# Current Market View

**Investment Markets**

The global markets **finished mixed over September 2024** (in local currency terms) however, the confidence level amongst investors is high following the US Federal Reserve banks decision to **ease the target cash rate by 0.50% to 4.75%-5.00%** at its meeting held on the 18th of September 2024.

This decision was more than most economists expected but a decisive move by the FOMC following timely progress being made on the inflation and employment fronts. The market is now looking for **two more cuts before the end of this year** but not as large as the initial move by the Fed.

***“****In light of the progress on inflation and the balance of risks, the Committee decided to*

***lower the target range for the federal funds rate by 1/2 percentage point to 4-3/4 to 5*** *percent. In considering additional 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 will continue reducing its holdings of Treasury securities and agency debt and agency mortgage‐backed securities. The Committee is strongly committed to supporting maximum employment and returning inflation to its 2 percent objective”.* ***Source:*** *FOMC policy statement, The Federal Reserve Bank.*

The latest US annual inflation data slowed to **2.4% in September 2024** from 2.5% in August 2024. Investors are now feeling more convinced that the **Fed will continue to ease between 25 and 50 basis points** at the next Fed meeting following the inflation print. Core inflation Y-O-Y rose to 3.3% in September 2024. Core inflation excludes volatile items such as food and energy. The next **FOMC meeting on Monetary Policy is the 6/7th of November 2024.**

**The US Federal Elections are being held on the 5th of November 2024** with the Democratic and Republican parties level pegging is the latest opinion polls.

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 24th of September 2024. The **next RBA meeting is the 5th of November 2024.**

The domestic house prices remain stubbornly high despite the brunt of the interest rate rises as demand continues to outstrip supply across the 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 4.2% in August 2024 unchanged from 4.2% in July 2024.

From a risk return perspective, markets are improving:



 Source data: Lonsec as of 30th September 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 issues at the forefront of investors thoughts included:

* US Politics – The US election is in full swing with the Democrats **Vice President, Kamala Harris** and Republican **Donald Trump** now locked in for the **November 5**, **2024.**
* Political conflict – the ongoing war in the middle east for Israel, Hamas 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 and Commodity Prices – for our region, China is the focus with growth prospects the central theme. GDP is resilient around the 4.7% 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. The problem is the **falling growth prospects has impacted the demand prices of oil, iron ore** and other resources, except Gold which remains well supported.
* Inflation numbers are indicating a **slight easing bias which is aiding optimism**, as the numbers are starting to hit within 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 are drifting lower as Central Banks move to stimulate their economy through easing interest rates. The debt markets after their initial rally post the US Fed move, have pushed back higher having overshot the market.
* 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 2025.

Despite the geopolitical conflict, the investment markets are looking solid underpinned by company profits and the expected **gradual easing interest rates**.

Investors have maintained their risk appetite at **“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. New measures announced by the Peoples Bank of China (PBoC) targeting market liquidity (seven-day reverse repo rate eased by 0.20% to 1.5%) and helping existing domestic lending to mortgages by cutting mortgage rates by 0.50%. Share markets also get help via two swap facilities: Non-bank financial institutions swapping assets for cash to buy equities and funds to allow commercial banks to lend to listed companies.

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



Source data: Lonsec as of 30th September 2024

The developed markets asset classes finished mixed for the month. The AUD/USD finished higher at 0.6806 (+4.85%) for the month which hurt returns for unhedged holdings.

**Asset Class Performance**



Data Source: Lonsec as of 30th September2024 & Fox Asset Management

**Investment Climate**

The underlying investment climate remains **“cautiously optimistic”** in the short term as investors are encouraged by the gradual easing of interest rates. The soft-landing expectations and economic recovery are still supported, despite the European and middle east conflict.

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) which is showing signs of recovery post June 30, 2024, valuation reporting.

Consumption is firm and holding up well with **retail sales in Australia rising by (+2.30%)** in July 2024 which will impact company profit expectations in the short-term and worry the RBA from an inflation perspective.

The **medium-term view remains positive** for returns following the US Fed Chair, Jerome Powels comments and the expected further easing of interest rates in the US.

**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 and early 2025. Remember **markets are forward looking** so the support now is reflecting the expectations for conditions in June 2025.

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

Global markets over September were mixed with gains experienced across Asia and the Emerging Markets. Central Banks were data watching apart from the US Fed which made a bold move and eased their target cash rates. Debt markets rallied however, with conviction factoring in the easing programme expected to **slowly re-enforce growth prospects** for the global economy.

The situation in Russia/Ukraine conflict remains unchanged however the latest conflict between Israel, Gaza (Hamas) and now Lebanon 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.

