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Investment Market Update

June 2024

June continued the recent trends in markets, with global shares again being led by AI and NVIDIA, and bonds reacting to economic data and central bank signals. While some volatility was present, equities and bonds largely treaded water as investors remained focused on interest rate expectations and inflation data. Financial conditions remain tight due to higher interest rates and restrictive bank credit, influencing market movements.

Equities and Bonds

In June, the ASX 200 Accumulation Index saw a modest increase of +0.5%, led by gains in the major Banks but offset by weakness in Resources companies. US markets were mixed, with the S&P 500 up +4.5%, the Dow Jones increasing by +2.4%, and the Nasdaq gaining +6.7%. European markets showed varied results, with Germany's DAX up +3.1%, France's CAC slightly down, and Britain's FTSE up +1.5%. Chinese markets continued to show weakness, while Japan remained stable.

US and global bond yields ended the month marginally higher, with US 10-year Treasuries stabilising around 4.6% and Australian 10-year bonds rising to 4.5%. The AUD strengthened to USD 0.67, and local currency strength offset much of the gains in global shares. Commodity prices saw crude oil drop by -1.5%, gold increase slightly, and iron ore remain mostly unchanged. The CBOE volatility index (VIX) decreased over June, reflecting reduced market anxiety.

Global Economic Outlook

Global economic conditions remain influenced by the inflation shock post-pandemic, though confidence is building that inflation is being managed. The European Central Bank (ECB) and Bank of Canada both cut interest rates in June, joining Sweden's Riksbank and the Swiss National Bank. This move reflects a cautious approach to stimulate growth without triggering further inflation.

The global outlook shows modest improvement, despite varying regional growth rates. The Organisation for Economic Co-operation and Development (OECD) projects global GDP growth at 3.1% in 2024 and 3.2% in 2025.

US Economic Performance

The US economy continues to outperform its peers, driven by strong economic growth and significant stimulus under President Biden. This economic strength has delayed anticipated rate cuts by the Federal Reserve, with economists and markets now forecasting a potential cut in September 2024. US inflation remains steady at around 3.5%, driven by housing and energy costs.

European Central Bank (ECB)

The ECB cut its benchmark deposit rate by 25 basis points to 3.75% after Eurozone inflation fell close to the 2% target. This move is part of a broader strategy to balance savings and investment while keeping inflation in check.

Australian Economy

Australia remains in a mild per capita recession, with the Reserve Bank of Australia (RBA) holding off further rate hikes for now. Australia's inflation remains at 4.0% p.a. in May 2024, above the target of 2-3% p.a., indicating a 40% chance of another rate hike. The S&P/ASX 200 index fluctuated within a choppy range, impacted by subdued consumer sentiment and higher living costs.

Political Developments

The US Presidential Election in November remains a tight contest, with Donald Trump slightly ahead of Biden in the polls. Uncertainties surrounding both candidates persist, especially with Trump's legal issues and Biden's age raising concerns.

In France, President Emmanuel Macron called a snap parliamentary election after disappointing results for his Renaissance Party in the European elections. The leftist coalition NFP party won the most seats, indicating a shift in the political landscape.

China's economy continues to struggle with property market issues, but the Xi government is focusing on targeted policies for modest growth instead of large-scale stimulus.

Market Outlook

While economic growth is slowing, there is still optimism for a soft landing for the global economy. Share markets have already delivered strong gains so far in 2024, driven by anticipated rate cuts later in the year and key themes in AI and Weight Loss Drug Makers. Going forward, we think it is important for investors to remain broadly diversified, reasonably liquid and nimble given the range of potential economic outcomes.