Economic Snapshot

July 2024

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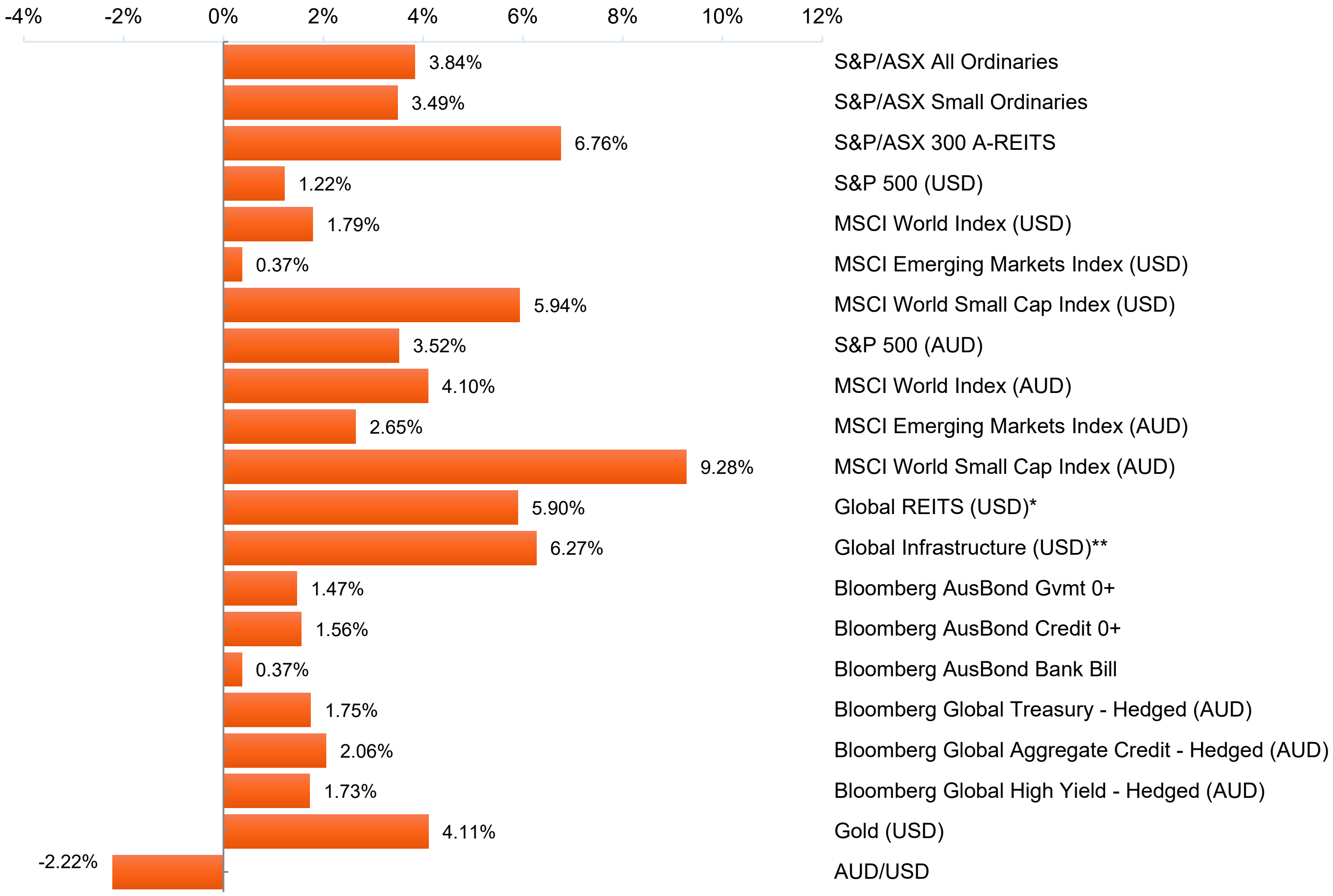
July 2024

Monthly Highlights

- Australian and US share markets trade at all-time highs.
- Commonwealth Bank becomes the largest company in Australia.
- Australian trimmed mean CPI comes in below forecasts.
- The MSCI World Small Cap Index (AUD) rallies 9.28%.

Selected Market Returns, July 2024



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

Key Economic Developments in July 2024

Financial markets

Global markets pullback

The technology sector cools as small caps rally

The MSCI World Index (AUD) gained 4.1% in July, in a volatile month for global equity markets. Australian and US equities reached new all-time highs, while bond markets rallied. A sector rotation was evident, as high-performing growth stocks retreated in favour of small-cap, cyclical, and value-oriented companies.

