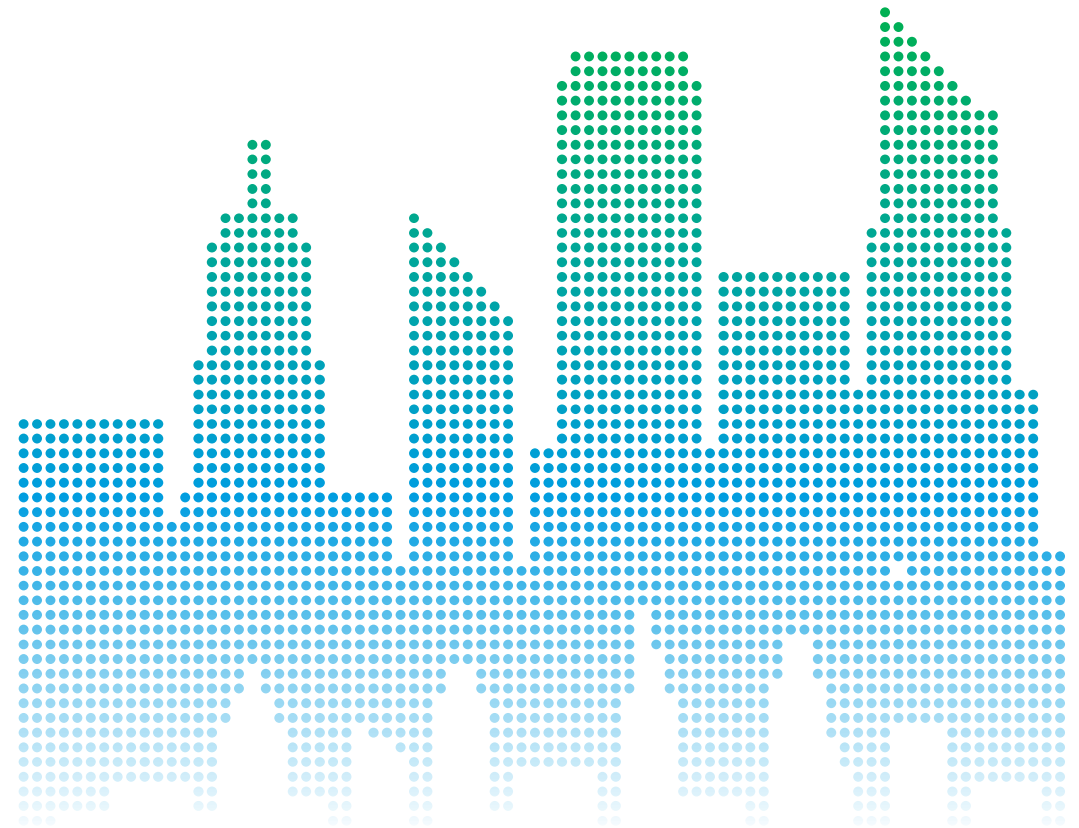


Market Review Monthly

June 2024



Key takeaways

- **US inflation eases further** whilst the US Federal Reserve (Fed) kept interest rates unchanged citing the need for more evidence of disinflation to cut rates.
- **Eurozone, Canada and Switzerland cut interest rates** by 0.25% in June.
- Inflation concerns re-emerged in **Australia** as headline **inflation rose**, whilst the Reserve Bank of Australia (RBA) kept **interest rates unchanged**.
- Looking ahead, **we do not expect the RBA to commence a new series of rate hikes** given the weak growth local backdrop, whilst 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](#)

