

MARKET REVIEW

Month in Review as at August 2024

Index returns at July 2024 (%)

Australian Equities	1 mth	3 mth	6 mth	1 yr	3 yr	5 yr	10 yr
S&P/ASX 200 TR Index	4.19	6.21	7.31	13.53	7.44	7.52	8.03
S&P/ASX Small Ordinaries TR Index	3.49	2.00	5.39	9.29	-0.64	3.50	6.30
Global Equities							
MSCI World NR Index (AUD)	4.08	7.86	13.75	22.11	11.15	13.27	13.46
S&P 500 PR Index (USD)	1.13	9.66	13.96	20.34	7.91	13.13	11.08
FTSE 100 PR Index (GBP)	2.50	2.75	9.66	8.68	5.97	1.98	2.20
MSCI Emerging Markets NR Index (AUD)	2.58	4.26	14.45	9.66	1.18	4.54	6.32
Real Estate Investment Trusts							
S&P/ASX 300 A-REIT TR Index	6.76	9.05	15.60	27.21	7.87	5.47	9.31
FTSE EPRA/NAREIT Dev. NR Index (AUD Hgd)	5.53	9.23	6.95	6.96	-3.64	-0.27	3.51
Fixed Interest							
Bloomberg Ausbond Composite 0+ Yr Index	1.48	2.67	1.45	4.67	-2.15	-0.49	2.31
Bloomberg Ausbond Bank Bill Index	0.37	1.10	2.18	4.37	2.56	1.69	1.88
Bloomberg Global Aggregate TR Index (AUD Hgd)	1.88	3.48	1.71	4.65	-2.54	-0.45	2.19

Data source: Bloomberg & Financial Express. Returns greater than one year are annualised.

Commentary regarding equity indices below references performance without including the effects of currency (unless specifically stated).

Key Market Points

- » The Australian equity market had an exceptionally strong month rising 4.2%. All sectors with the exception of Utilities, Energy and Materials finished the month higher.
- » Australian equity performance outshone global counterparts. The S&P 500 Index (USD) rose 1.2%, the FTSE Eurotop 100 Index (EUR) rose 0.5% and the CSI 300 Index (CNY) rose 0.6%. The Japanese and Hong Kong markets were some of the few to finish the month lower with returns of -1.2% and -1.0%.

Australian equities

The ASX 200 Accumulation Index finished July month up 4.2%, marking its strongest monthly performance this year and reaching a new all-time high in the process. Despite expectations for earnings contractions, the strong level of market sentiment and a wave of momentum pushed shares higher.

The market saw positive returns across a wide range of sectors, with eight out of eleven finishing higher.

Consumer discretionary led the way with a gain of 9.1%, followed by Property (+6.6%), Financials (+6.3%), Industrials (+5.6%), and Communication Services (+5.3%). Conversely, the Utilities (-2.9%), Energy (-0.4%), and Materials (-0.1%) sectors weighed on the Index, ending the month with negative returns.

Despite June quarter inflation data remaining sticky, investors were encouraged by the slowing core inflation number. Positive data in a UBS survey on consumer spending, coupled with undemanding valuations and overall underperformance in the sector, helped drive Consumer Discretionary companies. Meanwhile, the 'Big Four' Banks again pushed the Financials sector up. Weakening metals and Brent crude oil prices led to Materials and Energy shares falling, which included losses of 11.9% from Fortescue (ASX: FMG), one of the largest iron ore miners in the Index.

Global Equities

Both Emerging and Developed markets continued to rally in July. Developed markets outperformed emerging markets returning 4.08% (MSCI World Ex- Australia Index (AUD)) versus a 2.58% return (MSCI Emerging Markets Index (AUD)).

Small Cap growth came back into focus in July over optimism US Rate cuts could drive growth for smaller companies. The Russell 2000 Index gained 10.2% and the Russell MicroCap Index gained 11.9%, outperforming the S&P500 which rose 1.2% (in local currency terms). Meanwhile the Nasdaq-100 fell -1.6% (in local currency terms) with Tech and Communications sectors dragging the Index down.

Japanese markets fell in the second half of July after hitting all-time highs as speculation around the Bank of Japan's monetary policy meeting cautioned the market and strengthened the Yen. The Nikkei 225 Index fell 1.21% in July (in local currency terms).

