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From

Monthly Market Update April 2024

Key Events in April 2024

- April reinforced that inflation is the key risk to the market outlook and has the potential to unwind the rally in risk assets.
- April saw major stock and bond markets decline due to a shifting interest rate outlook, following US higher than expected inflation data, which fuelled fears that the US Fed and other central banks would not ease their monetary policy as soon as hoped.
- Over the month The US S&P 500 had a drop of -4.1%, the ASX 200 fell -2.9%, whilst the MSCI World ex-Australia Net Total Return Index returned -3.2% in AUD terms, whilst emerging market equities returned +1.0%.
- Large growth companies continue to drive a large portion of the US equity market's results during the past three and five years – April was no different. The S&P 500 (weighted by the size of the companies in the index) has outperformed the equal-weighted S&P 500 (representing the results of the average company) by an increasingly wide margin over the past 18 to 24 months.
- Implied volatility, often viewed as the market's fear index, has increased significantly for the ASX200, S&P 500 and Euro Stoxx 50.
- As of April 30th, investors were no longer pricing a cut to the US Fed Fund rate for 2024, leading major bond markets to 2024 lows of -1.70% in April, Bloomberg Barclays Aggregate Bond Hedged AUD ATR Index.
- Speculation about when the RBA will start to cut rates has shifted to talk in some quarters of further hikes, as inflation proves harder to bring down than expected.
- On April 24, the ABS reported that CPI rose 1% in the first three months of 2024, bringing annual headline inflation to 3.6%, outside the RBA's 2-3% target range.
- The Australian unemployment rate rose by 0.1% to 3.8% and employment contracted by 7,000 jobs in March. Weaker domestic demand suggests that the unemployment rate should rise.
- House prices across Australia's eight capital cities rose 0.6% m-o-m or 9.4% y-o-y in April. Auction clearance rates continue to rise, pointing towards underlying strength in the property market.
- The shift in interest rate sentiment was reflected in the sharp movement in currencies. The US dollar gained against other major currencies over the month causing issues for smaller economies say in emerging market sector, that may be forced to defend currencies. Up +005% against the Australian dollar over the month.
- Gold rallied to a new high of USD 2,300 per ounce during the month before falling back but still +11% y-t-d.

Asset Class Summary

Table 1: Asset Class Returns – Periods to 30 April 2024

30-Apr-24 Sectors	1 Month %	3 Months %	1 Year %	3 Years % pa	5 Years % pa	10 Years % pa
Australian Shares	-2.9	1.0	9.1	7.3	8.0	7.8
Australian Small Companies	-3.1	3.3	7.4	0.0	3.9	6.5
International Shares (unhedged)	-3.2	5.7	21.3	12.5	12.9	13.6
International Shares (Hedged)	-3.3	4.7	19.0	6.0	9.6	9.9
Emerging Markets (Local)	1.4	9.9	13.4	-2.0	4.5	6.3
Australian Property Securities	-7.8	6.3	19.6	7.4	5.3	9.0
Global Property Securities (Hedged)	-5.4	-2.1	-0.1	-4.3	-1.7	3.2
Listed Infrastructure (Global)	-1.0	4.0	3.0	6.9	6.1	8.1
Australian Bonds	-2.0	-1.2	-0.7	-2.1	-0.3	2.3
Global bonds (hedged)	-1.7	-1.7	0.4	-3.0	-0.5	2.1
Cash	0.4	1.1	4.2	2.2	1.6	1.8
	Change over the month					
AUD/USD	-0.6					

Past performance is not a reliable indicator of future performance.

Source: S&P ASX 200 Accum Index, S&P ASX Small Ordinaries Accum Index, MSCI World EX Australia, MSCI Emerging Markets AUD, MSCI Emerging Markets in Local Currency, S&P ASX 200 A-REIT Accum Index, FTSE EPRA/NAREIT Developed TR Hdg (AUD), MSCI World Infrastructure in (AUD) , Bloomberg AusBond Composite 0+Yr Index, Barclays Global Aggregate TR Hdg AUD, Bloomberg AusBond Bank Bill Index, Currency Change (Iress-Pro)

Australian Markets

April proved to be a negative month for the S&P/ASX 200 down -2.9% weighed down by higher yields both in the US and in Australia. However, the Australian equity market managed to outperform the US S&P 500 which returned -4.1% for the month but was beaten by Europe -0.6% and Japan -0.9% in local currency terms.

Utilities were the best performing sector +4.8%, followed by Materials +0.5%. Interest rate sensitive sectors such as A-REITS -7.8% and Consumer Discretionary -5.3% were hit hardest.

Except for a few commodities, the overall commodity complex enjoyed positive performance in April, with Base Metals, Battery Materials and Steel-related materials continuing a rerate from lower prices experienced in 2023.

Small caps performed marginally underperformed the broader Australian share market returning -3.1% for April dragged down by the small industrials sector -5.0%

Global Markets

Global share market as represented by the MSCI World ex Australia Index Unhedged provided a negative return of -3.2% and -3.3% on a Hedged basis.

Speculation about a frothy U.S. equity market came to a head in April, as rising bond yields challenged the lofty valuations applied to the U.S. market. However, the economic backdrop remains supportive for earnings growth, and the first quarter U.S. earnings season has seen companies beat expectations, albeit against a low bar.

European markets are coming into focus given the attractive valuations compared to other developed economies and the improving economic outlook for the region. Economic surveys suggest a pick- up in economic Activity, while fading inflation should see the European Central Bank begin its easing cycle by mid-year.

In a reversal from prior months, Emerging market equities were the outperformers as the MSCI EM index gained +1.4%, and Asia ex-Japan was up +2.1% higher as low valued Chinese and Hong Kong markets gained attention from investors.

Bonds

Government bond yields underwent large moves during the month. The Australian 10-year government bond yield rose 46 basis points (bps) to 4.42%. Meanwhile the U.S. 10-year Treasury was 48bps higher to 4.68%. The spread to the policy sensitive 2-year bond yield remains negative (-33bps) as the shorter duration end of the curve rose to 5.03% to reflect higher rate expectations.

The rise in government bond yields weighed on the performance of corporate credit, even as spreads remain tight. Global investment grade bonds fell 2.3%, while the higher yield mitigated loses on global high yield bonds to -0.7%.

The Australin fixed interest market returned -1.96% for April and down -1.18% for the quarter, whilst global fixed interest (hedged) returned -1.70% and -1.70% for the quarter.

Currencies

The AUD finished lower at 0.65 US cents as traders delayed expectations of the timing and magnitude of rate cuts. A weaker AUD also lifts import price inflation which feeds into CPI data, putting further upward pressure on inflation.

Outlook

Equities have had a good run – Focus on Earnings Growth !

Too many companies with solid earnings growth have not been rewarded in narrow equity markets. Earnings growth expected to take centre stage again.

Given the surprisingly strong first quarter performance from share markets investors should expect a certain amount of consolidation. Going forward, monitor signs in expected earnings growth, as currently equity valuations seem stretched, constrained by elevated interest rates. Earnings growth will need to be the driver of any further equity advances. Better earnings expectations should also lead to a greater breadth of companies (in addition to the Mag7) participating the bull market, extending to the less expensive small and mid-cap equity asset classes.

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