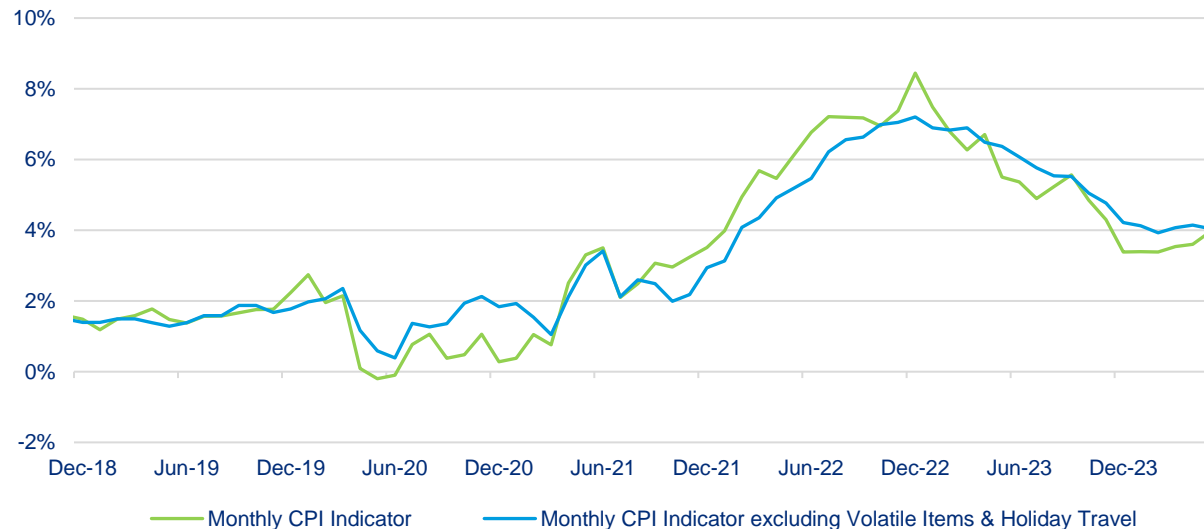


Economic review

Australia: Signs of CPI rising?

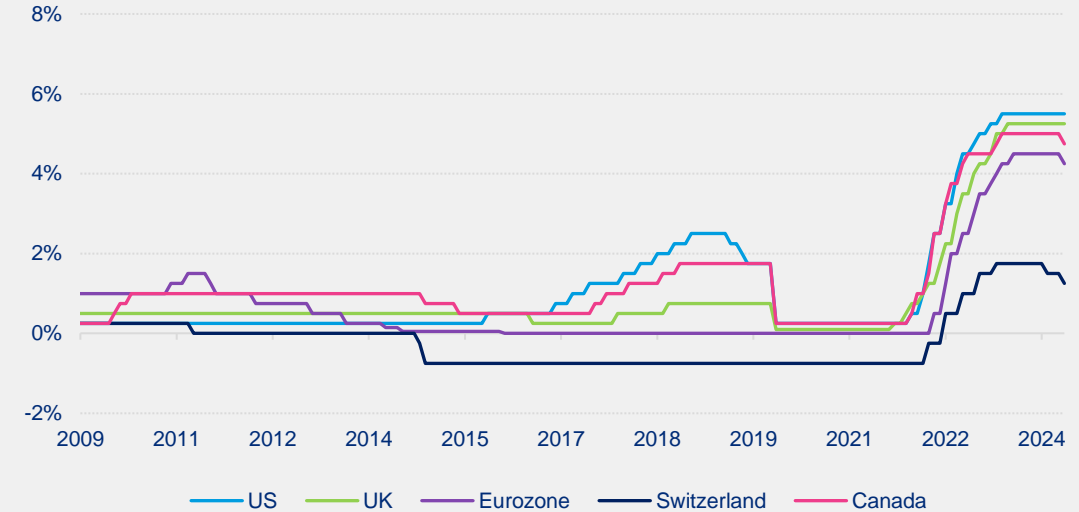
- The Monthly Consumer Price Index (CPI) Indicator rose to 4.0% Year-on-Year (YoY) in May from 3.6% in April, with food, alcohol & tobacco, housing and petrol among the key drivers. Core measures of inflation remained elevated but broadly unchanged.
- Q1'24 GDP growth was weak, whilst some business surveys noted ongoing challenges for consumer-facing retail and recreational service sectors.
- The RBA kept interest rates unchanged at 4.35% p.a., reiterating a need to remain "vigilant to upside risks" but also "not ruling anything in or out".

Australian Monthly CPI Indicator



Source: Bloomberg, Mercer

Central Bank Policy Rates



Source: Bloomberg, Mercer

International: More central banks cut interest rates

- US inflation has declined further, with consumption growth showing further signs of slowing, notably in housing-related categories such as furniture and decor.
- The Fed kept interest rates unchanged in June, citing the need for further evidence of disinflation to cut interest rates. Most Fed members now expect one cut this year, compared to three forecasted in March.
- We are seeing a comfort to cut interest rates amongst other developed markets, with the European Central Bank (ECB) and Bank of Canada (BoC) cutting interest rates by 0.25%, for the first time since 2016 and 2020 respectively, and with the Swiss National Bank (SNB) cutting rates by 0.25% for the second time this year.
- The property sector in China continues to weaken resulting in further impacts to growth and consumer sentiment, leading to benchmark lending rates remaining unchanged over June.

