Investment Newsletter – January 2024

As January goes so goes the year?

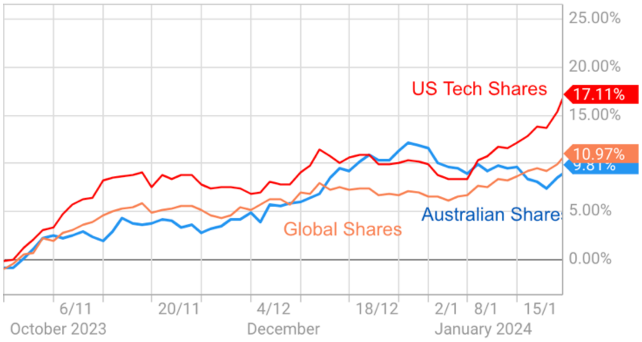
As January goes for share market returns, so goes the rest of the year. This is also known as the 'January Barometer.' This popular market wisdom was first shared in 1972 by Yale Hirsch, whose company popularized the use of statistics to predict market phenomena that have since become well-known, such as the 'Presidential Election Year Cycle,' 'January Barometer,' and the more commonly known 'Santa Claus Rally'.

Let's work through these one by one.

MARKET RALLY YES, BUT NOT A SANTA RALLY

From their lows in early November 2023, Australian and global shares have gained approximately 10% by January 23, 2024, while US technology stocks have posted an even more stellar rise of over +17%.

Figure 1: Markets have soared since bottoming in November 2023*



You may have read about this rally in newspapers as the end-of-year Santa Claus rally. While it is certainly a rally, it is not strictly defined as a Santa Claus rally. The definition matters, as it helps compare past years' data for pattern recognition and prediction of the market's direction at the end of the year.

The Santa Claus Rally (if there is to be one) is usually measured over a seven-day period, including the last 5 trading days of December and the first 2 trading days of the new year in January. By this definition, the market actually declined by -0.88% over this Christmas and New Year period, instead of the traditional Santa rally, which averages 1.3% (since 1950) during this period. ***Santa's failure to show tends to precede bear markets or times when stocks could be purchased later in the year at much lower prices. Yale Hirsch discovered this phenomenon back in 1972.***

Figure 2: US Market S&P 500 daily returns over the seven-day period of the traditional Santa Claus Rally*

SANTA RALLY (7 days)							
5 Trading Days Before Year-End					First 2 Days in January		Santa Rally % change over 7 days
22-Dec-23	26-Dec-23	27-Dec-23	28-Dec-23	29-Dec-23	2-Jan-24	3-Jan-24	
5	4	3	2	1	1	2	
0.17%	0.42%	0.14%	0.04%	-0.28%	-0.57%	-0.80%	-0.88%

*Source Banyantree Investment Group, ASX

JANUARY BAROMETER BODES WELL

Hirsch also found that historically, if the S&P 500 goes up in January, the trend tends to continue for the rest of the year. Conversely, if the S&P falls in January, then the market often ends the year in the negative.

So far in January 2024, the US stock market (S&P 500) is up by approximately +1.7%. Assuming it will end the month in the positive, using Hirsch's January Barometer rule, we can make a crude forecast based on past data since 1950. ***There is almost a 90% chance that the equity market will end the year 2024 with a positive gain.***

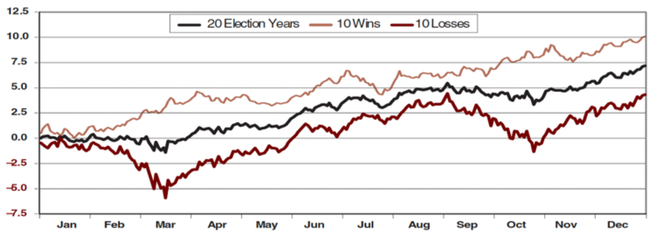
You are probably wondering just how big that gain could potentially be for the year if the past probabilities were to repeat the pattern this year? Actually, it doesn't matter how big the gain in January is, so long as the market ends in positive territory. ***If January is positive, then the 70-year market history shows that the S&P 500 index has a very high chance of delivering double-digit returns by the end of the year. We have shared the data on the back page for your reference.***

