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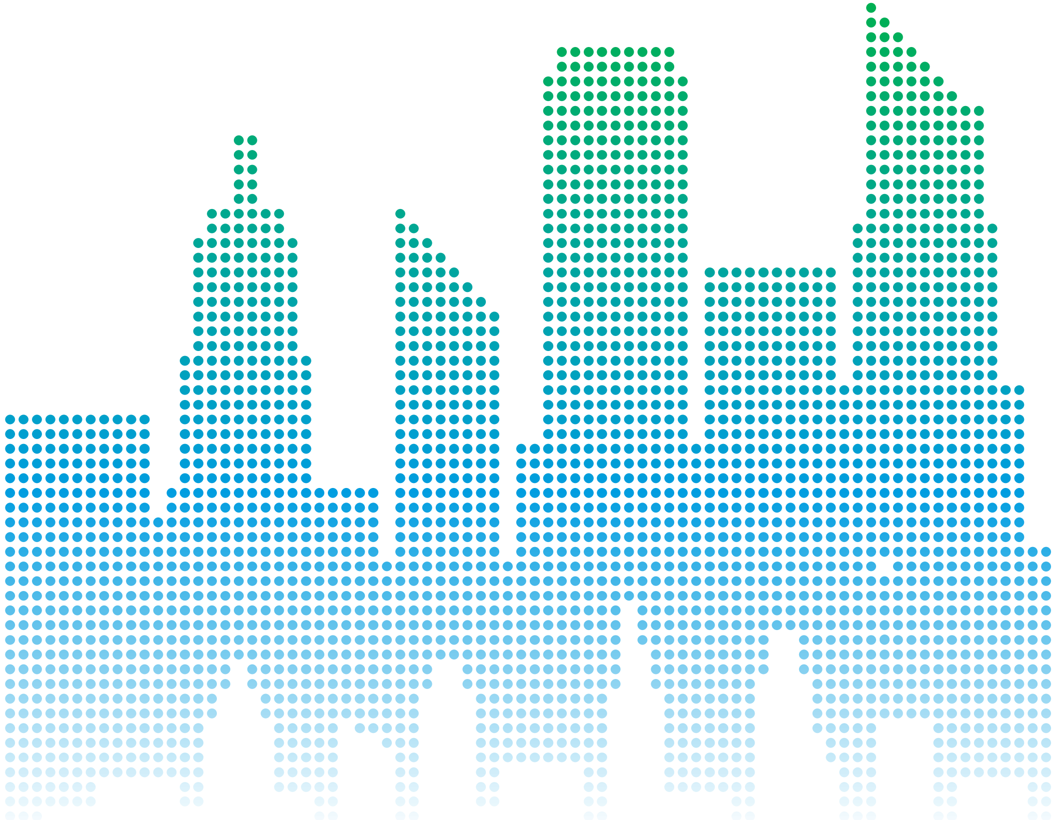
Market Review Monthly

April 2024



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Key takeaways

- **US Inflation remained elevated** in the short term, raising expectations that disinflation may be stalling, and resulting in the US Federal Reserve becoming more cautious regarding interest rate cuts this year.
- **Australian inflation was also elevated** boosted in part by government services.
- Looking ahead, we expect **US and Eurozone inflation** to ease, driven by moderation in services inflation, and **international economic** growth to remain resilient off the back of China and other emerging economies growth.
- **Domestically, we expect growth** to slow with risks tilted to the downside.
- We favour **emerging markets over developed markets** due to their more appealing valuations and promising economic prospects, and **we also favour Australian government bonds** with the belief that we have reached a peak in interest rates this cycle.

