Ordinary Meeting

Meeting Date: Monday, 26 February, 2024
Location: Council Chambers, City Administrative Building, Bridge Road, Nowra

Attachments (Under Separate Cover)

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Monthly Investment Review

Shoalhaven City Council

January 2024

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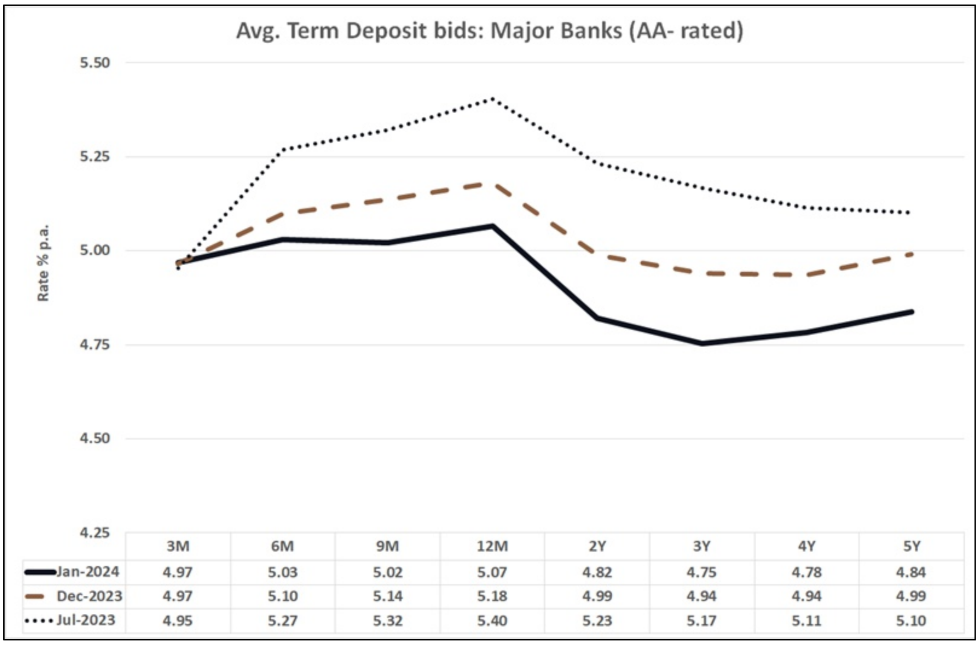
CL24.40 - Attachment 1

Market Update Summary

Financial markets continued their rally in January following the shift by central banks indicating that inflationary pressures globally have receded more quickly than they had expected. The market is now clearly focused on the timing of the first interest rate cuts in 2024.

Over January 2024, major bank deposit rates were lower across the board compared to the previous month (December 2023). Major bank deposit rates dropped by as much as 12bp across the shorter-tenors (3-12 months) and by around 15-20bp across the longer-tenors (2-5 years). Interestingly, major bank deposit rates are approximately 20-40bp lower than what they were 6 months ago (July 2023).



	3M	6M	9M	12M	2Y	3Y	4Y	5Y
Jan-2024	4.97	5.03	5.02	5.07	4.82	4.75	4.78	4.84
Dec-2023	4.97	5.10	5.14	5.18	4.99	4.94	4.94	4.99
Jul-2023	4.95	5.27	5.32	5.40	5.23	5.17	5.11	5.10

Source: Imperium Markets

With a global economic downturn and multiple interest rate cuts being priced in coming years, investors should consider taking an 'insurance policy' against a potentially lower rate environment by investing across 2-5 year fixed deposits, targeting rates above or close to 4¾-5% p.a. (small allocation only).

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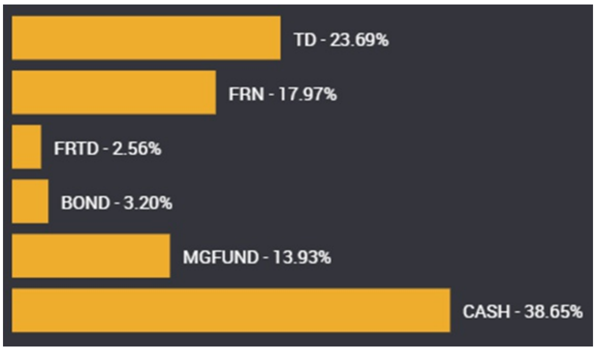
Shoalhaven City Council 's Portfolio & Compliance

Asset Allocation

The majority of the portfolio is directed to cash or cash notice accounts followed by fixed and floating rate term deposits. The remainder of the portfolio is directed to liquid senior FRNs, the managed fund with TCorp, as well as fixed bonds.

Senior FRNs remain relatively attractive as spreads have generally widened over the past 2 years. New issuances may be considered again on a case by case scenario. In the interim, staggering a mix of fixed deposits between 9-12 months to 3 years remains a more optimal strategy to maximise returns over a longer-term cycle.

With multiple rate cuts and a global economic downturn being priced in coming years, investors can choose to allocate a small proportion of longer-term funds and undertake an insurance policy against any potential future rate cuts by investing across 2-5 year fixed deposits, locking in and targeting yields close to or above 4¾-5% p.a.



