Fiducian Monthly Economic Commentary Report

30 April 2025

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ECONOMIC OUTLOOK

GLOBAL ECONOMY

The outlook for the global economy has been affected by what the IMF has termed a 'swift escalation of trade tensions", after 'a series of new tariff measures by the US and countermeasures by its trading partners'. Nevertheless, global growth is still forecast to be a solid 2.8% this year and 3.0% in 2026, although these projections could be lifted if beneficial trade deals are able to be completed.

The global economy is expected to slow marginally this year, according to the latest forecasts provided by the International Monetary Fund (IMF). Global growth is forecast to be 2.8% this year and 3.0% in 2026, which is below the IMF's previous forecast of 3.3% in each year (around the long-term trend rate). In the IMF's words, this lowering of its growth forecasts is due to 'the swift escalation of trade tensions and extremely high levels of policy uncertainty', after 'a series of new tariff measures by the US and countermeasures by its trading partners'. The IMF adds that 'while the situation remains fluid, risks remain firmly tilted to the downside', although 'if countries de-escalate from their current tariff stance, the outlook could immediately brighten'. In other words, if positive trade deals are able to be completed over the near-term, investors could potentially quickly regain confidence and enable an economic rebound, at least for some economies.

The IMF is anticipating a slowdown in real US growth this year (to 1.8%), largely due to the imposition of tariffs. Growth across Europe and in Japan is also forecast to remain weak. Inflation has picked up in recent months in many economies, although the IMF is still forecasting inflation to slowly decline.

In the case of the US, the hefty tariffs announced by the new administration under President Trump are forecast to have the strongest negative effect (other than China) with growth for this year being downgraded from a previous estimate of 2.7% to only 1.8%, although this remains above forecast growth rates for the euro zone (0.8%), the UK (1.1%) and Japan (0.6%). As the IMF notes, this reduced growth forecast for the US is due to 'greater policy uncertainty, trade tensions, and softer demand momentum'. Furthermore, global inflation 'is expected to decline at a pace that is slightly slower than was (previously) expected'. This is likely to be particularly so for the US if trade deals are not soon implemented.

AUSTRALIAN ECONOMY

The Australian economy entered a per capita recession in 2023 and remains weak, with households under cost-of-living pressure. Discretionary spending remains weak but interest rates were cut in December and could soon fall further.

The Australian economy remains weak in the lead-up to the federal election. The economy grew by only 1.3% in 2024, while on a per capita basis, it expanded by a bare 0.1% in the December quarter, after seven quarters in a row of contraction. Elevated interest rates have kept a lid on growth, as the Reserve Bank (RBA) has continued to fight inflation. In December, the RBA cut its cash rate by 0.25% to 4.1% after the annual inflation rate moved into its target range (2% to 3%). After the March reading also remained within target (at 2.7%), a further cut could come soon, although the quarterly rate remained high (1.1%).

MARKETS

Major share markets mostly rose over the course of 2024 but have been highly volatile since the announcement of US tariff hikes. US and some other markets have slid in recent months but cheaper European markets have mostly risen and generally still appear fairly priced.

Most share markets were on a broadly upwards trend from October 2023 right through 2024 on the assumption that interest rates had peaked and would soon begin to be reduced. This year has so far seen high volatility, especially after the US move to introduce unprecedented tariff hikes on most imports. Up to 30 April, market declines have included 5% for the broad US market (S&P500), 10% for the technology-focused Nasdaq, 10% for the Japanese market and 2% for China, while European markets were mostly up (the UK 4%, France 3% and Germany 13%), as was India (3%), while the Australian market was flat.

Major sovereign bond markets saw yields rise after the end of 'quantitative easing' in 2022. However, since then slow growth in key economies has encouraged investors back into these 'safe havens' in many instances.

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 fell to a record low of 0.54% on 9 March 2020 during the pandemic but touched 5.0% in October 2023 before sliding down, then rising again. It was 4.16% on 30 April this year. Similarly, the Australian 10-year bond yield was 0.57% on 8 March 2020 but was 4.16% on 30 April 2025. Some bond markets could see yields fall (and prices rise) over coming months if growth remains soft and if inflation continues to fall back towards targets.

FIDUCIAN FUNDS

Fiducian's diversified funds are close to benchmark for growth assets (shares and property), while cash is underweight.

Fiducian's diversified funds are currently above benchmark for international shares and listed property and around benchmark for domestic shares. Exposure to bond markets is close to benchmark, while cash holdings have been lowered.