January 2025 Newsletter

The final quarter of 2024 brought significant developments across global and domestic markets. Amidst shifting economic indicators and policy adjustments, investor sentiment fluctuated as we look towards 2025.

The RBA held the cash rate steady at 4.35% throughout the quarter, maintaining a restrictive monetary stance. Despite speculation of a February rate cut, RBA Governor Michele Bullock emphasised that inflation must be sustainably within the desired target of 2-3% before monetary policy is eased. The monthly CPI remained flat at 2.1% year-over-year in October, supported by government energy subsidies and rental assistance. Strength in the labour market, with unemployment falling to 3.9% in December, further dampened expectations for an early 2025 rate cut.

The AUD has taken a hit, dipping below 62 US cents, a level not seen since October 2022. A strong USD, fuelled by hawkish Federal Reserve policies and uncertainty surrounding the incoming US administration compounded the AUD's decline. Expectations of an impending rate cut by the RBA could further pressure the currency, posing challenges for inflation management.

Meanwhile, the US Fed delivered its third consecutive rate cut, setting the policy rate at 4.25-4.5%. Despite this easing, the Fed's tone was hawkish, signalling a more cautious approach to further cuts in 2025. As a result, US equities faltered as markets recalibrated expectations for looser monetary policy. It's been an otherwise strong end to the year for equities, led by a US market surge following the Republican Party's pro-growth electoral victory. Deregulation and potential corporate tax cuts drove optimism, lifting valuations. Domestically, Australian equities saw modest gains, with the All-Ords (ASX500) closing near record highs.

Heading into the new year, investors are watching key developments: the RBA's next move, US policy adjustments under the new administration, and upcoming inflation data, which will shape central bank strategies.

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Returns for the 2025 Financial Year (6 months):

All Ordinaries: 8,420.50, up 406.70 points, or 5.08%;
Listed Property Accumulation Index: 77,783.90, up 5,316.6 points or 7.34%;
90 Day Bank Bills: 4.42%, down 0.03%;
AUD vs US Dollar: 61.85c, down 4.88c or 7.31%;
UK FTSE 100: 8,173.02 points, up 8.90 points or 0.11%;
Dow Jones Industrial Avg: 42,544.22 points, up 3,425.36 or 8.76%.

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SUCCESSFULLY NAVIGATING UNCERTAIN TIMES

2024 YEAR IN REVIEW

The many unpredictable events of 2024 could easily have been disastrous for investment markets. Instead, we saw remarkable resilience and growth despite occasional volatility as investors reacted to the extraordinary times.

While economic growth in Australia and overseas was underwhelming, share markets rode out the ups and downs to finish 2024 strongly.

2024 was the 'super election year', when almost 2.5 billion people in 70 countries voted.[i] One result that has captured the attention of governments and analysts around the world is Donald Trump's return to office in the United States. He has promised massive tariffs, tax cuts and increased spending on defence. All measures are likely to increase inflation and budget deficits which will affect global markets and economies.[ii]

Continuing geopolitical upheaval also marked the year. Tension in the Middle East grew as Israel expanded its campaign and European Union economies came under increased pressure when Ukraine stopped the flow of Russian gas.

The US dollar ended the year on a two-year high but that, and a weakening Chinese Yuan, led to a two-year low for the Australian dollar, which ended the year just below 62 US cents.[iii]

Cost of living falls but interest rates steady

Around the world, interest rates fell during the year but in Australia, after five interest rate increases in 2023, the Reserve Bank (RBA) held steady at 4.35 per cent, believing inflation is still too high.

Nonetheless, the cost of living has fallen significantly, down to 2.8 per cent in the September quarter from a high of 7.8 per cent two years ago and 3.8 per cent in the June quarter.[iv]

Falls in electricity and petrol prices contributed to the easing.

Australia's economy grew by 0.8 per cent in the three quarters to the end of September – it's slowest in decades.[v]

House prices mixed across the country

The housing market appeared to cool by the end of the year with average national home values falling by 0.1 per cent in December to a median of $815,000.[vi]

CoreLogic's Home Value Index data shows five of the eight capitals recording a decline in values between July and December. These included Melbourne, Sydney, Hobart and the ACT. While in Perth, Brisbane, Adelaide and Darwin, home values increased.

