

ECONOMIC OUTLOOK

GLOBAL ECONOMY

The global economy, according to the IMF, is forecast to grow this year and next at close to last year's rate and around its longer-term trend rate. However, the IMF's broadly positive outlook may have to be softened somewhat by the recent outbreak of war in Iran, which has already led to a significant lift in oil prices and rising inflation. Global growth is forecast to be 3.3% this year and 3.2% in 2027.

The IMF is anticipating US growth of 2.4% this year and 2.0% 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 keep interest rates low.

AUSTRALIAN ECONOMY

The Australian economy grew in the December quarter even on a per capita basis. However, after the RBA raised its 'cash rate' in February and then again in March, economic activity is expected to slow, while elevated energy prices could keep inflation high and lead to monetary policy remaining tight for some time.

MARKETS

Major share markets mostly rose in 2025, continuing a trend set in 2024. Market rises have been driven by relatively stable inflation data and consequent declines in interest rates. This year saw most markets drop after the outbreak of the Iran war but valuation has improved.

Major sovereign bond markets saw yields rise after the end of 'quantitative easing' in 2022. Since then slow growth in key economies has encouraged investors back into these 'safe havens', although in recent weeks, yields have moved up again due to the Iran war.

FIDUCIAN FUNDS

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

The global economy is forecast to expand this year at the same rate as last year, which remains close to its long-term trend rate. In its latest report (January), the International Monetary Fund (IMF) is forecasting global growth to be 3.3% this year and 3.2% in 2027. In the IMF's words, 'headwinds from shifting trade policies are offset by tailwinds from surging investment related to technology, including artificial intelligence, as well as fiscal and monetary support, broadly accommodative financial conditions and adaptability of the private sector'. However, this broadly positive interpretation of the general outlook could be affected by the current war between the US and Israel against Iran, which began on 28 February this year. This has already led to a significant lift in oil prices, which could see inflation rise and growth slow in much of the world.

In the case of the US, growth slowed in the December quarter, rising by 1.4% at an annualised rate, partly due to an extended shutdown of federal government agencies during the quarter. The IMF is now forecasting growth of 2.4% for the whole of 2026 and 2.0% 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 propelling growth going forward. While the annual inflation rate was a moderate 2.4% in February, it could rise above this due to the Middle East war. However, the central bank is not likely to raise its official interest rate given the potential for the global economy to weaken in the current environment.

The Australian economy grew by 0.8% in the December quarter and by 2.6% over the year. On a per capita basis, the economy grew by 0.4% over the quarter and by 0.9% over the year, this being only the fourth quarter of per capita growth over the past 14 quarters. Growth could slip lower over coming months due to the Reserve Bank (RBA) moving to tighten monetary policy by raising interest rates this year in response to indications that the annual inflation rate was once again rising (a headline rate of 3.7% and 'trimmed mean' rate of 3.3% in February, this being above its target range of 2% to 3%). The RBA raised its 'cash rate' by 0.25% to 3.85% in February and then to 4.1% in March to attempt to slow economic activity.

Most share markets were on a broadly upwards trend from April last year after a strong 2024, mostly due to the assumption that interest rates would be trending downwards for some time, which has proved to be broadly accurate for most of the major economies. This upwards trend continued over the first two months of this year but was then reversed in March due to the outbreak of the war with Iran. This year, up to 1 April, market movements have included declines of 4% for both the broad US market (S&P500) and the technology-focused Nasdaq index, 5% for the UK, 8% for Germany, 9% for Japan and 6% for Australia.

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 4.32% on 1 April this year. Similarly, the Australian 10-year bond yield was 0.57% on 8 March 2020 but was 4.91% on 1 April this year. Bond markets could see yields rise further (and prices fall) over coming months if inflation remains elevated due to the continuing war with Iran.

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