PRESIDENTIAL ELECTION YEAR CYCLE BODES WELL

Yale Hirsch's third market phenomenon is about how U.S. presidential elections and the economy are connected. Given that U.S. federal elections are set to occur this year in November, we should not underestimate Joe Biden, the U.S. president, and what he is going to do to get re-elected.

History of past elections suggests that the sitting president would likely aim to make the economy look good by taking actions such as increasing government spending and influence interest rate cuts. This can lead to prosperous times in the stock market. However, in the years right after an election, the economy might not perform as well. The chart below displays data for the past 20 U.S. presidential elections, illustrating how the U.S. stock market behaves during an election year when the sitting president is popular and expected to win re-election versus when an incumbent loses to a new president. In both cases, full-year stock returns are positive.

Figure 3: Trend of S&P500 index in election years 1944-2020*



Putting the three phenomena together, Santa's missing rally in a US election year where a sitting president is looking weak and potentially heading for a loss points to a perhaps a slow start to the year, but we expect a strong end to the year, helped along by a positive January effect.

GLOBAL MARKETS OVERVIEW

	Units	Month End Value	Price Performance (% Chg) 1-day	1-mth	6-mths	1-year
Developed Markets Equities						
ASX 200	AUD	7,591	-0.31%	7.10%	5.38%	7.84%
ASX 200 Futures	AUD	7,585	-0.29%	7.33%	6.25%	10.65%
Dow Jones	USD	37,690	-0.05%	4.84%	9.54%	13.70%
S&P 500	USD	4,770	-0.28%	4.42%	7.18%	24.23%
Stoxx Europe 600	EUR	479	0.20%	3.77%	3.70%	12.74%
FTSE 100 (UK)	GBP	7,733	0.14%	3.75%	2.68%	3.78%
DAX (Germany)	EUR	16,752	0.30%	3.31%	3.74%	20.31%
CAC (France)	EUR	7,543	0.11%	3.18%	1.93%	16.52%
Nikkei 225	JPY	33,464	-0.22%	-0.07%	0.83%	28.24%
Emerging Markets Equities						
MSCI Emerging Markets	USD	1,024	0.08%	3.71%	3.46%	7.04%
Shanghai Composite	CNY	2,975	0.68%	-1.81%	-7.09%	-3.70%
South Korea	KRW	2,655	0.00%	4.73%	3.55%	18.73%
Taiwan	TWD	17,931	0.11%	2.85%	6.00%	26.83%
Brazil	BRL	134,185	0.00%	5.38%	13.63%	22.28%
South Africa	ZAR	70,495	0.60%	1.22%	-0.30%	5.29%
Foreign Exchange						
AUDUSD	Currency	0.6812	-0.26%	3.13%	2.22%	-0.01%
AUDGBP	Currency	0.5351	-0.24%	2.26%	1.93%	-5.03%
AUDEUR	Currency	0.6172	-0.02%	1.75%	1.03%	-3.05%
AUDCNY	Currency	4.84	-0.38%	2.77%	0.18%	3.73%
Commodities						
LME ALUMINUM 3MO ($)	USD/mt	2,384	0.25%	8.71%	10.81%	0.25%
LME COPPER 3MO ($)	USD/mt	8,559	-0.76%	1.12%	2.93%	2.23%
LME NICKEL 3MO ($)	USD/mt	16,603	-0.78%	-0.25%	-19.07%	-44.75%
SILVER FUTURE Mar24	USD/oz	24.09	-1.17%	-6.13%	1.79%	-4.36%
ICE Newc Coal Fut Feb24	USD/mt	133.80	-1.62%	0.15%	-19.35%	-48.32%
62% Import Fine Ore in USD	USD/t	130.33	0.00%	3.99%	20.36%	16.70%
Gold Spot $/Oz	USD/oz	2,063	-0.13%	1.30%	7.48%	13.10%
WTI Oil	USD/bbl	71.65	-0.17%	-5.79%	2.39%	-6.09%
Henry Hub	USD/mmBtu	2.58	1.18%	-6.18%	4.03%	-26.70%
Corn	USD/Bu	471.25	-0.63%	2.06%	-15.01%	-30.55%
Wheat	USD/Bu	628.00	-0.55%	10.13%	-1.30%	-20.71%
Fixed Interest						
10-Yr Bond Yield						
Australia	AUD	3.96%	+0.06%	-0.46%	-0.07%	-0.09%
US	USD	3.88%	+0.03%	-0.45%	+0.04%	+0.00%
Germany	EUR	2.02%	+0.08%	-0.42%	-0.37%	-0.55%
Japan	JPY	0.61%	+0.02%	-0.06%	+0.21%	+0.19%
Italy	EUR	3.70%	+0.10%	-0.53%	-0.37%	-1.02%
Australian Rates						
Cash Rate	AUD	4.35%	+0.00%	+0.00%	+0.25%	+1.25%
90-Day BBSW	AUD	4.36%	-0.01%	-0.01%	-0.00%	+1.09%
180-Day BBSW	AUD	4.45%	+0.00%	-0.14%	-0.26%	+0.68%
CBOE Options						
CBOE VIX (Volatility Index)	Index	12.45	-0.16%	-3.64%	-8.39%	-42.55%

