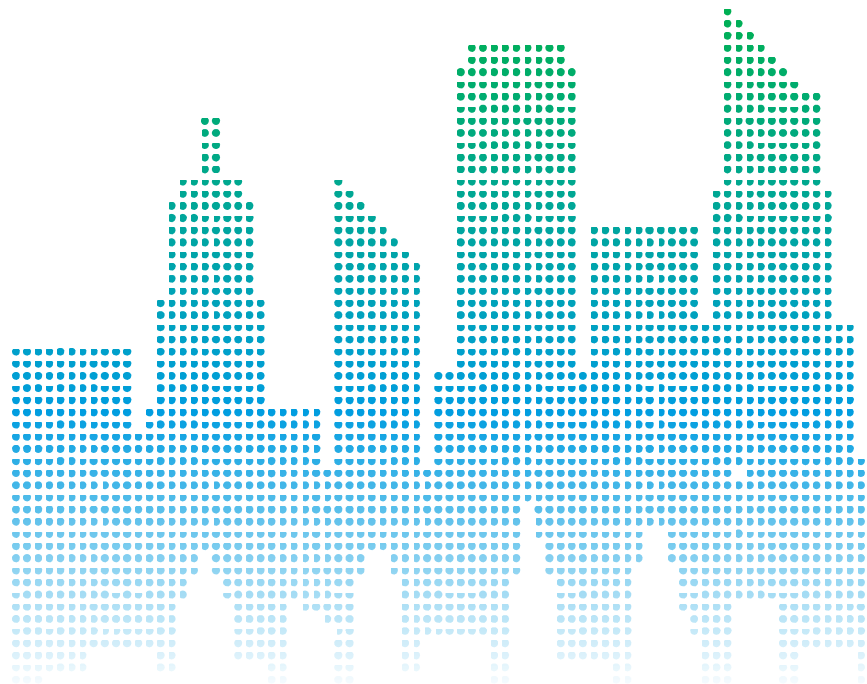


# Market Review Monthly

July 2024

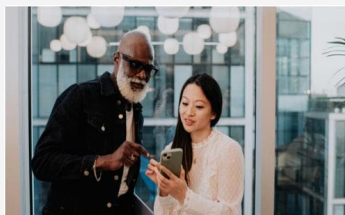
A business of Marsh McLennan



# Key takeaways

- **US Federal Reserve (Fed)** signals **scope for interest rate cuts** as inflation continues to decline and markets show signs of weakening.
- Bank of **Japan (BOJ)** **raises interest rates** from 0-0.1% p.a. to 0.25% p.a. with hints that more rate hikes are likely.
- **Inflation concerns abate** in **Australia** with the latest quarterly core readings remaining high but not accelerating.
- Looking ahead, we expect **international economic growth** to remain resilient but regionally divergent with emerging economies likely to benefit from the supportive policy backdrop.
- Combined with their more appealing valuations, we continue to favour **emerging markets over developed markets** from an asset class perspective.
- We do not expect the RBA to commence a new tightening cycle given the weak growth backdrop and consequently favour **Australian government bonds over cash**.

## Research



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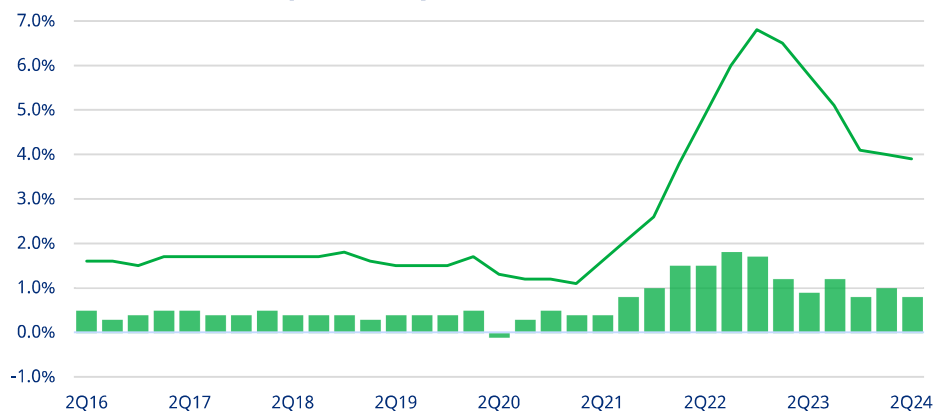


