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FINANCIAL GROUP

Investment Market Update

July 2024

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July 2024 was an eventful month in global markets, which were driven by political developments, key economic data points, central bank actions and the US earnings season. The assassination attempt on former President Donald Trump and President Joe Biden's announcement that he will not seek re-election have increased political uncertainty going forward – and the US election odds have flipped and flopped between Democrats and Republicans over the last six weeks.

Shares and fixed income both delivered nice gains in July to overcome concerns about a slowing global economy and an underwhelming US earnings season so far. Over the month there was a minor rotation in share markets, with the biggest winners being small caps and lower growth/cheaper areas of the market. The main drag was companies linked to Artificial Intelligence (AI), which have been the biggest winners over the last 18 months. Domestically, Australian Banks again outperformed the local market, while Resources companies were further weighed down by lower key commodity prices and Chinese economic weakness.

Equities and Bonds

In July, the ASX 200 Accumulation Index posted a gain of +4.2%. US markets also experienced good results (in AUD terms) and the S&P 500 rose by +3.5% despite the AI trade showing the first signs of weakness. European markets also delivered gains, with Germany's DAX being up +4.8%, France's CAC rising by +4.0% and the UK's FTSE 100 rallying +6.5%. The Australian Dollar fell by 2 cents in July to end the month at US65 cents, which helped contribute to the unhedged returns for Australian investors.

US and global government bond yields fell in July due to concerns about global growth, with US 10-year treasury yields and Australian 10-year bond yields both dropping to around 4.1% p.a., meaning that bond indices delivered decent returns.

Commodity prices were mixed in July, with crude oil and iron ore both falling marginally and the gold price increasing.

Real Assets

Australian and global listed property gained by +6.8% and +8.5% respectively in July, as the prospect of lower interest rates provided a tailwind to real asset sectors. Global listed infrastructure also ended the month up +6.7%, meaning that the trifecta of listed real asset classes all outperformed equities.

Global Economic Outlook
Global economic conditions remain mixed, with inflation pressures persisting in some regions while others show signs of easing. While the US Fed held interest rates on hold, it signalled that it will look to cut rates in September despite inflation still being above the Fed's target, with economic growth and employment data showing a slowdown. Markets are now pricing in a likely 0.50% cut in September and a total of 1.00% of cuts by year end. Recent US CPI prints have been steady at around 3.0%, driven mostly by supply side factors and housing costs. Moving ahead of the Fed, the Bank of England cut interest rates in August and followed the European Central Bank, Bank of Canada, Sweden's Riksbank and the Swiss National Bank who all cut earlier this year.

Going against the grain, the Bank of Japan lifted interest rates in July to about 0.25% (from previously 0.0% to 0.10%) and signalled further hikes ahead, to curb the Japanese Yen's slide against the U.S. Dollar. China's economy is sluggish due to local property market woes, but the Xi government is still persevering with a 'muddle through' approach rather than undertaking a "Big Bang" stimulus. In a move that surprised markets, China's central bank also cut major short-term and long-term interest rates in July.

Australian Economy

With the mood in the US worsening and Australia enduring a mild per capita recession, the RBA appears unlikely to hike rates again this cycle even though Australia's inflation rate of 3.8% p.a. in June 2024 (y/y) is above the target of 2-3% p.a. The RBA is believed to be more likely to wait for the US to lead before cutting rates, but it could quickly follow if the global economy stalls.

Political Developments

The attempted assassination of Donald Trump in July appeared to give greater certainty to the US political landscape ahead of the US election and markets began to factor in a strong likelihood of a Trump return. However, Trump's surge in the polls resulted in President Joe Biden making a decision not to seek re-election in November and Biden has now been replaced at the top of the ticket by Vice President Kamala Harris. The US election now seems like it will be a tight contest, with Trump and Harris close in the polls and the betting markets. However, there is also still legal uncertainty about Trump, who could potentially go to prison after being convicted on 34 counts of election interference in 2016.

Market Outlook

Looking ahead, markets are expected to remain volatile as investors navigate a complex landscape of geopolitical risks, inflationary pressures, slowing economic growth and potential central bank actions. Share markets have corrected in the last three weeks and government bond yields have compressed because markets are now concerned about a potential global recession. Moreover, hype in Artificial Intelligence (AI) has turned into concern about overvaluation and fears that Technology companies will take much longer than expected to turn the $US1 trillion of expected investment into AI into profits. NVIDIA is also still to report on 28 August and this is will likely lead to increased market volatility over the next few weeks.