Equity Trustees

March 2024

MONTHLY SUMMARY

MARKET SUMMARY

- Equities extended recent gains – Equities were supported by expectations of US interest rates cuts later this year along with hopes of continued resilient economic growth. In local currency terms, the ASX200 Accumulation index rose 3.3%, the US S&P500 gained 3.1%, the MSCI World ex Australia Index rallied 3.0% and the MSCI Asia Pacific ex Japan Index increased by 2.3%. In AUD terms, the MSCI World ex Australia Net Total Return Index rose 2.8%. Australian small caps (ASX Small Ordinaries) rose 4.8%.
- Property and Resource related sectors outperformed – In Australia, the best performing sectors for the month were Property (+9.7%), Energy (+5.3%) and Utilities (+4.8%). Gold stocks rallied 16%. Goodman Group (GMG) continues to lift the AREIT/Property sector supported by Data Centre expansion plans and lower bond yields. The worst performers were Communication Services (-0.6%), Consumer Discretionary (+0.9%) and Healthcare (+1.7%). Globally, Energy and Materials sectors outperformed.
- Bonds rose – Despite some signs of sticky inflation, the US central bank reiterated their expectation to cut interest rates three times later this year. Australian and US 10-year bonds yields fell 17bps to 3.96% and 5bps to 4.20% respectively. US and Australian credit spreads declined supported by upgraded economic growth forecasts by the US central bank.
- Australian Economic data – The RBA left rates unchanged at 4.35%. Headline inflation data was broadly unchanged at 3.4% year-on-year with the services component sticky. Jobs data was better than expected. The unemployment rate fell to 3.7%. The RBA's Financial Stability Review outlined how most households still have larger savings buffers relative to pre-Covid levels. February retail sales increased 0.3% month-on-month and job vacancies dropped 6.1% in the three months to February. National house prices rose 0.6% month-on-month in March to be up 9.7% year-on-year. The AUD/USD rose 0.4% to 65.21c.
- Global economy – Several Central Banks met during the month. The US Federal Reserve maintained the Fed Funds rate at 5.25%-5.5% for the fifth straight meeting. The US market is expecting the first rate cut in July, but it keeps getting pushed out due to robust economic data and sticky services inflation. The European Central Bank indicated they could cut rates in June given the fall in inflation and subdued economic growth. China's manufacturing data increased for the first time in five months. Chinese manufacturing and Fixed Asset Investment firmed, but property investment and consumer confidence remain soft. The Bank of Japan increased short term rates to 0-0.1% - the first time since 2007, while the Swiss National Bank unexpectedly cut rates 25bps.
- Commodities broadly rose ex steel related materials – Precious metals were the standout performer with gold soaring 8.1% to US$2229.90/oz. Oil rallied 6.3% and the LME Metals index rose 3.2%. Lithium prices appear to have troughed. Steel and steel making commodities fell. Iron ore fell 12% to US$103/t, Hard coking coal dropped 20.7% and Chinese steel prices fell 4.6%. At China's NPC authorities vowed to defend their 5% growth target but offered few prospects of a *major* demand boost.
- Earnings and valuations – ASX200 12-month-forward earnings were little changed over the month while global earnings were revised up 1%. ASX200 earnings for FY24 are expected to fall 5.6%, but then rise 4.2% in FY25. In contrast, global equities offer ~10% growth in each year. The ASX200 Price to earnings (PE) multiple of 16.7x indicates the Australian market is trading at expensive levels versus history. Global equities are similarly dear. Given stretched valuation multiples, delayed rate cut expectations and a slowing global economy, a short-term pullback in equity markets would not be unreasonable in our view.