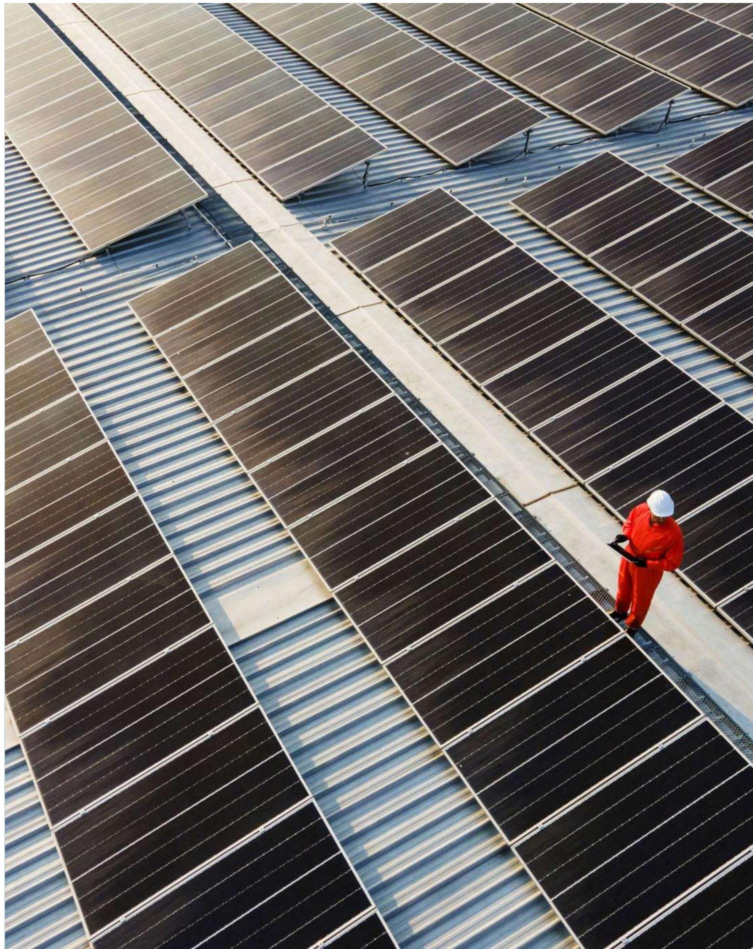
The Macro Investment Outlook

March 2024



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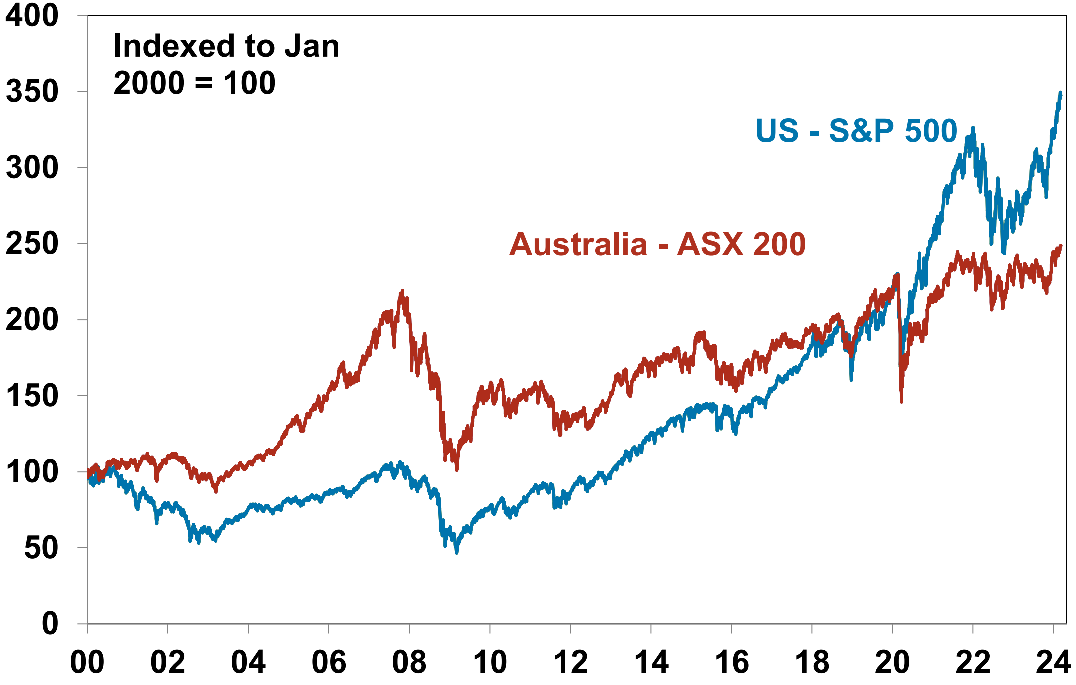
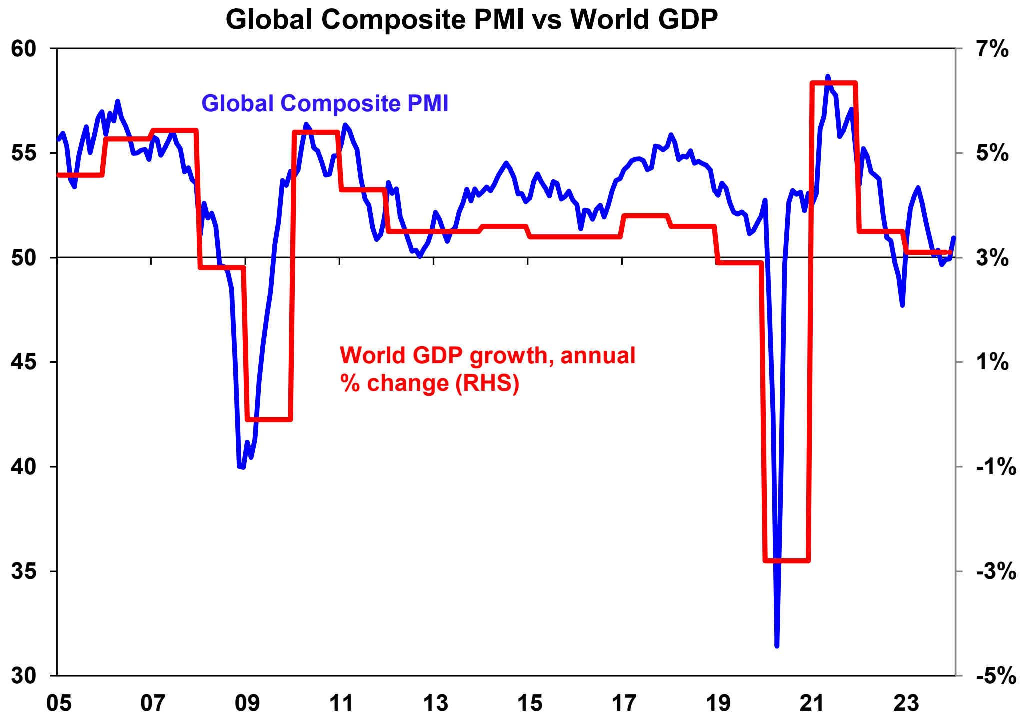
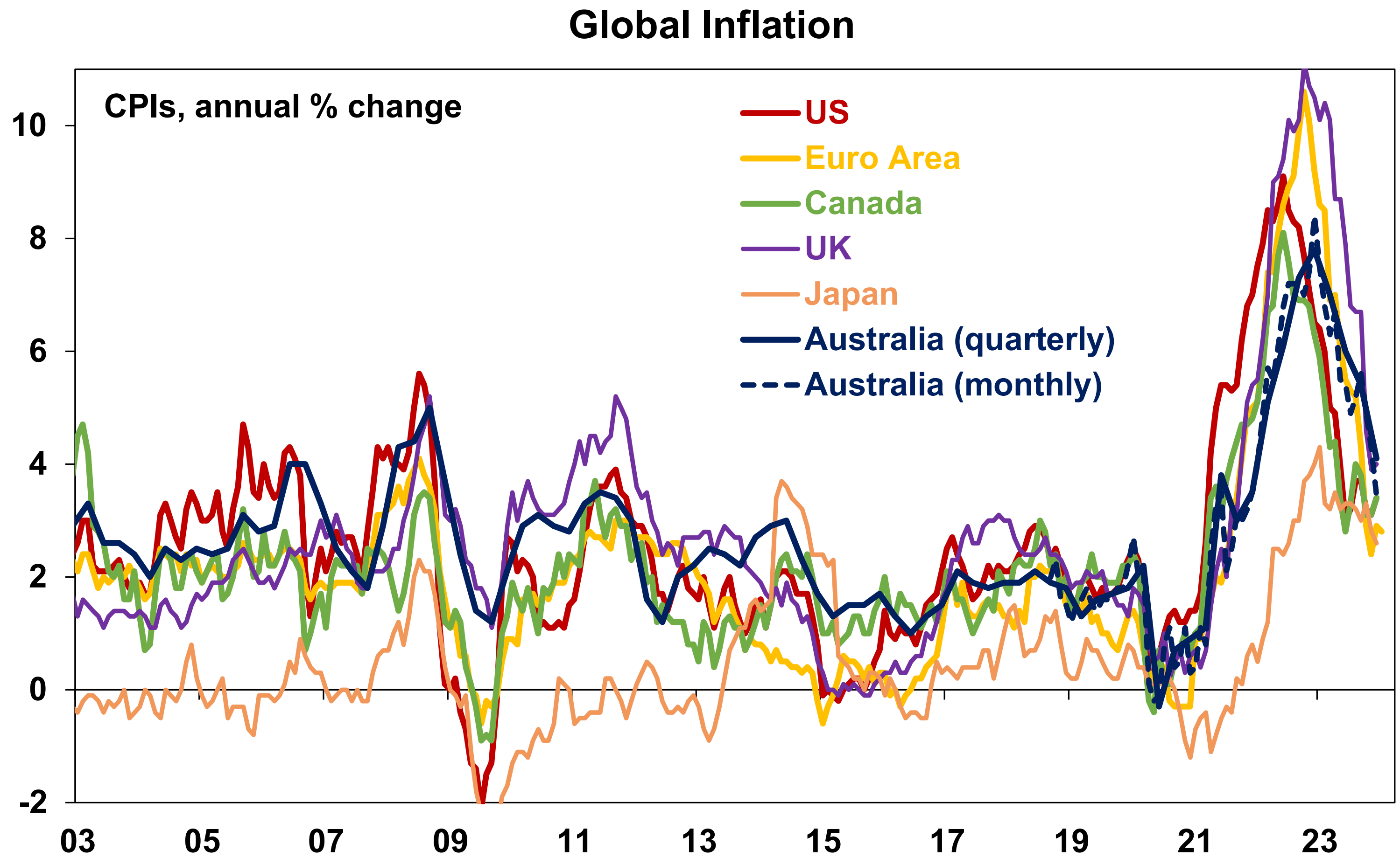
The State of play… US and Aus equities at a record high, global GDP below average



