Month in Review as at August 2024

Index returns at August 2024 (%)

Australian Equities	1 mth	3 mth	6 mth	1 yr	3 yr	5 yr	10 yr
S&P/ASX 200 TR Index	0.47	5.74	6.97	14.90	6.73	8.14	8.02
S&P/ASX Small Ordinaries TR Index	-2.02	-0.01	1.52	8.51	-2.90	3.89	5.84
Global Equities							
MSCI World NR Index (AUD)	-1.21	4.46	6.19	18.78	9.58	12.95	13.15
S&P 500 PR Index (USD)	2.28	7.03	10.83	25.31	7.69	14.06	10.92
FTSE 100 PR Index (GBP)	0.10	1.22	9.79	12.60	5.57	3.05	2.08
MSCI Emerging Markets NR Index (AUD)	-2.20	3.84	5.24	9.84	-0.62	4.64	5.91
Real Estate Investment Trusts							
S&P/ASX 300 A-REIT TR Index	0.57	7.62	10.98	25.21	5.88	5.31	9.20
FTSE EPRA/NAREIT Dev. NR Index (AUD Hgd)	5.00	11.52	12.51	15.42	-2.54	0.32	3.82
Fixed Interest							
Bloomberg Ausbond Composite 0+ Yr Index	1.21	3.50	2.99	5.15	-1.79	-0.55	2.33
Bloomberg Ausbond Bank Bill Index	0.38	1.11	2.22	4.39	2.69	1.75	1.89
Bloomberg Global Aggregate TR Index (AUD Hgd)	0.99	3.69	3.55	5.97	-2.15	-0.69	2.14

Data source: Bloomberg & Financial Express. Returns greater than one year are annualised.
Commentary regarding equity indices below references performance without including the effects of currency (unless specifically stated).

Key Market Points

- The Australian equity market rose 0.5% over the month. It was another strong month for the Information Technology sector, with other sectors mixed. Energy was the notable weak spot.
- Globally, most developed markets rose over the month with Asian markets mixed.

Australian equities

The reporting season was a mixed month for the ASX 200, which finished August up 0.5%. The market experienced wild swings, including the worst session since June 2022, with the Index dropping 3.7% on August 5th. However, it also saw a 10-session run of gains, the longest streak since February.

Information Technology (I.T) led again, up another 7.9%, while Industrials (+3.9%) and Communications (+3.5%) were the next best sectors. Energy (-6.0%) and Materials (-1.9%) continued to weigh on the Index as falling commodity prices impacted earnings.

I.T continued to benefit from strong market sentiment, demonstrated by strong profit guidance from Wisetech (ASX: WTC), whose share price rose by around 25% to an all-time high. Other tech-sector companies Pro Medicus (ASX: PME), REA Group (ASX: REA), and Life 360 (ASX: 360) also reported strong performances.

Losses across the Materials sector were widespread due to exposure to declining iron ore prices. China's slowing economy has contributed significantly to the weakening demand for metals. This resulted in a 35% drop in the price of iron ore this year.

Overall, August was another mixed month for the ASX 200 Index as investors navigate the ever-changing market environment.

Global Equities

August began with a dramatic fall in global equities. Both Developed and Emerging Markets fell in August with Developed markets losing -1.24% (MSCI World Ex- Australia Index (AUD)) versus a -2.20% return (MSCI Emerging Markets Index (AUD)).

US markets dropped sharply at the beginning of the month, largely driven by July's payroll reports coming in below expectations and continued concerns regarding a US recession. The rotation out of big tech names also drove sell offs, while strong earnings from sectors other than Tech helped stabilise the market. Markets rebounded later in the month as the Federal Reserve signaled they may cut rates in 2024. The S&P 500 rose 2.4% (in local currency terms) and the Nasdaq 100 only gained 1.2% (in local currency terms) for August.

Japanese equities were among the hardest hit at the beginning of August, with the TOPIX Index falling 12% on the 5th of August, the biggest daily drop in almost 40 years. Fueled by both weakening US economic data and the sharp hiking of rates by the Bank of Japan. However, markets slowly recovered as US recession fears eased and the Bank of Japan took a more dovish stance. The Nikkei 225 Index gained 0.39% (in local currency terms) while the TOPIX lost -2.92% (in local currency terms) for August.