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Term to Maturity

All maturity limits (minimum and maximum) comply with the Investment Policy. Short-Medium Term (1-2 years) assets account for around 5% of the total investment portfolio, with capacity of ~$101m remaining.

Once the immediate capital projects are completed, we recommend a proportion of longer-dated funds be allocated to 1-3 year fixed term deposits in combination with any attractive new FRNs (3-5 years) as they come to market (refer to respective sections below).

Compliant	Horizon	Invested ($)	Invested (%)	Min. Limit (%)	Max. Limit (%)	Available ($)
✓	0 - 90 days	$89,869,255	57.53%	0%	100%	$66,334,250
✓	91 - 365 days	$17,000,000	10.88%	0%	100%	$139,203,505
✓	1 - 2 years	$8,078,020	5.17%	0%	70%	$101,264,433
✓	2 - 5 years	$19,492,838	12.48%	0%	50%	$58,608,915
✓	5 - 10 years	$21,763,392	13.93%	0%	25%	$17,287,484
		$156,203,505	**100.00%**			

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Counterparty

As at the end of January 2024, all counterparty exposures comply within the Policy limits. Capacity limits are also dependent on the movement in the cash balances. Overall, the portfolio is well diversified across the entire credit spectrum, including some exposure to the regional bank (lower rated) ADIs.

Compliant	Issuer	Rating	Invested ($)	Invested (%)	Max. Limit (%)	Available ($)
✓	DBS Cov	AAA	$998,413	0.64%	100.00%	$155,205,092
✓	Suncorp Cov	AAA	$1,998,730	1.28%	100.00%	$154,204,775
✓	CBA	AA-	$59,686,809	38.21%	100.00%	$96,516,696
✓	HSBC Bank	AA-	$2,001,916	1.28%	100.00%	$154,201,589
✓	NAB	AA-	$12,991,388	8.32%	100.00%	$143,212,117
✓	Northern Terr.	AA-	$5,000,000	3.20%	100.00%	$151,203,505
✓	NSW (SIRA)	AA+	$4,115,000	2.63%	100.00%	$152,088,505
✓	Westpac	AA-	$6,000,000	3.84%	100.00%	$150,203,505
✓	Macquarie	A+	$3,979,700	2.55%	100.00%	$152,223,805
✓	Rabobank	A+	$3,991,792	2.56%	100.00%	$152,211,713
✓	Suncorp	A+	$10,765,028	6.89%	100.00%	$145,438,477
✓	Bank of China	A	$2,497,673	1.60%	100.00%	$153,705,832
✓	ING Bank	A	$14,000,000	8.96%	100.00%	$142,203,505
✓	Bendigo-Adel.	BBB+	$2,000,000	1.28%	10.00%	$13,620,350
✓	AMP Bank	BBB	$2,315,345	1.48%	5.00%	$5,494,831
✓	Newcastle PBS	BBB	$2,098,320	1.34%	5.00%	$5,711,855
✓	NSW TCorp LTG	Unrated	$21,763,392	13.93%	100.00%	$134,440,113
			$156,203,505	**100.00%**		

ANZ's takeover of Suncorp was blocked by the Australian Competition and Consumer Commission (ACCC) in early August 2023, with the watchdog saying it was unconvinced the deal would deliver the public benefits claims put forward by ANZ (although ANZ has since appealed the decision).

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Credit Quality

The portfolio is well diversified from a credit ratings perspective. The portfolio is predominately invested amongst the investment grade ADIs (BBB- or higher). The allocation to the Unrated category reflects the investment in the TCorp Long-Term Growth Fund.

All ratings categories are within the Policy limits:

Compliant	Credit Rating	Invested ($)	Invested (%)	Max. Limit (%)	Available ($)
✓	AAA Category	$2,997,143	2%	100%	$153,206,362
✓	AA Category	$89,795,113	57%	100%	$66,408,392
✓	A+ to A Category	$35,234,192	23%	100%	$120,969,313
✓	A- Category	$0	0%	40%	$62,481,402
✓	BBB+ to BBB Category	$6,413,665	4%	30%	$40,447,387
✓	BBB- & NR Category	$0	0%	5%	$7,810,175
✓	NSW TCorp LTGF	$21,763,392	14%	100%	$134,440,113
		$156,203,505	**100.00%**		

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Performance

Council's performance for the month ending January 2024 (excluding cash) is summarised as follows:

Performance (Actual)	1 month	3 months	6 months	FYTD	1 year
Official Cash Rate	0.36%	1.08%	2.11%	2.46%	4.00%
AusBond Bank Bill Index	0.37%	1.09%	2.15%	2.53%	4.00%
T/D Portfolio	0.42%	1.17%	2.22%	2.57%	3.86%
FRT/D Portfolio	0.46%	1.33%	2.66%	3.11%	5.32%
FRN Portfolio	0.44%	1.28%	2.56%	2.99%	5.46%
Bond Portfolio	0.09%	0.27%	0.55%	0.64%	1.08%
Council's Fixed Interest^	**0.41%**	**1.16%**	**2.24%**	**2.60%**	**4.19%**
TCorp LTGF	1.42%	8.48%	4.18%	6.02%	9.66%
TCorp Long-Term Target*	0.50%	1.48%	2.98%	3.49%	6.00%
Council's Total Portfolio	**0.62%**	**2.51%**	**2.84%**	**3.42%**	**5.27%**
Relative (to Bank Bills)	**0.25%**	**1.42%**	**0.69%**	**0.89%**	**1.28%**