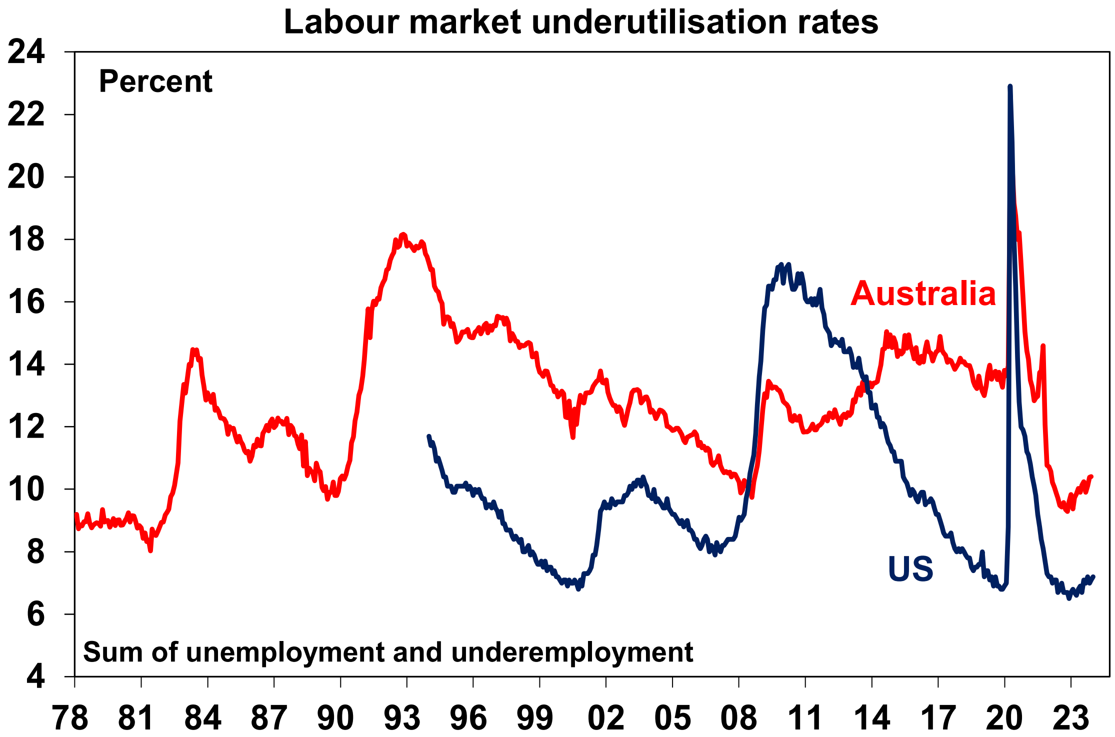


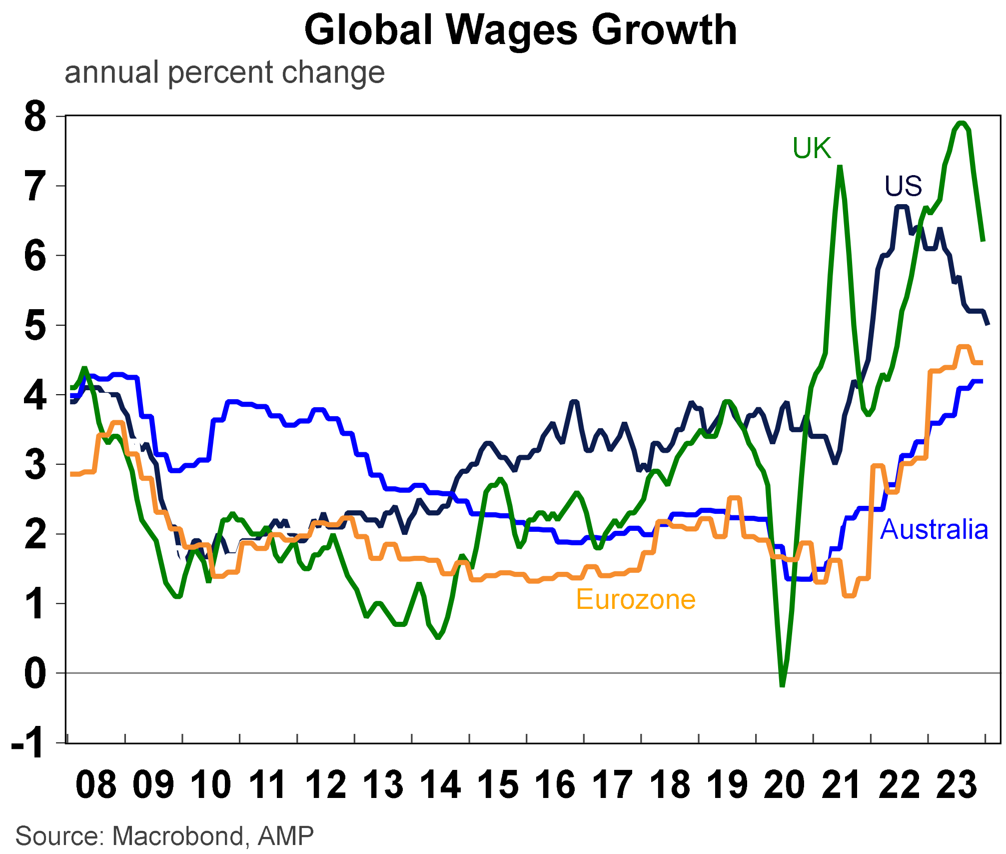
Global inflation has declined significantly from its highs – but is still above central bank targets