In the local market, the S&P/ASX All Ordinaries ended the month strongly rising by 3.84% reaching all-time highs during the month. The S&P/ASX Small Ordinaries followed suit rising by 3.49%. Consumer discretionary stocks produced the largest gains, rising by 9.08% in July led higher by Wesfarmers. This was followed by financials which rose by 6.26% as Commonwealth Bank surpassed BHP Group as Australia's largest company by market capitalisation. Utilities underperformed, falling by 2.85%, while the materials and energy sectors were marginally weaker.

The US market also traded at all-time highs during July, delivering another month of gains despite divergent sector performances. The S&P500 (USD) closed higher by 1.22% while the Nasdaq (USD) ended the month lower by 0.75% as large-cap technology stocks weighed on overall market performance. Financials and industrials led the gains with robust performances from regional banks and homebuilders. Small caps excelled, with the Russell 2000 (USD) surging 10.1%. The second-quarter earnings season commenced in July, with nearly half of S&P 500 companies having reported results with over 75% beating analysts' earnings expectations.

European markets lagged, as softer economic data weighed on performance with the Euro 100 (EUR) rising by 0.5%. In Asian markets, Chinese mainland shares rose as the CSI 300 (CNY) moved up by 0.6% while Hong Kong listed shares ended the month lower as mixed Chinese economic data dampened equity market sentiment. The Nikkei (YEN) lost 1.2% as the likelihood of rising rates and a stronger Yen moderated the equity market outlook after a strong equity market rally this year.

Commodity prices weakened broadly as demand expectations softened. The copper price fell by 4.5% and iron ore by 4.2%. Soft commodities also faced downward pressure. Energy prices retreated, with crude oil dropping 3.84% to $78.41 per barrel. Gold bucked the trend, trading at all-time highs intra-month and closing at $2445 per ounce, up 4.1%. The rally in gold was driven by the increasing likelihood of US interest rate cuts and heightened geopolitical tensions in the Middle East which spurred demand.

Australian and US bond markets rallied in July, with yields declining strongly. The benchmark Australian 10-year bond yield fell by 11 basis points to close at 4.13%. Gains accelerated into month end as lower than expected inflation data led to a repricing of interest rates in the Australian market. The US 10-year benchmark yield closed at 4.06% falling by a substantial 31 basis points as the likelihood of a September rate cut became more entrenched in market expectations. The trend of falling yields was similar across developed bond markets.

Economic developments

Relief as Australian inflation data diminishes rate hike expectations

Second quarter trimmed mean CPI measured 3.9% year-on-year, falling from the previous quarter and coming in lower than the 4% market expectation. The quarter-on-quarter rise of 0.8% was also well below the 1% economists had forecast. Monthly CPI data matched expectations of a 3.8% rise. Services inflation continued to remain sticky at 4.5% year-on-year vs goods inflation of 3.2%. These inflation data points provided a lift to market sentiment as an interest rate hike by the Reserve Bank of Australia is all but ruled out. Post the inflation data releases, markets have brought forward expectations for interest rate cuts towards the beginning of 2025.

The unemployment rate remained unchanged at 4.1% and Australian business conditions showed a further deterioration. Activity in the services sector continued to expand but at a slower pace as the Services Purchasing Managers Index (PMI) dipped to 50.8 from 51.2, while the Manufacturing PMI printed at 47.5, indicating weak conditions persisted in the manufacturing sector.

Positively, retail sales grew by 0.5% month-on-month for June, ahead of expectations of just 0.2%. Business confidence improved but consumer sentiment for July turned negative. Construction data provided a mixed outlook with the Government's home building targets increasingly looking difficult to reach.

US growth surprises to the upside as inflation trends lower

The US economy surprised as GDP grew by 2.8% on an annualised basis, well ahead of the 2% consensus forecast. Despite the higher than expected economic growth, the labour market continued to loosen as job openings grew and the unemployment rate ticked up to 4.1% from 4%.

The disinflationary trend in US CPI continued in June as headline CPI dipped to 3% year-on-year, down from 3.3% in May, the third consecutive month of declining inflation. Reassuringly, Personal Consumption Expenditure (PCE), the Federal Reserve’s (Fed) favoured inflation gauge, also matched market expectations.

