MONTHLY MARKET UPDATE

December 2023

How the different asset classes have fared:

(As of 29 December 2023)

Asset Class	10 Yr % p.a.	5 Yr % p.a.	3 Yr % p.a.	1 Yr % p.a.	YTD %	6 Mth %	3 Mth %	1 Mth %
Cash[1]	1.77	1.40	1.71	3.89	3.89	2.15	1.06	0.37
Australian Bonds[2]	2.64	0.64	-2.69	5.06	5.06	3.49	3.79	2.69
International Bonds[3]	2.63	0.49	-3.11	5.31	5.31	3.17	5.43	3.02
Australian Shares[4]	8.16	10.66	8.88	12.98	12.98	7.95	8.67	7.44
Int. Shares Unhedged[5]	11.79	13.68	11.87	23.29	23.29	4.85	5.33	1.83
Int. Shares Hedged[6]	9.60	11.73	7.39	21.70	21.70	6.10	9.21	3.93
Emerging Markets Unhedged[7]	4.96	3.80	-1.67	8.58	8.58	1.86	2.22	1.00
Listed Infrastructure Unhedged[8]	8.87	6.59	7.81	1.60	1.60	-0.95	5.25	0.59
Australian Listed Property[9]	9.42	6.39	5.88	16.90	16.90	12.96	16.50	11.40
Int. Listed Property Unhedged[10]	7.16	4.12	7.13	8.93	8.93	4.81	9.00	6.35
Gold Bullion Unhedged[11]	5.55	9.98	2.93	13.80	13.80	8.34	10.19	1.20
Oil Unhedged[12]	-9.20	5.58	25.56	-1.97	-1.97	8.71	-17.48	-5.63

1 Bloomberg AusBond Bank 0+Y TR AUD, 2 Bloomberg AusBond Composite 0+Y TR AUD, 3 Bloomberg Barclays Global Aggregate TR Hdg AUD, 4 S&P/ASX All Ordinaries TR, 5 Vanguard International Shares Index, 6 Vanguard Intl Shares Index Hdg AUD TR, 7 Vanguard Emerging Markets Shares Index, 8 FTSE Developed Core Infrastructure 50/50 NR AUD, 9 S&P/ASX 300 AREIT TR, 10 FTSE EPRA/NAREIT Global REITs NR AUD, 11 LMBA Gold Price AM USD, 12 Bloomberg Sub WTI Crude Oil TR USD

Source: Centrepoint Research Team, Morningstar Direct

Key Themes:

- Fed signalled an additional cut in 2024 which sent yields lower and equity markets higher.
- Strength for Australian Equities and AUD following a more dovish tone at the Fed's latest meeting.
- Oil fell on the back of supply/demand issues creating a headwind for energy stocks.

International Equities:

Following impressive performance in November, international equities continued to benefit from an increasingly positive outlook in the Fed's battle with inflation. In December the Fed indicated an additional rate cut in 2024 bringing the total projection of cuts in 2024 to 75bps. This resulted in gains of 1.83% for the Vanguard Unhedged International Shares Index and a notably higher monthly return of 3.93% for the hedged class, reflecting a weaker USD following the Fed's latest comments.

Rate sensitive parts of the market outperformed in December, in particular small caps. The typical structure of small caps mean they rely on short term, and often floating rate debt, making them sensitive to interest rate movements. As a result, further clarity from the Fed regarding 2024 rate cuts caused the MSCI world small cap index and Russell 2000 to rally 6.52% and 12.2% respectively. Real estate also posted healthy returns with international property posting a 6.35% return for the month.

Energy was the worst performing sector in December, largely due to falling oil prices providing a headwind to revenue. Despite this, the sector still managed to remain in positive territory for the month highlighting the strength of the international equity market in the final month of the year.

Australian Equities

Australian equities surged in December growing by 7.44% off the back of a more dovish tone coming from the RBA in December. All sectors rose with real estate, healthcare and materials leading the way gaining 11.4%, 9.1% and 7.4% respectively. These impressive monthly returns can be attributed to a shift in sentiment that rates in Australia have now peaked.

The defensive nature of both utilities and consumer staples meant these areas underperformed in a risk-on month, however both still finished positive. Energy equities also lagged in the month of December as middle eastern tensions were unable to keep oil elevated, overshadowed by subdued demand issues and high levels of supply which caused oil to drift lower.

Domestic and International Fixed Income

With central banks seeming to regain control of inflation in many leading economies, there has been numerous revisions for 2024 rate cuts which has supported fixed income returns in the final month of the year. As a result, international bonds returned 3.02% in the month of December. Notably, US 10-year treasuries fell by 45bps resulting in a 4% gain for the month. Similar performance was seen across the board in developed economies with 10-year yields falling 42bps in Germany, 64bps in Canada and 56bps in New Zealand. Credit markets also rose in December as investors revised the probability of widespread recessions.

In Australia, RBA comments in December led investors to conclude that rates have most likely peaked, creating positive market sentiment. As a result, Australian bonds returned a healthy 2.69% for the month and the Australian 10yr yield dropped 45bps, thus also posting a positive return. Despite the RBA hiking rates in the month prior and data suggesting that Australia is still falling behind peers in the battle against inflation, returns in Australian fixed income kept up with other developed markets in December.

Australian Dollar

The Australian dollar appreciated in the month of December by 0.37%, notably strengthening against the US dollar for the second month in a row. This was driven by both ongoing weakness in the USD which was further exacerbated in December following the Fed’s latest comments, as well as comparatively higher rates in Australia making the AUD attractive for foreign investors. AUD strengthened against most major currencies in December with the exception being Japan, where there is speculation that the BOJ will soon pivot from its ultra-dovish monetary policy.

Commodities – Gold and Oil

Oil fell in December by 5.63%, making it the only asset class in our update to finish in the red on its own for two consecutive months. Despite both the Israel-Palestine and Red-Sea conflicts causing volatility in the oil price, the overwhelming supply coming from outside OPEC (notably the US) and subdued demand concerns has sent oil lower in December.

Gold had a stable month, posing a positive return of 1.2%. This was largely due to both the continuation of a weakening US dollar and a further decline in US treasury yields.

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