Share markets survive and prosper

Global share markets were unsinkable in a year of stormy economic and political conditions.

The Nasdaq surged more than 30 per cent for the year. The S&P 500 was up 25 per cent – pushed along by the 'magnificent seven' tech stocks – and the Dow rose 14 per cent.

Although not quite in the same league, the ASX performed strongly, recording 24 new record highs during 2024. The S&P/ASX 200 closed the year at 8159, up 7.5 per cent, with some analysts predicting 2025 will close around 8800.

Commodities

Gold came into its own as a safe haven for those concerned about events around the globe, reaching an all-time high in October and adding more than 28 per cent for the year.

Oil prices were subdued with investors cautious about a glut, the risks of wider conflict in the Middle East, the war in Ukraine and the change of government in the US. Although there is some optimism for improved growth in China in 2025.

Iron ore prices have continued to decline, now down to about half of the peak US$200 a tonne in 2021.

Looking ahead

Economists' forecasts vary on the timing of a cut in interest rates in 2025 but some believe there will be as many as four cuts, reducing the rate to 3.35 per cent by year end.

Share price volatility is expected to continue as investors roll with the global political and economic punches and the upcoming Australian Federal Election is likely to introduce uncertainty until the results are in.

If you'd like to review your goals for the coming year in the light of recent and expected developments, don't hesitate to get in touch.

Note: all share market figures are live prices as at 31 December 2023 and 2024 sourced from: https://tradingeconomics.com/stocks.

i https://www.weforum.org/stories/2023/12/2024-elections-around-world/

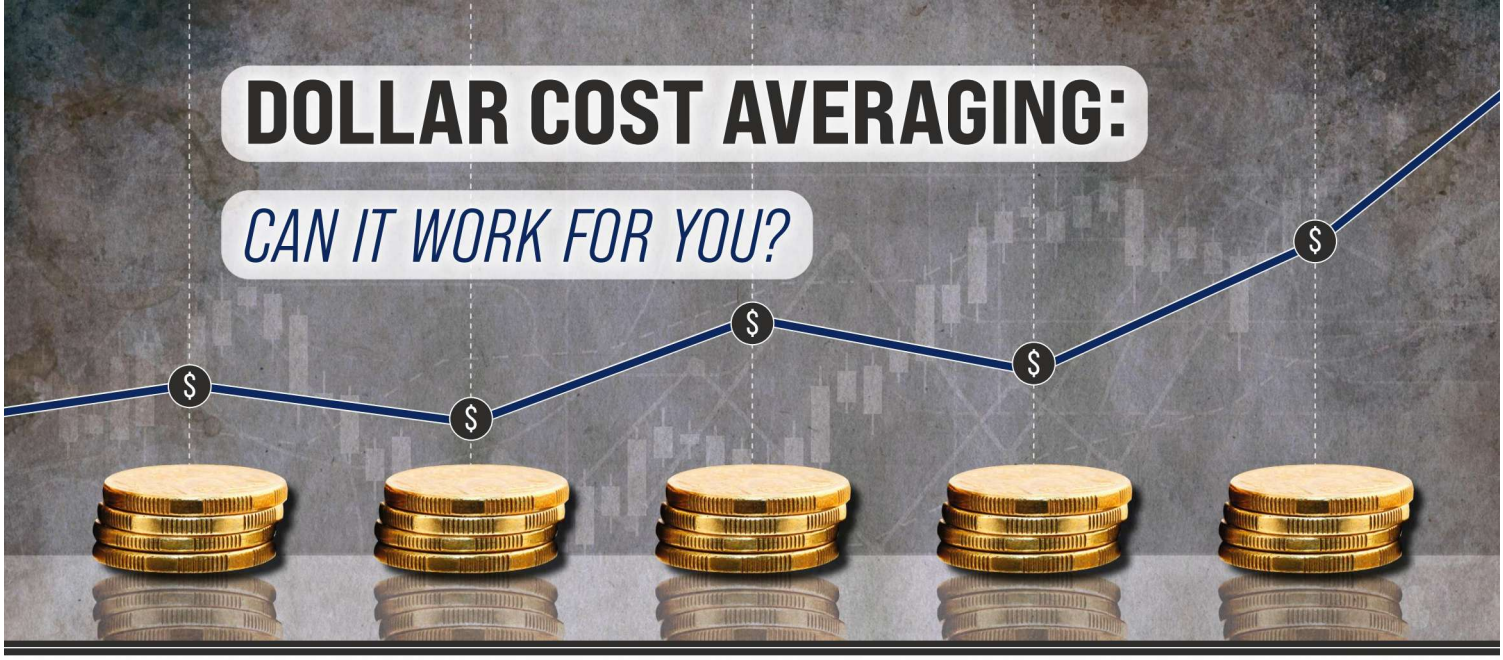
ii https://www.afr.com/policy/economy/the-economy-and-markets-will-boom-under-trump-or-will-they-20241107-p5komn

