

Monthly Economic Wrap

July 2024

Economic Summary

Australia

- The June quarter CPI inflation came in lower than anticipated, with the Reserve Bank of Australia's preferred trimmed mean annualized rate easing to 3.9%, down slightly from 4.0% in March. This outcome has tempered expectations of further interest rate hikes by the RBA this year. Financial markets are now factoring in a 60% likelihood of a rate cut by December.
- Retail sales in June saw a 0.5% increase, significantly surpassing the 0.2% forecast. Annual retail sales grew by 2.9%, with gains seen across all categories, spurred by mid-year and EOFY sales events.
- The unemployment rate climbed to 4.1% in July, in line with expectations. The Westpac-Melbourne Institute Consumer Sentiment Index dropped to 82.7 in July, as concerns over persistent inflation and higher borrowing costs outweighed any positive effects from tax cuts.
- The composite PMI fell to 49.9 in July, slipping below the neutral 50 mark due to a decline in manufacturing activity and a slower expansion in services. Meanwhile, the NAB business confidence index rose to +4 in June, outperforming expectations, with seven out of eight industries recording increased sentiment.

United States

- The USA's GDP grew at an annualized rate of 2.8% in the second quarter, representing an improvement from the first quarter and slightly exceeding market expectations, although still showing a slowdown compared to late 2023.
- Inflation, based on the Federal Reserve's preferred Core PCE price index, eased to 2.9% by the end of June, down from the first quarter, keeping it on track toward the Fed's 2% target. Financial markets now expect at least two rate cuts by the end of the year.
- In July, non-farm payrolls increased by 114,000, falling short of the expected 175,000 and marking the lowest level in three months. The unemployment rate edged up to 4.3% from 4.1%, in line with expectations, amid a slight rise in the labor force participation rate.
- May retail sales remained flat as forecasted, while annual retail sales grew by 2.3% through June, slightly above the 2.1% projection.
- Consumer sentiment in July dropped to 66.4, which, although above the anticipated 66, was the lowest in eight months.

Composite PMI saw a small decline to 54.3 in July, though it continued to signal robust growth in the services sector.

Euro area

- **In its July meeting, the European Central Bank kept interest rates unchanged at 3.75%.** However, ECB President Christine Lagarde signaled that a rate change in September remained on the table, emphasizing that future decisions would be guided by data rather than precommitment to any specific path.
- **Euro area inflation unexpectedly rose to 2.6% in July, surpassing the projected 2.4%.**
- **The unemployment rate in June increased to 6.5%, exceeding the forecast of 6.4%.**
- Retail sales decreased by 0.3% in June, a sharper drop than the predicted 0.1% decline, while annual sales fell by 0.3%, significantly underperforming the expected 0.2% rise.
- Consumer confidence improved to -13.0 in June, possibly buoyed by the ECB's rate cut and expectations of further cuts later in the year.
- The Composite PMI dropped to 50.2 in July, reflecting a significant contraction in manufacturing output and subdued growth in services, leading to a loss of momentum.

United Kingdom

- **Annual inflation in the UK remained steady at 2.0% in June, slightly above the expected 1.9%** but in line with the Bank of England's target. Consumer confidence in July improved to -13, up from -14 in June, though it fell short of the -12 forecast. The July figure suggests caution as people wait to assess how the new UK government will affect the broader economy and personal finances.
- Retail sales fell by 1.2% in June, much worse than the anticipated 0.4% decline, impacted by election-related uncertainty, poor weather, and low foot traffic. On an annual basis, retail sales dropped by 0.2%, defying the expected 0.4% increase.
- Composite PMI climbed to 52.8 in July, supported by stronger demand for both goods and services.
- Labour won a landslide victory in the July 4 General Election, and Prime Minister Keir Starmer appointed Rachel Reeves as Chancellor of the Exchequer.

China

- **China's economy expanded by 0.7% in the second quarter, seasonally adjusted, following a marginally revised 1.5% growth in the first quarter.** While this marks the eighth consecutive quarter of growth, the latest figure represents the weakest increase since Q2 2023, reflecting challenges such as severe weather, sluggish consumption, high local government debt, and ongoing weakness in the property sector.
- Inflation in China rose by 0.5% in July, matching the annual rate and exceeding market expectations of 0.3%.
- **China's unemployment rate remained steady at 5.0% in June, aligning with forecasts.**
- The Composite PMI for July registered at 51.2, with a stronger-than-expected rise in services activity, though this was offset by a decline in factory activity, marking the first drop since October 2023.
- Annual retail sales increased by 2% in June, falling short of the expected 3.3% and down from the 3.7% gain recorded in May.

