

# Market Review Quarterly

Q2 2024



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# Key takeaways

- **US inflation slows**, providing some relief to inflation and interest rate concerns.
- In contrast, inflation concerns re-emerged in Australia as a headline **inflation indicator rose**.
- **Eurozone, Switzerland, Sweden, Denmark and Canada cut interest rates**, whilst the US Federal Reserve (The Fed) and Reserve Bank of Australia (RBA) kept rates unchanged, waiting for further evidence of disinflation.
- Looking ahead, **we do not expect the RBA to commence a new series of rate hikes** given the weak growth backdrop, but we expect **international economic growth to remain resilient** supported by emerging economies.
- We continue to favour **emerging markets over developed markets** due to their more appealing valuations and promising economic prospects.
- We also **favour Australian government bonds over cash** with interest rates likely to have peaked this cycle.

## Research

Monetary Policy  
Decision

[Statement by the Reserve Bank](#)



[Market Overview and Asset Performance](#)

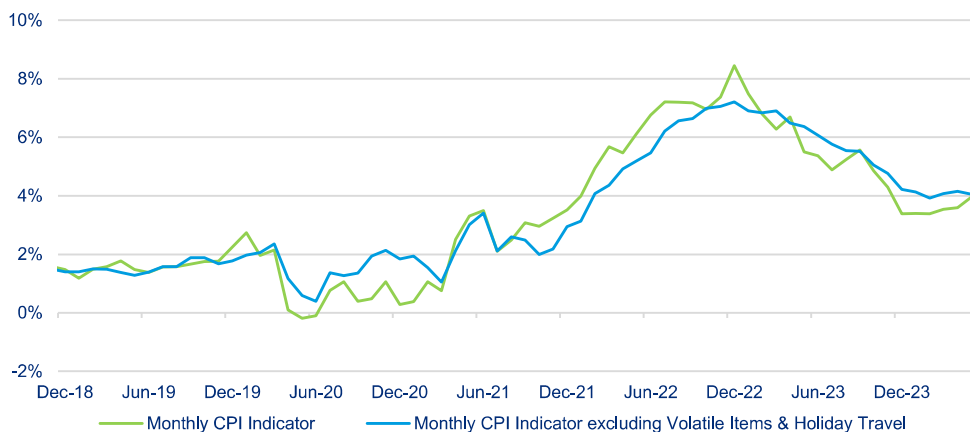


# Economic review

## Australia: Signs of inflation rising?

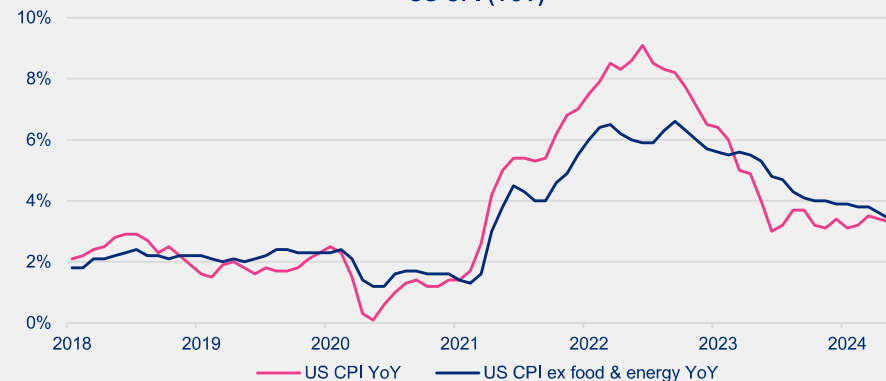
- Concerns around inflation increased with the headline Monthly CPI Indicator rising to 4.0% YoY in May, with food, alcohol & tobacco, housing and petrol among the key drivers. Core measures of inflation remained elevated but broadly unchanged.
- Retail sales growth remained weak, with some business surveys indicating softer conditions particularly across consumer-facing retail and recreational service sectors.
- The RBA kept interest rates unchanged at 4.35% p.a., however it noted that it remains "vigilant to upside risks".

Australian Monthly CPI Indicator



Source: Bloomberg, Mercer

US CPI (YoY)



Source: Bloomberg, Mercer

## International: US inflation eases

- US inflation readings declined for the quarter, easing concerns around its trajectory and the outlook for increasing interest rates.
- The Fed kept interest rates unchanged during the quarter, noting that the recent inflation readings have been "good" but that they would like to see "more good data" before cutting rates.
- In contrast, central banks in Eurozone, Switzerland, Sweden, Denmark and Canada cut interest rates by 0.25%.
- International economic growth momentum softened, namely US consumer data showing signs of slowing.
- In China, economic conditions have remained lacklustre with its property sector remaining a drag on both economic activity and consumer sentiment. In response, the Peoples' Bank of China (PBOC) announced a raft of measures including a CNY300 billion lending program to help buy already-built but unsold apartments.

