

Market Watch August 2024

Key events in August 2024

- Global share prices made mild gains in August given hopes that lower interest rates are coming in Europe and the US later this year. However, there was considerable turbulence in share prices in early August given higher interest rates in Japan, subdued US economic activity and rising tension between Iran and Israel.
- US shares initially fell sharply as modest jobs growth and weaker business surveys generated recession concerns. However, Wall Street rapidly recovered with enthusiasm for Artificial Intelligence 'AI' prospects, solid corporate profit growth results, better US inflation data and hopes that lower interest rates were coming soon. US annual inflation for July came in at 2.9% which is the lowest result since March 2021. Soothing comments from the US central bank that the "time has come to adjust policy" were supportive of US shares by signaling lower interest rates are likely in September.
- Chinese share markets drifted sideways with continued concerns over a weak property market with falling housing construction and prices. This has seen Chinese consumer spending remain subdued with economic growth now dependent on infrastructure spending and manufacturing exports. Japanese share markets gyrated sharply in response to the central bank raising interest rates on 31 July and a sharp appreciation of the Japanese currency.
- Australian shares also ended August with a flat performance after being buffeted by global share price swings and concerns over Australia's sedate economic and corporate profit performance. There were some economic positives with solid job gains in July and annual inflation moderating from 3.8% to 3.5%. However, retail spending is struggling with the central bank noting that many households were "making difficult adjustments" given the 'cost of living' pressures. Australia's corporate reporting season confirmed a disappointing performance for the last financial year with an annual profit fall of circa 4%. There were some large profit falls for the energy sector as well as industrials and telecommunications.

Asset class summary

Asset class returns in Australian dollars - periods to 31 August 2024

	CYTD %	1 month %	3 months %	1 year %	3 years pa %	5 years pa %	10 years pa %
Australian shares	8.9	0.4	5.6	14.6	6.4	8.1	8.0
Global shares (hedged)	16.0	1.6	5.3	21.7	5.6	10.9	9.4
Global shares (unhedged)	16.6	-1.3	4.4	17.8	8.4	12.0	12.3
Emerging markets (unhedged)	10.2	-2.2	3.8	9.8	-0.6	4.6	5.9
Australian property securities	17.7	0.6	7.6	25.2	5.9	5.3	9.2
Global property securities (hedged)	8.4	5.0	11.5	15.4	-2.5	0.3	3.8
Global listed infrastructure (hedged)	13.6	2.9	7.0	18.1	3.9	4.0	6.5
Australian bonds	2.9	1.2	3.5	5.2	-1.8	-0.6	2.3
Global bonds (hedged)	2.4	1.0	3.7	6.0	-2.1	-0.7	2.1
Global high yield bonds (hedged)	4.8	1.4	4.0	10.1	0.8	2.9	4.2
Australian inflation-linked bonds	2.1	0.6	2.5	4.8	1.7	2.3	2.8
Cash	2.9	0.4	1.1	4.4	2.7	1.8	1.9
AUD/USD	-0.6	3.9	2.0	4.8	-2.4	0.1	-3.2

Past performance is not a reliable indicator of future performance.

Sources: Australian shares - S&P/ASX 300 Total Return Index; Global shares (hedged) - MSCI All Countries World (A\$ hedged, Net); Global shares (unhedged) - MSCI All Countries World in A\$ (Net); Emerging markets - MSCI Emerging Markets in A\$ (Net); Australian property securities - S&P/ASX 300 A-REIT Accumulation Index; Global property securities - FTSE EPRA/NAREIT Developed (A\$ hedged, Net); Global listed infrastructure - FTSE Global Core Infrastructure 50/50 (Hedged \$A);

Australian bonds - Bloomberg AusBond Composite 0+ Yr Index; Global bonds (A\$ hedged) - Barclays Global Aggregate (A\$ hedged, Gross); Global high yield bonds (A\$ hedged) - Barclays US High Yield Ba/B Cash Pay x Financials (\$A Hedged); Australian inflation-linked bonds - Bloomberg AusBond Inflation Government 0+ Yr Index; Cash - Bloomberg AusBond Bank Bill Index; AUD/USD - WM/Reuters Daily (4 pm GMT).

Key events in global markets over the last three months to August 2024

Global shares have achieved strong gains over recent months despite concerns over the conflicts in the Middle East and Ukraine as well as stubborn inflation. Optimism on AI is the key driver for higher global share prices.

Global shares (hedged) recorded a very strong 5.3% return for the past three months. A stronger Australian dollar particularly against the US dollar did restrain the global shares (unhedged) returns to 4.4% for the quarter.

Wall Street's benchmark S&P 500 Index made historic highs in August and delivered a very strong 7.3% quarterly return, in local currency terms, with the exuberant optimism on AI and technology shares.

European shares have delivered a flat -0.5% return, in local currency terms. Investors had some solace in milder inflation and the European Central Bank (ECB) cutting interest rates in June. However political risks with the Russia-Ukraine War and France's parliamentary turmoil have cast a shadow over European share prices.

Asian share markets have delivered mixed performances. Chinese shares have disappointed with the China MSCI index delivering a negative 2.8% return, in local currency terms. Weak property markets and subdued consumer spending continue to trouble the Chinese economy. Japanese share markets also delivered a negative 2.2% return, in local currency terms, for the quarter given concerns over higher interest rate settings by the Japanese central bank.

Global bonds (hedged) posted a strong 3.7% quarterly return. Bond investors were comforted by lower inflation readings in the US and in Europe. Australian bonds posted a solid 3.5% return for the quarter largely on the back of lower global inflation as well as subdued Australian economic activity results.

Key events in Australia over the last three months to August 2024

Australian shares delivered a very strong quarterly return of 5.6%. Financial sector shares that include the banks led the charge with a 13.7% quarterly gain. The Health Care (8.0%), Real Estate Investment Trusts (7.6%) and Consumer Staples (9.0%) sectors recorded strong gains on hopes that Australian interest rates will eventually move lower. The Information Technology (9.4%) sector also made strong gains on AI optimism. However, there were some disappointments with the Materials (-8.4%) and Energy (-8.5%) sectors delivering negative returns as concerns over China's growth prospects generated weaker iron ore and oil prices.

Australia's economy continues to display subdued economic activity with sluggish consumer spending and weak housing construction. The negative impact of high consumer prices, mortgage interest rates and rents continue to squeeze household budgets. There is also concern that inflation is proving sticky above a 3% annual rate which would make the Reserve Bank of Australia (RBA) very reluctant to cut interest rates.

Global prospects

Global share prices have made strong gains this year despite some headwinds. The enthusiasm for AI and technology are the key positive contributors. There is also confidence that global economic growth will moderate enough to allow inflation risks to gradually fall. Lower inflation would allow central banks to cut interest rates which is supportive of corporate profits and thereby share prices. However, these exuberant expectations may prove too ambitious if inflation proves more persistent. The tragic Russian-Ukraine War and Hamas-Israel conflict are also key threats to global economic stability and investor sentiment.

Accordingly, there are significant inflation, interest rate and political risks that investors should be cautious on. Assessing these complex risks is very challenging. As there are multiple positive and negative outcomes possible this year, investors should maintain a disciplined and diversified strategy.

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