Economic Snapshot

September 2024

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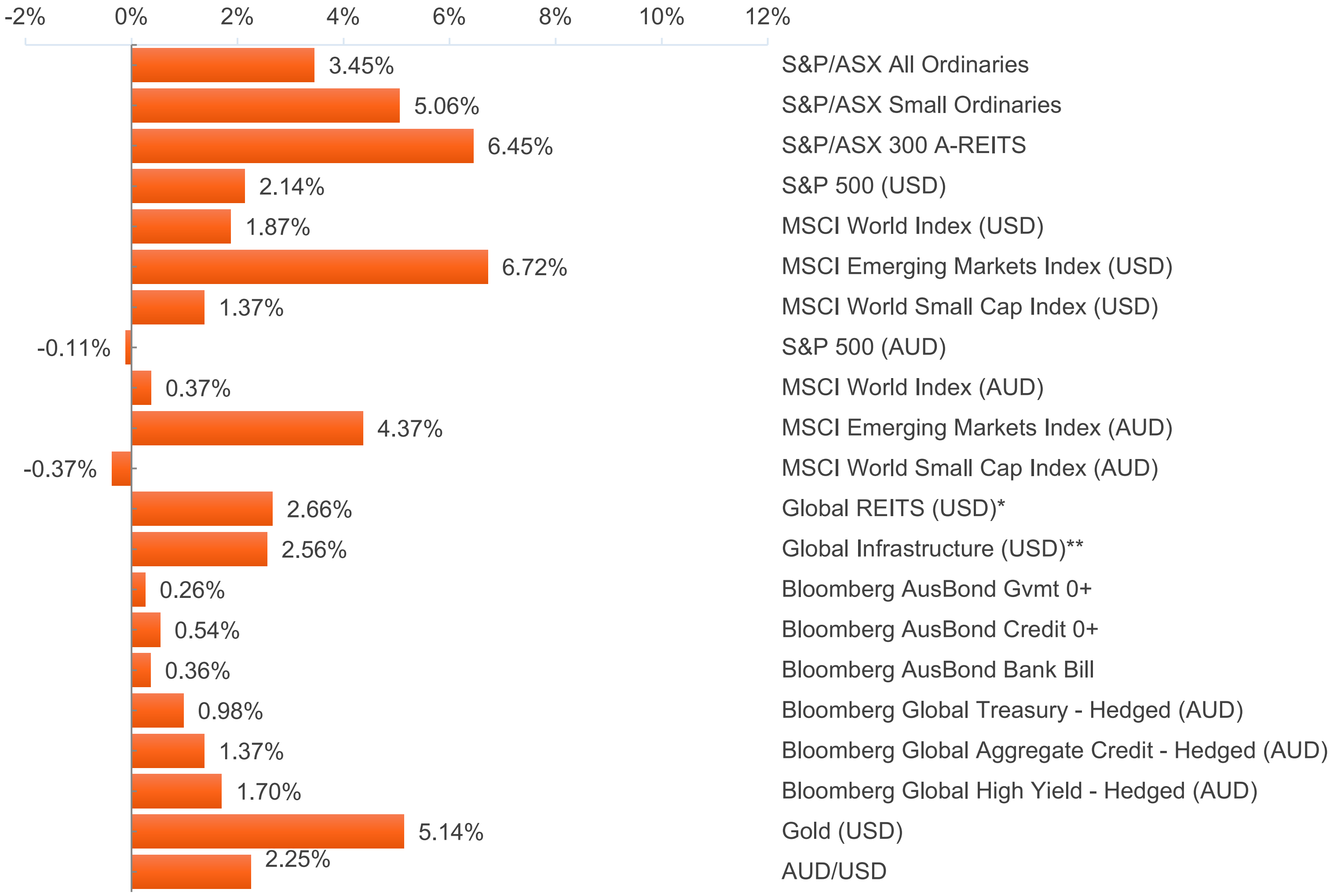
September 2024

Monthly Highlights

- The Australian share market reached all-time highs during September.
- The US Federal Reserve cut interest rates by 50 basis points.
- China announced major monetary and fiscal policy stimulus packages.
- Chinese shares surged with the Shanghai Composite Index rallying 21%.

Selected Market Returns, September 2024



Sources: *FTSE EPRA Nareit DEVELOPED, **FTSE Global Core Infrastructure 50/50 Index

Key Economic Developments in September 2024

Financial markets

A strong end to the third quarter

The MSCI World Index (USD) reached all-time highs in September closing the month 1.87% higher, while returns were flat in Australian dollar terms due to a 2.25% appreciation in the AUD/USD exchange rate. A significant 50 basis point interest rate cut by the US Federal Reserve (Fed) and a blitz of fiscal and monetary policy stimulus by Chinese authorities lifted global equity markets.

Australian equities

The S&P/ASX All Ordinaries rose by 3.45% reaching new highs and posting the best September quarter since 2013. Small caps outperformed with the S&P/ASX Small Ordinaries gaining 5.06%. The Materials sector led the gains, rising by 13% buoyed by Chinese stimulus measures that ignited a rotation from Financials to Materials. The Information Technology sector also had a strong month rising by 7.36% followed by Real Estate which ended 6.6% higher. Defensive sectors were the weakest with Healthcare and Consumer Staples falling by 3.2% and 1.7% respectively.

Global equities

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

Commodities rallied, driven by expectations of increased demand following US rate cuts and Chinese stimulus. Copper and iron ore gained 12.9% and 8.4% respectively. Precious metals also rallied supported by further Middle Eastern geopolitical tensions. Gold, once again, traded at all-time highs, rising by 6.2% to close at $2685 an ounce. In contrast, crude oil dropped 7.7% to $72 per barrel due to soft demand and excess supply concerns.

