

Market Review Monthly

September 2024



Key takeaways

- The US Federal Reserve (Fed) cut interest rates by 0.5% to 4.75 - 5.00% p.a. as confidence grew around the inflation outlook. Fed Chair Powell pushed back against expectations for further cuts of that size.
- Amid lackluster economic conditions, China's policymakers pledged necessary fiscal expenditures to meet this year's economic growth targets and address the decline in the property market.
- Looking ahead, we do not expect the US to enter a recession as consumer and corporate balance sheets remain strong, and growth across emerging economies is expected to be supported by government policy measures.
- We favour **emerging markets over developed markets** due to their more appealing valuations and promising economic prospects.
- Locally, we expect growth to remain weak and **favour Australian government bonds**, as cash rates have likely peaked this cycle.

Research



[Managing the total portfolio](#)

Statement by the Reserve Bank Board: Monetary Policy Decision

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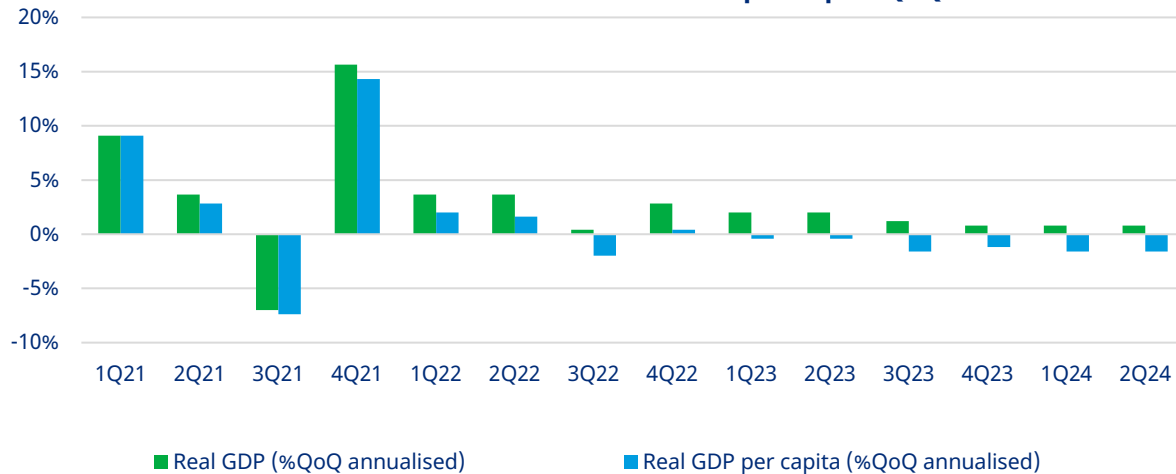


Economic review

Australia: Economic conditions remain weak

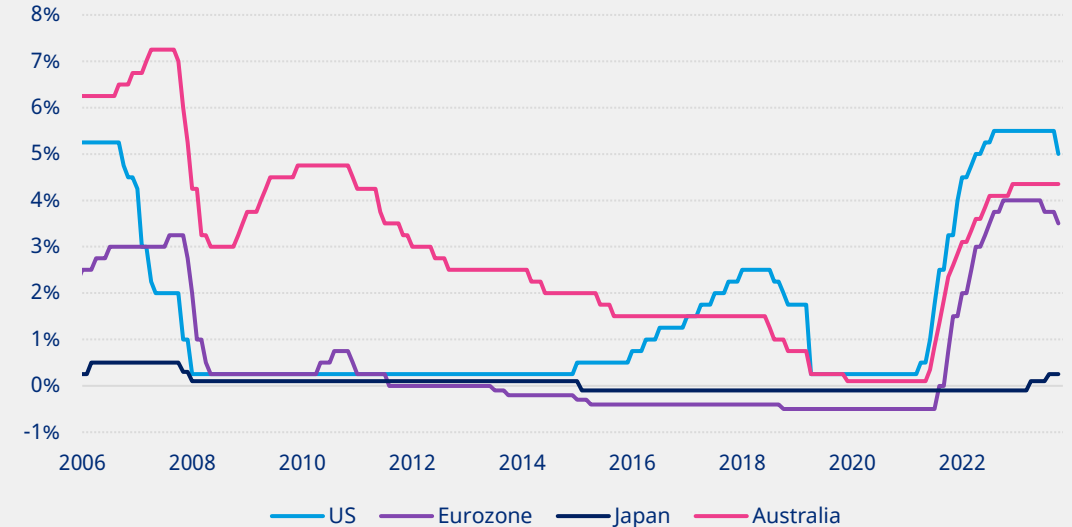
- Domestic data released in September painted a softer picture of economic conditions in Australia. Q2'24 GDP was weak at 0.2% Quarter-on-Quarter (QoQ), driven by weak household consumption.
- Surveys from businesses were mixed, with weaker conditions still evident among retailers.
- The Australian monthly Consumer Price Index (CPI) indicator declined from 3.5% to 2.7% Year-on-Year (YoY) in August driven by the government's energy rebate for households.
- The Reserve Bank of Australia (RBA) kept interest rates unchanged at 4.35% p.a. in September noting it "remains vigilant to the upside risks to inflation". The RBA noted that it had not considered raising interest rates at the meeting.

