

A wide-angle photograph of a coastal landscape at sunset. In the foreground, there are large, reddish-brown rocks with some sparse vegetation. The middle ground shows a residential area with many houses, followed by a curved coastline and a large body of water. The sky is a mix of orange, yellow, and blue, indicating the time is either dawn or dusk. The overall scene is peaceful and scenic.

# Investment & Economic Snapshot

August 2024

# Highlights



- The Nikkei drops 12.4% in a single day.

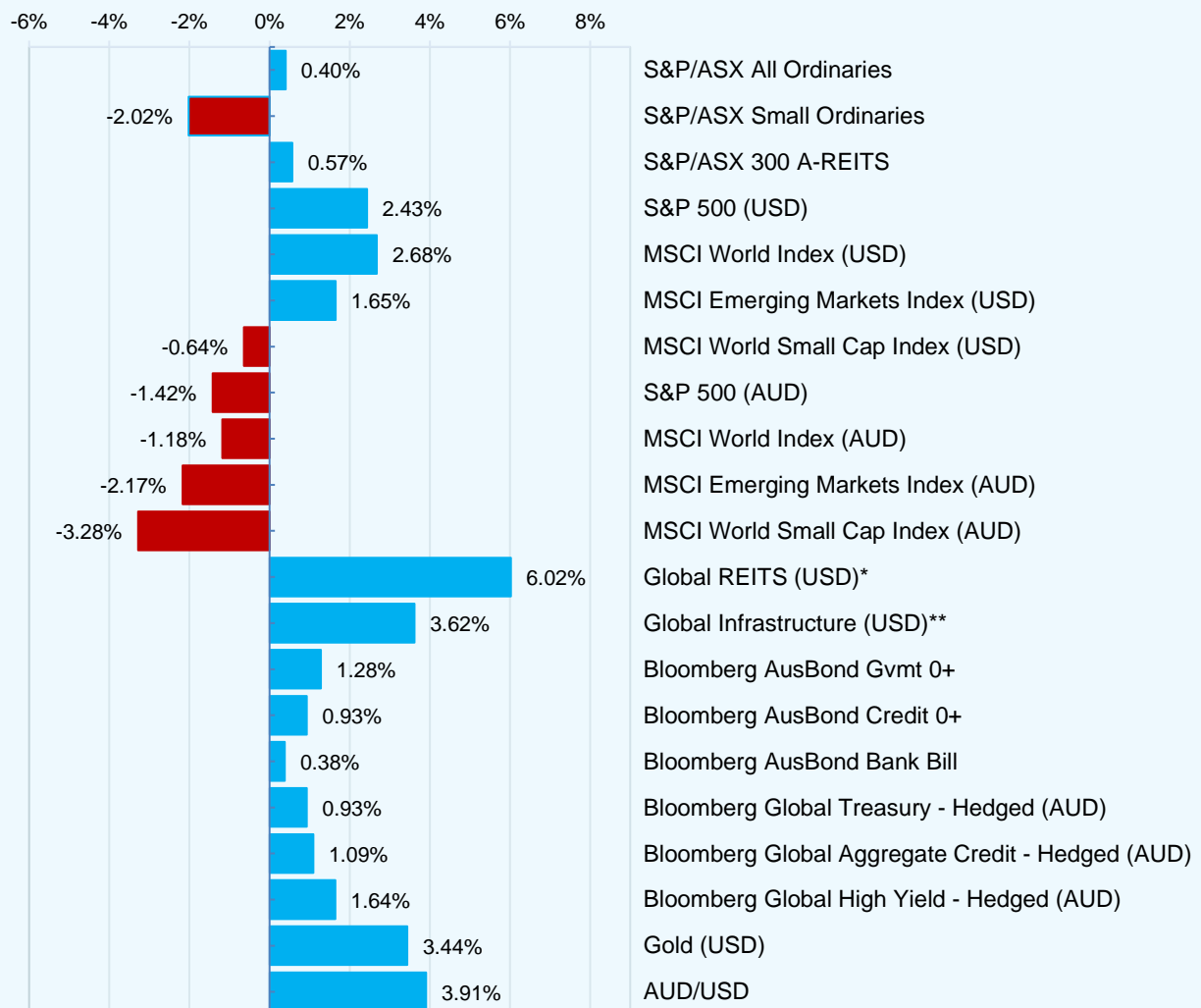


- US markets experience the third highest spike in volatility since 2009.



- Australian equities post positive gains despite a 6% intramonth sell off.
- Federal Reserve Chair, Powell signals a September rate cut.

