Market Watch

First Sentier Investors

Share markets pause for breath after a five-month rally

End-April 2024

Economic and market overview

- Encouragingly the International Monetary Fund (IMF) raised its global growth forecast for 2024, following 'surprisingly resilient' economic conditions. IMF officials now expect global GDP growth of 3.2% this year.
- Despite this positive news, major share markets lost ground in April following five months of unbroken gains.
- Ongoing geopolitical uncertainty – particularly in the Middle East – was unsettling and prompted some investors to lock in profits from the recent strong rally.
- Inflation also remains above central bank targets in most key regions, prompting investors to reassess their outlook for interest rates. Other things being equal, a 'higher for longer' interest rate environment is perceived to be unwelcome for listed companies, particularly as most investors had previously been assuming that interest rates will be lowered this year.
- According to consensus forecasts, only one rate cut is now anticipated in the US in the remainder of 2024; down from between two and three at the beginning of April. In fact, many commentators are now suggesting the Federal Funds rate will not be lowered at all this year.
- Notwithstanding a moderation in the growth rate in the March quarter, the world's largest economy appears to be performing well despite elevated borrowing costs. This could reduce the urge for policymakers to lower interest rates.
- Government bond yields in the US and other key regions moved sharply higher against this background, which was a headwind for bonds and resulted in negative returns from major fixed income indices.

- **US**: Somewhat alarmingly, US inflation has re-accelerated. Headline consumer price inflation rose to an annual rate of 3.5% in March and the 'personal consumption expenditure' measure – favoured by Federal Reserve officials – also ticked higher in the first quarter of 2024. These readings arguably make it more difficult for policymakers to justify lowering interest rates.
- Labour market trends remain firm too. More than 300,000 new jobs were created in March, which was nearly 50% above the estimate. Combined with historically low unemployment, the hiring frenzy is exerting upward pressure on wages and making it less likely that inflation will fall meaningfully in the near term.
- In other news it emerged that Donald Trump's allies are formulating plans that could erode the independence of the interest rate setting Federal Reserve if the controversial former President returns to the White House later this year. Trump allegedly believes the President should be consulted on monetary policy deliberations. Issues like this could gather more attention as November's election in the US edges closer.

- **Australia**: Like in the US, the persistence of inflation was the major talking point. Both headline consumer price inflation and the trimmed mean measure came in higher than expected in the March quarter, which was a blow to Reserve Bank of Australia officials and anybody hoping for a rate cut in the near term.
- Unfortunately, despite some movement in the right direction, pricing pressures are proving persistent and could prevent policymakers from lowering official interest rates.
- At the beginning of April, two rate cuts in 2024 had been priced into markets. By month end, these expectations had been fully removed from forecasts. Most observers now expect Australian interest rates to remain at 4.35% for the foreseeable future.
- Consumer confidence remained subdued against this backdrop and deteriorated for a second consecutive month in April.

- **New Zealand**: There are lingering hopes that interest rates will be lowered in New Zealand this year, although it is worth noting that the country already has some of the highest borrowing costs among developed countries.
- Although inflation is running well above target, investors are still hoping for one or two rate cuts in the remainder of the year.
- Elevated borrowing costs have undoubtedly affected confidence levels in the country. Business confidence fell sharply in April and firms reduced staff numbers in the March quarter.
- The unemployment rate has ticked up to 4.3%, which is the highest level for three years.

- **Europe:** The initial estimate of GDP growth in the Eurozone suggested last year's recession in Europe is over. The economy grew 0.3% in the first three months of 2024.
- According to other preliminary estimates, consumer price inflation in Germany eased to an annual rate of 2.2%, down from 2.5% in February. This was the lowest inflation rate for nearly three years.
- More importantly, with inflation in Europe's largest economy now close to the European Central Bank's 2.0% target, investors were increasingly hopeful that interest rates could be lowered in either June or July.
- There were growing suggestions that the Bank of England could lower interest rates in next few months too. Consensus forecasts indicate official borrowing costs in the UK could be lowered in either August or September.

- **Asia**: Chinese officials hinted they will consider lowering interest rates to support activity levels, if required. This may not be required, with the world's second-largest economy showing some signs of improvement.
- Chinese GDP grew 1.6% in the first quarter of the year, taking the annual growth rate to 5.3%; above the official target.
- Factory output has improved, suggesting export demand remains intact, although services-related demand appears less strong. More accommodative policy settings could be required to boost domestic demand and discretionary expenditure. Retail sales fell short of consensus expectations in March.
- Most of the attention in Japan was on the yen, which weakened to its lowest level in more than 30 years against the US dollar. There was speculation that the Bank of Japan had intervened in FX markets to try and arrest the very sharp currency sell-off, although officials refused to confirm or deny these rumours.

