

Market Watch October 2024

Key events in October 2024

- Global share prices fell in October in local currency terms. Notably both the US and Australian share indexes briefly made record highs in October. These share gains faded with concerns over rising government bond yields, the looming US Presidential and Congressional elections in November and escalating conflict in the Middle East and Ukraine.
- US shares made record highs given favorable earnings reports from technology heavyweights in Nvidia, Alphabet/Google and Amazon as well as exuberance on 'Artificial Intelligence' (AI). However, these Wall Street share gains were restrained by a rapid rise in US government bond yields. Stronger US jobs and retail spending data as well as solid business surveys suggest the US central bank may not be forthcoming with large interest rate reductions in the coming year.
- Chinese shares disappointed in October after September's extraordinary gains. The promise of more government support for the struggling Chinese property market has failed to materialise. China's economic activity data also cast a shadow with lacklustre retail spending and export performance.
- Australian shares slipped in October after making a record high on 17 October. Disappointment with China's lukewarm stimulus measures saw the Resources sector fall sharply after September's strong gains. There were also sharp falls for the Consumer Staples sector as Woolworths warned that corporate profits are under pressure with consumers seeking cheaper products. There was a strong positive performance from banking sector shares which partly mitigated the disappointing performance from other sectors.
- Australia's mixed economic performance and milder inflation results continued in October. Employment rose strongly but retail spending recorded subdued results. More encouraging is that Australia's annual consumer inflation came in at 2.8% in the September quarter which is the lowest result since 2021. Increased electricity subsidies and rent assistance from the Federal and State Governments as well as lower automotive fuel costs were the key factors for this subdued inflation result.

Asset class summary

Asset class returns in Australian dollars – periods to 31 October 2024.

	CYTD %	1 month %	3 months %	1 year %	3 years pa %	5 years pa %	10 years pa %
Australian shares	10.8	-1.3	2.2	24.9	7.6	8.1	8.3
Global shares (hedged)	16.8	-1.2	2.2	30.7	5.5	10.2	9.5
Global shares (unhedged)	20.8	3.5	2.3	28.4	10.4	12.2	12.3
Emerging markets (unhedged)	16.3	1.2	3.3	21.1	3.2	5.0	6.5
Australian property securities	22.0	-2.6	4.3	50.8	7.7	6.4	9.5
Global property securities (hedged)	7.0	-3.7	3.6	26.2	-3.0	-0.8	3.4
Global listed infrastructure (hedged)	14.5	-1.3	3.7	25.8	4.2	3.8	6.3
Australian bonds	1.3	-1.9	-0.4	7.1	-0.6	-0.7	2.1
Global bonds (hedged)	1.9	-1.5	0.5	8.4	-1.9	-0.6	2.0
Global high yield bonds (hedged)	4.9	-0.8	1.6	12.9	0.9	2.8	4.2
Australian inflation-linked bonds	1.2	-1.3	-0.2	5.4	2.4	2.1	2.7
Cash	3.7	0.4	1.1	4.5	2.9	1.9	1.9
AUD/USD	-4.0	-5.6	0.3	3.5	-4.5	-1.0	-2.9

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 October

Global shares achieved mild gains over the quarter despite concerns over the conflicts in the Middle East and Ukraine. Optimism on AI prospects, milder inflation outcomes, and both the US and European central banks cutting interest rates were the key drivers for higher global share prices. Global shares (hedged) recorded a solid 2.2% return for the quarter and 2.3% in unhedged terms.

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 strong 3.6% quarterly return in local currency terms with the exuberant optimism on AI and technology shares.

European shares delivered a mildly negative return despite lower inflation and the European Central Bank (ECB) cutting interest rates. Slow economic growth and modest corporate profits are weighing on Europe.

Asian share markets delivered mixed performances. Chinese shares made an extraordinary recovery in September which allowed China's MSCI Index to deliver an astonishing 17.1% quarterly return in local currency terms. Finally, the Chinese central bank responded to slow economic activity and weak property markets by cutting interest rates. However, Japanese share markets delivered a -2.8% 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 subdued 0.5% quarterly return. While government bond yields have risen sharply in October, the resilience of corporate bonds cushioned returns. Australian bonds delivered a weak -0.4% return given a more cautious assessment of the prospects for lower interest rates in coming months.

Key events in Australia over the last three months to October

Australian shares delivered a solid quarterly return of 2.2%. The Information Technology sector made an exceptionally strong quarterly return of 10.4% on AI optimism. Financial sector shares, that include the banks, also made a very strong 5.2% quarterly gain. Even Resource sector shares were boosted by China's stimulus measures which generated a 2.7% gain. However, there were some major disappointments with the Energy sector delivering returns of -10.4% given falling global oil prices. Consumer Staples also fell sharply with a -8.3% return with both Coles and Woolworths warning that consumers are trading down to cheaper products.

Australia's economy continued to display subdued economic activity with sluggish consumer spending and housing construction. The negative impact of high consumer prices, mortgage interest rates and rents continued to squeeze household budgets. However, lower annual inflation at 2.8% for the September quarter suggests that eventually the Reserve Bank of Australia should be open to lowering interest rates in early 2025.

Global prospects

Global share prices have made strong gains this year despite some strong 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 should over time 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.

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