Data as of 31 December 2023

ECONOMIC NEWS

• **In Australia –** The RBA left the cash rate unchanged at 4.35%, with minutes from meeting revealing, members signalled they are prepared to tighten further should inflation take too long to return to target, while pointing to the possibility of a larger rise than anticipated in the unemployment rate, currently a very low 3.9%, with households already experiencing a "painful squeeze" on their finances. The government predicts a budget deficit of A$1.1 billion for the 12 months through June 2024, which is 0% of GDP. This is a significant improvement compared to the estimated A$13.9 billion shortfall in the May budget. The positive trend is expected to continue into fiscal 2025, with a projected shortfall of A$18.8 billion, equivalent to 0.7% of GDP, which is almost half of the May forecast.

In the third quarter of 2023, the economy slowed down significantly, with GDP only advancing by +0.2% quarter-on-quarter (+2.1% year-on-year). This slowdown was primarily due to consumers being cautious in the face of rising borrowing costs, while exports also had a negative impact on growth.

Consumer confidence saw a slight improvement in December after the Reserve Bank of Australia (RBA) paused interest rate hikes. However, it remains in pessimistic territory as households continue to feel uncertain about the future.

• **In US -** In the third quarter of 2023, household wealth decreased by -0.9% to nearly $151 trillion, which marked the largest decline in a year. This decline was primarily due to a drop in the value of stock holdings. The GDP for the same period was revised down by -30 basis points to a +4.9% quarterly annualized rate.

Factory activity remained in contraction territory for the 14th consecutive month in December, which is the longest stretch of shrinking activity since 2000-2001. This was mainly due to weaker orders, with new orders contracting for the 16th straight month. However, there were declining cost pressures, as the prices paid for materials saw the most significant decline in seven months.

Consumer confidence saw its most substantial increase in December since early 2021. This was because households reduced their expectations of year-ahead inflation by -140 basis points, the most significant decrease in 22 years, with expectations of costs rising by +2.8% year-on-year over the next 5-to-10 years, matching the lowest level since September 2022.

Surveys conducted by the Federal Reserve across the United States indicated a cooling labour market in 2024, with employers expecting to hire fewer employees, which could limit wage increases. The Federal Reserve Bank of Philadelphia reported that economic activity is declining in a growing number of U.S. states. Indexes for 21 states, based on the analysis of four labour-market indicators (payroll employment, average hours worked by production workers, the unemployment rate, and inflation-adjusted wages), showed contraction in the three months through November.

