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ECONOMIC OUTLOOK

GLOBAL ECONOMY

The global economy is forecast to grow this year and next at close to last year's rate and around its longer-term trend rate. The IMF recently lifted its growth forecasts due to 'surging investment related to technology, including artificial intelligence...as well as fiscal and monetary support and adaptability of the private sector'. Global growth is forecast to be 3.3% this year and 3.2% in 2027.

The IMF is anticipating US growth of 2.4% this year and 2.0% in 2027, although the US administration is expecting higher growth on the back of fiscal stimulus and new incentives for investment. Growth across Europe and in Japan is forecast to remain subdued, with most major central banks likely to keep interest rates low.

AUSTRALIAN ECONOMY

The Australian economy entered a per capita recession in 2023 and has continued to remain weak ever since, with the economy failing to grow on a per capita basis in the September quarter. While the RBA cut interest rates three times last year, it raised rates again on 3 February.

MARKETS

Major share markets mostly rose in 2025, continuing a trend set in 2024. Market rises have been driven by relatively stable inflation data and consequent declines in interest rates. This year saw most markets continue their upwards trend in January.

Major sovereign bond markets saw yields rise after the end of 'quantitative easing' in 2022. However, since then slow growth in key economies has encouraged investors back into these 'safe havens' in many instances, with yields likely to range trade for a time.

FIDUCIAN FUNDS

Fiducian's diversified funds are above benchmark for growth assets (shares and property), while cash is underweight.

The global economy is forecast to expand this year at the same rate as last year, which remains close to its long-term trend rate. In its latest report (January), the International Monetary Fund (IMF) is forecasting global growth to be 3.3% this year (0.2% above the IMF's previous forecast, largely due to a solid 0.3% increase in estimated US growth) and 3.2% in 2027. In the IMF's words, 'headwinds from shifting trade policies are offset by tailwinds from surging investment related to technology, including artificial intelligence, more so in North America and Asia than in other regions, as well as fiscal and monetary support, broadly accommodative financial conditions and adaptability of the private sector'. Growth in the advanced economies is forecast to be 1.8% this year and 1.7% in 2026 but with risks still 'tilted to the downside'.

In the case of the US, growth was strong in the September quarter, rising by 4.4% at an annualised rate. The IMF is now forecasting growth of 2.4% for the whole of 2026 and 2.0% for 2027, although the US administration is aiming for a higher rate of growth than this, with fiscal stimulus, reduced regulation and incentives for investment aimed at propelling growth going forward. Growth for the euro zone is forecast to remain weak (1.3% this year and 1.4% in 2027), although higher than in 2023 and 2024; while Japan is forecast to grow by only 0.7% this year and 0.6% next year. Although annual US inflation was an elevated 2.7% in December, the central bank lowered interest rates again at its December meeting.

The Australian economy grew by 0.4% in the September quarter and by 2.1% over the year. On a per capita basis, the economy did not grow over the quarter, expanded by only 0.4% over the year and actually contracted over the 3-year period. While the Reserve Bank (RBA) cut its official 'cash rate' 3 times in 2025 (to 3.60%), recent poor inflation data (with the RBA's preferred measure of annual inflation, the 'trimmed mean' rate rising to 3.3% in December, above its target range of 2% to 3%), on 3 February it raised rates again (to 3.85%) to attempt to marginally slow economic activity. This is despite what is a broadly weak economy with support coming mainly from government spending and with little productivity growth.

Most share markets were on a broadly upwards trend from April last year after a strong 2024, mostly due to the assumption that interest rates would be trending downwards for some time, which has proved to be broadly accurate for most of the major economies. Over 2025, market movements included rises of 16% for the broad US market (S&P500) and 20% for the technology-focused Nasdaq, 22% for the UK, 23% for Germany, 10% for France, 26% for Japan, 9% for India, 18% for China and 10% for Australia. January this year saw further rises for most markets.

Major sovereign bond markets have been volatile for some time, with yields (interest rates) rising and falling in line with the outlook for inflation. The US 10-year Treasury bond yield fell to a record low of 0.54% on 9 March 2020 during the pandemic but touched 5.0% in October 2023 before sliding down, then rising again. It was 4.24% on 30 January this year. Similarly, the Australian 10-year bond yield was 0.57% on 8 March 2020 but was 4.81% on 30 January this year. Bond markets could see yields range trade (and prices stay relatively stable) over coming months if growth remains soft and if inflation remains close to targets.

Fiducian's diversified funds are currently above benchmark for international shares, slightly above benchmark for listed property and around benchmark for domestic shares. Exposure to bond markets is close to benchmark, while cash holdings have been lowered to below benchmark.