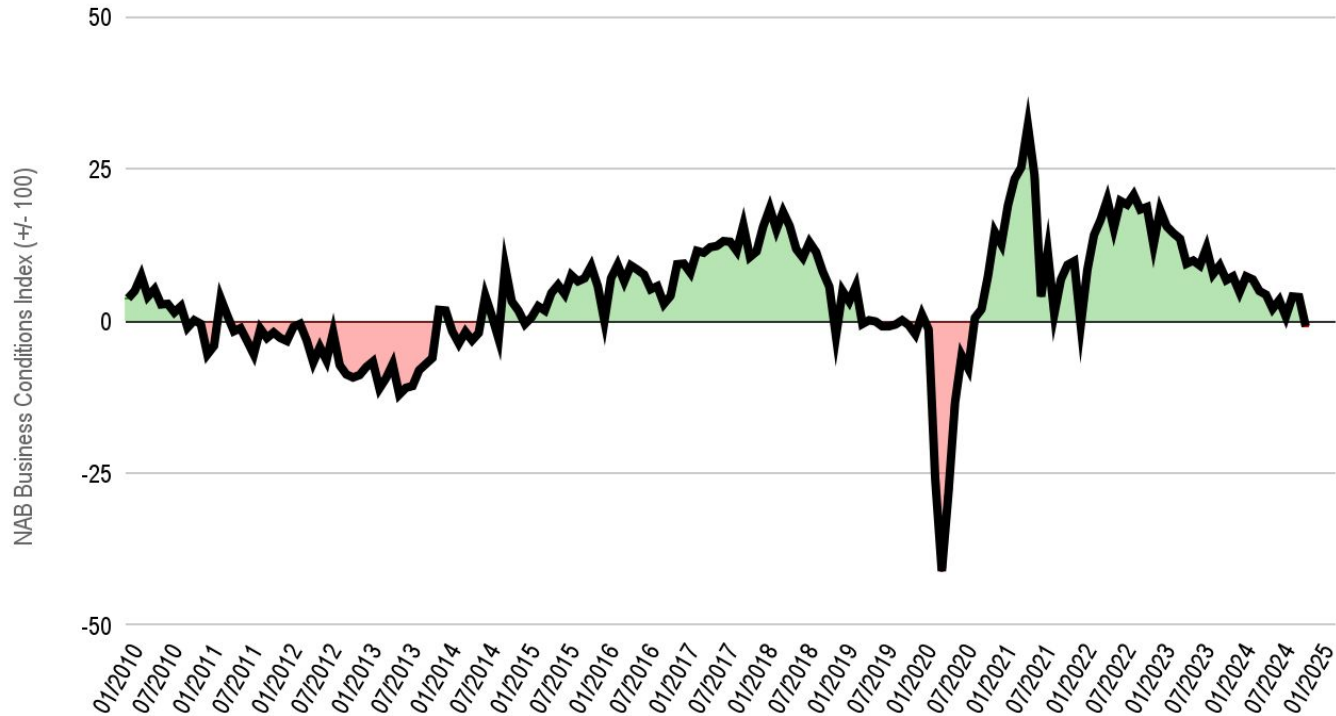




Source: Investing Times. Data as of 5 January 2025
For Educational and Informational Purposes Only

Leading Indicator: Business Conditions Survey



Source: Investing Times. Data as of 5 January 2025

Punchline: Business owners remain balanced about the Australian economy, willing to invest which is a positive for stocks.