• **In China** factory activity shrank in December with official manufacturing PMI declining to the lowest level in six months while non-manufacturing PMI improved boosted by expansion in the construction sector as government-led infrastructure investment accelerated in recent months.

• **In Europe -** ECB kept interest rates on hold at 4%, however, said it will step up its exit from €1.7 trillion of pandemic-era stimulus with ECB President Christine Lagarde announcing rate cuts had not been discussed "at all" at the bank's meeting as the bank downgraded GDP forecasts for euro zone for 2023 by -10bps to +0.6% and 2024 by -20bps to +0.8% while maintaining 2025 and 2026 outlook of +1.5% growth, and inflation forecasts for 2023 by -20bps to +5.4% and 2024 by -50bps to +2.7% while maintaining 2025 and 2026 forecasts of +2.1% and +1.9%, respectively. Private-sector activity in the euro area worsened in December with PMI contracting for a seventh month, with private-sector activity in both France and Germany worsening Month on Month and finishing the year in a deeper contraction due to low demand for goods and services.

• **In India.** RBI voted unanimously to keep the benchmark repurchase rate at 6.5% and raised its 2023 GDP growth projection by +50bps to +7%, while signalling it's nowhere close to cutting interest rates yet as a survey by the bank revealed Indian households expect inflation to climb in the next few months to a year, mainly driven by costly food and housing prices with the bank expecting inflation to average 5.4% for 2023 and 4.6% for 1Q24. Manufacturing activity moderated in December to the weakest in 18-months as the pace of factory orders and output lost momentum, while still outperforming Asian peers as new orders and business confidence continued to grow and manufacturers benefited from an easing in input costs, which rose at their second-slowest pace in more than three years during the month.

THE LONG READ

The new Middle Kingdom – Why India is like China in 2006

- **India has all the elements for long-term growth**
- **India has just hit that US$2000 GDP per capita mark, typically an inflection point for any economy**
- **For strong growth fiscal and monetary policy must support prosperity flowing through entire population**

For many Australians, India conjures images of a land steeped in ancient history and vibrant culture, while the two nations share a long history of cricketing rivalries and camaraderie.

Indian cuisine has made a significant impact on Australian palates, while India has also been growing its strategic position in the Indo-Pacific region and becoming more known for its economic and political clout. It is a founding member of the BRICS bloc of developing nations and is current chair of the G20.

According to the World Economic Forum (WEF) 2023 saw India overtake China as the country with the world's largest population and was this month represented at Davos 2024, the annual meeting of the WEF in Switzerland.

Furthermore, the United Nations Development Programme says India saw a "remarkable reduction in poverty, with 415 million people exiting poverty within a span of just 15 years (2005/6–19/21)".

We have been bullish on the emerging nation for several years.

Emerging markets are so big and vast with different economic and growth drivers, monetary and fiscal policies, nuances and different levels of risks.

Emerging markets are always touted for their potential growth and return on equities but over the long-term have tended to lag developed market returns.

You have to break down emerging markets and very specifically which emerging market to go in picking out the best.

India is one of the biggest markets from a population perspective today but some years ago it wasn't one of the biggest drivers of the emerging markets index and it was more China.

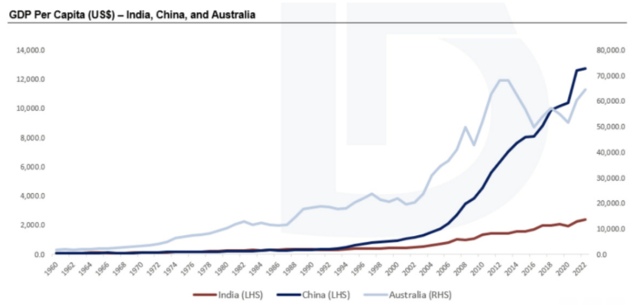
But we saw India some years ago as having all the growth elements that are likely to see multiple years, even decades of growth.

