Mercer

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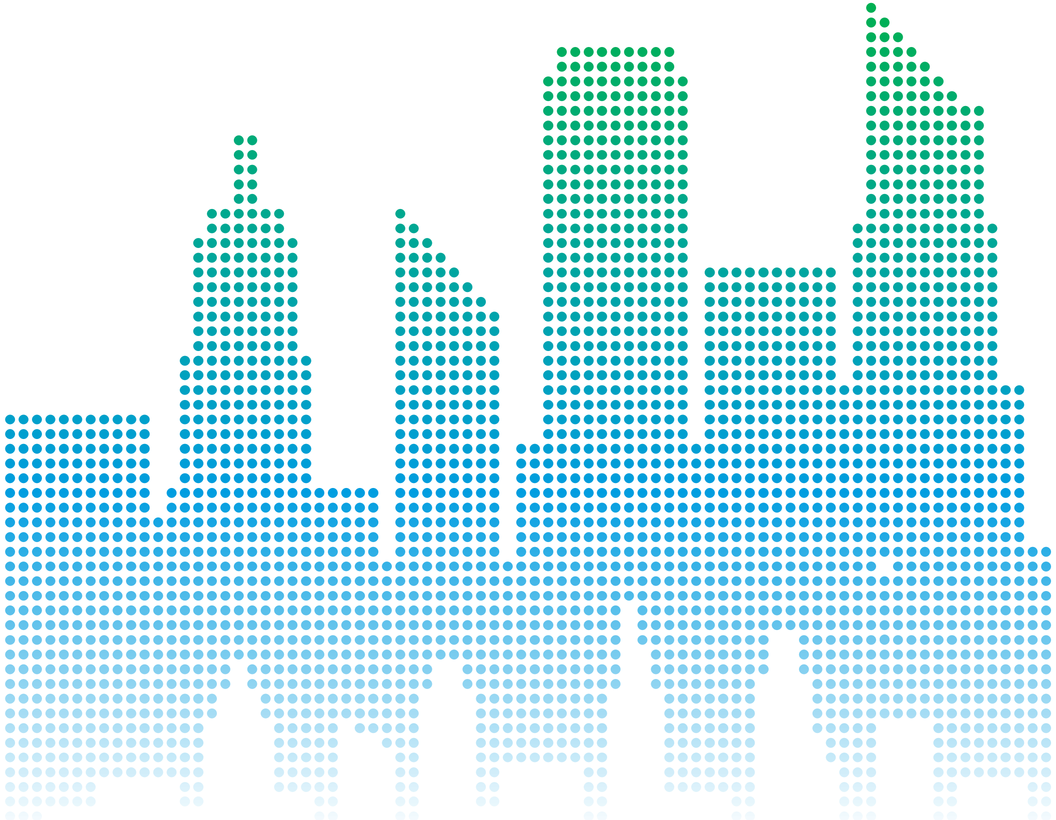
Market Review Monthly

August 2024



A business of Marsh McLennan

Key takeaways

- Volatility returned to international markets driven by fears of a US recession.
- US Federal Reserve (Fed) signals that interest rate cuts are imminent, with the United Kingdom, Sweden and New Zealand already cutting interest rates.
- Reserve Bank of Australia (RBA) kept interest rates unchanged at 4.35% p.a., noting that it is premature to be considering interest rate cuts.
- Looking ahead, we expect US economic growth to slow but not enter a recession as consumer and corporate balance sheets remain strong. Emerging economies are expected to be aided by supportive economic policy measures.
- We continue to favour **emerging markets over developed markets** due to their more appealing valuations and promising economic prospects.
- We expect growth to remain weak and **favour Australian government bonds**, as cash rates have likely peaked this cycle.

Research

[We are what we eat Opportunities in the food transition]

[Real Estate Credit: Are Recent Headlines a Cause for Concern?]