Source: Bloomberg, AMP

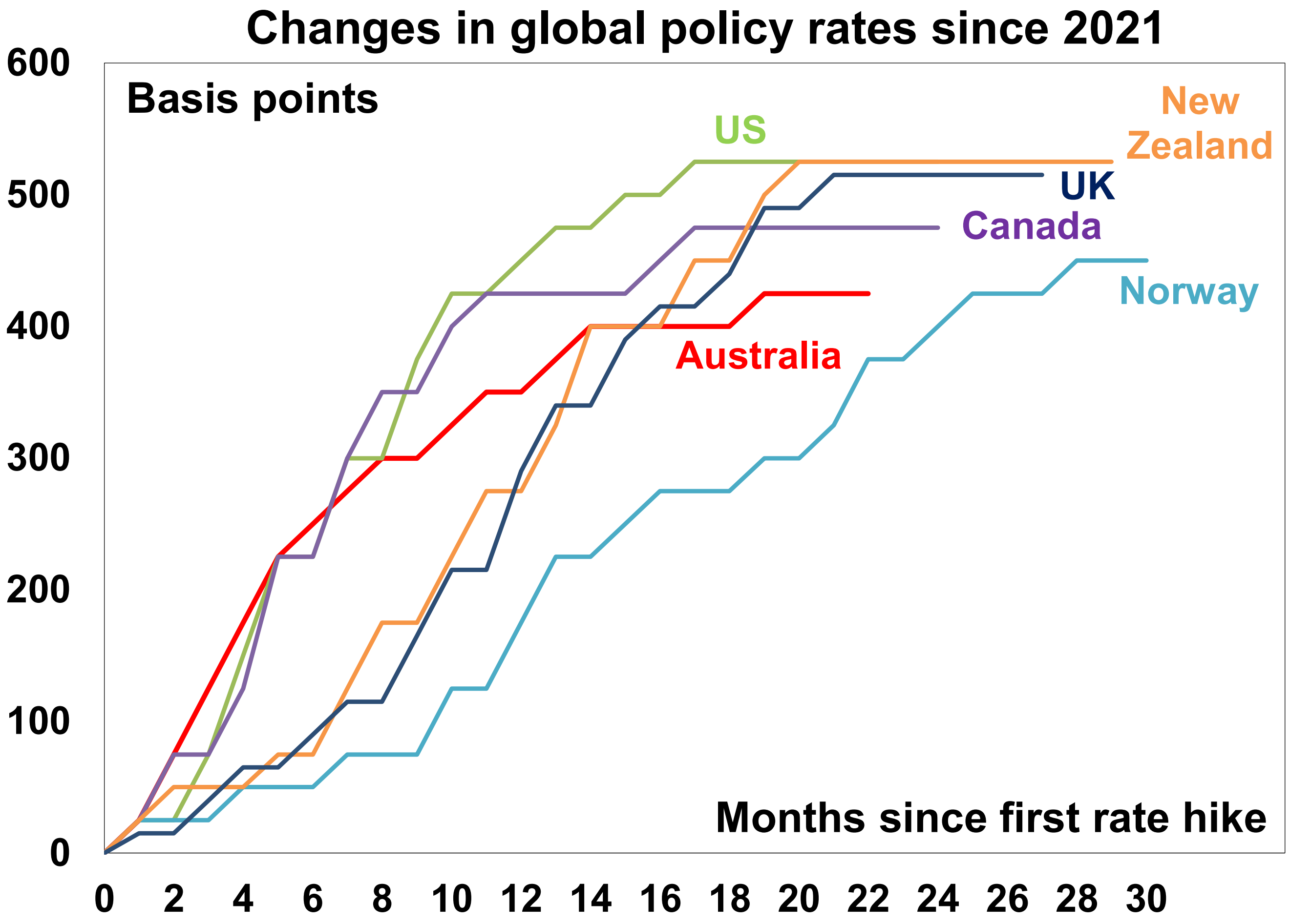
Wages growth remains a risk – but should cool as unemployment is starting to rise from multi-decade lows





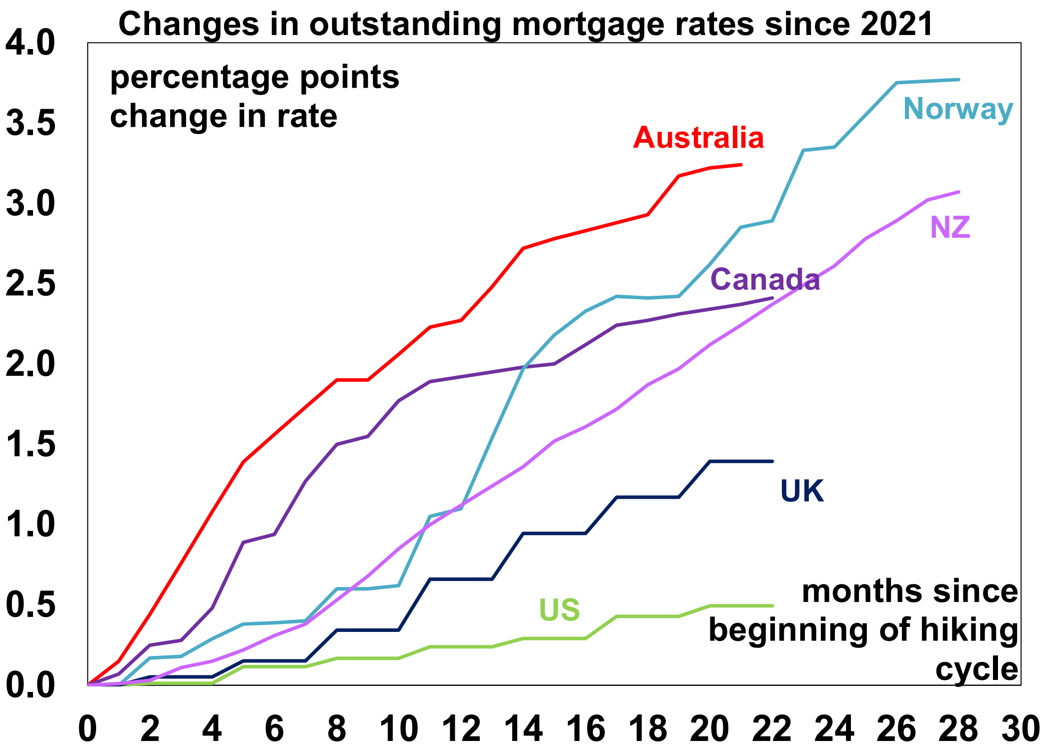
Source: Bloomberg, Macrobond, AMP

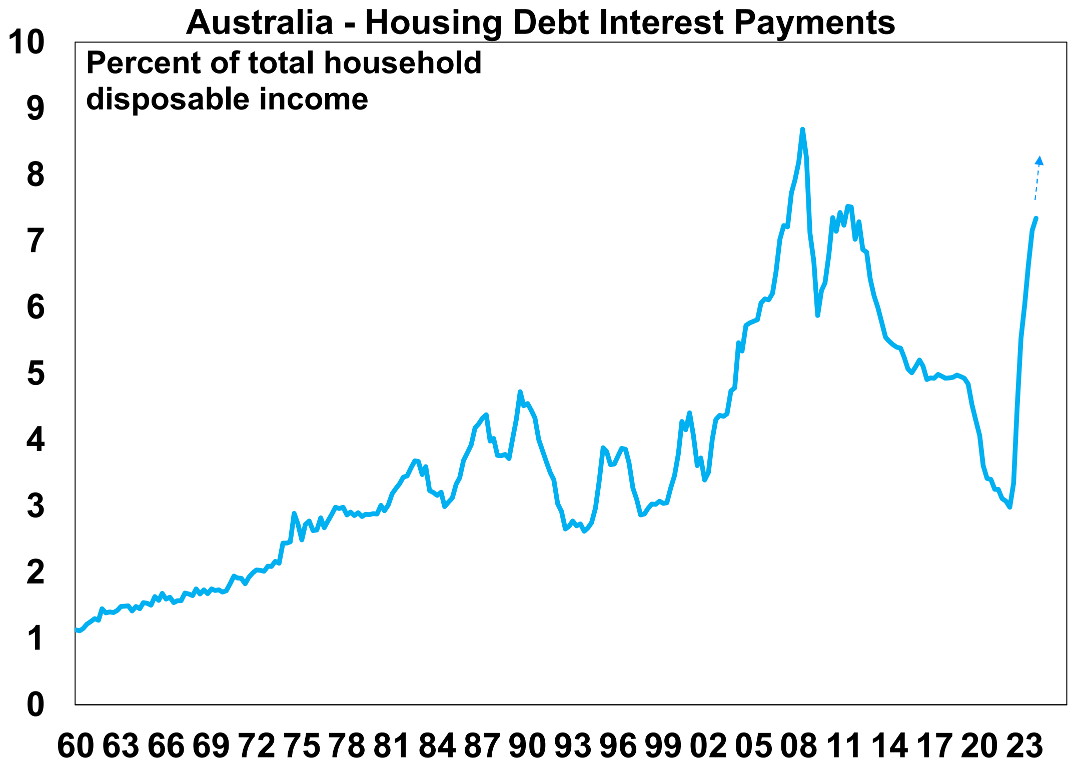
Central banks should be at the top…



Source: Macrobond, AMP

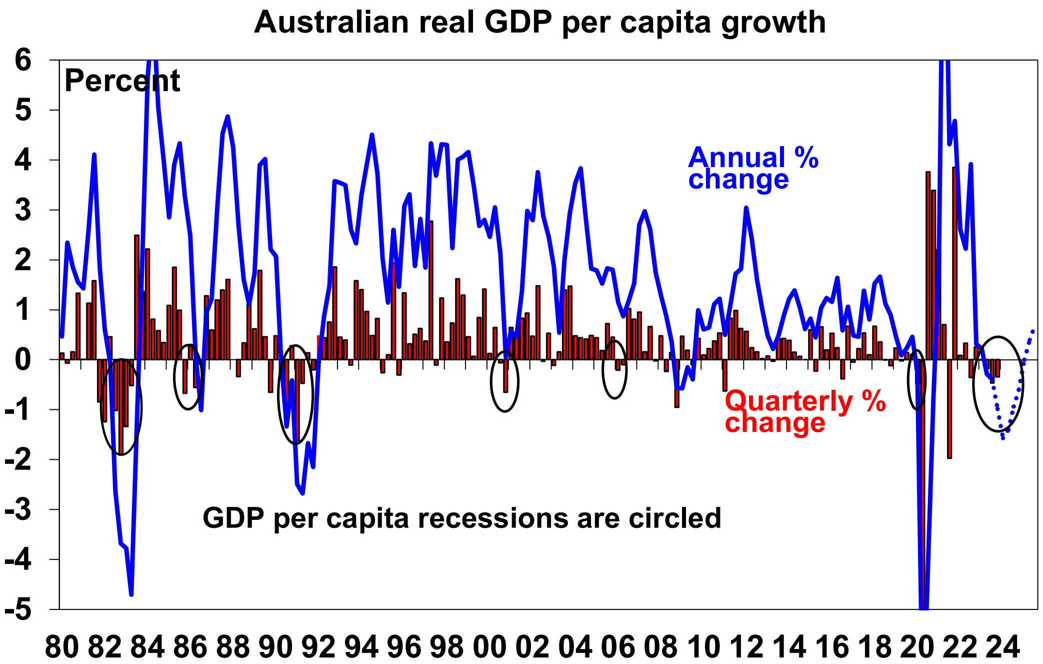
...including in Australia where mortgage rates have increased more and household debt servicing is at a record high

