Fiducian Monthly Economic Commentary Report

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ECONOMIC OUTLOOK

GLOBAL ECONOMY

The global economy has continued to expand despite ongoing implementation of tight monetary policy by most major central banks. Since June, most major central banks have begun to lower their official interest rates as they seek to engineer 'soft landings' for their economies. In the IMF's view, inflation remains 'elevated in a few cases' but rates 'are expected to decline' further.

The global economy is forecast to continue to sustain growth at close to its longer-term trend rate for at least this year and next, despite relatively tight monetary policy still being implemented by most of the world's major central banks in their ongoing effort to push inflation lower and back into target ranges. Over the past year inflation has been trending downwards, although in its latest report (January), the International Monetary Fund (IMF) noted that while global disinflation continues, it remains 'elevated in a few cases'. In particular, services price inflation remains a concern, with the IMF noting that it is 'still running above pre-Covid averages in many economies'. Nevertheless, official interest rates have been coming down, with the US central bank (the 'Fed') the European Central Bank and the Bank of England all lowering rates last year and with the IMF noting that 'monetary policy rates of major central banks are expected to continue to decline'.

In the case of the US, recent data point to inflation moderating once again. 'Fed' Chairman, Powell appears satisfied that monetary policy remains tight enough but insists that fiscal policy (government deficits) is 'unsustainable'. The new President's pro-growth policies could 'spur near-term growth' (IMF, January),

In the case of the US, the annual rate came in at 2.8% in February (down from 3.0% in January), giving some support to the move by the central bank to lower official interest rates (the 'Fed funds rate') last year. Further cuts could come over coming months. On the other hand, fiscal policy needs to be tightened, with the federal government running large deficits in recent years (7.3% of GDP this year, IMF estimate). As Jerome Powell, the 'Fed' Chairman, noted on 7 November, 'the US is on an unsustainable fiscal path'. President Trump's new administration faces a host of challenges, but as the IMF has pointed out, 'relaxation of unduly tight regulations may spur near-term US growth through higher investment', although 'uncertainties are high'.

AUSTRALIAN ECONOMY

The Australian economy entered a per capita recession in 2023 and remains weak, with households under cost-of-living pressure. Discretionary spending has not grown but some loosening of monetary policy has now begun.

The Australian economy remains weak, growing by only 1.3% over the year to 31 December. On a per capita basis, the economy grew by a bare 0.1% in the December quarter, after seven quarters in a row of contraction. A key factor driving this slowdown has been tight interest rate policy by the Reserve Bank (RBA). This has weighed on household spending, with discretionary spending flat over the year. In December, the RBA's preferred measure of annual inflation moved into the target range at 2.7%, leading to a small 0.25% cut in the RBA's 'cash rate' (to 4.1%) on 18 February. In February, the annual inflation rate remained 2.7%.

MARKETS

Major share markets mostly rose over the course of 2024 but have been variable so far this year, with uncertainty weighing on the US market in particular. Most non-US markets still appear fairly priced.

Most share markets were on a broadly upwards trend from October 2023 through 2024 on the assumption that interest rates had peaked and would soon begin to be reduced. This year, up to 28 March, some markets had reversed direction, including the broad US market (S&P500), down 5%, the technology-focused Nasdaq (10%), Japan (7%) and Australia (2%). On the other hand, European markets were mostly up (the UK 6%, France 7% and Germany 13%). Uncertainties around tariffs appeared to be weighing on the US market.

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.

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 4.37% on 28 March this year. Similarly, the Australian 10-year bond yield was 0.57% on 8 March 2020 but was 4.46% on 28 March 2025. Some bond markets could see yields fall (and prices rise) over coming months if growth remains soft and if inflation continues to fall back towards targets.

FIDUCIAN FUNDS

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

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