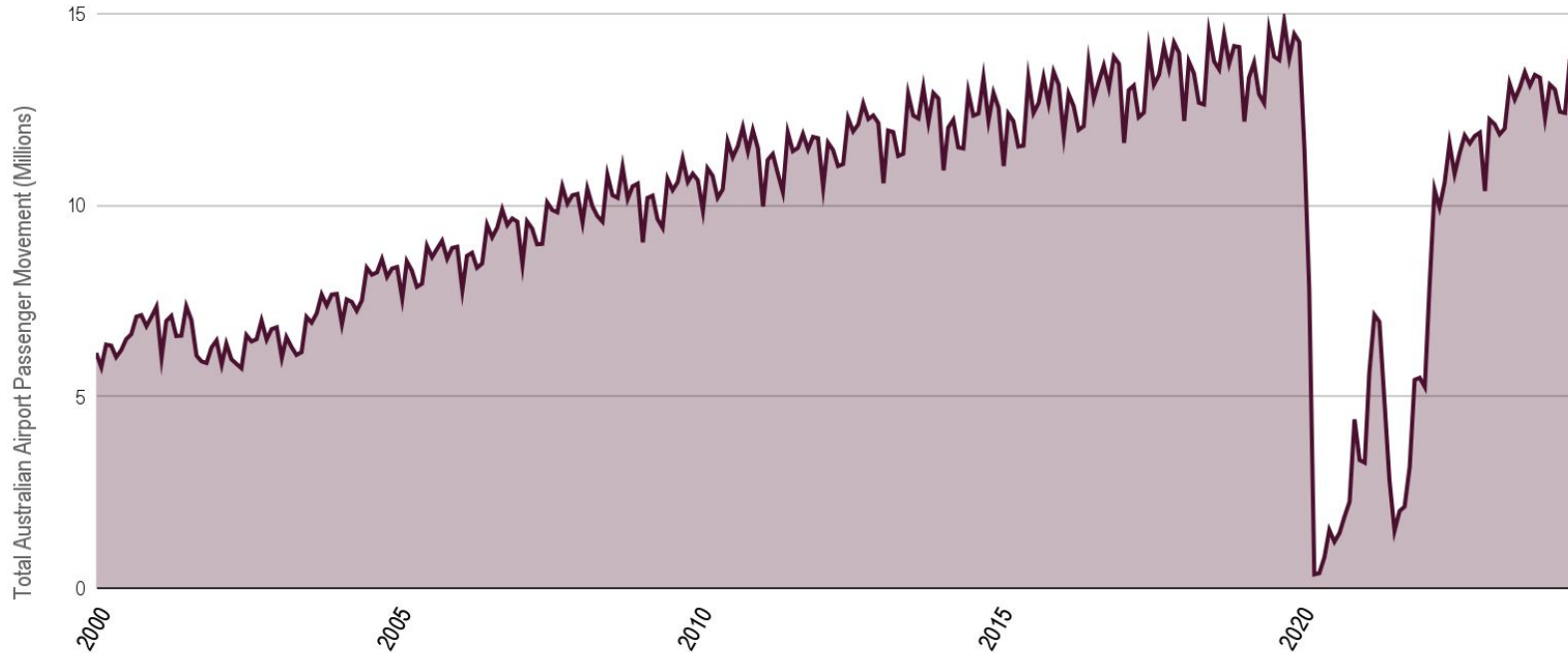
Australian Unemployment and Recessions



Source: Investing Times. Data as of 5 January 2025

Punchline: While employment is typically a lagging indicator, it is a good signal of recession risk. With unemployment edging higher, we can't discount a downside event.

Leading Indicator: Australian Airport Total Foot Traffic



Source: Investing Times. Data as of 5 January 2025

Punchline: The number of people travelling is usually a good sign of economic activity. At present, it looks healthy.

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INVESTING TIMES

ZONE SYSTEM BEST IDEAS, WORTH INVESTIGATING FURTHER

The hard reality is that investment opportunities are scarce at the moment, although relative ideas are plentiful. This means it could be worth digging a little deeper than usual to identify good opportunities. With this in mind, we highlight new markets where the Zone System suggests the highest risk/reward levels to the upside.

ASX REALTY/REIT

Dividend Yield 4.42%, Zone 5, 18 Year Total Return 4.12%pa

ASX COMMERCE/RETAIL

Dividend Yield 3.81%, Zone 4, 18 Year Total Return 4.07%pa

ASX UTILITIES

Dividend Yield 5.89%, Zone 3, 18 Year Total Return 4.93%pa

First, we look at sector opportunities in Australia. The top three at the moment are mostly defensive sectors, which could protect against a broad downturn if one is to occur. Health care is still clearly the cheapest and also offers the most fundamental diversification. Consumer staples can also act defensively, while utilities offers reasonable yields of 5%.

