

# HIGH FOR HOW MUCH LONGER?

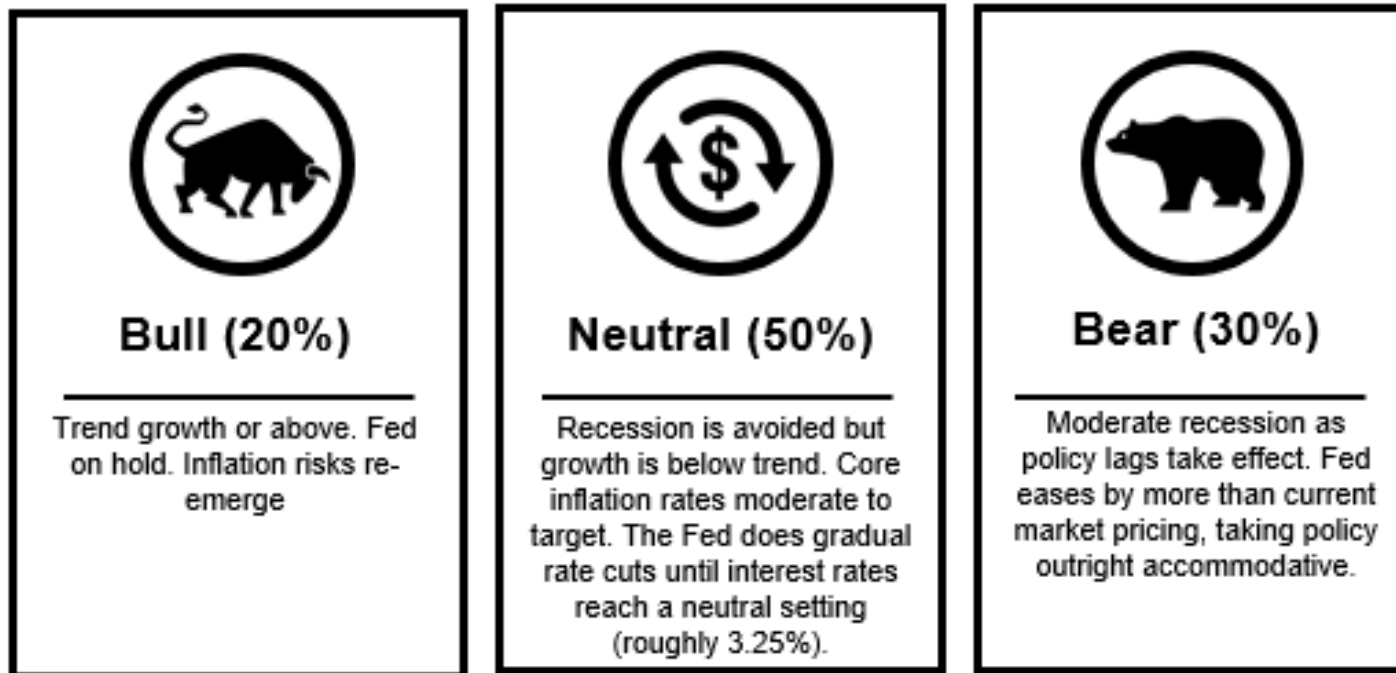
Alex Cousley, CFA  
Director, Senior Investment Strategist



# Agenda and learnings

- Outlook for the global economy
- Risks around inflation in 2025
- Identify and analyse the drivers of the rise in long-term interest rates
- Considerations for fixed income and multi-asset investors

