Market Update – June 2024

Asset class total return to 30/06/2024	1M (%)	3M (%)	6M (%)	1Y (%)	3Y (% p.a.)	5Y (% p.a.)	Current Yield (%)
Cash	0.4	1.1	2.2	4.3	2.5	1.7	4.4
Fixed Term Deposits	0.4	1.2	2.5	4.8	2.6	2.1	4.7
Australian Bonds	0.8	-0.8	0.2	3.7	-2.1	-0.6	4.6
Australian Bank Hybrids	1.2	1.6	3.6	7.3	3.6	3.5	5.2
Australian Property	0.2	-5.7	9.6	23.8	5.7	4.6	3.9
Australian Shares	1.0	-1.1	4.2	12.1	6.4	7.3	3.7
Global Shares (unhedged)	1.6	0.3	14.4	19.9	11.2	13.0	1.8
Global Infrastructure (hedged)	-2.5	0.5	2.5	2.6	2.4	2.2	3.8

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	30/06/24	1M	3M	6M	1Y
AUD/USD (cents)	0.67	0.00	0.02	-0.02	0.00
Aust. 10-year bond yield (%)	4.33	-0.08	0.35	0.37	0.33
Gold US$/ounce	2,326	-0.1%	4.2%	12.8%	21.2%
Brent oil US$/bbl	86	5.9%	-1.2%	12.2%	15.4%
Iron ore US$/t	107	-9.3%	-2.7%	-21.3%	-5.3%
Copper US$/pound	4.39	-4.8%	9.7%	13.1%	17.3%

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

Global

Financial markets recovered throughout FY24, after hitting lows in October 2023 on worries over rising interest rates causing a hard landing, China's property downturn and the Hamas invasion of Israel. But by late 2023, inflation had started to ease, and the oil price surprisingly retreated. US bond yields fell from 5.0% to 4.0%, which was the catalyst for growth assets recovering. China remained stable, despite continued problems in its property sector, and commodities have generally remained resilient.

By 2024, talk of a soft landing in the US was becoming the norm and enthusiasm for technology and AI stocks returned. As the year progressed, inflation in the G7 countries had receded enough that Canada and Europe began the process of reducing the cash rate. The US is expected to follow suit in September 2024.

Global shares finished the year with strong gains, with the US, Japan and India leading returns. Bond returns have become a lot more mixed, as bond yields have started to creep higher again. Rising bond yields lead to lower bond prices and hence bond fund returns can turn negative.

As we move into FY25, the direction of bond yields is likely to become a key issue for financial markets, as bond yields influence equity market valuations and the cost of debt. Will yields fall as inflation eases and the Fed cuts the cash rate, or will they rise on concern over the implications of a potential Trump presidency (viewed as potentially negative for inflation and the trajectory of the US budget deficit)?

Australia

The Australian market was stuck in a narrow trading range and was largely going sideways for the 2-year period up to October 2023. It managed to climb out of this range with the global market rally that began in late 2023. However, market gains have generally been subdued relative to global markets. That seems to relate to modest earnings growth across many sectors, particularly the heavyweight Bank and Resource sectors.

Economic growth is currently low, but was expected to improve in FY25, on the back of easing interest rates and income tax cuts. Unfortunately, monthly inflation figures have been trending up towards 4.0% and are increasing the chances that the RBA may have to increase the cash rate further (currently 4.35%). The formal quarterly inflation figures are due in late July 2024, and this will have a large say in whether the RBA must increase rates in its August meeting. If the RBA does increase interest rates, while the US Fed is easing rates, this should be the catalyst for the AUDUSD to rally. We note the AUDUSD has been creeping higher and is currently up to $0.67.

Commodity prices have been mixed with gold, copper and aluminium strong, iron ore, coal and LNG subdued, while lithium and rare earths have been weak. Resource stocks have generally been underperforming over the past year.

Outlook

Equity markets have had a strong rally on enthusiasm for the soft-landing scenario and technology stocks. Interest rates are starting to ease in the G7 countries, but Australia looks to have an inflation issue and may have to increase. This is an unusual situation and makes the outlook tricky. For Australia, a rising cash rate and a rising currency would create headwinds for the local market.

Generally, the US lead is the most important and it does seem that the US Fed is on track to ease the cash rate by September 2024. However, it is unclear whether bond yields will also ease, as the market might be looking forward to the implications of a potential Trump Presidency and what it means for inflation and the US deficit.

Taking into account the above issues and the record level of the US market, we have moved to a more cautious stance (from bullish), as we await key inflation data in Australia and we monitor the direction of bond yields, in the lead-up to the US election in November 2024.

The next key events on the calendar include:

- US 2Q24 reporting season – July 2024
- Australian inflation (June quarter) – 31 July 2024
- US Federal Reserve meeting – 31 July 2024
- RBA meeting – 6 August 2024
- Australian FY24 reporting season – August 2024
- US Presidential election – 5 November 2024

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Date issued: Wednesday, July 10, 2024

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