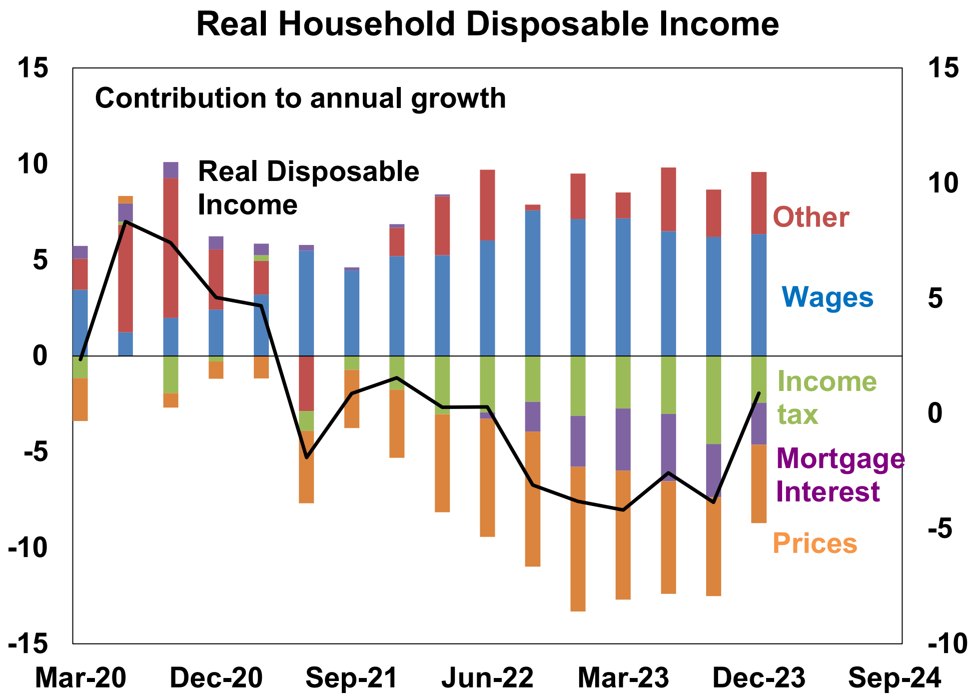




Source: ABS, Macrobond, AMP

Momentum in the Australian economy slowed throughout 2023, leading to a "per capita recession", with household incomes under increasing pressure

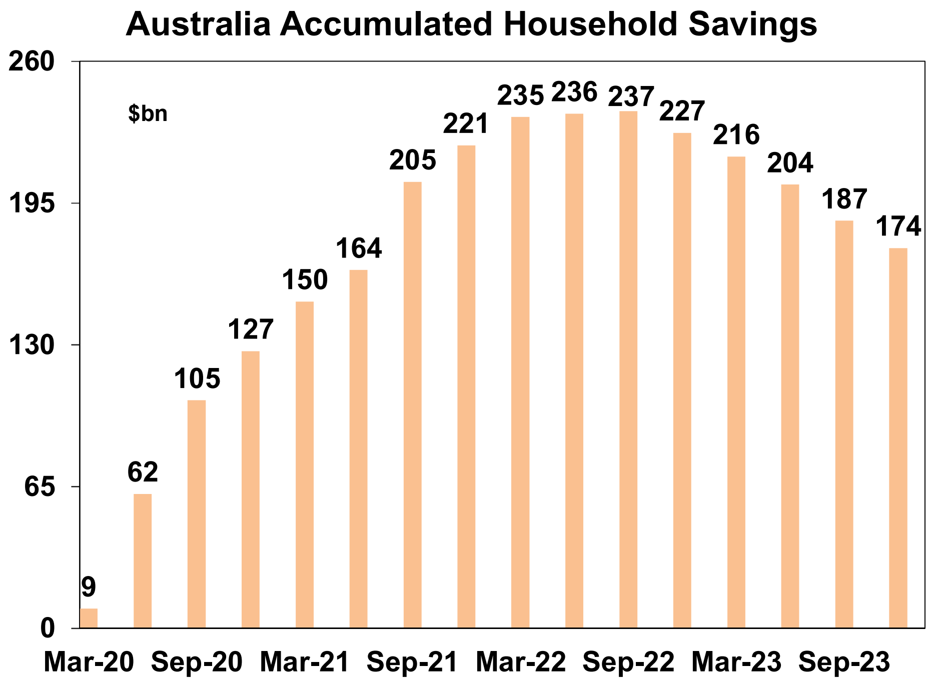




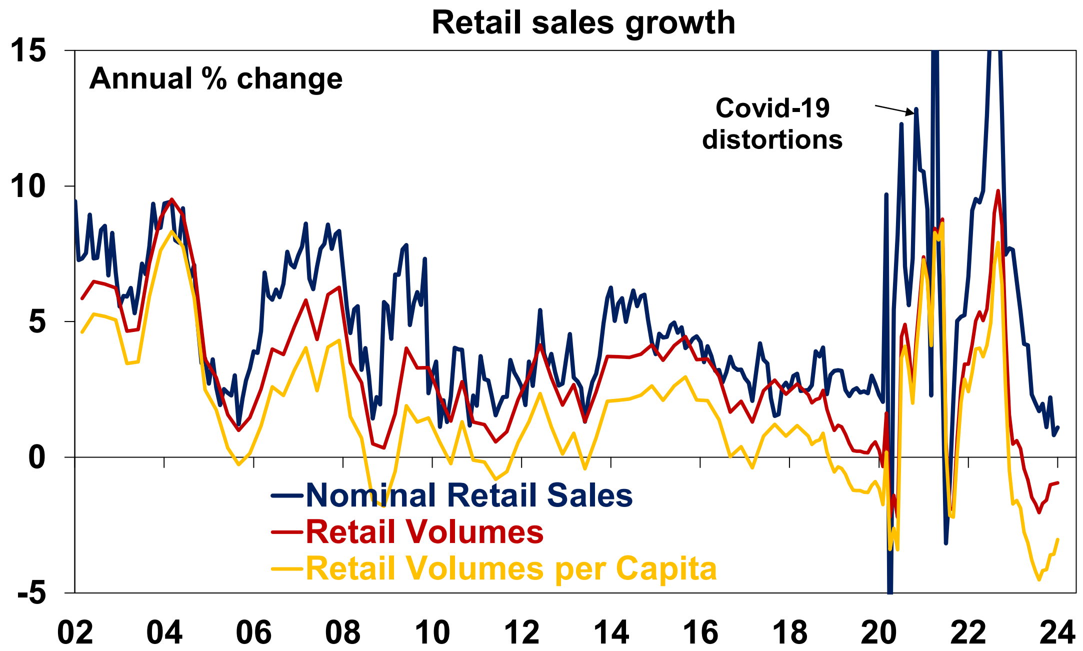
Source: ABS, AMP

Australian households are tightening spending

Household savings accumulated during Covid are now falling…



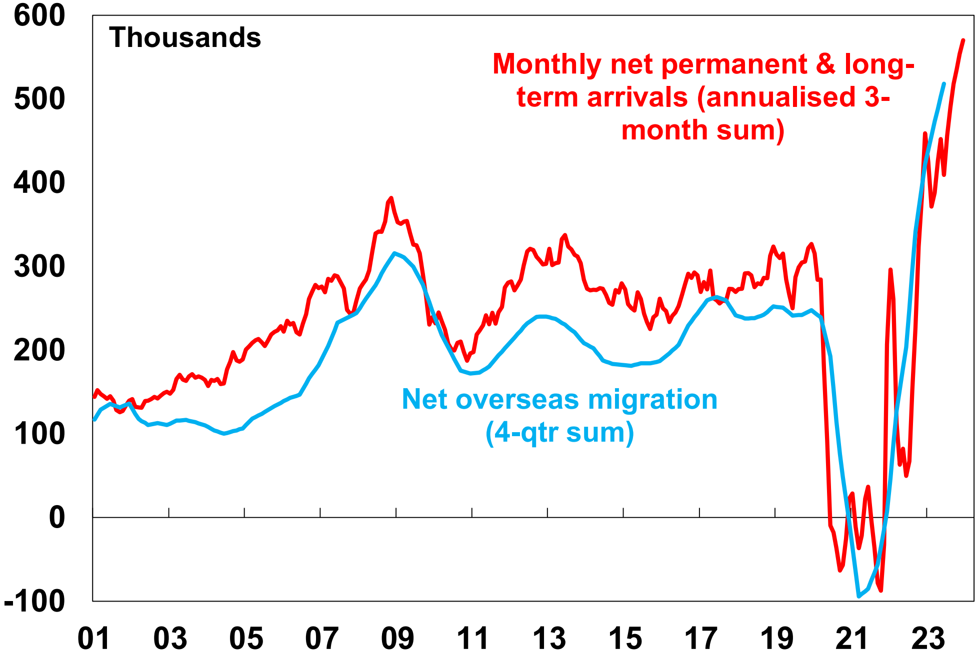
… and real retail sales have declined since December 2022