# Where are we in the economic cycle?

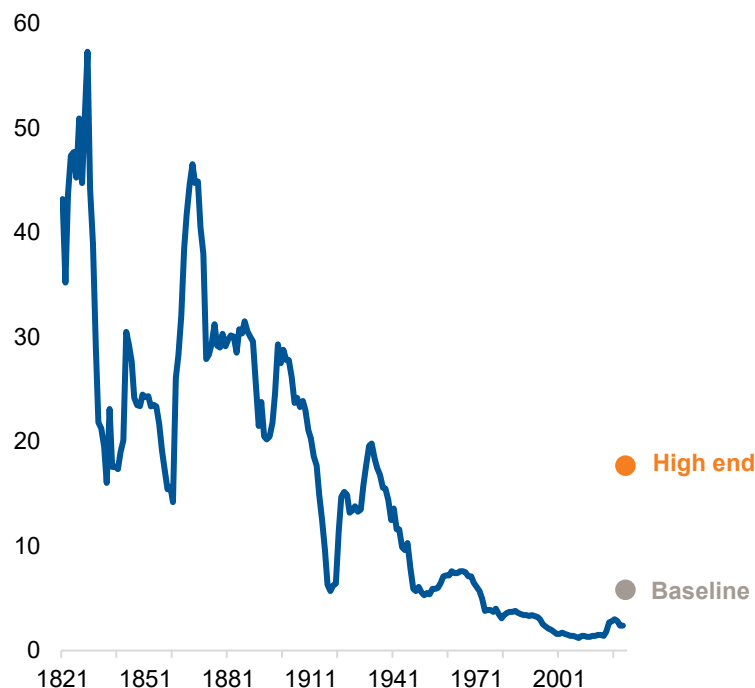


Source: Russell Investments, for illustrative purposes only.

# Risks: full throttle trade war, mass deportations

## A long history of US trade policy

Effective tariff rate, %

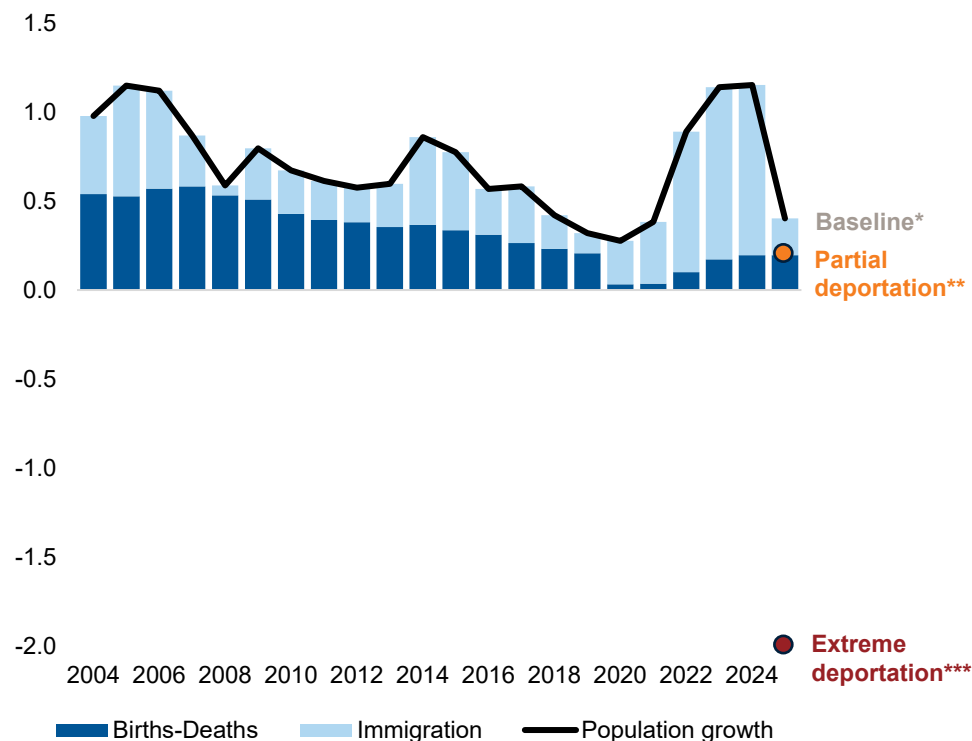


Source: Tax Foundation, Russell Investments. Data as of 2024.

Baseline: 20 percent tariffs on China and tariffs on automobiles from Europe and Mexico.

## Determinants of population growth

y/y %



Source: CBO. "The Demographic Outlook". January 2024. Russell Investments estimates. \*Assumes reversion to 2017-2019 immigration.