# Selected market returns (%) August 2024



Sources: \*Refinitiv G-7 Diversified REIT Index, \*\*FTSE Global Core Infrastructure 50/50 Index



# Key developments in August



## Financial markets

### A volatile month ends positively

The MSCI World Index (AUD) ended the month lower by 1.18%, capping off a month marked by significant volatility. Weak US labour market data triggered fears of a US recession while an unwinding of the Japanese yen carry trade, and a further escalation of geopolitical tensions culminated in a sharp drop in equity markets at the beginning of the month. However, subsequent economic data and reasonable results from the US and Australian companies led to strong recoveries from the intra month lows.

### Australian equities

The S&P/ASX All Ordinaries ended the month up by 0.4% rebounding from a more than 6% sell off to close just short of all-time highs posted in July. The S&P/ASX Small Ordinaries lost ground falling by 2.02% as the soft domestic economy weighed on smaller companies' results. The information technology sector posted the strongest gains, rising by 7.86% due to strong earnings surprises. Industrials followed with a 3.52% gain, while financial stocks continued their trend higher despite results showing earnings broadly decreasing across the sector. The weakest sector was energy shedding 6.73% followed by materials which fell by 2.14% despite the sector's results coming in broadly better than feared.



## Global equity markets

US equity markets recovered from intra-month lows, buoyed by optimism for a soft economic landing, supported by lower inflation and higher-than-expected GDP data. The second-quarter earnings season also provided a boost, with reported earnings for the S&P 500 increasing 13%, with 80% of companies beating analyst expectations. The S&P500 (USD) closed higher by 2.43% while the Nasdaq (USD) closed marginally higher by 0.65% after falling into correction territory intramonth. The small-cap Russell 2000 (USD) underperformed the broader market, falling 1.6% after delivering double-digit returns in July. Consumer staples and real estate sectors led the gains.

In Asia, the Nikkei (YEN) closed the month lower by 1.1%, recovering from a sharp decline and surge in volatility post the Bank of Japan's (BOJ) surprise interest rate hike that saw the index fall by 12.4% in a single day. Chinese equity performance was mixed, the Hang Seng (HKD) closed higher by 3.9% aided by a weakening Hong Kong dollar, while the mainland Shanghai Composite Index (CNY) lost 3.3%. European markets were positive at the close with the Euro 100 Index (EUR) gaining 0.8%.

## Commodities

Gold continued to rise to all-time highs gaining 3.44% as Israel and Iranian tensions experienced another escalation while the increased odds of an imminent US rate cut also helped lift gold sentiment. Oil markets were broadly weaker with Brent crude down 5% at 76.30 dollars per barrel, pushed lower by the weaker global demand outlook and higher than expected inventories.

## Bond markets

Australian and US bond markets continued to rally as softer economic data and moderating inflation data lifted rate cut expectations. The Australian benchmark 10-year bond yield fell 32 basis points to 4.01% as markets began pricing in a higher probability of a cut in the cash rate in early 2025. The US 10-year benchmark bond yield continued to fall, moving 14 basis points lower to 3.92%. Weaker labour market data coupled with a clear indication from Federal Reserve (Fed) chair Jerome Powell that a September rate cut was likely helped to lift US bond markets.

# Economic developments

## Australian inflation continues to moderate as consumer sentiment improves

The Reserve Bank of Australia (RBA) maintained the cash rate at 4.35% in August, providing a more hawkish guidance despite softening economic data and on-target inflation data. The RBA cited excess demand in the economy and pushed out its timeframe for inflation to return to the target band. Markets are currently pricing in a 25 basis point cut in February.

Monthly CPI data showed a continuation of its moderating trend, coming in at 3.5% year on year. This however missed expectations of 3.4% but still showed a move lower from 3.8% the previous month. The inflation data however has now been artificially lowered by government electricity subsidies which progressively start from July 2023 and continue to April 2025. Services inflation continues to remain sticky at 4.4% year on year.

Australian labour market data releases were mixed but still showed a gradual softening. Employment growth was solid and came in above expectations, however the unemployment rate moved higher to 4.2% from 4.1%. Quarterly wage growth also showed signs of a slowdown, particularly in the private sector.

Consumer sentiment remains low by historical standards but gained 2.8% in July, more than the 0.5% expected, as tax cuts, a rise in real wages and a hold on interest rates lifted sentiment. This sentiment did not reflect in retail sales which remained flat for July and below expectations. In a promising outlook for the economy, Australia's composite PMI rose in August from 49.9 to 51.4 moving into expansion territory with improvement in both manufacturing and services.



