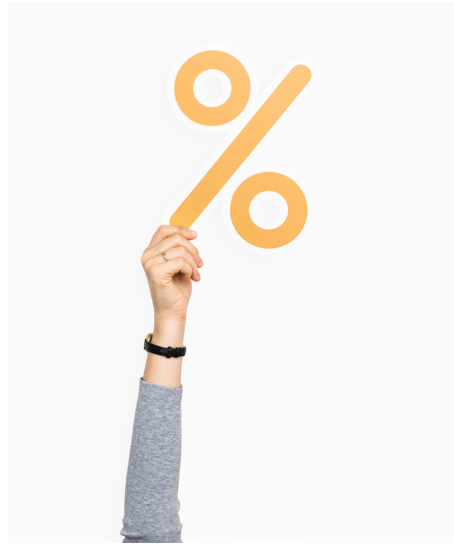

unemployment rate unexpectedly falling to 3.9%. This prompted investors to partially unwind bets on a February 2025 cut.

- The Mid-Year Economic and Fiscal Outlook (MYEFO) budget update revealed that the Government is forecasting a $26.9bn deficit for the current financial year and a cumulative deficit of $143.9bn over the next four years.

New Zealand

- December was a quiet month for macro data out of New Zealand.
- The main data print was Q3 GDP which printed mid-December at -1.0%, lower than -0.2% consensus forecast. Q2 was also revised lower from -0.25% to -1.1%.
- The miss was driven by falls in utilities and construction as a result of a -1.8% decline in government spending.

Europe

- Mid-December saw the ECB cut rates by 25bps with the central bank leaving the door open for further easing to support a struggling economy amid heightened political risks.
- The central bank forecast Eurozone growth of 1.1% next year, a more conservative projection compared to September's forecast of 1.3% growth.
- French President Emmanual Macron appointed centrist politician Francois Bayrou as Prime Minister. Predecessor Michel Barnier was unable to pass a 2025 budget and was toppled at the start of the month by both sides of politics who opposed his €60bn belt-tightening push to rein in France's fiscal deficit.
- The French political crisis forced the outgoing government to propose emergency legislation to roll over 2024 spending limits and tax thresholds into 2025 until a more permanent budget can be passed.
- Meanwhile, Moody's downgraded France's credit rating from Aa3 to Aa2 and follows years of "substantially weakened" public finances in France.
- In Germany, Chancellor Scholz lost a no-confidence vote on the 17th, clearing the way for an early election on February 23. At the time of writing, Merz leads conservatives and is well ahead in opinion polls.

Asia

- China's Politburo shifted their monetary policy stance from "prudent" to "moderately loose" in early December ahead of the CEWC. This marked the Politburo's first shift in stance in more than 14 years, and follows a period of weak growth, deflationary pressures, and rising tariff risks under US President Elect, Donald Trump.
- The beginning of the month also saw South Korean President Yoon Suk Yeol declare martial law, accusing opposition parties of anti-state actions and support for North Korea. Lawmakers rejected the martial law with a 190-0 vote early the next day.
- At the start of the month China imposed an export ban on key minerals and metals used in chipmaking and military applications such as gallium and germanium following US sanctions on China's semiconductor sector.
- Data out of China mid-month showed weakening retail sales which grew +3.0% in November, slower than the +4.8% seen in October and below expectations of +4.6%.

1. Meanwhile, China's Vice Minister at the Housing Ministry announced the government's plan to increase demand and control the supply of land for new development to promote the recovery of the property market.

Australian Dollar

The Australian Dollar declined -5.0% to 0.6188, a 24-month low, over the month of December.

- These moves were on the back of a more dovish RBA meeting leading markets to bring forward rate cutting bets. The press release noted that "While underlying inflation is still high, other recent data on economic activity have been mixed, but on balance softer than expected in November".
- Further, strength in the USD also exacerbated the move lower in the AUD as US Treasury yields rose over the month and the DXY closed 2.60% higher.

