

Market Watch June 2024

Key events in June 2024

- Global share prices made mild gains in June given continued optimism on the prospects for 'Artificial Intelligence' (AI) and renewed hope for lower interest rates. Strong positive returns from Wall Street's technology sector dominated the global gains with disappointing returns from European and Asian shares.
- US shares made strong returns given AI enthusiasm. The largest AI chipmaker in Nvidia led the charge with a 29% price gain in the first half of the month which briefly gave them the title of the "world's most valuable company". Microsoft recovered the "most valuable" title by month end with a strong 8% price gain. Milder US inflation data for May also added to US share price gains by generating optimism for lower interest rates later this year.
- European share prices fell with political risks weighing on investor sentiment. France's snap parliamentary elections called for 30 June and 7 July as well as the UK General Election on 4 July generated turbulence in European bond and share markets.
- Chinese share markets declined with continued concerns over subdued consumer spending and a weak property market. By contrast, Japanese shares advanced with the central bank remaining reluctant to raise interest rates.
- Australian shares made modest gains in June. The Financials, Consumer Staples and Utilities sectors made strong gains given the appeal of dividend yields to investors. By contrast, there was sharp weakness in the Resources sector as concerns over China's growth prospects and weaker iron ore prices weighed.
- Australia's economy continues to struggle with sluggish retail spending and weak housing construction. However, Australia's consumer inflation has proven more persistent at 4% in the year to May. Hence there are diminishing prospects of the Reserve Bank of Australia (RBA) lowering interest rates this year.

Asset class summary

Asset class returns in Australian dollars - periods to 30 June 2024

	CYTD %	1 month %	3 months %	1 year %	3 years pa %	5 years pa %	10 years pa %
Australian shares	4.2	0.9	-1.2	11.9	6.1	7.2	8.0
Global shares (hedged)	12.9	2.5	3.2	19.4	5.7	10.0	9.4
Global shares (unhedged)	13.7	1.8	0.5	19.0	9.6	11.9	12.3
Emerging markets (unhedged)	9.8	3.5	2.6	12.2	-1.3	4.1	6.4
Australian property securities	9.6	0.2	-5.7	23.8	5.7	4.6	9.1
Global property securities (hedged)	-2.1	0.7	-2.0	4.6	-4.1	-1.1	3.1
Global listed infrastructure (hedged)	3.8	-2.2	1.2	4.3	2.2	2.5	5.9
Australian bonds	0.2	0.8	-0.8	3.7	-2.1	-0.6	2.2
Global bonds (hedged)	-0.5	0.8	-0.2	2.7	-2.7	-0.7	2.0
Global high yield bonds (hedged)	1.7	0.9	0.9	8.0	0.1	2.5	3.9
Australian inflation-linked bonds	0.0	0.4	-0.6	4.3	1.5	2.1	2.7
Cash	2.2	0.4	1.1	4.4	2.4	1.6	1.9
AUD/USD	-2.1	0.4	2.4	0.3	-3.8	-1.0	-3.4

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 June 2024

Global shares have achieved strong gains over recent months despite concerns over the conflicts in the Middle East and Ukraine as well as stubborn inflation. Optimism on 'Artificial Intelligence' (AI) is the key driver for higher global share prices.

Global shares (hedged) recorded a strong 3.2% return for the past three months. However, the revival in the Australian dollar has limited global shares (unhedged) returns to a more modest 0.5% for the quarter.

Wall Street's benchmark S&P 500 Index made historic highs and delivered a strong 4.2% quarterly return in local currency terms with the exuberant optimism on AI and technology shares.

European shares have delivered negative returns in local currency terms. Investors had some solace in milder inflation and the European Central Bank (ECB) cutting interest rates in June. However political risks with the continuing Russia-Ukraine War, France's political turmoil and UK's General Election in July have cast a shadow.

Asian share markets have delivered solid performances. Chinese share markets have made a modest recovery (China MSCI 7% return in local currency) with hopes that increased government support can stabilise the weak property sector. Japanese share markets continue to deliver strong returns with a 1.8% gain for the quarter (Japan MSCI return in local currency).

Australian bond returns disappointed with a negative -0.8% return for the quarter. Australia's inflation has proven stubbornly high with continuing price rises in insurance, medical costs, and rents. Global bonds (hedged) delivered a slightly negative -0.2% quarterly return. Bond investors have become more sceptical that interest rates are set to fall and so are cautious in committing extra capital to this asset class. Global high yield bonds (hedged) delivered a positive 0.9% return for the quarter as investors found the elevated level of yields appealing.

Key events in Australia over the last three months to June 2024

Australian shares delivered a negative quarterly return of -1.2%. The Energy sector was the weakest performer (-6.7%) given significant declines in the key stocks of Ampol and Woodside. There was also sharp weakness in the Materials resources sector (-5.9%) as concerns over China's growth prospects undermined iron ore prices. Property securities also recorded a large negative return (-5.7%) given concerns over valuations and potentially 'higher for longer' interest rates. In a welcome contrast that helped mitigate the downside for Australian shares, Financial sector shares (including the banks) made very strong returns of 4% for the quarter. The Information Technology sector (2.4%) also made strong gains on AI optimism.

Australia's economy continues to display subdued economic activity with sluggish consumer spending and weak housing construction. The negative impacts of high consumer prices, mortgage interest rates and rents continue to squeeze household budgets. There is also concern that inflation is now proving sticky and stubborn with May's 4% annual increase being higher than expected. This could see the RBA maintain interest rates at current high levels for an extended period.

Global prospects

Global share prices have made strong gains this year despite some headwinds. The enthusiasm for AI and technology have been the key positive contributors. There is also confidence that the inflation threat is gradually fading which could lead to lower interest rates in 2024. However, these exuberant expectations may not be delivered if inflation proves more persistent and central bankers more stubborn in lowering interest rates. The continued tragic Russian-Ukraine War and Hamas-Israel conflict are also key threats to global economic stability and investor sentiment.

Accordingly, there are significant inflation, interest rate and political risks that investors should be cautious on. Assessing these complex risks is very challenging. As there are multiple positive and negative outcomes possible this year, investors should maintain a disciplined and diversified strategy.

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