Count
The confidence to look ahead

Market **Wrap**

September 2024

Economic and market overview

- The S&P/ASX 200 Index added 3.0% in September, which extended gains from Australian shares to more than 12% in the calendar year to date.
- The favourable return was consistent with a broader rally in global share markets, as investors welcomed a 0.50% reduction in US interest rates.
- The rate cut in the US also supported positive returns from fixed income.
- The presidential election in the US on 5 November could dominate headlines during October, before the next meeting of the Federal Reserve later that same week. Investors are already debating whether a further reduction in borrowing costs in the US could be announced following this meeting.
- Financial markets have been largely unaffected by conflict in the Middle East thus far, although escalating tensions in the region are worthy of ongoing attention.

- **US:** Following a meaningful drop in inflation, officials at the US Federal Reserve felt comfortable lowering official interest rates by 0.50%. The move had been reasonably well telegraphed, but nonetheless was at the outer end of consensus forecasts – many investors had anticipated a 0.25% reduction.
- With the first cut now out of the way, attention has turned to the future interest rate path; specifically, when the next rate cut could occur and how low interest rates might go thereafter.
- Overall, investors remain hopeful that policymakers can engineer a 'soft landing' in the world's largest economy, whereby inflation continues to come off the boil while economy growth remains intact.
- Labour market data is being watched closely, as an indicator of overall activity levels and confidence among US firms.
- For now, job creation remains encouraging and unemployment stands at 4.2% – up a little since the beginning of 2024, but unlikely a concern currently for Federal Reserve policymakers.

- **Australia:** As expected, official cash rates were left unchanged at 4.35% following the Reserve Bank of Australia's latest meeting.
- Policymakers remain concerned about persistent inflationary pressures. The 'trimmed mean' measure – favoured by central bank officials – showed inflation in Australia running at an annual rate of 3.9% in the June quarter; substantially higher than the Reserve Bank's 2% to 3% target range.
- Officials have been deliberately vague about the future interest rate path, insisting they will remain data-dependent in determining the most appropriate policy settings. At this stage, the Reserve Bank is forecasting that inflation is unlikely to fall back within the target range until 2026, suggesting borrowing costs could remain elevated for the foreseeable future.
- The latest reading showed business confidence falling quite sharply, suggesting Australian firms could hold back on new hiring. This could have indirect consequences for monetary policy settings going forward.
- Unemployment in Australia has risen to 4.2%, up from a record low of 3.5% in mid 2023. Any further increases could start to erode discretionary spending in Australia, which in turn could help cool inflationary pressures and, potentially, provide the Reserve Bank with some flexibility to lower borrowing costs.

- **New Zealand**: September was a quiet month news-wise in New Zealand, with no Reserve Bank meeting scheduled. Policymakers will convene in early October, however, and could lower interest rates further following August's 0.25% cut.
- That initial move already appears to be having its desired effect. Business confidence improved in September, which could help support activity levels and accelerate investment/hiring plans.
- Consumer confidence has also improved modestly, as homeowners greeted the prospect of lower mortgage interest payments. Moreover, consensus forecasts suggest official cash rates could be lowered twice more before the end of this year, with further cuts possible in 2025.

- **Europe:** Official interest rates were lowered in the Eurozone during September, by 0.25%.
- Inflation in the region fell to an annual rate of 1.8% in September. This is the lowest level since 2021 and, importantly, is below the European Central Bank's 2% target.
- Against this background there is increasing confidence among investors that official interest rates in the region will be lowered for a third time this year, following the Bank's next scheduled meeting in mid October.
- Officials have stopped short of pre-committing to further rate cuts, but a further easing in policy settings could be required to help prevent more economies in Europe from falling into recession. The German economy contracted in the June quarter and growth in other countries remains weak, at best.
- The latest Purchasing Managers Index – a closely-watched forward-looking indicator of activity levels – painted a particularly gloomy picture for manufacturers in the region.
- The services sector has held up a little better thus far, but could start to weaken if business and consumer confidence levels are eroded further.
- Across the English Channel, UK inflation remained slightly above the Bank of England's target. Policymakers left interest rates unchanged in September, following a 0.25% cut in August.

- **Asia**: In China, interest rates on medium-term loans were lowered by 0.30%; the biggest single cut on record. Combined with some other stimulus measures, this move aims to support the beleaguered property sector and reinvigorate economic growth more broadly.
- The steps taken were the most significant since the Covid pandemic and underlined the determination among officials in Beijing to generate annual GDP growth of at least 5%. Policymakers seem willing to use all of the tools at their disposal to achieve this target.
- The news provided a strong tailwind for share markets in China and across the Asia Pacific region and, if successful, the measures could lift global GDP growth forecasts for the year ahead.
- In Japan, the Prime Minister stepped down following a recent fundraising scandal and an associated dip in approval ratings.
- He was replaced by former defence minister, Shigeru Ishiba, who promised an election as soon as possible (likely towards the end of October) as he seeks a fresh mandate to lead.
- Ishiba is not expected to deviate meaningfully from the policies of his predecessor, although the uncertainty nonetheless unnerved investors and saw Japanese shares lose ground over the month.

Australian dollar

- The Australian dollar fared well in September, appreciating by around 2% against the US dollar.
- The move largely reflected interest rate differentials between the two countries. The Reserve Bank of Australia has suggested cash rates are unlikely to be lowered locally in the near term, at a time when the Federal Reserve is widely expected to cut US interest rates further.
- The exchange rate movements had the effect of diluting returns from overseas investments for AUD-denominated investors. Global shares made positive progress in local currency terms, for example, but returns were slightly negative in AUD terms.