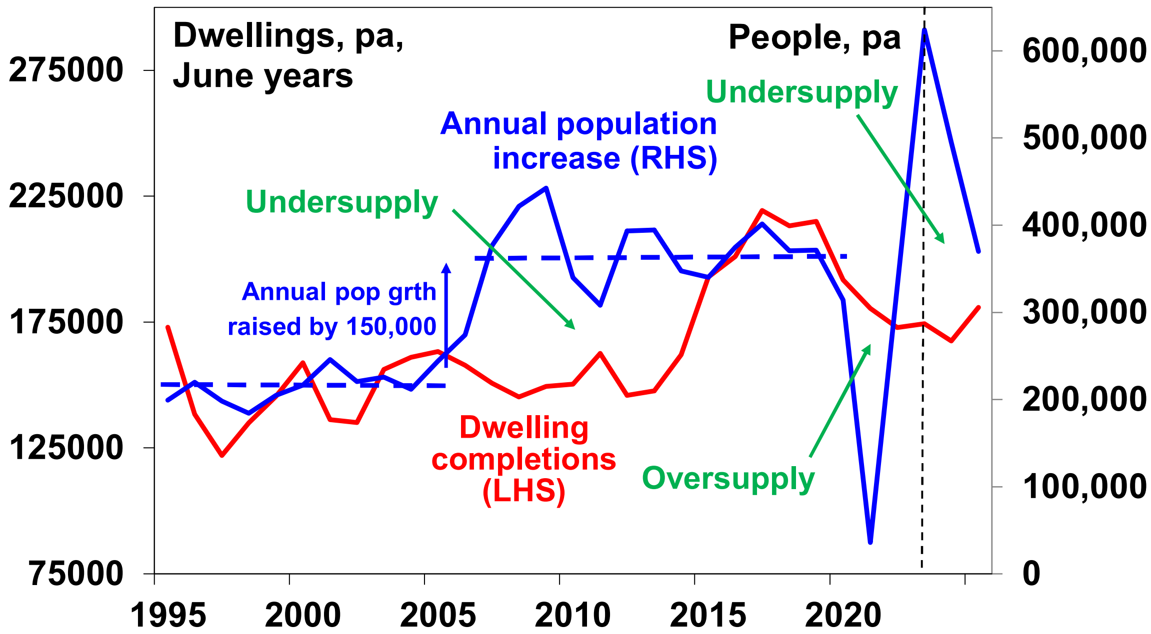
Source: ABS, RBA, AMP

Surging population growth has been of stronger housing demand…

Surging Australian net immigration



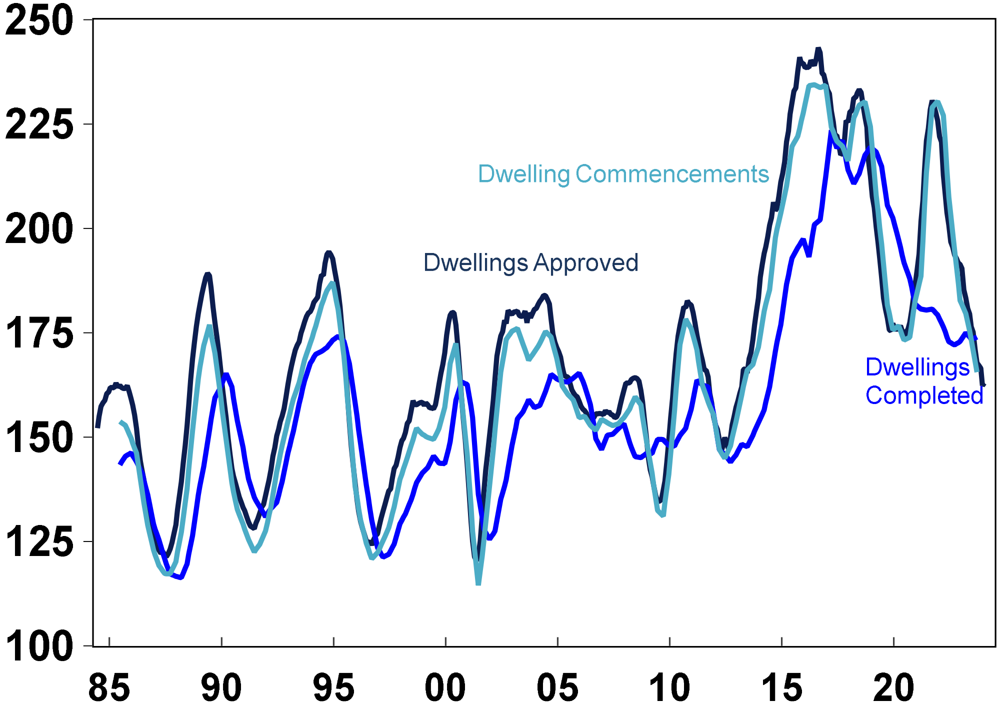
Home construction versus population growth



… at a time that housing supply has weakened… although there is still a large pipeline of work

Residential Building Approved and Completed

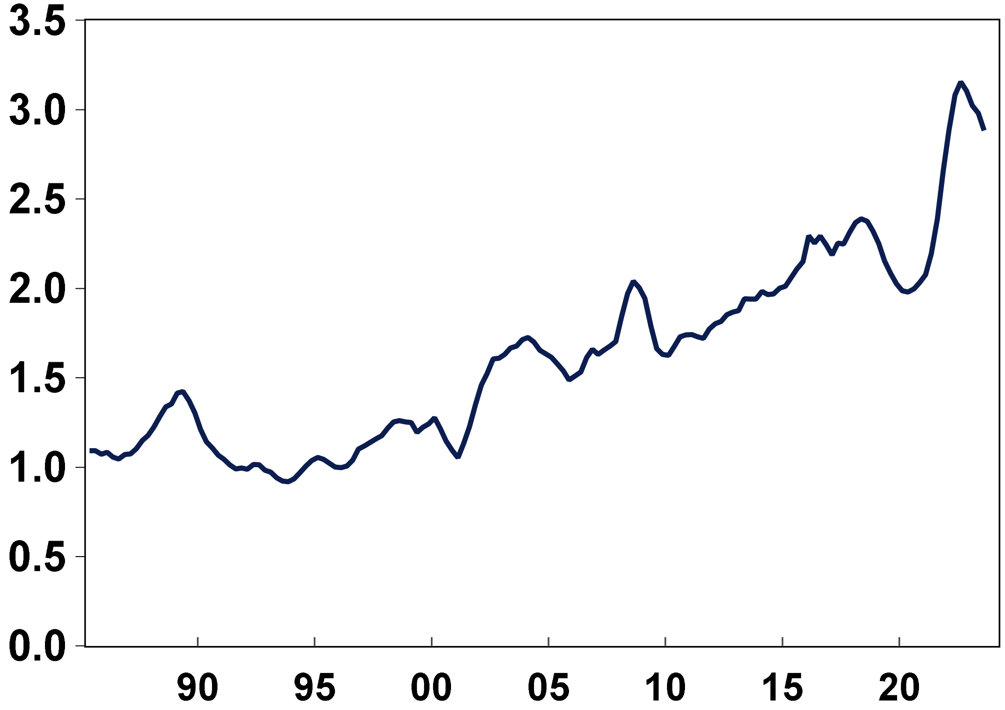
annual, thousand



Source: Macrobond, AMP

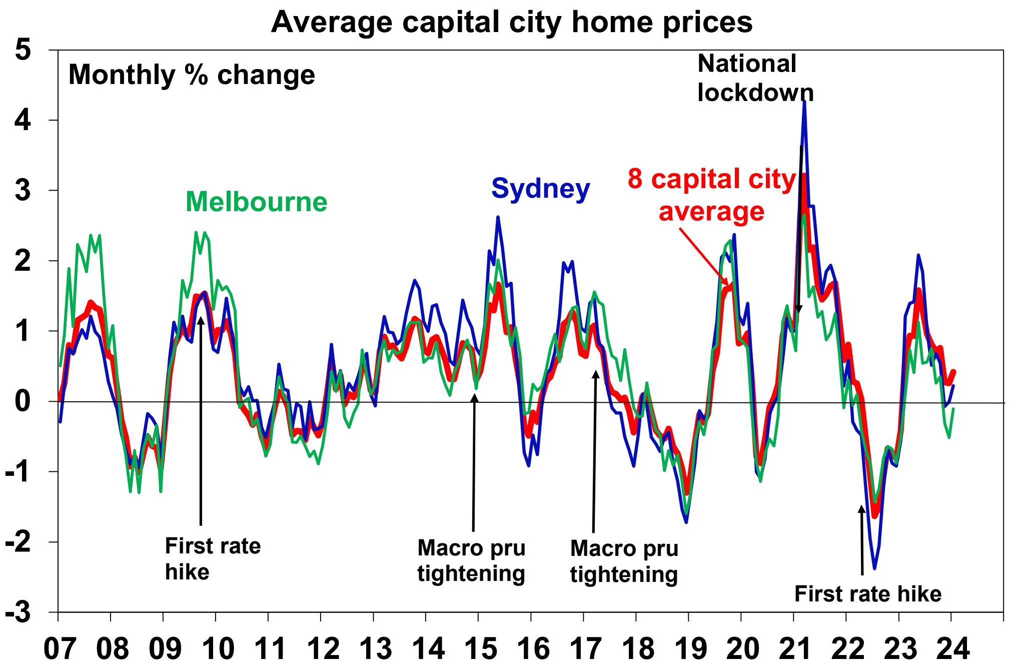
Australia Residential Construction Yet To Be Done

