



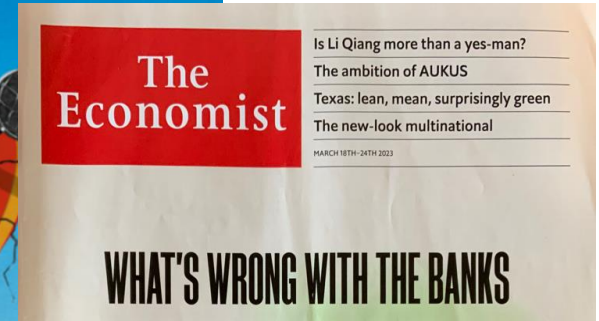
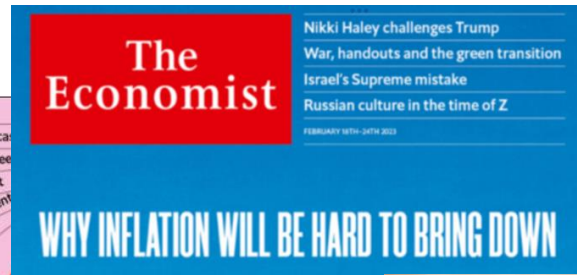
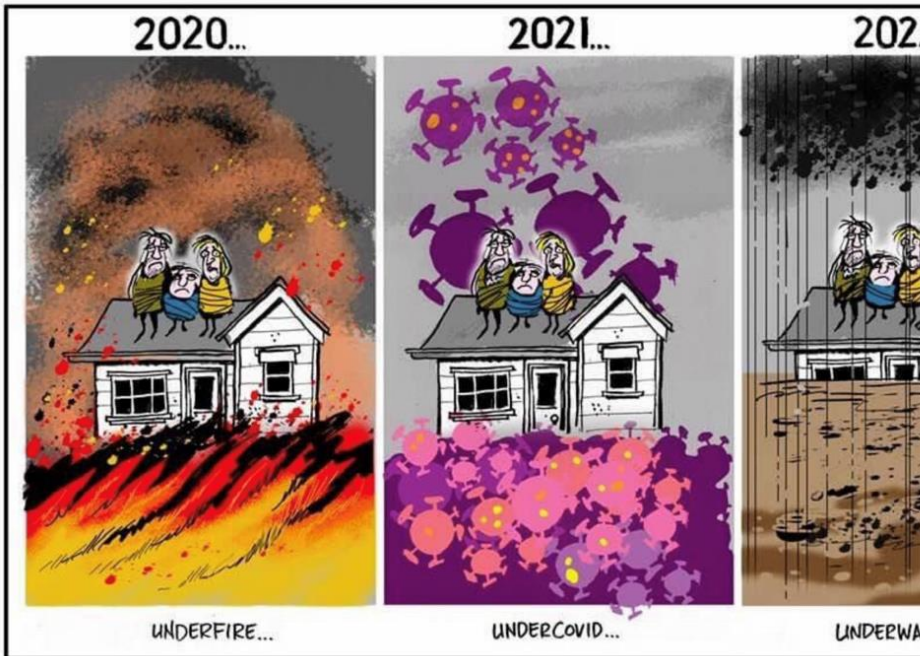
The economic and investment outlook

November 2023

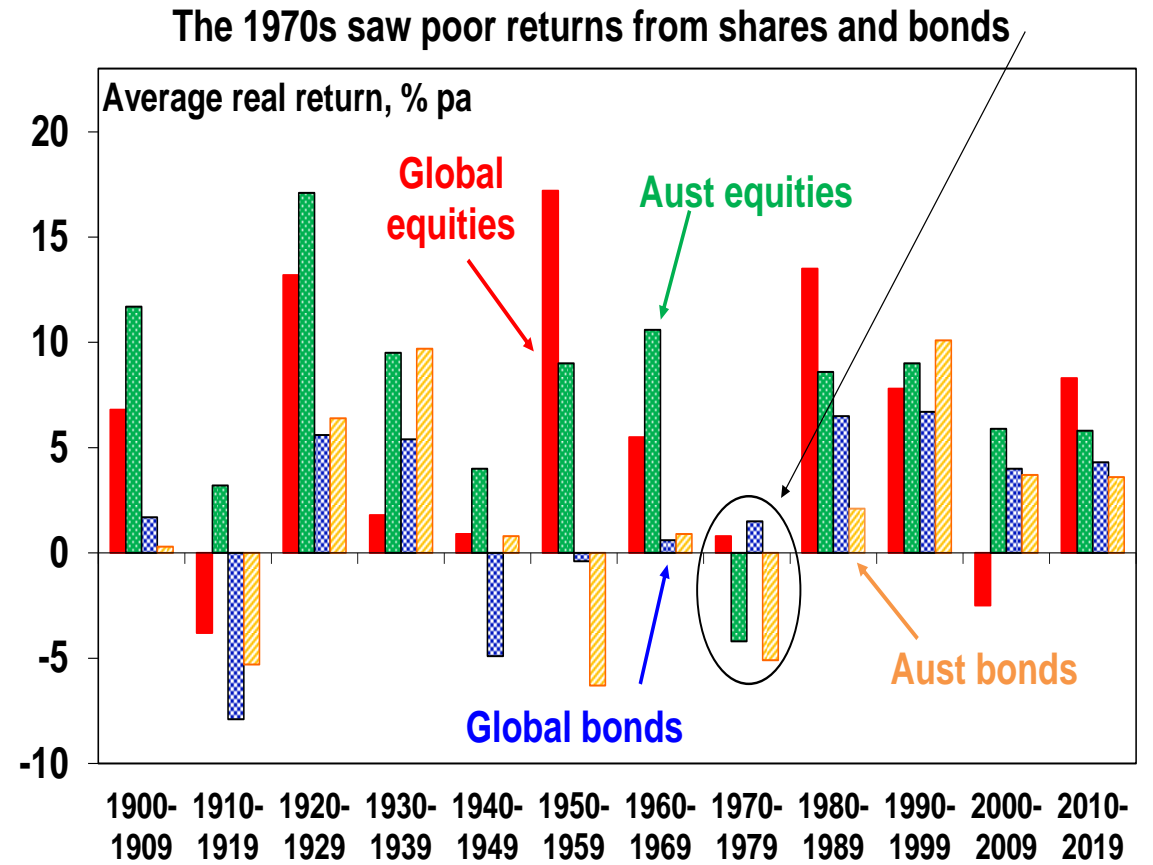
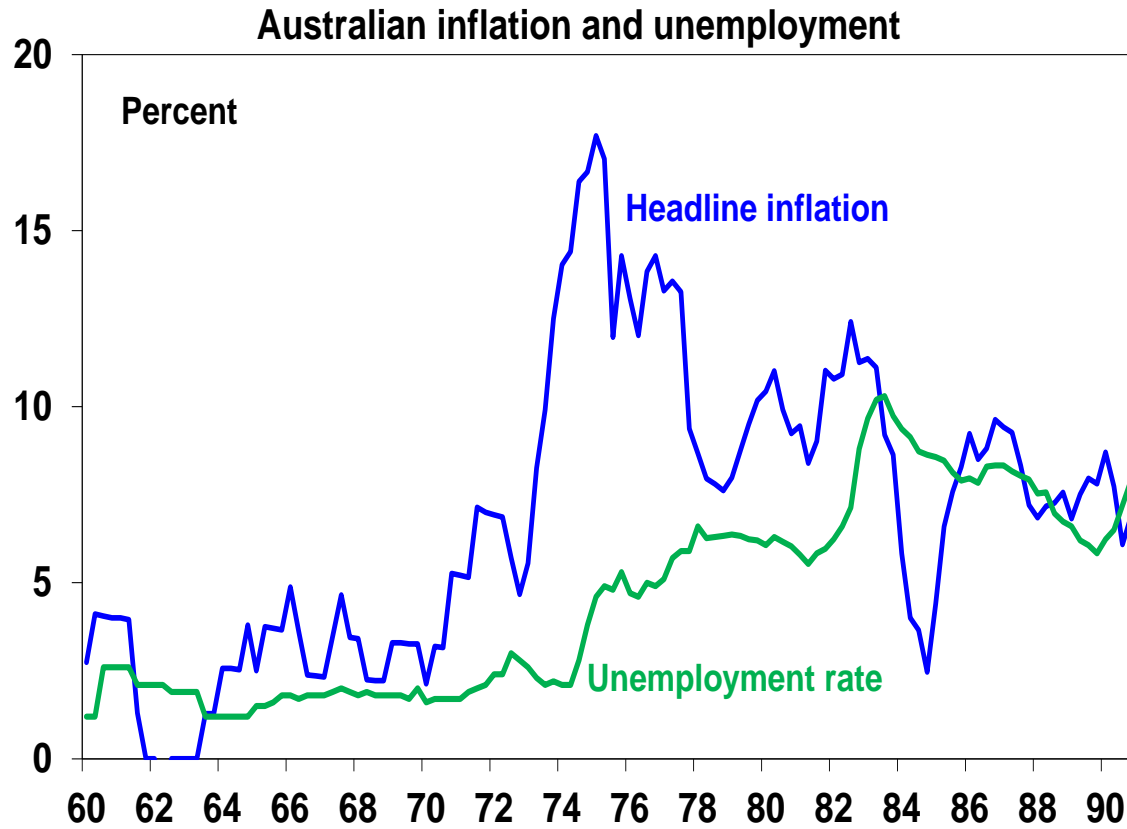
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The investment backdrop has been messy

