Count
The confidence to look ahead

Market **Wrap**

June 2024

Economic and market overview

- Equity markets made further positive progress in the final month of FY24, rounding off a favourable year of performance.
- Locally, the S&P/ASX 200 Index added 0.9% over the month, which extended gains to nearly 8% over the year.
- Overseas shares performed better still, adding 1.6% over the month and more than 20% over the year. Despite an anticipated moderation in earnings owing to high interest rates, few companies have seen any deterioration in profitability.
- Bond markets registered positive returns too, again over both the month and the FY24 year. Anticipation that the US Federal Reserve and central banks in other key regions are preparing to lower interest rates pushed government bond yields lower over the month, resulting in positive returns from fixed income.

- **US**: Inflation cooled, albeit only by a tenth of a percentage point. Annual CPI was 3.3% in May, down from 3.4% the previous month, but still above the target.
- Confidence grew that the Federal Reserve will start its policy easing cycle before the end of 2024. A 0.25% interest rate cut in the next four months has been fully priced into markets.
- The labour market indicates US firms remain optimistic regarding the growth outlook and their own prospects. Consensus forecasts suggested hiring might have plateaued in May, but in fact more than 270,000 new jobs were created during the month.
- The employment landscape is important, as demand for labour typically affects wage growth. In turn, higher wages can feed through to inflation and influence monetary policy. As a result, interest-rate forecasters are keeping a close eye on conditions in the US labour market.
- Finally, President Biden fared poorly in his first televised debate with rival Donald Trump. Biden struggled to speak clearly and coherently during the debate, sparking fresh concerns about his age and suitability for a second term in office. Attention on the political scene in the US seems likely to intensify ahead of November's election.

- **Australia**: Inflation in Australia spiked to 4.0% year-on-year in May – the highest level in the past six months. More importantly, the reading was meaningfully above consensus forecasts and will have been a concern for Reserve Bank of Australia officials.
- There will be a heightened focus on inflation readings for June and Q2. These data will be released during July and will influence policymakers' interest-rate deliberations at the Reserve Bank of Australia's next meeting in early August.
- The higher-than-expected inflation prints in April and May suggest there is almost no chance of an interest rate cut at this meeting. In fact, a further increase in borrowing costs cannot be ruled out if data show that pricing pressures worsened in June.
- Markets suggest there is only a small chance of further rate hikes, although most commentators agree that interest rates are likely to remain elevated for the foreseeable future.
- This view was echoed by Reserve Bank of Australia officials, who suggested that rate cuts are not currently on the agenda. For now, official interest rates remain at 4.35% and are unlikely to be lowered until officials become more confident that inflation is heading towards their 2% to 3% target.

- **New Zealand**: Forecasts continue to suggest that the Reserve Bank of New Zealand will lower official interest rates later this year. Between one and two 0.25% rate cuts have been priced into markets before the end of 2024, with further easing anticipated in the first half of 2025.
- Lower borrowing costs would undoubtedly be welcome for consumers and businesses – confidence levels in both cases remain subdued, mainly owing to high interest rates and subdued economic activity levels. The economy grew just 0.3% in the year ending 31 March 2024.

- **Europe:** As anticipated, official interest rates were lowered by 0.25% in the Eurozone following the European Central Bank's latest meeting. More importantly, one of the Bank's policymakers later suggested the market's expectations for two further cuts this year are "reasonable". This was the clearest signal yet that policy settings are likely to be eased further now that inflation in the region has come off the boil.
- Interest rates were also lowered in Switzerland, as the National Bank tried to dampen strength in the franc. Perceived as a 'safe haven' currency, the franc had risen to a four-month high against the euro owing to political uncertainties in the region.
- There has been a shift towards right wing parties in Europe. The far-right National Rally is leading the race to be the new prime minister in France after the first round of voting. Italy has its most nationalistic government since the Second World War and the far-right Alternative for Germany is now perceived to be the main opposition in Germany. Similarly in the UK, the right-wing Reform Party is attracting significant support from previous Conservative voters, opening the door for a potential landslide victory for the opposition Labour Party in July's election.
- Unfortunately, political uncertainty in Europe appears to be having an adverse impact economically, with some firms reportedly holding back on planned investment. This does not augur well for overall growth in the Eurozone.

- **Asia**: The housing slump in China shows no sign of abating and there have been calls for further government support. Prices of both new and existing homes fell in May, eroding confidence levels and jeopardising Beijing's 5% economic growth target.
- More encouragingly, industrial production appears to be holding up reasonably well and the latest data showed an uptick in exports.
- Most of the attention in Japan was on the yen, which has retreated to its lowest level in nearly 40 years against the US dollar. Authorities were rumoured to have intervened to try and arrest the weakness and the Bank of Japan suggested another interest rate hike could occur in July, depending on the tone of economic data before then.

Australian dollar

- The AUD was little changed against the USD in June, closing the month at 66.7 US cents. It was a similar story against most other majors, with the AUD appreciating modestly against a trade-weighted basket of other currencies.
- The most notable move was relative to the Japanese yen, where the AUD appreciated by 2.5%. This move reflected widespread weakness in the yen in foreign exchange markets, rather than any AUD/JPY specific factors.

