

# RIPPL Investment Commentary



DECEMBER QUARTER 2023

The global economic outlook for 2023 began with low expectations, amid fears of a recession. However, various factors, such as China's reopening, fiscal stimuli in the U.S. and Europe, and the resilience of U.S. consumers, helped stabilize growth. Optimism was further fuelled by developments like ChatGPT, luxury goods, weight-loss drugs, anticipated Federal Reserve rate cuts, and a bitcoin rally. Nonetheless, significant challenges persisted, including interest rate hikes, geopolitical conflicts, an energy crisis, a banking crisis, and discussions of economic downturns. This complex scenario led to concerns about potential declines in inflation and economic demand in 2024, indicating possible investor apprehension and a focus on downside risks.

## CENTRAL BANK ACTIONS



As 2024 approaches, the global economic and political landscape is fraught with uncertainty. Sustainable rallies in risk assets depend on reduced interest rates and easing monetary policies, potentially tied to market corrections or a decrease in inflation. Critical areas of focus include the impact of advancements in artificial intelligence, the energy transition, particularly the shift to electricity, wind, and solar power, and the potential of U.S. Treasury yields signalling a historic opportunity in the fixed-income sector. However, looming risks such as rising government debt, escalating U.S.-China tensions, potential conflicts in Ukraine and the Middle East, and a pivotal U.S. election year may contribute to market volatility.

An optimistic "Reflation, not recession" outlook is projected for global and Australian economies in 2024. Key reasons for this include emerging markets driving global recovery, credit growth outpacing economic growth, anticipated interest rate relief in the U.S., the end of quantitative tightening, and China's economic strategy shift. These factors are expected to contribute to stronger growth and easing inflation. However, the changing market landscape, marked by rising interest rates and a re-evaluation of risk premiums, leads to reduced liquidity and potential dislocations in various asset classes. This environment offers opportunities for informed investors, with many currently adopting a conservative approach, waiting for the right moment to diversify their portfolios.

Figure 1. World equity market returns

|              | 2013  | 2014  | 2015  | 2016  | 2017  | 2018   | 2019  | 2020  | 2021  | 2022   | 2023  | 4Q '23 | 10-years '14 - '23<br>Ann. | Vol.       |
|--------------|-------|-------|-------|-------|-------|--------|-------|-------|-------|--------|-------|--------|----------------------------|------------|
| <b>AUD</b>   | 53.6% | 24.3% | 25.6% | 13.2% | 31.5% | 6.2%   | 31.7% | 14.2% | 36.6% | -1.1%  | 25.5% | 8.5%   | 15.1%                      | Small Cap  |
| <b>Local</b> | 32.4% | 13.7% | 12.1% | 13.2% | 35.9% | -4.4%  | 31.5% | 22.7% | 28.7% | -1.1%  | 26.3% | 8.5%   | 12.0%                      | 17.2%      |
|              | 47.4% | 14.9% | 14.0% | 12.5% | 27.5% | -2.3%  | 24.8% | 9.2%  | 24.1% | -8.4%  | 19.9% | 8.4%   | 9.1%                       | U.S.       |
|              | 54.4% | 7.7%  | 1.4%  | 12.0% | 31.0% | -7.3%  | 24.6% | 9.2%  | 23.3% | -8.0%  | 15.0% | 8.4%   | 8.3%                       | 15.2%      |
|              | 46.2% | 8.7%  | 10.2% | 12.1% | 20.0% | -2.8%  | 24.0% | 8.1%  | 19.0% | -8.7%  | 19.3% | 5.7%   | 8.3%                       | Japan      |
|              | 22.3% | 6.8%  | 10.2% | 10.1% | 20.0% | -2.8%  | 23.7% | 19.5% | 17.2% | -2.5%  | 28.3% | 7.5%   | 8.6%                       | 14.7%      |
|              | 30.7% | 7.3%  | 9.8%  | 11.8% | 17.2% | -4.2%  | 23.4% | 7.9%  | 17.2% | -8.8%  | 15.8% | 5.6%   | 7.9%                       | Asia ex JP |
|              | 21.9% | 5.6%  | 5.4%  | 11.8% | 22.2% | -16.0% | 23.4% | 18.4% | 17.2% | -9.5%  | 16.2% | 11.7%  | 7.9%                       | 14.6%      |
|              | 20.2% | 5.7%  | 8.4%  | 9.4%  | 16.9% | -4.6%  | 21.4% | 4.2%  | 16.9% | -12.2% | 12.4% | 5.1%   | 7.6%                       | Portfolio  |
|              | 20.2% | 10.3% | 3.3%  | 9.8%  | 13.7% | -12.0% | 21.4% | 8.6%  | 16.9% | -18.1% | 12.4% | 5.7%   | 7.0%                       | 14.5%      |
|              | 19.9% | 5.6%  | 2.6%  | 6.3%  | 16.7% | -4.7%  | 19.4% | 3.0%  | 7.3%  | -13.5% | 9.6%  | 2.2%   | 7.0%                       | Australia  |
|              | 6.2%  | 5.6%  | 2.6%  | 6.4%  | 19.1% | -9.7%  | 18.1% | 7.4%  | 12.7% | -15.1% | 10.3% | 2.0%   | 5.2%                       | 14.0%      |
|              | 13.4% | 3.1%  | 2.5%  | 4.0%  | 12.8% | -4.8%  | 19.1% | 1.4%  | 3.8%  | -13.9% | 7.8%  | 2.1%   | 6.0%                       | EM         |
|              | 3.8%  | 5.2%  | -5.3% | 0.3%  | 21.8% | -10.0% | 18.5% | 1.4%  | 0.1%  | -15.2% | 7.8%  | 5.6%   | 6.0%                       | 13.5%      |
|              | -0.8% | -3.8% | -3.9% | 0.7%  | 11.8% | -8.7%  | 18.7% | -3.5% | 1.4%  | -18.4% | 5.7%  | 0.7%   | 5.9%                       | Europe     |
|              | -0.8% | -3.8% | -5.4% | 7.9%  | 11.8% | -8.7%  | 18.2% | -1.7% | -2.8% | -18.4% | 6.8%  | 4.3%   | 5.6%                       | 13.1%      |

Source: J.P.Morgan Asset Management

In Australia, the forecast for 2024 is positive, with expectations of avoiding a recession and experiencing accelerated growth. Factors supporting this outlook include high commodity prices, construction backlogs, increased household assets, and expected



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inflation moderation leading to rate cuts. However, in contrast to the optimistic future outlook, current consumer and business sentiment as of the end of 2023 remains slightly negative, influenced by inflation and higher interest rates.

In the U.S., a significant federal investment in local supply chains, clean energy, and the semiconductor industry is expected to boost the economy. Europe offers diverse investment opportunities beyond U.S. tech giants, while Japan focuses on modernizing its corporate sector. Emerging markets are diversifying beyond China, with countries like India, Indonesia, and Mexico becoming attractive investment destinations. The Australian investment landscape, characterized by abnormal trends over the past decade, is poised for a shift towards more sensible and reasonably valued investments, influenced by factors like demographics, decarbonization, and deglobalization.

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