ARRIVE
WEALTH MANAGEMENT

MONTHLY MARKET UPDATE

January 2025

THE HIGHLIGHTS

- Seeking to boost US manufacturing and pressure neighbouring countries on border security, President Trump announced new tariffs on imports from China, Canada and Mexico. Initial investor concerns over inflation and trade retaliation eased after Trump agreed to a 30-day tariff pause for Canada and Mexico.
- The launch of Chinese AI startup DeepSeeks' latest low-cost AI model initially unsettled global tech stocks. However, with its true capabilities untested, investors remain open-minded about its long-term impact on the sector.
- Global shares started the year on a strong note, as European markets surged and Asian markets lagged. Australian shares also performed strongly, kicking off 2025 with a broad-based rally.
- Fixed interest markets saw modest gains to start the year, as government bond yields responded on geopolitical and macroeconomic developments.

Key Markets — Trailing Total Returns (%)

Source: Evidentia/Bloomberg

As at 31 January 2025	1 mth	3 mths	6 mths	12 mths	3 yrs p.a.	5 yrs p.a.	10 yrs p.a.
Australian Shares							
Australian Shares	4.6	5.1	7.3	15.2	11.4	8.0	8.6
Australian Small Cap Shares	4.6	2.7	6.6	12.3	3.1	4.3	7.7
International Shares							
International Shares (Hedged)	3.3	5.7	8.1	22.0	8.5	10.4	-
International Shares (Unhedged)	2.6	9.9	12.4	27.9	12.9	12.6	12.2
Developed Markets Shares (Unhedged)	2.8	10.7	13.1	28.7	14.1	13.7	13.0
Emerging Markets Shares (Unhedged)	1.0	2.9	6.3	21.6	3.4	4.5	6.1
International Small Cap Shares (Unhedged)	2.6	8.9	8.1	22.2	8.9	9.4	10.4
Property & Infrastructure							
International Listed Property (Hedged)	1.6	-2.4	1.1	8.1	-3.3	-1.3	2.2
International Listed Infrastructure (Hedged)	0.7	-1.4	2.2	14.9	3.3	2.4	5.6
Fixed Interest & Cash							
Australian Fixed Interest	0.2	1.8	1.4	2.9	-0.4	-0.6	1.8
International Fixed Interest (Hedged)	0.4	0.7	1.2	2.9	-1.2	-0.7	1.7
Cash - Bank Bills	0.4	1.1	2.3	4.5	3.3	2.0	2.0

MARKET OBSERVATIONS

January was marked by shifting expectations in global markets as central bank policy, geopolitical uncertainty, and technology disruptions drove volatility. The US Federal Reserve opted to keep interest rates on hold but signalled that future cuts were becoming less likely in response to continued strong economic data. This stance led to a sharp rise in bond yields, with the 10-year Treasury yield briefly reaching 4.80%, unsettling share markets. Investors feared that a breach of the psychological 5.00% level could trigger a deeper and more prolonged correction, but as bond yields eased later in the month, shares staged a recovery.

Geopolitical tensions also played a role in market volatility, particularly as President Trump's unpredictable rhetoric on tariffs created uncertainty. Markets reacted sharply to shifting policy signals throughout the month, though no definitive outcome was reached. The lack of clarity left investors grappling with the potential economic consequences of new trade barriers.

In contrast to the US, Australian markets saw rate expectations move in the opposite direction, with investors fully pricing in a February rate cut. Weaker domestic growth and falling interest rate expectations continue to weigh on the Australian dollar, keeping it range-bound between 61c and 63c. This policy divergence between the Fed and the Reserve Bank of Australia underscored the differing economic trajectories of the two regions.

Meanwhile, the technology sector saw turbulence following the launch of Chinese AI startup DeepSeeks' latest low-cost AI model. The announcement triggered a 20% decline in Nvidia's share price as investors contemplated the potential implications of a less processor-intensive AI future. However, the sharp reaction likely reflected broader market nervousness around stretched valuations and the high earnings expectations embedded in mega-cap tech stocks rather than an immediate existential threat to AI hardware demand.

