Market Update – April 2024

Asset class total return to 30/04/2024	1M (%)	3M (%)	6M (%)	1Y (%)	3Y (% p.a.)	5Y (% p.a.)	Current Yield (%)
Cash	0.4	1.1	2.2	4.2	2.3	1.6	4.4
Fixed Term Deposits	0.4	1.2	2.5	4.8	2.6	2.1	4.8
Australian Bonds	-2.0	-1.2	4.7	-0.7	-2.1	-0.3	4.7
Australian Bank Hybrids	1.4	3.2	4.9	6.9	3.6	3.5	5.1
Australian Property	-7.6	6.0	32.6	18.9	7.5	5.5	3.7
Australian Shares	-2.9	1.0	15.2	9.1	7.3	8.0	3.9
Global Shares (unhedged)	-3.3	5.6	17.3	20.7	12.0	12.3	1.9
Global Infrastructure (hedged)	-1.8	2.3	9.5	-3.0	1.3	2.2	3.4

Total returns and yields are before franking credits. Source: RBA cash rate, 12M Bank term deposit, Bloomberg Austbond Composite Index, Solactive Aust Banking Preferred shares Index, S&P/ASX 300 A-REIT Index TR, S&P/ASX 200 TR, MSCI World ex-Aust unhedged TR, FTSE Developed Core Infrastructure 50/50 hedged TR.

Financial Indicator movement	30/04/24	1M	3M	6M	1Y
AUD/USD (cents)	0.65	0.00	-0.01	0.01	-0.01
Aust. 10-year bond yield (%)	4.42	0.44	0.38	-0.51	1.04
Gold US$/ounce	2,286	2.4%	12.2%	15.3%	14.9%
Brent oil US$/bbl	88	0.4%	7.5%	0.5%	17.9%
Iron ore US$/t	111	0.9%	-17.8%	-6.7%	6.7%
Copper US$/pound	4.56	14.0%	17.0%	25.3%	18.1%

Source: Refinitiv. Note: Past performance is not a reliable indicator of future performance.

Global

US inflation is proving resilient at around 3.5%, which is still well above the US Federal Reserve's 2.0% target. The Fed has signalled that the US cash rate is "sufficiently restrictive" at 5.25-5.50% but might need to stay "higher for longer". The Fed still dismisses any need for rate hikes. Markets have delayed US rate cuts until September 2024 and now only see one-to-two rate cuts in 2024, rather than three.

Bond yields have rallied from ~4.0% to 4.5% over the past few months, which has sparked a correction in growth assets (shares, property and infrastructure). Higher bond yields increase discount rates used to value assets, as well as the cost of debt. Interestingly, the copper price has rallied, suggesting the global cycle is ticking up.

Fortunately, Middle East tensions have not escalated as feared and the Brent oil price has retreated from US$92/bbl to US$83/bbl in recent weeks. This should be a positive for the inflation outlook.

The delay in US rate cuts has led to strength in the USD and relative weakness in other currencies, including the AUD. The November US Presidential election is also approaching, with the result likely to have a telling impact on the government's approach to the budget deficit and foreign policy. In turn, this could have a major impact on geopolitics and bond yields.

Australia

The Australian inflation rate is also proving resilient at around 3.6%, although the RBA's target range is higher than the Fed's at 2-3%. That being said, the RBA is still concerned about the recent strength in inflation and is likely to remain on hold for most of 2024. Indeed, financial markets are now pricing in no rate cuts for 2024.

The Federal Budget is due on 14 May 2024 and is expected to remain a small surplus, but the government will need to be careful not to fuel inflation via any new spending initiatives. Already, income tax cuts are due by July 2024 and could make it hard for the RBA to keep a lid on inflation.

Federal debt levels remain relatively low at 40% (Gross Debt/GDP) and Australian Banks retain high capital ratios. House prices remain resilient (mainly due to population growth and undersupply of new dwellings). Commodity prices are mixed with strength in gold and copper offset by weakness in iron ore, coal, LNG, lithium, nickel and rare earths.

Overall, the economy seems stable and is likely to get a boost from tax cuts and potentially interest rate cuts at some point in 2025. The AUD/USD could also have upside, if the Fed begins the rate cutting cycle before the RBA.

Outlook

Stubborn inflation is keeping rates on hold. To some degree, it seems the Fed went dovish too quickly and should not have mentioned rate cuts as early as it did. Now the Fed (and the RBA) are having to turn somewhat hawkish again.

That said, we think the current level of interest rates are high enough, in absolute terms, to bring inflation down to target, but it might just take a little longer than expected by markets. Overall, we still expect a soft-landing scenario and for interest rates to ease in FY25. Accordingly, we remain bullish on the outlook but note that our focus on quality and value will remain important (as always).

The next key events on the calendar include:

- Aust. Federal Budget (FY25) – 14 May 2024
- US inflation (April) – 15 May 2024
- Australian inflation (April) – 29 May 2024

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