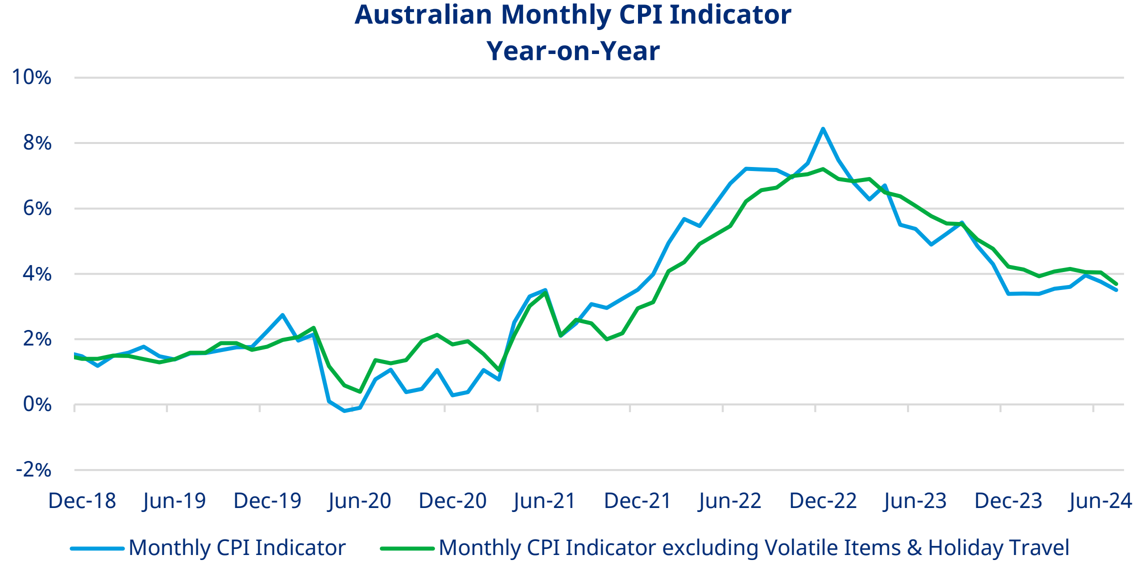
[Quarterly insurance investment newsletter - Q2 2024]

*Portfolio implementation of house views may differ per fund.

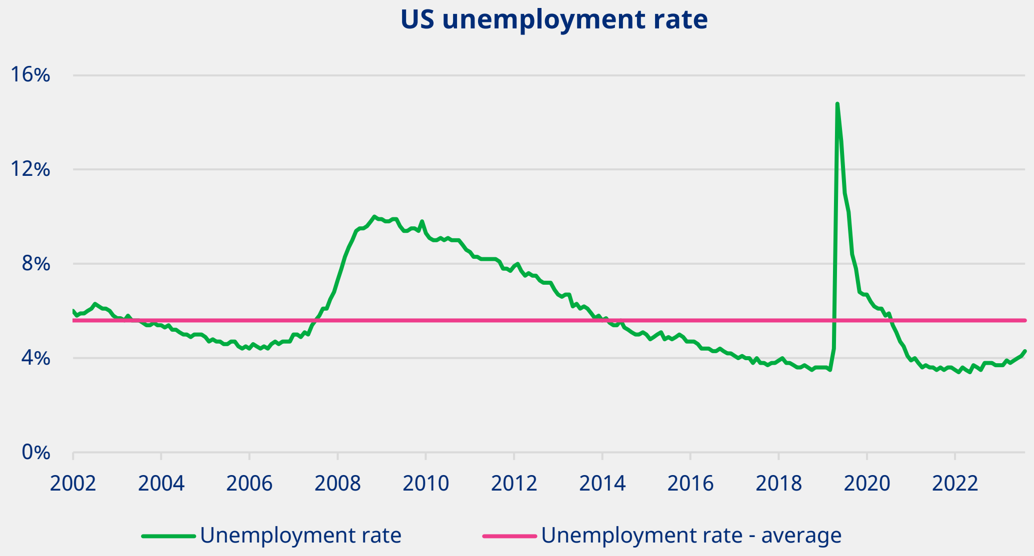
Economic review

Australia: RBA remains vigilant to upside risks to inflation

- Reserve Bank of Australia (RBA) kept interest rates unchanged at 4.35% p.a., cautioning against expecting cuts in the coming months and noting it had considered raising rates.
- While the July Consumer Price Index (CPI) declined from 3.8% to 3.5% Year-on-Year (YoY) in July, mainly driven by the government's energy rebate, this is unlikely to ease the RBA's concerns as core inflation indicators remained high.
- The labour market remains strong, with an estimated 60,500 new full-time jobs added in the July. However, the unemployment rate rose from 4.1% to 4.2% in July as more individuals entered the labour force.



Source: Bloomberg, Mercer



Source: Bloomberg, Mercer

International: Fears of a US recession arises reemerges

- The US unemployment rate surprised the market rising from 4.1% to 4.3% in July, increasing concerns of a US recession. Most other US data remained strong including Q2'24 GDP driven by strong household consumption.
- The Fed signaled upcoming interest rate cuts, citing a cooling labour market was a bigger concern than inflation risk.
- Easing inflation concerns led central banks in the United Kingdom, Sweden and New Zealand to cut interest rates by 0.25% in August.
- Japan's preliminary Q2'24 GDP was strong, supported by a recovery in household consumption, while conditions in China remained weak, with the property sector lagging.