# Market review

## Equity markets deliver mixed results

- **International Shares** ended the period higher, recovering from a correction earlier in the quarter as inflation concerns abated. The largest companies in the US broadly performed well, notably Nvidia.
- **Australian Shares** ended the quarter lower, failing to recover as much as International Shares in part due to it having less exposure to the technology sector.

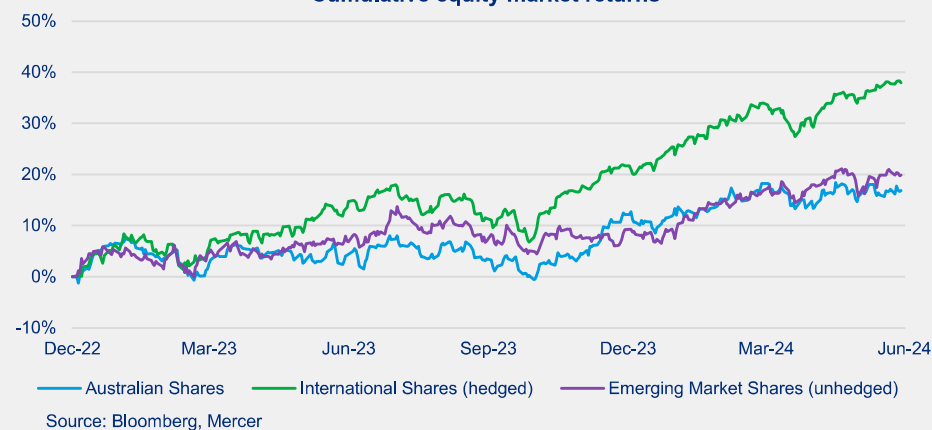
## Fixed income markets weakened

- **International government bonds** produced a negative return for the quarter, initially declining following stronger-than-expected US inflation data before partially recovering the losses as inflation readings eased.
- **Australian government bonds** also produced a negative return for the quarter, influenced by both developments in global bond markets as well as concerns among investors on the outlook for inflation locally.

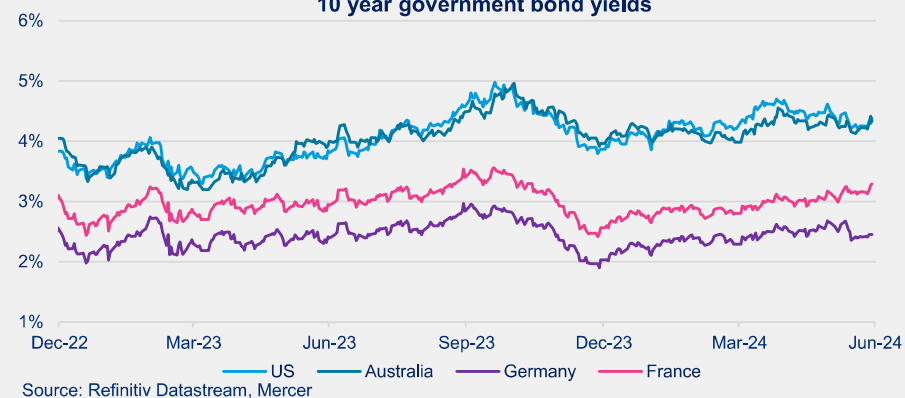
## Commodity markets were broadly stronger

- **Industrial metals** such as copper and iron ore gained, following encouraging signs in business activity and the announcement of stimulus measures in China.
- **Oil prices** ended the quarter modestly lower following some softening in US economic growth momentum.

Cumulative equity market returns



10 year government bond yields





# Market Insights

## Australia: New tightening cycle unlikely to emerge

- We expect growth to remain weak with consumption remaining suppressed from the impact of high interest rates and cost-of-living pressures.
- Core inflation is expected to decline, although more slowly than other developed economies due to pressures from residential rental markets.
- We do not believe that the RBA is about to embark on a new tightening cycle given the weak growth backdrop. It is more likely that interest rates have peaked this cycle.
- We also **favour Australian government bonds** over cash with interest rates likely to have peaked this cycle.