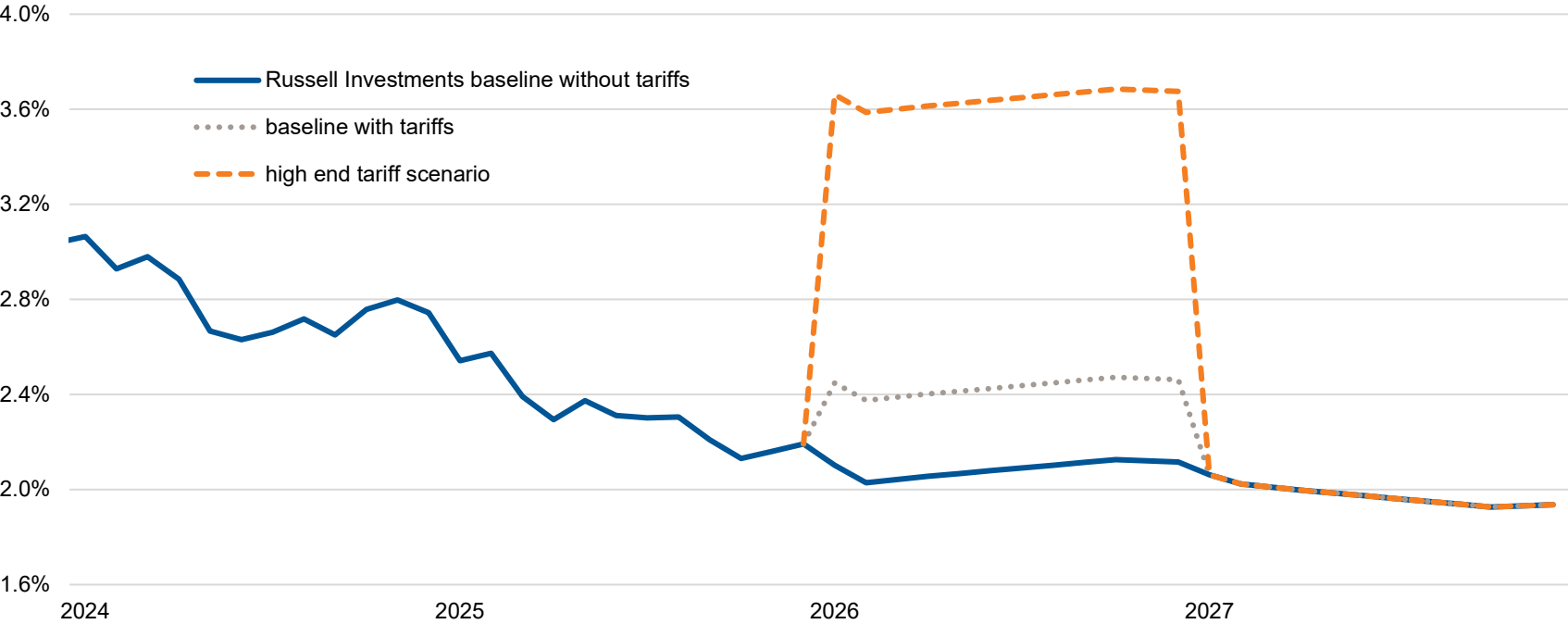
\*\*Assumes 647k migrants with active or pending convictions are deported (per July 2024 ICE letter to Representative Tony Gonzalez).

\*\*\*Assumes all 8mn estimated unauthorized migrants are deported.

# Inflation in our policy baseline

## Core PCE inflation outlook

y/y %



Source: Russell Investments. November 2024.

# The RBA cash rate will likely be:

- Unchanged (i.e 4.35%) at the end of the year
- Between 3.85% and 4.35% by the end of the year
- Lower than 3.85% by the end of the year
- Higher than it is today

# Rate cut expectations have been moderating through Q4 2024 and early 2025

	Peak	Today	End of year	Change
US Fed	5.5%	4.5%	4.0%	<b>-0.5%</b>
ECB	4.5%	3.2%	2.0%	<b>-1.1%</b>
BoJ	0.3%	0.3%	0.8%	<b>0.5%</b>
BoE	5.3%	4.8%	4.3%	<b>-0.5%</b>
RBA	4.4%	4.4%	3.7%	<b>-0.6%</b>
RBNZ	5.5%	4.3%	3.1%	<b>-1.2%</b>