Chinese equities were mixed in July as continued troubles in the real-estate sector dragged the market down, while Chinese authorities have cut the reverse repo rate and benchmark loan prime rate in a bid to stimulate the economy. The Hang Seng Index fell 1.02% and CSI 300 Index gained 0.60% (in local currency terms).

Property

The S&P/ASX 200 A-REIT Accumulation index TR performed strongly in July, with the index finishing the month 6.83% higher and up 17.70% YTD. Global real estate equities continued the strong trend (represented by the FTSE EPRA/NAREIT Developed Ex Australia Index (AUD Hedged)) advancing 5.54% for the month. Australian infrastructure began to moderate during July, with the S&P/ASX Infrastructure Index TR returning 0.34% for the month and up 5.63% YTD.

July saw muted activity on the M&A front across the A-REIT sector. Region Group (RGN) has reached an agreement with GIC to establish Metro Fund 2, with RGN holding a 20% equity interest and acting as the manager of the Fund. The ACCC has raised preliminary concerns relating to Stockland's (SGP) acquisition of 12 Lendlease residential Masterplan community projects. The concern revolves around the competitive supply of housing lots in four regions. Centuria Capital Group (CNI) has entered into an agreement to acquire a 50% interest in a new-generation data service provider, Reset Data Ptd Ltd for \$21m. Centuria Bass, the real estate finance division of Centuria Capital Group (CNI) has secured a new \$150m warehouse facility, with a \$100m initial senior secured commitment from UBS.

The Australian residential property market experienced an increase of +0.5% Month on Month (as represented by CoreLogic's five capital city aggregate). Perth was the biggest riser (+2%), followed by Adelaide (+1.6%) and Brisbane (+0.9%). In contrast, Melbourne continued to experience a fall in value (-0.5%) alongside Darwin (-0.1%) while Hobart (-0.8%) was the worst performer.

Fixed Income

July markets experienced notable shifts with investors navigating a landscape of cautious optimism amid ongoing economic uncertainties.

Economic key points

- » Australian annual inflation eased to 3.8% in June, quelling expectations of the RBA raising rates again this year
- » USA's GDP growth for the Q2 was 2.8%, ahead of market expectations

Australia

The quarterly CPI inflation to June was lower than had been feared, with the RBA's preferred trimmed mean annualised rate easing slightly to 3.9% from 4.0% back in March. This result has quelled expectations that the RBA could raise interest rates again this year. Financial markets are now pricing in a 60% chance of an RBA rate cut by December.

Retail sales rose 0.5% in June, well ahead of the 0.2% forecast. Annual retail sales were up 2.9% with increases across all categories driven by mid-year/EOFY sales.

The unemployment rate rose to 4.1% in July and above the anticipated 7%. The Westpac-Melbourne Institute Consumer Sentiment Index fell to 82.7 in July as fears of persistent inflation and higher borrowing costs have offset any tax cut boost.

Composite PMI fell to 49.9 in July, slipping below the neutral 50 as manufacturing activity contracted and services expansion slowed. The NAB business confidence index jumped to +4 in June, well above expectations as increases in sentiment were recorded in seven out of eight industries.

The trade surplus increased to \$5.59 billion in July, from the revises \$5.05 billion in May and well ahead of the forecast \$5 billion.

US

The USA's GDP growth for the second quarter was an annualised rate of 2.8%, a major improvement on the first quarter and slightly ahead of market expectations, but still representing a deceleration from late 2023. Inflation, based on the Federal Reserve's preferred measure, the Core PCE price index, was 2.9% to the end of June, a slowdown from the first quarter which keeps the rate on track towards the Fed's 2% target. Financial markets are now pricing in at least two rate cuts by year end.

July nonfarm payrolls rose 114,000, well below the 175,000 forecast and the lowest level in three months. Unemployment rate rose to 4.3% from 4.1%, as expected amid a slight rise in the participation rate.

Retail sales for the month of May were flat as expected, whereas annual retail sales grew 2.3% for the year to June, just above the expected 2.1% increase. Consumer sentiment dropped to 66.4 in July, above the anticipated 66, but the lowest in eight months.

