Economic Snapshot

March 2024

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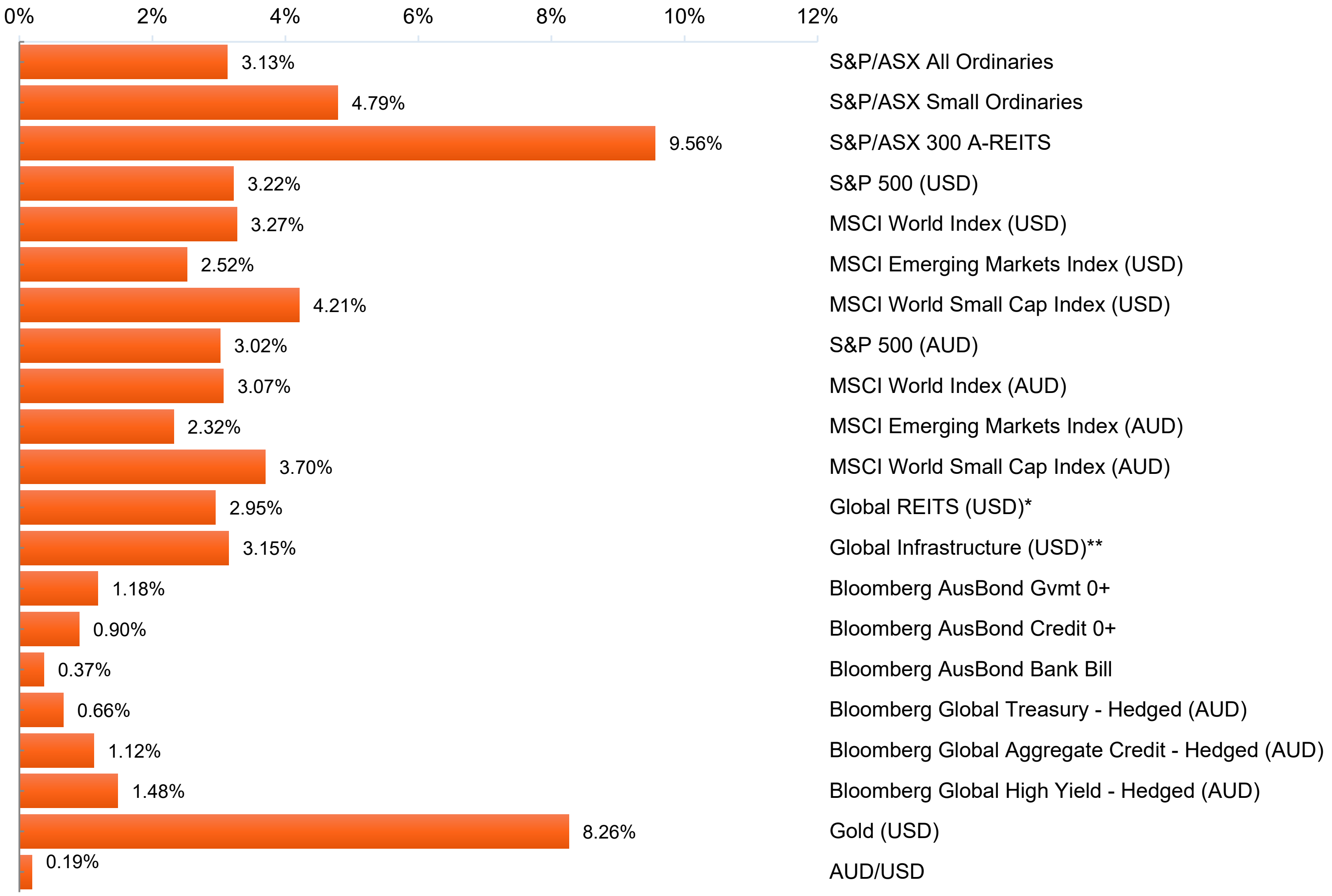
March 2024

Monthly Highlights

- S&P/ASX All Ordinaries finished March at an all-time high, rallying along with global equity markets.
- The Bank of Japan (BOJ) hiked interest rates for the first time in 17 years and ended yield curve control. Japanese workers also received the highest wage increases since the early 1990s.
- Gold traded at all-time highs as did Cocoa prices which jumped 50%. Conversely, iron ore continued to trend lower.
- The Reserve Bank of Australia (RBA) left interest rates unchanged at 4.35%, in line with expectation, as did the US Federal Reserve (Fed) which also reassured markets by maintaining their outlook for three interest rate cuts this year.

Selected Market Returns, March 2024



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

Key Economic Developments in March 2024

Financial markets

Global markets concluded March and the first quarter on a high note

March delivered a robust performance for equity markets, concluding a strong first quarter of 2024.

