

ECONOMIC OUTLOOK

GLOBAL ECONOMY

The global economy is currently growing at close to its long-term trend rate and, in its latest report, the IMF sees the global economy as having 'weathered the shock from the war in the Middle East better than feared', noting that the effects of the war have been 'partly offset by accelerated momentum in the global technology cycle thanks to advances in artificial intelligence (AI)'.

The IMF is anticipating US growth of 2.3% this year and 2.2% in 2027, although the US administration is expecting higher growth on the back of fiscal stimulus and new incentives for investment. Growth across Europe and in Japan is forecast to remain subdued, with most major central banks likely to limit interest rate rises.

The global economy is forecast to slow marginally this year, although it is still expected to expand at close to its long-term trend rate. In its latest report (July), the International Monetary Fund (IMF) is forecasting global growth to be 3.0% this year and 3.4% in 2027. In the IMF's words, 'the global economy as a whole has, so far, weathered the shock from the war in the Middle East better than feared', with 'global growth in the first quarter of 2026 stronger than expected'. A key reason for this solid outcome has been that the effects of this war with Iran have been 'partly offset by accelerated momentum in the global technology cycle thanks to advances in artificial intelligence (AI) and its adoption', adding that 'core inflation has remained relatively stable to date in most countries'. Growth in the advanced economies is forecast to be 1.7% this year and 1.8% in 2027, with 'risks still tilted to the downside'

In the case of the US, the annual growth rate was 2.1% in the June quarter, with the IMF forecasting growth of 2.3% for the whole of 2026 and 2.2% for 2027, although the US administration is aiming for a higher rate of growth than this, with fiscal stimulus, reduced regulation and incentives for investment aimed at lifting economic activity over time. The annual inflation rate reached its highest level in 3 years in May (4.2%), due to a rise in oil prices, but had fallen back to 3.4% by August. Nevertheless, the central bank raised interest rates at its 16 September meeting (to 3.75% to 4.0%). Growth for the euro zone is forecast to remain weak (0.9% this year and 1.2% in 2027), while Japan is forecast to grow by only 0.6% this year and 0.7% in 2027.

AUSTRALIAN ECONOMY

The Australian economy entered a per capita recession in 2023 and has continued to remain weak ever since, with tepid growth sustained by high government spending. After raising rates three times this year, the RBA could soon tighten further to curb inflation.

The Australian economy grew by 0.4% in the June quarter and by 2.1% over the year. On a per capita basis, growth was flat over the quarter and has now not grown for 12 of the last 16 quarters. Growth could slip lower over coming months due to the Reserve Bank (RBA) having tightened monetary policy by raising its 'cash rate' three times this year in response to rising inflation. Despite the annual headline rate declining to 3.5% in July (with a 'trimmed mean' rate of 3.6%), the RBA appears likely to raise rates again in the near-term, raising the prospect of the economy weakening even further over coming months.

MARKETS

Major share markets have mostly been rising since early April after experiencing heavy falls in March due to war with the Iranian regime. Prior to the outbreak of war, markets had been trending upwards for two years mainly due to a declining interest rate environment.

Most share markets were on a broadly upwards trend from April last year until the end of February this year, largely due to declining interest rates in most of the major economies. However, with the outbreak of the Iran war, most markets fell heavily in March before beginning to rise again in April. This year, up to 24 September, overall market movements have included rises of 13% for the broad US market (S&P500), 16% for the technology-focused Nasdaq, 8% for the UK and a hefty 32% for Japan. Most European markets were softer (Germany was up 3% and France was down 1%), while India fell 14% and the Australian market was flat.

Major sovereign bond markets saw yields rise after the end of 'quantitative easing' ('QE') in 2022. However, slow recovery in key economies encouraged investors back into these 'safe havens' in many instances, although higher inflation this year has seen yields rise significantly.

Major sovereign bond markets have been volatile for some time, with yields (interest rates) rising and falling in line with the outlook for inflation. The US 10-year Treasury bond yield was pushed to a record low of 0.54% on 9 March 2020 (by 'QE') but touched 5.0% in October 2023 before sliding back. Recent weeks have seen yields rise again, reaching 5.16% on 24 September this year. The Australian 10-year bond yield was 0.57% on 8 March 2020 but reached 5.12% on 18 May before declining and then rising again to a high 5.41% on 24 September. Bond yields could move lower (and prices rise) over coming months if inflation declines.

FIDUCIAN FUNDS

Fiducian's diversified funds are above benchmark for international shares and close to benchmark for other assets.

Fiducian's diversified funds are currently above benchmark for international shares and slightly under benchmark for domestic shares and listed property. Exposure to bond markets is close to benchmark, while cash holdings remain below benchmark.