^Council's Fixed Interest portfolio returns excludes Council's cash account holdings.
**TCorp has a target of 3.5% above inflation of ~2.5%. The long-term target is therefore 6% p.a. on an ongoing basis.*

Performance (Annualised)	1 month	3 months	6 months	FYTD	1 year
Official Cash Rate	4.35%	4.35%	4.22%	4.21%	4.00%
AusBond Bank Bill Index	4.44%	4.41%	4.30%	4.33%	4.00%
T/D Portfolio	5.00%	4.71%	4.46%	4.40%	3.86%
FRT/D Portfolio	5.49%	5.38%	5.35%	5.34%	5.32%
FRN Portfolio	5.28%	5.16%	5.13%	5.13%	5.46%
Bond Portfolio	1.11%	1.09%	1.09%	1.09%	1.08%
Council's Fixed Interest^	**4.88%**	**4.67%**	**4.50%**	**4.45%**	**4.19%**
TCorp LTGF	18.03%	38.10%	8.47%	10.44%	9.66%
TCorp Long-Term Target*	6.00%	6.00%	6.00%	6.00%	6.00%
Council's Total Portfolio	**7.57%**	**10.35%**	**5.71%**	**5.88%**	**5.27%**
Relative (to Bank Bills)	**3.13%**	**5.95%**	**1.41%**	**1.55%**	**1.28%**

^Council's Fixed Interest portfolio returns excludes Council's cash account holdings.
**TCorp has a target of 3.5% above inflation of ~2.5%. The long-term target is therefore 6% p.a. on an ongoing basis.*

For the month of January, the total portfolio (excluding cash) provided a return of +0.62% (actual) or +7.57% p.a. (annualised), outperforming the benchmark AusBond Bank Bill Index return of +0.37% (actual) or +4.44% p.a. (annualised). The longer-term positive performance continues to be anchored by the handful of deposits that were originally placed for terms greater than 12 months.

The T-CorpIM Growth Fund was the main contributor to performance this month, with the Fund gaining another +1.42% (net actual) as shares continued their rally. Despite the volatility in the Fund over the past few years, the Growth Fund has performed well over longer-term time periods.

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Recommendations for Council

AMP Business Saver & Notice Account

We note the AMP Business Saver and AMP 31 Day Notice Account are now sub optimal investments given the rise in deposit yields in recent months. We recommend switching into short-dated fixed deposits with the major banks yielding a considerably higher rate of return, or simply just redeem to replenish capital reserves.

Term Deposits

As at the end of January 2024, Council's deposit portfolio was yielding 4.95% p.a. (up 12bp from the previous month), with a weighted average duration of ~74 days (~2½ months).

Going forward, once immediate capital projects are completed, a more optimal strategy would be staggering deposits across 9-24 months terms – this is likely to earn up to ¼-½% p.a. higher compared to shorter tenors in a normal market environment. There is growing belief that multiple rate cuts and a global economic downturn is forthcoming and so locking in rates close to or above 4¾-5% p.a. across 1-3 year tenors may provide some income protection against a lower rate environment.

Please refer to the section below for further details on the Term Deposit market.

Securities

Primary (new) Senior FRNs (with maturities between 3-5 years) continue to be appealing (particularly for those investors with portfolios skewed towards fixed assets) and should be considered on a case by case scenario. Please refer to the section below for further details on the FRN market.

Council's FRN Portfolio

We recommend that Council retains all its FRNs at this stage (most are marked at a slight discount to par at month-end). We will continue to monitor them individually and will advise when it is appropriate to sell to boost the overall returns of the portfolio in future.

Council's Senior Fixed Bonds

In September 2020, Council has invested into the following NTTC (AA-) fixed bonds:

Investment Date	Maturity Date	Principal	Rate % p.a.	Interest Paid
15/09/2021	15/12/2024	$3,000,000	1.00%	Annually
15/09/2021	15/12/2025	$2,000,000	1.10%	Annually
	Totals / Wgt. Avg.	**$5,000,000**	**1.04%**	

We believe this was prudent at the time of investment given the low rate environment and particularly after the RBA's easing decision in early November 2020 to 0.10% and their forward guidance towards official interest rates (no rate rises "*until at least 2024*").

The NTTC bonds are a 'retail' offering and not 'wholesale' issuances. Given the lack of liquidity and high penalty costs if they were to be sold/redeemed prior to the maturity date, they are considered to be a hold-to-maturity investment and will be marked at par value ($100.00) throughout the term of investment.

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NSW T-CorpIM Growth Fund

The Growth Fund returned +1.43% (actual) for the month of January. Both domestic shares (S&P ASX 200 Accumulation Index +1.19%) and international shares (MSCI World ex-Australia +1.20%) provided modest gains this month. Bonds also provided positive returns as yields remained relatively flat (AusBond Composite Bond Index added +0.21%).