Australian Real GDP and Real GDP per capita QoQ



Source: Bloomberg, Mercer

Central Bank Policy Rates



Source: Bloomberg

International: US Federal Reserve cuts interest rates

- Recent economic data from the US indicated weaker conditions in labour markets and the manufacturing sector. However, other data showed that overall conditions remain strong.
- With greater confidence in the inflation outlook, the Fed cut interest rates by 0.5% to 4.75-5.00% p.a. Fed chair Powell stated the size of the cut should not be extrapolated going forward and that future decisions will be data dependent and made on a meeting by meeting basis.
- Other regions, including Canada, Eurozone, Sweden and Switzerland also cut interest rates by 0.25% in September due to reducing inflationary pressures.
- Economic activity remained lackluster in China, with the property sector weak. China's policymakers have pledged to stop the decline in the property market with the Peoples' Bank of China cutting interest rates and reserve ratio requirements.

Market review

Equity markets rise as US cuts interest rates

- International Shares ended September higher as the US Fed began its interest rate cutting cycle.
- The Utilities and Consumer Discretionary sectors benefited in this environment, while the Energy sector declined driven by falling oil prices.
- Emerging Market Shares performed strongly as investor optimism rose following the pledge from Chinese policymakers to stop the decline in their property market.

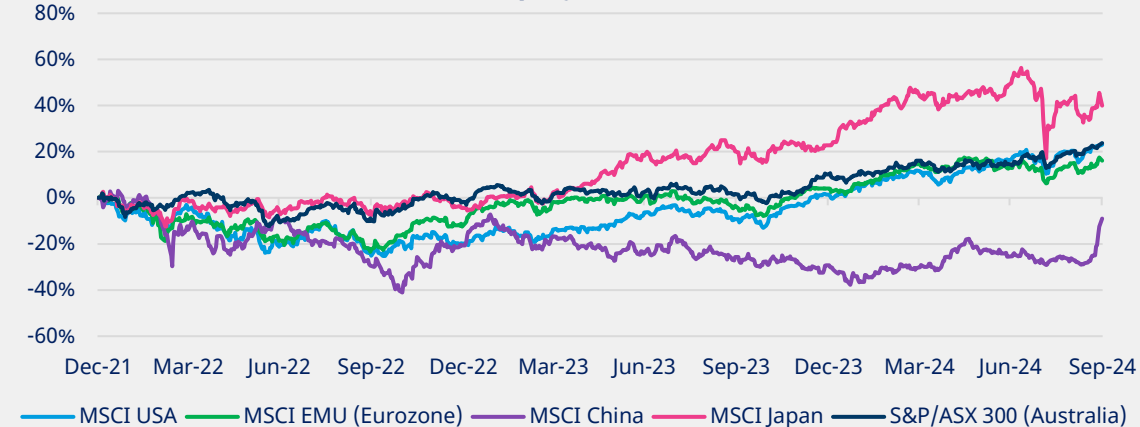
Fixed income markets rallied around interest rate cuts

- International Government Bonds rose due to softer US labour market and manufacturing data, and in anticipation of a US interest rate cut.
- International Credit performed well as investor sentiment improved with global interest rate cuts.
- Australian Government Bonds also produced positive returns but lagged behind International Government Bonds as the RBA kept interest rates unchanged.

