



## Economic and market overview

- Major share markets – including the S&P/ASX 200 in Australia – struggled in early August following the release of weaker economic data in the US.
- Thankfully, markets quickly stabilised and performed much better in the remainder of the month.
- Australian shares were little changed in August as a whole and closed the month only marginally below all-time highs.
- Despite the upturn in the second half of August, global shares closed around 1% lower in AUD terms.
- Bonds registered positive returns, as yields continued to move lower. With inflation moderating, it seems increasingly clear that most major central banks are looking at lowering interest rates. Borrowing costs were cut in New Zealand and Canada during August, for example, and the US Federal Reserve is expected to follow suit in September.
- Rate cuts seem less probable domestically – at least in the near term. The Reserve Bank of Australia has indicated that borrowing costs are unlikely to change in the remainder of this year.
- **US:** All eyes remained on inflation data, to help investors predict if and when the Federal Reserve rate will be lowered.
- Core PCE prices – the US central bank's favoured measure of inflation – added 0.2% in July from the previous month, which was consistent with forecasts.
- Separately, the Chair of the Federal Reserve spoke at the Jackson Hole Economic Symposium; a gathering of central bankers, economists and academics from around the world. He stopped short of making any definite statements regarding US monetary policy, but equally did not say anything to steer the market away from its current forecasts.
- Consensus expectations suggest the Federal Funds rate will be lowered in September – likely by 0.25%, although possibly by 0.50% – with two further cuts anticipated before year end.
- All of this is encouraging for the global economic outlook and could help support investor sentiment in the months ahead, although policymakers will still be keeping a close eye on economic developments and data releases.
- Personal income continues to rise, for example, and resilient spending shows that higher borrowing costs are not significantly affecting consumer behaviour. Officials must therefore be mindful of easing policy settings too aggressively, as doing so could see inflation spike back up.
- **Australia:** Despite the prospect of interest rate cuts in other countries, the Reserve Bank of Australia suggested official cash rates are unlikely to be lowered in the near term. Minutes from the central bank's latest meeting revealed that officials remain concerned about inflationary pressures, with inflation still running significantly above the Bank's 2% to 3% target.
- Consumer price inflation data for the September quarter – released at the end of October – will likely be critical in determining the level of official cash rates at year end.
- The Reserve Bank is not currently expecting inflation to fall back within the target range until 2025. A meaningful moderation in inflation and/or a deterioration in the Australian labour market could prompt a change in thinking, but it seems likely that local interest rates will remain at 4.35% for the foreseeable future.
- **New Zealand:** Official cash rates were lowered by 0.25% to 5.25% following the Reserve Bank of New Zealand's August meeting, which was a surprise to many observers.
- Policymakers clearly believe a moderation in inflation is sustainable, after consumer price growth slowed to an annual rate of 3.3% in the June quarter. This was the lowest inflation reading since mid 2021, was below consensus forecasts, and was not too far above the central bank's 1% to 3% target range.
- With the first rate cut out of the way, investors are anticipating further policy easing in the months ahead. Prices of local services remain elevated, but price growth on imported goods has now fallen back to pre-Covid levels. Policymakers in New Zealand might feel comfortable enough to ease policy settings further against this backdrop.
- **Europe:** Preliminary data suggested inflation in the region fell to an annual rate of 2.2% in August. This is the lowest level in more than three years and, more importantly, is only marginally above the European Central Bank's target.
- Against this background and like in the US, investors seem confident that interest rates will be lowered in the Eurozone in mid-September following the European Central Bank's next meeting. At least two additional rate cuts are then expected before the end of the year.
- Lower borrowing costs would likely be welcomed by manufacturers in the region. Factory output remains subdued, particularly in Germany – the largest economy in the Eurozone – and freight costs continue to rise.
- The stagnation in the German manufacturing sector is particularly worrisome for the overall European economic outlook. New factory orders remain subdued and employment in the sector is falling sharply, in turn eroding overall consumer confidence levels.
- Official interest rates were lowered by 0.25% in the UK, as anticipated. Further cuts are still expected in the months ahead, although a general improvement in economic indicators could prompt caution among Bank of England policymakers.
- In other news, the new Labour government will announce its Autumn Budget in October and has already suggested it will be 'painful' for taxpayers. This could adversely affect consumer sentiment and spending patterns in the UK in the months ahead.
- **Asia:** Key lending rates in China were unchanged in August, following July's surprise cut.
- Policymakers at the People's Bank of China will likely wait to see how the economy responds to the recent rate cut before deciding whether further action is warranted. Officials remain determined to generate annual GDP growth of around 5% and could be willing to ease policy settings further to help achieve this goal.
- Ongoing problems in the property sector are acting as a drag, but the services sector continues to perform reasonably well.
- In Japan, an index of leading economic indicators weakened quite sharply. This was a concern, as the closely-watched index is generally a useful gauge of the economic outlook for the next six months or so.
- In fact, the latest reading was the lowest for more than a year, hindered by moderating activity levels in both the manufacturing and services sub-sectors.