In recent years geopolitical issues and China–US tensions have pushed a lot of investors towards India.

India where China was in 2006

One of the key statistics for investors to examine when investing in a country is GDP per capita, which is a good measure of economic performance and indicator of average living standards and economic well-being.

According to historical trends, the US$2,000 GDP per capita level has typically been an inflection point for any economy.



Source: Banyantree, Macrotrends

When China started to invite companies to take up the country's manufacturing capabilities in 2006 that's when its GDP per capita exceeded the US$2000 mark.

That's when China started having internal consumption growth, middle, rural and obviously upper class growth and broad-based prosperity throughout the economy that led to where it is today.

Fast forward to today and India has just hit that US$2000 GDP per capita mark.

India is where China was in 2006.

Major global companies like Apple and Google's parent company Alphabet are starting to invest in India and look for diversification away from China.

He says the policies are focused on internal consumption growth and there's government stability with Prime Minister Narendra Modi likely to get another term at the upcoming national elections in April.

You've got a lot of support from external companies looking to invest and set up in India.

Middle income status aims to boost economy

India aims to reach high middle income status by 2047, the centenary of Indian independence, and is also committed to ensuring that its continued growth path is equipped to deal with climate change challenges and reach net-zero emissions by 2070.

If they can fire up the middle class and lower income earners – so the rural areas – you could see GDP per capita and consumption growth, which will lead to sectors like consumer staples, discretionary expenditure, luxury goods, automobiles and financial services give double digit growth.

He says there is a push to move away from India's underground black economy through various measures such as ensuring all social classes have greater access to banking services, while also improving housing for lower income earners.

It's probably got a lot to do with the Indian election coming up in April.

There's been really good growth in middle and high-end housing but a real supply slump in low end housing.

So, with a focus on equality we expect the Indian Government to introduce a lot more housing measures that not only support the top end but also increases supply of quality housing for low income earners.

All these kinds of measures will go towards further increasing GDP per capita.

He says India already has strong economic growth supported by a young population. The Indian economy is forecast to grow 7.3% in the current financial year after growing 7.2% in FY23, which is the best among major economies.

The point is despite all this excitement around India there is still a long growth runway ahead.

Prosperity must flow through whole economy

The risks for investors and what they must be mindful of when investing in India is that fiscal and monetary policy must support equality, with prosperity flowing through the entire population.

It cannot be the top 20 to 30% because then you are not going to get that growth everyone is looking for.

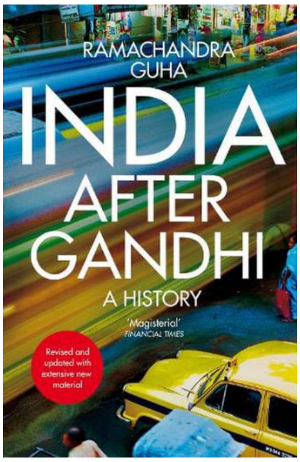
That is where the risk is as domestic spending will all come from better higher-quality paying jobs for middle and lower income earners.

Ensuring growth flows through the whole population and not just the top end will come down to government policy.

If that happens you really are sitting on a really attractive market for the next decade frankly.

Book Recommendation

We highly recommend this book on India.



'Magisterial' - The Financial Times - Ramachandra Guha's India After Gandhi explains the major events, policy shifts and controversies of the past decade, placing them in their proper sociological and historical context and setting out the author's justifiable concerns for the decline of democracy in India.

Born against a background of privation and civil war, divided along lines of caste, class, language and religion, independent India emerged, somehow, as a united and democratic country.

Ramachandra Guha's hugely acclaimed book tells the full story - the pain and the struggle, the humiliations and the glories - of the world's largest and least likely democracy.