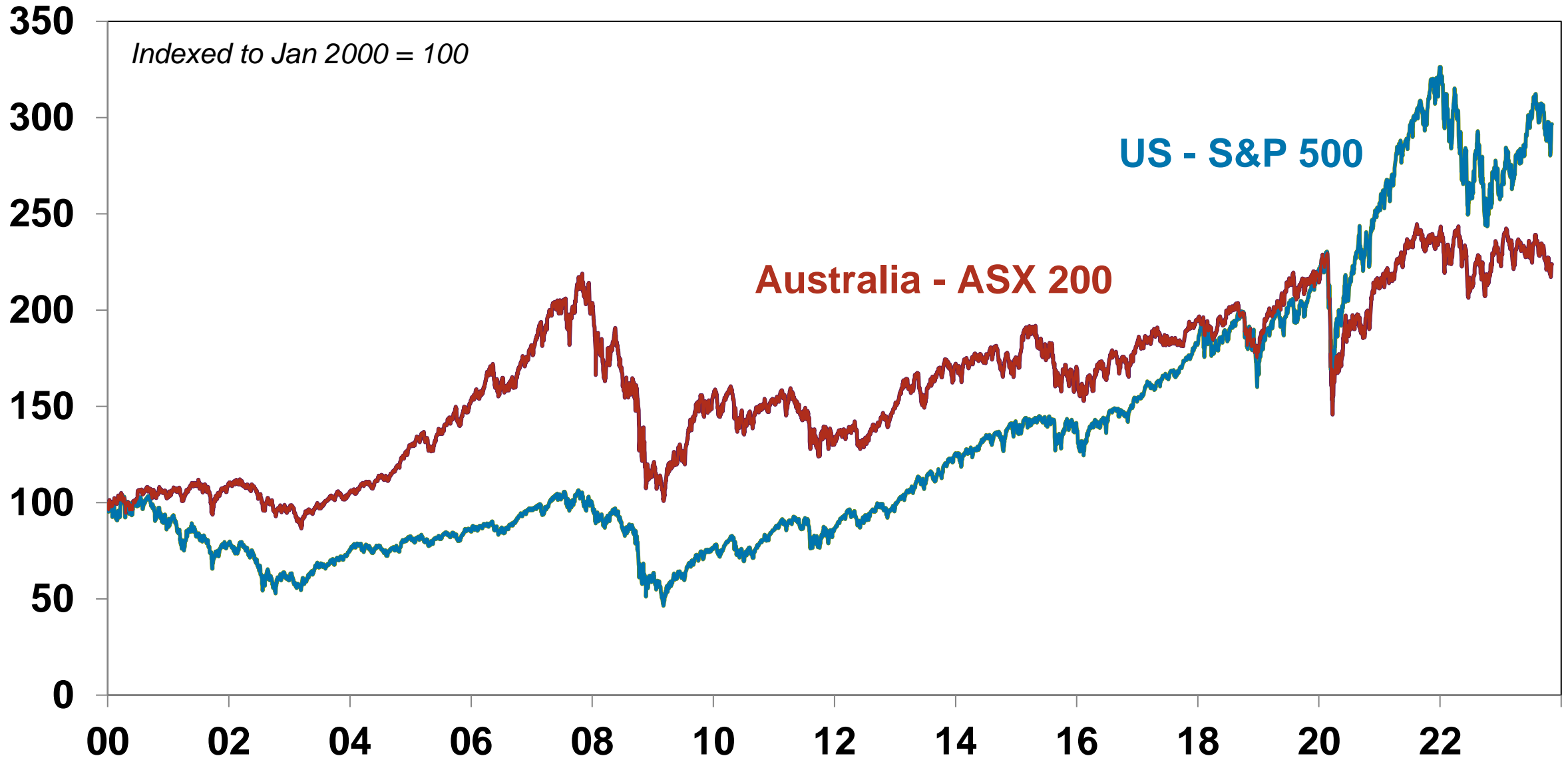


Why we want lower inflation



Source: Bloomberg, AMP

Shares have been volatile lately



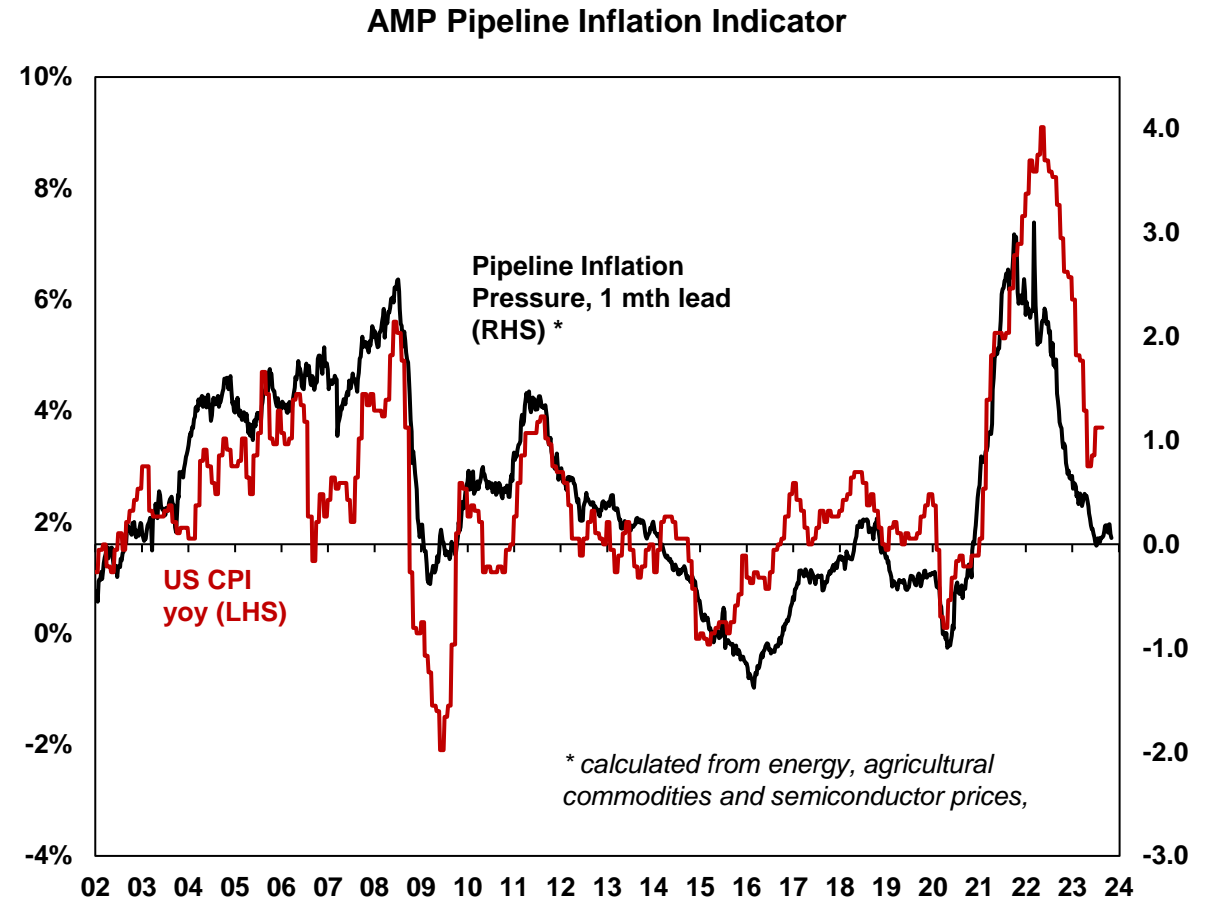
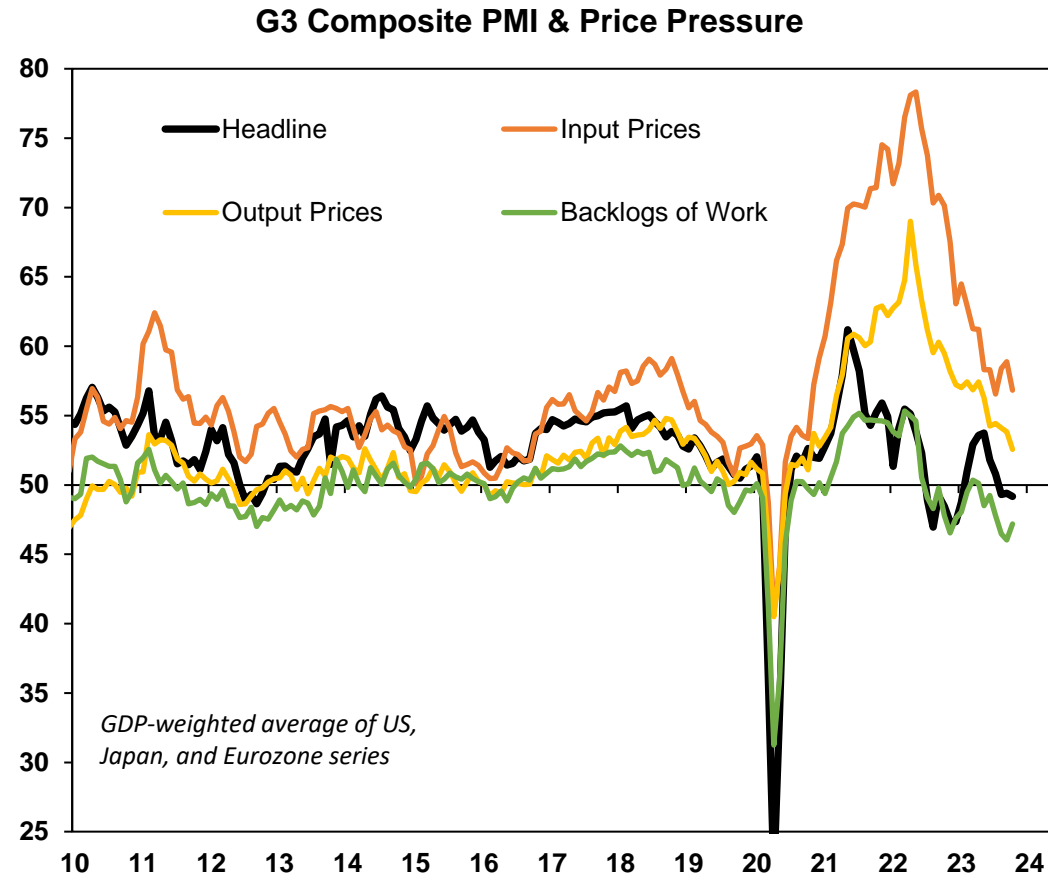
Source: Bloomberg, AMP



Economic and investment outlook

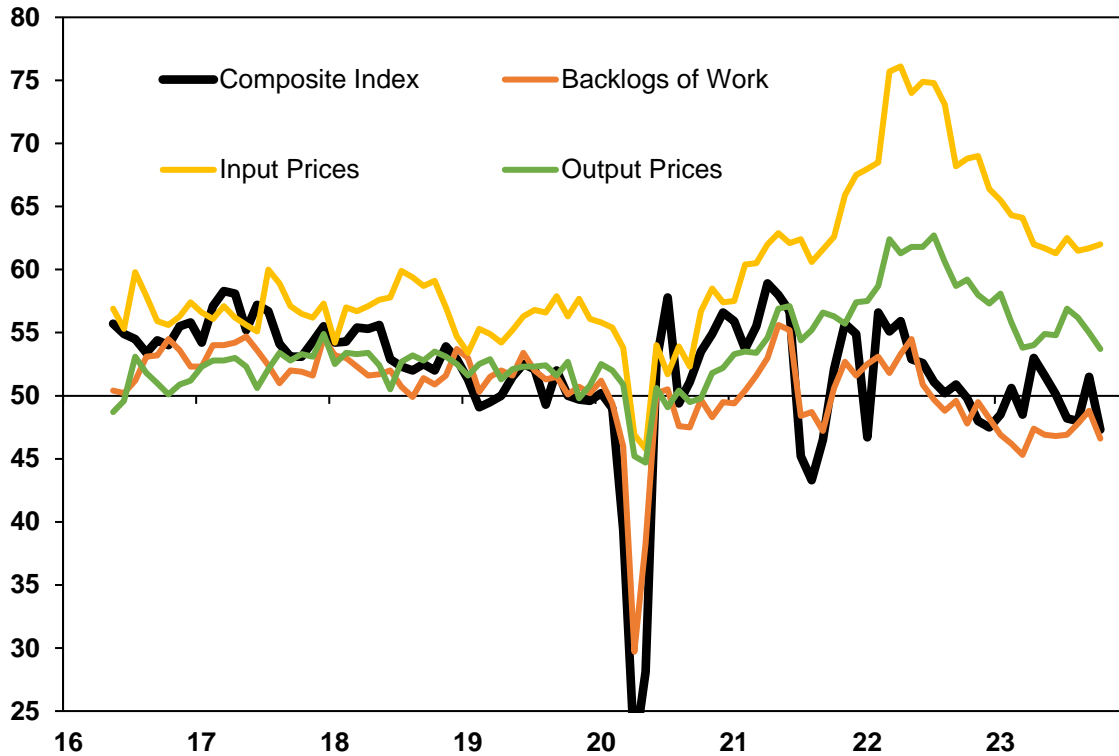
- Expect global growth to slow to around 2.5% over the next year and Australian growth to slow to below 1%
- Recession remains a high risk for early next year, but if it occurs it should be mild
- Inflationary pressures have peaked and inflation is likely to keep falling into next year
- Central bank interest rates are at or close to peaking – but in the short term the risks are still on the upside
- Expect the RBA to start cutting rates from mid 2024
- Shares are at risk of a further near term correction, but should provide reasonable returns on a 12-month view helped by cooling inflation and interest rate pressures. Recession is the main risk.
- What to watch: inflation; interest rates; business conditions PMIs; and geopolitical issues
- The tailwind to medium term economic growth and investment returns that's been in place for the last 30-40 years from the downtrend in inflation & interest rates & the favourable macro-political environment is now likely over