POWER/GEN

Dividend Yield 4.28%, Zone 5, 18 Year Total Return 2.81%

INTERNATIONAL STOCK

Dividend Yield 1.70%, Zone 5, 18 Year Total Return 11.92%

US SMALL CAPS

Dividend Yield 3.81%, Zone 5, 18 Year Total Return 8.90%

Outside of Australia, the opportunity set is getting smaller, with many regions on the expensive side. It's already mentioned the case for Hong Kong, which is a stand-out as it could offer growth drivers but comes with significant risk. Looking for higher quality opportunities, parts of the US still look reasonable, with equal-weighted offering exposure without the high prices point, which still caps could do well if interest rates continue to get out.

ASIAN/EM

Zone 5 - Expensive, Zone 4 - Moderately expensive, Zone 3 - Cheap

GLOBAL CREDIT/PROPERTY

Zone 4 - Expensive, Zone 3 - Cheap

COMB

Zone 4 - Expensive, Zone 3 - Cheap

For the first three opportunities, we look for diversification. Hedged international holdings could be considered, which could do better than unweighted indices if Australian interest rates stay higher than global peers or China continues to stimulate. Global bond property is also interesting, with potentially hedging investors, who want to look outside of stocks and obtain healthy yields. Last, cash can still play a role, with reasonable interest rates and a stock of alternatives as more opportunities present themselves.

As always, there are good ideas for your consideration. As we've already discussed, diversification is always a good idea.

Zone 5 - Cheap, Zone 4 - Moderately expensive, Zone 3 - Expensive

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GLOBAL STOCKS: THE WORLD IS MODERATELY OVERVALUED

The overwhelming theme throughout our report is that the investing landscape is on the expensive side, although the market has some solid momentum carrying it. Below, we can see the way the market has evolved over time depending on how much bear or green it proved into global markets. Currently, we are seeing a heated market - with Australia sitting in a similar position to developed and emerging markets.

MARKETS ARE BEING DRIVEN ON THE EXPENSIVE SIDE, BUT NOT IN THE DANGER ZONE

With these markets at similar valuation levels, the empirical evidence would therefore suggest that lower returns are ahead of us. Adding some current context to this statement, it could be important given Australian banks are in the danger zone. If it gets deeper, we can also see some relative opportunities though. The best value is still Hong Kong, despite a large bounce following the China stimulus package. Flanking behind Hong Kong, we have five markets all classified as 'fair value' according to the Zone System and might be worth a closer look. This includes two US markets, including small cap, which have to do well during rate cuts, historical spending.

Market	Relative Value	Zone	Price
Hong Kong	18.2%	1	1.0
China	18.2%	2	1.0
India	18.2%	3	1.0
Japan	18.2%	4	1.0
UK	18.2%	4	1.0
US Small Cap	18.2%	4	1.0
US Mid Cap	18.2%	4	1.0
US Large Cap	18.2%	4	1.0
Germany	18.2%	4	1.0
France	18.2%	4	1.0
Italy	18.2%	4	1.0
Spain	18.2%	4	1.0
Canada	18.2%	4	1.0
South Africa	18.2%	4	1.0
Brazil	18.2%	4	1.0
India	18.2%	4	1.0
China	18.2%	4	1.0
Japan	18.2%	4	1.0
UK	18.2%	4	1.0
US Small Cap	18.2%	4	1.0
US Mid Cap	18.2%	4	1.0
US Large Cap	18.2%	4	1.0
Germany	18.2%	4	1.0
France	18.2%	4	1.0
Italy	18.2%	4	1.0
Spain	18.2%	4	1.0
Canada	18.2%	4	1.0
South Africa	18.2%	4	1.0
Brazil	18.2%	4	1.0

At the other end, we can see India is no longer in the danger zone following a volatile October. This comes off the back of an extraordinary run. Still, it perhaps the other relatively market, it is the only market that is negative in 2024 but remains in Zone 2, so not showing as an opportunity at this stage.