Falling inflation has been the key driver of both market speculation and the change in tone from the US Federal Reserve (Fed), aiding positive returns across equities and bonds in recent months. The biggest surprise to expectations over the past year has been the resilience of economic growth to rapid and substantive monetary tightening. Fiscal policy has played an important role in offsetting the negative drag from higher rates. The steady and continued improvement in global supply chains have worked to reverse much of the negative shocks that reverberated through 2020-2022.

The macroeconomic outlook and general consensus has shifted to a soft landing for the global economy (from a recession), underpinned by expectations of significant central bank easing particularly from the US Fed. The main question for 2024 is will the US Fed cut as much as markets expects if there is no recession? As we have witnessed through the past eighteen months, market expectations and reality can diverge significantly and each realignment causes significant volatility across asset markets.

Overall, we remain cautious on the future performance of the T-Corp Growth Fund given the high volatility associated with a diversified growth fund, which generally allocates a range of 60%-80% in domestic and international shares. Investors are seeking relief from the elevated levels of inflation and remain hopeful that rate cuts will be delivered by the middle of 2024.

The Fund should be looked at with a long-term view, with a minimum holding period of +7 years. Given the exposure to the volatile asset of shares, Council should expect to see, on average, a negative month once every 3 months over a long-term holding period.

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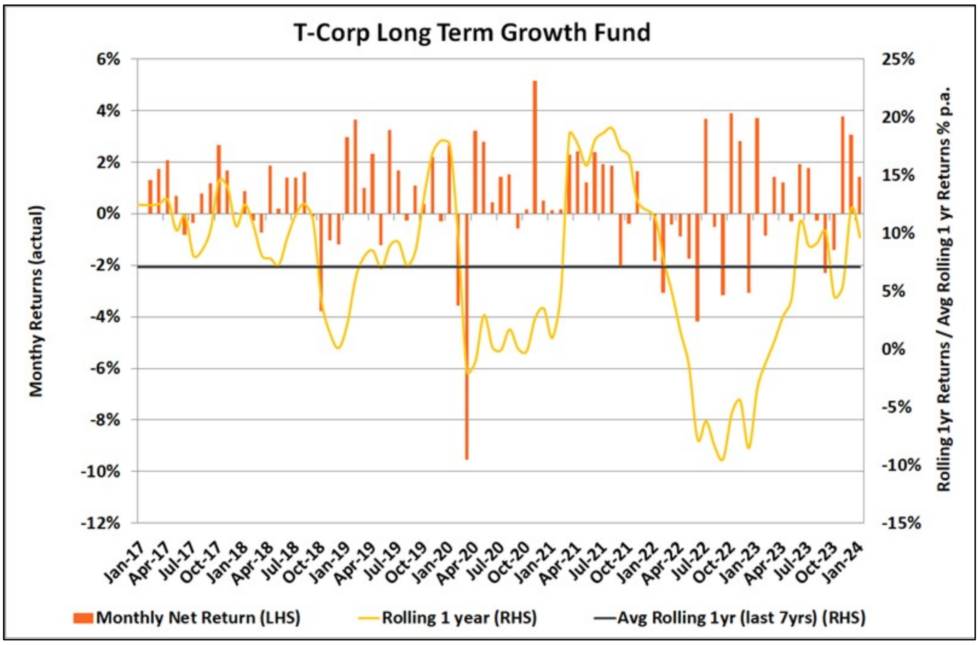
Since Inception	T-Corp Long Term Fund
Negative Months	143 (~1 in 3 months)
Positive Months	272
Total Months	415 (34.58 yrs)
Average Monthly Return	+0.65% (actual)
Median Monthly Return	+1.02% (actual)
Lowest 1 year Rolling Return	-21.12% p.a. (Nov 2008)
Highest 1 year Rolling Return	+29.89% p.a. (Jan 1994)



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Term Deposit Market Review

Current Term Deposits Rates

As at the end of January, we see value in the following (note rates likely to be at least 5-10bp lower across the board following the lower than expected inflation print on 31st January):

Index	LT Credit Rating	Term	Rate % p.a.
ING	A	5 years	5.13%
ING	A	4 years	5.02%
ING	A	2 years	4.97%
ING	A	3 years	4.95%
BoQ	BBB+	5 years	4.95%
Suncorp	A+	2 years	4.94%
BoQ	BBB+	4 years	4.90%
Suncorp	A+	3 years	4.86%
Westpac	AA-	2 years	4.76%
NAB	AA-	2 years	4.75%

The above deposits are suitable for investors looking to maintain diversification and lock-in a slight premium compared to purely investing short-term.

