

ECONOMIC OUTLOOK

GLOBAL ECONOMY

The global economy is forecast to grow this year and next at just below last year's rate due to what the IMF has termed a 'swift escalation of trade tensions', although the IMF now adds that 'the negative impact on the global economy (of US tariffs) is at the modest end of the range'. Global growth is forecast to be 3.2% this year and 3.1% in 2026.

The IMF is anticipating US growth of 2.0% this year and 2.1% in 2026, 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.

The global economy is forecast to expand this year and next at slightly below last year's rate but still close to its long-term trend rate. In its latest report (October), the International Monetary Fund (IMF) is forecasting global growth to be 3.2% this year and 3.1% in 2026 (both above the IMF's earlier forecasts). As the IMF previously noted, this forecast of marginally lower growth is due to what it has termed 'the swift escalation of trade tensions and extremely high levels of policy uncertainty' following the announcement by the US in April of 'sizeable tariffs against most of its trading partners'. However, as the IMF now puts it, 'the good news is that the negative impact on the global economy (of these tariffs) is at the modest end of the range'. Growth in the advanced economies is forecast to be 1.6% this year and in 2026 but with 'risks tilted to the downside'.

In the case of the US, growth rebounded in the June quarter after falling in the March quarter, to be up 0.8% for the first half of 2025. The IMF is now forecasting growth of 2.0% for the whole of 2025 and 2.1% for 2026, 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 (1.2% this year and 1.1% in 2026), although higher than in 2023 and 2024; while Japan is forecast to grow by 1.1% this year and only 0.6% next year. While annual US inflation was an elevated 3.0% in September, the central bank lowered interest rates again on 29 October.

AUSTRALIAN ECONOMY

The Australian economy entered a per capita recession in 2023 and has continued to remain weak ever since, with the economy barely growing on a per capita basis in the June quarter. While the RBA has cut interest rates three times this year, further cuts are likely to be deferred due to rising inflation.

The Australian economy remains weak, with growth of 0.6% in the June quarter, after growth of only 0.3% in the March quarter. On a per capita basis, the economy grew by a bare 0.2%, this being only the third quarter of growth in three years. While the Reserve Bank (RBA) has kept a lid on inflation until recently by running a tight monetary policy, on 12 August it lowered the 'cash rate' for the third time this year (to 3.6%). However, the annual inflation rate jumped up to 3.2% in the September quarter, which could prevent the RBA from cutting interest rates again this year, despite rising unemployment (4.5% in September) and a generally weak economy with no productivity growth.

MARKETS

Major share markets mostly rose in 2024 but have been highly volatile since the announcement in April of US tariff hikes. However, most markets had recovered strongly by late October after the announcement of trade deals and signs of relatively stable inflation.

Most share markets were on a broadly upwards trend from October 2023 right through 2024 on the assumption that interest rates had peaked and would soon begin to be reduced. This year has seen high volatility, especially earlier in the year after the US move to introduce unprecedented tariff hikes on most imports. Up to 31 October, market movements have included rises across most markets, including 16% for the broad US market (S&P500) and 23% for the technology-focused Nasdaq, 19% for the UK, 20% for Germany, 10% for France, 31% for Japan, 7% for India, 18% for China and 9% for Australia.

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 4.08% on 31 October this year. Similarly, the Australian 10-year bond yield was 0.57% on 8 March 2020 but was 4.31% on 31 October this year. Some bond markets could see yields fall further (and prices rise) over coming months if growth remains soft and if inflation moves back towards targets.

FIDUCIAN FUNDS

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

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.