The MSCI World Index (USD) closed March up 3.27% broadly supported on a global basis by resilient economic data, moderating inflation, and anticipation for interest rate cuts. The Australian All Ordinaries reached an all-time high in March, returning 3.13% for the month. This was surpassed by the S&P ASX Small Ordinaries Index, which returned 4.79%, continuing the trend of small-cap outperformance in 2024.

In the US markets, the broadening of the rally continued in March, with the small-cap Russell 2000 rising by 3.4%, ahead of the S&P500 return of 3.2%. These returns were comfortably ahead of the Nasdaq Composite which gained 1.8%, lifted by a 14% rally in Nvidia but weighed down by soft relative performances from Apple, Tesla, and Meta. Despite this, the information technology sector was the largest contributor to the gains in US markets for the first quarter of 2024.

European markets extended their gains for the year in March with the Euro 100 Index gaining 4.7% as most European markets cheered lower inflation prints and the possibility that European central banks would front-run the US in cutting interest rates. Asian markets also enjoyed a strong month with Japan's Nikkei 225 continuing its stellar run gaining 3.8% despite the BOJ raising rates. In China, the CSI 300 posted a modest 0.6% gain as improving economic data continued to provide support to Chinese equities despite the pressures of a weak property sector.

Commodity markets experienced significant swings in March. Gold was supported by central bank purchases, rallying 8.3% and pushing through all-time highs to comfortably trade above $2200/once. Conversely, iron ore prices trended lower, falling 13.2% as Chinese stockpiles continued to rise. Cocoa also made headlines as the key ingredient of chocolate surged by over 50% in March pushing prices up over 130% year to date due to continued supply disruptions.

Bond market movements remained relatively muted after a volatile start to the year. This was despite a slew of interest rate announcements as well as inflation and GDP data prints across major economies. The Australian 10-year bond yield dipped 14 basis points to 4% absorbing a more dovish RBA tone. Yields on the US 10-year bond dipped marginally by 3 basis points to 4.21%, although they remained 34 basis points higher for the quarter.

Economic developments

Global central banks in the spotlight

The global economic calendar was closely watched in March with inflation measures and central banks' actions scrutinised for any indications of the trajectory and timing of interest rate cuts. According to Bloomberg, central banks are set for the most synchronised rate cuts since 2008, indicating a clear bias towards global policy easing.

In this context, the Swiss National Bank (SNB) was the first major central bank to cut interest rates, surprising the market with a 25 basis point cut to 1.5%. At the same time, the SNB reduced its average inflation forecast and clearly provided a dovish outlook. The dovish tone was echoed across other major central banks such as the European Central Bank, Bank of England, and Bank of Canada who, despite holding interest rates steady, provided a constructive outlook for inflation and potential interest rate cuts.

In a rare departure from the easing narrative, the BOJ hiked interest rates for the first time in 17 years while also abolishing its yield curve control. The hike meant policy rates were increased by 10 basis points from -0.1% to 0%, a move that was less than the 20 basis points markets were expecting.

In the US, economic data presented a mixed picture. Consumer Price Index (CPI) data released in early March came in at 3.2% year on year, slightly higher than the 3.1% expected, and rising from the previous month. The US ISM Manufacturing Prices Paid Index also saw an upside surprise, increasing to 55.8 in early March, the highest level since July 2022. However, the Federal Reserve's preferred measure of inflation is Personal Consumption Expenditure (PCE) which was in line with expectations alleviating some market jitters.

This, combined with a strong US GDP print showing the US economy grew by an annualised 3.4% for the fourth quarter, ahead of the 3.2% expected, provided further evidence that the US economy is holding up under the weight of elevated interest rates. Importantly Fed Chair, Jerome Powell reiterated the outlook for three interest rate cuts this year easing market concerns that rate cuts might be pushed out further.

The Australian economy holds on as jobs bounce back

The Australian economy grew by 1.5% year-on-year in the fourth quarter of 2023, broadly in line with economists' expectations, albeit continuing the slowing trajectory from the previous 2.1% reading. Of some concern though is that GDP per capita declined by 1% year-on-year continuing its contractionary trend reflecting the effects of elevated net migration. Public spending boosted GDP, but consumer spending remained stagnant and below the RBA's forecasts.

Consumer sentiment data illustrated this further showing a deterioration month-on-month. A further slowdown in retail sales growth to 0.3% has also illustrated some of the pressure consumers are experiencing.

The jobs market provided a positive surprise with 116k jobs added in February, significantly surpassing expectations and pushing the unemployment rate down to 3.7% from 4.1%. Despite this, the unemployment rate is expected to track higher from the current historically low levels.

