# Current Market View

**Investment Markets**

The global share markets were sold off (in local currency terms) over April 2024 fuelled by the rising interest rates and inflation are heading higher against the desired trend. Investors switched to risk-off as consumer sentiment especially surrounding **cost-of-living pressures**, bubbled to the top of discussion.

For Australia, all eyes are on what measures can be introduced to ease this pressure without fuelling inflation further. **Please see Budget Summary later in this report.**

The US market took a breather as interest rates pushed higher which led to profit taking following the recent spate of share market highs.

Investors remain confident that the **Federal Reserve Bank hiking cycle is over** however,interest rate **cuts have been pushed further down the line** as inflation remains elevated. It will be earnings that drive prices not momentum. From a risk return perspective, markets are improving:



 Source data: Lonsec as of 30th April 2024

From the chart above, you can gain an understanding of why investors over the past year have tilted their exposures towards shares over bonds given the higher risk score resulting in higher returns in most cases.

*The risk measure is simply the one-year annualised standard deviation of the monthly total return time series for each category. The total return is the share or bond price movement monthly including any cash dividends and coupons payable.*

**The US Federal Reserve Bank maintained the target range for the federal funds rate at 5.25%-5.0% at the FOMC meeting held on the 1st of May 2024.** The Committee will carefully assess incoming data, the evolving outlook, and the balance of risks. The Committee does not expect it will be appropriate to reduce the target range until it has gained greater confidence that inflation is moving sustainably toward 2 percent.

The latest inflation data cast **doubt about the expectations for interest rates to ease** in June/July this year with the latest print revealing annual inflation rate in the US accelerated for a second straight month to **3.5% in March 2024** from 3.2% in February 2024. The index for shelter (housing) and gasoline contributed to over 50% of the monthly increase. Investors remain focussed on the second half of 2024 and the potential for monetary policy easing once the real impact of all the interest rate hikes is felt by consumers in Q2 and Q3 of 2024.

The S&PASX200 volatility (VIX) pushed higher closing at 11.83 as of 30th April 2024 after finishing March 2024 at 9.79. It is currently trading at 10.84 as at close of business 13th May 2024 (Source: S&P/ASX200 VIX). Looks like the market is expecting no surprises in terms of volatility, in the month ahead.

The expectations for future easing of interest rate easing were on track until the latest spike in inflation numbers. Now it appears that **Central Banks will extend any easing plans** until a clearer picture emerges on the inflation front. In addition, the Committee will **slow the pace of** **reducing its holdings** of Treasury securities and agency debt and agency mortgage-backed securities, as described in its previously announced plans. This drains liquidity from the system.

The issues at the forefront of investors thoughts included:

* Political conflict – the ongoing war in the middle east for Israel and Humas, along with Ukraine and Russia, remains a concern for investors. While not panicking, the underlying impact of these events put doubt into expectations for any speedy economic recovery in Europe.
* Global growth – for our region, China is the focus with property developers still causing problems. The ramifications are that if China starts to emerge from these challenges, then, Australia will benefit given, they are our biggest trading partner.
* Inflation now showing signs of a pull back, stubbornly above the target ranges of Central banks. The impact of monetary policy changes typically takes 12 to 18 months to be felt and so markets are watching the economic data closely for signals that will challenge growth expectations.
* Bond markets and their response to the latest inflation print and Central banks keeping the cash rates on hold, has the debt markets hesitant and a recent selloff has markets nervous about the timing of future interest rate easing.
* Market valuations are challenging along with economic indicators flagging downside risks; however, **investors are encouraged to hold**, navigate this period of uncertainty, and expect better conditions to prevail in the 3rd and 4th quarter of 2024.

Locally the domestic house prices continued to drift higher despite the brunt of the interest rate rises as demand outstripped supply across stressed market sectors. This year will be challenging however, **the broader economy is weathering the storm well** given the mixed support from high immigration levels, commodity markets and the strong level of employment with unemployment sitting at 3.8 in March 2024 up from 3.7% in February 2024.