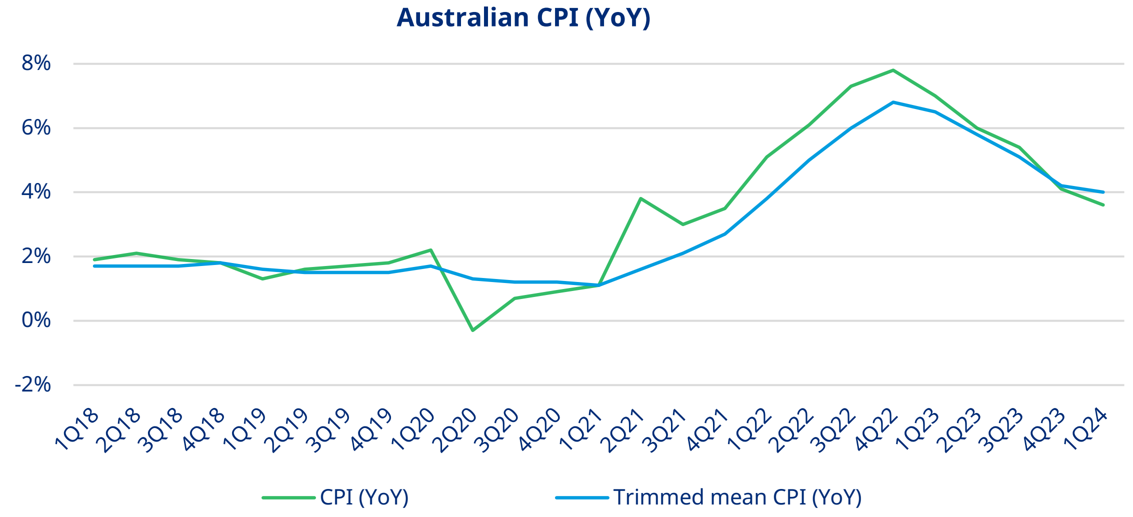
Market Overview – Q1'24

AI Integration

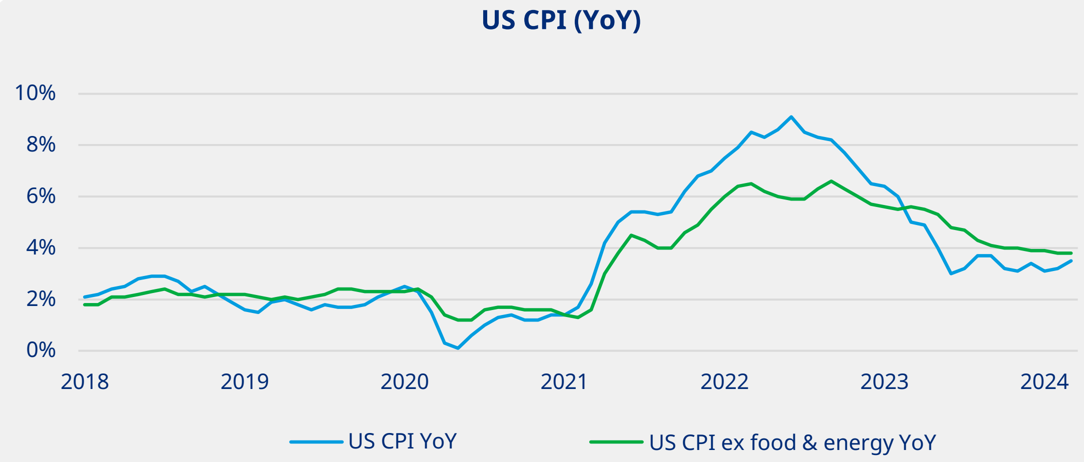
Economic review

Australia: Government services boosts inflation

- Q1'24 Consumer Price Index (**CPI**) was firm at 1.0% Quarter-on-Quarter (QoQ), whilst the Year-on-Year (YoY) pace declined to 3.6%. Service inflation remained a key driver, with this quarter seeing a boost from government administered services like health and education.
- While **growth** remained broadly resilient across most sectors, the construction and retail sectors continued to experience more difficult conditions.
- **Labour market** conditions remain strong with the unemployment rate near multi-year lows at 3.8% in March.