Market review

Equity markets deliver mixed results in a volatile month

- International equity markets delivered a positive return in August. An early month decline was followed by a recovery as subsequent economic data eased recession concerns.
- The Real Estate sector performed well, supported by a decline in bond yields and rising expectations for US interest rate cuts, while the Energy sector performed poorly due to a decline in oil prices.

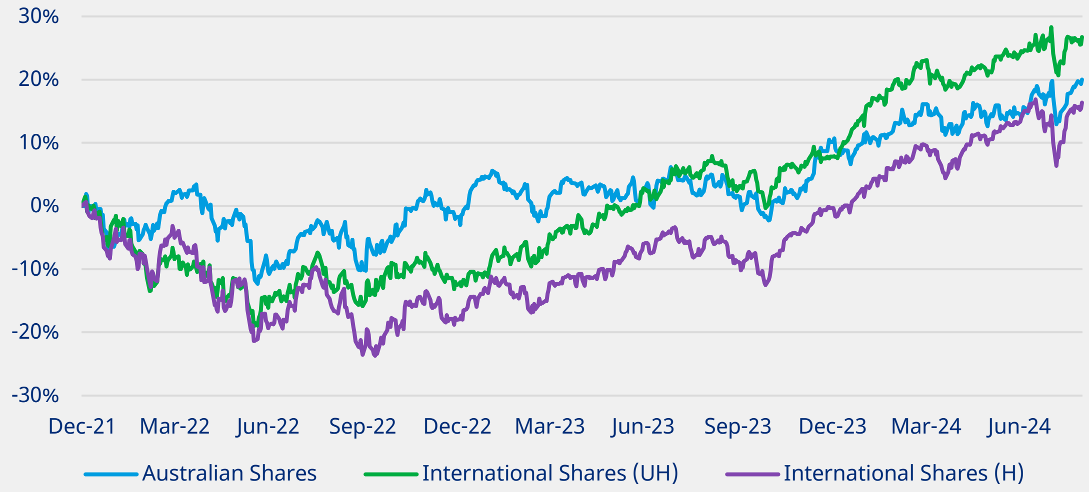
Fixed income markets rally on US recession concerns

- International government bond markets rallied in August supported by US recession concerns and comments from Fed Chair Powell signaling upcoming interest rate cuts.
- Australian government bond markets also posted positive returns, despite the RBA cautioning against expecting interest rate cuts in the near term, was instead driven by international economic and market developments.

Commodity markets experience mixed performance

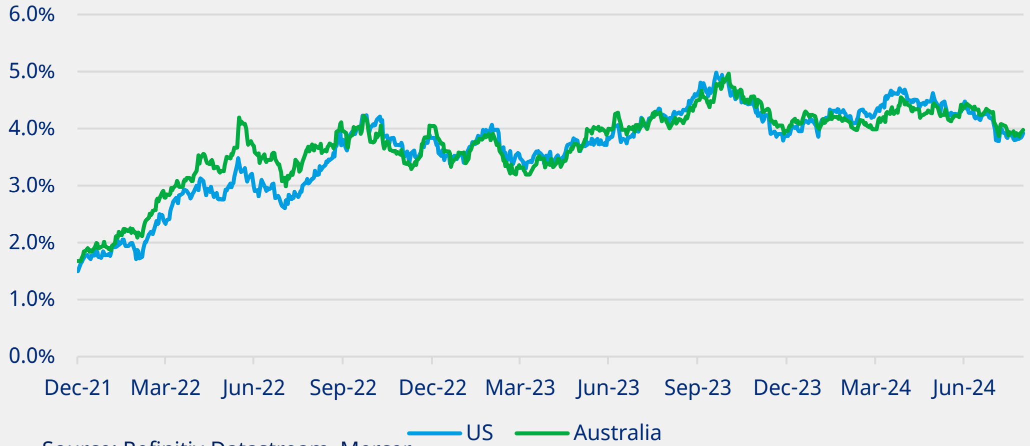
- Commodity markets delivered mixed returns over August.
- Gold prices ended the month higher, supported by a combination of rising geopolitical concerns and expectations for interest rate cuts globally.
- In contrasts, oil prices were weaker as supply concerns from rising tensions in the Middle East were outweighed by concerns of slowing demand from China and potential OPEC+ supply increases in October.