Australian inflation remained stable as monthly CPI inflation came in at 3.4% year-on-year, unchanged from the previous month, with rising costs in housing and education being offset by weakness in travel spending. Despite inflation persisting above the RBA's 2-3% target band, expectations remain that the RBA will begin a rate cutting cycle in the second half of this year.

The RBA's March meeting provided guidance that was little changed compared to its February policy announcement. As expected, the cash rate was left on hold at 4.35% with Governor Bullock once again reiterating inflation remains too high and further data will be required to ensure that inflation heads sustainably to the target band. There was, however, a slight change in the RBA Board's language indicating there would no longer be a tightening bias, buoying investor sentiment.

Chinese economic data continues to improve

The Chinese economic picture continued to show signs of improvement with data releases boosting investor sentiment from depressed levels earlier this year.

Retail sales grew by 5.5%, while industrial output rose 7%. Manufacturing and non-manufacturing Purchasing Manager Indices (PMI) also expanded above expectations. Contrary to other major economies, China has experienced deflation, but CPI data released for February indicated that prices rose by more than expected, a positive sign that demand is picking up within the economy.

In a positive step for Chinese and Australian relations, China has dropped tariffs on Australian wine. A welcome move for the Australian wine industry.

Outlook

Global equity markets have exhibited robust performance in the initial months of the year, driven by a combination of favourable economic data, strong corporate earnings, and expectations surrounding potential rate cuts. While current valuation signals are mixed, there exists a possibility of a short-term correction given the current overbought conditions in some markets. Typically, the current momentum is persistent until such time as a catalyst for a reversal presents itself.

We continue to believe the global economy will slow in 2024. The extent of the slowing will become clear as the year plays out. The possibility of a recession in the US is a scenario we are watching closely, especially given the UK, Japan and Europe are already experiencing negative growth. Balanced with this is the potential for inflation pressures to continue easing and the prospect for central banks to cut interest rates.

Nevertheless, we maintain a slightly cautious stance, which can be achieved without significantly compromising return potential should the global economy and equity markets remain resilient. We will continue to adapt portfolio risk and return settings as these key scenarios develop of the course of 2024.

Major market indicators

	31-Mar-24	29-Feb-24	31-Jan-24	Qtr change	1 year change
Interest Rates (at close of period)					
Aus 90 day Bank Bills	4.35%	4.34%	4.35%	+0.0	+71.0
Aus 10yr Bond	4.00%	4.14%	4.15%	-19.0	+52.9
US 90 day T Bill	5.23%	5.25%	5.22%	+3.0	+55.0
US 10 yr Bond	4.21%	4.24%	3.95%	+34.0	+72.5
Currency (against the AUD)					
US Dollar	0.652	0.651	0.661	-4.39%	-2.59%
British Pound	0.517	0.515	0.518	-3.63%	-4.51%
Euro	0.604	0.602	0.608	-2.36%	-1.97%
Japanese Yen	98.68	97.53	96.45	2.69%	11.18%
Trade-Weighted Index	61.50	61.10	61.40	-1.76%	1.99%
Equity Markets					
Australian All Ordinaries	3.1%	1.2%	1.1%	5.5%	15.0%
MSCI Australia Value (AUD)	3.0%	0.2%	1.8%	5.1%	15.9%
MSCI Australia Growth (AUD)	2.9%	2.8%	1.9%	7.7%	17.9%
S&P 500 (USD)	3.2%	5.3%	1.7%	10.6%	29.9%
MSCI US Value (USD)	4.9%	3.5%	0.5%	9.1%	20.4%
MSCI US Growth (USD)	1.6%	7.2%	2.6%	11.7%	39.6%
MSCI World (USD)	3.3%	4.3%	1.2%	9.0%	25.7%
Nikkei (YEN)	3.8%	8.0%	8.4%	21.5%	46.6%
CSI 300 (CNY)	0.6%	9.4%	-6.3%	3.1%	-10.5%
FTSE 100 (GBP)	4.8%	0.5%	-1.3%	4.0%	8.4%
DAX (EUR)	4.6%	4.6%	0.9%	10.4%	18.3%
Euro 100 (EUR)	4.7%	2.6%	2.2%	9.8%	15.8%
MSCI Emerging Markets (USD)	2.5%	4.8%	-4.6%	2.4%	8.6%
Commodities					
Iron Ore (USD)	-13.2%	-11.7%	-6.7%	-28.5%	-20.4%
Crude Oil WTI U$/BBL	6.0%	3.9%	6.1%	16.8%	11.0%
Gold Bullion $/t oz	8.3%	-0.1%	-0.8%	7.2%	12.0%

Source: Quilla, Refinitiv

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