# Current Market View

**Investment Markets**

The global share markets finished strongly in local currency terms over March 2024 supported by the belief that interest rates and inflation are heading lower this year. Investors switched to risk-on as global interest rates took a breather from the recent pull back.

The US market continued to challenge record highs as confidence for a soft landing prevailed.

What is supporting the confidence is the belief that the **Federal Reserve Bank hiking cycle is over** and interest rate cuts are just around the corner. It will be earnings that drive prices not momentum. From a risk return perspective, markets are improving:



 Source data: Lonsec as of 31st March 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 20th of March 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.Interest rates eased a little (lower in yield) as the market consolidated.

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 Q1 and Q2 of 2024.

The S&PASX200 volatility (VIX) pushed lower closing at 9.79 as of 28th March 2024 after finishing February 2024 at 10.95. It is currently trading at 10.86 as at close of business 11th April 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 **continue 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 add risk**, navigate this period of uncertainty, and expect better conditions to prevail in the 2nd and 3rd quarter of 2024.

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

The latest inflation print for the fourth quarter of 2023 in Australia was 4.1% which was down from the 5.4% in the third 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 19th of March 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 **“risk-on optimistic”** short term and **“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 now underway 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.

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



Source data: Lonsec as of 31st March 2024

The developed markets asset classes finished strongly for the month. The AUD/USD finished higher as well (+0.20%) in the month which cost unhedged holdings.

With **reporting season over in the US and in Australia,** investors were 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 31st March2024 & Fox Asset Management

**Investment Climate**

The underlying investment climate has now changed to **“risk-on optimistic”** in the short term as investors gain confidence in the soft landing and economic recovery now underway despite the European and middle east conflict. The recent inflation numbers 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 showing no signs of a slowdown with retail sales in Australia increasing by 1.6% in February 2024 which is supporting ongoing demand in the short-term and while it will take time to settle, the world looks to have pulled through this period of uncertainty supported by the deep pockets of Central Banks.

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 December 2024.

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

Global markets reflected the positive investor sentiment over March as global share markets surged ahead and debt markets rallied. The property market is gaining support despite the Chinese property developer Evergrande suffering liquidity issues and global infrastructure looks to have turned the corner.

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

The changing economic conditions along with interest rates retreating from the lower 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 20th of March 2024 FOMC meeting:

*“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, as described in its previously announced plans.*

*The Committee is strongly committed to returning inflation to its 2 percent objective. (Source: Federal Reserve Press Release March 20, 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 March 20, 2024).

**The next Fed meeting is scheduled for 30/01 April/May 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 the elevated inflation print.
* **Inflation** remains stubbornly high at 4.1% although easing from 5.4% in the third 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 however, boosted a little with the GDP annual growth rate rising to 5.2% in the fourth quarter of 2023 up from 4.9% previously.

## Asset Class Returns

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



Source data: Lonsec as of 31st March 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 should inflation data continue to drift lower. Unhedged global shares were hit with the USD/AUD strengthening (0.6532 up from 0.6519) which had a negative impact of (-0.20%) on AUD returns over the month for unhedged investors.

The markets are 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.

Most investors are content to **stay invested and opportunistically add to their positions** which has proven the correct strategy over the last period.



Source data: Lonsec as of 31st March 2024

In AUD terms, the global share markets posted one month return of (+3.08%). The US posted returns of (+3.02%), Asia ex Japan (+2.44%), Japan (+2.96%), the UK (+4.27%), Europe (+3.67%) and the Emerging Markets (+2.32%).

**Australian Shares**

Australian shares posted positive returns pulled along by the global trend and improving economic conditions. Shares finished (+3.27%) for the month and (+5.32%) 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$109.53 per tonne at the end of March 2024 with a monthly loss of (-12.28%) and losses of (-19.68%) for the previous three months. Oil (WTI) closed higher at US$83.17 a barrel at the end of March 2024 resulting in a gain of (+6.27%) for the month and up (+16.08%) over the last three months. China remains our main export market followed by Japan.

## Australian Industry Returns

Industry sectors posted mixed results for December 2023. The industry sector performance results for the last month were:



Source data: Lonsec as of 31st March 2024

Over the last month, Real Estate Investment Trusts (REITS) was the best performing sector posting gains of (+9.70%).

Communication Services was the worst performing sector finishing (+0.52%) for the month.



Source data: Lonsec as of 31st March 2024

## Debt Market Returns

Bonds and Fixed Interest markets finished in positive territory as global bond prices eased (down in yield) as Central Bank hold on the cash rates in the developed countries and rhetoric that suggested caution as an indication that perhaps markets had run ahead of themselves 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 **3.95%** on the 12th of April 2024 and longer dated 10-year bonds trading at **4.335%.**

Global Bonds ended up (+0.67%) and Australian Bonds ended up (+1.12%) for the month of March 2024 and down (-0.62%) and up (+1.03%) respectively for the previous three months.

The RBA left the **target cash rate at 4.35%** following the 19th of March 2024 board meeting and stated that:

*“Returning inflation to target within a reasonable timeframe remains the Board’s highest priority. This is consistent with the RBA’s mandate for price stability and full employment. The Board needs to be confident that inflation is moving sustainably towards the target range. To date, medium-term inflation expectations have been consistent with the inflation target and it is important that this remains the case.”*

*Michelle Bullock, Governor, RBA Monetary Policy Board meeting, 19th March 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 (4.21%) for the month down in yield (+0.044%) from the previous month close of (4.254%).

The Australian Government 10-year bonds finished lower in yield in March 2024 at (4.001%) down in yield (-0.146) from (4.15%) in February 2024.



Source data: Lonsec as of 31st March 2024

## Currency

The $A closed stronger AUD/USD 0.6532 at the end of March 2024 which cost investors who held offshore assets unhedged (-0.20%) over the month and benefitted them (+4.50%) 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 decreased to 3.7% in February 2024 from 4.1% In January 2024. The **inflation rate eased to 4.1%** in the fourth quarter of 2023 down from 5.4% in the third 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 continued to trend higher over March 2024 supported by easing Global interest rates following the lead given by Central Banks that **interest rates have peaked** but cautioned about getting **too excited, too early** . Central Banks are cautious about the high level of inflation and will wait for the **economic data to support a shift lower** in monetary policy.

The latest inflation numbers vindicated this caution as 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.** Falling interest rates should lead to rising company valuations however, consumer spending is not showing any signs of slowing so **inflation may be higher for longer**.

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 **“risk-on optimistic”** and remains **optimistic** **over the long run** as interest rates are expected to ease along with inflation.

### Global View

Global markets returns were strong over March 2024 in AUD terms despite the headwinds of a strengthening AUD/USD exchange rate which cost (-0.20%) 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 Q1 and Q2 to reflect softer company results plus cautious forward guidance which help support investor appetite as interest rates search for equilibrium and middle-income consumers look to tighten their belts.

**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 now **confirms the change to monetary policy thinking** which has been the catalyst for the recent buying spree 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 should provide 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.

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 12/04/2024. 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.