For terms under 12 months, we believe the strongest value is currently being offered by the following ADIs (*we stress that rates are indicative, dependent on daily funding requirements and different for industry segments*):

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Index	LT Credit Rating	Term	Rate % p.a.
Australian Unity	BBB+	12 months	5.19%
Suncorp	A+	12 months	5.17%
ING	A	12 months	5.17%
NAB	AA-	12 months	5.15%
Suncorp	A+	9 months	5.14%
NAB	AA-	5-9 months	5.10%
Suncorp	A+	6 months	5.10%
Bendigo	BBB+	9 months	5.06%
BoQ	BBB+	9 months	5.05%
NAB	AA-	3-4 months	5.05%
Westpac	AA-	12 months	5.02%

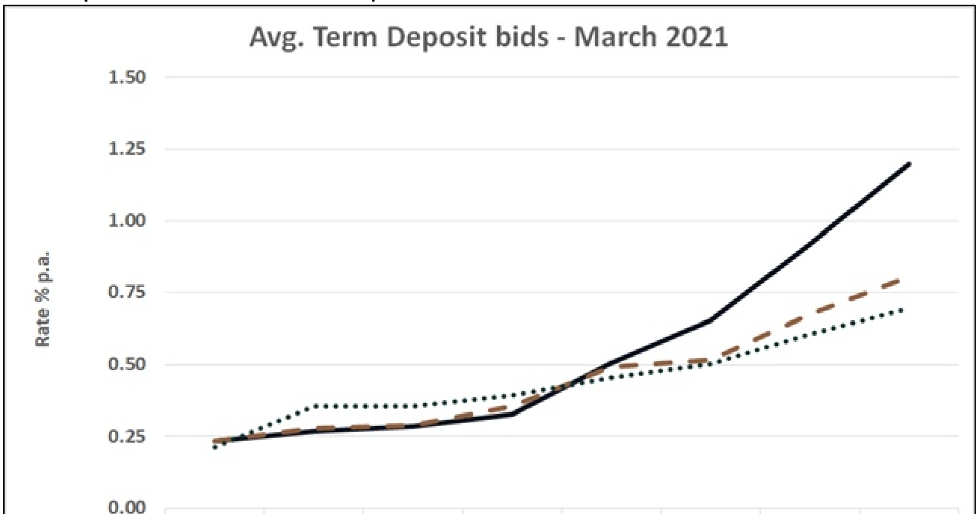
If Council does not require high levels of liquidity and can stagger a proportion of its investments across the longer term horizons (1-5 years), it will be rewarded over a longer-term cycle. Investing a spread of 12 months to 3 year horizons is likely to yield, on average, up to ¼-½% p.a. higher compared to those investors that entirely invest in short-dated deposits (under 6-9 months).

With a global economic slowdown and rate cuts being priced in coming years, investors should strongly consider and allocate some longer term surplus funds to undertake an insurance policy by investing across 2-5 year fixed deposits and locking in rates close to or above 4¾-5% p.a. This will provide some income protection with central banks now likely to cut rates at some stage later this year.

Term Deposits Analysis

Pre-pandemic (March 2020), a 'normal' marketplace meant the lower rated ADIs (i.e. BBB category) were offering higher rates on term deposits compared to the higher rated ADIs (i.e. A or AA rated). But due to the cheap funding available provided by the RBA via their Term Funding Facility (TFF) during mid-2020, allowing the ADIs to borrow as low as 0.10% p.a. fixed for 3 years, those lower rated ADIs (BBB rated) did not require deposit funding from the wholesale deposit. Given the higher rated banks had more capacity to lend (as they have a greater pool of mortgage borrowers), they subsequently were offering higher deposit rates. In fact, some of the lower rated banks were not even offering deposit rates at all. As a result, most investors placed a higher proportion of their deposit investments with the higher rated (A or AA) ADIs over the past three years.

Term Deposit Rates – 12 months after pandemic (March 2021)



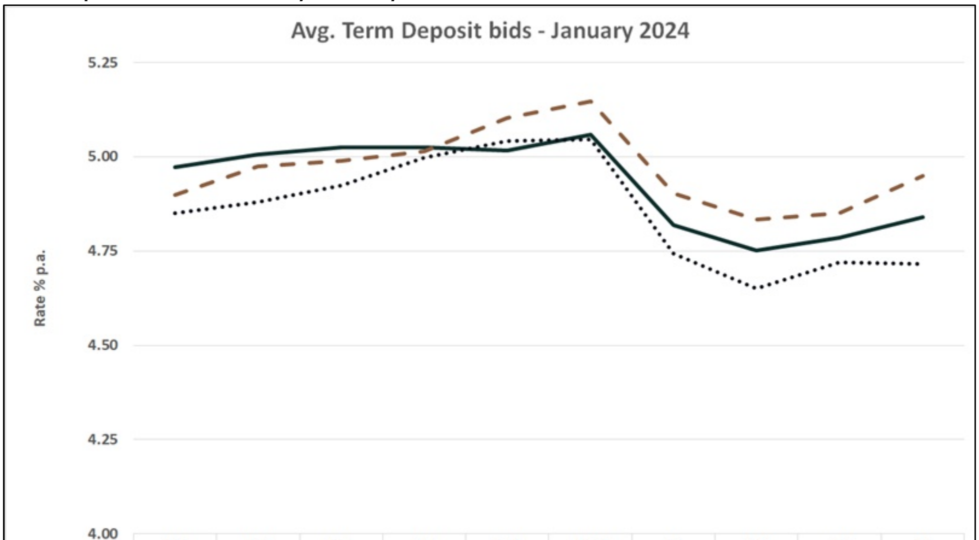
	3M	6M	9M	12M	2Y	3Y	4Y	5Y
Majors	0.23	0.27	0.29	0.33	0.51	0.65	0.92	1.20
A Rated	0.23	0.28	0.29	0.35	0.49	0.52	0.68	0.81
BBB Rated	0.21	0.36	0.35	0.39	0.45	0.50	0.61	0.70

Source: Imperium Markets

The abnormal marketplace experienced during the pandemic is starting to reverse as the competition for deposits slowly increases. In recent months, we have started to periodically see some of the lower rated ADIs ("A" and "BBB" rated) offering slightly higher rates compared to the domestic major banks ("AA" rated) on different parts of the curve (i.e. pre-pandemic environment). Some of this has been attributed to lags in adjusting their deposit rates as some banks (mainly the lower rated ADIs) simply set their rates for the week.

