

Market Update – March 2024

Asset class total return to 31/03/2024	1M (%)	3M (%)	6M (%)	1Y (%)	3Y (% p.a.)	5Y (% p.a.)	Current Yield (%)
Cash	0.4	1.1	2.2	4.2	2.2	1.6	4.4
Fixed Term Deposits	0.4	1.3	2.5	4.8	2.6	2.1	5.0
Australian Bonds	1.1	1.0	4.9	1.5	-1.3	0.2	4.1
Australian Bank Hybrids	0.8	2.0	2.8	6.6	3.6	3.5	5.3
Australian Property	9.6	16.2	35.3	35.4	11.5	6.7	3.6
Australian Shares	3.3	5.3	14.2	14.4	9.6	9.2	3.7
Global Shares (unhedged)	3.0	14.1	20.1	28.7	14.4	14.1	1.8
Global Infrastructure (hedged)	3.7	2.0	10.8	1.2	3.0	2.8	3.2

Total returns and yields are before franking credits. Source: RBA cash rate, 12M Bank term deposit, Bloomberg Ausbond 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	31/03/24	1M	3M	6M	1Y
AUD/USD (cents)	0.65	0.00	-0.03	0.01	-0.02
Aust. 10-year bond yield (%)	3.98	-0.17	0.02	-0.51	0.76
Gold US\$/ounce	2,232	9.3%	8.2%	20.8%	13.9%
Brent oil US\$/bbl	87	4.6%	13.5%	-8.2%	10.5%
Iron ore US\$/t	110	-12.0%	-19.1%	-9.1%	-5.2%
Copper US\$/pound	4.00	4.4%	3.2%	7.4%	-2.5%

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

Global

Global shares have had a strong run over the past quarter (+14.1%) on expectations that inflation and interest rates will ease in 2024. Gold and oil have also rallied seemingly on increased geopolitical risk around Eastern Europe, the Middle East and a US election in November 2024. Easing interest rates are also supportive of commodities and we note a nascent rally in industrial metals (copper, nickel, aluminium, lithium). However, bulk commodities (iron ore and coal) have been weakening from elevated levels.

Obviously, the key risk here is that inflation doesn't subside as expected and admittedly recent US data paints a picture of stronger growth and inflation than expected. Yet the US Federal Reserve (the Fed) remains confident that inflation will continue to trend down.

Markets have had to continually push back US rate cuts from May to June and more likely later this year and this is supporting the USD and hence the AUD remains relatively weak around US\$0.65.

Australia

Australian shares had a more modest gain (+5.3%) over the past quarter but listed property has been exceptionally strong (+16.2%). The main development over the past quarter was the approval of stage 3 income tax cuts from 1 July 2024. This will provide a boost to disposable income but might delay the trajectory of interest rate cuts in Australia.

The Australian inflation rate (4.1%) is running at higher levels than the US (3.2%) but is more likely to fall as the relatively high prints from a year ago drop off. The March quarter inflation figures are due in late April and should show inflation retreating to around 3.5%.

The RBA is not expected to ease interest rates until August/September but could also be pushed back until late 2024/early 2025. The Fed should ease interest rates before the RBA, and this is the main reason we expect a rally in the AUD/USD at some point this year.

Outlook

Markets have been rallying on expectations that interest rate cuts are ahead and the economic cycle does look to be ticking up. Paradoxically, this is delaying rate cuts and may cause a short-term correction in equity markets. Creeping commodity prices are also not good for the inflation outlook.

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 interest rates to ease in FY25 and 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. March quarter CPI – 24 April 2024
- Fed meeting – 30 April/1 May 2024
- RBA meeting – 6/7 May 2024
- Aust. Federal Budget – 14 May 2024

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Bill Keenan is the founder of Sunbird Portfolios. Sunbird provides independent advice to leading financial advisers across Australia.

Bill has 30 years' experience in financial markets and holds a Bachelor of Business in Accounting and a Graduate Diploma in Finance and Investment.

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