Commodity markets broadly higher

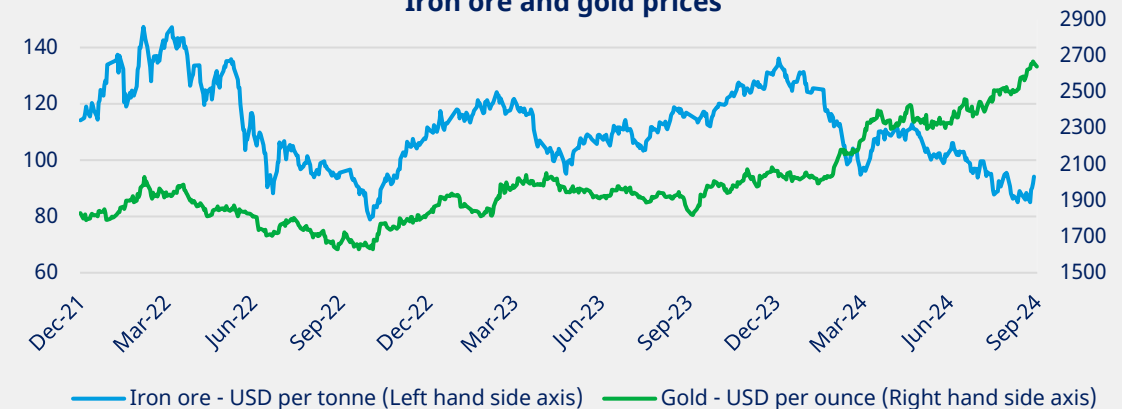
- Industrial metals like iron ore rose due to policy stimulus announcements in China, while gold prices hit a record high as the US dollar depreciated and central banks internationally cut interest rates.
- The key exception was oil, where prices declined despite rising tensions in the Middle East, due to speculation that Saudi Arabia may increase its output.

Cumulative equity market returns*



Source: LSEG Datastream, Mercer; EMU = Economic and Monetary Union; * USA, EMU, China and Japan are net returns, whilst Australia is total return. Returns are shown in local currency terms.

Iron ore and gold prices



Source: Bloomberg, Mercer

Market Insights

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

- We expect high interest rates and cost-of-living pressures to keep household consumption and economic growth suppressed.
- Core inflation is expected 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 implement a series of interest rate rises 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.