Source: LSEG Datastream, 14 January 2025

# Market pricing suggests which central bank will cut rates the most in 2025?

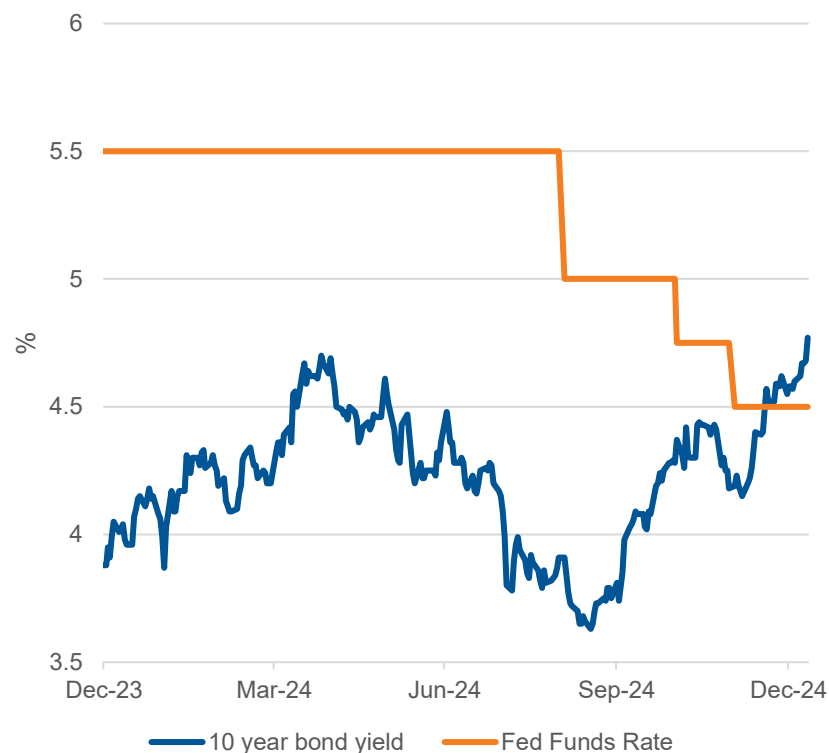
- Federal Reserve
- European Central Bank
- Bank of Japan
- Reserve Bank of New Zealand



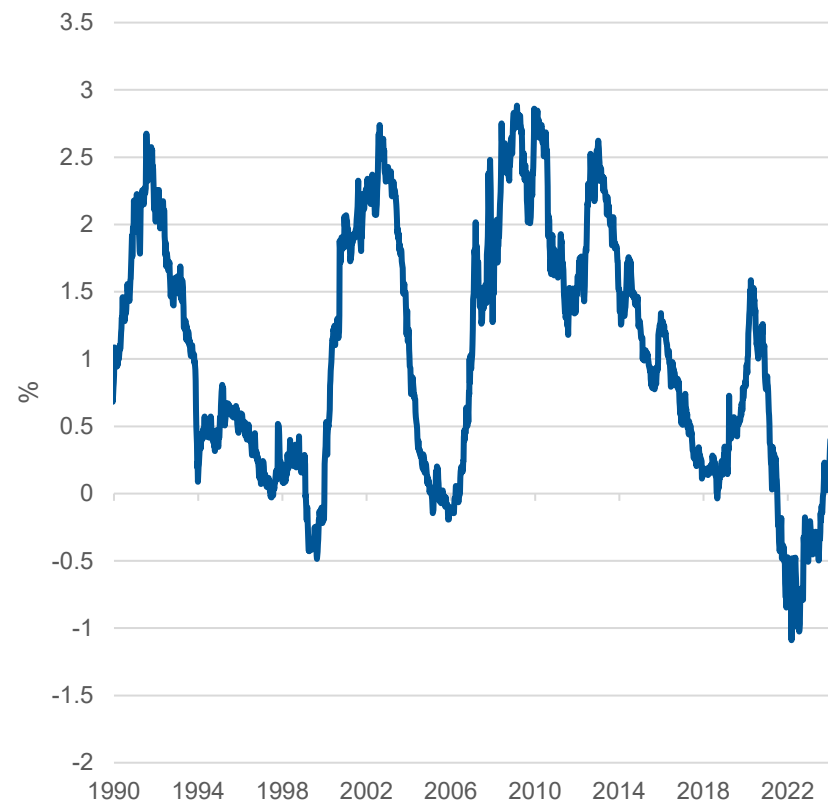
# Long rates in the US have risen quite a lot