While India is sometimes the most exasperating country in the world, it is also the most interesting. Ramachandra Guha writes compellingly of the myriad protests and conflicts that have peppered the history of free India.

Moving between history and biography, the story of modern India is peopled with extraordinary characters. Guha gives fresh insights into the lives and public careers of those long-serving Prime Ministers, Jawaharlal Nehru and Indira Gandhi. But the book also writes with feeling and sensitivity about lesser-known (though not necessarily less important) Indians - peasants, tribals, women, workers and musicians. Massively researched and elegantly written.

India After Gandhi is a remarkable account of India's rebirth, and a work already hailed as a masterpiece of single-volume history.

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Appendix

AS JANUARY GOES, SO GOES THE YEAR

Market Performance in January

	Previous Year's Close	January Close	January Change	Year Change	
1950	16.76	17.05	1.7%	21.8%	
1951	20.41	21.66	6.1	16.5	
1952	23.77	24.14	1.6	11.8	
1953	26.57	26.38	–0.7	–6.6	
1954	24.81	26.08	5.1	45.0	
1955	35.98	36.63	1.8	26.4	
1956	45.48	43.82	–3.6	2.6	flat
1957	46.67	44.72	–4.2	–14.3	
1958	39.99	41.70	4.3	38.1	
1959	55.21	55.42	0.4	8.5	
1960	59.89	55.61	–7.1	–3.0	flat
1961	58.11	61.78	6.3	23.1	
1962	71.55	68.84	–3.8	–11.8	
1963	63.10	66.20	4.9	18.9	
1964	75.02	77.04	2.7	13.0	
1965	84.75	87.56	3.3	9.1	
1966	92.43	92.88	0.5	–13.1	X
1967	80.33	86.61	7.8	20.1	
1968	96.47	92.24	–4.4	7.7	X
1969	103.86	103.01	–0.8	–11.4	
1970	92.06	85.02	–7.6	0.1	flat
1971	92.15	95.88	4.0	10.8	
1972	102.09	103.94	1.8	15.6	
1973	118.05	116.03	–1.7	–17.4	
1974	97.55	96.57	–1.0	–29.7	
1975	68.56	76.98	12.3	31.5	
1976	90.19	100.86	11.8	19.1	
1977	107.46	102.03	–5.1	–11.5	
1978	95.10	89.25	–6.2	1.1	flat
1979	96.11	99.93	4.0	12.3	
1980	107.94	114.16	5.8	25.8	
1981	135.76	129.55	–4.6	–9.7	
1982	122.55	120.40	–1.8	14.8	X
1983	140.64	145.30	3.3	17.3	
1984	164.93	163.41	–0.9	1.4	flat
1985	167.24	179.63	7.4	26.3	
1986	211.28	211.78	0.2	14.6	
1987	242.17	274.08	13.2	2.0	flat
1988	247.08	257.07	4.0	12.4	
1989	277.72	297.47	7.1	27.3	
1990	353.40	329.08	–6.9	–6.6	
1991	330.22	343.93	4.2	26.3	
1992	417.09	408.79	–2.0	4.5	flat
1993	435.71	438.78	0.7	7.1	
1994	466.45	481.61	3.3	–1.5	flat
1995	459.27	470.42	2.4	34.1	
1996	615.93	636.02	3.3	20.3	
1997	740.74	786.16	6.1	31.0	
1998	970.43	980.28	1.0	26.7	
1999	1229.23	1279.64	4.1	19.5	
2000	1469.25	1394.46	–5.1	–10.1	
2001	1320.28	1366.01	3.5	–13.0	X
2002	1148.08	1130.20	–1.6	–23.4	
2003	879.82	855.70	–2.7	26.4	X
2004	1111.92	1131.13	1.7	9.0	
2005	1211.92	1181.27	–2.5	3.0	flat
2006	1248.29	1280.08	2.5	13.6	
2007	1418.30	1438.24	1.4	3.5	flat
2008	1468.36	1378.55	–6.1	–38.5	
2009	903.25	825.88	–8.6	23.5	X
2010	1115.10	1073.87	–3.7	12.8	X
2011	1257.64	1286.12	2.3	–0.003	flat
2012	1257.60	1312.41	4.4	13.4	
2013	1426.19	1498.11	5.0	29.6	
2014	1848.36	1782.59	–3.6	11.4	X
2015	2058.90	1994.99	–3.1	–0.7	flat
2016	2043.94	1940.24	–5.1	9.5	X
2017	2238.83	2278.87	1.8	19.4	
2018	2673.61	2823.81	5.6	–6.2	X
2019	2506.85	2704.10	7.9	28.9	
2020	3230.78	3225.52	–0.2	16.3	X
2021	3756.07	3714.24	–1.1	26.9	X
2022	4766.18	4515.55	–5.3	–19.4	
2023	3839.50	4076.60	6.2	??	