# Economic review

## Australia: Inflation concerns moderate

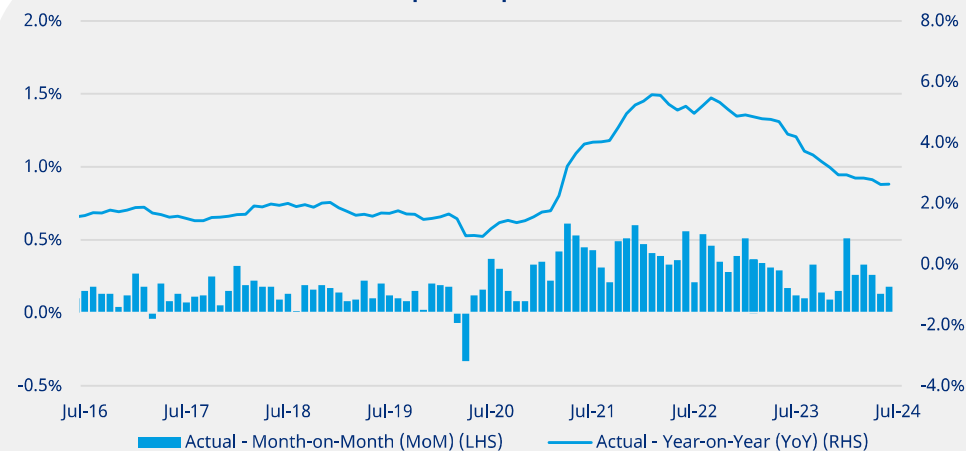
- The Consumer Price Index (CPI) rose by 1.0% Quarter-on-Quarter (QoQ) in Q2'24, bringing the Year-on-Year rate to 3.8%, with food, housing and healthcare among the key drivers for the rise.
- However, the trimmed mean CPI (often considered the Reserve Bank of Australia (RBA)'s preferred measure of inflation) rose by 0.8% QoQ in Q2'24, declining from the 1.0% QoQ in Q1'24, indicating that underlying inflation may not be accelerating in Australia.
- While retail sales for June were boosted by end of financial year sales, notably around items such as furniture, electronics and clothing, recent business surveys indicate that companies are experiencing slowing conditions.

**Australian Consumer Price Index (CPI) - Trimmed Mean**  
Quarter-on-Quarter vs Year-on-Year



Source: Bloomberg, Mercer

**US Personal Consumption Expenditure Core Price Index**



Source: Bloomberg, Mercer

## International: US interest rate cuts on the horizon

- The Fed kept interest rates unchanged at its July meeting, stating that a rate cut could be an option in September if inflation moves down as expected.
- Inflation in the US continues to decline while the labour market remains strong albeit showing signs of weakening.
- The BOJ raised interest rates from 0.1% p.a. to 0.25% p.a. in July. Its governor stated that they will continue to hike if the economy evolves with inflation expectations.
- The recovery in the Eurozone appears to be stalling with the latest business surveys indicating slowing activity, especially among manufacturers.
- Q2'24 GDP in China was lacklustre at 4.7% YoY, declining from 5.3%. Its property sector has remained weak with consumption slowing. In response, the Peoples' Bank of China (PBOC) cut the 7-day reverse repurchase rate by 0.1% p.a.

# Market review

## Equity markets broadly higher

- International equity markets delivered a positive return in July supported by rising optimism for interest rates cuts in the US.
- International Small Caps performed strongly with signs of investors rotating out of International large caps.
- Among the sectors, Information Technology lagged, driven by the rotation noted above and disappointing earnings results. Real Estate performed well on expectations of an interest rate cut.

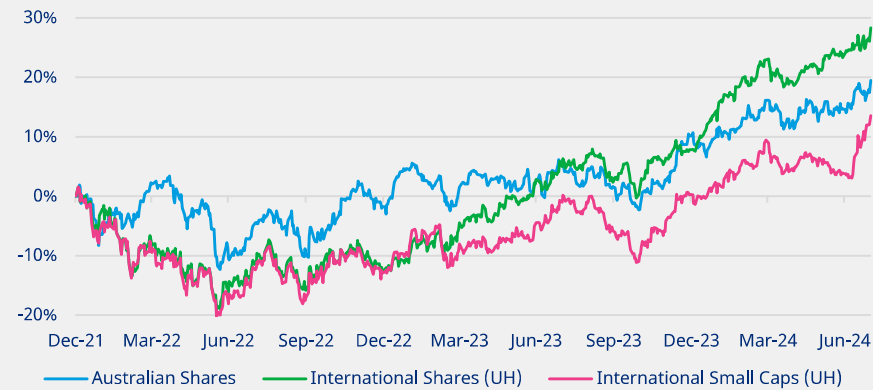
## Fixed income markets rally

- International government bonds ended the month higher driven by rising prospects for interest rate cuts by the Fed.
- Australian government bonds also rose driven by both the weaker-than-expected Australian CPI release and international developments.

