Atchison

# Monthly Market Update
# March 2024

## Key Events in March 2024

- Another record high for share markets at March end, on the back of expectations of US interest rate cuts later this year along with hopes of continued resilient economic growth.
- In local currency terms the US S&P 500 gained +3.1%, the ASX 200 rallied +3.3% whilst the MSCI World ex-Australia Net Total Return Index rose +3.1% in AUD terms.
- Reserve Bank of Australia (RBA) left interest rates unchanged at 4.35% as headline inflation data remained broadly stable at 3.4% y-on-y, with the services component sticky.
- RBA Governor Michele Bullock indicated a flexible approach to curb inflation amid economic growth slowdown, emphasizing that the interest rate path remains uncertain and data dependent. Headline inflation stood at 4.1% in Q4 2023, down from 5.4% in Q3 and a peak of 7.8% in Q4 2022.
- Australian Consumer Inflation Expectations dipped to 4.3% in March 2024: from 4.5% in February, the lowest level since October 2021. This easing is attributed to a moderation in goods prices following rate hikes totalling 425bps over the past two years by the central bank.
- Australian jobs data came in better than expected with the unemployment rate falling to 3.7%., and job vacancies dropped 6.1% in the three months to February. National houses prices rose +0.6% m-on-m in March to be up +9.7% y-on-y.
- Several Central Banks met during March. The US Federal Reserve maintained the Fed Funds rate at 5.25%-5.5% for a fifth straight meeting. The market is expecting the first rate cut in July but seems to be pushing it out due to robust economic data and sticky services inflation.
- European Central Bank indicated it could cut interest rates as soon as June, given the fall in inflation and continued subdued economic growth.
- China's economy shows signs of awakening with manufacturing data showing signs of improvement for the first time in five months. But property investment and consumer confidence remain restrained.
- Bank of Japan increased short-term interest rates to 0-0.1%, the first time since 2007, while the Swiss National Bank unexpectantly cut rates 0.25%.
- Risks to the outlook for the global economy have become more balanced as inflation has eased, but global financial stability risks remain elevated.
- Many market participants have priced in an easing in monetary policy, likely later this year, with inflation returning to central banks' targets. This leaves markets vulnerable to an adverse shock, including from inflation proving more persistent than expected or a severe geopolitical event.

## Asset Class Summary

### Table 1: Asset Class Returns – Periods to 31 March 2024

| 31-Mar-24<br>Sectors | 1 Month<br>% | 3 Months<br>% | 1 Year<br>% | 3 Years<br>% pa | 5 Years<br>% pa | 10 Years<br>% pa |
|---|---|---|---|---|---|---|
| Australian Shares | 3.3 | 5.3 | 14.5 | 9.6 | 9.2 | 8.3 |
| Australian Small Companies | 4.8 | 7.6 | 13.8 | 2.7 | 5.4 | 6.7 |
| International Shares (unhedged) | 3.1 | 14.2 | 29.4 | 15.0 | 14.7 | 14.1 |
| International Shares (Hedged) | 3.4 | 10.1 | 25.0 | 8.6 | 11.1 | 10.4 |
| Emerging Markets (Local) | 3.0 | 4.5 | -7.5 | 10.6 | -2.4 | 5.7 |
| Australian Property Securities | 9.7 | 16.8 | 36.6 | 11.4 | 6.5 | 10.5 |
| Global Property Securities (Hedged) | 3.6 | -0.1 | 7.7 | -0.7 | -0.8 | 4.1 |
| Listed Infrastructure (Global) | 4.3 | 8.3 | 8.2 | 7.9 | 6.5 | 8.4 |
| Australian Bonds | 1.1 | 1.0 | 1.5 | -1.3 | 0.2 | 2.6 |
| Global bonds (hedged) | 0.8 | -0.3 | 2.5 | -2.4 | -0.1 | 2.3 |
| Cash | 0.4 | 1.1 | 4.2 | 2.1 | 1.5 | 1.8 |
| | **Change over the month** | | | | | |
| AUD/USD | +0.24 | | | | | |

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

The S&P/ASX 200 closed the month off on another fresh record high in March returning +3.3% for the month and +14.5% for the 12 months buoyed by strong performance on Wall Street, and better than expected February earnings season, with profits weaker overall but dividends still plentiful.

Real estate investment trusts were well ahead +4.3 %, with Energy being the next best performer at +5.3% for March. Also, recording positive returns were Utilities +4.8%, Materials +3.7%, Financials +3.1, IT +2.9%. Telecoms was the only sector in red -0.6% on the month.

For example, some of the best performing stocks in March were Life360 Inc +65% following the release of its FY2023 results. Life360 posted a jump of 52% in subscription revenue. West African Resources Ltd gained +38% as the price of gold surged. Virgin Money UK rose +33% after it received a takeover offer from Nationwide Building Society. Finally Alumina Ltd share price jumped +29% also driven by a takeover approach by Alcoa Corporation.

Small caps performed strongly returning +4.8% in March, with resources+8.5% outperforming industrials +3.5%.. Small caps are now narrowly underperforming the broader index by -0.7% over the 12 months.

## Global Markets

Global equity markets soared on increasing optimism about US economy overlain by a frenetic FOMO about AI. The broad MSCI World ex Australia Index (unhedged) returned +3.1% for March whilst the hedged version returned +3.4%.

Both the Dow and the S&P 500 ended March at record levels and big gains. The S&P 500 surged +3.1% for the month and +10.2% for the quarter whilst the Dow was up +2.1% for the month and +5.6% for the quarter. The Nasdaq added +1.8% over the month , championed by Nvidia and Meta Platforms.

European markets also made gains, with the Euro Stoxx 50 returning +4.3%. UK Equities recovered from last month and posted a +4.2% return.

In Japan, the Nikkei was up +3.1% and the Topix was up +3.5%. Ongoing Yen's weakness continues to help the export-oriented market. Chinese and Hong Kong stocks were more muted this month, with the Hang Seng up +0.2%.

## Bonds

Bond rose despite some signs of sticky inflation. The US central bank reiterated their expectation to cut interest rates three times later this year. Australian and US 10-year bond yields fell 17bps to 3.9% and 5bps to 4.20% respectively. US and Australian credit spreads declined supported by upgraded economic growth forecasts by the US central bank.

The Australin fixed interest market returned +1.12% for March and up +1.03% for the quarter, whilst global fixed interest (hedged) returned +0.81% and -0.31% for the quarter.

## Currencies

The Aussie dollar strengthened further against the US dollar. The AUD/USD rate gained 0.4% , closing at 65.21 US cents.

## Outlook

**Aussie shares look cheap on a relative basis !**

Australian shares may be entering an extended period of outperformance compared to global equities on the back of strong commodity prices, elevated dividends, and a resilient domestic economy.

Since the share market lows of March 2009 Australian equities have risen +136%, compared to a +382% gain in global shares and a massive +615 % increase in US shares, on a total-returns, local currency basis. While adding dividends improves Australia’s performance, it still is not enough to beat global and US shares over the period. Major reasons for Australian equity market post GFC performance was due to slump in commodity prices (dragging down mining stocks) and a high AUD (reducing competitiveness of Australian companies). More recently Australia’s lack of high growth tech companies has added to relative underperformance of the domestic equity market.

However, compared to global shares the Australian share market should benefit from China’s need to stimulate their economy to boost confidence, lower AUD around U$0.65, higher dividend yield, return to significant population growth, lower interest rate, and the Australian consumer holding up and still spending. .

For investors taking a medium to long term view, balancing an equal allocation to Australian and international shares may provide an opportunity to participate as Australia re-positions itself as the “lucky country”.

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