Australian dollar

- The Australian dollar drifted slightly lower against the US dollar, closing down 0.7% to 64.7 US cents.
- This move appeared to reflect broad-based strength in the US dollar, however, rather than any Australia-specific drivers. The AUD actually appreciated by more than 1% against a trade-weighted basket of international currencies.
- The AUD added 3.6% against the Japanese yen, breaking through ¥100 and closing at its strongest level since 2007.

Australian equities

- Like equity markets in other regions, Australian shares faced a heightened level of volatility owing to an uptick in geopolitical uncertainty and ongoing inflationary pressures both globally and domestically.
- The S&P/ASX 200 Accumulation Index returned -2.9% over the month, breaking a five-month winning run.
- The prospect of interest rates remaining high for longer than was previously forecast affected sentiment towards consumer discretionary stocks. The sector fell more than 5%, with investors mindful that high borrowing costs could impede spending on discretionary goods and services.
- Star Entertainment Group was among the worst performers in this part of the market, falling nearly 30% as the NSW Independent Casino Commission continued its second public inquiry into the company's license to operate its Sydney property.
- On the positive side, utilities stocks tended to fare relatively well. The sector returned 4.8% in April, making it the best performer in the S&P/ASX 200. AGL Energy was a standout performer, closing the month up 13.4%.
- Materials stocks (+0.6%) benefited from improving economic indicators in China, which augur well for future demand for various commodities including iron ore, copper and aluminium.
- Gold-related stocks also continued to perform well, with the gold price reaching a record high of US$2,391/oz in mid month.
- BHP Group (-4.6%) announced a US$39 billion takeover bid for UK-based miner Anglo American. The proposal was rejected by Anglo American, although BHP could potentially return with a revised offer.
- Small caps fared slightly worse than their larger cap peers, with the S&P/ASX Small Ordinaries Index declining 3.1%.
- Online retailer Kogan.com was among the worst performers in the small cap space, falling more than 35%. Investors were disappointed with the company's April business update, which revealed a meaningful slowdown in sales.

Global equities

- An intensification of hostilities in the Middle East appeared to unnerve investors and took the steam out of the recent strong rally in share markets. There were reports of missiles fired between Iran and Israel, adding another layer of complexity and uncertainty to the existing conflict in the region.
- The interest rate outlook was a further headwind. More bullish commentators suggested the stock market rally can persist even if interest rates remain unchanged this year, but some other investors seem concerned about the outlook for equities if borrowing costs are not lowered as early or as much as previously anticipated.
- These factors resulted in some equity market weakness, particularly as some investors looked to lock in profits from the recent strong rally.
- By mid month, the bellwether S&P 500 Index in the US was down by more than 5%, although a partial recovery helped claw back some of these losses. Despite the release of generally favourable financial results from large listed US-based banks, the Index closed the month down 4.1%.
- The NASDAQ fell 4.4%, as technology shares were caught up in the broader sell-off.
- Netflix was among the worst performers, after the company announced it will stop reporting subscriber numbers. Meta – which owns the Facebook social media platform – also struggled following the release of subdued financial results, while Apple announced weaker-than-expected sales of iPhones in the first quarter of this year.
- European stocks also struggled, with most of the major markets in the region closing the month down between 2% and 4%.
- There were some unusual moves in Asia. Typically returns from Chinese and Hong Kong shares are quite closely correlated, but there was a meaningful dispersion in April.
- Hong Kong's Hang Seng powered ahead 7.4%, but China's CSI 300 Index closed 'only' 1.9% higher. Generally speaking, the modest improvement in economic data in China was supportive for stocks in both markets.
- In Singapore the Straits Times added 3.1%, although Japan's Nikkei closed the month down nearly 5%.
- Political uncertainty is also casting a shadow on share markets worldwide. More than 40% of the world's population is eligible to vote in elections this year, including in the US where 'Trump vs Biden II' is now little more than six months away.

Property securities

- Global property securities were caught up in the broader equity market sell-off, with the FTSE EPRA/NAREIT Developed Index closing the month 5.4% lower in Australian dollar terms.
- The USA and Canada were among the worst performing markets.
- Markets to register positive returns included Spain (+4.3%), France (+3.6%), and Japan (+0.8%).
- Stocks in the industrial and data centres sub-sectors seemed most affected by the interest rate uncertainty, while healthcare-related stocks were more resilient and registered modest gains over the month.
- Locally, A-REITs fell 7.8% with all but one index constituent losing ground. Volatility in the fixed income market and higher Australian Commonwealth Government Bond yields impacted the likes of Charter Hall, Mirvac Group and Ingenia Communities Group, all of which closed the month between 10% and 13% lower.