Japan

- **The Bank of Japan raised its cash rate from 0.10% to 0.25%, marking its second rate hike in just four months** after moving out of negative territory, as it continues to move toward normalizing monetary policy.
- **Annual inflation remained unchanged at 2.8% in June**, in line with market expectations, while core inflation edged up to 2.6% during the same period. The Producer Price Index (PPI) rose to 2.9% in June, up from 2.6% in May, meeting market projections.
- Retail sales saw a 0.6% increase in June, surpassing market expectations of a 0.4% rise, with annual sales growth reaching 3.7%, also exceeding forecasts.
- Consumer confidence improved to 36.7 in July, slightly above the anticipated 36.5, with sentiment improving across most components.
- The Composite PMI increased to 52.5 in July, driven largely by robust growth in services activity, although manufacturing activity unexpectedly declined.

Australian Equities

Sector Returns – July 2024

Name	1 Month	3 Month	6 Month	1 Year	3 Year
S&P/ASX 200	4.42%	6.38%	7.93%	14.94%	8.47%
S&P/ASX 200 Utilities	-2.90%	5.15%	16.39%	6.41%	21.15%
S&P/ASX 200 Healthcare	6.36%	9.39%	5.65%	15.80%	2.14%
S&P/ASX 200 Financials	6.82%	15.11%	18.93%	33.14%	14.60%
S&P/ASX 200 Materials	-1.12%	-6.52%	-6.65%	-2.19%	5.57%
S&P/ASX 200 Consumer Discretionary	9.37%	11.90%	17.58%	30.95%	7.18%
S&P/ASX 200 Information Technology	2.48%	7.23%	26.73%	23.24%	3.52%
S&P/ASX 200 Consumer Staples	4.82%	7.74%	6.92%	2.43%	2.45%
S&P/ASX 200 Industrials	6.03%	5.08%	6.74%	7.34%	7.07%
S&P/ASX 200 Energy	-0.72%	-2.63%	-7.26%	-8.43%	17.22%
S&P/ASX 200 Real Estate	5.68%	8.74%	14.29%	24.63%	6.32%
S&P/ASX 200 Communication	6.31%	5.18%	0.20%	4.94%	6.44%

Source: Bloomberg

Please Note: Returns are Total Returns, grossed up to include franking credits

- The ASX 200 Accumulation Index rose by 4.42% in July, achieving its highest monthly gain this year and setting a new record in the process. Despite predictions of earnings declines, strong market sentiment and momentum propelled shares upward.
- A broad range of sectors posted positive returns, with eight out of eleven ending the month higher. The Consumer Discretionary sector led the gains with a 9.37% increase, followed by Property (+5.68%), Financials (+6.85%), Industrials (+6.03%), and Communication Services (+6.31%). On the other hand, the Utilities (-2.9%), Energy (-0.72%), and Materials (-1.12%) sectors exerted downward pressure on the Index, closing the month in negative territory.
- Even though inflation data for the June quarter remained stubbornly high, investors found optimism in the slowdown of core inflation. The Financials sector was lifted by continued strength from the 'Big Four' Banks. In contrast, declining prices for metals and Brent crude oil led to losses in Materials and Energy stocks.

International Equities

Market Returns – July 2024

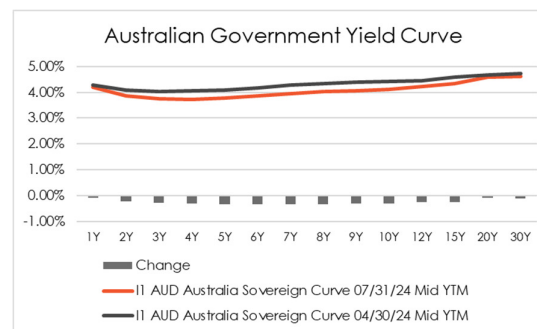
Name	1 Month	3 Month	6 Month	1 Year	3 Year
United States					
Dow Jones Industrial Average	4.51%	8.53%	8.10%	17.22%	7.62%
S&P 500 INDEX	1.22%	10.05%	14.77%	22.13%	9.65%
NASDAQ Composite Index	-0.73%	12.61%	16.49%	23.68%	7.11%
Europe					
EURO STOXX 50 Price EUR	-0.29%	0.38%	7.63%	12.59%	9.44%
FTSE 100 Index	2.53%	3.53%	12.01%	12.83%	9.68%
CAC 40	0.77%	-3.99%	1.01%	3.60%	7.34%
Deutsche Boerse AG	1.50%	3.21%	9.49%	12.54%	5.94%
Asia					
Nikkei 225	-1.21%	1.92%	8.69%	20.06%	14.35%
Hang Seng Index	-1.04%	0.36%	15.72%	-9.70%	-9.58%
CSI 300	0.60%	-2.38%	9.56%	-11.85%	-9.08%
Australia					
S&P/ASX 200	4.19%	6.38%	7.93%	14.94%	8.47%
S&P/ASX Small Ordinaries Index	3.49%	2.03%	5.66%	9.94%	-0.34%