iii https://www.abc.net.au/news/2025-01-01/australian-dollar-at-risk-of-falling-to-pandemic-lows/104776470

iv https://www.abs.gov.au/statistics/economy/price-indexes-and-inflation/consumer-price-index-australia/latest-release

v https://www.abs.gov.au/media-centre/media-releases/australian-economy-grew-03-cent-september-quarter

vi https://www.corelogic.com.au/news-research/news/2024/national-home-values-record-first-decline-in-almost-two-years



Australian share prices have seen record highs in 2024 after a sluggish couple of years.

The S&P ASX200 index added just under 7 per cent in the 10 months to October 31 closing at 8160.[i] It reached its previous all-time high of 8355 just two weeks before.

So, if you were invested in an index fund or a basket of shares mirroring the ASX200 for the entire period, it's likely you would have added some value to your portfolio.

Over the course of the year, the index has ebbed and flowed, recording several all-time highs and some jarring notes in response to global events.

Geopolitical tensions have also played a part in market skittishness as the wars in the Middle East and Ukraine continue and economists argue about the future impact on Australia of a Trump presidency.

US share prices surged the day after Donald Trump's election in what many saw as a positive reaction to the returning President's policies. Since then, prices have declined in a not-unexpected correction. Various analysts are predicting future volatility as markets respond to the proposed policies including tariffs and mass deportations promised by the President-elect.

These ups and downs in prices can have investors scurrying to hit the 'buy' or 'sell' buttons. They may be desperate to save further losses when share prices are falling rapidly or wanting to cash in on a rising market. Meanwhile, those with lump sums to invest may delay, trying to pick the time when prices are lowest.

Timing the market

It's a strategy – known as timing the market – that may work for some, particularly if you need access to your investment in the short term. But, for mid- to long-term investors, it's generally accepted to be problematic.

To begin with, predicting the next market movement is extremely difficult – even for experienced investors – because of the endless factors that can influence the markets.

Reacting to major market movements by selling or keeping a lump sum in cash until 'the time is right' means you run the risk of missing the market's best days and reducing your overall return.

Countless studies show that better long-term results are achieved by consistent investing over time.

In Australia, $10,000 invested in the ASX/S&P 200 during the 20 years to October 2024 would have increased to $60,777.[ii] But, if you had missed the 10 best days during that time, your total investment would be just $36,014.

Dollar cost averaging

One way of removing the emotion and guesswork is to consider investing at regular intervals over time, ignoring any market signals, in a strategy known as 'dollar cost averaging'.

The strategy works best if you are investing over the medium to long term because it helps to smooth out the price peaks and troughs.

In fact, compulsory superannuation paid by employers is a form of dollar cost averaging. Smaller, regular amounts are invested automatically, regardless of market movements and, over time, the investment grows.

However, the jury is out on whether dollar cost averaging is a useful strategy when you have a lump sum in cash to invest.

Some advocates of dollar cost averaging argue that there's a better return because you reduce the risk of making a large investment just before markets plunge.

Those opposed to the strategy for lump sum investing say that, with a lump sum sitting in a bank account as you chip away at regular stock purchases, there is a risk that you will miss the best of the market.