Going forward, Council should have a larger opportunity to invest a higher proportion of its funds with the lower rated institutions (up to Policy limits), from which the majority are not lending to the Fossil Fuel industry. We are slowly seeing this trend emerge, although the past few months have been an exception, with the major banks repricing more rapidly to the movement in the bond market than their lower rated counterparts. This reversed somewhat over the past few months with the lower rated institutions (mainly "A" rated) lagging the major banks in dropping their rates:

Term Deposit Rates – Currently (January 2024)



	3M	4M	5M	6M	9M	12M	2Y	3Y	4Y	5Y
Majors	4.97	5.01	5.02	5.02	5.02	5.06	4.82	4.75	4.79	4.84
A Rated	4.90	4.97	4.99	5.02	5.10	5.15	4.90	4.83	4.85	4.95
BBB Rated	4.85	4.88	4.92	5.00	5.04	5.05	4.74	4.65	4.72	4.72

Source: Imperium Markets

Regional & Unrated ADI Sector

Ratings agency S&P has commented that "*mergers remain compelling for mutuals lenders*" in providing smaller lenders greater economies of scale and assisting them in being able to price competitively and will see "*the banking landscape will settle with a small number of larger mutual players*". S&P expects that consolidation to continue over the next two years.

We remain supportive of the regional and unrated ADI sector (and have been even throughout the post-GFC period). They continue to remain solid, incorporate strong balance sheets, while exhibiting high levels of capital – typically, much higher compared to the higher rated ADIs. Some unrated ADIs have up to 25-40% more capital than the domestic major banks, and well above the Basel III requirements.

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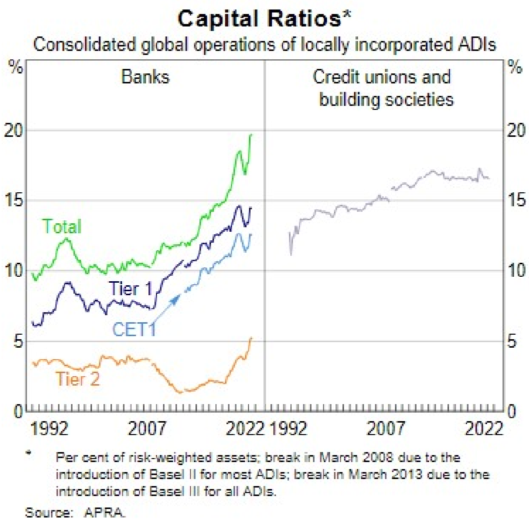
Overall, the lower rated ADIs (BBB and unrated) are generally now in a better financial position then they have been historically (see the Capital Ratio figure below). The financial regulator, APRA has noted that the Common Equity Tier 1 capital of Australian banks now exceeds a quarter of a trillion dollars. It has increased by $110 billion, or more than 70%, over the past ten years. Over the same time, banks' assets have grown by 44%. Some of the extra capital is supporting growth in the banking system itself but clearly, there has been a strengthening in overall resilience and leverage in the system is lower.

We believe that deposit investments with the lower rated ADIs should be considered going forward, particularly when they offer 'above market' specials. Not only would it diversify the investment portfolio and reduce credit risk, it would also improve the portfolio's overall returns. The lower rated entities are generally deemed to be the more 'ethical' ADIs compared to the higher rated ADIs.

In the current environment of high regulation and scrutiny, all domestic (and international) ADIs continue to carry high levels of capital. There is minimal (if any) probability of any ADI defaulting on their deposits going forward – this was stress tested during the GFC and the pandemic period. APRA's mandate is to "*protect depositors*" and provide "*financial stability*".