The good news – inflationary pressures have rolled over

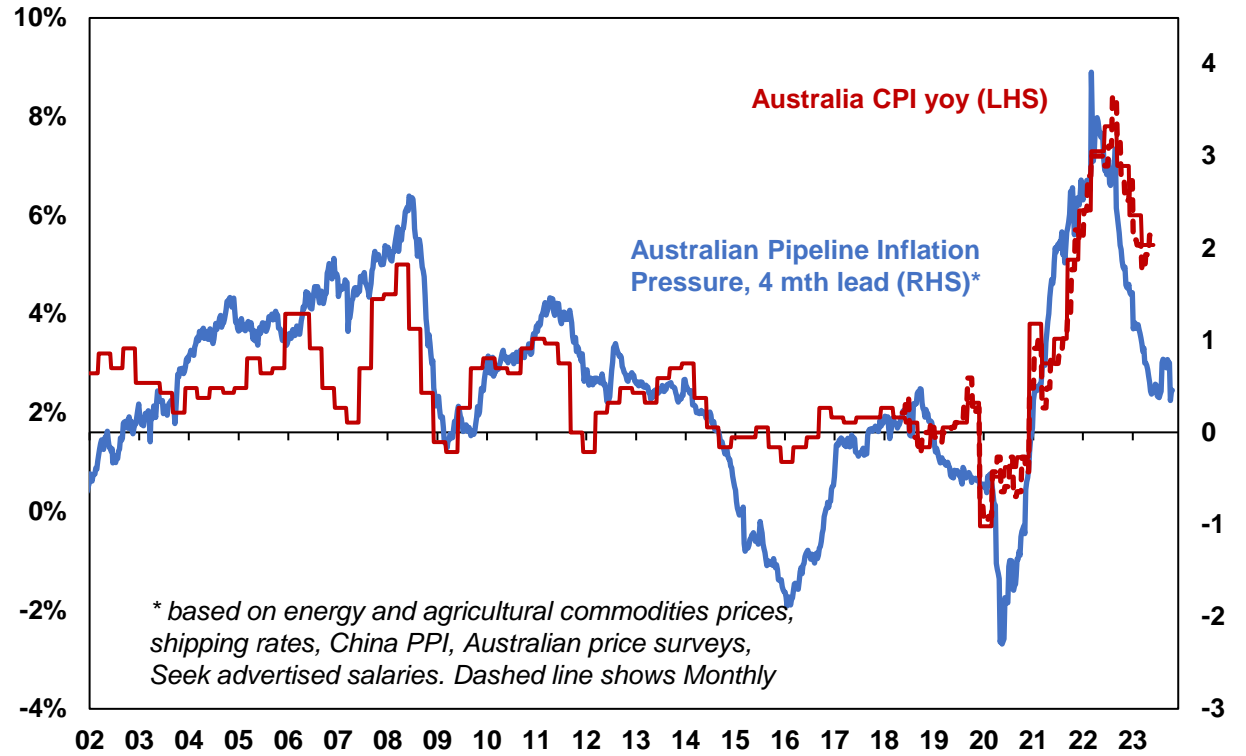


Australian inflation peaked in December

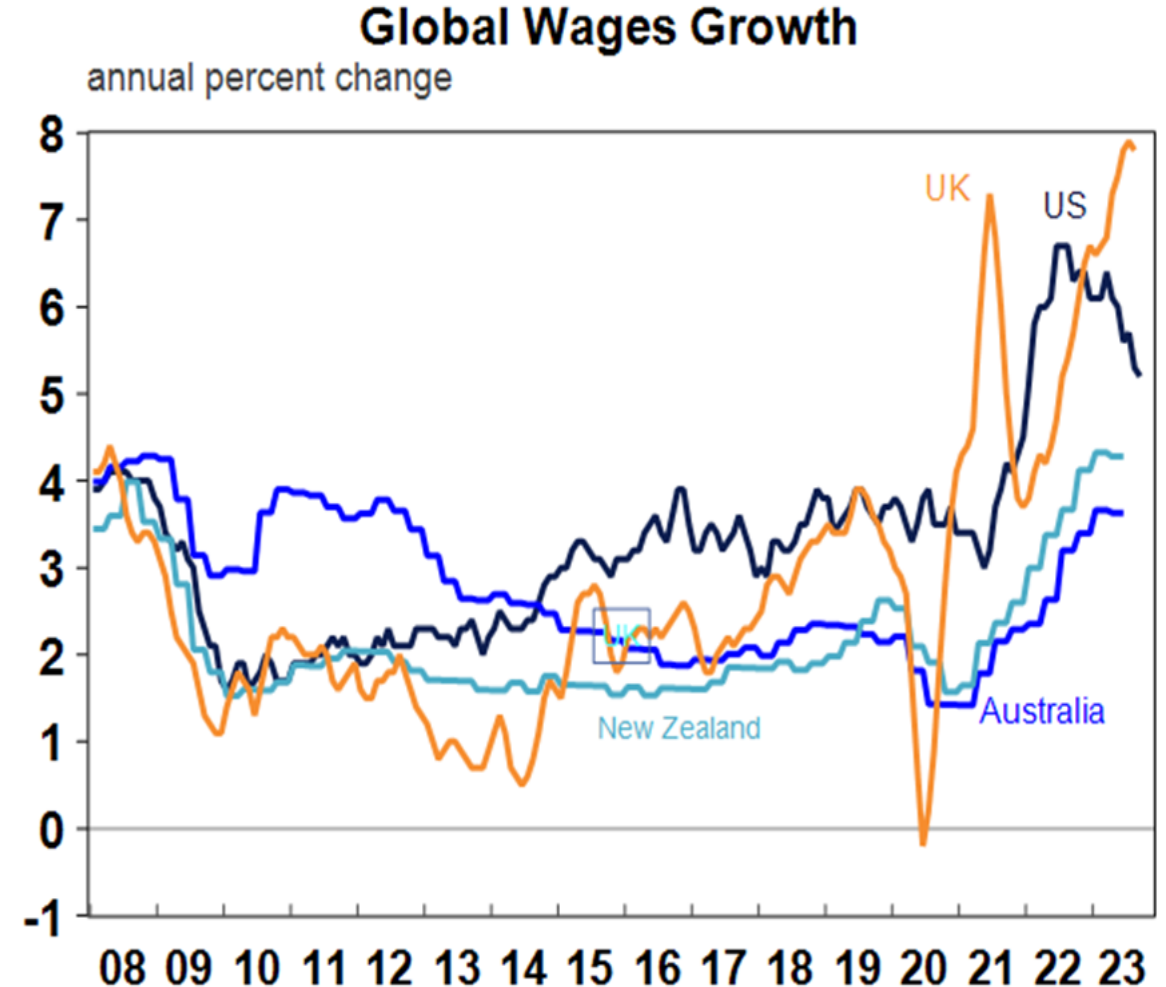
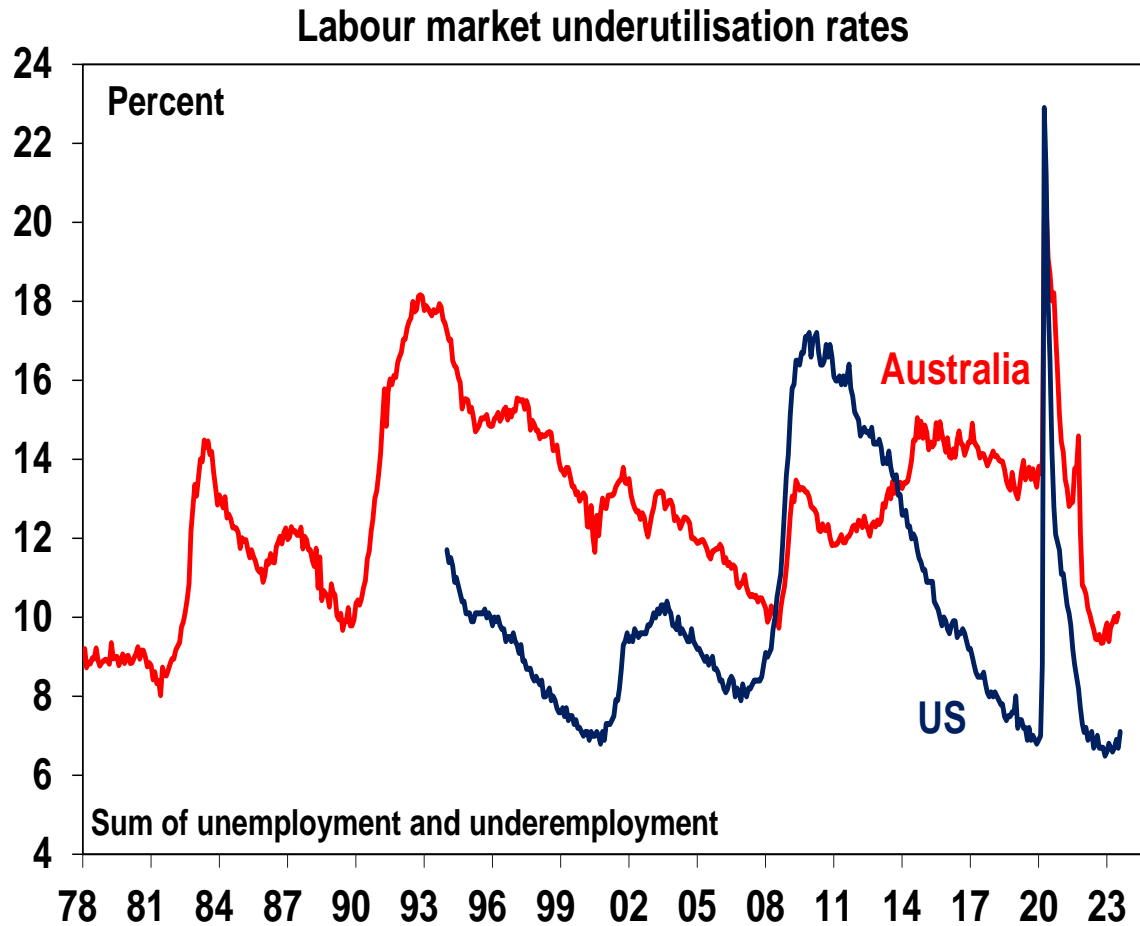
Australia Composite PMI and Price Pressures



Australia Pipeline Inflation Indicator

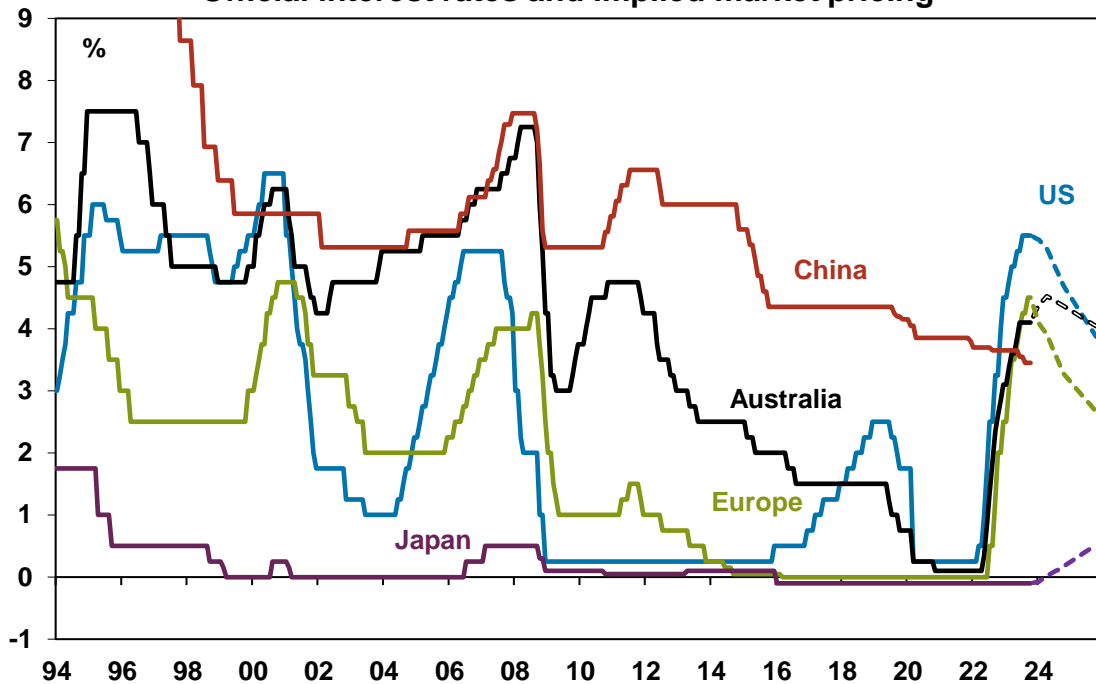


Wages growth remains a risk – but should cool as unemployment is starting to rise from multi-decade lows

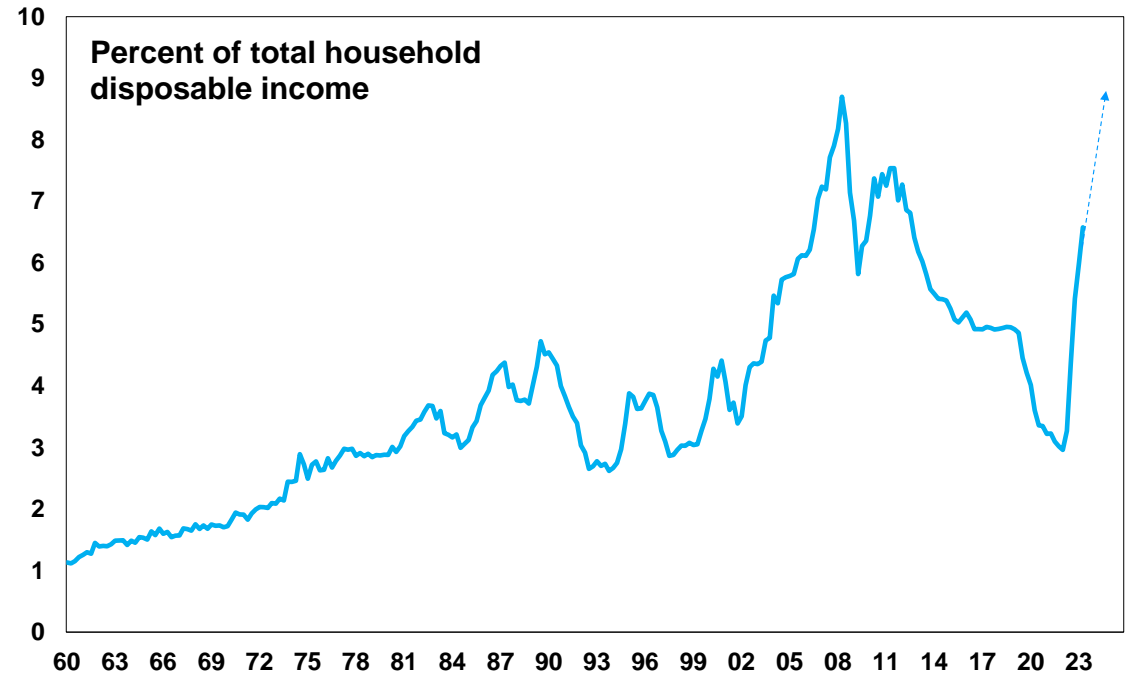


...so central banks should be at or near the top – including in Australia where household debt servicing is pushing record highs

Official interest rates and implied market pricing

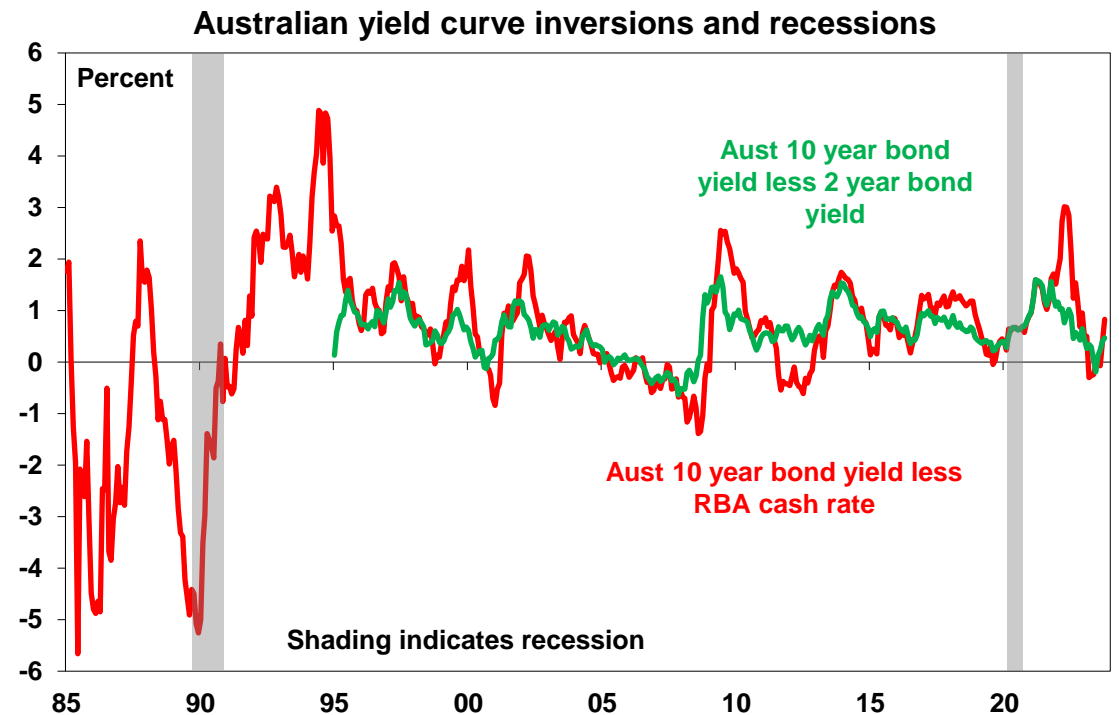
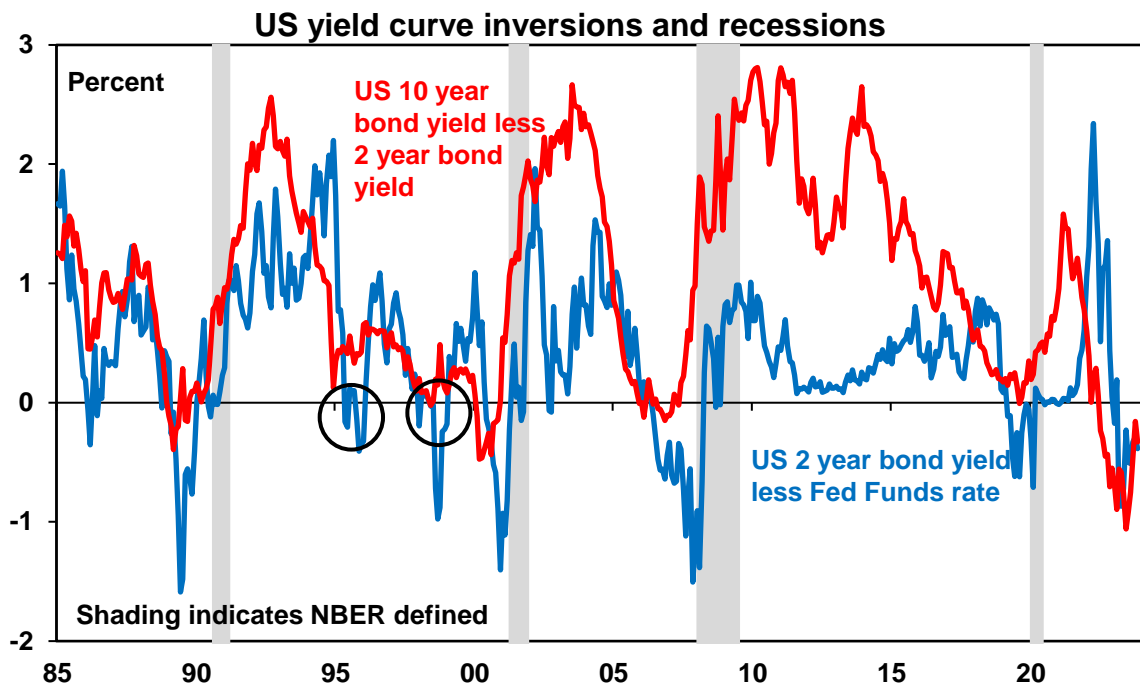


