Equity Trustees

April 2024

MONTHLY SUMMARY

MARKET SUMMARY

- **Equities fell as investors recalibrated rate cut expectations** – After five months of equity market gains, share markets retraced in April as investors reversed expectations of near-term rate cuts. Progress toward inflationary targets appear to have stalled in Australia and the US. In local currency terms, the ASX200 Accumulation index (-2.9%) outperformed the US S&P500 (-4.2%) and the MSCI World ex Australia Index (-3.9%) but underperformed the MSCI Asia Pacific ex Japan Index (+0.3%). Emerging Markets (+0.3%) outperformed Developed Markets (-3.9%) with Hong Kong and China performing strongly. In AUD terms, the MSCI World ex Australia Net Total Return Index fell 3.2%.
- **AREITs reversed their recent strong gains** – In Australia, the best performing sectors for the month were Utilities (+4.8%) and Materials (+0.6%). The gold sector performed well again. The worst performers were the interest rate sensitive sectors Property/AREITs (-7.8%), and Consumer Discretionary (-5.1%). The recent outperformance of Banks to Resources reversed. Taking market capitalisation (size) into account the major banks, BHP and CSL weighed on the ASX200. BHP fell after making all-scrip bid for Anglo American, who subsequently rejected the offer.
- **Bonds fell** – Bonds dipped as investors pushed out rate cut expectations pricing in a "higher for longer" interest rate environment. Australian and US 10-year bonds yields rose 46bps and 48bps to 4.42% and 4.68% respectively.
- **Australian Economic data** – Higher than expected headline inflation data (3.5% year-on-year) led to markets pricing in the chance of a rate hike this year rather than cuts. Consumer confidence remains subdued, reflected in the latest retail sales print which was very weak at the headline level (-0.4% month-on-month). The unemployment rate remains low (3.8%) but other indicators point to continued weakening in the labour market. National house prices rose 0.6% mom to be up 9.4% yoy. Building approvals and finance data point to a slowing in housing construction activity due to tighter credit conditions and the high cost to build, maintaining tightness in the housing market. The AUD/USD fell 0.7% to 64.73c.
- **Global economy** – "Stagflation fears" re-emerged following higher-than-expected headline (3.5% yoy) and core US inflation numbers and lower than expected March US GDP figures (+1.6% yoy). The Fed Funds rate was retained at 5.5% but markets have moved from pricing in 6-7 rate cuts in 2024 (in January) to now only one. This has buoyed the US Dollar which rose 1.7% in April and is now up 4.8% year-to-date. In China, manufacturing and services data remained mildly in expansionary territory. Stimulus is ongoing and there are renewed measures to stabilise the property sector. Unlike the US, lower inflation in Europe is keeping the option open for an ECB rate cut in June.
- **Commodities surged** – Iron ore rose 19% on Chinese restocking, while Base Metals (LME Index) soared 13%. Gold continued its recent strong rally up another 2.5% driven in part by ongoing geo-political concerns, Chinese buying and inflationary challenges.
- **Earnings and valuations** – At an aggregate level the ASX200 12-month-forward earnings fell slightly while globally earnings were revised up. ASX200 earnings for FY24 are expected to fall 6.8%, but then rise 5% in FY25. The ASX200 Price to earnings (PE) multiple of 16.2x remains above long-term average levels. Global equities are also trading above historic valuations levels. Given stretched valuation multiples, delayed rate cut expectations, inflation uncertainty and a slowing global economy, the near-term pullback in equity markets was not a large surprise and may continue to weigh in the short term.