## Commodity markets weaker

- Commodity markets were broadly weaker in July. Oil prices declined with disappointing economic data and policy announcements from China outweighing concerns of supply disruptions as tensions rose in the Middle East.
- One key exception was gold which ended the month higher, benefiting from rising optimism for more interest rate cuts as well as the rise in geopolitical tensions.

Cumulative asset class returns



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

Australian and US 10 year government bond yields



Source: Refinitiv Datastream, Mercer

# Market Insights

## Australia: New tightening cycle unlikely

- We expect growth to remain weak with consumption suppressed by high interest rates and cost-of-living pressures.
- Whilst core inflation appears to be declining, we expect this decline to occur slower than other developed economies due to pressures from residential rental markets.
- A key question that remains is how the RBA will balance the progress on inflation with weak economic growth. In this regard, we do not believe that the RBA is about to commence a series of rate hikes but rather that it is more likely that interest rates have peaked this cycle.
- We consequently **favour Australian government bonds over cash** with cash rates likely to have peaked this cycle.

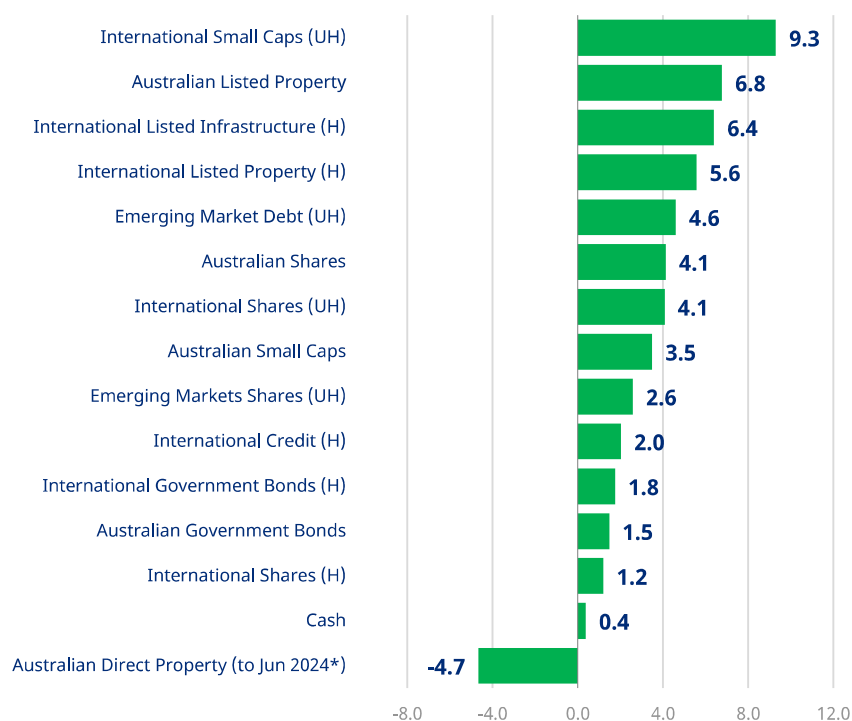


## International: Resilient but regionally divergent growth expected

- We expect international economic growth to remain resilient but regionally divergent.
- We anticipate growth in US to slow gradually, with scope for more resilient growth should labour markets remain strong.
- Growth in China is expected to improve from its current lacklustre pace, supported by government policies, whilst other emerging economies are expected to benefit from their central banks easing monetary policy.
- We **favour emerging markets over developed markets** in light of their more favourable economic prospect and relatively more attractive valuations.