## A September rate cut confirmed for the US

Federal Reserve (Fed) Chair Jerome Powell dispelled any doubts that the Fed would cut interest rates at the September meeting in his speech at the Jackson Hole Symposium. A 25-basis point cut in the policy rate is expected in September with bond market pricing in a total of 200 basis points of cuts over the next 12 months.

This outlook was supported further by monthly CPI for July dipping to 2.9% year on year, below both the previous month and below the 3% consensus. The Fed's preferred gauge of inflation, Core PCE remained unchanged at 2.6% year-on-year.

A weakening jobs market is also now confirmed with the unemployment rate rising to 4.3%, above the 4.1% expectation. Payroll data also surprised heavily to the downside continuing its downward trend. Further weakness in the labour market was highlighted with the largest downward revision in Payroll data since 2009, indicating a less resilient labour market than previously anticipated.

## Inflation trajectory driving global central bank moves

Eurozone inflation fell to 2.2% year on year from 2.6%, the lowest in three years. The European Central Bank (ECB) is expected to cut policy rates at least two more times this year supported by soft economic and labour market data.

Japanese headline inflation measured an unchanged 2.8% year on year in July. The Bank of Japan (BOJ) rocked global markets with a surprise rate hike at the end of July, igniting a reversal of the yen carry trade and raising market volatility. The current level of inflation is consistent with the possibility of further rate hikes given the divergence between inflation and interest rates.

## Outlook

While a soft landing remains the most likely scenario, the risk of a mild recession persists. Economic growth has shown resilience, and inflation is cooling globally. The imminent start of the US monetary easing cycle coupled with further rate cuts from other major central banks will be supportive of the global economic outlook. A reasonable earnings season both in the US and domestically also remains a supportive factor for equity markets going forward.

However, risks remain with investor complacency potentially leading to negative portfolio outcomes. The potential for a global recession is elevated and weak labour markets globally are leading indicators for weakening economic growth. The rise in volatility experienced in August may become more common as investors digest data with already optimistic expectations baked in.

The current investing backdrop continues to justify a prudent and balanced approach to portfolio positioning.



# Major market indicators

	31-Aug-24	31-Jul-24	30-Jun-24	Qtr change	1 year change
<b>Interest Rates (at close of period)</b>					
Aus 90 day Bank Bills	4.38%	4.46%	4.39%	+2.0	+23.0
Aus 10yr Bond	4.01%	4.33%	4.24%	-31.2	-11.5
US 90 day T Bill	4.98%	5.15%	5.22%	-27.0	-34.0
US 10 yr Bond	3.92%	4.06%	4.37%	-56.8	-17.7
<b>Currency (against the AUD)</b>					
US Dollar	0.679	0.653	0.668	2.02%	4.76%
British Pound	0.517	0.505	0.524	-0.96%	1.35%
Euro	0.614	0.600	0.620	0.16%	3.43%
Japanese Yen	98.93	98.27	107.32	-5.45%	4.86%
Trade-Weighted Index	62.60	61.40	63.30	-0.79%	3.30%
<b>Equity Markets</b>					
Australian All Ordinaries	0.4%	3.8%	0.7%	5.0%	14.7%
MSCI Australia Value (AUD)	0.1%	3.6%	0.9%	4.7%	14.8%
MSCI Australia Growth (AUD)	1.0%	5.2%	3.3%	9.7%	20.5%
S&P 500 (USD)	2.4%	1.2%	3.6%	7.4%	27.1%
MSCI US Value (USD)	2.9%	4.8%	0.0%	7.8%	22.8%
MSCI US Growth (USD)	2.0%	-1.9%	6.9%	7.0%	31.2%
MSCI World (USD)	2.7%	1.8%	2.1%	6.7%	25.0%
Nikkei (YEN)	-1.1%	-1.2%	3.0%	0.6%	20.7%
CSI 300 (CNY)	-3.3%	0.6%	-2.5%	-5.1%	-9.3%
FTSE 100 (GBP)	0.9%	2.5%	-1.1%	2.3%	16.9%
DAX (EUR)	2.2%	1.5%	-1.4%	2.2%	18.6%
Euro 100 (EUR)	0.8%	0.5%	-2.8%	-1.6%	14.3%
MSCI Emerging Markets (USD)	1.6%	0.4%	4.0%	6.1%	15.5%
<b>Commodities</b>					
Iron Ore (USD)	-0.5%	-4.2%	-9.0%	-13.3%	-14.4%
Crude Oil WTI US\$/BBL	-6.1%	-4.2%	6.2%	-4.4%	-10.9%
Gold Bullion \$/t oz	3.4%	4.1%	-0.2%	7.5%	29.0%

Source: Quilla and Refinitiv



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