Composite PMI dropped marginally to 54.3 in July, but still signalled strong services sector growth.

The trade deficit narrowed to US\$73.1 billion in June, above forecasts of a US\$72.5 billion gap.

Euro area

The European Central Bank held its interest rates at 3.75% in its July meeting, but accompanying commentary from ECB President Christine Lagarde indicated that a move in September was wide open and repeated that it will not pre-commit to any rate path as data will guide a decision.

The inflation rate in the Euro area unexpectedly lifted to 2.6% in July and above the forecast 2.4%.

The unemployment rate rose to 6.5% in June, above the forecast 6.4%.

Retail sales fell 0.3% in June, more than the expected 0.1% decrease, while annual sales dropped 0.3%, well below the anticipated 0.2% rise. Consumer confidence rose to -13.0 in June, likely driven by the ECB's rate cut in June and expectations for further cuts later in the year.

The Composite PMI fell to 50.2 in July as a significant contraction in manufacturing output and subdued services growth led to a loss in momentum.

UK

The Bank of England left interest rates unchanged at 5.25%, in line with market expectations. Two out of the nine policy makers voted in favour to a cut to 5.0%, with a decision to cut more 'finely balanced'. Inflation rate for May year-on-year came in line with market expectations at 2.0%, better than the 2.3% reading reported in the prior month and hitting the Bank of England target rate.

Consumer confidence rose to -1 in June, improving for the third month in a row, but the headline score remains negative high borrowing and living costs batter household budgets. Retail sales for the month of May rose to 2.9%, ahead of the 1.5% expected and rebounding from the 1.8% contraction in the prior month. while annual sales rose 1.3%, above the anticipated 0.9% increase. Composite PMI fell to 52.3 in June, as activity in both services and manufacturing slowed for the second month in a row.

China

The Chinese economy grew by a seasonally adjusted 0.7% in Q2, after a marginally revised 1.5% increase in Q1. While indicating the eighth straight period of quarterly rise, the latest result was the softest since Q2 of 2023, reflecting multiple headwinds at home such as extreme weather, weak consumption, high local government debts, and ongoing property weakness.

Inflation in China rose 0.5% in July, matching the annual rate which was above market expectations of 0.3%.

China's unemployment rate was flat at 5.0% in June, matching forecasts.

Composite PMI came in at 51.2 in July with services activity rising more than expected but dragged down by a fall in factory activity for the first time since October 2023.

Annual retail sales rose 2% in June, well short of the anticipated 3.3% and below the 3.7% gain in June.

Japan

The Bank of Japan raised its cash rate from 0.10% to 0.25%, just four months after lifting it out of negative territory, and taking another step towards normalising its monetary policy.

Annual inflation held steady at 2.8% in June, in line with market forecasts, whilst core inflation rose to 2.6% in the same period. PPI increased to 2.9% in June, from 2.6% in May and meeting market estimates. Retail sales increased 0.6% in June, above market expectations of a 0.4% increase with annual sales growing 3.7%, also exceeding forecasts.

Consumer confidence increased to 36.7 in July, beating expectations of 36.5, as sentiment improved for most components.

Composite PMI jumped to 52.5 in July largely due to the solid expansion of services activity while manufacturing activity unexpectedly fell.

Currencies

The Australian dollar (AUD) depreciated in July, closing 3% lower in trade-weighted terms to 61.4, depreciating against all four referenced currencies in this update.

The AUD saw its first monthly decline against the USD since April, despite earlier gains from solid Australian economic data and USD weakness. Market sentiment worsened in late July, leading to a sell-off, particularly after Australian CPI aligned with RBA forecasts, diminishing near-term rate hike prospects. The Japanese Yen (JPY) was the strongest in July, rebounding swiftly from its lowest level against the AUD since 1990, reached earlier in the month.

Relative to the AUD, the JPY led in August, appreciating by 8.4%. Conversely, the USD was the laggard of the month, albeit appreciating in relative terms by 2.1% against the AUD. Year-on-year, the AUD remains behind the Pound Sterling (GBP), Euro (EUR), and USD by -2.7%, -1.1%, and -2.9%, respectively, while ahead of the JPY by 0.2%.

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