Source: Bloomberg, Mercer



Source: Bloomberg, Mercer

International: Signs of stalling disinflation leads to more cautious Fed

- US Consumer Price Index (**CPI**) rose to 3.5% YoY to March from 3.2% YoY in February, while the ex-food-and-energy measure was unchanged at 3.8% YoY.
- Consequently, US Federal Reserve (Fed) officials have become more cautious in terms of **interest rate** cuts, with many emphasising patience.
- **US growth** has remained resilient, partly supported by healthy personal consumption.
- **Eurozone** conditions remained more challenged, albeit with further signs that business conditions are improving, led by the services sectors.
- **China** saw some encouraging signs with business surveys broadly pointing to another month of positive growth, although the property sector continued to decline.

Market review

Equity markets retraced

- Despite recent economic data indicating either resilient or improving growth conditions, **international equities** retraced in April due to concerns around the outlook for inflation and geopolitical tensions.
- **Australian equities** also ended the month lower, influenced by global market developments, with listed Real Estate a notable underperformer.

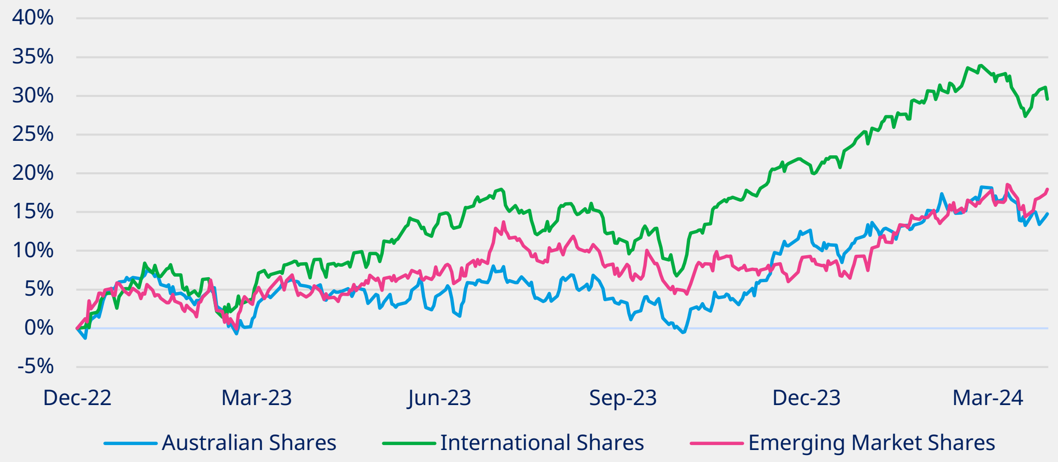
Fixed income markets weakened

- **International government bonds** yields broadly ended the month higher, following the higher US inflation reading.
- **Australian government bond** yields also rose, impacted by both global bond market development and the local inflation reading.
- Markets have pared back expectations for interest rate cuts, now expecting one cut for the US and no cuts for Australia this year.

Commodity prices were broadly higher

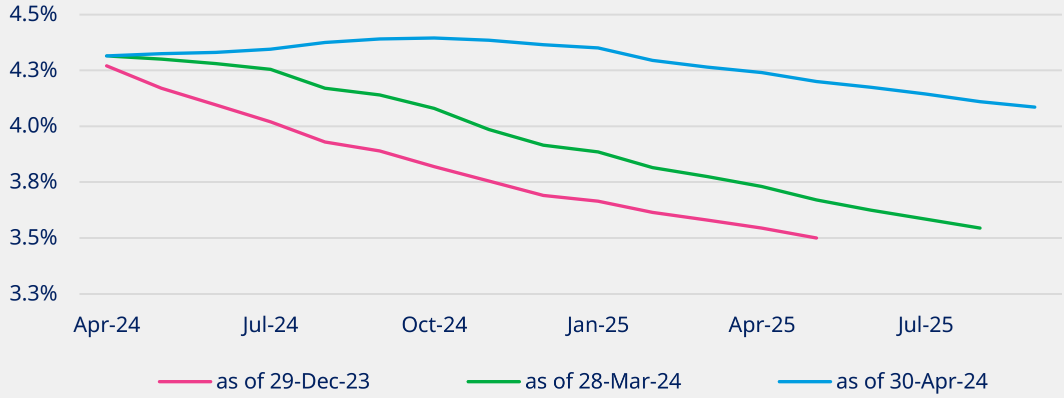
- Industrial metals such as **iron ore and copper** were boosted by some encouraging signs from businesses in China.
- **Gold and oil prices** ended the month higher, with rising geopolitical tensions contributing.