Australia - Housing Interest Payments

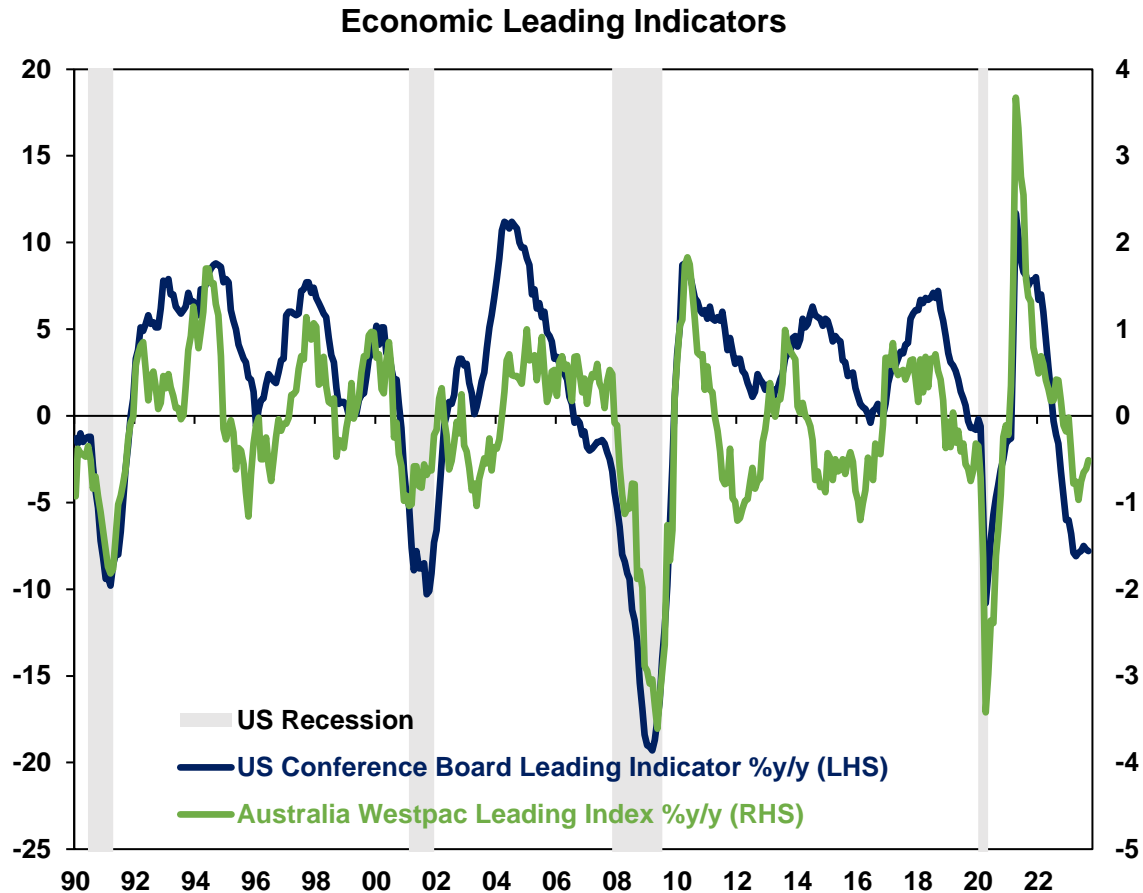


High recession risk signalled by inverted yield curves

- The US yield curve continues to warn of recession
- It can give false readings though and the lag from inversion to recession averages about 18 months so it may not come till next year
- The Australian yield curve also inverted briefly in July, but it has given numerous false readings in the past

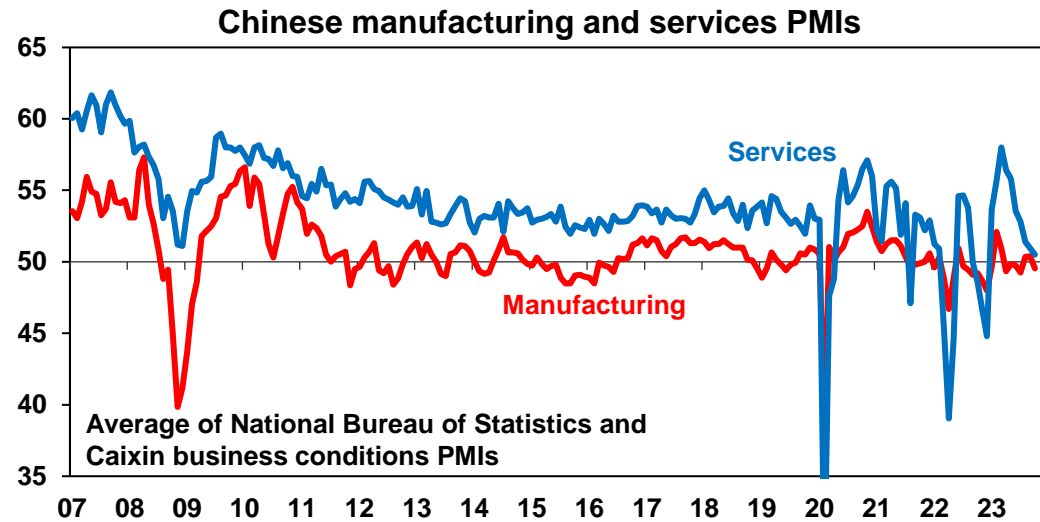


Global growth is likely to slow in early 2024

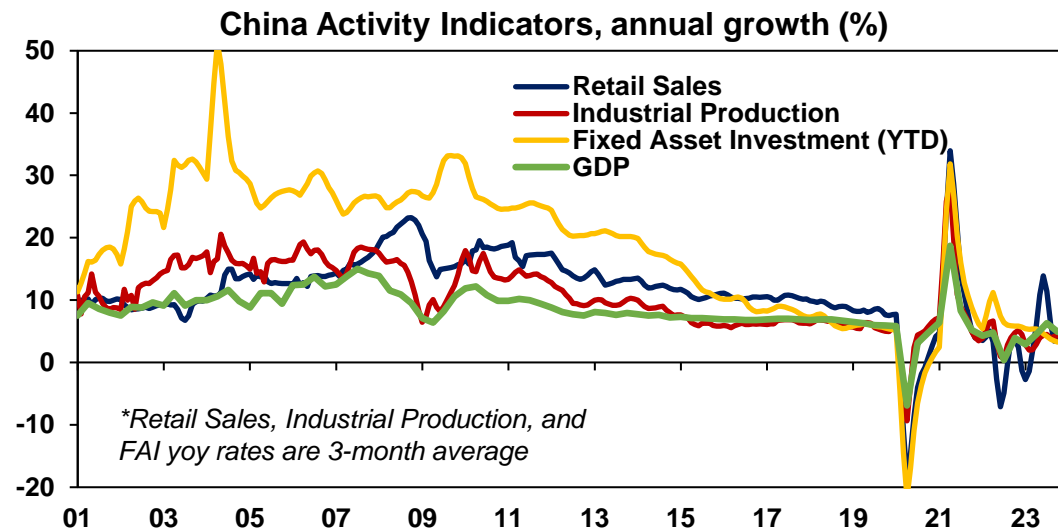


- Lagged effects from monetary tightening are leading to weaker growth, confirmed by various leading indicators.
- The risk of recession is high and rising, including in Australia. We expect Australian GDP to slow to less than 1% by end 2023.
- Monetary easing from next year is likely to boost growth in late 2024.

Chinese economic conditions have been mixed since reopening. Expect Chinese growth around 5% this year, but manufacturing looks soft



- Recent data from China showed some positive surprises. It looks like the 5% growth target for 2023 is within reach.
- However, the big picture is still murky as leading indicators such as PMIs still show a fragile momentum, private investment is weak, and recent relaxation in property transaction rules hasn't translated into better home sales data.
- The property slump risks spilling over into other financial sectors, which further limits loan generation, and into consumer spending.

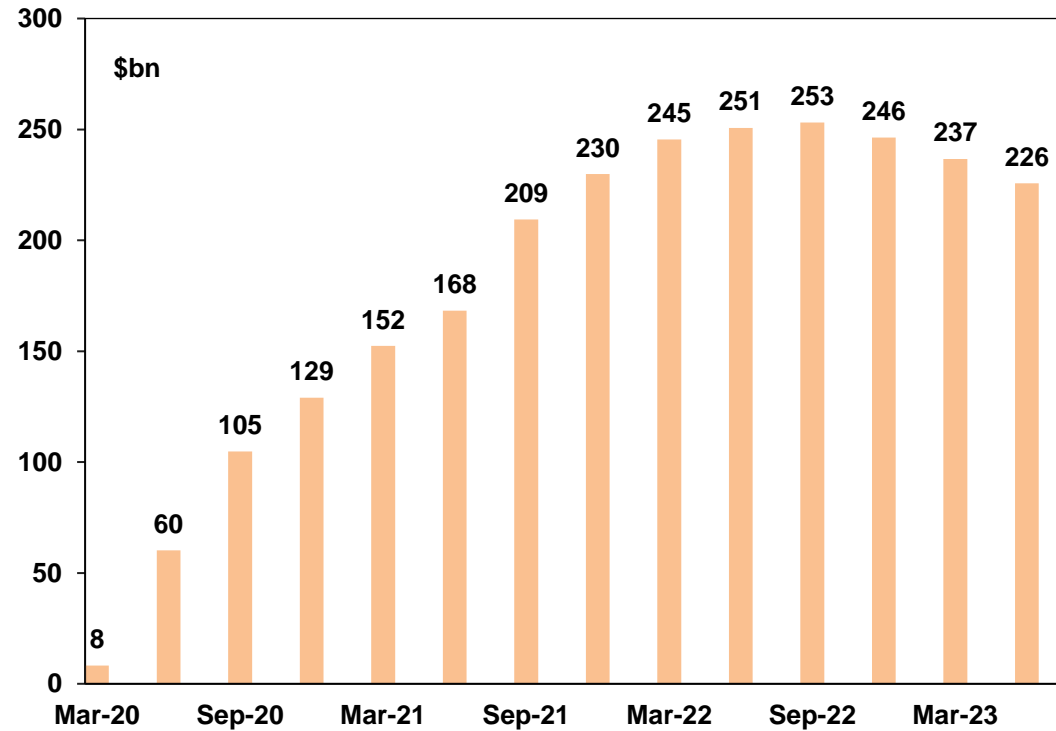


Source: Bloomberg, AMP

Australian households are tightening spending

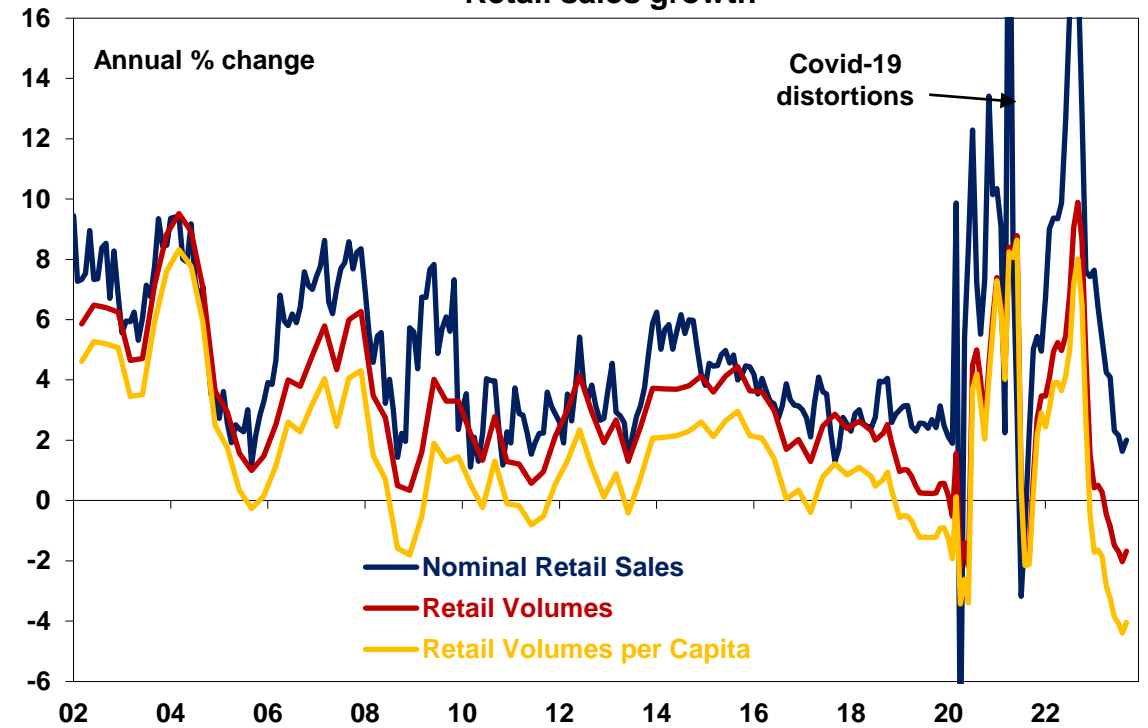
Household savings accumulated during Covid are now falling...

