

Market Watch March 2024

Key events in March 2024

- Global share prices made strong gains in March given continued optimism on the prospects for Artificial Intelligence 'AI' and lower interest rates. This technology optimism overcame concerns over sticky inflation and mixed economic activity data. US consumer inflation came in at 3.2% in the year to February which was above market expectations. While US job gains remain robust with low unemployment, there has been a notable softening in retail spending. The US central bank projections for lower interest rate settings this year have also been a key positive for Wall Street.
- Chinese shares made mild gains with encouraging signs that economic activity is proving more resilient despite the property sector's woes. Japanese shares continued to make strong gains even with the central bank raising interest rates in March by a very modest 0.1%.
- Australian shares also delivered strong gains and made new record highs. The Real Estate sector led the charge given hopes for lower interest rates this year. The Energy sector surged with a sharp rally in global energy prices. Resource sector shares also benefitted from gains in key commodity prices such as copper and gold. The only sector to disappoint with negative returns was Communication Services.
- Australia's subdued economy was confirmed with gross domestic product (GDP) barely growing in the final quarter of 2024. Business and consumer confidence also remains weak. Yet there have been positive surprises with strong job gains and mild consumer inflation in February. The Reserve Bank of Australia (RBA) kept the cash interest rate steady at 4.35% in March.

Asset class summary

Asset class returns in Australian dollars – periods to 31 March 2024

	CYTD %	1 month %	3 months %	1 year %	3 years pa %	5 years pa %	10 years pa %
Australian shares	5.4	3.3	5.4	14.4	9.4	9.2	8.3
Global shares (hedged)	9.4	3.3	9.4	23.0	7.0	10.0	9.6
Global shares (unhedged)	13.2	2.9	13.2	26.5	12.6	12.8	12.5
Emerging markets (unhedged)	7.1	2.3	7.1	11.0	0.0	4.0	6.6
Australian property securities	16.2	9.6	16.2	35.4	11.5	6.7	10.7
Global property securities (hedged)	-0.1	3.6	-0.1	7.7	-0.7	-0.8	4.1
Global listed infrastructure (hedged)	2.5	3.4	2.5	2.1	2.6	2.9	6.6
Australian bonds	1.0	1.1	1.0	1.5	-1.3	0.2	2.6
Global bonds (hedged)	-0.3	0.8	-0.3	2.5	-2.4	-0.1	2.3
Global high yield bonds (hedged)	0.8	1.0	0.8	8.1	0.7	2.8	4.2
Australian inflation-linked bonds	0.6	0.9	0.6	3.1	2.1	2.7	3.1
Cash	1.1	0.4	1.1	4.2	2.1	1.5	1.8
AUD/USD	-4.4	0.2	-4.4	-2.6	-5.0	-1.7	-3.5

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 March

Global shares achieved very strong gains over recent months despite concerns over the conflicts in the Middle East and Ukraine. Optimism on AI, milder global inflation and hopes that central banks would consider reducing interest rates have driven share prices higher. Global shares (unhedged) recorded an exceptionally strong 13.2% return for the past three months. The fall in the Australian dollar has also boosted global shares (unhedged) returns. Hedged global shares delivered a more moderate but still very strong 9.4% return for the last 3 months.

Wall Street's benchmark S&P 500 Index delivered an extraordinary 10.4% return in local currency terms for the quarter. US consumer inflation has moderated over the past year which has allowed the US central bank to suggest that lower interest rates are on the agenda for 2024.

European shares have also delivered strong gains in local currency terms. While the continuing Russia-Ukraine war is a major concern, investors have taken solace in milder inflation and the prospect for lower interest rates.

Asian share markets have delivered a mixed performance. Chinese share markets have struggled with a negative -1.7% return in local currency terms for the MSCI China Index. Concerns over China's economic activity and the financial stress in the property sector remain formidable headwinds to investors. By contrast, Japan's Nikkei 225 Index delivered an exceptionally strong 21.5% quarterly return with the central bank's assurance that interest rates would remain low.

Global bonds (hedged) delivered a subdued -0.3% quarterly return as investors become more cautious on whether central banks will readily cut interest rates this year.

Global high yield bonds (hedged) made a modest 0.8% gain for the quarter as investors recognised that credit spreads have become very narrow and less attractive.

Key events in Australia over the last three months to March

Australian shares delivered a very strong quarterly return of 5.4%. There were remarkable gains for the Information Technology (23.6%) sector on 'AI' optimism. The Real Estate Investment Trust sector made a strong rebound of 16.2% on hopes that interest rates are set to fall this year. Strong share gains for the Financial sector of 12.1% were also made with expectations that interest rates have peaked. Yet there were some disappointments. The Resources sector delivered a weak -5.6% return with concerns over the Chinese economy's growth prospects and the corresponding sharp decline in iron ore prices.

Australia's economy is displaying significant slowdown signs with weak consumer spending and housing construction. The impact of higher goods and services prices, rising mortgage interest rates and rents continue to squeeze household budgets. However, there are positives with more moderate inflation (February 3.4% annual increase) and strong job gains (February +116,500 extra jobs). Lower inflation is particularly welcome as this could signal that lower interest rates are on the horizon sometime this year.

Global prospects

Global share prices have made remarkable gains this year. The mania for AI and technology has been a key contributor. There is also confidence that the inflation threat has faded which could lead interest rates to fall in 2024. However, these exuberant expectations may not be delivered if inflation proves more persistent and central bankers more stubborn in lowering interest rates. The continued 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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