The latest inflation print for the first quarter of 2024 in Australia was 3.6% which was down from the 4.1% in the fourth quarter of 2023 but still elevated. Despite the elevated level of inflation, the RBA voted to **hold the target cash rate at 4.35%** at this month’s board meeting on the 7th of May 2024.

Despite the political conflict, the investment markets are looking stronger supported by company fundamentals which are still supportive of longer-term recovery but not without short-term downside risk. Investors have adjusted their risk appetite to **“hold”** short term and remain **“optimistic”** medium term as they await the next round of inflation data and Central Bank activity however, the signals are getting better and **opportunistic buying** is preferred despite the threat of an economic slowdown at some future point but the severity is now seen as limited. We are looking for a **soft landing** for Australia.

Ukraine and Israel conflict is still a major concern for investors however, we are a long way from the conflict zone and the global economic data is improving slowly but the main influence on our market remains from offshore, especially China. China is experiencing issues relating to growth and Property developers which is holding back the improving underlying market conditions in the region.

**Summary Of the Australian Federal Budget 2024**

announced by the Treasurer, Dr Jim Chambers 14th May 2024.

**Personal Taxation**

* Revised Stage 3 **tax cuts** will deliver tax savings from 1 July 2024.

**Cost of Living**

* **Energy bill relief** will provide savings of up to $300 for all households and $325 for eligible small businesses. Effective date: 1st July 2024.
* **Higher Education Loan Program** (HELP) debt will be indexed at the lower of the Consumer Price Index (CPI) and the Wage Price Index (WPI). Currently, HELP debt is indexed to CPI. Effective date: 1st July 2024.
* The indexation of the **Pharmaceutical Benefits Scheme** (PBS) concessional co-payment will be frozen from 1 January 2025 until 31 December 2029 for pensioners and other Commonwealth concession card holders. This means the co-payment remains at $7.70. Effective date: 1st January 2025.

**Small Businesses**

* The $20,000 **instant asset write-off** threshold for eligible small businesses will be extended for another 12 months until 30 June 2025.

**Superannuation**

* Superannuation Guarantee will be **paid on Paid Parental Leave** from 1 July 2025.

**Social Security**

* The maximum Commonwealth **Rent Assistance** will be increased by 10%.
* The freeze on social security **deeming rates** for financial investments will be extended until 30 June 2025.
* **Carer Payment** recipients will be able to work 100 hours over a four-week period (known as the ‘participation limit’). In addition, travel time, education and volunteering activities will be excluded from the participation limit. Effective date: 20th March 2025

**Source:** MLC TechConnect published 14th May 2024

**The following total returns across the asset classes are as of 30th April 2024:**



Source data: Lonsec as of 30th April 2024

The developed markets asset classes finished down for the month. The AUD/USD finished slightly lower as well (-0.11%) in the month which benefitted unhedged holdings.

With **reporting season over in the US and in Australia,** investors encouraged by the results especially the high number of companies that achieved or exceeded earnings per share guidance.

**Asset Class Performance**



Data Source: Lonsec as of 30th April2024 & Fox Asset Management

**Investment Climate**

The underlying investment climate has reverted to **“hold”** in the short term as investors wait for the interest rate markets to settle. The soft-landing expectations and economic recovery are still supported despite the European and middle east conflict. The recent year-on-year inflation numbers are supportive of the longer-term expectations however, the month-on-month numbers of (+1.0%) in the first quarter may just temper the risk appetite given inflation is holding its ground. Future **Central Bank easing plans may need to be extended** until later in the year.

The risk is that the conflict in the middle east may escalate and involve neighbours which could then inflame the situation. While this situation continues, investors will be cautious around exposure to Europe, oil, and gas, however any fall in interest rates will spur buying in asset classes that have been oversold in recent months (property -this may prove to be premature as property valuations come June 30 may be impacted).

Consumption is slowing with retail sales in Australia falling by (-0.4%) in March 2024 which is impacting company profit expectations in the short-term.

The **medium-term view remains positive** for returns overall although headwinds will prevail, now that the US Fed has effectively **signalled a pivot for their interest rates**, this is a strong indicator for interest rate expectations and clear a path going forward for investors.