Australian equities

- Australian shares generally performed well in September, particularly those in the Materials sector.
- The S&P/ASX 200 Index returned 3.0% over the month, extending gains to more than 12% in the calendar year to date. By month end, the local share market was trading at all-time highs, underlining the risk appetite among investors recently.
- News of fresh economic stimulus measures in China and the associated prospect of rising demand for commodities fuelled gains for major miners including BHP Group, Rio Tinto and Fortescue, as iron ore and copper prices rose.
- Elsewhere in the sector, Mineral Resources was a standout performer, adding nearly 30% following the finalised sale of its Onslow Iron haul road and after the company released updates on its Lockyer Gas and Erregulla oil projects.
- The gold price also soared to fresh all-time highs, which benefited gold producers.
- The IT sector also performed well, returning 7.4% and extending its very strong recent run. The sector has returned nearly 50% in 2024 and is comfortably the best-performing area of the market in the calendar year to date. Hotel e-Commerce platform SiteMinder was a standout in September, rising 29.0%.
- CSL, Cochlear and Neuren Pharmaceuticals all struggled and weighed on the performance of the Health Care sector (-3.2%).
- The Consumer Staples sector (-1.7%) also underperformed the broader market, after the competition regulator, Australian Competition and Consumer Commission, said it was launching legal action against supermarket operators Woolworths Group and Coles Group. This news sent the stocks -4.1% and -2.2% lower, respectively.
- Small caps performed even more strongly than their larger peers, with the S&P/ASX Small Ordinaries Index returning 5.1%. This was a welcome development for small cap investors, following a period of relative underperformance.
- Luxury goods seller Cettire was the strongest performer in the small cap space, soaring more than 75%. An independent auditor approved the company's annual 2024 financial accounts, which were unapproved when initially released in August.

Global equities

- Returns from overseas share markets were mixed, although gains in US stocks supported positive returns from global equities overall.
- The S&P 500 Index has now risen nearly 20% in the calendar year to date, with the reasonably upbeat economic outlook expected to be supportive of corporate earnings growth.
- It is worth noting that the US share market has historically been fairly volatile in the month leading up to a presidential election, suggesting we could see some turbulence during October as some investors bank profits from the recent rally.
- Gains in the US were made across the board, including among technology stocks. This supported another month of positive returns from the NASDAQ.
- The most impressive monthly returns were seen in Asia, where the Chinese and Hong Kong markets both returned around 17%. The new stimulus measures announced in Beijing provided a strong tailwind for the local markets, as they are expected to boost economic activity levels and should, in turn, support corporate earnings for Chinese firms.
- Movements in major European share markets were much less significant. Germany's DAX registered a modest gain, but returns from the region overall were more subdued owing to the release of downbeat economic data.

Property securities

- Global property securities joined in the broader equity market rally in September, with the FTSE EPRA/NAREIT Developed Index returning 0.9% in AUD terms.
- Hong Kong (+9.2%) was the best performing individual market, after the Peoples Bank of China lowered key mortgage rates and unveiled a set of lending measures to support the property sector.
- France was another notable outperformer, adding 7.5%.
- At the other end of the spectrum J-REITs struggled, falling nearly 5% over the month. Sentiment towards Japanese property stocks deteriorated as investors speculated about possible policy changes following the appointment of a new Prime Minister.
- In Australia, A-REITs added 6.8% to round off an impressive quarter of performance. The sector returned more than 14% in the three months ending 30 September, extending returns to more than 24% in the calendar year to date.

Fixed income and credit

- US Treasury yields moved lower for a fifth consecutive month, resulting in further gains for global fixed income indices. The Bloomberg Global Aggregate Index added around 1% in AUD terms.
- Yields on 10-year Treasuries closed the month 0.11% lower, following the 0.50% cut to the Federal Funds rate. Forecasters had been split whether policymakers would lower interest rates by 0.25% or 0.50% and so the larger cut exerted further downward pressure on bond yields.
- More importantly, consensus forecasts suggest the Federal Funds rate will be lowered further in the months ahead and during 2025. A further 0.50% of easing is anticipated before the end of this year, with a further full percentage point of cuts currently priced in for next year.
- Irrespective of the extent of the moves, with 10-year Treasury yields around the 3.80% level, investors clearly believe that official cash rates (currently 4.75% to 5.0%) are heading lower.
- German bund yields also fell, as economic data in Europe continued to disappoint. Conditions for manufacturers in the region remain particularly challenging. Ongoing economic stagnation has fuelled speculation that the European Central Bank will lower interest rates during October, following its next scheduled meeting.
- Yields on UK gilts and Japanese Government Bonds did not move meaningfully over the month, as forward-looking interest rate expectations were largely unchanged in both countries.
- At just under 4%, yields on 10-year Australian Commonwealth Government Bonds were also stable. Returns from the local fixed income market were therefore dominated by the receipt of bond coupons. The Bloomberg AusBond Composite 0+ Year Index eked out a small positive return over the month, extending gains to around 7% on a rolling 12-month basis.
- Finally, spreads on investment grade credit ground tighter and approached their 2024 lows. This supported returns from corporate bonds, which continue to offer prospective returns over and above those currently available from comparable sovereign bon

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