# Current Market View

**Investment Markets**

The global share markets recovered from the recent falls (in local currency terms) over May 2024 supported by improving company earnings in the US and several **Central Banks easing their target cash rates** in response to better inflation numbers and a slowing economy.

**Bank of Canada reduced their cash rate to 4.75% from 5.0%, the European Central Bank 4.25% from 4.5%, Denmark 3.35% from 3.6% and Brazil 10.5% from 10.75%.**

Australian investors picked up out of favour stocks as **tax loss selling** clouded trading patterns which is normal for this time of the year when prices get out of step with fundamentals. Look for a **bounce back in July** as dividends and trust distributions are paid to investors post the financial year-end.

A flurry of State Government budgets (Victoria and Queensland) has seen a cash splash as elections become the focus later this year. The generosity of some of the plans are likely to hinder (to a degree) the hard work done by the Reserve Bank on containing inflation via high interest rates. If the cash is spent then, this may impact prices and inflation forcing the RBA to extend any thought of easing any time soon.

US 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.

**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 12th of June 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 inflation data unexpectedly slowed to **3.3% in May 2024** from 3.4% in April 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.

Now it appears that other **Central Banks will extend any easing plans** until a clearer picture emerges on the inflation front.

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



 Source data: Lonsec as of 31st May 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) tracked sideways over May 2024 closing at 11.54 as of 31st May 2024 after finishing April 2024 at 11.83. It is currently trading at 11.68 as at close of business 12th June 2024 (Source: S&P/ASX200 VIX). Looks like the market is expecting much of the same, with no surprises in terms of volatility, in the month ahead.

The expectations for future easing of interest rates have been pushed further down the line with the Australian futures market pricing in only one easing later in the year (November 2024).

The issues at the forefront of investors thoughts included:

* 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 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 marking time with a slight easing bias is aiding optimism, although 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 by several Central Banks helped by the latest inflation print. With a number of Central Banks moving to stimulate their economy early through easing interest rates, the debt markets remain hesitant, choosing not to get too excited too early.
* Market valuations are 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 continued to drift 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, commodity markets and the strong level of employment with unemployment sitting at 4.0% in May 2024 down from 4.1% in April 2024.

The latest inflation prints for (year-on-year) 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 improving 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 boosted 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 **“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 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 May 2024:**



Source data: Lonsec as of 31st May 2024

The developed markets asset classes finished in positive territory for the month. The AUD/USD finished higher 0.6637 (+1.72%) in the month which cost returns for unhedged holdings.

With **the FY-end fast approaching** 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 31st May2024 & Fox Asset Management

**Investment Climate**

The underlying investment climate has reverted to **“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 (3.3% in May 2024 from 3.4% in April 2024), are supportive of the longer-term expectations along with the unchanged month-on-month numbers (0%) in May 2024, will not impact the risk appetite of investors given inflation is holding its ground.

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 June 30 may be impacted).

Consumption is marking time with retail sales in Australia rising by a weak (+0.1%) in April 2024 which will 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 February 2025.

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

Global markets bounced higher over May as several Central Banks decided to ease their target cash rates to encourage their economic growth prospects. Debt markets rallied however, not strongly as they are cautious about the pace of future easing’s.

Global Infrastructure companies rebounded strongly as 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 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 12th of June 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 have moved toward better balance over the past year. The economic outlook is uncertain, and the Committee remains highly attentive to inflation risks.”*

*(Source: Federal Reserve Press Release June 12, 2024).*

As mentioned in the May 2024 statement, 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 more than 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:

The much-anticipated Summary of Economic Projections (SEP) broadly met expectations with a higher inflation forecast for 2024 and less easing this year; The median FOMC member called **for one 25 basis point cut by the end of this year and four 25 basis point cuts in 2025**.

**The next Fed meeting is scheduled for 30/31 July 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 consensus forecast for Chinese growth next year is of 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 rose to 5.3% in the first quarter of 2024 up from 5.2% previously. Let us hope the economy can sustain this level.

## Asset Class Returns

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



Source data: Lonsec as of 31st May 2024

## Global Share Returns

For share markets, the focus remains on **inflation** and the **pace 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 reduced from a strengthening USD/AUD (0.6637 up from 0.6525) which had a negative impact of (-1.72%) 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 31st May 2024

In AUD terms, the global share markets posted one month return of (+2.08%). The US posted returns of (2.48%), Asia ex Japan (-0.50%), Japan (-1.04%), the UK (+1.14%), Europe (+2.55%) and the Emerging Markets (-1.78%).

**Australian Shares**

Australian shares posted positive returns however, impacted by soft commodity prices and slowing economic conditions. Shares finished (+0.92%) for the month and (+1.16%) 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$117.52 per tonne at the end of May 2024 with a monthly gain of (+5.96%) and losses of (-5.88%) for the previous three months. Oil (WTI) closed lower at US$76.99 a barrel at the end of May 2024 resulting in a loss of (-6.03%) for the month and up (-1.62%) 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 May 2024

Over the last month, Information Technology was the best performing sector posting gains of (+5.45%).

Communication Services was the worst performing sector finishing (-4.63%) for the month.



Source data: Lonsec as of 31st May 2024

## Debt Market Returns

Bonds and Fixed Interest markets finished in positive territory as global bond prices pushed higher (down in yield) as 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. In Australia, the short-dated 2-year Government bonds trading at **3.95%** on the 14th of June 2024 and longer dated 10-year bonds trading at **4.18%.**

Global Bonds ended up (+0.48%) and Australian Bonds ended up (+0.39%) for the month of Mayl 2024 and down (-0.61%) and (-0.50%) 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 12th of June 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 (4.503%) for the month down in yield (-0.179%) from the previous month close of (4.682%).

The Australian Government 10-year bonds finished lower in yield in May 2024 at (4.399%) down in yield (-0.134) from (4.533%) in March 2024.



Source data: Lonsec as of 31st May 2024

## Currency

The $A closed weaker AUD/USD 0.6637 at the end of May 2024 which reduced returns for investors who held offshore assets unhedged (-1.72%) over the month and cost them (-1.81%) 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 1.50% in the fourth quarter of 2023. Unemployment fell to 4.0% in May 2024 from 4.1% in April 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.

##

## 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 later in 2024 along with inflation.

Much will depend on how the economy reacts to the tax changes coming 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 **technology sector** (the magnificent 7) which along with the S&P 500, the Nasdaq notched up successive record highs in the first few weeks of June 2024.

This trend was supported by the US Treasury yields which reached their lowest levels since early April 2024. Latest Producer Price Index report showed inflationary pressures continue to ease, bringing back the possibility of **multiple rates cuts this year**. As a result, US Treasuries and German bonds rose, while bonds in Southern Europe faced losses due to political turmoil, leading to wider spreads and a decrease in market sentiment.

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. 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 14/06/2024. 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.