Cumulative asset class returns



Source: Refinitiv Datastream; MSCI. Data provided 'as is'. Details on chart constituents can be

Australian and US 10 year government bond yields



Source: Refinitiv Datastream, Mercer

Market Insights

Australia: RBA unlikely to commence a series of interest rate hikes

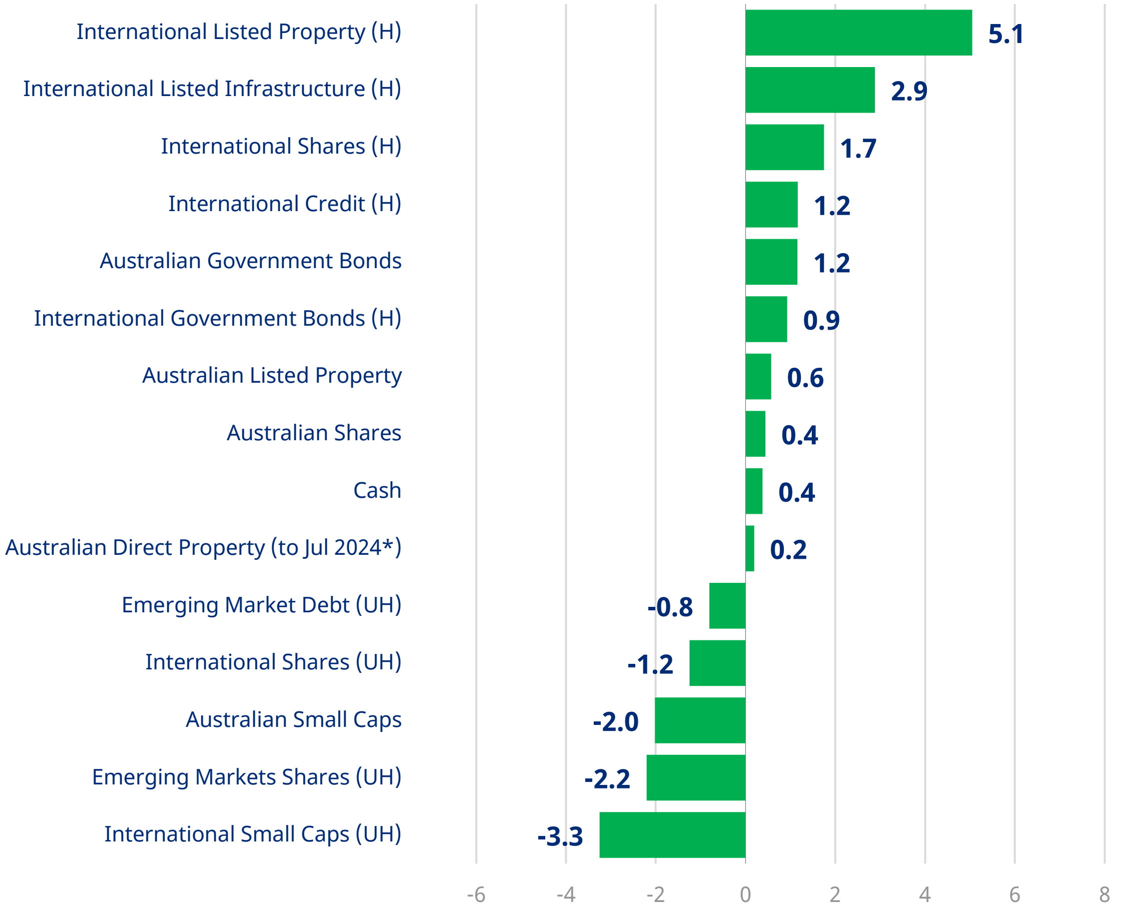
- We expect growth to remain weak with consumption suppressed by high interest rates and cost-of-living pressures.
- We expect core inflation to decline at a slower pace compared to other developed economies due to pressures in residential rental markets.
- Whilst risk remains, we do not believe that the RBA will hike rates given the weak growth backdrop. Rather we believe that it is more likely that interest rates have peaked this cycle.
- We favour Australian government bonds over cash with interest rates likely to have peaked this cycle.

International: Resilient but regionally divergent

- We expect international economic growth to remain resilient but regionally divergent.
- Despite rising US recession concerns, we believe fundamentals have remained broadly unchanged and expect positive but slow growth for the US, supported by healthy corporate and consumer balance sheets.
- We expect China's growth to improve from its current slow pace, supported by government policies, while growth in other emerging economies is expected to remain strong as monetary policy eases.
- We continue to favour emerging markets over developed markets due to their better economic prospects and more attractive valuations.