**Longer term investors are optimistic** for a goldilocks period ahead. Global Central Banks continue to indicate a resolve to get inflation under control however, the economic data is showing signs of an easing in inflation and every indication is for future easing in monetary policy expectations for the latter part of 2024. Remember **markets are forward looking** so the support now is reflecting the expectations for conditions in January 2025.

**The following commentary is based on month-end closing prices as of 30th April 2024:**

Global markets retreated over April as global share markets pulled back and debt markets were sold off. The property market also took a tumble concerned about interest rates and the Chinese property market overshadowing valuations and liquidity issues.

Infrastructure companies fell slightly however, they are in a better position to retain margins compared to most general market equities, given that not only interest costs, but also other operating cost items, may be considered “pass-through” within a regulatory construct so costs simply flow through to users.

The changing economic conditions along with interest rates soaring (higher yield levels) dented investor confidence. The situation in Russia/Ukraine conflict remains unchanged however the latest conflict between Israel and Hamas has prompted investors to avoid that region. Unfortunately, a resolution to the regional conflict is a way off currently however, the underlying economies elsewhere are emerging with a more growth orientated momentum after such an extended period of uncertainty.

As mentioned, the Fed left the target cash rates at **5.25% - 5.50%** on the 1st of May 2024 FOMC meeting:

*“In considering any adjustments to the target range for the federal funds rate, the Committee will carefully assess incoming data, the evolving outlook, and the balance of risks. The Committee does not expect it will be appropriate to reduce the target range until it has gained greater confidence that inflation is moving sustainably toward 2 percent. In addition, the Committee will continue reducing its holdings of* ***Treasury securities and agency debt and agency mortgage‑backed securities****. Beginning in June, the Committee will slow the pace of decline of its securities holdings by reducing the monthly redemption cap on Treasury securities from* ***$60 billion to $25 billion****. The Committee will maintain the monthly redemption cap on agency debt and agency mortgage‑backed securities at* ***$35 billion and will reinvest any principal payments in excess of this cap*** *into Treasury securities. The Committee is strongly committed to returning inflation to its 2 percent objective.*

*(Source: Federal Reserve Press Release May 1, 2024).*

Other measures agreed to at the Fed meeting include:

* In assessing the appropriate stance of monetary policy, the Committee will continue to monitor the implications of incoming information for the economic outlook. The Committee would be prepared to adjust the stance of monetary policy as appropriate if risks emerge that could impede the attainment of the Committee's goals.
* The Committee's assessments will take into account a wide range of information, including readings on labor market conditions, inflation pressures and inflation expectations, and financial and international developments. (Source: Federal Reserve Press Release May 1, 2024).

**The next Fed meeting is scheduled for 11/12 June 2024**. Most officials see US interest rates ending at 5%-5.5%.

**Investor Focus**

For Australia, investors focussed on the following issues:

* **Cost of living expenses** and the impact on **consumer spending**.
* **Company results** post reporting season**.**
* The level of **interest rates** and the delicate position of the RBA given inflation level.
* **Inflation** remains stubbornly high at 3.6% although easing from 4.1% in the fourth quarter of 2023 which although heading in the right direction, infers **higher interest rates for longer**.
* China growth prospects – the PBOC efforts to boost the economic growth by adding liquidity to the market to offset the property developers’ losses **by issuing one trillion yuan worth of ultra-long sovereign bonds** (30 year and 50 year). The GDP annual growth rate rose to 5.3% in the first quarter of 2024 up from 5.2% previously.

## Asset Class Returns

Returns across the various asset classes ended mixed over the month:



Source data: Lonsec as of 30th April 2024

## Global Share Returns

For share markets, the focus remains on **inflation** and the potential for Central Banks to look at interest rate **easing programmes** over the longer time horizon should inflation data continue to drift lower. Unhedged global shares benefitted slightly from an easing USD/AUD weakening (0.6525 down from 0.6532) which had a positive impact of (+0.11%) in AUD returns over the month for unhedged investors.

The markets are reacting to the latest interest rate moves however, they are fundamentally looking to stabilise and regain a level of confidence. Investors welcome the obvious signs that Central Banks have “**pivoted”** now and future interest rates moves are likely to be down not up which will underpin company valuations and support markets over the longer term.