Australia Accumulated Household Savings

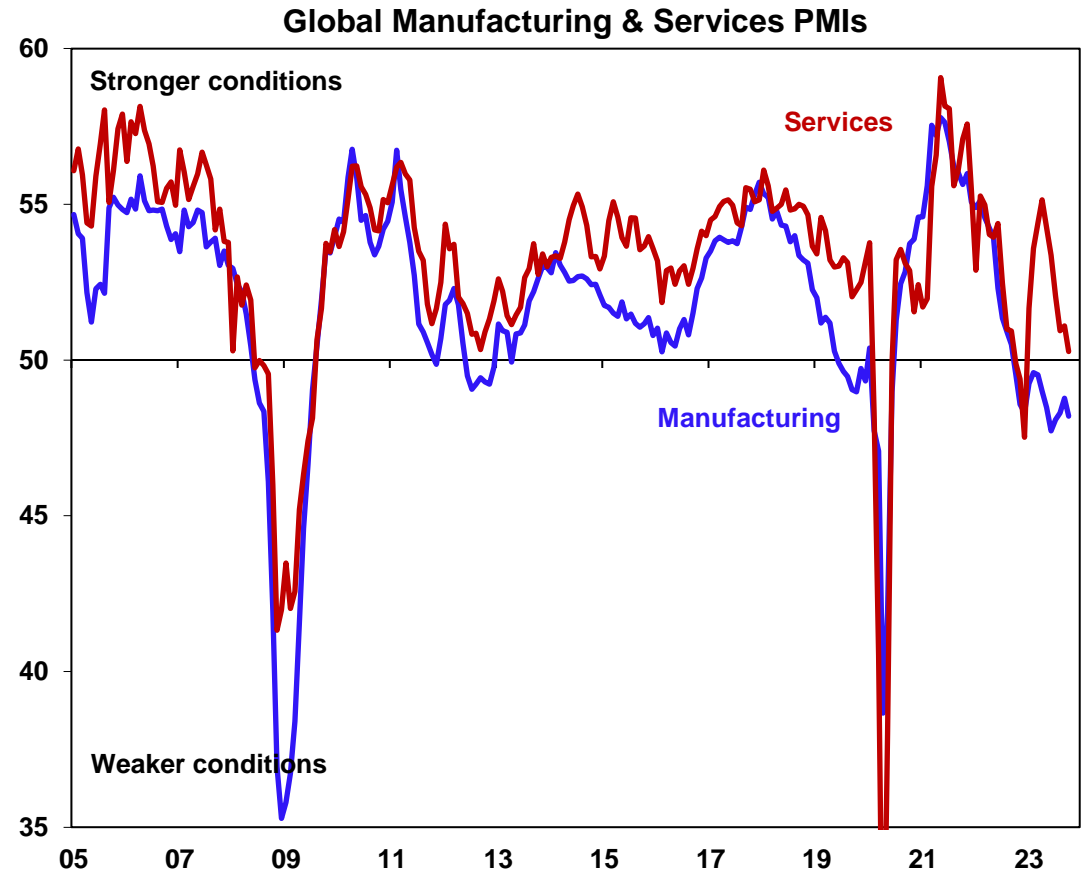
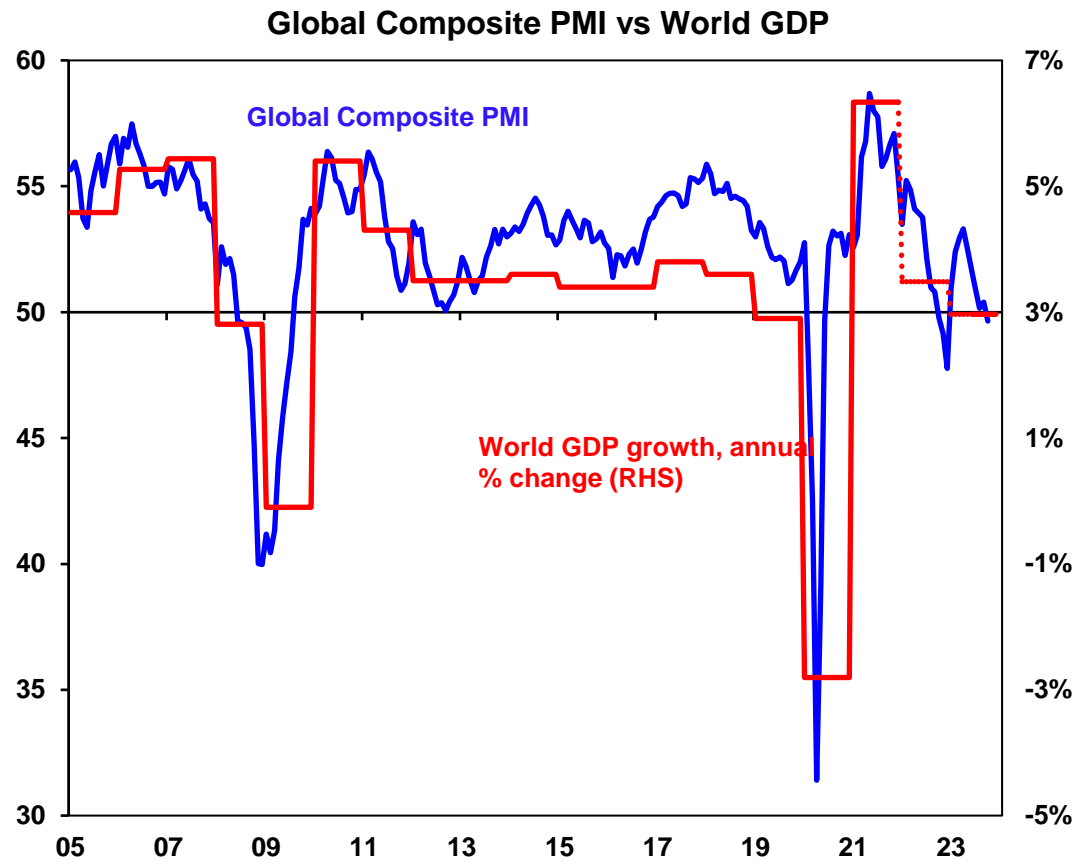


... and real retail sales have declined since December 2022

Retail sales growth



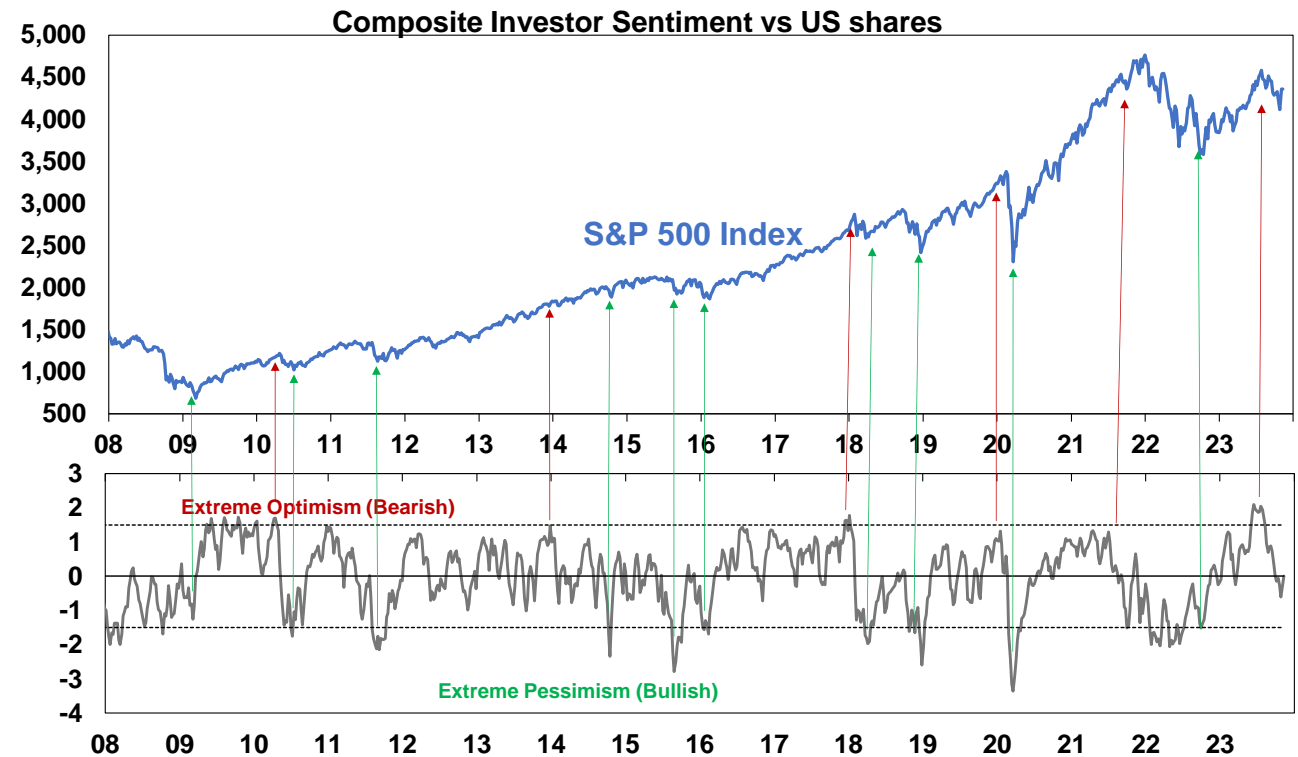
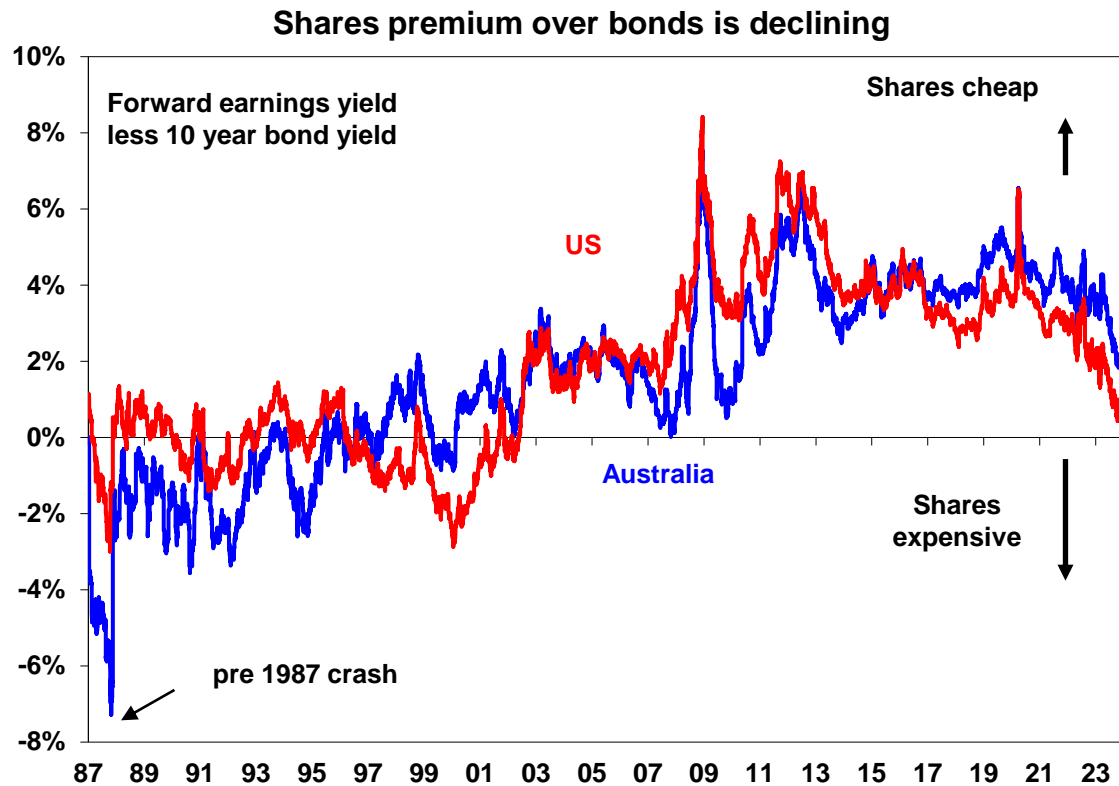
But a soft landing is still possible – particularly if interest rates have peaked. Global business conditions PMIs have slowed, but are still okay



