Atchison

September 2024

Monthly Market Update

Illuminating
the way forward

Key Events September 2024

Around the developed world, currently it is all about interest rates, cuts, size and when!

- The RBA left the cash rate unchanged at 4.35% for the seventh consecutive time. Stating its top priority is to sustainably return inflation to target while maintaining price stability and full employment.
- Monthly Australian headline inflation indicator fell to 2.7% from July's 3.5%, now within RBA's target band of 2%-3%.
- Australian unemployment rate was flat at 4.2% and the participation rate remained at a record high of 67.1%.
- Australia's population data showed a slowing in the rate of population growth, up by 2.3% over the year to March, down from 2.5% last quarter. Net migration increased by 510K over the year, which is still very elevated but not unexpected as the arrivals data was suggesting that population growth was around this pace in early 2024.
- Australian share market had a stellar month returning 2.8% and 7.5% for the quarter, closing at an all-time high, boosted by the Energy and Materials sectors after China announced several measures to help the property market.
- Amid the broad market rally, Australian small-cap companies outperformed with the S&P/ASX Small Ordinaries and S&P/ASX Emerging Companies rising 6% and 7% respectively.
- US Federal Reserve (Fed) slashed interest rates by 0.5%, an aggressive start to its first easing campaign in four years. The decision lowers the federal funds rate to a range between 4.75% - 5%.
- Encouraged by recent economic data suggesting inflation might sustainably reach its 2% target next year, the European Central Bank (ECB) cut the deposit rate by 25 basis points to 3.5% but refrained from providing strong guidance on the future path of rates.However, the Bank of England kept interest rates unchanged at 5% after a rate cut in August which makes sense as UK services inflation is too high.
- China's central bank unveiled its biggest stimulus since the pandemic to pull the economy out its deflationary spiral.
- Many are estimating that this means that the pace of Chinese GDP growth is around 4% year on year, not the 5% targeted by the government.

Asset Class Summary

Table 1: Asset Class Returns – Periods to 30 September 2024

Sector	1 Month %	3 Months %	1 Year %	3 Years % pa	5 Years % pa	10 Years % pa
Australian Shares	2.75	7.46	21.29	8.49	8.23	8.74
Australian Small Companies	5.70	6.30	17.61	-1.09	3.74	6.35
International Shares (Unhedged)	-0.47	2.36	23.29	10.64	12.56	12.85
International Shares (Hedged)	1.69	3.60	28.77	7.81	11.72	
Emerging Markets (Unhedged)	5.35	4.64	16.76	0.92	4.11	5.53
Australian Property Securities	4.5	18.2	33.9	5.0	4.1	9.6
Global Property Securities (Hedged)	2.6	14.4	26.0	-0.6	0.0	
Global Listed Infrastructure (Hedged)	3.01	11.22	25.04			
Australian Bonds	0.36	3.24	7.12	-1.26	-0.58	2.24
Global Bonds (Hedged)	0.99	3.96	9.47	-2.36	-0.98	
Cash	0.37	1.16	4.50	2.87	1.86	
Change over the month						
AUD/USD	1.85%	US$ 0.6932				

Past performance is not a reliable indicator of future performance.
Source: iShares Core S&P/ASX 200 ETF, iShares S&P/ASX Small Ordinaries ETF, Vanguard International Shares Index, Vanguard MSCI Index Intl Shrs (H) ETF, iShares MSCI Emerging Markets ETF, VanEck Australian Property ETF, VanEck FTSE Intl Prop Hdg ETF, iShares Core FTSE Global Infrastructure (AUD Hedged), iShares Core Composite Bond ETF, Vanguard Global Aggregate Bd Hdg ETF, iShares Core Cash ETF

Australian Markets

The Australian share market jumped +2.8% for the month and a staggering +6.5% for the quarter on the back of US Fed's first interest rate cut in more than four years, additional stimulus measures from China and escalating tensions in the Middle East drove commodity prices, especially energy and mining stocks.

Seven of the 11 sectors posted positive returns in September, with Energy +2.6%, Materials +1.8%, Technology +0.7% Industrials +0.6%, being the major contributors. Detractors were Communication Services -0.3%, Consumer Staples -0.2% and Consumer Discretionary -.04%.

The ASX 200 now trades on a price to earnings (PE) multiple of 19x and suggesting mildly expensive versus long-term average of 15x.

Global Markets

Global equity markets remained volatile in September although stayed positive. Slower inflation and a Fed rate cut in the US fuelled optimism of a soft landing. In currency hedged terms global equities returned +1.7% for the month.

European markets delivered mixed results with the continent-wide Stoxx 600 hitting all-time highs, however finishing the month 1.2% lower. Regionally, the German DAX performed best with a positive return of +2.1% while the French CAC and the UK's FTSE 100 index fell -0.94% and -1.1% respectively.

China's central bank made headlines in September by announcing a series of measures aimed at bolstering the struggling economy. These included a 50bps interest rate cut, a reduction in reserve requirements for banks, and relaxed borrowing restrictions for stock market investments. As a result, the CSI300 surged, closing September with a 23% gain.

In the US, the top-performing sectors were Consumer Discretionary +7%, Utilities +6.4%, and Communication Services +4.5%. Energy lagged, dropping 2.8% due to continued declines in oil prices. Globally, stocks with exposure to China's demand dynamics benefited from the country's stimulus measures, posting positive returns.

Bonds

The Bloomberg AusBond Comp 0+y fell 0.11%. US 10-year bond yields fell 13 bps to 3.79%, whilst the 2-year Treasury yield fell 28 bps to 3.64%. This resulted in a 15 bps steepening in the yield curve.

Across the credit spectrum, returns remain positive. Global investment grades were +1.8% higher and high yields were up by +1.6%. Spreads tightened further, remaining at the lower end of historical ranges.

Currencies

The Fed's larger-than-expected rate cut in September weakened the USD, driving the AUD up +1.9% against the greenback, finishing the month at 0.6932 US cents.

Outlook for Investment Markets

Easing inflation pressures, central banks moving to cut rates and prospects for stronger growth in 2025-26 should make for reasonable investment returns over 2024-25. However, there are notable significant geopolitical risks particularly around Ukraine war, Middle East tensions and the US election, the next 12 months are likely to be more constrained and rougher compared to 2023-24.

The share market has been on a tear reaching record highs in September, with the US's Magnificent 7 tech group recovering earlier losses. Even in Australia, the biggest bank CBA has become the world's most expensive bank, despite delivering a 6% decline in profit. Investors should consider pulling back from some of large cap stocks in favour of undervalued mid and smalls.

Bonds are likely to provide returns around running yield (coupon rate of a bond expressed as a percentage of its current market price) or a bit more, as inflation slows, and central banks cut rates.

Unlisted commercial property returns are likely to remain negative due to the lagged impact of high bond yields and working from home reducing office space demand.

Cash and bank deposits are expected to provide returns of over 4%, reflecting the back up in interest rates.

Australian home prices are likely to see muted gains over the next 12 months as high interest rates constrain demand and unemployment rises. The delay in rate cuts and talk of rate hikes risks renewed falls in property prices as its likely to cause buyers to hold back and distressed listings to rise.

A rising trend in the $A is likely taking it to $US0.70 over the next 12 months, due to a fall in the overvalued $US and a narrowing in the interest rate differential between the Fed and the RBA.

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