Most investors are content to **stay invested and opportunistically add to their positions** which has proven the correct strategy over the recent medium-term trend.



Source data: Lonsec as of 30th April 2024

In AUD terms, the global share markets posted one month return of (-3.22%). The US posted returns of (-3.63%), Asia ex Japan (+0.96%), Japan (-2.01%), the UK (+2.37%), Europe (-1.27%) and the Emerging Markets (+0.94%).

**Australian Shares**

Australian shares posted negative returns dragged down by the global trend and soft economic conditions. Shares finished (-2.94%) for the month and (+1.03%) over the last three months. The focus for investors was:

* **Cost of living expenses** and the impact on consumer spending.
* **Company profits** and forward earnings guidance.
* **Consumer confidence** post the interest rate increases.
* **Mortgage stress** and the impact on domestic house prices and banks.
* **Inflation** and the welcome response by the RBA to hold the target cash rate at 4.35%.

Commodity markets ended mixed with Iron Ore closing at US$110.91 per tonne at the end of April 2024 with a monthly gain of (+1.26%) and losses of (-17.92%) for the previous three months. Oil (WTI) closed lower at US$81.93 a barrel at the end of April 2024 resulting in a loss of (-1.49%) for the month and up (+8.02%) over the last three months. China remains our main export market followed by Japan.

## Australian Industry Returns

Industry sectors posted mixed results for April 2024. The industry sector performance results for the last month were:



Source data: Lonsec as of 30th April 2024

Over the last month, Utilities was the best performing sector posting gains of (+4.77%).

Real Estate Investment Trusts (REITS) was the worst performing sector finishing (-7.78%) for the month.



Source data: Lonsec as of 30th April 2024

## Debt Market Returns

Bonds and Fixed Interest markets finished in negative territory as global bond prices pushed lower (up in yield) as Central Bank hold on the cash rates in the developed countries and rhetoric that suggested caution as inflation had faltered and started to push higher again caused investors to consider a longer-term timeframe for cash rates to come down. In Australia, the short-dated 2-year Government bonds trading at **4.05%** on the 14th of May 2024 and longer dated 10-year bonds trading at **4.3710%.**

Global Bonds ended down (-1.74%) and Australian Bonds ended down (-1.98%) for the month of April 2024 and down (-1.91%) and (-1.18%) respectively for the previous three months.

The RBA left the **target cash rate at 4.35%** following the 7th of May 2024 board meeting and stated that:

*“The Board expects it will be some time before inflation is sustainably low and stable. Keeping the cash rate at the current level is important to reduce inflationary pressures.*

*This decision supports the objectives of bringing inflation to target and the labour market to levels consistent with full employment. The path to return inflation to target will be bumpy. How interest rates evolve from here is uncertain and the Board is watching developments in Australia and overseas closely. The Board remains vigilant to the risk of continued high inflation and is not ruling anything in or out.”*

*Michelle Bullock, Governor, RBA Monetary Policy Board meeting, 7th May 2024.*

The US Federal Reserve Bank (the Fed) kept their monetary policy measures on hold by maintaining the target range for **federal funds at 5.25% to 5.50%** on the 20 March 2024 meeting. In addition, the Committee will continue reducing its holdings of Treasury securities and agency debt and agency mortgage-backed securities.

The US 10-year Government bonds closed at (4.682%) for the month up in yield (+0.472%) from the previous month close of (4.21%).

The Australian Government 10-year bonds finished higher in yield in April 2024 at (4.533%) up in yield (+0.532) from (4.0001%) in March 2024.



Source data: Lonsec as of 30th April 2024

## Currency

The $A closed weaker AUD/USD 0.6525 at the end of April 2024 which benefitted investors who held offshore assets unhedged (+0.11%) over the month and benefitted them (+0.75%) over the last three months.



Currency forecasters see the AUD/USD range between **0.6250 and 0.7250** cents in the medium term and most likely to trade within the **0.5500 to 0.7500** range in the longer term.