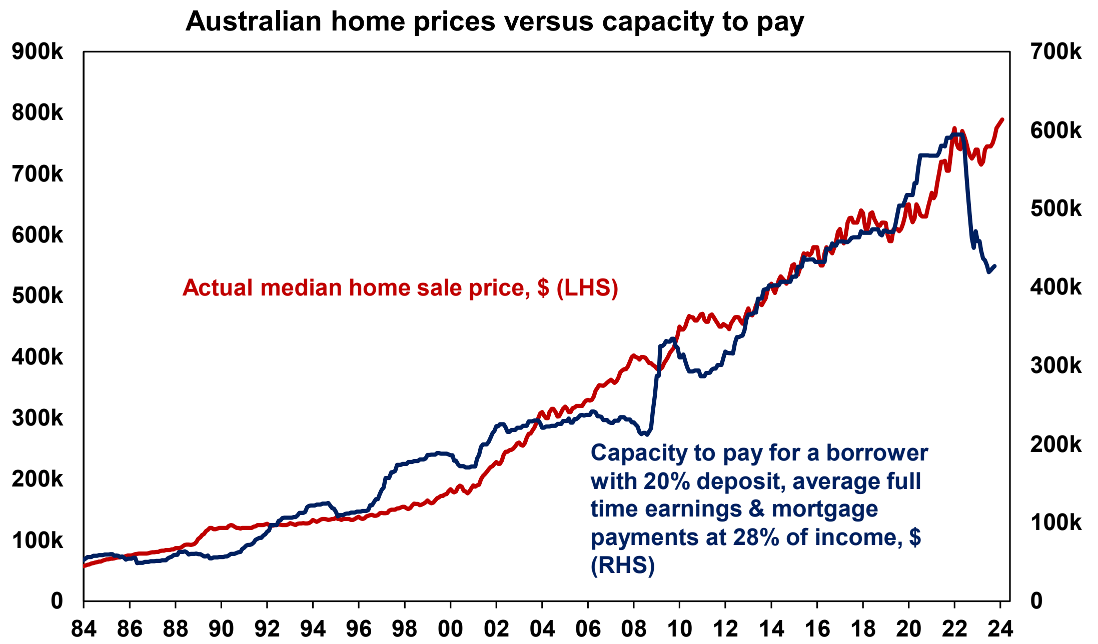
share of quarterly building completions



Source: Macrobond, AMP

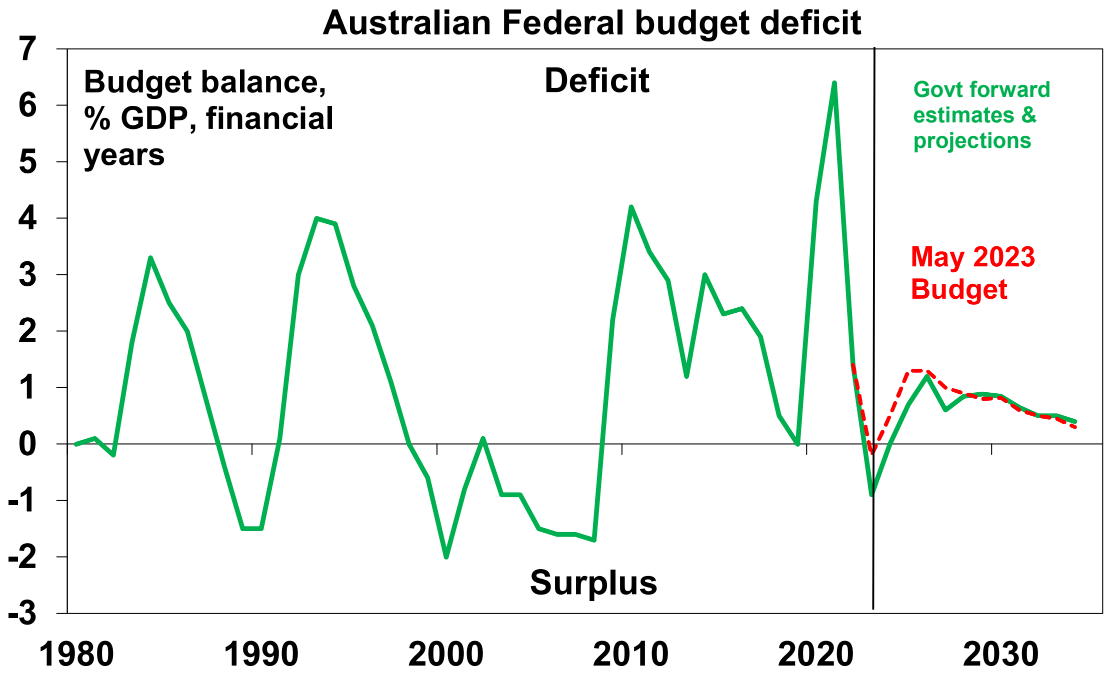
Strong population growth have supported home prices… but price gains have slowed

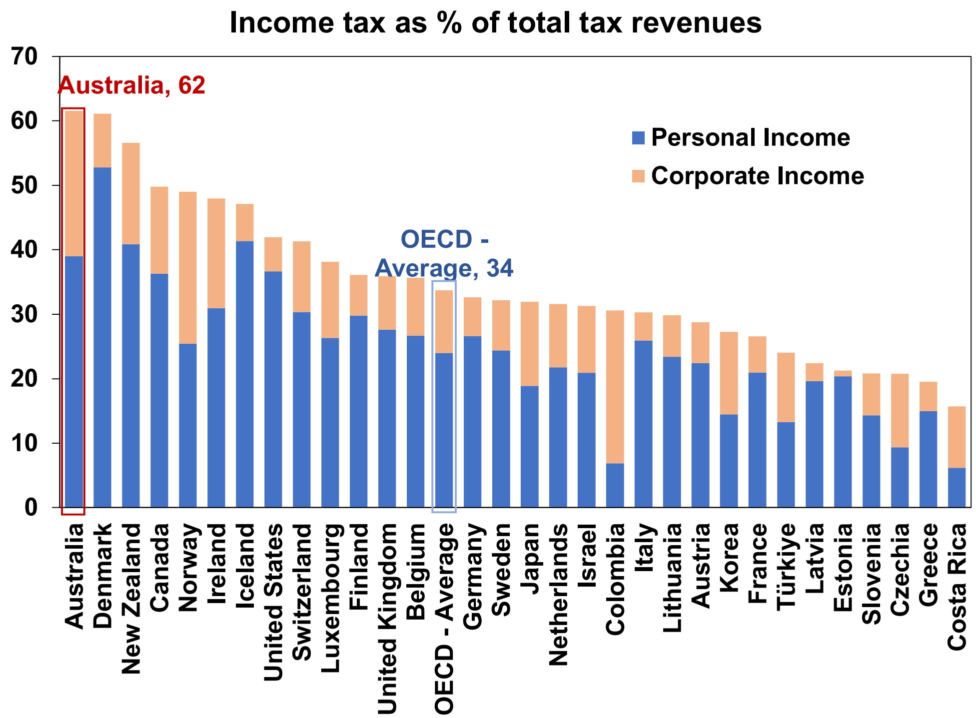




Source: CoreLogic, ABS, AMP

The improvement in Australia's fiscal situation has been mostly luck and the budget is still expected to return to a deficit. Changes to Stage 3 tax cuts are mildly inflationary but the bigger issue is that the changes are a backwards step for tax reform





Source: Federal Treasury, AMP

Goldilocks returned in 2023 – so what can we expect for 2024?

