Economic And Market Update

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Key events in September 2024

- Global share prices delivered solid returns in September, but this was largely driven by the strong gains in American and Chinese markets. The Federal Reserve's 0.5% cut to US cash interest rates was the primary driver of Wall Street's share gains. The Chinese central bank's announcement of lower interest rates on September 24th started a dramatic 23.3% monthly gain in share prices with hopes that this would stimulate China's economic activity and the struggling property market. Escalating conflict in the Middle East and Ukraine remain key concerns but lower interest rates for now are soothing geo-political risks.
- US shares hit record highs in September given lower interest rate settings by the central bank. Milder jobs growth and moderate inflation results for August generated optimism that the central bank will be significantly lowering interest rates over coming months.
- Chinese shares skyrocketed with the central bank announcing interest rate cuts and more generous reserve requirements for banks to support lending. Promises of more government spending to support economic activity also generated optimism for shares. The motivation for these new measures was China's recent subdued economic activity and continuing weakness in apartment construction and prices. By contrast, Japanese share markets declined in September but this comes after sharp gains earlier this year.
- Australian shares made strong gains in September primarily on the back of China's stimulus measures. Notably the Resources sector made robust returns of 11.5% in September on optimism that China's stimulus measures will boost key commodity prices such as iron ore and metals. There were also sharp gains for the Information Technology and Real Estate sectors with hopes of lower global interest rates.
- Australia's sedate economic performance and milder inflation is also constructive for lower cash interest rates eventually. Australia struggled with slow economic activity in the June quarter with annual Real GDP growth at only 1%. Recent retail spending has also been disappointing given the 'cost of living' pressures. The ABS monthly CPI indicator showed inflation at 2.7% in August which is the lowest in the past 3 years.

Asset class summary

Asset class returns in Australian dollars – periods to 30 September 2024.

	CYTD %	1 month %	3 months %	1 year %	3 years pa %	5 years pa %	10 years pa %
Australian shares	12.3	3.1	7.8	21.7	8.1	8.3	8.9
Global shares (hedged)	18.2	1.8	4.7	28.5	7.5	10.8	9.8
Global shares (unhedged)	16.7	0.1	2.6	22.6	9.6	11.6	12.0
Emerging markets (unhedged)	14.9	4.3	4.7	17.3	1.8	5.2	6.5
Australian property securities	25.3	6.5	14.3	45.9	8.8	7.2	10.5
Global property securities (hedged)	11.1	2.5	13.5	25.2	0.1	0.3	4.6
Global listed infrastructure (hedged)	16.0	2.1	11.8	25.8	5.8	4.0	6.9
Australian bonds	3.2	0.3	3.0	7.1	-1.2	-0.4	2.4
Global bonds (hedged)	3.5	1.1	4.0	9.1	-1.5	-0.4	2.3
Global high yield bonds (hedged)	5.8	1.0	4.0	12.7	1.1	3.0	4.5
Australian inflation-linked bonds	2.6	0.5	2.6	6.3	2.3	2.4	2.9
Cash	3.3	0.4	1.1	4.4	2.8	1.8	1.9
AUD/USD	1.7	2.2	3.9	7.5	-1.3	0.6	-2.3

Past performance is not a reliable indicator of future performance.
Sources: Australian shares – S&P/ASX 300 Total Return Index; Global shares (hedged) – MSCI All Countries World (A$ hedged, Net); Global shares (unhedged) – MSCI All Countries World in A$ (Net); Emerging markets – MSCI Emerging Markets in A$ (Net); Australian property securities – S&P/ASX 300 A-REIT Accumulation Index; Global property securities – FTSE EPRA/NAREIT Developed (A$ hedged, Net); Global listed infrastructure – FTSE Global Core Infrastructure 50/50 (Hedged $A); Australian bonds – Bloomberg AusBond Composite 0+ Yr Index; Global bonds (A$ hedged) – Barclays Global Aggregate (A$ hedged, Gross); Global high yield bonds (A$ hedged) – Barclays US High Yield Ba/B Cash Pay x Financials ($A Hedged); Australian inflation-linked bonds – Bloomberg AusBond Inflation Government 0+ Yr Index; Cash – Bloomberg AusBond Bank Bill Index; AUD/USD – WM/Reuters Daily (4 pm GMT).

Key events in global markets over the last three months to September

Global shares achieved strong gains over the quarter despite concerns over the conflicts in the Middle East and Ukraine. Optimism on 'Artificial Intelligence' (AI) prospects, milder inflation outcomes, and both the American and European central banks cutting interest rates were the key drivers for higher global share prices.

Global shares (hedged) recorded a strong 4.7% return for the quarter. However, a stronger Australian dollar particularly against the US dollar restrained the global shares (unhedged) return to only 2.6% for the quarter.

Wall Street's benchmark S&P 500 Index made historic highs and delivered a very strong 5.8% quarterly return in local currency terms with the exuberant optimism on AI and technology shares.

European shares delivered a solid return. Investors gained solace in milder inflation and the European Central Bank (ECB) cutting interest rates. However, political risks with the Russia-Ukraine War cast a shadow over European share prices.

Asian share markets delivered mixed performances. Chinese shares made an extraordinary recovery in September which allowed China's MSCI index to deliver an astonishing 22.2% quarterly return in local currency terms. Finally, Chinese central banks responded to slow economic activity and weak property markets by assertively cutting interest rates. However, Japanese share markets delivered a -6% return for the quarter in local currency terms given concerns over higher interest rate settings by the Japanese central bank.

Global bonds (hedged) posted a strong 4% quarterly return. Bond investors were comforted by lower inflation readings in the United States and in Europe. Australian bonds posted a solid 3% return for the quarter largely on the back of lower global inflation as well as subdued Australian economic activity results.

Key events in Australia over the last three months to September

Australian shares delivered a strong quarterly return of 7.8%. The Information Technology sector made a very strong quarterly return of 15.3% on AI optimism. Real Estate Investment Trusts (REITS) were next best with a 14.5% quarterly return given that lower global interest rates raised hopes for eventual interest rate cuts in Australia. Financial sector shares, that include the banks, also made a very strong 8.3% quarterly gain on lower interest rate hopes. Even Resource sector shares were boosted by China's stimulus announcements in September which generated a 7.1% gain. However, there were some disappointments with the Energy sector delivering returns of -6.4% given falling global oil prices.

Australia's economy continued to display subdued economic activity with sluggish consumer spending and weak housing construction. The negative impact of high consumer prices, mortgage interest rates and rents continued to squeeze household budgets. However, lower inflation results for August has generated optimism that the Reserve Bank of Australia will become more open to lowering interest rates in early 2025.

Global prospects

Global share prices have made strong gains this year despite some considerable headwinds. The enthusiasm for AI and technology are the key positive contributors to share prices. There is also confidence that inflation is gradually falling across the world which allows central banks to cut interest rates. A lower interest rate environment would be more supportive of corporate profits and thereby share prices.

However, these exuberant expectations may be challenged by considerable global political risks over coming months with the continuing Russian-Ukraine war as well as escalating conflict in the Middle East between Israel, Hamas, Hezbollah and Iran. The US Congressional and Presidential elections in November are also likely to prove influential for global economic stability and investor sentiment.

Given these complex and significant risks, investors should maintain a disciplined and diversified strategy.

Important information