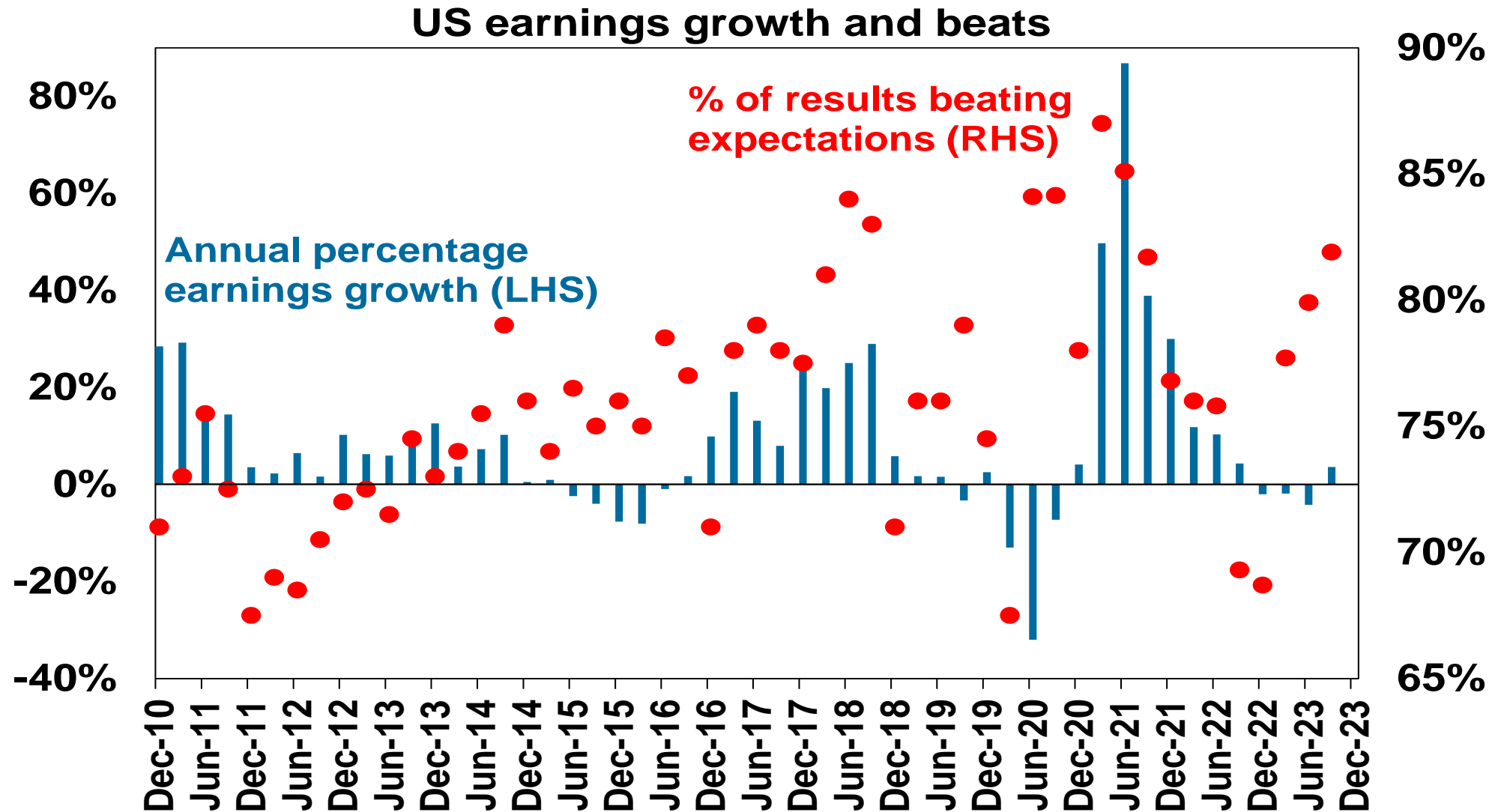
Five reasons for optimism

- Inflation has rolled over, without recession
- Interest rates are at or close to peaking
- Economic growth has so far proved relatively resilient
- In Australia - the budget is back in surplus (at least for now) and export earnings remain high
- Any recession is likely to be mild reflecting a lack of overinvestment or over consumption that needs to be unwound

Risk premiums & sentiment both indicate short term downside risks for shares...but this is not 1987 (better valuation) or 2007 (better lending standards, no preceding US housing boom equivalent)

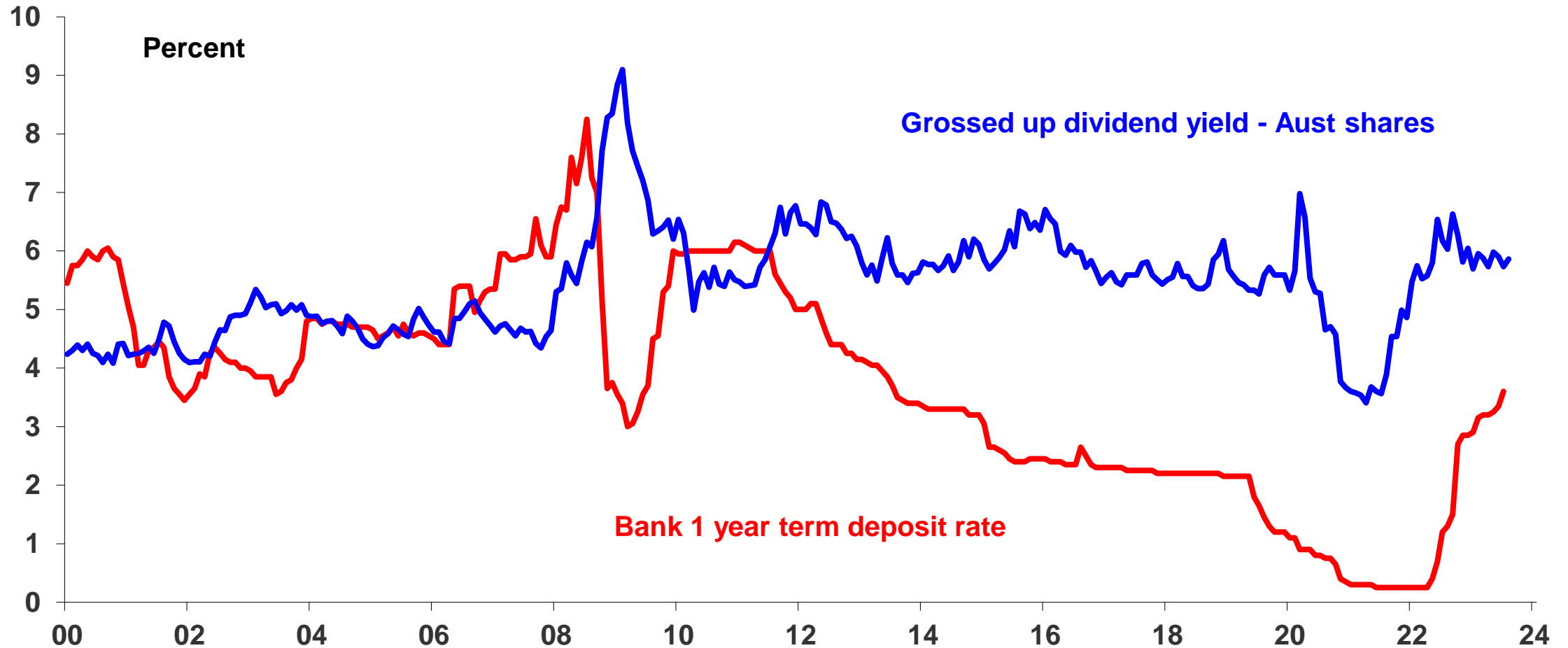


The US is having the highest level of upside profit result surprises in two years



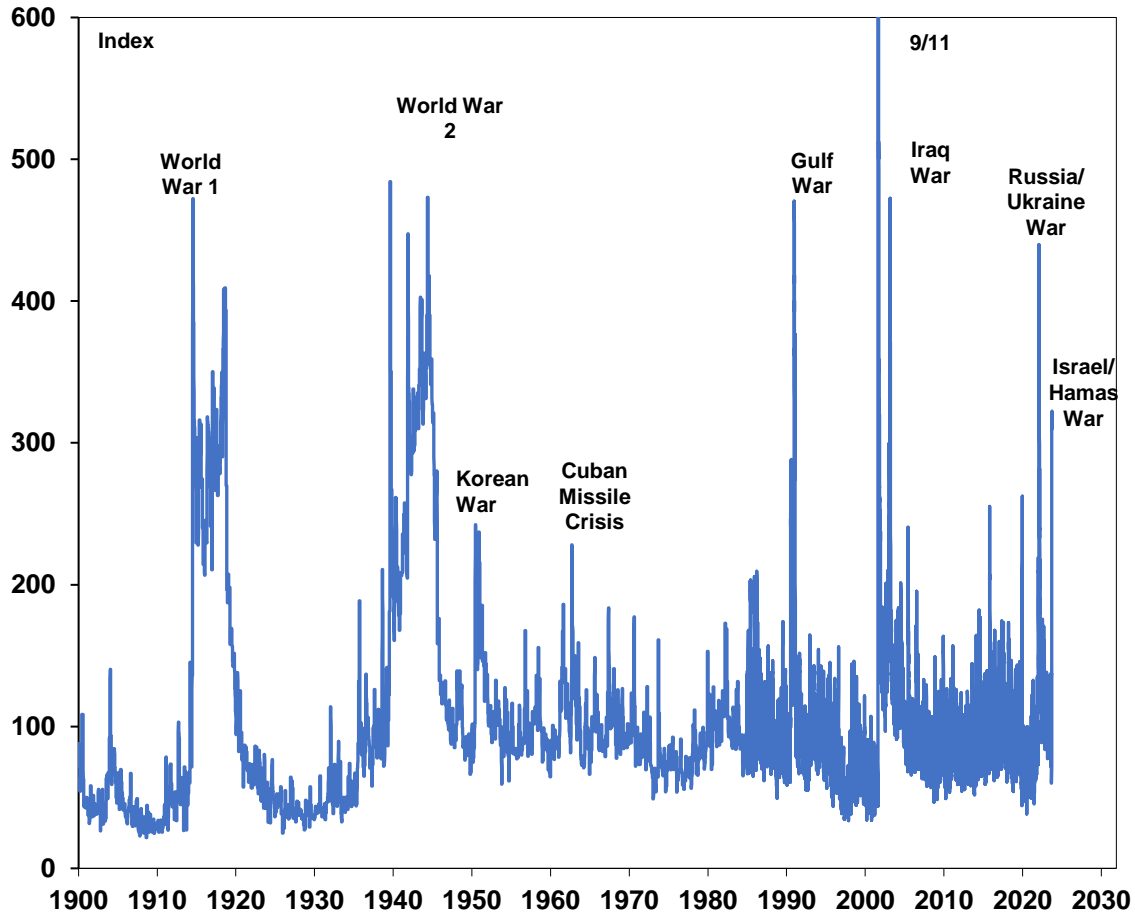
High dividend yields should help support Australian shares - beyond near term uncertainties

Aust shares still offer an attractive yield versus bank deposits



What about Israel/Hamas and Ukraine? - major geopolitical events and markets

Geopolitical Risk Index



Source: AMP

Event	Date of US market bottom	US Equity Drawdowns from the event (%)	US Equity Return, 12m after (%)
World War 1	31-Oct-1914	-18.5	37.9
World War 2	10-Jun-1940	-31.7	9.2
Gulf War	17-Jan-1991	3.7	27.7
9/11, US Invasion of Afghanistan	21-Sep-2001	-11.6	-12.5
US Invasion of Iraq	31-Mar-2003	-3.0	32.9
Russia / Ukraine War	08-Mar-2022	-1.3	-4.3
Israel / Hamas War	?	-2 (so far)	?
<i>Average</i>		-10.4	15.2

Mega trends

First the bad news:

- Globalisation looks to have peaked
- Bigger government, less rationalist economic policies
- A decline in workers relative to consumers/slowing workforce growth
- Decarbonisation
- A new cold war – increased geopolitical tensions and defence spending

But there are some positive trends:

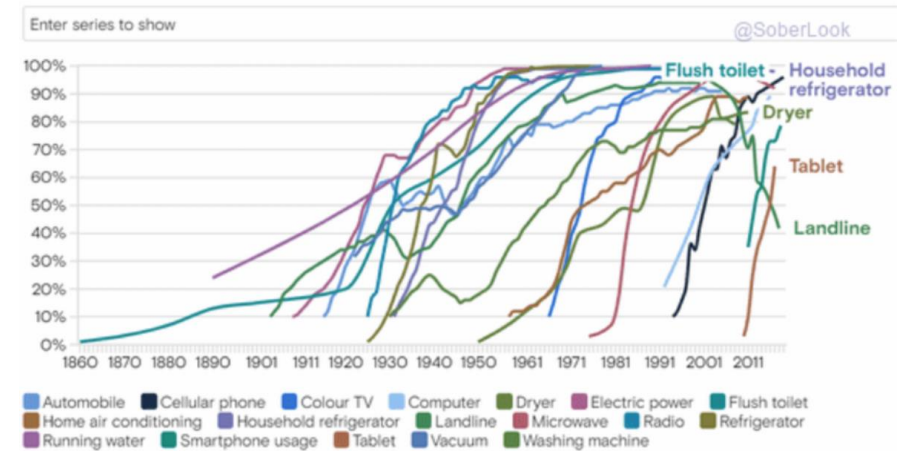
- AI could revolutionise services sector productivity
- The ongoing rise of Asia

On balance this will likely mean a more inflation prone world, higher interest rates than pre pandemic and constrained growth. Which in turn will likely mean more constrained investment returns