While cash rates have been declining

**10 Year Bond is 1% higher since the Fed started cutting rates**



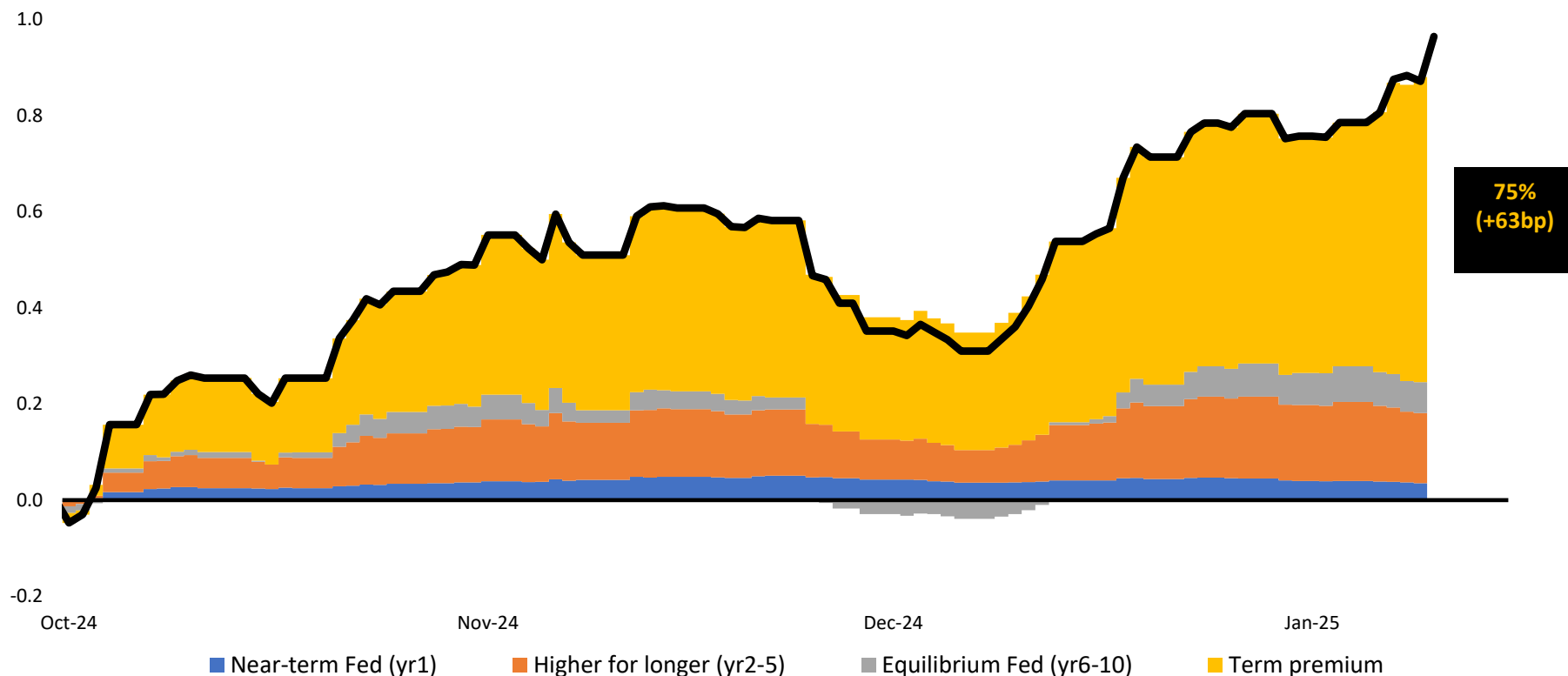
**US Yield curve has steepened a lot**



Source: LSEG Datastream, 10 January 2024

# Term premium has driven most of the move

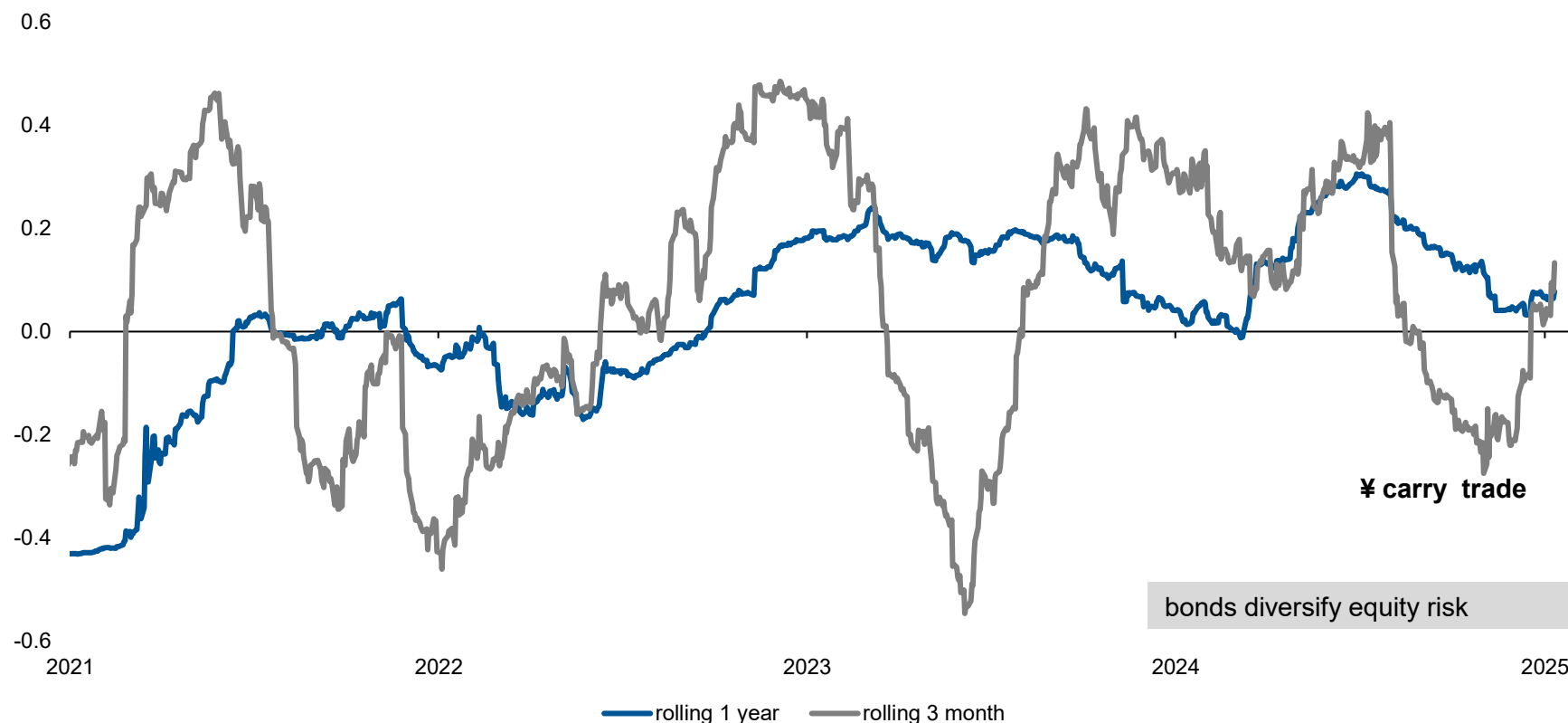
Decomposition of US 10yr yield change from September 30th 2024, ppt



Source: Russell Investments, Board of Governors of the Federal Reserve System, Federal Reserve Bank of New York. Data as of January 10<sup>th</sup>, 2025.

# Bonds have not been offering diversification recently

## Stock-Bond correlation



Source: LSEG Datastream. Data as of January 10<sup>th</sup>, 2025.

# Australian bonds have outperformed in the recent sell-off

If fiscal concerns remain a dominant narrative, Australia could continue outperforming