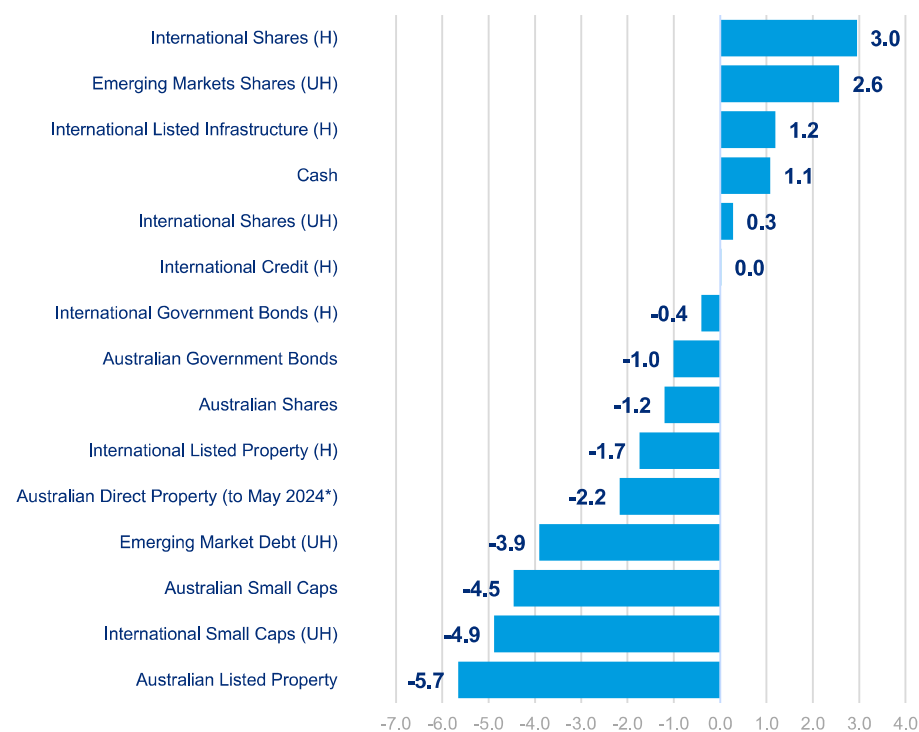


## International: Emerging markets favoured over developed markets

- We expect international economic growth to remain resilient but regionally divergent.
- We anticipate the US to slow gradually, however strong labour markets may lead to stronger than expected economic growth.
- We have a more favourable view of China and other emerging economies as we expect their growth to benefit from the supportive government and central bank policies respectively.
- We favour **emerging markets over developed markets** due to their relatively more attractive valuations and favourable economic prospects.

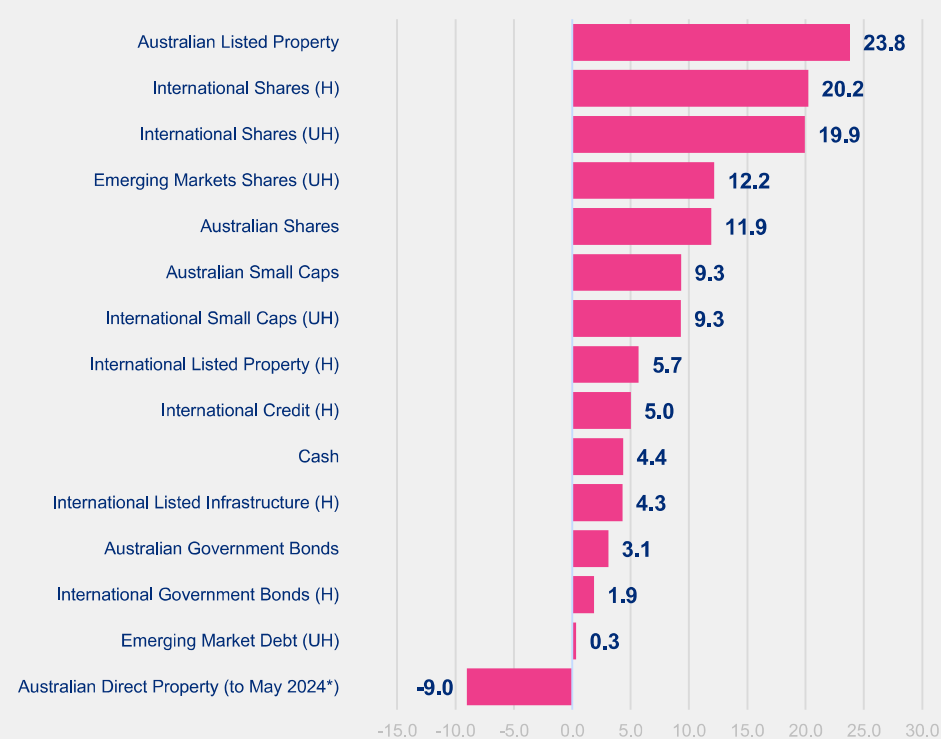
# Performance

## Market performance 3 Months to June 2024



Data source: Refinitiv Datastream; MSCI. Data provided 'as is'. Details on chart constituents can be found on back page.