Cumulative equity market returns



Source: Bloomberg, Mercer

Australian futures market cash rate expectations



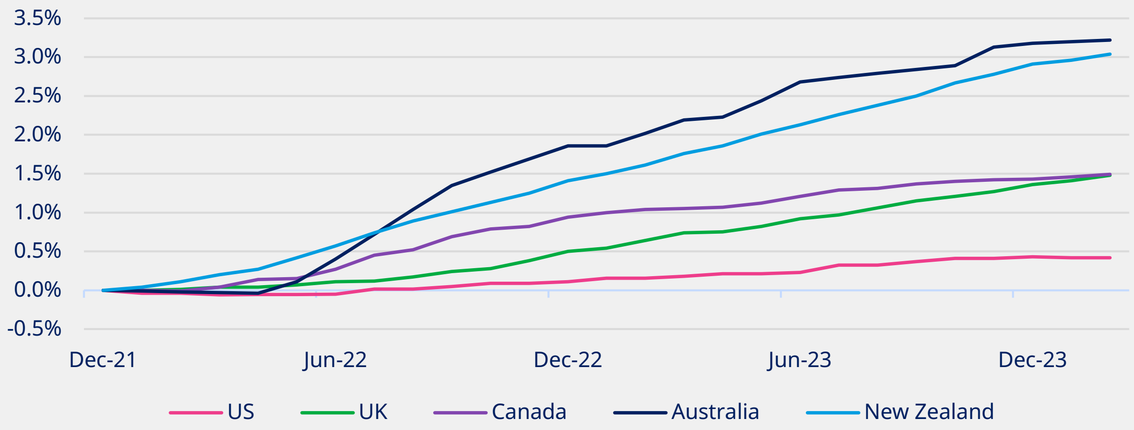
Source: Bloomberg, Mercer

Market Insights

Australia: Downside risks remain

- We expect **growth to slow** as higher interest rates have a greater impact. Mortgage rates have risen considerably in recent years, and we believe their impact is yet to fully permeate the economy.
- Despite the stronger-than-expected Q1'24 inflation reading, some of this boost was from government services which we believe is unlikely to be repeated next quarter.
- The risk of a more pronounced slowdown in activity is more likely than anticipated by markets and we anticipate interest rate cuts are still possible this year.
- Consequently, we have a favourable view on **Australian Sovereign bonds over cash** with signs growing that we have reached a peak in cash rates and with risks tilted for more rate cuts than anticipated by markets.

