# Current Market View

**Investment Markets**

The global markets finished strongly over July 2024 (in local currency terms) as cash was re-invested back into the market from trust distributions, share dividends and bond coupons paid. Not all underlying sectors performed well as the market experienced a spate of volatility fuelled by soft tech earnings and weak employment data. Technology shares fell by (-3.30%) in USD terms over the month.

Early August 2024 saw the **Japanese Yen (¥) carry trade** arbitrage being unwound create havoc with the Tokyo Nikkei share market which fell 12% on the 5th of August and then bounce back 10% the next day. The USD/JPY also strengthened from around ¥161.50 in July 2024 to ¥142.50 in August 2024 (-13.3%) which triggered some of the unwinding. The ¥ carry trade involves borrowing in one low-cost currency and lending in another currency with a higher yield or return prospects (shares).

*For example: To initiate the trade, borrow ¥ at close to 0% interest rates and sell the borrowed ¥ in exchange for target currency i.e.: US$ thus creating the currency risk (short ¥, long US$). Invest the US$ in US Government Bonds at 4.0% or shares (tech). It all comes unstuck if the ¥ strengthens and erodes the 4% arbitrage. The* ***Bank of Japan started to raise******interest rates*** *at the end of July 2024 that have been below or around zero for the last 25 years. This prompted investors to buy ¥ and sell US$ bonds or sell shares to pay for the ¥ purchase triggering the unwind as the 4% arbitrage quickly went from profit to loss despite the rally in US bond yields (carry trade +4%, ¥ -13.3% & US$ bonds +8.175 = -1.13%).*

US treasury yields fell in yield by 35.9 basis points over July 2024 (+8.17%). The ¥ carry trade was a distraction that did spook many investors however, the markets have recovered since.

US investors were also a bit nervous about the talk of a recession emerging however, our view has not changed and remain confident that interest rate **cuts will be the next move by the Federal Reserve Bank** although they have been pushed further down the line as inflation remains elevated. The latest interest rate easing expectations see a 78% chance of the Fed starting to ease rates in September 2024.

**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 30/31st July 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”.**Source: FOMC policy statement, The Federal Reserve Bank.*

In addition, the US FOMC will continue to reduce 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 latest US annual inflation data slowed to **+2.9% in July 2024** from +3.0% in June 2024. 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 Q3 and Q4 of 2024. Core inflation Y-O-Y fell to +3.2% from +3.3% in June 2024. Core inflation excludes volatile items such as food and energy.

Now it appears that other **Central Banks will consider easing plans** if the inflation numbers continue to head lower.

Investors believe it will be earnings that drive prices not momentum. From a risk return perspective, markets are improving:



 Source data: Lonsec as of 30th June 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.*

In Australia, the S&PASX200 volatility (VIX) had a bumpy month over July 2024 closing at 12.33 as of 31st July2024 after finishing June 2024 at 11.67. It did hit a high of 18.84 on the 5th of August 2024. It is currently trading at 12.68 as at close of business 14th August 2024 (Source: S&P/ASX200 VIX).

The expectations for future easing of interest rates have been pushed further down the line with the Australian futures market pricing suggests **the first RBA cut will be in 2025**.

The issues at the forefront of investors thoughts included:

* US Politics – The Democrats have chosen a new candidate for the **November 5**, **2024,** election with the nod going to **Vice President, Kamala Harris** after President Joe Biden stepped down.
* Political conflict – the ongoing war in the middle east for Israel, Humas and now Hezbollah, 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 growth prospects the central theme. GDP is resilient around the 5% level despite the property market concerns. The benefits of rekindling growth include productivity gains from which Australia will also benefit given, they are our biggest trading partner.
* Inflation marking time with a slight easing bias is aiding optimism, although mostly 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 start of easing programme for interest rates by a number of Central Banks helped by the latest inflation print. With several Central Banks moving to stimulate their economy early through easing interest rates, the debt markets should follow in the months ahead.
* Market valuations are still challenging along with economic indicators flagging downside risks; however, **investors are encouraged to maintain their cautious optimism**, navigate this period of uncertainty, and expect better conditions to prevail in the 3rd and 4th quarter of 2024.

Locally the domestic house prices are starting to run out of steam but stubbornly higher despite the brunt of the interest rate rises as demand continues to outstrip 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 and the strong level of employment with unemployment sitting at 4.1% in June 2024 up from 4.0% in May 2024.