A 2023 study found that investing a lump sum in the markets at once over the long term delivers a better return than a dollar cost averaging strategy.[iii]

So, avoid the risks of timing the market and consider whether dollar cost averaging might be an appropriate strategy for you.

We'd be happy to discuss how best to ensure your regular investing strategy or investment of a lump sum, takes account of future market movements and volatility.

i https://tradingeconomics.com/australia/stock-market

ii https://www.fidelity.com.au/learning-hub/understanding-markets/timing-the-market/

iii https://investor.vanguard.com/investor-resources-education/news/lump-sum-investing-versus-cost-averaging-which-is-better?msockid=1d0ef73d34e2669b38aae39035f26789

There is no debate that Australians love investing in property.

The value of Australian residential real estate at the end of August 2024 was an estimated $10.95 trillion.[i]

Some love it so much that they believe property is a better option for providing a retirement income. They see a bricks and mortar investment as a more tangible and solid approach than say, superannuation, preferring to take their super as a lump sum on retirement to buy property. They may also choose to invest a windfall, such as an inheritance, or the proceeds from downsizing the family home, in property instead of their super.

So, given that a retired couple above age 65 needs an estimated yearly income $73,337 to lead a comfortable lifestyle, could a property investment do the job?[ii]

While it's true that a sizeable property portfolio could deliver rental income to equal a super pension, it might mean missing out on some useful benefits.

After all, super is a retirement savings structure with significant tax advantages. It also has the flexibility to provide investments in a range of different asset classes, including property.

Meanwhile, super fund performance has, generally speaking, outstripped house price movements over the past decade. Super funds (invested in an all-growth category) returned an annual average of 9.1 per cent during that time while average house prices in Australian capital cities grew 6.5 per cent per year over the same period.[iii, iv]

Not that past performance can give you any guarantees about what will happen in the future. Indeed, the average numbers smooth out the years of high returns and the years of negative returns. More important considerations in making an informed decision are your financial goals, your investment timeframe and how much risk you're comfortable with.

Liquidity

One of the most significant differences between super and property investments is liquidity, or how quickly you can convert your investment to cash.

With super, assuming you're eligible, funds can be accessed relatively easily and quickly. On the other hand, if your wealth is tied up in property it may take some time to sell or it may sell at a lower price.

Nonetheless, market cycles affect both property and super investments. They can be affected by volatile conditions and deliver negative returns just at the time you need access to a lump sum.

Long-term investing

Superannuation is designed for long-term growth, often spanning decades as you accumulate wealth over your working life. The magic of compounding interest can lead to substantial growth over time, depending on your investment options and the state of the market.

Property investments, on the other hand, can be invested for short, medium, and long-term growth depending on the suburb, the street, and the type of house you invest in. Of course, there are additional costs in buying a property (such as stamp duty) plus costs in selling (including capital gains tax). If there's a mortgage over the property, you'll need to factor in the additional costs of repayments and interest (bearing in mind that interest on investment properties is tax deductible).

Risk appetite

Investors' attitudes towards risk also play a role in choosing between super and property.

Superannuation funds can be diversified across various asset classes, which helps to reduce risk. But property investments expose investors to a single market meaning that while there might be a big benefit from an upswing, any downturn may be a blow to a portfolio.

Making an informed choice

Ultimately, any decision between superannuation and property should align with individual financial goals, risk tolerance, and investment strategies. And, of course, it doesn't need to be one or the other – many choose to rely on their super while also holding investment property so it's best to understand how super and property can complement each other in a well-rounded retirement plan.

We'd be happy to help you analyse your retirement income strategy to develop a plan that works for you.

i https://www.corelogic.com.au/news-research/news/2024/almost-30-of-suburbs-have-seen-values-fall-over-the-quarter

ii https://www.superannuation.asn.au/wp-content/uploads/2024/08/ASFA_Retirement_Standard_Budgets_June-24_quarter.pdf

iii https://www.chantwest.com.au/media/slnh0t1t/chant-west-media-release-17-july-2024-final.pdf

iv https://sqmresearch.com.au/asking-property-prices.iphp?avg=1&t=1