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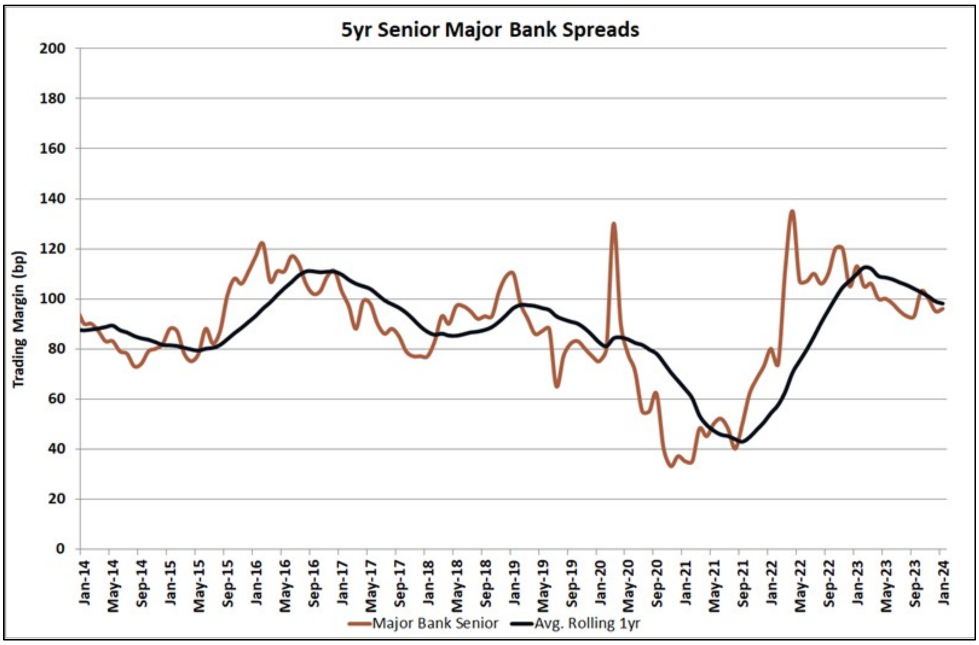
Senior FRNs Market Review

Over January, amongst the senior major bank FRNs, physical credit securities widened up to 9bp at the long-end of the curve. During the month, there were notable new issuances from:

- WBC (AA-) ~3yr & 5yr senior security at +82bp and +100bp respectively
- ANZ (AA-) 3 & 5yr senior security at +80bp and +96bp respectively
- QTC (AA+) 10yr fixed sustainable bond at 4.75% s.a.

Major bank senior securities remain at fair value on a historical basis (5yr margins around +96bp level).



Source: IBS Capital

During the month, the other new notable issuances were as follows:

- Great Southern Bank (BBB) 3yr senior FRN at +160bp
- Mizuho (A) 3yr senior FRN at +88bp
- Heritage (BBB) 3yr senior FRN at +160bp

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Amongst the "A" and "BBB" rated sectors, the securities remained relatively flat at the longer-end of the curve. Credit securities are looking much more attractive given the widening of spreads over the past ~2 years. FRNs will continue to play a role in investor's portfolios mainly on the basis of their liquidity and the ability to roll down the curve and gross up returns over future years (in a relatively stable credit environment).

Senior FRNs (ADIs)	31/01/2024	31/12/2023
"AA" rated – 5yrs	+96bp	+95bp
"AA" rated – 3yrs	+80bp	+71bp
"A" rated – 5yrs	+125bp	+125bp
"A" rated – 3yrs	+99bp	+97bp
"BBB" rated – 3yrs	+148bp	+148bp

Source: IBS Capital

We now generally recommend switches ('benchmark' issues only) into new primary issues, out of the following senior FRNs that are maturing:

- On or before early 2026 for the "AA" rated ADIs (domestic major banks);
- On or before early 2025 for the "A" rated ADIs; and
- Within 6-9 months for the "BBB" rated ADIs (consider case by case).

Investors holding onto the above senior FRNs ('benchmark' issues only) in their last few years are now generally holding sub optimal investments and are not maximising returns by foregoing realised capital gains. In the current challenging economic environment, any boost in overall returns should be locked in when it is advantageous to do so, particularly as switch opportunities become available.

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Senior Fixed Bonds – ADIs (Secondary Market)

With global inflation still high by historical standards, this has seen a significant lift in longer-term bond yields over the past 2 years (valuations have fallen) as markets have reacted sharply.

This has resulted in some opportunities in the secondary market. We currently see value in the following fixed bond lines, with the majority now being marked at a significant discount to par (please note supply in the secondary market may be limited on any day):

ISIN	Issuer	Rating	Capital Structure	Maturity Date	~Remain. Term (yrs)	Fixed Coupon	Indicative Yield
AU3CB0273407	UBS	A+	Senior	30/07/2025	1.50	1.20%	5.07%
AU3CB0280030	BoQ	BBB+	Senior	06/05/2026	2.27	1.40%	5.14%
AU3CB0299337	Bendigo	BBB+	Senior	15/05/2026	2.29	4.70%	5.10%
AU3CB0296168	BoQ	BBB+	Senior	27/01/2027	2.99	4.70%	5.16%

Economic Commentary

International Market

Financial markets continued their rally in January following the shift by central banks indicating that inflationary pressures globally have receded more quickly than they had expected. With global economic activity and labour markets continuing to gradually cool, investors are becoming more confident of a soft landing, reflected by the fall in bond yields and a rise in equities in recent months.

Across equity markets, the S&P 500 Index gained +1.59%, whilst the NASDAQ added +1.02%. Europe's main indices also experienced further gains, led by France's CAC (+1.51%) and Germany's DAX (+0.91%). UK's FTSE (-1.33%) was the exception, losing ground against global trends.

In the US, the latest core personal consumption expenditures (PCE) index, which is the US central bank's preferred measure of inflation (which excludes volatile food and energy costs), recorded a +0.2% increase for the month of December, taking the annual rate to +2.9%.