The latest inflation prints for (year-on-year) second quarter of 2024 in **Australia was 3.8%** which was up from the 3.6% in the first quarter of 2024 but still elevated. This persistently high data reading on inflation forced the RBA to **hold the target cash rate at 4.35%** at this month’s board meeting on the **6th of August 2024.**

 

Despite the political conflict, the investment markets are looking solid underpinned by company reporting season which was mostly positive and still supportive of longer-term recovery but not without short-term downside risk.

Investors have adjusted their risk appetite to **“cautiously optimistic”** 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 which is holding back the improving underlying market conditions in the region.

**The following total returns across the asset classes are as of 31st July 2024:**



Source data: Lonsec as of 31st July 2024

The developed markets asset classes finished mostly in positive territory for the month. The AUD/USD finished lower at 0.6491 (-2.01%) in the month which benefitted returns for unhedged holdings.

**Asset Class Performance**



Data Source: Lonsec as of 31st July2024 & Fox Asset Management

**Investment Climate**

The underlying investment climate remains **“cautiously optimistic”** 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 US year-on-year inflation numbers (+2.9% in July 2024 from +3.0% in June 2024) are supportive of the longer-term expectations along with the month-on-month numbers (0.0%) in July 2024, will not impact the risk appetite of investors given inflation is slowly easing.

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 and further sanctions are introduced, 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, mainly office, come valuations post June 30, 2024.

Consumption is firm and holding up well with **retail sales in Australia rising by (+2.90%)** in June 2024 which will impacting company profit expectations in the short-term and worrying the RBA.

The **medium-term view remains positive** for returns overall although headwinds will prevail, now that the **US Fed Chair, Jerome Powell (31st July 2024) has said that “a soft landing was in view**, with data that is **not signalling a weak economy**. It is also not indicating an overheating economy.” 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 April 2025.

**The following commentary is based on month-end closing prices as of 31st July 2024:**

Global markets bounced higher over July as Central Banks held their cash rates after several initiated easing programmes for their target cash rates to encourage their economic growth prospects. Debt markets rallied however, without conviction about the timing of future easing’s.

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 30/31st July 2024 FOMC meeting:

*“The Committee seeks to achieve maximum employment and inflation at the rate of*

*2 percent over the longer run. The Committee judges that the risks to achieving its employment and inflation goals continue to move into better balance. The economic outlook is uncertain, and the Committee is attentive to the risks to both sides of its dual mandate.”*

*(Source: Federal Reserve Press Release July 31, 2024).*

As mentioned in the June 2024 statement, the Committee will continue reducing its holdings of **Treasury securities and agency debt and agency mortgage‑backed securities**.

The next Fed meeting is scheduled for **17/18 September 2024** (just before the elections).

**Investor Focus**

**For Australia**, investors focussed on the following issues:

* **Cost of living expenses** and the impact on **consumer spending**.
* **Company reporting season** underway.
* The level of **interest rates** and the delicate position of the RBA given the elevated inflation level.
* **Inflation** remains stubbornly high at 3.8% up from 3.6% in the first quarter of 2024 which is not heading in the right direction, infers **higher interest rates for longer**.
* **China growth prospects** – The consensus forecast for Chinese growth next year is about 4.5%. China’s policymakers might accept this as the new normal for the economy, just as they accepted the slowdown after 2012. The GDP annual growth rate Y-O-Y eased to 4.7% in June 2024 down from 5.3% previously. Let us hope the economy can recover quickly from this level.

## Asset Class Returns

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



Source data: Lonsec as of 31st July 2024

## Global Share Returns

For share markets, the focus remains on **inflation** and the **timing of interest rate easing** for Central Banks to look at over the longer time horizon should inflation data continue to drift lower. Unhedged global shares had returns boosted from a weakening USD/AUD (0.6491 from 0.6624) which had a positive impact of (+2.01%) in AUD returns over the month for unhedged investors.

Volatility raised its ugly head early in August 2024 which made investors nervous. The volatility was caused by several factors including the Japanese Yen carry trade mentioned earlier, renewed recession talks and rising unemployment in the US.

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 31st July 2024

In AUD terms, the global share markets posted one month return of (+4.10%). The US posted returns of (+3.52%), Asia ex Japan (+2.50%), Japan (+8.21%), the UK (+6.57%), Europe (+4.49%) and the Emerging Markets (+2.65%).

