Market Update – July 2024

Asset class total return to 31/07/2024	1M (%)	3M (%)	6M (%)	1Y (%)	3Y (% p.a.)	5Y (% p.a.)	Current Yield (%)
Cash	0.4	1.1	2.2	4.3	2.7	1.8	4.4
Fixed Term Deposits	0.4	1.2	2.5	4.8	2.8	2.1	5.1
Australian Bonds	1.5	2.7	1.5	4.7	-2.2	-0.5	4.2
Australian Bank Hybrids	1.1	1.3	4.5	6.8	3.6	3.5	5.1
Australian Property	6.8	9.1	15.6	27.2	7.9	5.5	3.8
Australian Shares	4.2	6.2	7.3	13.5	7.4	7.5	3.8
Global Shares (unhedged)	4.1	7.9	13.9	22.3	11.2	13.4	1.9
Global Infrastructure (hedged)	6.3	8.9	11.4	8.0	3.7	3.4	3.5

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	31/07/24	1M	3M	6M	1Y
AUD/USD (cents)	0.65	-0.01	0.01	0.00	-0.02
Aust. 10-year bond yield (%)	4.12	-0.21	-0.31	0.07	0.06
Gold US$/ounce	2,448	5.3%	7.1%	20.2%	24.6%
Brent oil US$/bbl	81	-6.6%	-8.1%	-1.2%	-5.7%
Iron ore US$/t	106	-0.9%	-4.5%	-21.5%	-5.4%
Copper US$/pound	4.16	-5.2%	-8.9%	6.6%	4.1%

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

Global

Equity markets hit record levels in mid-July, led by Technology and Financial stocks. Inflation is gradually retreating to target and countries in the G7 have begun to ease interest rates, including Canada, Europe and the UK. The US is expected to follow suit in September.

One notable exception to this trend is Japan, where the Bank of Japan recently elected to increase the cash rate from 0.0% to 0.25%. While this is a seemingly small move, it was enough to spark a strong rally in the Yen and subsequent market turmoil, as the Japanese 'carry trade' was unwound. The Nikkei fell 13% in early August and global markets were also impacted. The 'carry trade' is a trade where investors borrow in low interest rate countries (like Japan) and invest in other higher yielding markets (like the US).

Japanese turmoil coincided with a run of soft data in the US and was enough to spark worries over US recession. US equity markets began to retreat in late July and sold-off 7% in early September. In our view, this is a 'technical correction' where investors were crowded into similar positions and suddenly tried to unwind their positions all at once, sparking liquidity gaps and market volatility. While US data has slowed, it still points to a soft-landing for the US economy rather than recession and we doubt the US Federal Reserve will overreact to this latest bout of market volatility.

In our view, a couple of major positives have emerged after this recent market correction: 1) US interest rates are now firmly expected to move lower over FY25 and 2) commodity prices (particularly oil) have eased, making it even more likely that inflation will continue to retreat towards target.

Australia

Economic growth is currently soft (under 1.0%) but the unemployment rate remains stable at 4.0%. A soft-landing looks likely in 2024 but the economy should improve in 2025, on the back of easing interest rates and income tax cuts. Inflation rose to 4.0% in May but eased back to 3.8% by June, which has taken the pressure off the RBA to increase rates further. The RBA expects inflation to continue to fall to 3.0% by December 2024 and the market expects the RBA to begin easing interest rates by late 2024/early 2025.

Commodity prices have generally weakened over the course of 2024, as China's economy continues to track below expectations. Financial stocks have generally led the market recovery, while Resource and Energy stocks have been lagging. We expect lower interest rates to support a broader recovery in the market, outside of the market heavyweight Financial sector.

Outlook

Market volatility has increased in the current quarter but seems to relate to overbought conditions rather than economic fundamentals. We are pleased with the retreat in commodity prices and bond yields, which sets the foundation for a broad-based rally in growth assets, assuming a soft landing in 2024 and economic recovery in 2025 (which is our base-case scenario). An easing cycle would only be bearish if the soft-landing scenario gave way to recession and Central Banks found themselves behind the curve on easing interest rates. We place a low probability (20%) on this scenario.

Overall, it seems inflation is on track to return to target in 2025 and Central Banks have room to ease interest rates. Bond yields are already moving lower, which will lower the cost of debt and the discount rates used to value growth assets. We return to a bullish view; after taking a cautious view over the past two months (we were concerned over inflation printing at 4.0% in May). The key known risks are around geopolitical events upsetting trade and financial markets and the US election impacting US policies on trade, foreign policy and the US budget deficit.

The next key events on the calendar include:

- Australian FY24 reporting season – August 2024
- US Federal Reserve meeting – 18 September 2024
- RBA meeting – 24 September 2024
- US Presidential election – 5 November 2024
- Australian AGM season – November 2024

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