- Both Emerging and Developed markets continued their upward trend in July. Developed markets outperformed their emerging counterparts, with the MSCI World Ex-Australia Index (AUD) delivering a 4.08% return, compared to a 2.58% gain from the MSCI Emerging Markets Index (AUD).
- Small-cap growth stocks gained renewed attention in July, driven by optimism that potential U.S. interest rate cuts could spur growth for smaller companies. The Russell 2000 Index increased by 10.2%, outperforming the S&P 500, which rose by 1.2% (in local currency terms). In contrast, the Nasdaq-100 declined by 1.6% (in local currency terms), with the Technology and Communications sectors weighing on the Index.
- Japanese markets experienced a decline in the latter half of July after reaching record highs, as speculation surrounding the Bank of Japan's upcoming monetary policy meeting led to market caution and a stronger Yen. The Nikkei 225 Index dropped by 1.21% for the month (in local currency terms).
- Chinese equities showed mixed performance in July. Ongoing challenges in the real estate sector negatively impacted the market, while Chinese authorities responded by cutting the reverse repo rate and the benchmark loan prime rate in an effort to stimulate the economy. The Hang Seng Index decreased by 1.04%, while the CSI 300 Index managed a 0.60% gain (in local currency terms).

Property & Infrastructure

- In July, the S&P/ASX 200 A-REIT Accumulation Index (TR) performed well, **rising 6.83% for the month and gaining 17.70% year-to-date.**
- Global real estate equities also maintained their positive momentum, with the **FTSE EPRA/NAREIT Developed Ex Australia Index (AUD Hedged) increasing by 5.54% during the month.**
- Australian infrastructure, however, began to slow down, as the S&P/ASX Infrastructure Index (TR) posted a modest 0.34% return in July, bringing its year-to-date growth to 5.63%.
- International Infrastructure as measured by the FTSE Global Core Infrastructure 50/50 NR Index (AUD Hedged) bounced back from a poor June, **returning 6.39% in July, up 9.43% over the past 12 months.**
- The Australian residential property market experienced an increase of +0.5% Month on Month (as represented by CoreLogic's five capital city aggregate). Perth was the biggest riser (+2%), followed by Adelaide (+1.6%) and Brisbane (+0.9%). In contrast, Melbourne continued to experience a fall in value (-0.5%) alongside Darwin (-0.1%) while Hobart (-0.8%) was the worst performer.

Fixed Income



- In July, markets experienced notable shifts as investors navigated a mix of cautious optimism amid ongoing economic uncertainties. **The much-anticipated June 2024 ABS CPI data revealed an annual inflation rate of 3.8%, fueling expectations for a rate pause at the August RBA Board meeting.** Key sectors with the highest price increases included alcohol and tobacco (6.8%), insurance and financial services (6.4%), and education (5.6%).
- The Australian bond market rallied, with yields on 2-year and 10-year bonds falling by 28 and 19 basis points, respectively. **The Bloomberg AusBond Composite 0+ Yr Index recorded a 1.48% return for July.**
- On the global front, markets posted strong gains, with **the Bloomberg Barclays Global Aggregate Index (hedged) returning 1.88% in July**, driven by a range of economic and political developments.
- **The Federal Reserve maintained the target cash rate at 5.25%-5.5% in July**, with a weakening U.S. labor market, combined with lower-than-expected CPI figures, leading to increased expectations of rate cuts by the Fed in 2024 and 2025. This optimism boosted U.S. Treasuries, with 2-year and 10-year yields declining by 50 and 37 basis points, respectively, over the month.
- In the first half of June, bond markets experienced a significant rise, but this was quickly offset by a sell-off in the latter half of the month, negating any earlier gains.