Change in effecive mortgage rate since December 2021



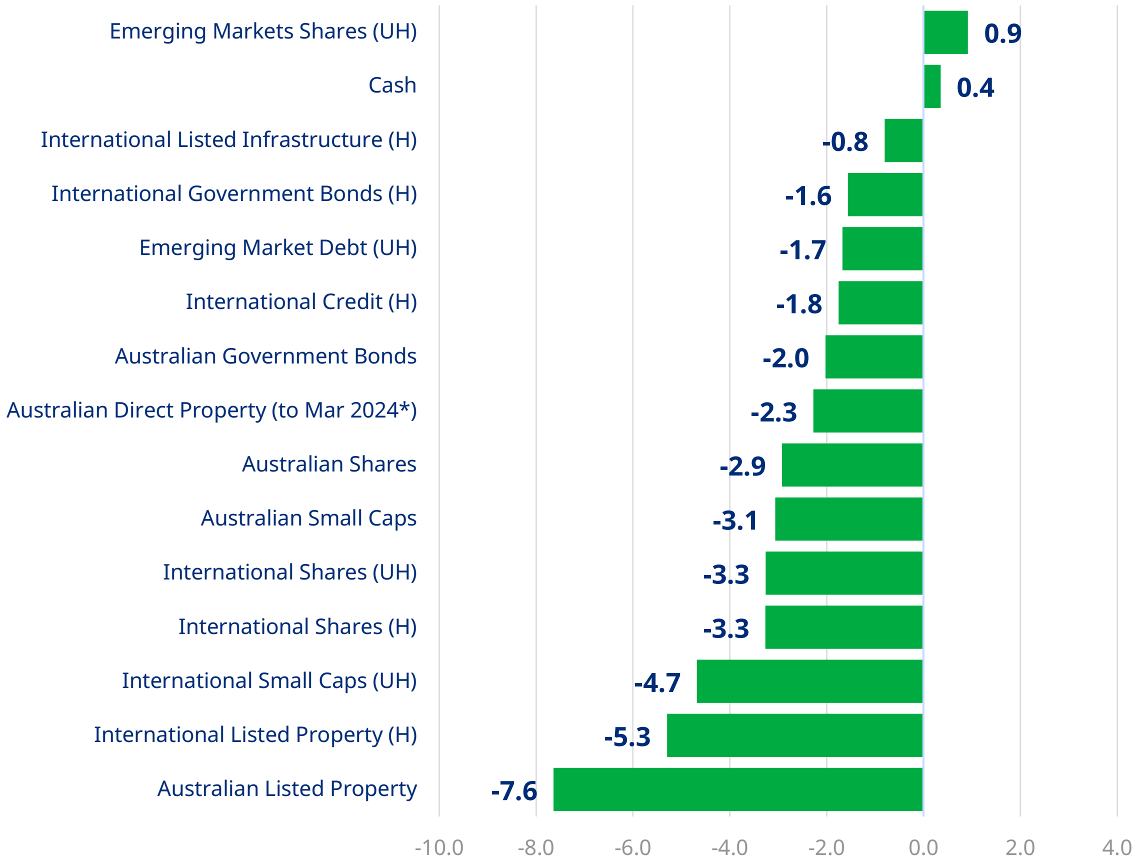
Source: Bloomberg, BEA, BOE, BOC, RBA, RBNZ, Mercer. An effective mortgage rate is the weighted average interest rate charged on outstanding mortgage balances.

International: Emerging markets favoured over developed markets

- We expect **international growth to remain resilient** but regionally divergent.
- For the US, we expect growth to slow yet remain resilient, with upside risks emanating from factors such as still strong labour markets.
- We expect US inflation to ease as contributions from residential inflation recedes and the labour market rebalances.
- We anticipate **growth in China to strengthen** driven by supportive policies to date, whilst other emerging economies are expected to benefit from their central banks easing monetary policies.
- We **favour emerging markets** over developed markets in light of their more promising economic prospects and more attractive valuations.