Market review

Equity markets extend gains

- **International shares** rallied further in June with data released showing US inflation easing further. Information Technology once again was the strongest performing sector, led by companies such as Nvidia.
- **Australian shares** also rose with investor risk appetite improving. Financials were a key contributor, rising despite ongoing headlines citing concerns around their valuations.

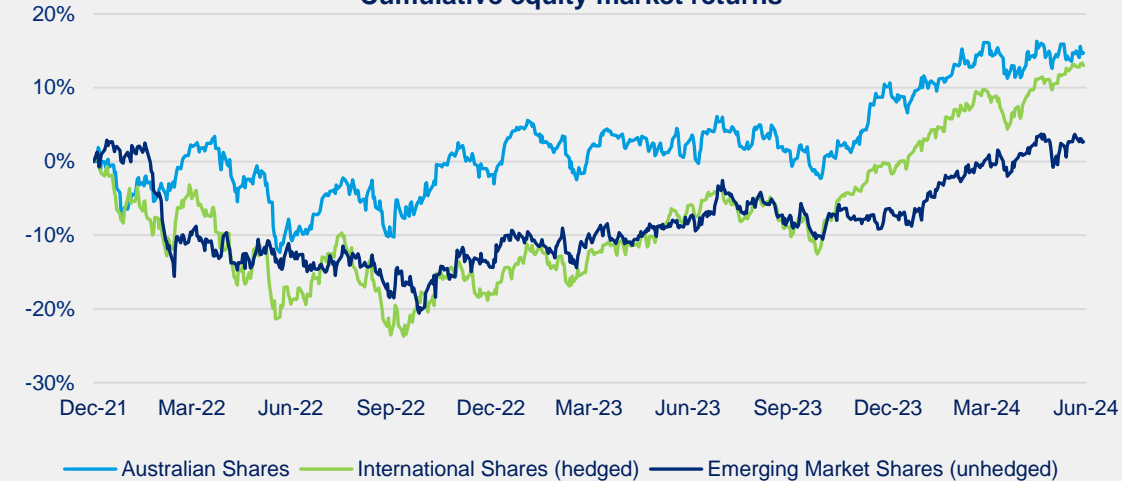
Fixed income markets deliver positive returns

- **International government bonds** produced a positive return as expectations strengthened for near-term interest rates cuts in the US, following the slowing inflation data.
- **Australian government bonds** also produced positive returns, influenced more by international developments than the stronger local inflation readings.

Commodity markets broadly weaken

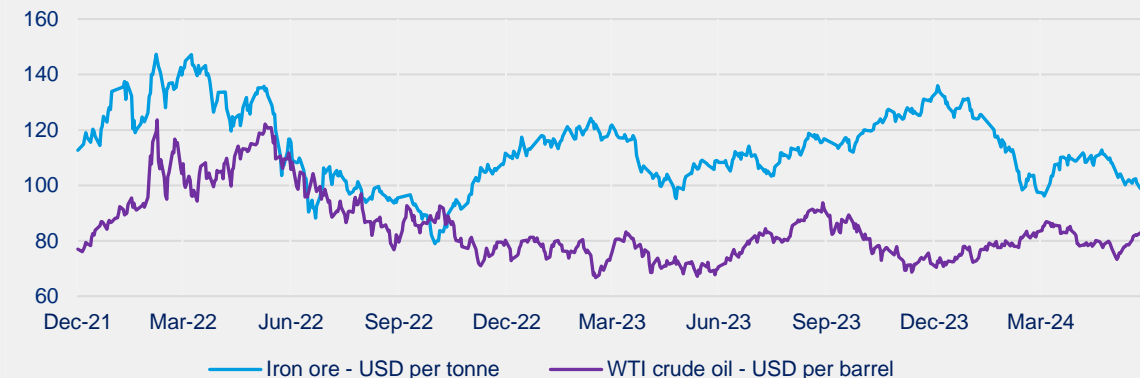
- **Industrial metals** such as iron ore declined following weaker demand and disappointing economic data from China.
- **Oil prices** rose following reports of strong US summer travel and geopolitical concerns following further attacks in the Red Sea.