Performance as of 31 July 2024

		1-mth	3-mth	6-mth	1-yr	3-yr	5-yr	7-yr	10-yr
Shares	Australia	4.19%	6.21%	7.31%	13.53%	7.44%	7.52%	9.31%	8.03%
	Australia - mid cap	4.16%	3.25%	10.12%	6.28%	5.93%	9.24%	10.15%	11.06%
	Australia - small cap	3.49%	2.00%	5.39%	9.29%	-0.64%	3.50%	6.62%	6.30%
	World ex Australia	4.08%	7.88%	13.89%	22.26%	11.20%	13.39%	14.12%	13.61%
	World ex Australia (Hedged)	1.20%	7.71%	12.72%	18.32%	6.83%	11.03%	10.33%	10.37%
	World - small cap	9.45%	9.13%	13.10%	14.93%	5.31%	9.45%	10.37%	11.40%
	Emerging Markets	2.58%	4.26%	14.45%	9.66%	1.18%	4.54%	5.72%	6.32%
Property & Infrastructure	A-REITS	6.83%	9.32%	16.18%	28.25%	8.00%	5.24%	8.65%	9.10%
	Global REITs (hedged)	5.53%	9.23%	6.95%	6.96%	-3.64%	-0.27%	1.79%	3.51%
	Global infrastructure (Hedged)	6.39%	8.54%	12.41%	9.43%	3.76%	3.73%	5.09%	6.59%
Fixed income	Australia Total Market	1.48%	2.67%	1.45%	4.67%	-2.15%	-0.49%	1.50%	2.31%
	Australia government bonds	1.48%	2.53%	1.25%	4.09%	-2.73%	-1.01%	1.31%	2.15%
	Australia corporate bonds	1.56%	2.72%	2.75%	6.88%	0.15%	1.33%	2.68%	3.25%
	Australia floating rate bonds	0.52%	1.45%	2.99%	5.70%	3.22%	2.48%	2.60%	2.78%
	Global Total Market (Hedged)	1.88%	3.48%	1.71%	4.65%	-2.54%	-0.45%	0.99%	2.19%
	Global government bonds (Hedged)	1.75%	2.94%	1.38%	3.98%	-2.62%	-0.70%	0.88%	2.14%
	Global high yield bonds (Hedged)	2.12%	4.08%	1.95%	6.06%	-3.11%	-0.06%	1.30%	2.60%
	Global Emerging Market Bonds (Hedged)	1.73%	3.45%	5.05%	10.87%	0.62%	1.94%	2.64%	4.06%
Cash	Bloomberg AusBond Bank Bill Index	1.87%	4.29%	4.81%	7.15%	-4.14%	-1.59%	0.18%	2.11%

Sources: Bloomberg, Lonsec

Appendix – Index sources

Asset class	Index
Australian equities (S&P/ASX 200)	S&P/ASX 200 Accumulation Index
Australian equities - Mid caps	S&P/ASX Accumulation Midcap 50 Index
Australian equities - Small caps	S&P/ASX Accumulation Small Cap Ordinaries Index
Australian equities - Micro caps	S&P/ASX Emerging Companies Total Return Index
International equities	MSCI World ex Australia Net Total Return (in AUD)
International equities (Hedged)	MSCI World ex Australia Hedged AUD Net Total Return Index
International equities - Small caps	MSCI World Small Cap Net Total Return USD Index (in AUD)
Emerging Markets equities	MSCI Emerging Markets EM Net Total Return AUD Index
Australian REITs	S&P/ASX 200 A-REIT Accumulation Index
Global REITs	FTSE EPRA/NAREIT Developed Index Net Total Return (in AUD)
Global REITs (Hedged)	FTSE EPRA/NAREIT Developed Index Net Total Return (Hedged to AUD)
Global Infrastructure	FTSE Global Core Infrastructure 50/50 Net Total Return in AUD
Global Infrastructure (Hedged)	FTSE Global Core Infrastructure 50/50 100% Hedged to AUD Net Tax Index
Australian bonds	Bloomberg AusBond Composite 0+ Yr Index
Australian bonds – government	Bloomberg AusBond Govt 0+ Yr Index
Australian bonds – corporate	Bloomberg AusBond Credit 0+ Yr Index
Australian bonds - floating rate	Bloomberg AusBond Credit FRN 0+ Yr Index
Global bonds (Hedged)	Bloomberg Barclays Global Aggregate Total Return Index Value Hedged AUD
Global bonds - government (Hedged)	Bloomberg Barclays Global Aggregate Treasuries Total Return Index Hedged AUD
Global bonds - corporate (Hedged)	Bloomberg Barclays Global Aggregate Corporate Total Return Index Hedged AUD
Global bonds - High Yield (Hedged)	Bloomberg Barclays Global High Yield Total Return Index Hedged AUD
Cash (AUD)	Bloomberg AusBond Bank Bill Index

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