David Cassidy August 2024

Australia's Economics – A Forward View

To provide focus for his presentation on investment markets, David listed the following questions:

* Has a global inflation crisis been averted?
* Is the US bull equities market at risk?
* Should we be bullish or worried re the possibility of Trump 2.0?

The key points he went on to make were:

Global inflation, ie in the US and Europe, is normalising, with Australia lagging the downward trend. Inflation here is "sticky" at around 4% with most of the cost categories used in the calculation of the CPI increasing by 3% or more. The cost of housing (22% of the index) has been impacted by rents up 7% (due to a surge in immigration and not enough houses being built), and construction costs increasing by 5%. Australia's "poor policy" by governments of both parties in the past has contributed to our current inflation.

Some of the cost categories comprising the index are not sensitive to interest rates so the RBA has no influence on them. Australia's first rate cut is likely to be in the Feb-June 2025 period, (a prediction made prior to RBA's August announcement).

Despite the recent decline in the Japanese market, the economic fundamentals are still OK. The US stock market has performed strongly over the past 10 years, outperforming other markets, including Australia's. It has a very different composition to 30 years ago with tech companies providing strong earnings and share price growth. The recent market correction is healthy and talk of a US recession is likely "jumping at shadows". While betting markets have recently tightened since Harris' candidacy, Trump has a small lead (as at early August) and markets appear reasonably comfortable with the idea of a second Trump presidency. While Trump's approach is generally pro-business, his plan to apply a 60% tariff on Chinese goods and 10% on others is a worry and hopefully will be adjusted. In view of the US' deficit and debt, it is unlikely he will be able to fulfill his aspiration to cut taxes (noting Republicans are unlikely to have control of both Congress and Senate, even if they win the presidency).

In his concluding remarks David listed some of the issues Wilsons are giving thought to:

- Geopolitics – is there a major storm brewing?
- Artificial Intelligence – are we looking at evolution or a revolution?
- Energy transition – what next?
- Australian housing – the inter-generational imbalance
- Where to invest? He listed small cap equities, selected commodities and undervalued real assets. "The world is full of opportunities!"

In the Q and A session, subjects raised and David's responses were:

- Bonds - good outlook currently but not sure long term in view of deficits and indebtedness and a possible Trump impact.
- The low $A valuation and its impact on the cost of goods and services overseas – factors impacting the valuation have included the lower Australian interest rates and lack of growth in China. There is some upside in the A$.
- AI – profits have not yet flowed as much as some predicted although he was generally positive about the "magnificent 6", but not so keen on Tesla at current share price level.
- Australian Manufacturing – the new submarines are looking very expensive and, given past experience, David is sceptical about the success of the project.
- Wars – oil price movements are not currently pointing to an imminent prolonged major conflict in Middle East. Taiwan is a future big potential flash point but not for quite a while in his view
- CBA – it looks expensive and growth in some other sectors seem more prospective.
- Seeking yield? There are diversified credit funds and specific property assets yielding up to 9%
- Gold – has been doing well lately due to it being a geopolitical hedge, plus Chinese and Central bank purchases. It is a better hedge than bitcoin

In thanking David on behalf of the members, Rob Thomas commended him on the intellectual rigour inherent in his comprehensive presentation for our members to consider as they evaluate their position in the light of the recent financial turmoil.

Alan Locke