Market Update
View from the Investment Team
January 2025

MARKETS

Share markets delivered strong positive returns in January. This occurred despite a dramatic drop in the price of Nvidia shares, which were impacted by news that Chinese AI model, DeepSeek, was trained and could be used at a fraction of the cost of incumbents such as ChatGPT. Share indices initially fell broadly, but soon recovered as investors realised that the dramatically lower operating costs would bring forward broad AI adoption by businesses, which is in turn expected to improve productivity and profits.

Government bond markets initially rose in January, but closed the month fairly flat, with returns more or less in line with carry. Credit markets remain sanguine because the US economy is strong, and spreads remained near their lowest levels since early 2022.

Real assets rose modestly, recovering part of the interest-rate driven declines experienced in December.

Bitcoin briefly reached a new high around the time of President Trump's inauguration, but quickly retreated back into the trading range in place since mid-November. Not so gold which trended higher all month, closing at a new all-time high. The AUD initially declined to below 61.5 US cents, but recovered to end the month steady. Positioning in AUD (short) and USD (long) looks stretched, thus potential exists for a modest recovery in coming months.

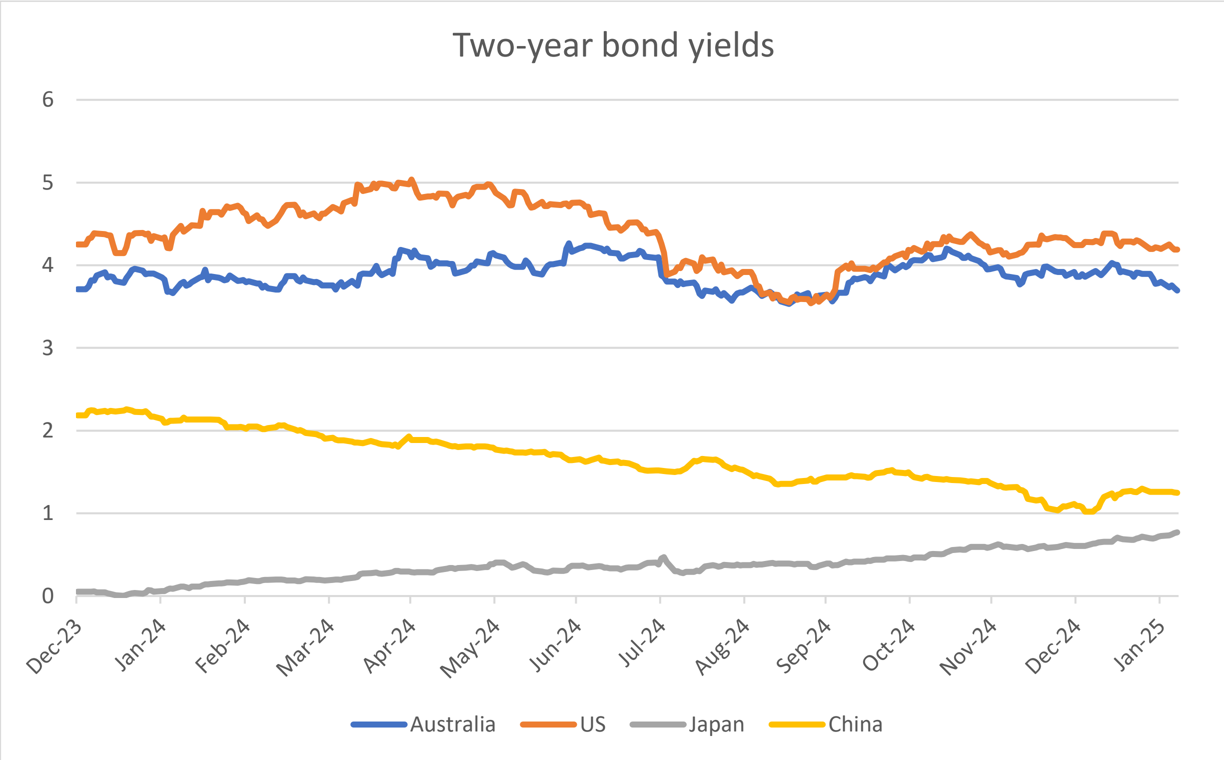
DATA AND EVENTS

Inflation is still what really matters for the RBA; and late in the month official quarterly data indicated this continued to moderate. AMP's Economics team is now forecasting three rate cuts in 2025 (here's hoping!).

The US jobs market remains strong, with the four-week moving average of weekly initial jobless claims falling to the lowest since May 2024 (very low) and continuing claims remaining in the recent range. Nothing to be concerned about here.

The main game in the US in January was of course the inauguration of President Trump who, unlike eight years ago, has arrived with a plan and a team ready to go. We expect (and have indeed already experienced) an increase in market volatility due to the long list of policy announcements that will take place in coming months, particularly in relation to trade and security. This creates the possibility of a meaningful sell-off in equities due to the uncertainty. In our portfolios, we have been trimming our equity overweight positions on market strength. Should a meaningful news-related sell-off occur, we plan to buy aggressively into the weakness.

CHART OF THE MONTH



Source: AMP, Bloomberg

Spot the odd one out!

The Bank of Japan appears to be set on a path to normalise interest rates for the first time in 30 years and the Japanese economy may soon experience its highest interest rates seen since 1997, when two-year yields reached a lofty 1.2%! This has huge implications for currency markets due to the sheer scale of 'carry trades', where an investor borrows in a low-interest rate currency (JPY), converts the proceeds to a higher interest rate currency (for example, AUD) and invests to earn the higher yield. What will happen as Japanese interest rates rise towards those of other major countries? If the gap becomes sufficiently narrow, then the interest rate differential will no longer compensate for the currency volatility and investors will exit the trade, selling AUD and buying JPY in large (very large) quantities. If you're one of these investors, it will pay to get out early. We got a taste of what this might look like in July and August – take a look at a chart of AUD/JPY.

MARKET RETURN SUMMARY

Asset class (% change)	1 month %	3 months %	1 year %	3 years (% p.a.)
Australian shares	4.5	5.0	15.1	11.1
Smaller companies	4.6	2.7	12.3	3.1
International shares UH	2.7	10.8	28.9	14.1
International shares H	3.5	6.5	22.7	9.4
Emerging markets UH	1.0	2.9	21.6	3.4
Property - Australian listed	4.7	0.9	22.4	8.6
Property - global listed	1.3	-2.7	8.3	-3.9
Infrastructure - global listed	1.3	-0.2	16.5	0.0
Australian fixed interest	0.2	1.8	2.9	-0.4
International fixed interest	0.4	0.7	2.9	-1.2
Cash	0.4	1.1	4.5	3.3

Source: AMPI. Returns are shown on a total return basis as at 31 January 2025. Past performance is not a reliable indicator of future performance.