**Investor Focus**

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

* **Cost of living expenses** and the impact on **consumer spending**.
* **Commodity prices** (post China policy changes) **and the impact on company profits**
* The level of **interest rates** and the delicate position of the RBA given the elevated inflation level.
* **Inflation** (Y-O-Y) remains high at 3.8% up from 3.6% in the second quarter of 2024 which is not heading in the right direction, infers **higher interest rates for longer**.
* **China growth prospects** – Now that the PBoC has released the next round of policy changes, the markets have reacted positively. There are still concerns about whether they have done enough however, it has given a much-needed boost to markets.

## Asset Class Returns

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



Source data: Lonsec as of 30th September 2024

## Global Share Returns

For share markets, the focus remains on **inflation, employment** 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 reduced by a strengthening USD/AUD (0.6932 from 0.6806) which had a **negative impact of (-1.85%) in AUD returns** over the month for unhedged investors.

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 September 2024

In AUD terms, the global share markets posted one month return of (-0.43%). The US posted returns of (-0.11%), Asia ex Japan (+5.53%), Japan (-2.63%), the UK (-1.95%), Europe (-1.81%) and the Emerging Markets (+4.37%).

**Australian Shares**

Australian shares posted positive returns reflecting the impact of the China policy changes. Shares finished (+2.97%) for the month and (+7.79%) over the last three months.

The focus for investors was:

* **Cost of living expenses** and the impact on consumer spending.
* **Commodity Prices** and their impact on company profits and forward earnings guidance.
* **Consumer confidence** post the offshore interest rate changes and inflation impacts.
* **Mortgage stress** and the impact on domestic house prices and banks.
* **Inflation** and the response by the RBA to hold the target cash rate at 4.35%.

Commodity markets ended lower with Iron Ore closing at US$93.83 per tonne at the end of September 2024 with a monthly loss of (-4.93%) and losses of (-11.90%) for the previous three months. Oil (WTI) closed lower at US$68.17 a barrel at the end of September 2024 resulting in a loss of (-7.31%) for the month and down (-16.40%) over the last three months. China remains our main export market followed by Japan.

## Australian Industry Returns

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



Source data: Lonsec as of 30th September 2024

Over the last month, Materials was the best performing sector posting gains of (+13.07%).

Healthcare was the worst performing sector finishing (-3.18%) for the month.



Source data: Lonsec as of 30th September 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 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 easing In Australia with the short-dated 2-year Government bonds trading at **3.88%** on the 15th of October 2024 and longer dated 10-year bonds trading at **4.281%.**

Global Bonds ended up (+0.99%) and Australian Bonds ended up (+0.31%) for the month of September 2024 and up (+3.85%) and (+3.03%) respectively for the previous three months.

The RBA left the **target cash rate at 4.35%** following the 24th of September 2024 board meeting and stated that:

*“While headline inflation will decline for a time, underlying inflation is more indicative of inflation momentum, and it remains too high. The most recent projections in the August SMP show that it will be some time yet before inflation is sustainably in the target range. Data since then 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 continue to rely upon the data and the evolving assessment of risks to guide its decisions. In doing so, it will pay close attention to developments in the global economy and financial markets, 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, 24th September 2024.*

The US 10-year Government bonds closed at (3.787%) for the month down in yield (-0.122%) from the previous month close of (3.909%).

The Australian Government 10-year bonds finished lower in yield in September 2024 at (3.963%) down in yield (-0.010) from (3.973%) in August 2024.



Source data: Lonsec as of 30th September 2024

## Currency

The $A closed stronger AUD/USD 0.6920 at the end of September 2024 which was a negative for returns for investors who held offshore assets unhedged (-1.85%) over the month and (-2.55%) 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 second quarter of 2024 revealed an **annual growth rate of 1.0%** which was down from 1.30% in the first quarter of 2024. Unemployment rose to 4.2% in July 2024 from 4.1% in June 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 view for shares in the short-term remains **“cautiously optimistic”** and **optimistic** **over the long run** as interest rates are **expected to ease in February 2025** along with inflation.

All eyes are on how the economy reacts to the tax changes which came into effect 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 caught between the Central Bank easing expectations and the subtle bond price sell-off post the US Fed decision to ease rates and unemployment data coming in a little stronger at 4.1% down from 4.2% in September 2024. The **S&P500 in US terms** was up (+2.02% for September 2024. Consumer Discretionary was up 7.02% while Energy was down (-2.79). Other sectors led the way with Communication Services (+4.54%), Real Estate (+2.77%), Utilities (+6.43%) and Industrials (+3.27%).

Despite the uncertain geopolitical situation with the Russia-Ukraine, Israel-Hamas, Hezbollah and Houthi conflict, and economic slowdown concerns, we expect the **medium-term outlook to reflect better opportunities for investors**. Post the US election, short-term, we expect Q4 to reflect cyclical factors, 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 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. 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 now seeing a clearer picture of what lies ahead.** 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 accommodative and trending towards further easing 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 15/10/2024. 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.