ECONOMIC REVIEW

AUSTRALIA

Australian mortgage holders received a welcome boost to start the year as expectations for a February rate cut gathered momentum following a further drop in inflation. The RBA's preferred core inflation measure eased to 3.2% in the December quarter, its lowest reading in three years. It marked a steady decline from 3.6% in the previous quarter, coming in softer than the 3.3% forecast. With inflation moving closer to the RBA's comfort zone, markets are pricing in a 95% chance of a 0.25% rate cut on 18 February, when the RBA will weigh up the case for easing against lingering economic uncertainties.

Australia's job market remains resilient, with the unemployment rate increasing from 3.9% to 4.0% in December. Despite more jobs being created, a higher participation rate — reflecting more people seeking work — offset the gains. Business conditions strengthened across most sectors, likely driven by seasonal demand and anticipation of rate cuts. However, business confidence remains weak, sitting well below historical averages.

US

The Fed held rates steady at 4.25%–4.5% in its January meeting, reinforcing a patient, data-driven approach after three consecutive cuts. Elevated fiscal and trade policy uncertainty and solid economic and labour market data allowed the Fed to signal no urgency for further adjustments. In his press statement, Fed Chair Jerome Powell suggested the central bank will likely remain on hold while awaiting more data, indicating that a March cut is unlikely unless economic conditions soften unexpectedly.

Adding to the uncertainty, the Trump administration imposed new tariffs on China (10%), Mexico (25%) and Canada (25%), aiming to boost domestic manufacturing and curb the flow of drugs and undocumented immigrants into the US — policies expected to be inflationary. The Fed reiterated that monetary policy is well-positioned, with rate cuts still anticipated this year if inflation eases. However, prolonged trade tensions could complicate the outlook, as higher tariffs may drive up prices and delay potential cuts.

EUROPE

January saw the European Central Bank (ECB) lower its deposit facility rate by 0.25% to 2.75%, balancing weak growth against inflation risks. While inflation is expected to reach target this year, the ECB maintains policy flexibility, potentially slowing further rate cuts if inflation exceeds expectations while supporting the economy if conditions deteriorate. Recent data indicated the eurozone economy stagnated in the December quarter, with modest growth of 0.7% over 2024. However, business confidence has turned positive, and retail sales marked a fifth consecutive month of growth, suggesting underlying resilience.

The Bank of England cut interest rates in the UK from 4.75% to 4.50% — the lowest level for more than 18 months — and halved its annual GDP growth forecast for 2025 to just 0.75%.

ASIA

China's economy hit its 5% growth target in 2024, its lowest rate since 1990 outside of the pandemic. Growth accelerated through the year, with growth of 5.4% in the December quarter, up from 4.6% in the previous quarter. The People's Bank of China (PBoC) left rates on hold for a third month in January as currency instability and US policy uncertainty pressured the central bank to delay further cuts.

Japan's economy faced diverging trends to begin the year, with manufacturing contracting for a seventh straight month, while core inflation in Japan's capital, Tokyo, hit a one-year high of 2.5%, surpassing the Bank of Japan's (BoJ's) 2% target. In response, the BoJ raised rates to 0.5%, the highest since 2008, hinting at further hikes to counter inflation and yen weakness.

ASSET CLASS REVIEW

AUSTRALIAN SHARES

Australian shares kicked off the year with strong gains. The S&P/ASX 200 Index punched out multiple new highs during January to recapture all of December's losses and close +4.6% higher — outpacing the US market but trailing European markets. Smaller companies kept pace with their larger counterparts, with the S&P/ASX Small Ordinaries Index also climbing +4.6%, reflecting broad-based strength across the market.

Sectors performance was robust in January. Rate-sensitive sectors jumped in response to a cooler-than-expected inflation print which likely paves the way for the RBA to commence cutting rates in February, with consumer discretionary (+7.1%), financials (+6.1%) and REITs (+4.7%) all tracking higher. Defensive sectors such as Utilities (-2.4%) and Consumer Staples (+0.7%) underperformed.

What fund managers are saying....

