Closing out 2024: A challenging quarter, a resilient year

By Perpetual Wealth Management

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Global markets navigated a challenging final quarter of 2024. The period saw notable fluctuations, with US markets continuing to demonstrate exceptional strength, outpacing other regions, including Australia. This strength was also evident in the US dollar, with the currency rallying 10.8%[1] against the Australian dollar and appreciating against most other major currencies, further underscoring the theme of US exceptionalism.

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Please note: except where otherwise noted or quoted, the views in this article are those of Perpetual Private's Investment Research Team.

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Global recovery and emerging cracks

After a turbulent 2022, the global economy has been remarkably resilient, experiencing moderating inflation, solid economic growth, and healthy corporate earnings over the past two years. Notably, the boom in artificial intelligence has driven another consecutive year of

strong gains for the US tech sector and most central banks have gradually shifted to easing monetary policy. However, challenges persist beneath the surface.

Valuations in US equity markets remain stretched, especially among the 'Magnificent Seven' tech giants. Inflation has moderated globally, but some regions still face stubborn pressures. As 2024 ended, questions loomed over how the US administration's upcoming policies—including tax cuts, deregulation, and tariff adjustments—might impact an economy already operating near full capacity. These dynamics illustrate the need for vigilance as we enter the new year.

US Election: A red sweep fuels market optimism

The December quarter was marked by significant political developments. Early uncertainty weighed on markets as the US election approached in October. However, sentiment shifted following Donald Trump's convincing re-election and the Republican Party's control of Congress, completing a "Red Sweep." This outcome fuelled optimism, with investors anticipating pro-business policies, spurring a short-term rally in risk assets.

However, later in the quarter, the US Federal Reserve tempered market enthusiasm by revising its 2025 interest rate cut projections, reducing expectations from four cuts to two. This 'hawkish' adjustment sparked some volatility and muted the traditional Santa Claus rally typically observed in late December. Despite these headwinds, markets closed the year firmly in positive territory, albeit slightly below their all-time highs.

Australia: Resilience amid pressures

The Reserve Bank of Australia (RBA) held its cash rate steady at 4.35% for the thirteenth consecutive month in December, maintaining a restrictive monetary policy stance to combat inflation. While headline inflation has eased, core measures remain above the 2-3% target range, delaying any immediate rate cuts. The labour market remains healthy, with unemployment at 4.0%, but cost-of-living pressures persist, limiting household consumption.

2025 is an election year in Australia, raising the possibility of fiscally stimulating policies aimed at boosting growth. Although, much will depend on the performance of China, Australia's largest trading partner, which continues to face economic challenges and the threat of a trade war with both the US and Europe. Whether China will be able to re-ignite growth and domestic consumption will be crucial in shaping how Australia fares over the next twelve months.

Higher for longer: A persistent theme

The "higher for longer" narrative in interest rates remained a dominant theme in the December quarter. While most central banks eased rates, the RBA and Bank of Japan stood as outliers. In the US, the Federal Reserve's decision to scale back its 2025 rate cut projections

underscores the central bank's concerns that further interest rate cuts and a tight labour market have the potential to fuel inflation once again, warranting a more 'hawkish' approach to monetary policy.

For income-oriented investors, the higher rate environment presents opportunities. They can capitalise on the current attractive nominal yields and positive real returns (adjusted for inflation), offering both a more stable source of income and diversification benefits, particularly against potential economic headwinds.

Outlook for 2025

As history has shown, markets often surprise investors. While global growth is expected to remain in positive territory, the persistence of restrictive monetary policy and geopolitical uncertainties will likely contribute to increased market volatility in the year ahead.

With that in mind, it is essential to maintain a long-term perspective. A well-diversified financial plan, grounded in core investment principles, remains the best defence against volatility and uncertainty. By focusing on fundamentals and adapting to evolving trends, investors can remain well-positioned for both the challenges and opportunities that 2025 will undoubtedly bring.

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[1] Source: FactSet. Data as of 31 December 2024.

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