## Australian dollar

- The Australian dollar reversed July's weakness and performed strongly against the US dollar, in particular. The AUD appreciated by 3.4% against the USD, closing the month at 67.6 US cents – close to the highest level since January of this year.
- Reserve Bank of Australia officials suggested talk of interest rate cuts locally is premature supported sentiment towards the AUD, at a time when most observers are expecting the Federal Reserve to lower borrowing costs in the US.
- The AUD was mixed against other majors, appreciating by 1.1% against the British pound but losing 2.3% and 1.0% against the New Zealand dollar and Japanese yen, respectively.

## Australian equities

- Despite a shaky start, when the S&P/ASX 200 Accumulation Index lost around 6%, Australian shares were little changed in August. Encouragingly, the local share market was back close to record highs by month end.
- Most ASX-listed companies reported their results for the 2024 financial year. This resulted in a fair degree of volatility in the market as investors reacted to the varied results from different companies and as expectations for the year ahead were recalibrated following outlook commentaries from company management teams.
- Performance-wise the IT sector was the standout, adding nearly 8%. Various companies in this area of the market reported ongoing pricing power and solid margins, despite the uncertain economic outlook. WiseTech Global was the strongest performer in the sector, after announcing 28% earnings growth and an improved margin of 50% in the second half of the year. The outlook for FY25 is encouraging too, with the company anticipating revenue and EBITDA growth of 25%-30% and 33%-41%, respectively. Additionally, three new 'breakthrough' products were announced, which could help boost growth even further over time.
- The Industrials sector (+3.9%) also outperformed the broader market, supported by solid contributions from Brambles (+17.2%) and Downer (+12.0%). The former delivered constant currency earnings growth of ~17% and strong free cash flow, as the company reaped the benefits of its Shaping Our Future transformation initiatives and improved inventory optimisation.
- Trading updates from the major banks were broadly positive, with investors reassured by stable net interest margins. The latest updates also highlighted consumers' resilience to high interest rates, with bad debts remaining under control. Among the major banks, Commonwealth Bank, Westpac and ANZ Group all added between 2% and 5% and made solid contributions to the overall market return.
- Less positively, materials and energy stocks lost ground for a third consecutive month.
- The impact of softer commodity prices, higher capital expenditure requirements, and high labour and other input costs was a notable feature of results announced by most miners. Mineral Resources was the worst performer in the Materials sector, falling 26.0% despite delivering a largely in-line result. Investors appeared disappointed by higher capital expenditure expectations for the year ahead, as well as suggestions that mining volumes could moderate.
- Uranium miners Boss Energy (-22.2%), Deep Yellow (-15.9%) and Paladin Energy (-14.2%) also struggled on the back of weaker uranium prices and were among the worst performers in the Energy sector (-6.0%).
- Small companies underperformed their large cap peers and the S&P/ASX Small Ordinaries Index closed down -2.0%.
- Audinate, Johns Lyng Group and Tabcorp were among the worst performers in the small cap space, all losing around a third of their value over the month.