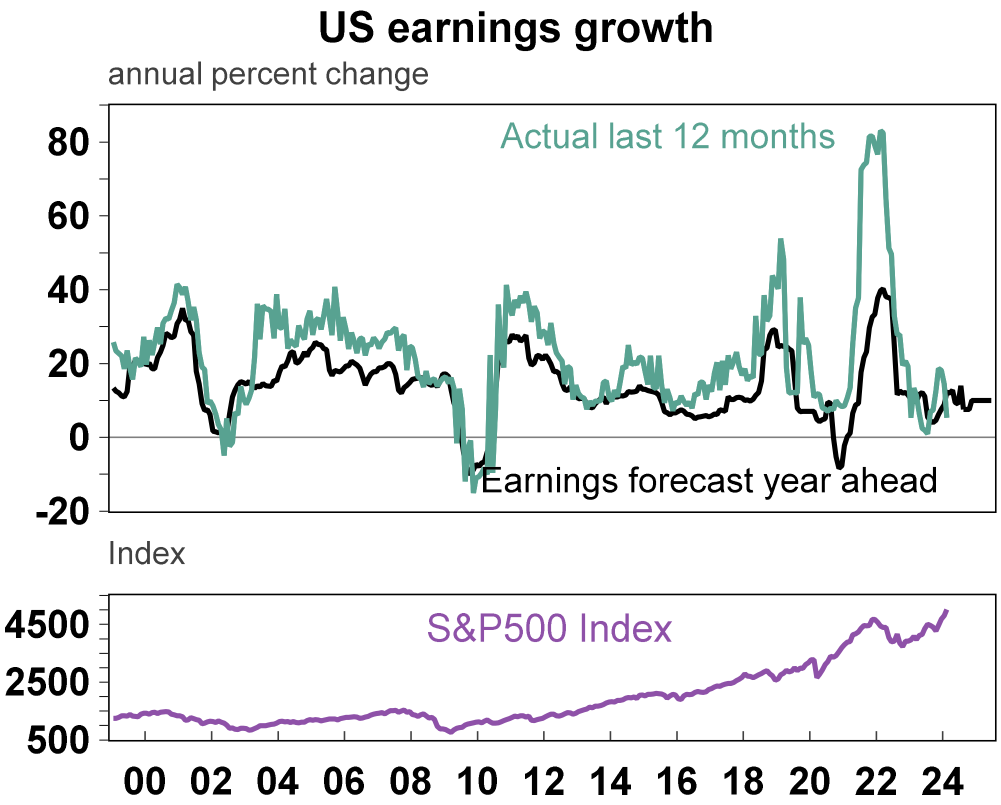
Investment returns for major asset classes

Total return %, pre fees and tax	2022 actual	2023 actual	2024 forecast
Global shares (in Aust dollars)	-12.5	23.3	5.0
Global shares (in local currency)	-16.4	23.2	7.0
Asian shares (in local currency)	-18.3	3.4	9.0
Emerging mkt shares (local currency)	-15.5	9.9	9.0
Australian shares	-1.1	12.4	9.0
Global bonds (hedged into $A)	-12.3	5.3	4.5
Australian bonds	-9.7	5.3	4.5
Global real estate investment trusts	-25.9	7.4	9.0
Aust real estate investment trusts	-20.5	17.6	9.0
Unlisted non-res property, estimate	9.5	-5.0	-5.0
Unlisted infrastructure, estimate	4.0	5.0	7.0
Aust residential property, estimate	-7.0	9.5	-1.0
Cash	1.3	3.9	4.2
Avg balanced super fund, ex fees & tax	**-4.8**	**9.5**	**5.3**

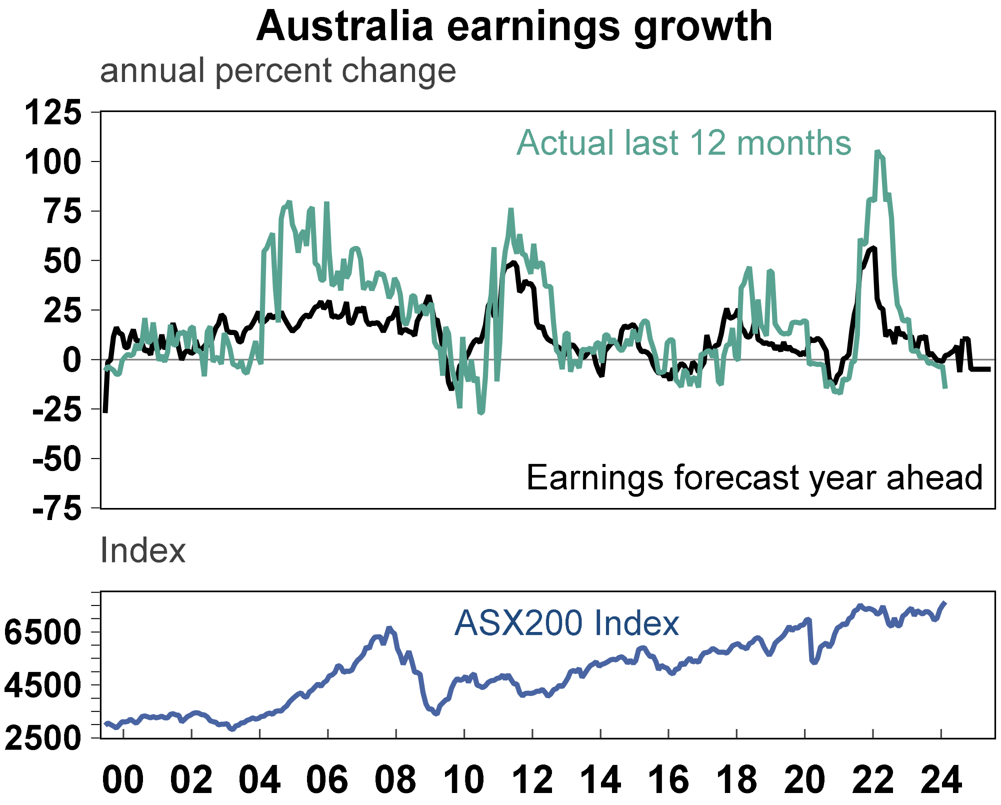
Source: Bloomberg, Morningstar, REIA, CoreLogic, AMP