## Australian 10 year bond yields are trading below US bond yields



Source: LSEG Datastream, 14 January 2025

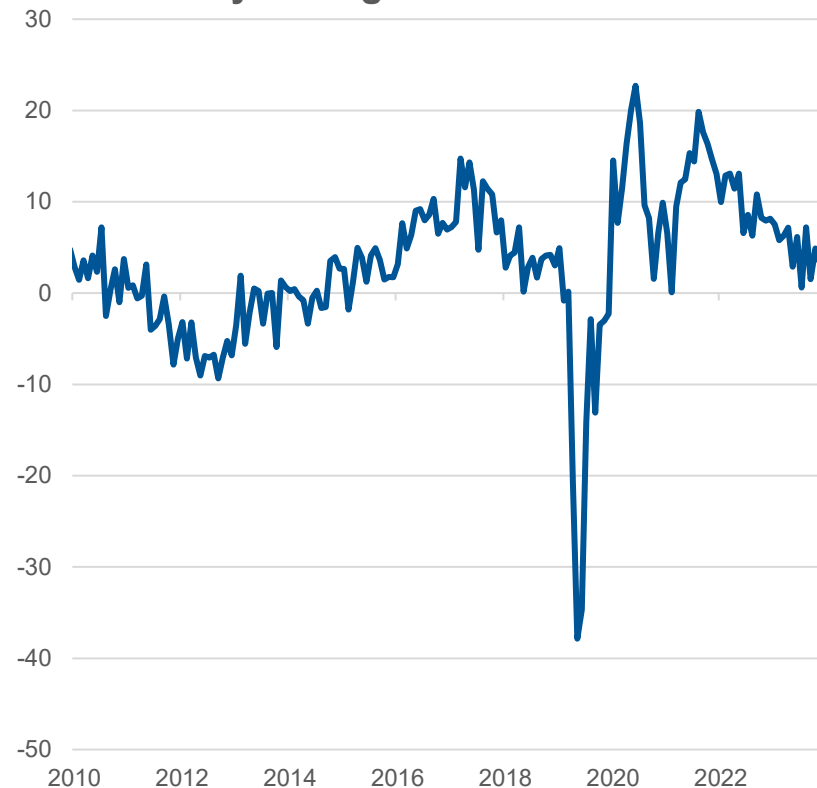
# The labour market is a key watchpoint in Australia

Labour demand has been slowing, and supply/demand dynamics moving in favour of employers

## Job Applicants per Job Ad



## NAB Survey: Hiring Intentions



Source: SEEK, LSEG Datastream. 10 January 2025

# Where do you expect the unemployment rate to be by the end of year?

- Unchanged at 4%
- Under 4%
- Higher than 4%, but lower than 4.5%
- Higher than 4.5%

# What does this mean for fixed income investors

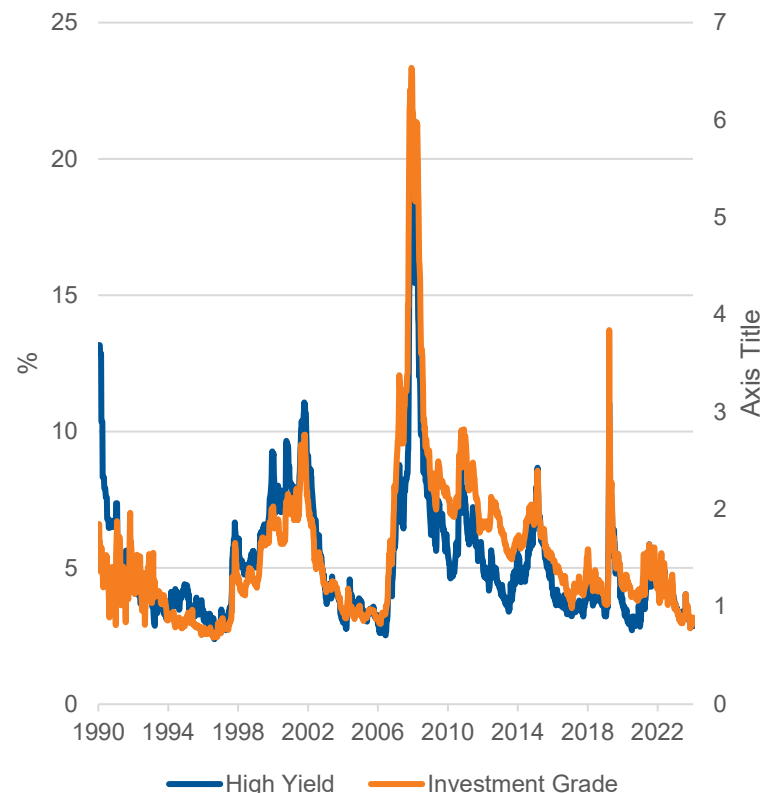
Duration starting to look cheap

Credit spreads are very tight, suggesting some asymmetry

**US 10 Year yield back above cash**  
US 10 year – US 3 month



**Credit spreads are very tight**



Source: LSEG Datastream, 14 January 2025










# Key Takeaways

- The economy is likely to achieve a soft landing in 2025, but recession risks are still higher than normal
- We believe the Federal Reserve will proceed on a gradual rate cutting path from here
- The RBA are likely to cut rates 2 times this year, with the labour market and consumer spending the key watchpoints
- Government bonds look attractive again
- Stock-bond correlation is a key consideration for multi-asset investors