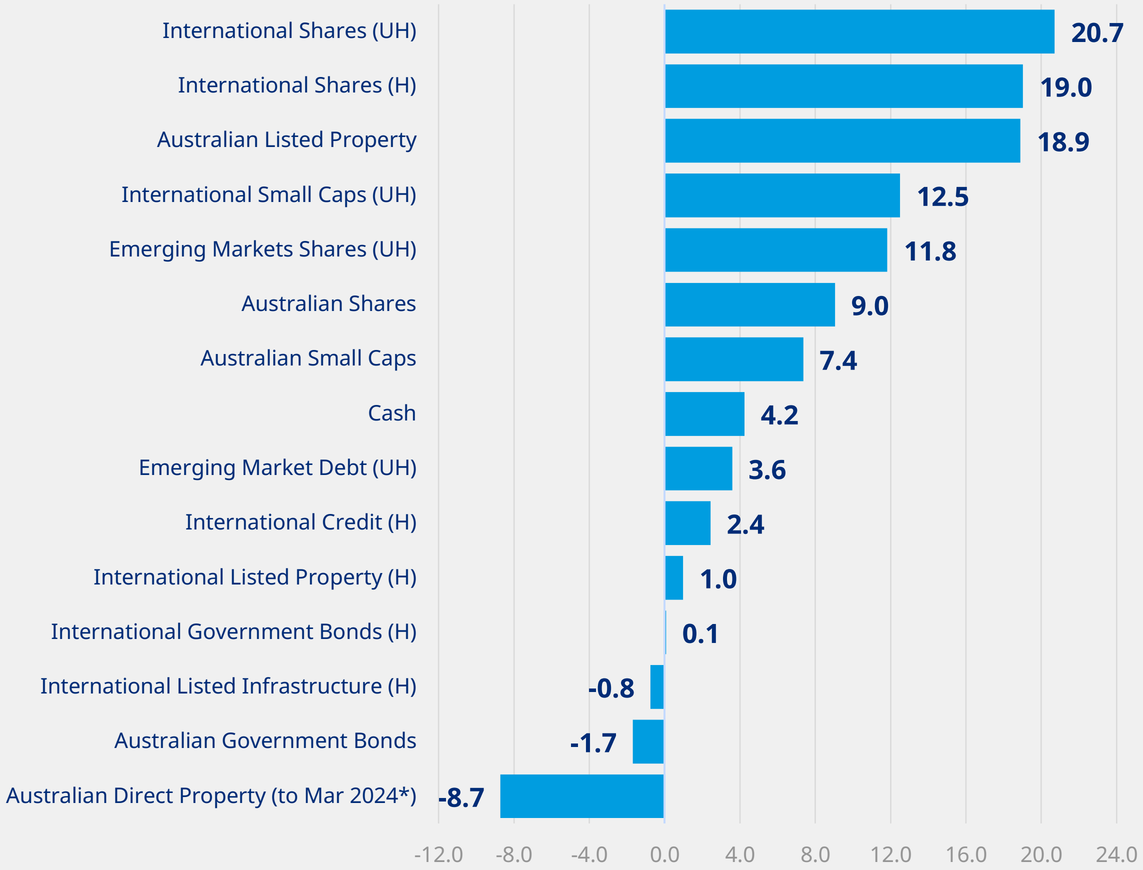
Performance

Market performance April 2024



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

Market performance 12 Months to April 2024



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

Asset class

▼ Australian equity

- Australian Shares were weaker in April, giving up some of the gains made earlier this year, as risk aversion rose following the recent inflation readings.
- Real Estate was the worst performing sector given its interest-rate sensitivity, whilst Utilities was the best performer benefiting from both the rise in risk aversion among investors as well as inflation outlook concerns.

▼ International equity

- International Shares were down, with concerns around the prospects of interest rate cuts and rising geopolitical tensions, ultimately outweighing the encouraging growth backdrop.
- Due to inflation concerns, US markets performed poorly, with Real Estate and Information Technology being the worst performers. Valuations within Technology were negatively impacted by rising bond yields.
- Emerging markets outperformed developed markets over April, supported by Chinese equity markets following encouraging signs from businesses, notably in service-related industries.

▼ Fixed interest

- International government bonds produced a negative return following the recent inflation readings and the more cautious Fed rhetoric.
- Australian government bonds also weakened, influenced by a combination of both developments in global bond markets as well as the firm local CPI reading.

▼ Real assets

- International Listed Property and Australian Listed Property were both negatively impacted by the reduction in interest rate cut expectations and rise in bond yields. International Listed Infrastructure fared better, partly buffered by the stronger performance from utilities exposures.
- Australian Direct Property was down 2.3% in March, driven by negative revaluations primarily in the Office sector.

▼ ▲ Currency

- The Australian dollar (AUD) was mixed against major developed market currencies. The AUD depreciated against the US dollar, with markets paring back interest rate cut expectations more aggressively for the latter.
- Meanwhile, the AUD appreciated against other major currencies such as the Euro and British Pound. The appreciation was strongest against the Japanese Yen, with the Yen weakening following the BoJ's decision to leave its policies unchanged.

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

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Important notices