During the July meeting of the Fed’s Federal Open Market Committee members unanimously voted to keep interest rates unchanged, however, given easing inflationary pressures Fed Governor Powell indicated that the economy is moving closer to the point at which it will be appropriate to reduce the policy rate. Markets are now fully pricing in a September rate cut in the US.

On the political front, Biden's withdrawal from the presidential race and Trump's narrow escape from an assassination attempt led markets to assess potential implications for the global economy under a Trump presidency.

A mixed global economic backdrop

The Chinese economy grew by less than expected at 4.7% year-on-year for the second quarter, weighed down by weak activity in the property sector and subdued domestic demand growth. Industrial production, however, exceeded expectations, growing by 5.3% year-on-year. The highly anticipated third Plenum meeting of the Central Committee, which occurs every five years, offered limited short-term economic policy support that investors were looking for.

Japan’s central bank raised its benchmark interest rate to 0.25%, the highest level since 2008 and tapered its bond buying program. Meanwhile, interest rates were left unchanged in the Eurozone, as expected, while CPI rose by 2.6% year-on-year, slightly ahead of expectations. Eurozone second quarter GDP was in line with forecast but the S&P Global Composite PMI reading of 50.1 was below expectations as manufacturing conditions worsened and services activity improved by less than anticipated.

Outlook

Investors are likely to welcome cooling economies and softening labour markets globally and domestically which, when combined with moderating inflationary pressures, are likely to provide further impetus for monetary easing.

Developments on the company earnings front will also be of importance to support the current elevated earnings growth expectations, particularly with regards to Artificial Intelligence (AI) related companies.

Our assessment of the current environment is supportive of a Soft Landing scenario, with economies slowing but remaining positive and inflation moderating. This environment may allow central banks to gradually cut interest rates over the next 12 months.

There is, however, the risk that economies decelerate too quickly and that interest rate cuts are implemented too late in the cycle leading to a weaker global economy than may have been anticipated. While equity market momentum has been strong, markets are entering a seasonally weaker period. Given such risks, a prudent approach to portfolio positioning needs to be maintained.

Major market indicators

	31-July-24	30-Jun-24	31-May-24	Qtr change	1 year change
Interest Rates (at close of period)					
Aus 90 day Bank Bills	4.46%	4.39%	4.36%	+9.0	+16.0
Aus 10yr Bond	4.13%	4.24%	4.33%	-14.0	+9.2
US 90 day T Bill	5.15%	5.22%	5.25%	-10.0	-13.0
US 10 yr Bond	4.06%	4.37%	4.49%	-62.5	+10.6
Currency (against the AUD)					
US Dollar	0.653	0.668	0.665	0.56%	-3.09%
British Pound	0.505	0.524	0.522	-2.92%	-2.79%
Euro	0.600	0.620	0.613	-1.67%	-1.15%
Japanese Yen	98.27	107.32	104.63	-3.75%	2.83%
Trade-Weighted Index	61.40	63.30	63.10	-1.29%	0.16%
Equity Markets					
Australian All Ordinaries	3.8%	0.7%	0.9%	5.5%	13.4%
MSCI Australia Value (AUD)	3.6%	0.9%	1.0%	5.6%	13.8%
MSCI Australia Growth (AUD)	5.2%	3.3%	1.2%	9.9%	20.0%
S&P 500 (USD)	1.2%	3.6%	5.0%	10.0%	22.1%
MSCI US Value (USD)	4.8%	0.0%	2.9%	7.8%	16.3%
MSCI US Growth (USD)	-1.9%	6.9%	6.6%	11.9%	27.4%
MSCI World (USD)	1.8%	2.1%	4.5%	8.6%	18.9%
Nikkei (YEN)	-1.2%	3.0%	0.2%	2.0%	20.1%
CSI 300 (CNY)	0.6%	-2.5%	-0.5%	-2.4%	-11.8%
FTSE 100 (GBP)	2.5%	-1.1%	2.1%	3.6%	13.0%
DAX (EUR)	1.5%	-1.4%	3.2%	3.2%	12.5%
Euro 100 (EUR)	0.5%	-2.8%	3.2%	0.7%	9.9%
MSCI Emerging Markets (USD)	0.4%	4.0%	0.6%	5.0%	6.7%
Commodities					
Iron Ore (USD)	-4.2%	-9.0%	-0.9%	-13.6%	-9.0%
Crude Oil WTI U$/BBL	-4.2%	6.2%	-6.6%	-4.9%	-3.0%
Gold Bullion $/t oz	4.1%	-0.2%	1.5%	5.5%	23.0%

Source: Quilla, Refinitiv

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