Property

The S&P/ASX 200 A-REIT Accumulation Index TR moderated in August, with the index finishing the month 0.54% higher and up 18.34% YTD. Global real estate equities continued the strong trend (represented by the FTSE EPRA/NAREIT Developed Ex Australia Index (AUD Hedged)) advancing 5.39% for the month. Australian infrastructure reversed the moderating trend seen in July, with the S&P/ASX Infrastructure Index TR returning 1.72% for the month and up 7.44% YTD.

Fixed Income

August marked another strong month for the bond market, as investors sought the safety of fixed-income assets amidst growing market uncertainty. According to data from the Australian Bureau of Statistics, the Consumer Price Index (CPI) rose by 3.5% annually in July, but from a monthly perspective, this was a decline from 3.8% in June. This drop was mainly due to government energy rebates that reduced electricity prices.

The Reserve Bank of Australia (RBA) kept the cash rate steady at 4.35%, signaling that further rate cuts would only be considered once inflation levels decline further, with expectations for the first rate cut anticipated in Q1 2025. However, the bond market rally was primarily driven by global markets, leading to a decline in Australian 2-year and 10-year bond yields by 21 and 15 basis points, respectively.

Globally, there was a significant sell-off in the US equity market earlier in the month, driven by the unwinding of the Yen carry trade and a disappointing US jobs report, which unsettled investors and pushed US 10-year yields down to 3.8% as they sought safe-haven assets.
However, as the month progressed, the market rebounded, with US 10-year yields ending higher at 3.9% by month's end.

Federal Chairman Jerome Powell signaled that a policy adjustment might be imminent, indicating that a rate- cutting cycle could begin as early as the Federal Open Market Committee meeting in September. This potential move is in response to a cooling labour market and inflation figures approaching the 2% target. Amid this backdrop, US 2-year and 10-year treasury bond yields fell by 34 basis points and 13 basis points, respectively.

Economic key points

- Australian annual inflation eased to 3.5% in July, slightly above expectations.
- Q2 GDP was 0.2%, with the annual rate standing at 1.0%, driven by government spending and immigration.

Australia

Monthly CPI data indicated that headline inflation decelerated to +3.5% for the 12 months to July, slightly higher than expected. With residential energy bills reduced by government rebates in the new financial year, economists had forecast that annualised CPI would ease to +3.4%. However, insurance, food, education and rent costs continue to rise significantly, partially offsetting the government subsidies. The RBA's preferred metric, the annual trimmed mean inflation rate, eased only to +3.8%, still well above the bank's 2- 3% target range.

GDP growth for the June quarter was 0.2% compared to the previous 3 months, slightly below expectations. This represents 1% growth for the 2024 financial year, its slowest pace since the early 1990s. These results continue to be buoyed by government spending and immigration, as GDP per capita has fallen for 6 consecutive quarters. Retail sales were flat in July, falling short of the 0.3% forecast, with annual sales rising 2.3% and largely attributed to mid-year sales.

The unemployment rate rose to 4.2% in August, above the anticipated 4.1%. The Westpac-Melbourne Institute Consumer Sentiment Index for August rose to the highest in six months, yet views on family finances remain weak and home buyer sentiment dropped as price expectations cooled.

Composite PMI returned to growth in August, coming in at 51.7, largely driven by an uptick in services activity. The NAB business confidence index dropped to 1 in July, well below the expected 5 and June's revised figure of 3.
The trade surplus increased to $6.01 billion in July, up from the revised $5.43 billion in June and well above the forecast $5 billion.

US

Further soft economic data from the USA revived concerns that the country may already be in recession. The Institute for Supply Management's Manufacturing PMI was 47.2 for August, marginally above its July level but still indicating a contraction of activity for the fifth consecutive month. US job openings dropped to a three and a half year low of 7.7 million in July, missing the 8.1 million forecast, and the figures from June were also revised lower. There are now only 1.07 open positions for every unemployed person.

Finally, the Federal Reserve's Beige Book survey indicated that economic activity was flat or declining across three-quarters of the US regions covered. Various metrics confirmed that the employment market had weakened, with some firms reporting cutting shifts and hours rather than outright layoffs, or not replacing departed workers, while jobseekers were taking longer to find new employment. August non-farm payrolls rose 142,000, above the previous month, but below the forecast of 160,000. The unemployment rate eased to 4.2%, aligning with market expectations.