Bond markets

With little change in the Australian interest rate outlook and inflation data matching expectations, the Australian 10-year bond yield remained unchanged in September at 3.98%. In the US bond market, a larger than expected interest rate cut, coupled with expectations for two further rate cuts by year-end, helped push yields lower with the US benchmark 10-year yield falling 13 basis points to close at 3.79%.

Economic Developments

The Reserve Bank of Australia remains on hold as inflation trends lower

The Reserve Bank of Australia (RBA) held the cash rate steady at 4.35%, as expected, and retained its hawkish stance. Governor Bullock reiterated that the RBA did not see interest rate cuts in the near term but, in what seemed a dovish tilt, the Board was not explicitly considering a rate hike. Inflation continues to concern the RBA despite monthly CPI falling as expected to 2.7% year-on-year, down from 3.5%. This large drop was largely attributed to the effects of temporary government electricity subsidies, although excluding these the overall disinflationary trend is still intact.

Second-quarter GDP data showed a 1% annual growth rate, the slowest pace since the 1990s (excluding the pandemic period). Within this report, consumer indicators were weaker across spending, saving and income metrics. Labour market conditions remained stable, with the unemployment rate steady at 4.2% and job growth of 47,000 exceeding expectations. The participation rate remained elevated at 67.1%.

The US Fed delivers an outsized interest rate cut

The US Federal Reserve initiated its easing cycle with a 50 basis point cut to the Fed Funds rate, larger than the 25 basis points anticipated by economists, but largely in line with market pricing. Markets are currently pricing in a 50% probability of 75 basis points worth of cuts by the end of the year, but Fed Chair Powell indicated that two cuts of 25 basis points is the most likely trajectory. This move has been in response to continuing moderation in inflation further evidenced by August CPI which dipped as expected to 2.5% year on year from 2.9%. The Fed’s preferred gauge of inflation, Core PCE, remained unchanged at 2.8% year-on-year.

Weakness in the labour market has also provided some justification for the Fed’s actions as it becomes increasingly cognizant of weakening economic growth. Nonfarm payrolls were revised lower, and August numbers showed a lower than expected increase. Payroll growth is now tracking at close to a four-year low. However, GDP data was resilient showing the US economy grew by an annualised 3% for the second quarter, ahead of the 2.9% expected. Broadly, September economic data releases provided a mixed picture of US economic activity.

China unveils aggressive stimulus amid weak economic data

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

Many global markets are trading close to all-time highs supported by several factors that have combined to buoy investor sentiment. Moderating inflation and resilient economic growth occurring at the same time as global central banks embark on the early stages of monetary policy easing provides a supportive backdrop for financial markets and a soft economic landing.

There are risks though that can shift the growth outlook. Weakening labour markets and softening consumer trends are increasing the probability that major economies could enter a recession. These concerns are recognised by governments and central banks who are actively attempting to support economies through decisive policy actions.

Given the current market dynamics, a balanced approach to portfolio management is crucial. Maintaining a diversified portfolio that considers both risks and potential returns will help navigate the evolving economic landscape effectively.

Major Market Indicators

	31-Sep-24	30-Aug-24	30-Jul-24	Qtr change	1 year change
Interest Rates (at close of period)					
Aus 90 day Bank Bills	4.42%	4.38%	4.46%	+3.0	+29.0
Aus 10yr Bond	3.98%	3.98%	4.33%	-25.8	-22.7
US 90 day T Bill	4.52%	4.98%	5.15%	-70.0	-80.0
US 10 yr Bond	3.79%	3.92%	4.06%	-58.1	-78.3
Currency (against the AUD)					
US Dollar	0.694	0.679	0.653	3.88%	7.49%
British Pound	0.518	0.517	0.505	-1.28%	-2.02%
Euro	0.621	0.614	0.600	0.19%	1.67%
Japanese Yen	99.32	98.93	98.27	-7.45%	3.40%
Trade-Weighted Index	62.80	62.60	61.40	-0.79%	2.78%
Equity Markets					
Australian All Ordinaries	3.4%	0.4%	3.8%	7.9%	22.2%
MSCI Australia Value (AUD)	3.2%	0.1%	3.6%	7.1%	20.4%
MSCI Australia Growth (AUD)	1.0%	1.0%	5.2%	7.3%	26.7%
S&P 500 (USD)	2.1%	2.4%	1.2%	5.9%	36.4%
MSCI US Value (USD)	1.7%	2.9%	4.8%	9.7%	29.6%
MSCI US Growth (USD)	2.5%	2.0%	-1.9%	2.6%	42.5%
MSCI World (USD)	1.9%	2.7%	1.8%	6.5%	33.0%
Nikkei (YEN)	-1.2%	-1.1%	-1.2%	-3.5%	21.2%
CSI 300 (CNY)	21.1%	-3.3%	0.6%	17.9%	12.1%
FTSE 100 (GBP)	-1.5%	0.9%	2.5%	1.8%	12.4%
DAX (EUR)	2.2%	2.2%	1.5%	6.0%	25.6%
Euro 100 (EUR)	-0.8%	0.8%	0.5%	0.4%	16.0%
MSCI Emerging Markets (USD)	6.7%	1.6%	0.4%	8.9%	26.5%
Commodities					
Iron Ore (USD)	8.4%	-0.5%	-4.2%	3.3%	-8.8%
Crude Oil WTI U$/BBL	-7.7%	-6.1%	-4.2%	-17.0%	-24.3%
Gold Bullion $/t oz	5.1%	3.4%	4.1%	13.2%	41.9%

Source: Quilla, Refinitiv

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