## Market performance 12 Months to June 2024



Data source: Refinitiv Datastream; MSCI. Data provided 'as is'. Details on chart constituents can be found on back page.

# Asset class

## ▼ Australian Shares

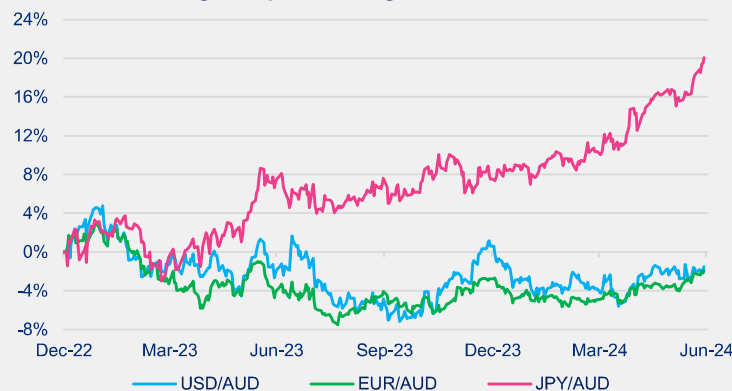
- Australian Shares ended the June quarter lower with concerns around prevailing interest rates and inflation negatively impacting the market earlier in the quarter.
- Utilities was the best performer, benefiting from the rise in risk aversion among investors, whilst Financials also performed well supported by a better-than-expected quarterly result from the Commonwealth Bank of Australia.
- Australian Small Caps underperformed the broader Australian Shares market driven by concerns that Australian interest rates may remain higher for longer.

## ▲ International Shares

- International Shares delivered positive returns, recovering from a decline earlier in the quarter as inflation concerns abated.
- Information Technology was the strongest performing sector, led by Nvidia, whilst the interest rate sensitive Real Estate sector underperformed as bond yields rose.
- Emerging Market Shares delivered positive returns with the likes of Taiwan Semiconductor Manufacturing Company benefiting from increasing optimism around its near-term revenue prospects.



Change in spot exchange rate since Dec'22



Source: Refinitiv Datastream, Mercer

## ▼ Fixed Interest

- International Government Bonds ended the quarter lower, only partially recovering losses earlier in the quarter despite US inflation receding.
- Australian Government Bonds also delivered negative returns, driven by both international developments and concerns around inflation locally.

## ▲ ▼ Real assets

- The rise in bond yields was a negative influence for most listed real assets, including International Listed Property and Australian Listed Property. International Listed Infrastructure fared better, with its Utilities exposures benefiting from the rise in risk aversion earlier in the quarter.
- Australian Direct Property produced a negative return, driven by negative revaluations primarily in the Office sector.

## ▲ Currency

- The AUD appreciated against the major currencies in the quarter as markets removed expectations for interest rate cuts by the RBA this year.
- The appreciation was the largest against the Japanese Yen with the latter weakening with market participants disappointed by the Bank of Japan's decisions to leave interest rates unchanged.



Chart Constituents

Asset class	Benchmark	Data type
Australian Shares	S&P/ASX 300	Total Return
Australian Small Caps	S&P/ASX Small Ordinaries	Total Return
International Shares (UH)	MSCI World ex Australia	Net Index
International Shares (H)	MSCI World ex Australia 100% Hedged	Net Index
International Small Caps (UH)	MSCI World Small Cap	Net Return
Emerging Markets Shares (UH)	MSCI Emerging Markets	Net Index
Australian Direct Property (one month lag)	MSCI/Mercer Australia Core Wholesale Monthly PFI	NAV Post Fee
Australian Listed Property	S&P/ASX 300 A-REIT	Total Return
International Listed Property (H)	FTSE EPRA/NAREIT Developed Hedged	Net Return
International Listed Infrastructure (H)	FTSE Global Core Infrastructure 50/50 Hedged	Net Return
International Credit (H)	Bloomberg Global Credit	Hedged Return
Emerging Market Debt (UH)	JP Morgan GBI EM Global Diversified Composite	Total Return
Australian Government Bonds	Bloomberg AusBond Treasury 0+ year	Total Return
International Government Bonds (H)	Bloomberg Global Treasury Hedged	Hedged Return
Cash	Bloomberg AusBond Bank Bill	Total Return

Notes

- *Currency: AUD.*
  - *Where a lag exists, the performance start and end dates shift accordingly.*
- *UH: Unhedged.*
  - *Total Return: Total Return Index with Gross Dividends.*
- *H: Hedged.*
  - *Net Index: Total Return (Net Dividends Reinvested).*

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