At the Jackson Hole Economic Symposium, Fed Chair Jerome Powell's comments that "the time has come for [monetary] policy to adjust" and that his board would "do everything we can to support a strong labour market" were taken to confirm that US interest rates would be cut by at least 0.25% at the next meeting in September.

Retail sales for July rose 1%, far ahead of the 0.3% forecast. Annual sales increased 2.7%, well above the 1.8% forecast. Consumer sentiment rose to 67.9 in August, missing the anticipated 68. Composite PMI increased to 54.6 in August, led by the services sector (55.7) which experienced its fastest pace of activity since March 2022.

The trade deficit widened to US$78.8 billion in July, in line with forecasts.

Euro area

The inflation rate in the Euro area fell to 2.2% in August consistent with market expectations and marking the softest increase in consumer prices since July of 2021.

Retail sales increased 0.1% in July, matching expectations, while annual sales dropped 0.1%, below the expected +0.1%. Consumer confidence fell to -13.5 in July, as views on household finances declined. The unemployment rate dropped to 6.4% in July, below the market forecast of 6.5%.

The Composite PMI rose to 51 in August, pointing to the strongest performance in private sector activity in three months. This was driven by a quicker than expected upturn in services (52.9. Despite this increase, the economy remains fragile as new orders, employment and business confidence deteriorated.

UK

Annual inflation in August edged up to 2.2%, below the expected 2.3%, with prices for housing and household services rising faster as gas and electricity prices fell less than in the previous month. Consumer confidence was steady at -13 in August as concerns about the economy continued to weigh on households.

Retail sales rose 0.5% in July while annual sales increased 1.4%, both in line with market expectations.

Composite PMI rose to 53.8 in August, supported by increased demand for both goods and services.

China

China's factory activity shrank for the fourth month in a row in August as the official PMI came in at 49.1 and below the expected 49.5. Non-manufacturing activity fared a little better, rising to 50.3 from July's 50.2. The ailing property sector continues to be a drain on the economy as it is yet to see a meaningful rebound.

Inflation rose 0.6% in August from 0.5% in July, although falling short of forecasts of 0.7%. This was the highest level since February this year and added to latest bout of China growth fears. China's unemployment rate rose to 5.2% in July slightly above forecasts but below the government target rate of 5.5%. Retails sales rose 0.35% month in month in July, bringing the annual increase to 2.7%, slightly ahead of the anticipated 2.6%.

Japan

The Bank of Japan raised its cash rate from 0.1% to 0.25%, just four months after lifting it out of negative territory, taking another step towards normalising its monetary policy.

Annual inflation held steady at 2.8% in July, under forecasts of 2.9%, whilst core inflation hit a five-month peak of 2.7%. PPI increased 3.0% in July, meeting market forecasts. Consumer confidence was unchanged at 36.7 in August, below expectations of 36.9. Retail sales increased 0.2% in July, down on the previous month's +0.6% with the annual rate rising 2.6%, below the anticipated 2.9%.
Composite PMI increased to 52.9 in August, with both the services and manufacturing sectors expanding.

Japan's Prime Minister Fumio Kishida advised he would step down in September, succumbing to public disaffection over political scandals and rising living costs that marred his three-year term. His replacement will be selected by his party in September.

Currencies

The Australian dollar (AUD) appreciated over the month of August, closing 0.6% higher in trade weighted terms to 62.6, appreciating against the US Dollar (USD), Pound Sterling (GBP) and Euro (EUR) whilst depreciating against the Japanese Yen (JPY).

The Australian dollar strengthened against the USD in August, supported by decreased market volatility in Australia and increased weakness in the USD. The major difference in outlook being around interest rate expectations, with the RBA continuing to hold rates whilst investors in the US are expecting a rate cut in September.

Against other currencies, the AUD performed moderately, experiencing a decline against the Japanese yen amid speculation around further interest rate hikes by the Bank of Japan.

Relative to the AUD, the JPY led the pack in August, appreciating by 1.3%. Conversely, the USD was the laggard of the month, depreciating in relative terms by 3.5% against the AUD. Year-on-year, the AUD remains ahead of the GBP, EUR, USD and JPY by 1.1%, 3.2%, 4.4% and 4.4% respectively.