Cumulative equity market returns



Source: Bloomberg, Mercer

Iron ore vs WTI crude oil



Source: Bloomberg, Mercer

Market Insights

Australia: New tightening cycle unlikely

- We expect growth to remain weak with the persistence of high interest rates and cost-of-living pressures suppressing consumption.
- We expect core inflation to decline more slowly than other developed economies due to pressure 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 **favour Australian government bonds** over cash with interest rates likely to have peaked this cycle.

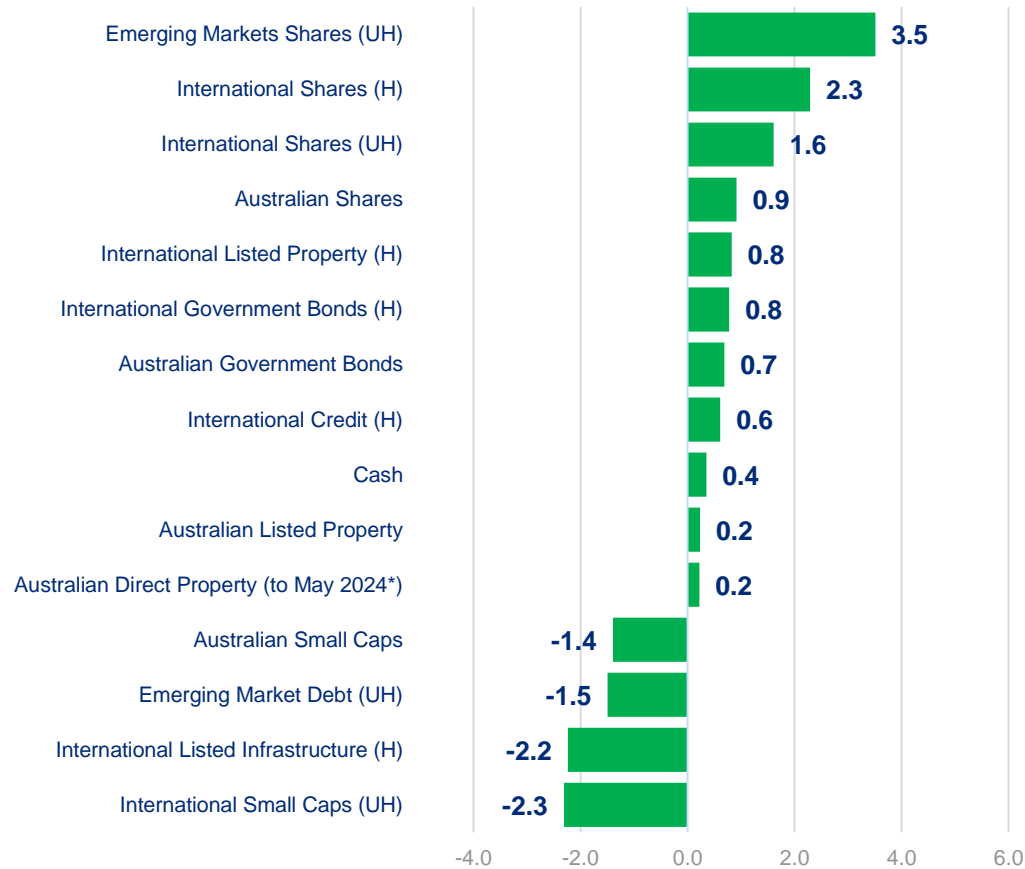


International: Emerging markets favoured over developed markets

- 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.
- China is expected to strengthen, aided by supportive government policies, whilst other emerging economies are expected to benefit from their central banks easing monetary policy.
- We favour **emerging markets over developed markets**, due to their more favourable economic prospects and relatively more attractive valuations.