## Australian Economy

Australia’s latest GDP data for the fourth quarter of 2023 revealed an **annual growth rate of 1.5%** which was down from 2.10% in the third quarter of 2023. Unemployment increased to 3.8% in April 2024 from 3.7% In March 2024. The **inflation rate eased to 3.6%** in the first quarter of 2024 down from 4.1% in the fourth quarter 2023, which is above the Reserve Bank’s targeted 2% to 3% target range.

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## Current Market View

### Domestic View

The Australian share market pulled back from the recent highs over April 2024 impacted by rising global interest rates following the lead given by Central Banks that **interest rates may have to be higher for longer** following stubborn high prints for inflation. Central Banks are cautious about the elevated level of inflation despite the recent year-on-year trends and will wait for the **economic data to support a shift lower** before easing monetary policy.

The latest inflation numbers vindicated this caution as month-on-month inflation shifted higher however the focus remained on the potential for Central Banks to ease monetary policy in the months ahead. Pre-empting this move, **markets need to wait until the economic data supports a shift lower.** Rising interest rates have led to a pullback in the share market as implied valuations have resulted in falling company valuations. Consumer spending is finally showing signs of slowing with a fall in retail sales for the month of March 2024 by (-0.4%).

More aggressive investors are taking advantage of any pullback in markets to buy oversold companies in industries and entering **selective risk-on trades**. This activity is likely to be in response to conservative earnings guidance being achieved and future guidance being marginally positive.

The overall investment feeling for shares in the short-term is **“hold”** and remains **optimistic** **over the long run** as interest rates are expected to ease along with inflation.

### Global View

Global markets returns were soft over April 2024 in AUD terms despite the tailwinds of a slightly weakening AUD/USD exchange rate which benefitted returns by (+0.11%) on the performance results for unhedged investors. Inflation, interest rates and the political uncertainty remain the key focus. For China, green shoots are appearing, but it is a slow process and remains a wait and see brief as domestically they wait to see any indication of global growth emerging before looking to commit to expand their markets.

Despite the uncertain geopolitical situation with the Russia-Ukraine, Israel-Hamas conflict, and economic slowdown concerns, we expect the **medium-term outlook to reflect better opportunities for investors**. Short-term, we expect Q3 and Q4 to reflect improving company results plus conservative forward guidance which will help support investor appetite as interest rates search for equilibrium.

**Where to From Here?**

**For Australia**, what is happening in the global markets is directly impacting our markets as there is alignment in trade terms, but the fallout remains mitigated given our immigration, agricultural and resource assets. All eyes are focussed on the **Middle East political unrest.** Let us hope the situation will be contained and a solution that ceases further aggression and violence is forthcoming.

The latest rhetoric from Central Banks **confirms the change to monetary policy thinking however, inflation is the main cause of concern** which has spooked bond investors and been the main catalyst for the recent pull back in the share markets.We may not have seen the real impact of the interest rate rises just yet, but the first half of 2024 is providing a strong indication of where we are heading in terms of soft or hard landing for the global economies.

Markets have already weathered tough conditions over 2023/24 and now there is economic evidence pointing to a potential **soft landing** rather than a mild recession in the US and Europe down the track. **Markets are forward looking**, so it is likely they have **found a bottom and consolidating** before starting to recover longer term. We suspect we have just seen the start of that recovery process and **the recent volatility is simply the ebb and flow of markets**.

Fingers crossed monetary policy direction remains restrictive but trending towards an easing bias in the months ahead which hopefully, will lead to a moderation in prices and the start of a more stable growth platform.

**Footnote**

This market update written by Graham Fox for and on behalf of HNW Planning on 15/05/2024. Graham Fox is an external asset consultant and consults to the HNW Investment Committee. Graham has enjoyed a career in financial services covering several private, corporate and investment banking institutions including, Genesys Wealth Advisers (research), Standard & Poor’s Australia (fund ratings), Westpac Private Bank (research, strategy and product), Gold Link Capital (sales and marketing), Challenger Financial Services Group (COO asset management), Deutsche Funds Management (head of treasury), Canadian Imperial Bank of Commerce (regional head of FX), Banque Nationale de Paris, (F/X) and Commercial Bank of Australia (International and Treasury). Graham references material made available from HNW Planning’s' contracted research houses including Lonsec and Morningstar.