The US economy grew at a +3.3% annual rate in the fourth quarter of 2023, which was well above the +2.0% consensus, though down from the +4.9% rate in the third quarter.

As widely expected, the Bank of Japan, European Central Bank (ECB) and Bank of Canada all held their respective interest rates steady at their policy meetings. The commentary accompanying their monetary policy decisions were largely unchanged, with these central banks reaffirming their commitment to fight inflation.

Germany reported that GDP had shrunk -0.3% for the calendar year of 2023 and in Q4 - though the Eurozone's biggest economy has been spared a technical recession in H2 2023 by an upward revision Q3, from -0.1% to 0.0%.

China is sinking deeper into its worst deflation in years. It signals continuing economic distress in China, which could mean weaker sales for Western brands that do business there. China's population also fell by 2 million last year, highlighting the challenges facing the world's second-largest economy.

The World Bank released the latest edition of its Global Economics Prospects. It provided a fairly pessimistic view, with advanced economies GDP growth set to slow, from +1.5% on average in 2023 to +1.2% in 2024.

The MSCI World ex-Aus Index rose +1.20% for the month of January:

Index	1m	3m	1yr	3yr	5yr	10yr
S&P 500 Index	+1.59%	+15.54%	+18.86%	+9.27%	+12.37%	+10.52%
MSCI World ex-AUS	+1.20%	+15.71%	+15.51%	+6.51%	+9.72%	+7.36%
S&P ASX 200 Accum. Index	+1.19%	+13.99%	+7.09%	+9.56%	+9.71%	+8.39%

Source: S&P, MSCI

CL24.40 - Attachment 1

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Domestic Market

The consumer price index (CPI) rose +0.6% during Q4 2023, resulting in an annual increase of +4.1%. Inflation has fallen to its lowest level in two years, dampening the chances of a further interest rate rise. The monthly measure of inflation also showed price pressures easing even further. This measure dropped to +3.4% in December from +4.3% in November. The measure of underlying inflation eased to +4.0% from +4.6%.

Employment fell a sharp -65.1k in December, following the upwardly revised +72.6k surge in November and October's +44.2k. The unemployment rate was unchanged at 3.9% (or 3.8820% unrounded). Since October 2022, the unemployment rate has risen by 0.47%, highlighting that whilst the labour market remains tight, the degree of tightness in the labour market is easing.

Retail sales rose +2.0% m/m in November (consensus +1.2%). That reflects the shift towards increased spending at Black Friday rather than a trend acceleration in what remains sluggish consumer spending growth. Consumers delayed spending from October (when retail sales fell -0.4% m/m) to November and likely also pulled forward more spending from December.

Dwelling approvals rose +1.6% m/m in November, as a rise in attached approvals offset a small fall in detached approvals.

The November goods trade surplus rose to $11.4bn (consensus $7.3bn), from an upwardly revised $7.7bn. The large surprise was driven by a fall back in imports (-7.9% m/m or -$2.99bn).

The Government announced changes to stage three tax cuts. Those earning $200,000 or more will receive a $4,529 cut, instead of the legislated $9,075 they were due to receive from 1 July. Those earning between $45,000 and $135,000 will be taxed at 30%, while the 37% tax rate will be reinstated and apply to incomes between $135,000 and $190,000, after which the 45% rate will apply.

Iron ore prices tumbled by the most in at least five months on concerns about a weakening economy of top consumer China and heightened tensions in the Taiwan Strait and the Red Sea.

The Australian dollar fell -3.89%, finishing the month at US65.74 cents (from US68.40 cents the previous month).

Credit Market

The global credit indices remained relatively flat over January as risk markets continued their rally. They are now back to their levels in early 2022 (prior to the rate hike cycle from most central banks):

Index	January 2024	December 2023
CDX North American 5yr CDS	55bp	56bp
iTraxx Europe 5yr CDS	60bp	60bp
iTraxx Australia 5yr CDS	68bp	72bp

Source: Markit

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Fixed Interest Review

Benchmark Index Returns

Index	January 2024	December 2023
Bloomberg AusBond Bank Bill Index (0+YR)	+0.37%	+0.37%
Bloomberg AusBond Composite Bond Index (0+YR)	+0.21%	+2.69%
Bloomberg AusBond Credit FRN Index (0+YR)	+0.44%	+0.51%
Bloomberg AusBond Credit Index (0+YR)	+0.41%	+2.10%
Bloomberg AusBond Treasury Index (0+YR)	+0.16%	+2.77%
Bloomberg AusBond Inflation Gov't Index (0+YR)	-0.69%	+4.65%

Source: Bloomberg

Other Key Rates

Index	January 2024	December 2023
RBA Official Cash Rate	4.35%	4.35%
90 Day (3 month) BBSW Rate	4.35%	4.36%
3yr Australian Government Bonds	3.45%	3.61%
10yr Australian Government Bonds	4.01%	3.96%
US Fed Funds Rate	5.25%-5.50%	5.25%-5.50%
2yr US Treasury Bonds	4.27%	4.23%
10yr US Treasury Bonds	3.99%	3.88%

Source: RBA, ASX, US Department of Treasury