The adoption of new technologies has tended to accelerate

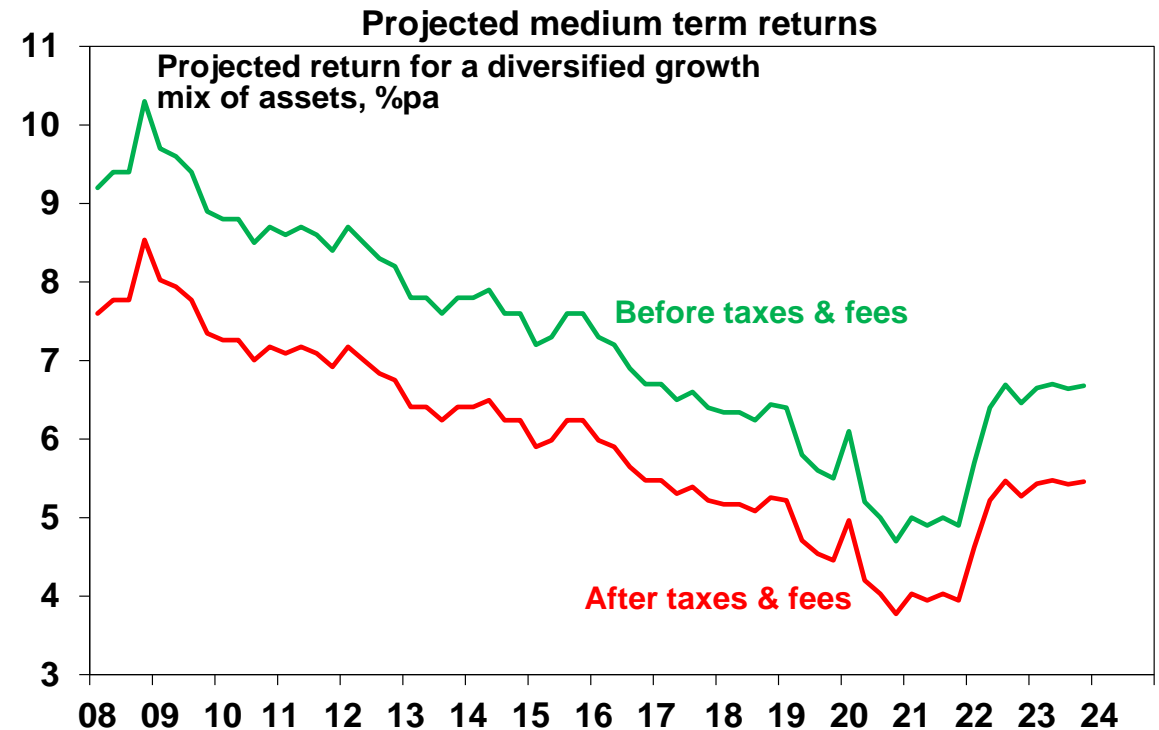
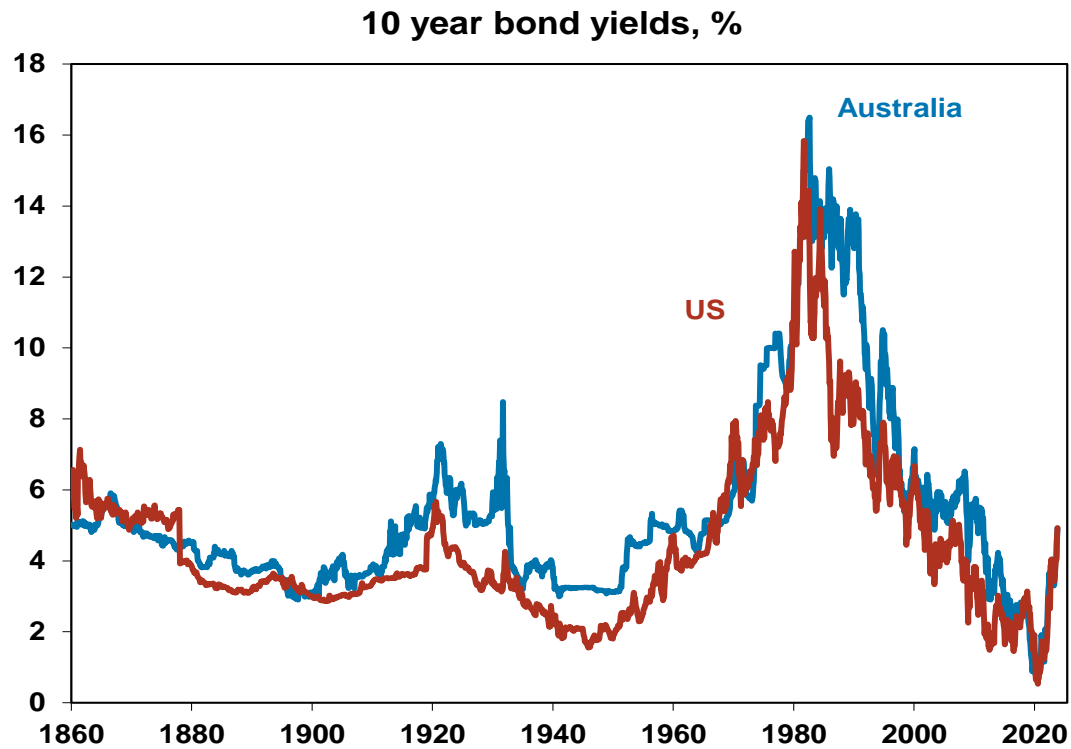
Share of US households using specific technologies, 1860 to 2019



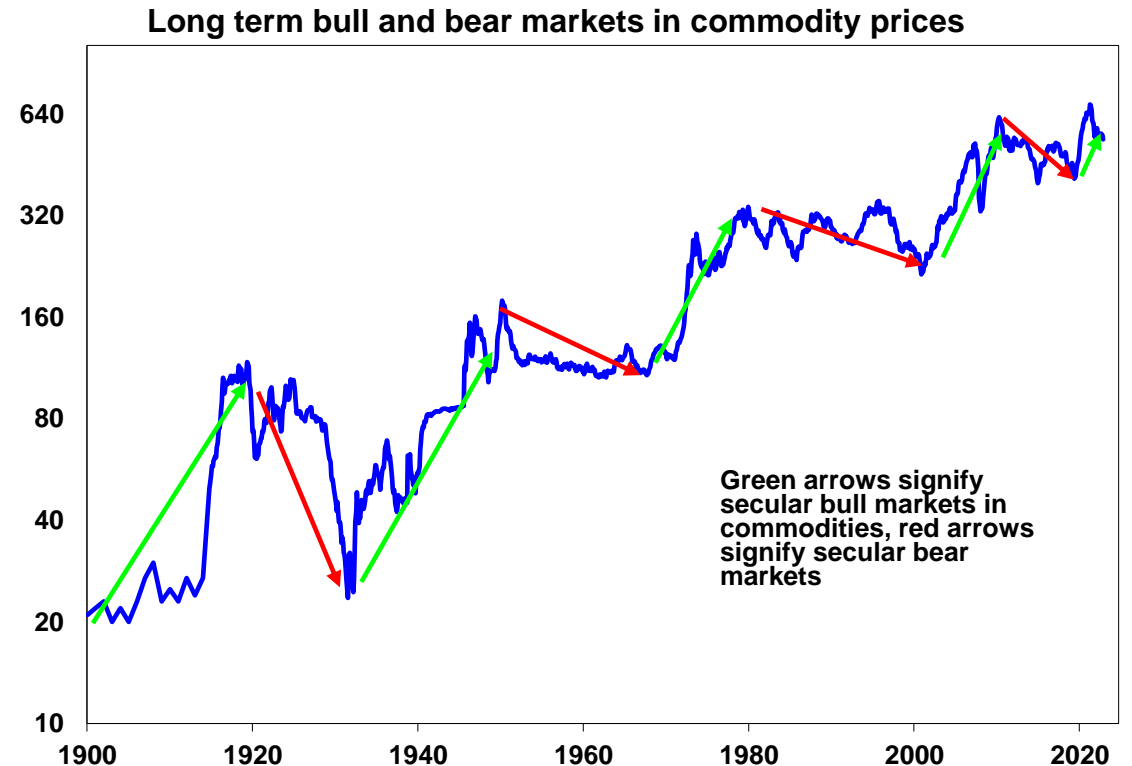
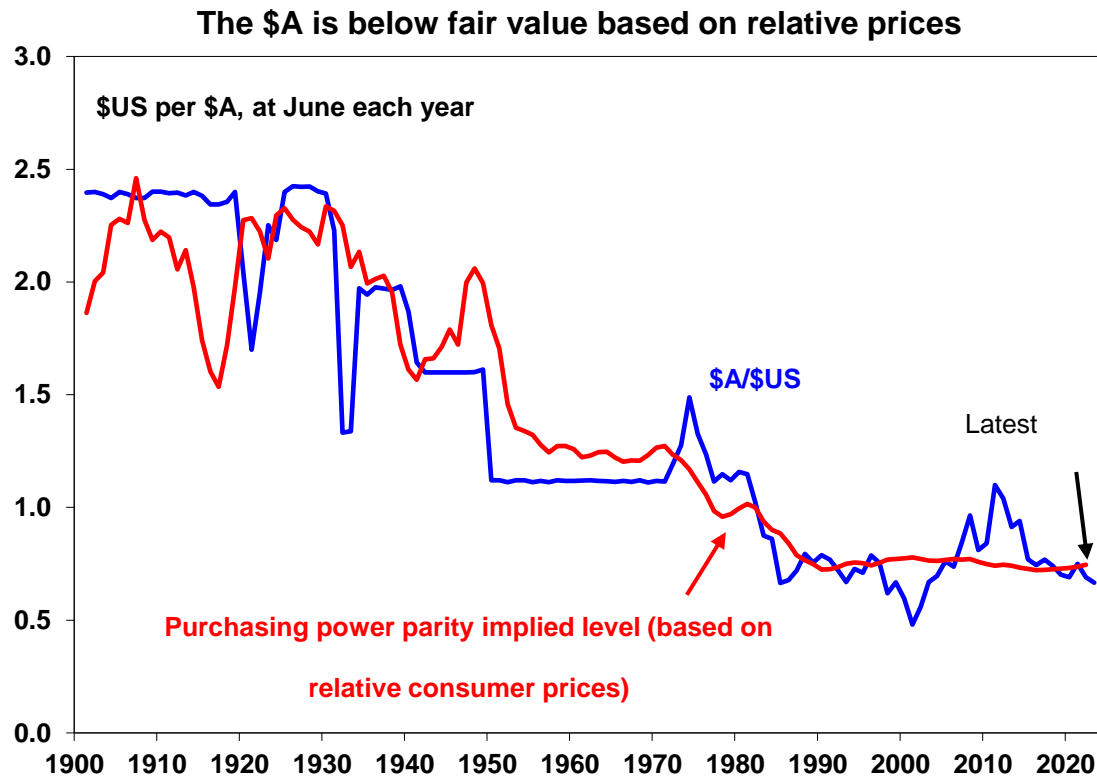
Source: Our World in Data, Goldman Sachs Research

Goldman Sachs

The 40 yr declining trend in inflation & bond yields and the tailwind it provided to investment returns is likely over...but returns should still be okay (just a bit lower than we have become used too)



The \$A is likely to see a rising trend as commodity prices appear to have entered a new long term bull market driven by constrained supply, decarbonisation, increased defence spending and as the \$US rolls over. Short term risks are on the downside though

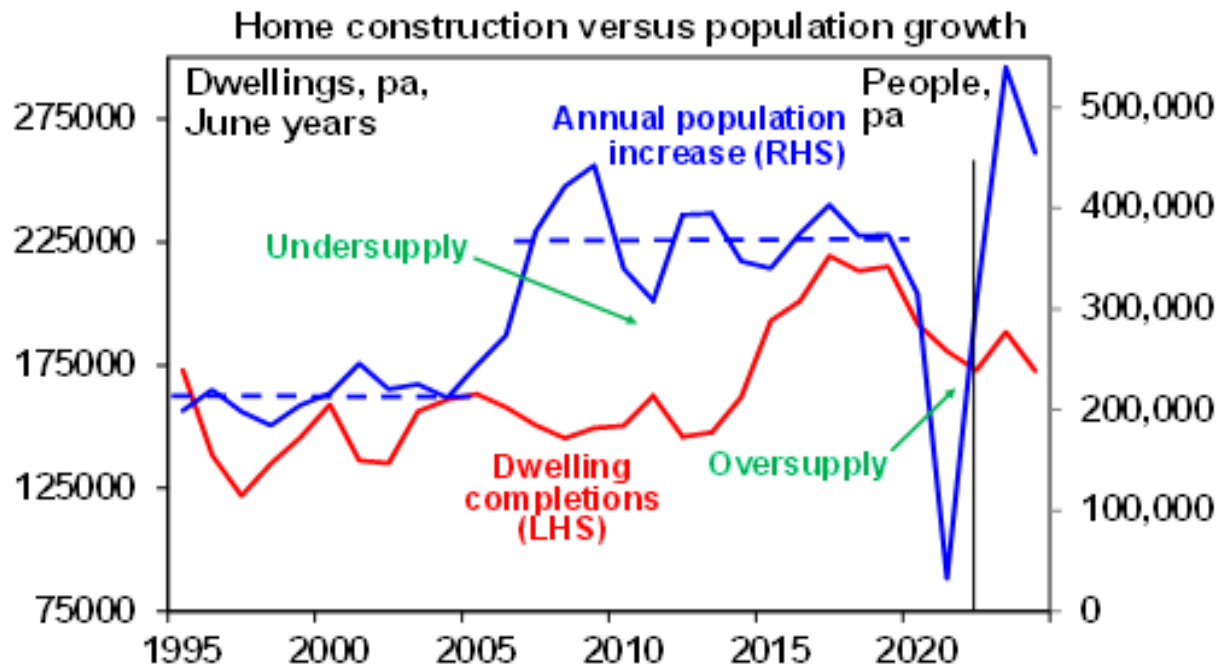
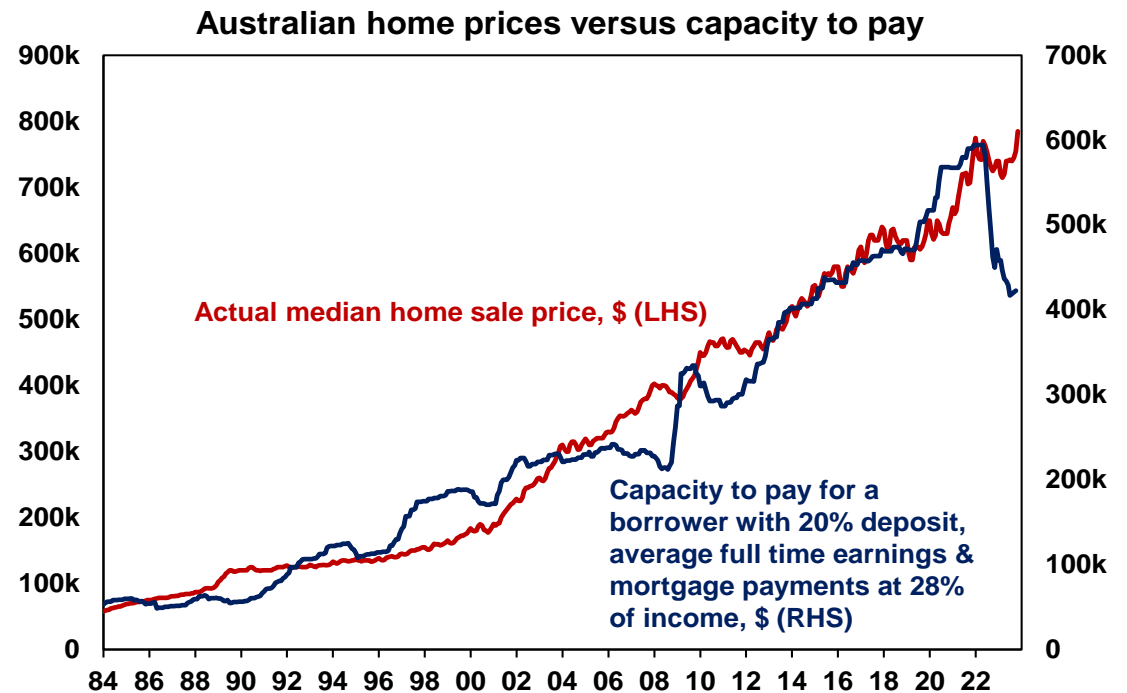
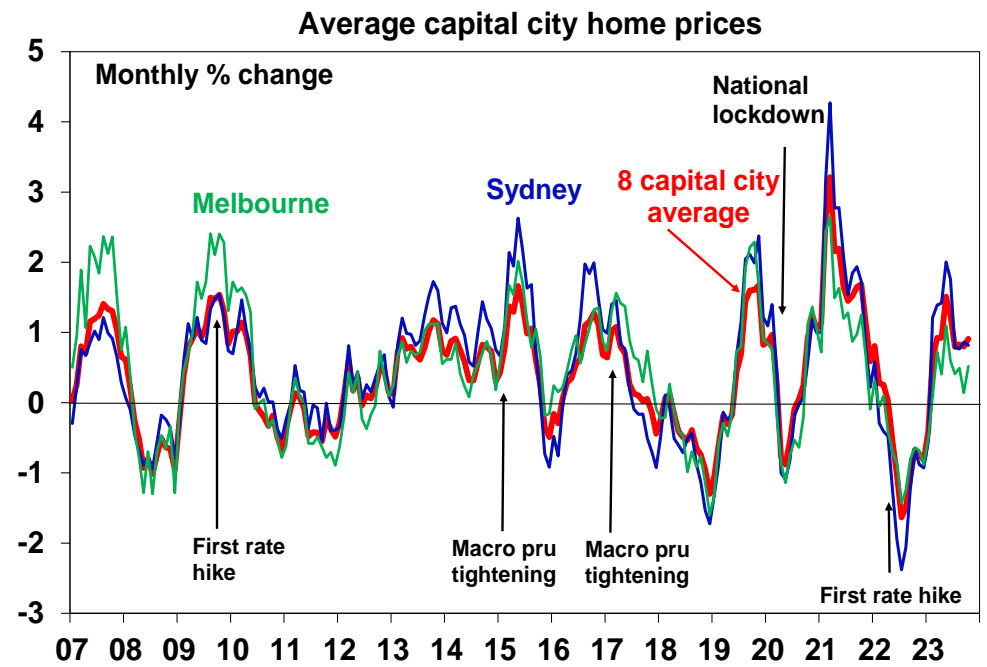


Australian home prices rebounding... at least for now

Australian home prices have increased ~8% since the January low, and are now back near record highs.