Australian Equities

- The S&P/ASX 200 Index fell -3.3% over the month of December following the December FOMC which saw inflation projections revised higher and the dot plot implying a higher terminal rate. As such, rate sensitive sectors such as Real Estate (-7.01%), IT (-4.39%) and Financials (-4.15%) were led lower. Only 2 out of 11 industry sectors closed in the green.
- Materials (-4.54%) declined as the market reacted to the absence of any meaningful stimulus out of China's Central Economic Work Conference (CEWC). Liontown was the worst performer, falling -28% following a production cut to their Kathleen Valley asset and continued downward pressure on lithium prices. De Grey Mining was the top performer in both the sector and index, rising +16% following a $5bn scrip deal from Northern Star – a 37% premium to the stocks last closing price.
- The Big Four Banks all declined, seeing the Financials sector tumble -7%. CBA, NAB, WBC and ANZ each falling -3.4 %, -5.1%, -3.1% and -8.4%, respectively.
- Consumer Staples were the top performing sector, rising +0.5%. Gains were led by Bega Cheese (+9.3%), Inghams Group (+2.6%) and Supermarkets; Coles (+1.6%) and Woolworths (+1%).
- The Energy sector was the only other sector to finish higher on the month, lifting +0.25%. Beach Energy was among the top performers on the index and best performer in the energy complex, lifting +13.4% following an investor site visit to the company's Waitsia asset in Western Australia. Conversely, Boss Energy and Deep Yellow slipped -10.3% and -6.3%, as Uranium miners remain out of favour and among the index most heavily shorted names.
- Small caps failed to make ground again this month relative to the ASX200. The Small Ordinaries Index fell -3.3%. Mesobast (+75%), Brainchip Holdings (+52%) and Patriot Battery Metals (+47%) were the best performers. Clarity Pharmaceuticals (-35%), Platinum Asset Management (-35%) and Liontown Resources (-28%) were the laggards.

Global Equities

- Global Equities fell over December driven by hawkish monetary policy and weaker commodity prices. The MSCI World Index sunk -2.68%.
- The S&P500 (-2.5%) and Dow Jones (-5.3%) declined over the month driven by a shift in Fed projections following the December FOMC meeting projections which saw inflation forecasts revised higher and a move in the dot plots, implying fewer rate cuts ahead.
- Interestingly, despite the move higher in US Treasury yields following the December FOMC, the Tech-heavy Nasdaq lifted +0.5% over the month, driven by big moves in Broadcom (+43%) following the launch of a probe into Chinese-made chips, Lululemon (+19%) after upgrading FY25 guidance and Marvell Technology (+19%).

Property Securities

- The FTSE EPRA/NAREIT Developed Total Return Index (USD) declined -6.9% as global bond yields lifted.
- Middle East & Africa was the only region to close higher driven by the United Arab Emirates.
- Americas was the weakest segment of the market as an implied higher terminal rate in the US negatively impacts long duration assets.
- Locally, A-REITs lost -6.9%, closing the calendar year +14.4%. Mirvac was the biggest laggard over the month as housing indicators softened, leading to some concern on the residential sub-sector. Vicinity Centres was the top performer, closing -2.8% following the company announcement that they have exceeded their target of $250m asset divestments.
- Global Property stocks returned on average 8% in 2024 (in USD). Global average FFO multiples and FFO YoY Growth were 17x and 4%, respectively. Global average dividend yields were 4%.

Fixed Income & Credit

- December saw a global rates sell-off triggered by a hawkish FOMC pivot. The 25bps cut to the Federal Funds rate was expected by the market. However, a distinct hawkish change in tone from an inherently dovish central bank saw rates higher as the market digested the messaging of a shallower Fed easing cycle and higher for longer inflation expectations.
- Given the sell-off was initiated by central bank policy rates, the front-end of the curve led the curve. Longer maturities also increased but at a smaller magnitude. Longer maturities in G10 continue to be a product of net bond supply and fiscal deficits.
- Europe is a prime example of fiscal deficit and bond-supply dynamics. Government bond yields rose in Europe over December, somewhat in sympathy to the Hawkish FOMC pivot and beta to US rates however also due to the increasing supply burden across the regions. In Germany, yields on

10-year bunds closed the month 0.30% higher. In the UK, yields on 10-year gilts rose 0.33%.

- Interestingly, AU fixed income yields also traded higher in sympathy with global peers. This comes in contrast to the front-end of the AU curve pricing earlier RBA cuts following a more dovish RBA meeting.
- Credit spreads widened modestly in December. CDX IG widened ~2.5bps. US IG cash Index widened ~2bps with supply ~$41.8bn. .

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