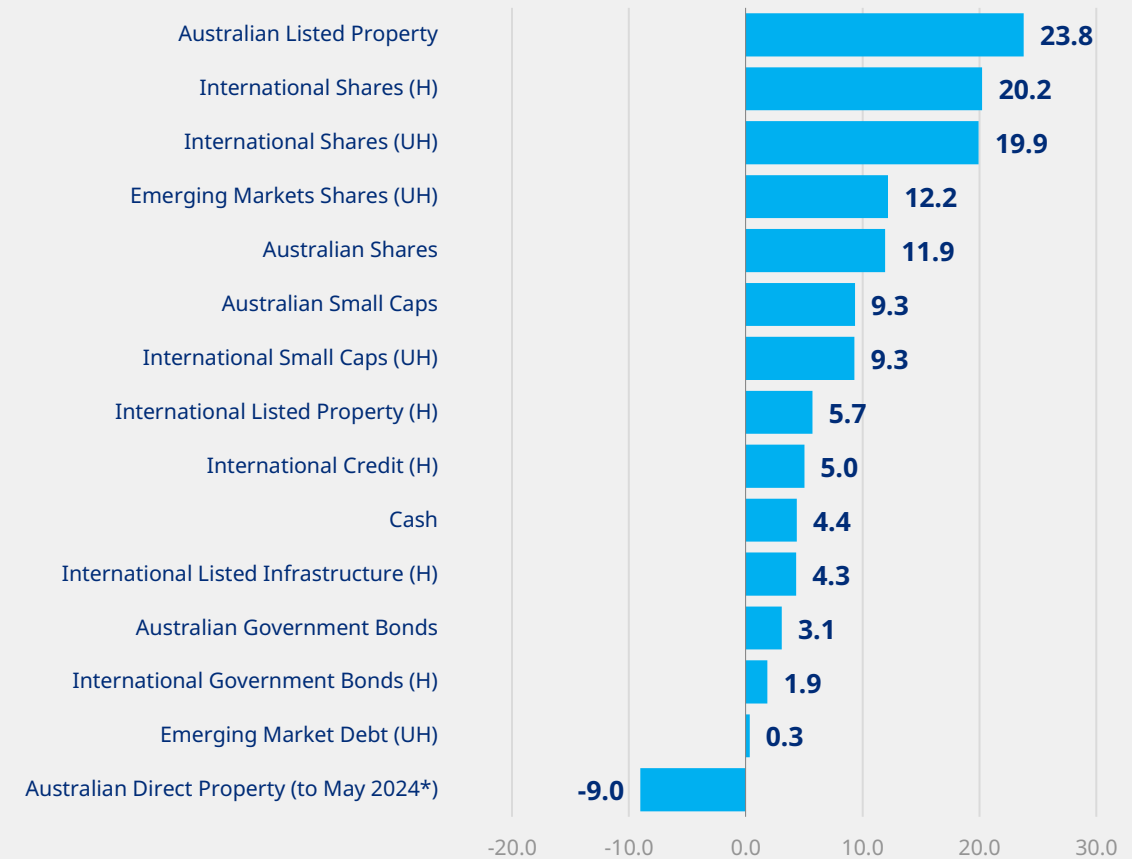
Performance

Market performance June 2024



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

Asset class

▲ Australian shares

- Australian Shares rose in June, bolstered by easing US inflation concerns and improving investor sentiment.
- Materials weakened following a decline in industrial metals prices, whilst Financials again performed well despite ongoing headlines citing valuation concerns.

▲ International shares

- International Shares extended their gains, spurred on by rising optimism around inflation and interest rates in the US.
- Information Technology was again the best performing sector with Nvidia rallying further from investor demand following a 10-to-1 stock split, whilst Utilities was the worst performing sector in part due to NextEra Energy raising equity capital to pay back debt.
- Emerging markets outperformed developed markets in June driven by gains in such companies as Taiwan Semiconductor Manufacturing Company which benefited from rising optimism around its business prospects.



▲ Fixed interest

- International Government Bonds delivered a positive return with further signs of disinflation emerging.
- Australian government bonds also experienced a positive return as the influence of international developments outweighed concerns around inflation locally.

▲ ▼ Real Assets

- International Listed Property and Australian Listed Property rose in June, benefiting from the declines in bond yields. However, International Listed Infrastructure declined, weighed down by its exposure to Utilities.
- Australian Direct Property produced a modest return, driven by rental income.

▲ Currency

- The Australian dollar appreciated modestly against the US dollar following a stronger-than-expected local inflation indicator reading.
- The Australian dollar appreciated against the Japanese Yen with the latter weakening following disappointing comments from the Bank of Japan around its Japanese government bond purchase program.

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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