"Cyclical small companies may be among those most likely to outperform in an anticipated small-cap recovery from the doldrums of the past few years. Local small caps as a whole struggled last year as higher interest rates and slowing economic activity depressed demand for their goods and services, while simultaneously increasing their debt burden. In fact, the S&P/ASX Small Ordinaries Accumulation Index has underperformed the top 100 companies by 30% over the past three years as investors have instead focused on the stellar gains in the US share market and a small number of growth companies more generally.

That trend is now expected to reverse, and there's more to this recovery than just an anticipated reversion to the mean. Earnings growth from small companies could be around 10% per annum over the next two years, compared to an average of just 2-3% for the top 100 ASX stocks. Cyclical small caps are primed to be among the standouts. The multiple rate cuts expected in Australia – potentially beginning as soon as February – will finally support a recovery in their customer demand and reduce the cost of servicing debt.

Cyclical stocks best-placed to benefit from a more robust economic environment include companies that can increase earnings from more than just the economic cycle. Management initiatives that boost market share or reduce operating costs, for instance, will play an equally critical role in their recovering fortunes. But it's the resources arena that we believe may deliver some of the best small-cap performers of the year. A combination of the cyclical drivers above and structural tailwinds unique to the resources sector provides a solid foundation for potential gains."

Yarra Capital Management

INTERNATIONAL SHARES

International shares started the year positively. A rebound in the Australian dollar, driven by rising commodity prices, saw hedged exposures outperform unhedged. The MSCI All Country World Hedged Index gained +3.3%, ahead of the +2.6% rise in the MSCI All Country World Index. Meanwhile, global small companies, as measured by the MSCI World ex Australia Small Cap Net Return AUD Index, delivered solid absolute gains of +2.6% but lagged their larger counterparts.

January sector highlights included communication services (+8.7%), powered by a strong month for sector heavyweight Meta (Facebook). Financials (+6.5%) had a standout month, with momentum in the sector continuing to benefit from a stabilising economic outlook. Health care (+6.3%) rose on strong results from pharmaceutical and biotechnology companies. Information technology (-1.5%) was the notable laggard, as turbulence following the emergence of DeepSeek's cost-effective AI solution — which aims to undercut pricing models of existing AI leaders and sparked investor concern over profit margins — disrupted key sector players like Nvidia.

Europe led global share markets, with the Euro Stoxx 50 Index surging +8.1%, supported by early signs of economic improvement and its low exposure to underperforming technology companies. In the US, the S&P 500 Index gained +2.8%, while the tech-heavy Nasdaq Composite Index (+1.7%) lagged as investors rotated out of the technology sector. Japan underperformed, with the Topix Total Return Index inching up 0.1%, as a stronger yen weighed on its export-driven market. The MSCI China Net Total Return Index rose a modest +1.1%. However, weaker performances in India and other ex-Japan Asian markets were a drag on the broader MSCI Emerging Markets Index, which trailed developed markets, gaining +1.0% in January.

International Shares — Trailing Total Returns (%)

Source: Evidentia/Bloomberg

As at 31 January 2025	1 mth	3 mths	6 mths	12 mths	3 yrs p.a.	5 yrs p.a.	10 yrs p.a.
Local Currency							
Australia	4.6	5.1	7.3	15.2	11.4	8.0	8.6
US	2.8	6.2	10.1	26.4	11.9	15.2	13.8
Europe	8.1	9.8	9.0	16.6	10.9	10.2	7.3
UK	6.2	7.6	5.3	18.0	9.2	7.4	6.6
Japan	0.1	3.6	1.0	11.9	16.6	13.3	9.5
China	1.1	-0.4	16.5	34.8	-4.2	-2.0	1.9
Asia (ex-Japan)	0.8	-0.5	3.9	22.5	2.8	5.4	5.5

What fund managers are saying….

"Taking everything into account, we see the costs of the trade war as manageable from the US perspective. Its economy enters this period of heightened uncertainty in a strong, stable position. Growth, the labour market and inflation have all been steady for the past several months and the general state of the economy is balanced. This should make it resilient even as the policy framework changes. Also, the US is not a particularly trade-sensitive economy. A common way to measure this sensitivity is through trade openness: the total of imports plus exports divided by gross domestic product. The US, with a relatively low trade-openness rate of 27%, seems less likely to suffer dire consequences from a trade war than other countries where trade is a much higher share of the overall economy."