## Global equities

- The S&P 500 Index in the US fell around 6% in the first three trading sessions of the month, after data showed activity levels in the world's largest economy could be tailing off.
- Manufacturing data underwhelmed and investors were unnerved by weak employment statistics. US firms added 114,000 new workers in July – which was far fewer than expected – and the unemployment rate ticked up to 4.3%, from 4.1% in the previous month.
- The NASDAQ fared even worse during this period, following subdued earnings releases from some high-profile technology companies.
- The sharp sell-off in US stocks spread to other share markets worldwide. The Nikkei lost more than 12% in a single trading session, for example, which was the worst day for Japanese shares since 'Black Monday' in the 1980s.
- Thankfully, share markets in the US and elsewhere stabilised fairly quickly. This followed the release of more encouraging indicators in the US services sector, which alleviated broader economic concerns.
- Most of the losses had been clawed back by the end of August and the MSCI World Index closed the month just 1.2% lower in AUD terms.

## Property securities

- Global property securities fared well in August, with the FTSE EPRA/NAREIT Developed Index returning 5.0% in AUD terms.
- Further speculation that the Federal Reserve is preparing to lower interest rates in the US boosted sentiment towards real estate markets, particularly in North America.
- That said, Hong Kong was the best performing individual market over the month, benefiting from news that the Chinese government will allow early refinancing of trillions of dollars of mortgages.
- The German (9.6%) and Canadian (6.5%) markets also fared well, again owing to a favourable interest rate outlook.
- At the other end of the scale, laggards included the UK (0.2%) and Japan (0.9%). A-REITs, which added 0.6%, also underperformed global property peers.

## Fixed income and credit

- A fall in US Treasury yields supported favourable returns from fixed income markets globally. The Bloomberg Global Aggregate Index returned 1.0% in AUD terms, continuing a strong run that started around the end of April.
- Yields on 10-year government bonds in the US closed the month down more than 0.10%, as investors became increasingly confident that official borrowing costs will be lowered significantly in the months ahead.
- Even more substantial moves were seen in the Japanese Government Bond market, where yields on 10-year notes fell 0.18%. Bank of Japan officials indicated that interest rates are unlikely to be raised while the market is so unstable, which was inconsistent with the market's expectations for further rate hikes in the remainder of this year.
- European bond markets were more settled. Yields on government bonds in both Germany and the UK were little changed over the month, with no meaningful changes to interest rate forecasts in either country.
- A drop in Australian Commonwealth Government Bond yields supported another positive return from the local fixed income market. The Bloomberg AusBond Composite 0+ Year Index added 1.2% over the month, extending gains to more than 5% on a rolling 12-month view. Observers continue to suggest the Reserve Bank of Australia could lower official cash rates in the period ahead, even though officials insist that policy settings are unlikely to change any time soon.

MARKET WATCH DATA SHEET

		1 Month Return / Change	3 Month Return / Change	1 Year Return / Change	3 Year p.a. Return / Change	3 Year chart
<b>Equities</b>	<i>Points</i>					
MSCI World (AUD)	6,043	-1.18%	4.56%	19.32%	10.11%	
MSCI Emerging Markets (AUD)	1,170	-2.17%	4.01%	10.26%	-0.22%	
ASX 200	8,092	-0.01%	5.07%	10.77%	2.41%	
ASX Small Ordinaries	3,006	-2.02%	-0.01%	8.51%	-2.90%	
S&P 500 (USD)	5,648	2.43%	7.39%	27.14%	9.38%	
<b>REITs</b>	<i>Points</i>					
ASX 200 A-REIT	1,736	0.54%	7.82%	26.09%	6.02%	
FTSE EPRA/NAREIT Developed (AUD)	2,922	5.00%	11.52%	15.42%	-2.54%	
<b>Cash &amp; Fixed income</b>						
Official Cash Rate Australia	4.35%	0.00%	0.00%	0.25%	-	
10-year Yield Australia	3.97%	-0.15%	-0.44%	-0.06%	-	
10-year Yield US	3.90%	-0.13%	-0.60%	-0.20%	-	
Bloomberg Global Aggregate Index, AUD Hedged	-	0.99%	3.69%	5.97%	-2.15%	
Bloomberg AusBond Composite 0+ Year Index	-	1.21%	3.50%	5.15%	-1.79%	
<b>Foreign Exchange</b>	<i>US\$</i>					
AUD/USD	0.6765	3.41%	1.68%	4.33%	-2.58%	

Source: Bloomberg, at 31 August 2024



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