January Performance by Rank

Rank		January Change	Year Change	
1	1987	13.2%	2.0%	flat
2	1975	12.3	31.5	
3	1976	11.8	19.1	
4	2019	7.9	28.9	
5	1967	7.8	20.1	
6	1985	7.4	26.3	
7	1989	7.1	27.3	
8	1961	6.3	23.1	
9	2023	6.2	??	
10	1997	6.1	31.0	
11	1951	6.1	16.5	
12	1980	5.8	25.8	
13	2018	5.6	–6.2	X
14	1954	5.1	45.0	
15	2013	5.0	29.6	
16	1963	4.9	18.9	
17	2012	4.4	13.4	
18	1958	4.3	38.1	
19	1991	4.2	26.3	
20	1999	4.1	19.5	
21	1971	4.0	10.8	
22	1988	4.0	12.4	
23	1979	4.0	12.3	
24	2001	3.5	–13.0	X
25	1965	3.3	9.1	
26	1983	3.3	17.3	
27	1996	3.3	20.3	
28	1994	3.3	–1.5	flat
29	1964	2.7	13.0	
30	2006	2.5	13.6	
31	1995	2.4	34.1	
32	2011	2.3	–0.003	flat
33	1972	1.8	15.6	
34	1955	1.8	26.4	
35	2017	1.8	19.4	
36	1950	1.7	21.8	
37	2004	1.7	9.0	
38	1952	1.6	11.8	
39	2007	1.4	3.5	flat
40	1998	1.0	26.7	
41	1993	0.7	7.1	
42	1966	0.5	–13.1	X
43	1959	0.4	8.5	
44	1986	0.2	14.6	
45	2020	–0.2	16.3	X
46	1953	–0.7	–6.6	
47	1969	–0.8	–11.4	
48	1984	–0.9	1.4	flat
49	1974	–1.0	–29.7	
50	2021	–1.1	26.9	X
51	2002	–1.6	–23.4	
52	1973	–1.7	–17.4	
53	1982	–1.8	14.8	X
54	1992	–2.0	4.5	flat
55	2005	–2.5	3.0	flat
56	2003	–2.7	26.4	X
57	2015	–3.1	–0.7	flat
58	2014	–3.6	11.4	X
59	1956	–3.6	2.6	flat
60	2010	–3.7	12.8	X
61	1962	–3.8	–11.8	
62	1957	–4.2	–14.3	
63	1968	–4.4	7.7	X
64	1981	–4.6	–9.7	
65	1977	–5.1	–11.5	
66	2000	–5.1	–10.1	
67	2016	–5.1	9.5	X
68	2022	–5.3	–19.4	
69	2008	–6.1	–38.5	
70	1978	–6.2	1.1	flat
71	1990	–6.9	–6.6	
72	1960	–7.1	–3.0	flat
73	1970	–7.6	0.1	flat
74	2009	–8.6	23.5	X

X = major error Based on S&P 500

Source: Stock Trader's Almanac 2024