Australian equities

- Australian shares continued their ascent in June, with the S&P/ASX 200 Index adding 0.9%. Stocks in the Financials, Consumer Staples, Healthcare and Utilities sectors led the way.
- Financials (+5.1%) performed strongly as investors refocused on the relative earnings stability of banks and the appeal of their franked dividends. All the 'big-four' banks are currently trading at or near record highs. Towards the end of the month, ANZ's proposed $4.9 billion deal to acquire Suncorp's banking business received regulatory approval.
- Similarly, insurance stocks outperformed as investors expected interest rates in Australia to remain high for an extended period, benefitting investment returns for local insurers. Additionally, Insurance Australia Group announced a favourable restructure of its reinsurance agreements.
- Consumer Staples (+4.6%) outperformed on the back of weaker discretionary retail outlooks and fears of rising interest rates. Treasury Wine Estates (+9.8%) reported that profits are showing signs of recovering after Chinese tariffs on Australian wine imports were lifted. Elsewhere, Woolworths and Coles fared well following earlier weakness associated with the Senate Enquiry. At the same time, a2 Milk struggled on the back of weaker marriage numbers in China, which potentially flagged a slower recovery in birth rates.
- Health Care (+4.3%) was higher on the back of solid returns from sector heavyweight CSL (+5.4%). This was somewhat offset by ResMed (-7.3%), which struggled after US pharmaceutical giant Eli Lilly reported that a trial of its new weight-loss treatment drug showed a reduction in obstructive sleep apnoea; a key market for ResMed.
- Utilities (+3.5%) also fared relatively well, supported by gains from Origin Energy (+6.6%) and AGL Energy (+5.9%). Origin's Investor Day was well received by investors, with management announcing an updated distribution policy, guaranteeing to return 50% of its yearly free cash flow to shareholders.
- At the other end of the scale, Materials stocks (-6.5%) tended to struggle on the back of lower commodity prices. Iron ore was down 7.4% and copper fell 4.6%, owing to increasing inventories in China. These moves hindered the large miners including BHP Group (-4.1%) and Rio Tinto (-7.7%).
- Companies exposed to the lithium sector, such as Liontown Resources, Arcadium Lithium, and Mineral Resources, also continued to struggle, typically falling between 20% and 30%. The lithium price closed the month around 13% lower, as supplies continued to increase.
- Energy stocks (-1.6%) were little changed, even though oil prices rose. Woodside Energy Group (+1.8%) announced the start-up of its Sangomar Oil project in Senegal, while Beach Energy (-11.0%) fell after reporting higher capital expenditure and weaker-than-expected production guidance for FY25.
- Small caps continued to underperform their larger peers, with the S&P/ASX Small Ordinaries Index closing the month 1.4% lower. Small Materials stocks were typically among the worst performers, reflecting weaker commodity prices.

Global equities

- Positive returns from US shares propelled the MSCI World Index to a return of 1.6% in AUD terms. This extended returns from global shares to more than 20% in the FY24 year.
- Technology shares continued to lead the way in the US. The tech-heavy NASDAQ added a further 6.0% and achieved fresh all-time highs.
- Artificial Intelligence giant Nvidia added another 10%+, pushing its market capitalisation above US$3 trillion. For context, this is around double the value of the entire Australian share market.
- The broader S&P 500 Index also hit fresh record highs, as inflows into the US share market showed no signs of slowing.
- Japanese stocks also performed well, with the Nikkei closing 2.9% higher. Returns elsewhere in Asia were less good; the Chinese and Hong Kong markets both lost ground, while Singapore's Straits Times Index was little changed.
- Sentiment towards share markets in Europe was dampened by political uncertainty in the region. France banks saw the most significant selling pressure, which pushed the CAC Index down 6.4%. The Italian and Spanish markets both closed between 3% and 4% lower and while German and UK stocks fared a little better, the DAX and FTSE 100 still fell 1.4% and 1.3%, respectively.

Property securities

- Global property securities posted modest gains in June. The FTSE EPRA/NAREIT Developed Index added 0.7% in AUD terms, but struggled to keep pace with broader global equity markets.
- North American markets fared best, with pleasing returns from both US and Canadian names. Sentiment was boosted by firming expectations that interest rates will be lowered at least once in each country before year end.
- Laggards included France and Germany. A snap parliamentary election in France deterred investor confidence, with weakness spilling over into neighbouring markets.
- Locally, A-REITs were little changed over the month, but returned nearly 25% in the FY24 year as a whole.

Global and Australian fixed income

- Government bond yields fell in all major regions, which supported positive returns from fixed income. The Bloomberg Global Aggregate Index added 0.8% in AUD terms over the month.
- Sentiment continued to be driven by evolving interest rate forecasts. With inflation easing further in the US – albeit only modestly – investors continued to anticipate that the Federal Funds rate will be lowered in the months ahead. This saw 10-year Treasury yields move 0.10% lower, to 4.40%.
- The moves were more substantial in Europe. Ten-year sovereign bond yields closed the month 0.17% and 0.15% lower in Germany and the UK, respectively, amid suggestions that policy settings will be eased further in the remainder of 2024. The fight against inflation is far from over, but both the European Central Bank and the Bank of England seem keen to lower borrowing costs to alleviate the risk of their economies falling into recession.
- Japanese Government Bond yields were little changed over the month.
- Yields on 10-year Australian Commonwealth Government Bonds also fell, closing the month 0.10% lower at 4.31%. This move came despite an unexpected acceleration in inflation and suggestions that the Reserve Bank of Australia might have to consider a further rate hike to dampen pricing pressures. The downward move in yields against this background once again highlighted the inter-connectedness of global fixed income markets and showed that global trends can dominate local news and economic developments.

Global credit

- Following months of gradual tightening, credit spreads widened modestly during June as the market appeared to pause for breath. This hindered returns from credit.
- With the prospect of lower borrowing costs, the outlook for corporate bonds remains reasonably favourable and a meaningful increase in default rates is not currently anticipated.
- Against this background, potential yields over and above those available on cash and comparable government bonds could remain appealing for income-oriented investors.