

Investment report

Market overview

As at 25 November 2024

Equity markets weakened in most major markets in October and global bond markets sold off as signs of continued economic strength and some resilience in inflation in the US saw investors reduce expectations for the pace and scale of interest rate cuts, pushing bond yields higher (bond prices move inversely to yields). The looming US presidential election also added to uncertainty surrounding the outlook for economic policy and fiscal sustainability and how these could impact growth, inflation and interest rates in the US.

United States

Continued economic resilience in the US was underscored in early October by a surprisingly strong US labour market report showing a rebound in employment growth in September following a period of weakness. Although rate cut expectations were scaled back as a result, equity markets looked through this given the likelihood of strong growth supporting corporate earnings.

However, the release of US CPI data the following week showed that disinflation progress had stalled in September, which cast further doubt over the expected path of rate cuts in the near term. Monthly core CPI inflation surprised to the upside, and after trending lower over the first half of the year, annual core CPI inflation has been tracking sideways at around 3.3% y/y since June. This still represents a large drop from the 6%+ core CPI inflation rates seen in 2022, and the US Federal Reserve (Fed) was comfortable enough with the latest inflation data to lower interest rates by another 0.25 percentage points (ppt) in early November.

Nonetheless, it serves as a reminder that a smooth path back to target for inflation is not guaranteed, and neither is a rapid or deep rate-cutting cycle. Indeed, financial markets are now pricing in roughly a 50% chance of another 0.25ppt rate cut at the Fed's next meeting in December, whereas a rate cut had previously been fully priced. Donald Trump's victory in the US presidential election also adds uncertainty to the US interest rate outlook, given a number of his policies, such as further fiscal expansion and the raising of import tariffs, are likely to be inflationary if implemented in full.

China

The potential for greater import tariffs in the US also adds to the risks facing China's economy, where momentum remains under pressure from a weak property sector and soft consumer confidence. An array of policy measures to combat the weakness have been announced in recent months, demonstrating a newfound willingness on the part of policymakers to support growth, and the outlook has certainly brightened as a result. Markets appear to have been disappointed with follow-up announcements in recent weeks however, and the policy response still lacks large-scale direct fiscal spending as was seen during past economic downturns.

Australia

The outlook for China's economy will also be of keen interest to policymakers in Australia, where growth remains below trend. Australia's labour market remains a bright spot however, with employment continuing to grow strongly despite subdued momentum in the economy. This has given the Reserve Bank of Australia (RBA) space to wait for further evidence that core inflation is falling sustainably to target before lowering interest rates. However, any signs that the Australian economy is weakening further would quickly bring rate cuts back on the agenda for the RBA.

Monthly performance

Accumulation Options – investment performance as at 31/10/2024

	High Growth	Growth Plus	Growth (MySuper) - Default	Conservative Growth	Conservative	Cash	Australian Shares	Diversified Fixed Interest	Overseas Shares	Indexed Diversified	Property
1 month	0.18%	0.07%	0.06%	-0.08%	-0.18%	0.35%	-1.41%	-0.71%	2.81%	0.00%	-0.72%
6 months	5.96%	5.33%	4.89%	3.94%	3.12%	2.12%	6.63%	3.16%	7.83%	6.71%	4.96%
FYTD	3.90%	3.58%	3.35%	2.70%	2.09%	1.40%	5.26%	1.85%	5.35%	4.05%	4.58%
1 year	18.48%	16.05%	14.30%	11.23%	8.09%	4.19%	23.22%	7.19%	24.20%	19.18%	8.72%

Returns are based on the crediting rate, which is returns minus investment fees, taxes and until 31 January 2020, the percentage-based administration fee. Excludes fees and costs that are deducted directly from members' accounts. Past performance is not a reliable indicator of future performance.