**Australian Shares**

Australian shares posted positive returns however, impacted by soft commodity prices and slowing economic conditions. Shares finished (+4.19%) for the month and (6.21%) 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 lower with Iron Ore closing at US$105.94 per tonne at the end of July 2024 with a monthly loss of (-0.54%) and losses of (-4.48%) for the previous three months. Oil (WTI) closed lower at US$77.91 a barrel at the end of July 2024 resulting in a loss of (-4.45%) for the month and down (-4.91%) over the last three months. China remains our main export market followed by Japan.

## Australian Industry Returns

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



Source data: Lonsec as of 31st July 2024

Over the last month, Consumer Discretionary was the best performing sector posting gains of (+9.09%).

Energy was the worst performing sector finishing (-0.37%) for the month.



Source data: Lonsec as of 31st July 2024

## Debt Market Returns

Bonds and Fixed Interest markets finished in positive territory as global bond prices pushed higher (down in yield) following on the trend established last month when several Central Banks began to ease their target cash rates. Investors were encouraged by this trend but not all economies are experiencing inflation falls and remain focussed on the longer-term for both inflation and cash rates to come down. More recently, bonds have been firming In Australia with the short-dated 2-year Government bonds trading at **3.60%** on the 14th of August 2024 and longer dated 10-year bonds trading at **3.951%.**

Global Bonds ended up (+0.73%) and Australian Bonds ended up (+0.77%) for the month of June 2024 and down (-0.55%) and (-0.84%) respectively for the previous three months.

The RBA left the **target cash rate at 4.35%** following the 6th of August 2024 board meeting and stated that:

*“Inflation in underlying terms remains too high, and the latest projections show that it will be some time yet before inflation is sustainably in the target range. Data have reinforced the need to remain vigilant to upside risks to inflation and the Board is not ruling anything in or out. Policy will need to be sufficiently restrictive until the Board is confident that inflation is moving sustainably towards the target range. The Board will rely upon the data and the evolving assessment of risks. In doing so, it will continue to pay close attention to developments in the global economy, trends in domestic demand, and the outlook for inflation and the labour market. The Board remains resolute in its determination to return inflation to target and will do what is necessary to achieve that outcome.”*

*Michelle Bullock, Governor, RBA Monetary Policy Board meeting, 6h August 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 31st of July 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 (4.033%) for the month down in yield (-0.359%) from the previous month close of (4.392%).

The Australian Government 10-year bonds finished lower in yield in July 2024 at (4.116%) down in yield (-0.235) from (4.351%) in June 2024.



Source data: Lonsec as of 31st July 2024

## Currency

The $A closed weaker AUD/USD 0.6491 at the end of July 2024 which added to returns for investors who held offshore assets unhedged (+2.01%) over the month and (+0.52%) 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 first quarter of 2024 revealed an **annual growth rate of 1.1%** which was down from 1.60% in the fourth quarter of 2023. Unemployment rose to 4.1% in June 2024 from 4.0% in May 2024. The **inflation rate rose to 3.8%** in the second quarter of 2024 up from 3.6% in the first quarter 2024, which is above the Reserve Bank’s targeted 2% to 3% target range.

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## Current Market View

### Domestic View

The overall investment feeling for shares in the short-term is **“cautiously optimistic”** and remains **optimistic** **over the long run** as interest rates are **expected to ease in 2025** along with inflation.

All eyes are on how the economy reacts to the tax changes starting in July 2024 and the State Governments cash splash and the impact on consumer spending. Needless to say: **Higher spending=higher demand=higher prices=higher inflation=higher for longer interest rates.**

### Global View

Global share market returns were driven primarily by the broader S&P500 market rather than the technology stocks over July 2024 which pulled back suffering a loss of (-3.3%). Other sectors led the way with Real Estate (+7.22%), Utilities (+6.79%) and Financials (+6.46%). Early August volatility spiked in the global markets and knocked investor confidence however, the markets have since stabilised but remain nervous about further unwinding of the Yen carry trade.

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 between the current supply and demand for capital.

**Where to From Here?**

**For Australia**, a **soft landing is still on the cards**. Markets take the lead from what is happening in the global markets as this directly impacts our markets given 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.

**Global 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.

The **US elections in November 2024** are a background factor however, there may be periods of volatility in the lead up to the election. The same can be said about the European and UK elections post the voting surprises experienced there recently. A big year for voters. Post all the noise, the economic recovery should start to emerge.

**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 global growth platform.

**Footnote**

This market update written by Graham Fox for and on behalf of HNW Planning on 15/08/2024. 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.