Alliance Bernstein

PROPERTY AND INFRASTRUCTURE

Property and infrastructure recovered from last month's losses to post modest gains as bond yields stablised over the second half of January. The FTSE Global Core Infrastructure 50/50 (Hedged) Index ticked up +0.7%, while the property-focused FTSE EPRA Nareit Developed Index (Hedged) gained +1.6%.

FIXED INTEREST

Fixed interest markets fluctuated, posting modest gains. 10-year US Treasuries were sold off early in the month as Trump's return to power ignited expectations of inflationary policy settings, pushing yields higher. However, bonds rebounded as a softer-than-expected US inflation report, and concerns about an overvalued technology sector prompted investors to rotate into bonds. The 10-year US Treasury yield ended the month down -0.02% at 4.55%, after peaking at 4.80% mid-month. In Australia, the 10-year Government Bond yield rose +0.06% to 4.43%, while shorter-dated yields fell as markets priced in a February rate cut, leading to a steeper yield curve. Global bonds marginally outperformed Australian bonds, with the Bloomberg Global Aggregate Bond Hedged Index gaining +0.4%, compared to a +0.2% rise for the Bloomberg AusBond Composite 0+ Yr Index.

Credit markets delivered solid returns in January, with spreads narrowing slightly as a positive economic outlook and attractive yields continued to drive demand for investment-grade corporate bonds. Global investment-grade credit outperformed Australian credit, with the Bloomberg Global Aggregate Credit Total Return Index Hedged AUD rising +0.6%, while the Bloomberg AusBond Credit 0+ Yr Index gained +0.4%. Supported by higher total yields, global high-yield credit performed slightly better, advancing +0.7% for the month.

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Fixed Interest — Rates, Yields & Spreads

Source: Evidentia/Bloomberg

As at 31 January 2025	month end	1 mth earlier	3 mths earlier	6 mths earlier	12 mths earlier	10 yr average
Australian Fixed Interest						
Australian RBA cash rate	4.35	4.35	4.35	4.35	4.35	1.81
Australian 10-year government bond yield	4.43	4.36	4.50	4.13	4.01	2.57
Australian corporate composite bond spread	1.09	1.11	1.14	1.26	1.45	1.26
Bloomberg AusBond Comp 0+ Yrs yield	4.38	4.37	4.53	4.29	4.12	2.51
International Fixed Interest						
US Fed funds rate	4.50	4.50	5.00	5.50	5.50	1.97
US 10-year Treasury yield	4.55	4.57	4.29	4.03	3.91	2.49
US corporate bond spread	0.79	0.80	0.84	0.93	0.96	1.21
US high yield bond spread	2.61	2.87	2.82	3.14	3.44	4.16
Bloomberg Global Aggregate yield	3.66	3.68	3.64	3.62	3.59	2.07

What fund managers are saying....

"It was yet another month characterised by volatility, which saw a round trip higher, then lower, for bond yields. Focus remains on the uncertainty surrounding the US, amid a new Administration and the potential for significant changes in policy. The US economy is strong, and a robust labour market print pushed most yields higher in early January. This was the end for any market expectation of near-term US Federal Reserve easing. That came to pass, as the Federal Open Market Committee chose to keep rates on hold in late January. Other central banks, including the European Central Bank and the Bank of Canada continue to lower interest rates, although there is now a degree of caution surrounding the future inflationary impact of tariffs. The Australian market has been buffeted by these cross currents.

Domestically, however, a lower-than-expected quarterly inflation print, showing lower trimmed mean inflation, and a headline at 2.4% year-on-year, opens the way for a February interest rate cut. While the labour market remains solid, an unemployment rate at 4% does not preclude the RBA starting the process of less tight monetary policy. There continues to be signs of sluggish household consumption, despite rising real incomes. House prices are softening, and business confidence remains below trend."

Janus Henderson