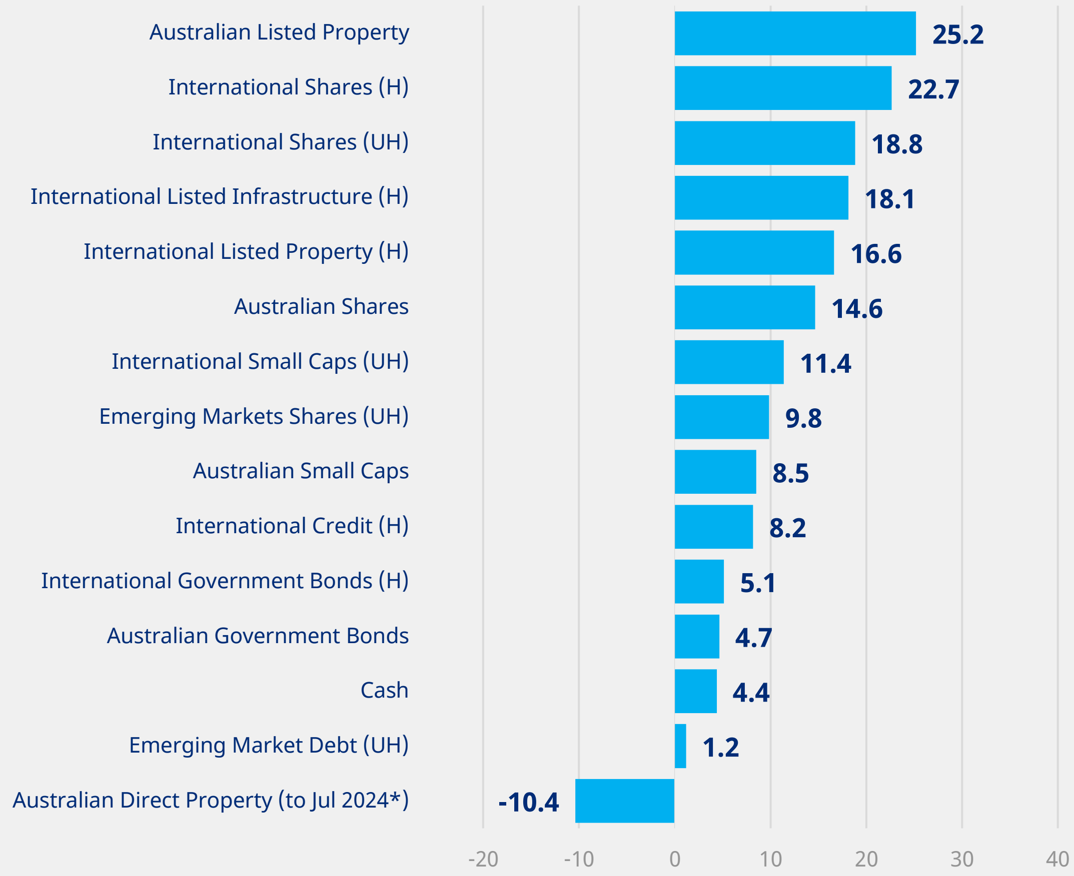
Performance

Market performance August 2024



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

Market performance 12 Months to August 2024



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

Asset class

▲ Australian shares

- Australian Shares finished August higher, despite volatility resulting from US recession fears impacting investor sentiment.
- The Industrials sector performed well, supported by companies like Brambles, which delivered healthy earnings. In contrast, the Energy sector performed poorly, especially Santos whose results were impacted by weather-related production disruptions and slightly higher than expected costs.

▲ International shares

- International Shares delivered positive returns for the month in AUD hedged terms, recovering from an earlier decline as US recession concerns reemerged then eased.
- The Real Estate sector performed well, due to rising expectations for US interest rate cuts , while the Energy sector performed poorly following the decline in oil prices.
- Among the regions, Japan underperformed in local currency terms due to the appreciation of the Japanese Yen, whilst US and European markets performed better, delivering positive returns.

▲ Fixed interest

- International Government Bonds delivered positive returns in response to weaker US employment data and guidance of an imminent rate cut by the Fed.
- Australian Government Bonds were supported, by the international economic and market environment despite the RBA warning that inflation remains too high in Australia.

▲ Real Assets

- The decline in government bond yields and rising expectations for US interest rate cuts supported International Listed Property and International Listed Infrastructure results in August.
- Australia Listed Property lagged, driven by Goodman Group retracing, despite reporting strong profit growth due to demand for its warehouses and data centers.
- Australian Direct Property delivered a small positive return for June, driven by income returns.

▲ Currency

- The AUD appreciated against major currencies with the RBA signaling caution against expectations for near term interest rate cuts.
- The appreciation was the most significant against the US dollar as expectations for near term interest rate cuts increased after comments by the Fed Chair about the need for adjustments.

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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.*
- *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).*

Important notices