Market Update – August 2024

Asset class total return to 31/08/2024	1M (%)	3M (%)	6M (%)	1Y (%)	3Y (% p.a.)	5Y (% p.a.)	Current Yield (%)
Cash	0.4	1.1	2.2	4.3	2.8	1.8	4.4
Fixed Term Deposits	0.4	1.2	2.4	4.7	2.8	2.1	4.7
Australian Bonds	1.2	3.5	3.0	5.2	-1.8	-0.6	4.1
Australian Bank Hybrids	0.0	2.3	3.5	7.3	3.6	3.5	5.1
Australian Property	0.6	7.6	11.0	25.2	5.9	5.3	3.6
Australian Shares	0.5	5.7	7.0	14.9	6.7	8.1	3.5
Global Shares (unhedged)	-1.2	4.4	6.2	18.8	9.6	13.1	1.7
Global Infrastructure (hedged)	3.0	6.8	14.1	16.7	4.1	3.7	3.0

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	31/08/24	1M	3M	6M	1Y
AUD/USD (cents)	0.68	0.02	0.01	0.03	0.03
Aust. 10-year bond yield (%)	3.97	-0.14	-0.44	-0.18	-0.07
Gold US$/ounce	2,503	2.2%	7.6%	22.5%	29.0%
Brent oil US$/bbl	79	-2.4%	-3.5%	-5.8%	-9.3%
Iron ore US$/t	101	-4.7%	-14.4%	-19.2%	-7.3%
Copper US$/pound	4.15	-0.4%	-10.1%	8.1%	9.9%

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

Global

Equity market volatility has increased in recent weeks on concerns over slowing economic growth in the US and China. While both economies are slowing, growth remains positive, hence the soft-landing scenario still looks likely over recession.

The good news is that slowing growth seems to be easing inflationary pressures, particularly regarding commodity prices. In addition, global bond yields have moved under 4.0%, which is supportive of growth assets.

Given the easing cycle is really only beginning in the G7 (Europe, UK and Canada have started but the US is expected to begin this month) we think a global recovery is likely in 2025.

One key question is, will a recovery in the G7 boost the Chinese economy? Normally this would be a given, but Chinese exports are increasingly the target of sanctions & tariffs, and its property sector remains weak.

The answer to this question will largely determine the outlook for commodities. Our view is that a recovery in the G7 is still likely to be a net positive for China and commodity prices should eventually recover.

Australia

The economy slowed to 1.5% annual growth over FY24, but nonetheless growth remains positive, and recession seems unlikely. The Federal and State governments are providing support via income tax cuts and infrastructure spending, but this is arguably making the RBA's task harder by delaying the retreat in inflation.

Headline inflation has retreated to 3.5%, with electricity subsidies helping, but core inflation remains around 3.9%. The RBA expects headline inflation to retreat to 3.0% by December 2024, while core inflation is expected to be around 3.5%. Both are inching closer to the RBA's 2-3% target range.

The RBA is adamant that no rate cuts are due in 2024, but the futures market is pricing in rate cuts beginning in December 2024. If there are no rate cuts in 2024, the earliest the RBA can cut is February 2025, as it doesn't meet in January.

Regardless, Australian financial markets tend to follow the US lead and with US interest rates forecast to ease by over 100bps by December, it is likely that conditions will remain favourable for most asset classes.

As mentioned above, commodities are currently weak, which has been a negative for the Materials and Energy sector, while a broad-based market rally has been developing across Financial, Industrial and Property sectors. We think value is starting to emerge in Resources, but we prefer commodities where supply is limited such as copper, gold, aluminium and rare earths.

With the RBA seemingly around six months behind the US Fed on interest rate cuts, we still expect the AUD/USD to strengthen as the differential between US and Australian interest rates narrows.

August reporting season saw FY24 market aggregate EPS fall by 5.4% but a recovery to 3.7% growth is expected in FY25. We found that over 80% of our stocks had their valuations upgraded (a record level) as we rolled past a weak FY24 year into a more promising FY25, as inflation levels off and interest rates ease. This is reflected in the market P/E moving up to 17.3x, above its long-term average of 14.8x.

Outlook

Inflation is gradually retreating to target, and a soft-landing scenario looks probable. Weakness in commodities is a further positive for the inflation outlook. Interest rates are already easing in the G7, with Australia likely to follow suit in early 2025. We expect a global recovery to emerge in 2025.

A soft-landing, followed by easing interest rates, is usually a bullish scenario for growth assets. We would need to see recession to be more bearish, which seems unlikely (perhaps 20% probability). Overall, we retain a bullish view.

The key known risks are around geopolitical or climate change events upsetting global trade and/or the US election impacting US policies on trade, foreign policy and the US budget deficit.

The next key events on the calendar include:

- 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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Warnings, Disclosures and Disclaimer

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