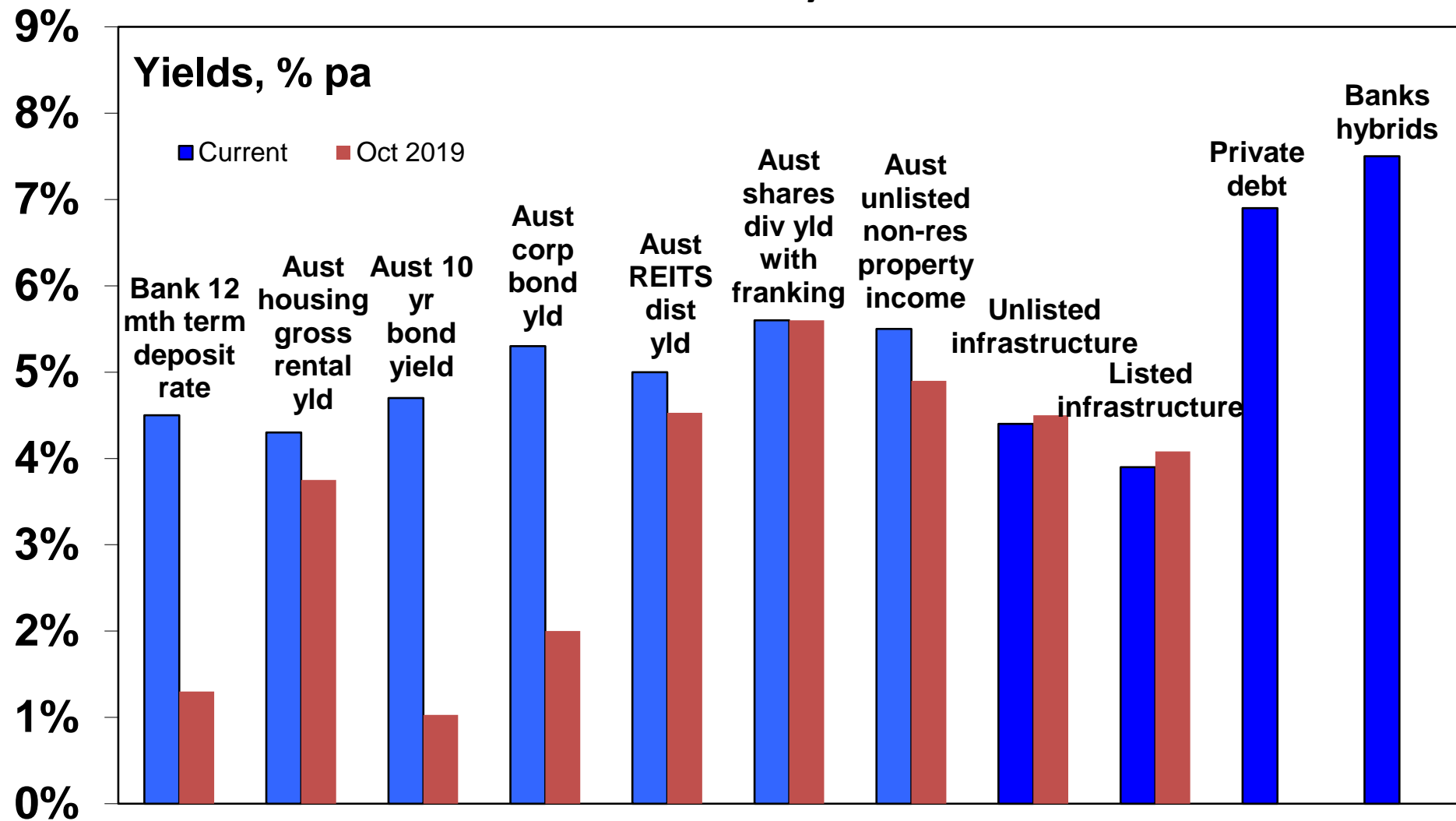
The demand/supply imbalances, flowing from the fastest population growth in 14 yrs have offset the impact of higher interest rates.

However, the risk of another sharp 10% or so fall in prices flowing from high interest rates is high.



Where to go for yield or investment income

Investment yields



Economic and investment outlook

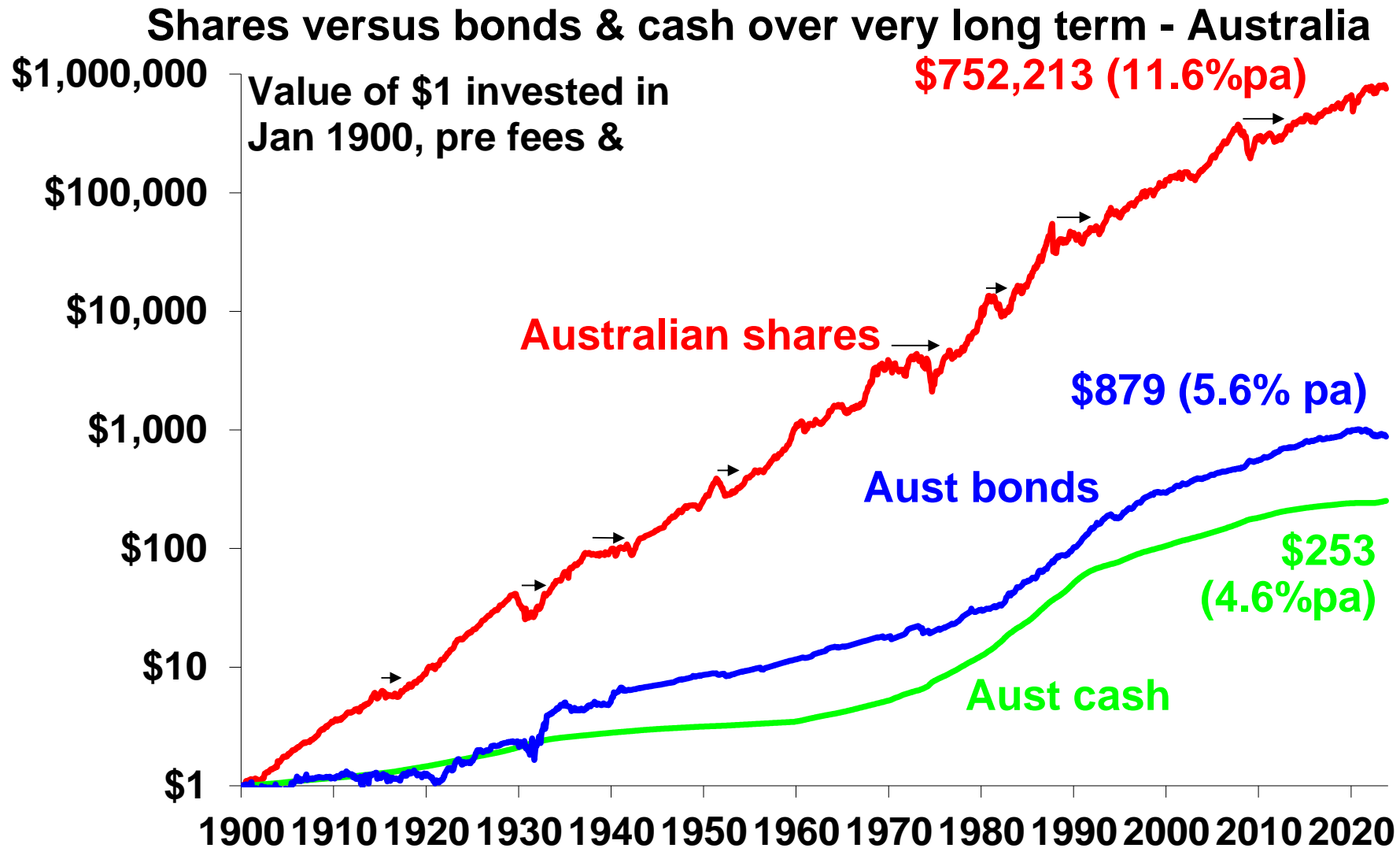
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Paul McCartney on optimism

“Tragedy can happen, but the page will turn, and I love that. Realising that I have reach in the world, that people listen to my stuff, I feel a responsibility to be optimistic till I no longer can be. That attitude naturally creeps into my songs, and I think it would be nice if they make people take a positive path. ”



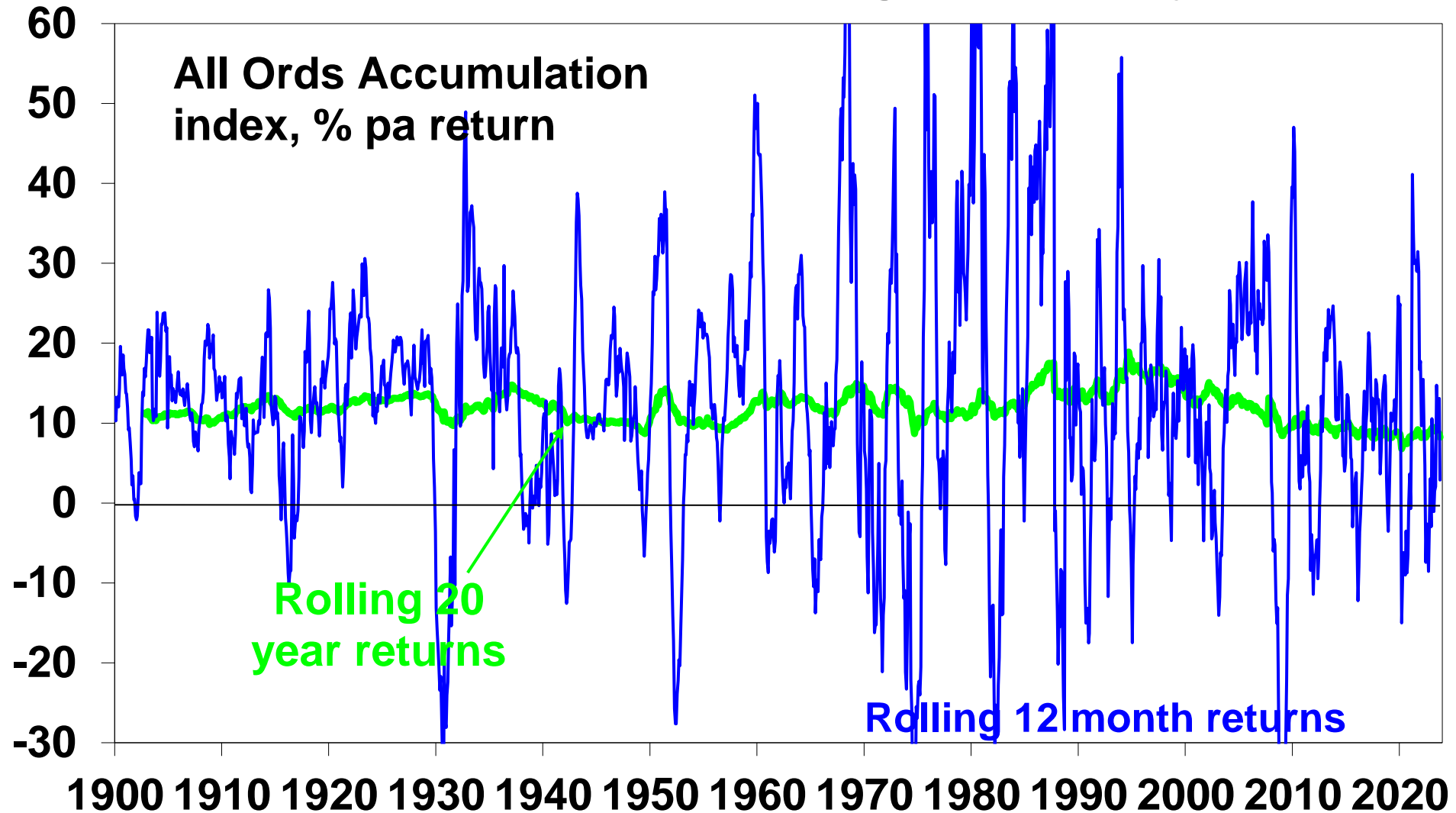
Make the most of the magic of compound interest – invest for the long term as shares have always climbed a wall of worry





Don't get thrown off by cyclical volatility – timing markets is harder than you think

Australian share returns over rolling 12 mth & 20 yr periods



Always turn down the noise and keep things in perspective



A matter of perspective



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