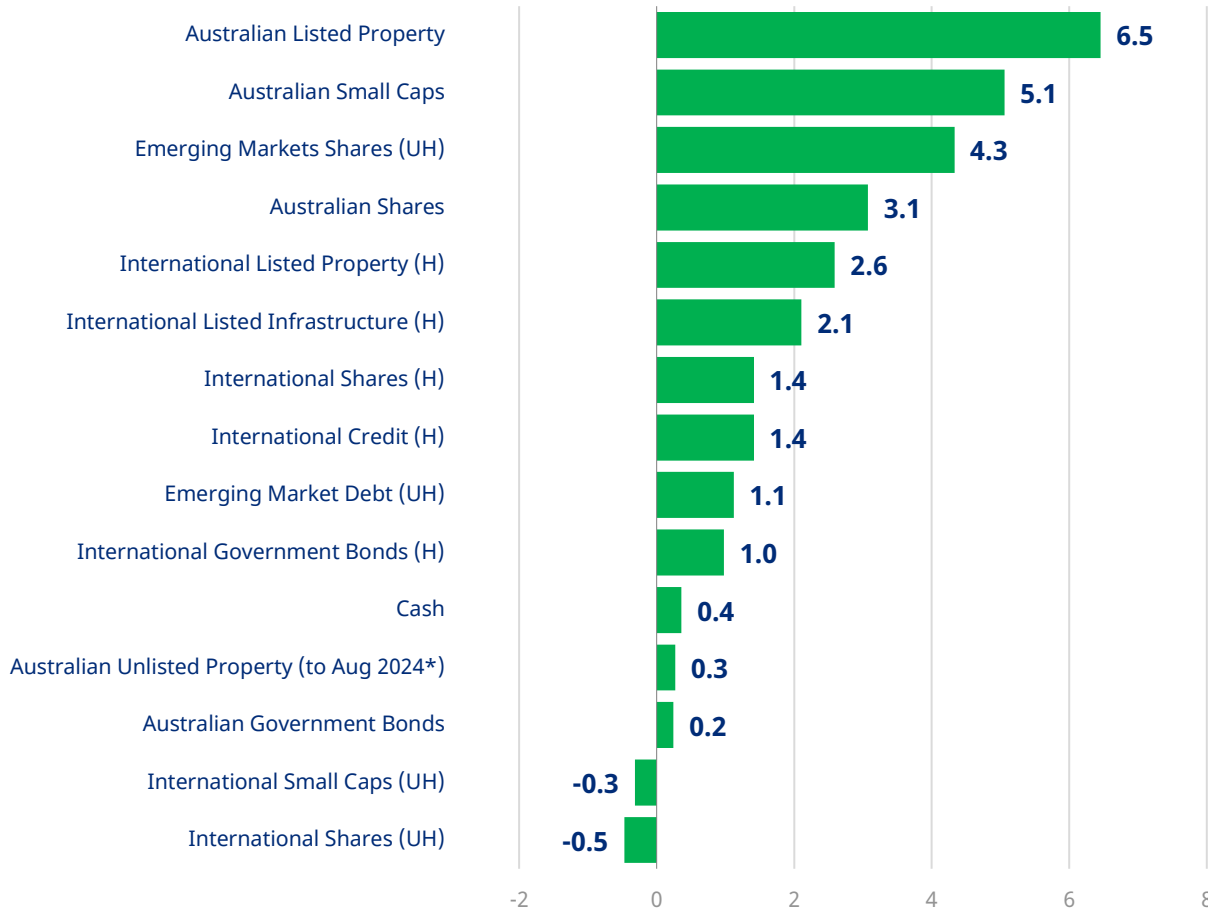


International: Soft landing expected for the US

- Despite lingering US recession concerns, we expect a soft landing for the US economy, characterised by slowing but positive growth.
- We expect US inflation to slow further, driven by a decline in services inflation, and expect the Fed to continue cutting rates. The market's expectations for US interest rates cuts appears excessive.
- We expect China's growth to improve from its current slow pace, supported by government policies, with favourable policy conditions. Other emerging economies will also benefit from these policies and their own central bank policies, aiding their growth.
- Broadly, we expect international economic growth to remain resilient but regionally divergent.
- We favour emerging markets over developed markets due to their better economic prospects and more attractive valuations.