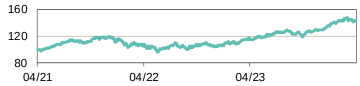
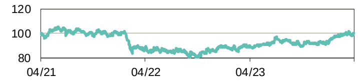
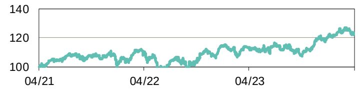
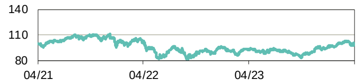
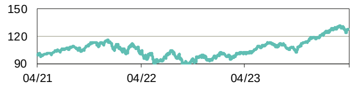
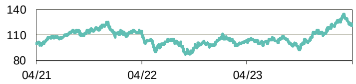
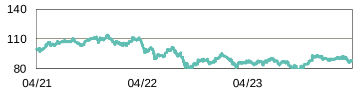
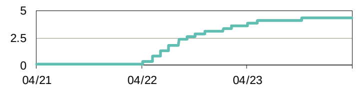
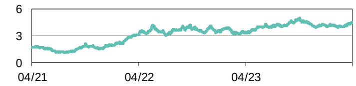
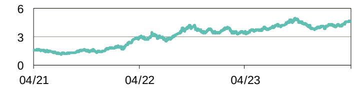
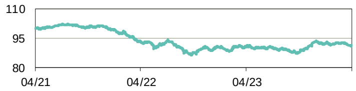
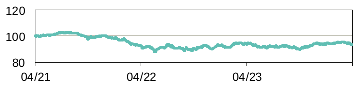
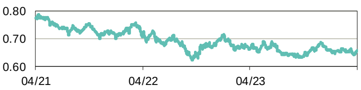
Global and Australian fixed income

- Higher than expected inflation and suggestions that interest rates are unlikely to be lowered in the near term exerted further upward pressure on government bond yields.
- Yields on 10-year US Treasuries closed the month up 48 bps, to 4.68%. The moves were slightly less severe in Europe, although increases in yields were still significant. Yields on 10-year gilts and bunds rose 41 bps and 29 bps in the UK and Germany, respectively.
- Yields on 10-year Japanese Government Bonds climbed too, as the bond sell-off extended to all major markets.
- Unfortunately, these moves resulted in negative returns from fixed income. The Bloomberg Global Aggregate Index closed the month 1.7% lower in Australian dollar terms.
- Similar moves were observed locally, as anticipated interest rate cuts by the Reserve Bank of Australia were removed from investors' forecasts.
- Yields on 10-year Australian Commonwealth Government Bond yields rose 46 bps, to 4.42%, resulting in a -2.0% return from the Bloomberg AusBond Composite 0+ Year Index.

Global credit

- Global credit was among few asset classes to generate positive returns in April. Spreads on investment grade and high yield securities continued to tighten, which was particularly pleasing considering both equities and sovereign bonds struggled.
- Overall, earnings releases for the first quarter of the year from large companies in the US and Europe affirmed that profitability remains solid. This reduces the likelihood of corporate defaults and means the prospective income from higher yielding credit securities remained appealing for investors.
- Indeed, according to the latest data, investment grade bond fund flows in the US have now been positive for 25 straight weeks.

MARKET WATCH DATA SHEET

		1 Month Return / Change	3 Month Return / Change	1 Year Return / Change	3 Year p.a. Return / Change	3 Year chart
Equities	*Points*					
MSCI World (AUD)	5,701	-3.22%	5.61%	21.07%	12.46%	
MSCI Emerging Markets (AUD)	1,163	0.94%	9.86%	12.28%	0.33%	
ASX 200	7,664	-2.95%	-0.22%	4.86%	2.94%	
ASX Small Ordinaries	3,025	-3.06%	3.33%	7.36%	0.02%	
S&P 500 (USD)	5,036	-4.08%	4.29%	22.66%	8.06%	
REITs	*Points*					
ASX 200 A-REIT	1,608	-7.78%	6.27%	19.61%	7.44%	
FTSE EPRA/NAREIT Developed (AUD)	2,548	-5.35%	-2.09%	-0.09%	-4.26%	
Cash & Fixed Income						
Official Cash Rate Australia	4.35%	0.00%	0.00%	0.75%	-	
10-year Yield Australia	4.42%	0.46%	0.41%	1.09%	-	
10-year Yield US	4.68%	0.48%	0.77%	1.26%	-	
Bloomberg Global Aggregate Index, AUD Hedged	-	-1.70%	-1.70%	0.38%	-3.01%	
Bloomberg AusBond Composite 0+ Year Index	-	-1.98%	-1.18%	-0.73%	-2.13%	
Foreign Exchange	*US$*					
AUD/USD	0.6473	-0.74%	-1.45%	-2.15%	-5.69%	

Source: Bloomberg, at 30 April 2024