Source: Bloomberg, AMP

Sharemarkets and earnings – earnings have generally beat expectations

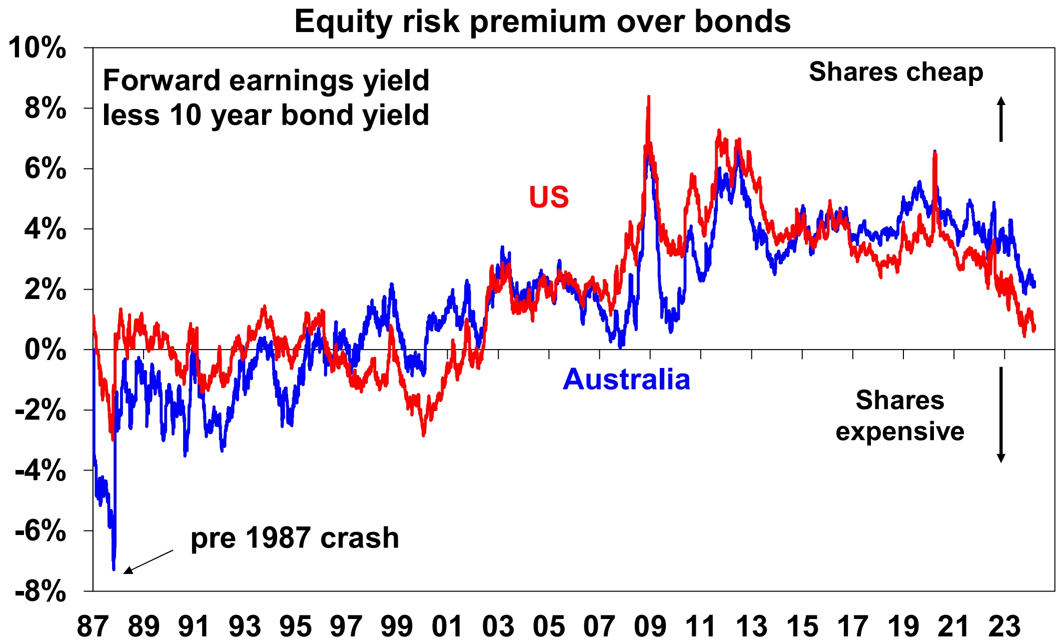


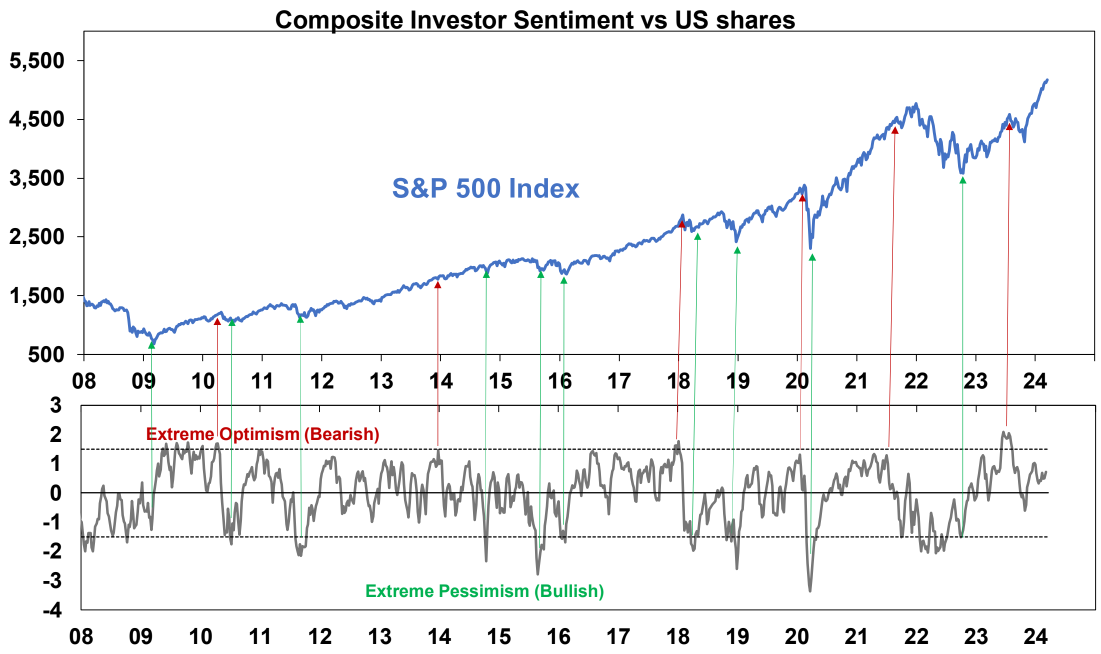
Source: Macrobond, AMP



Source: Macrobond, AMP Australia

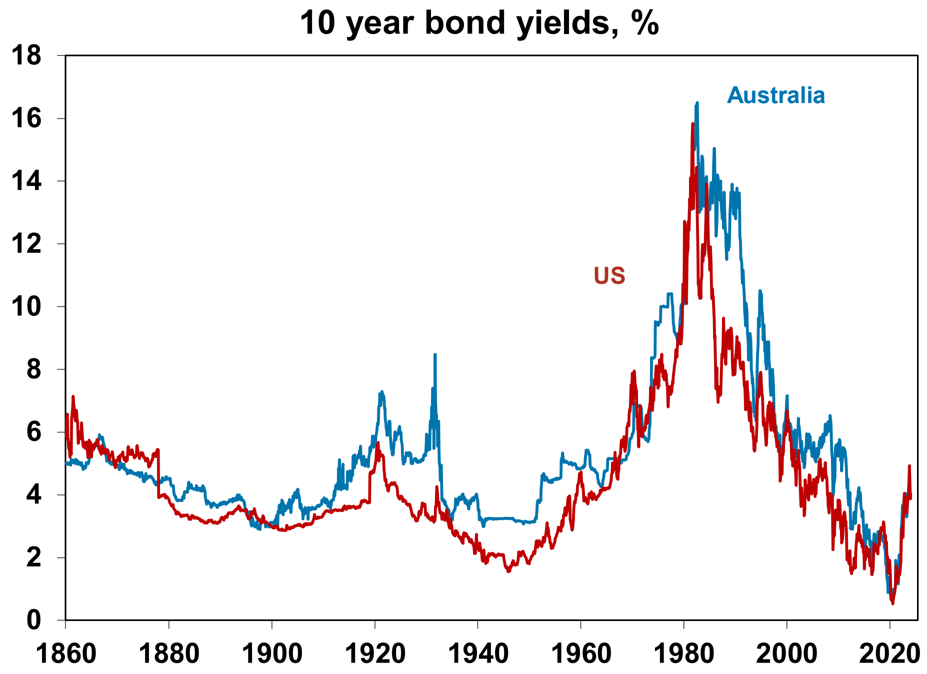
But, a low equity risk premium and relaxed sentiment still point to short term downside risks for shares – particularly if Goldilocks gives way to recession

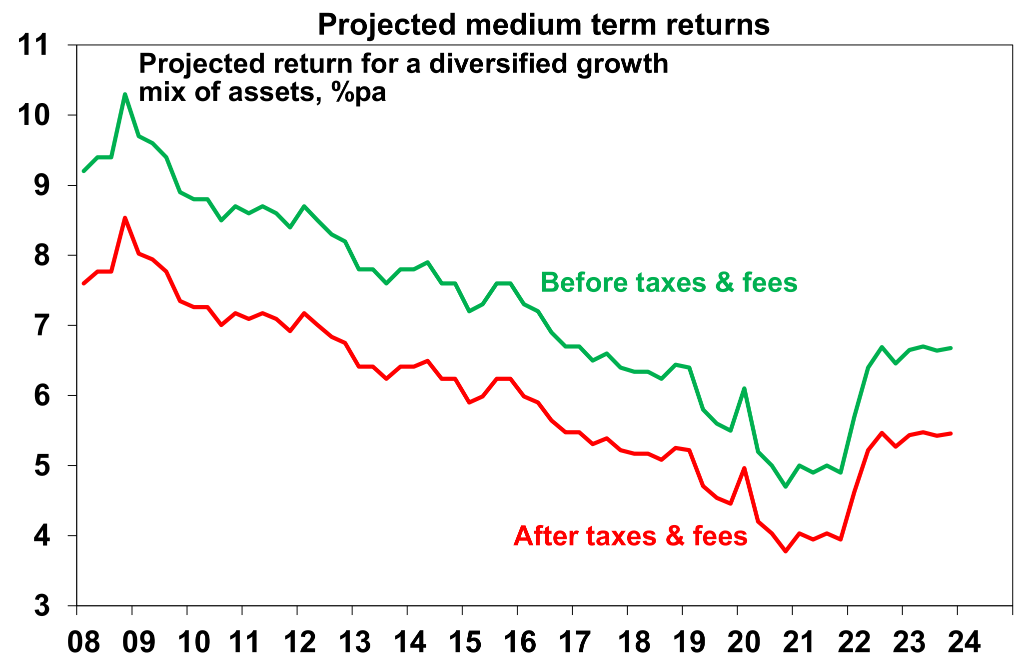




Source: Bloomberg, AMP

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)





Current dividend yield for shares, distribution/net rental yields for property and 5 year bond yield for bonds.
* With franking credits added in
+ Does not include franking credit which could add 0.45% to the return

Source: Bloomberg, AMP

What about geopolitics?

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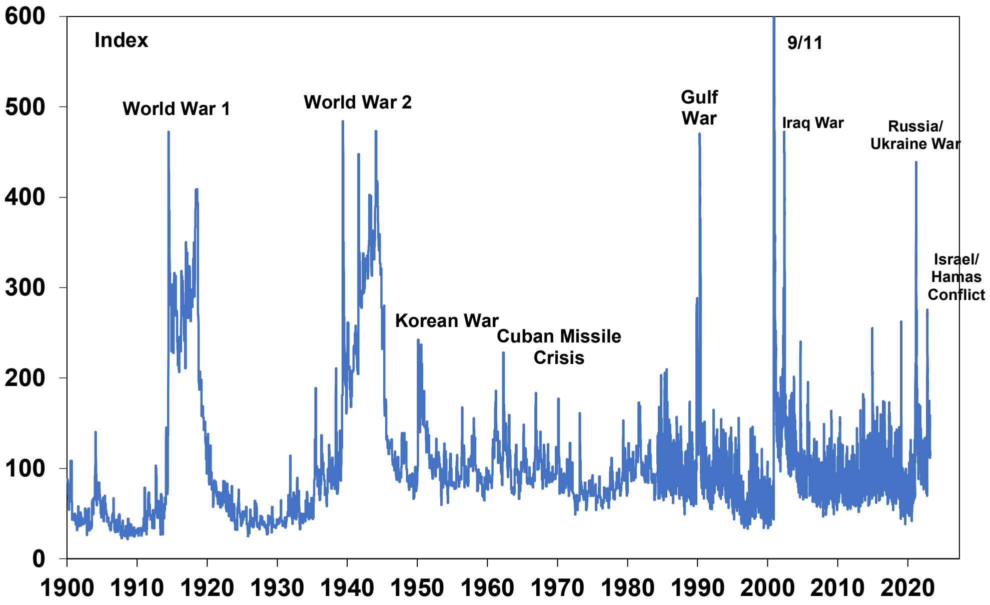
Geopolitical Risk Index



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	7-Oct-2023	-2	?
Average		**-10.4**	**15.2**

Source: https://www.matteoiacoviello.com/gpr.htm, Bloomberg, AMP

Projected medium term returns, %pa, pre fees and taxes

	Current Yield #	+ Hedge Points	+Growth	=Return
US Equities	1.37	-1.06	4.52	4.83
Asia ex Japan Equities	2.47	2.65	7.10	12.22
Emerging Equities	2.67	-0.22	7.03	9.48
World Equities, local currencies	1.81	0.10	4.68	6.58
Australian Equities	3.8/4.9*	0.00	3.54	7.3/8.4*
New Zealand Equities	3.42	-1.02	3.95	6.35
Unlisted Commercial Property	4.53	0.00	2.50	7.03
Australian REITS	3.91	0.00	2.50	6.41
Global REITS	4.18	-0.37	2.47	6.28
Unlisted Infrastructure	4.31	-0.38	3.00	6.93
Global Listed Infrastructure	3.50	-0.37	4.18	7.31
Australian Gov't Bonds	4.01	0.00	0.00	4.01
Australian Corporate Debt	4.85	0.00	0.00	4.85
Australian Cash	3.00	0.00	0.00	3.00
Diversified Growth Mix				6.38

Current dividend yield for shares, distribution/net rental yields for property and 5 year bond yield for bonds.
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Source: Bloomberg, AMP

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