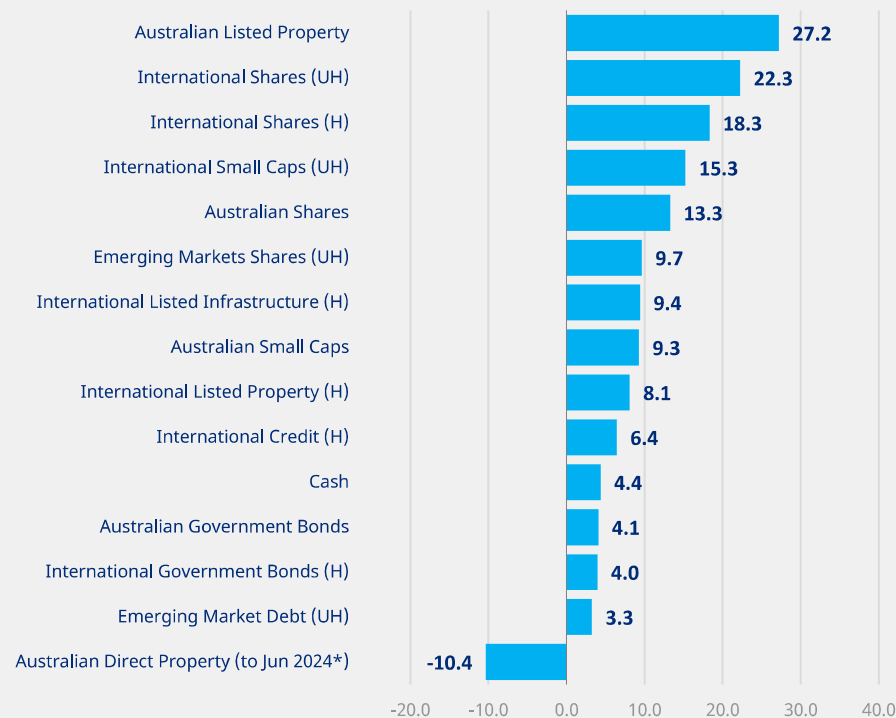
# Performance

## Market performance July 2024



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

## Market performance 12 Months to July 2024



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



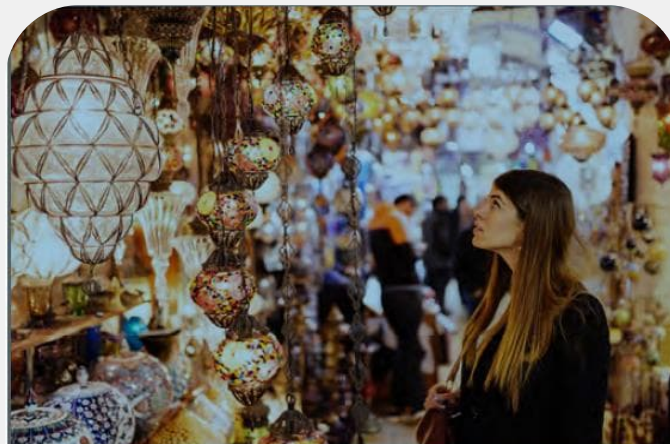
# Asset class

## ▲ Australian shares

- Australian Shares rose in July, supported by rising investor optimism internationally and easing concerns around inflation locally.
- Consumer Discretionary was the best performing sector, fueled by optimism that retailers may benefit should interest rates also be cut in Australia.
- Utilities was the worst performing sector, driven by expectations that electricity prices may have peaked this cycle combined with concerns over the outlook for profit margins.

## ▲ International shares

- International Shares ended July higher, supported by easing US inflation concerns and expectations for near term interest rate cuts.
- Rotation from large caps into small caps was a key theme during the month, with expectations rising that the latter would outperform in a lower interest rate and a slower but still growing economic environment. This contributed to underperformance of the Information Technology sector for the month.
- Emerging Market Shares performed well, with countries such as India continuing to benefit from its strong economic performance.



## ▲ Fixed interest

- International Government Bonds delivered positive returns in July as bond yields declined on increasing investor optimism for interest rate cuts among developed economies.
- Australian Government Bonds delivered positive returns, benefiting from the international market environment and the weaker-than-expected Australian CPI reading.
- Emerging Market Debt delivered positive returns in July, reversing the experience of recent months, driven by a combination of bond returns and the depreciation of the Australian dollar.

## ▲ ▼ Real Assets

- Growing expectations for interest rate cuts and declining bond yields bolstered listed real assets with Australia Listed Property, International Listed Property and International Listed Infrastructure all recording strong returns for July.
- Australian Direct Property was down in June driven by negative capital returns with valuations adjusted downwards, notably in the Office sector.

## ▼ Currency

- The AUD was weaker against the major currencies driven by disappointing economic data from China and weaker-than-expected local inflation data.
- The weakness was the largest against the Japanese Yen with the latter appreciating following the BOJ's decision to increase interest rates.



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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