# Meet the Russell Investments Team

We're here to help

	<p><b>Neil Rogan</b>  <b>Managing Director,</b>  <b>Head of Distribution Australia &amp; New Zealand</b>  <b>P:</b> +61 2 9229 5131  <b>E:</b> <a href="mailto:nrogan@russellinvestments.com">nrogan@russellinvestments.com</a></p>		<p><b>Leo Feldman</b>  <b>Director,</b>  <b>Head of Key Accounts and Platforms</b>  <b>P:</b> +61 2 9229 5331  <b>E:</b> <a href="mailto:lfeldman@russellinvestments.com">lfeldman@russellinvestments.com</a></p>		<p><b>Terry Tyrrell</b>  <b>Regional Manager – NSW/ACT</b>  <b>M:</b> +61 419 264 276  <b>E:</b> <a href="mailto:ttyrrell@russellinvestments.com">ttyrrell@russellinvestments.com</a></p>
	<p><b>Ross Nayler</b>  <b>Regional Manager – WA/SA/NT</b>  <b>M:</b> +61 481 001 496  <b>E:</b> <a href="mailto:rnayler@russellinvestments.com">rnayler@russellinvestments.com</a></p>		<p><b>James Noone</b>  <b>Regional Manager – QLD</b>  <b>M:</b> +61 432 355 892  <b>E:</b> <a href="mailto:jnoone@russellinvestments.com">jnoone@russellinvestments.com</a></p>		<p><b>Jack Fitzgerald</b>  <b>Regional Manager – QLD</b>  <b>M:</b> +61 401 939 449  <b>E:</b> <a href="mailto:jfitzgerald@russellinvestments.com">jfitzgerald@russellinvestments.com</a></p>
	<p><b>Peter Pouloupoulos</b>  <b>Regional Manager – VIC/TAS</b>  <b>M:</b> +61 407 000 716  <b>E:</b> <a href="mailto:ppouloupoulos@russellinvestments.com">ppouloupoulos@russellinvestments.com</a></p>		<p><b>Rebecca Yabsley</b>  <b>Regional Manager – VIC</b>  <b>M:</b> +61 400 151 892  <b>E:</b> <a href="mailto:ryabsley@russellinvestments.com">ryabsley@russellinvestments.com</a></p>		

# Important information

Issued by Russell Investment Management Ltd ABN 53 068 338 974, AFSL 247185 (RIM). This document provides general information only and has not been prepared having regard to your objectives, financial situation or needs. Before making an investment decision, you need to consider whether this information is appropriate to your objectives, financial situation and needs. This information has been compiled from sources considered to be reliable, but is not guaranteed. Past performance is not a reliable indicator of future performance. This document is not intended to be a complete statement or summary of the Russell Investments Funds (the Funds). Investing in the Funds has risks. You should consider these risks in light of your objectives, financial situation and needs. Any potential investor should consider the latest Product Disclosure Statement (PDS) for the Fund in deciding whether to acquire, or to continue to hold, an interest in the Fund. The PDS can be obtained by visiting [www.russellinvestments.com.au](http://www.russellinvestments.com.au) or by phoning (02) 9229 5111. The Target Market Determinations for the RIM Funds are available on our website at [russellinvestments.com/au/support/tmds](http://russellinvestments.com/au/support/tmds)

RIM is part of Russell Investments. Russell Investments or its associates, officers or employees may have interests in the financial products referred to in this information by acting in various roles including broker or adviser, and may receive fees, brokerage or commissions for acting in these capacities. In addition, Russell Investments or its associates, officers or employees may buy or sell the financial products as principal or agent. To the extent permitted by law, no liability is accepted for any loss or damage as a result of reliance on this information. This material does not constitute professional advice or opinion and is not intended to be used as the basis for making an investment decision. This work is copyright 2024. Apart from any use permitted under the Copyright Act 1968, no part may be reproduced by any process, nor may any other exclusive right be exercised, without the permission of Russell Investment Management Ltd. AUSF1-01207