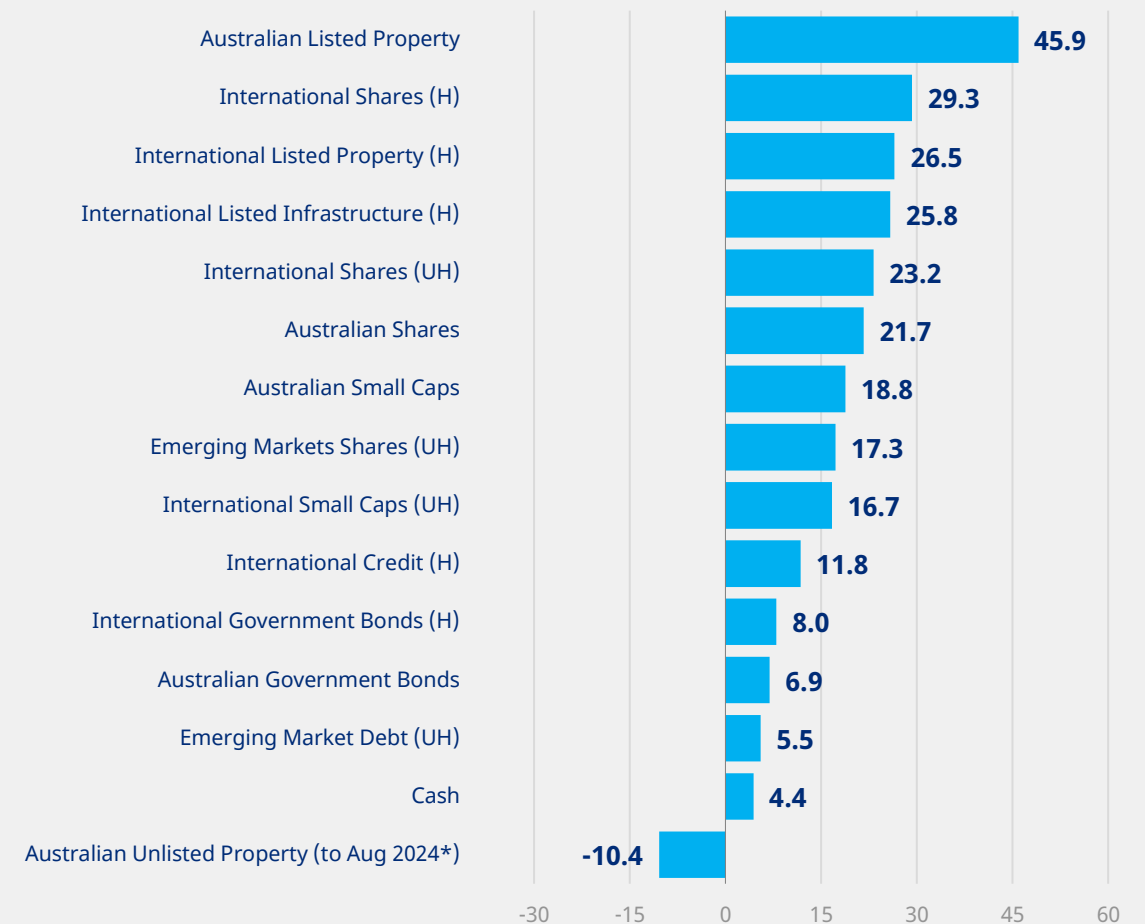
Performance

Market performance September 2024



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

Market performance 12 Months to September 2024



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

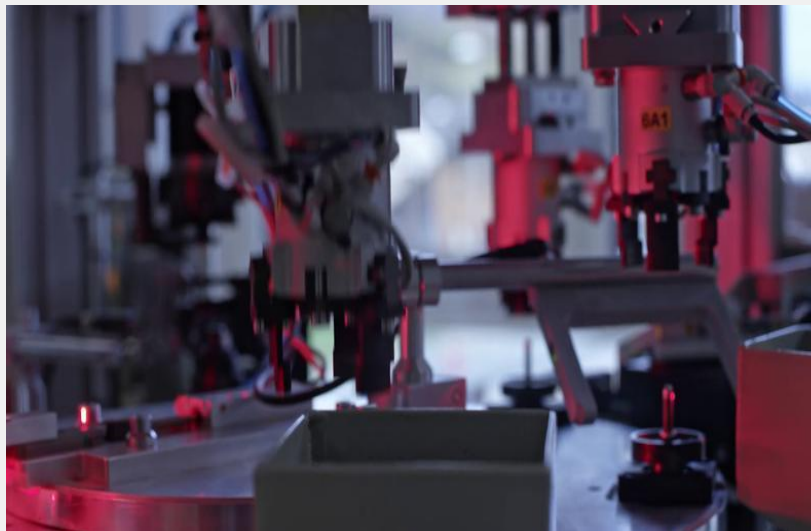
Asset class

▲ Australian shares

- Australian Shares rose in September supported by improving investor sentiment internationally as the US began cutting interest rates and Chinese authorities announced policy measures.
- The Materials sector performed strongly, due to the rise in industrial metals prices following policy announcements in China, while the Health Care sector lagged with CSL impacted due to concerns about the impact of the Australian dollar appreciation on future profits.

▲ International shares

- International Shares Hedged delivered positive returns, as the US began to cut interest rates. International Shares Unhedged experienced a negative return due to the appreciation of the Australian dollar detracting from returns.
- The Utilities sector performed well, benefiting from the Fed rate cut announcement and the decline in bond yields, while the Energy sector performed poorly weighed down by the decline in oil prices.
- Emerging Market Shares produced very strong returns, led by China, following the announcement of policy measures in the region expected to support their property market.



▲ Fixed interest

- International Government Bonds rose following softer US labour market and manufacturing data and growing optimism about future interest rate cuts in the US.
- Australian Government Bonds also produced positive returns but lagged International Government Bond returns as the RBA kept interest rates unchanged.

▲ Real Assets

- Australian Listed Property, International Listed Property and International Listed Infrastructure were boosted by the decline in bond yields and interest rates cuts internationally.
- Australian Unlisted Property delivered a small positive return for August, driven by income returns.

▲ Currency

- The AUD appreciated against major currencies following the encouraging policy announcements in China.
- Notably, the AUD appreciated against the US dollar as the latter weakened with the Fed cutting interest rates. It also appreciated against the Euro due to growing optimism for rate cuts following weaker economic data in Europe.

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 Unlisted 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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