Overall, we have a global backdrop that is much more expensive than this time last year, but only a few are in the danger zone.

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INVESTING TIMES

DEALING WITH ALL-TIME HEIGHTS

Markets are at or near record highs in most major countries, which is great news for existing investors. Part of the reason for the recent elevation is the notion of a goldfish's scenario: falling interest rates with no recession. We still have reasonably strong employment, robust property prices, a healthy state economy and moderate inflation - all going in favour of confidence for the near-term. But is this optimism warranted?

Let's see what the evidence says about investing during all-time highs today:

1. Despite rising rates, all-time highs tend to result in more all-time highs, on average.
2. A combination of falling rates and no recession generally results in strong returns. But with a recession, the opposite is true. So, we need to watch the economy closely, especially the forward-looking indicators.
3. The post-election period in the US tends to result in positive returns.
4. However, valuations matter. The smart investor won't buy Zone 1 danger signals yet, but the all-time highs are increasing risk.

At present, three of the four scenarios offer optimism, which pushes the odds in the right. That said, valuations have stretched beyond fair value, with the upside/downside potential now presenting risk. Said another way, the best of the return is probably behind us. Therefore, while history suggests the market could keep running higher, it is important to keep your expectations in check.

AUSTRALIAN BANK STOCKS: All-Time Highs, But Not in The Danger Zone Yet

1-Year Return 13.95%

Zone 1 - Expensive, Zone 2 - Moderately expensive, Zone 3 - Fair value, Zone 4 - Cheap, Zone 5 - Deep

US STOCK MARKETS: Fair Value, But Stocks Remain in Danger Zone

Markets of All-Time Highs	5-Year Avg Return	Zone	Markets of All-Time Highs	5-Year Avg Return	Zone
Nasdaq Composite	17.2%	3	Information Technology	22.8%	1
S&P 500	14.65%	1	Consumer Discretionary	16.5%	1
US S&P300	14.0%	2	Industrials	9.9%	2
MSCI World	10.1%	2	Financials	8.8%	1
German DAX	8.9%	2	Materials	7.2%	2
MSCI South Africa	5.9%	3	Utilities	4.0%	2
Australian ASX 200	4.9%	2			

The danger concern seems to be at the sector level, with global technology, communication services and financial all in the Zone 1 danger zone. Australian banks also sit in this category, which make up a large part of the index. Yet, we can't ignore the momentum provided from the expectation of lower interest rates. If this continue to play out, it wouldn't be a shock to see the upper bands breached. This is especially true if inflation continues to moderate without a recession.

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FEEDBACK & IMPORTANT NOTE

If you have any ideas or challenges, please don't hesitate to contact us at info@investingtimes.com.au as we'd love to hear from you. If something is an issue to you, it is likely an issue to others, so please don't be shy coming forward with your thoughts.

WARNINGS & LIMITATIONS:

While best efforts have been made, we acknowledge that no investment process or analysis is bullet-proof, including the insights we present in this report. Below we outline several limitations, however these should not be seen to be exhaustive.

- Data integrity – we are only as good as the quality of our data, and while we are very careful to ensure the integrity of our source data remains accurate, we cannot make any guarantees for its quality or precision.
- Data time lags – some economic data inputs are made in real-time (e.g. interest rates) and others with a significant lag (e.g. GDP). Our reports try to deal with this issue practically, but could create erroneous or misleading observations.
- Little to no qualitative judgements – the metrics involve a lot of quantitative analysis as we are unable to capture the soft inputs such as management quality, corporate governance and other qualitative judgements that affect asset prices.
- Correlation between metrics and data points – some metrics have tight correlations which potentially create a bias if not considered carefully.
- Classifications – making data comparisons means we need to be very careful on groupings. While care is taken to provide relevant insights, you should take care when comparing these inputs.

SOURCES AND DEFINITIONS

Throughout our research, we access data from numerous public sources. Below is a list of major sources that were considered and are duly referenced in no particular order:

**Reserve Bank of Australia, St Louis FRED, ABS, ASX, US Treasury, S&P, MSCI, BOIS,
Federal Reserve, Yale University, OECD, World Bank**

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