Quarterly Market Update
31 March 2024

Climbing to the Peak

After the exuberance of the "pivot party" in the last eight weeks of 2023 – when central banks all but confirmed that interest rises were over, and the next moves would be downward – many thought that there could be a retraction in early 2024. But markets have shaken off expectations that interest rate cuts are not coming as quickly as they had priced in at the end of last year and have been steadily climbing throughout the quarter approaching their peaks.

Australia's sharemarket has been touching it's all time high throughout March, building on the same momentum that has pushed many major global equity benchmarks to fresh records on expectations of a world-wide rate cutting cycle. In the March quarter the S&P/ASX 200 index is up 5.3%, and that's after the gain of 12.1% between November the 1st and December the 31st last year. The S&P 500 Index is up 10% this quarter, and up over 32% in the last 12 months.

At the heart of these impressive rallies appears to be the unshakeable belief that a soft landing has been achieved, and that economies will continue to grow. The sharpest increases in interest rates in generations has not led to a recession, inflation has been tamed and continues to fall, moving closer to the 2% to 3% target band that central banks are waiting on, and Interest rate cuts are now just a matter of when, not if.

Economic news of the quarter has been consistent with a Goldilocks scenario of continuing growth, low unemployment and falling inflation, with central banks remaining on track for rate cuts this year. However, some market strategists have warned that the market has simply become too overbought and that a material pullback is near. But even they acknowledge It is extremely hard to know how stretched a rally in the stock market has become when the advance is as strong and relentless as this one has been this year.

At this point, it seems there is little to stop this momentum continuing. It's all blue skies ahead – interest rates and inflation are normalizing, economic growth is forecast to improve, unemployment remains low, and there appears to be no obvious risks on the horizon (while acknowledging on-going geopolitical tensions). Of course, these are exactly the times to be cautious about the risks the market doesn't see coming.

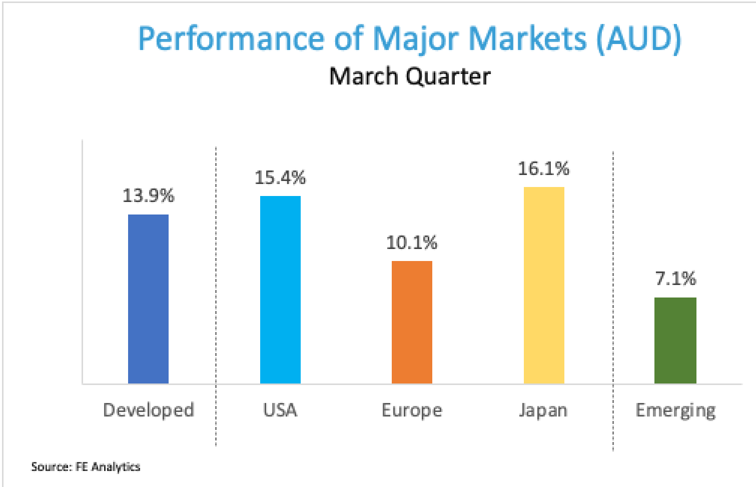
Equity and Bond Market Overview

ASX HITTING NEW HIGHS

In Australia the banks have led the ASX higher on a combination of quality earnings, solid growth, and market power. In considering the banks, the market appears to be looking through near-term concerns about the economy and focusing on a rosier outlook, where rate cuts help spur lending growth and lower the probability of bad debts.

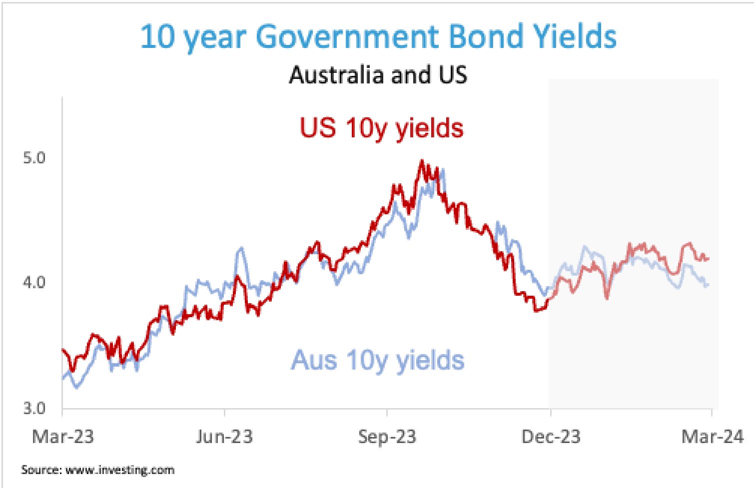
MAJOR MARKETS CONTNUE TO CLIMB HIGHER

This stock market rally in 2023 was built on the back of technology stocks. But with the market now pricing in a soft economic landing and interest rate cuts later this year, markets are giving some of the best returns in years. Of the major markets, only China lags the rest of the world which has affected the overall performance of the Emerging Markets.



BOND YIELDS NORMALIZE ON RATE EXPECTATIONS

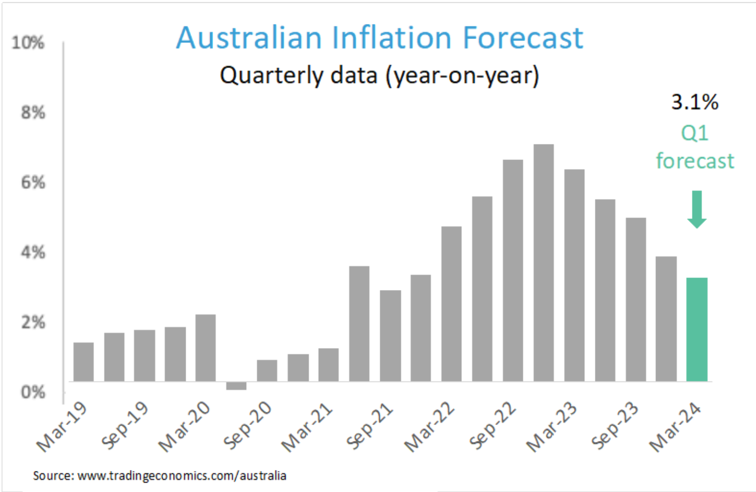
Australia's 10-year government bond yield is trading around 4%, as softer-than-expected domestic inflation data has bolstered bets that the Reserve Bank of Australia could start cutting rates later this year. The yield on the US 10-year Treasury note has also been trading in a range, as recent economic data is within expectations.



Economic Review and Forecasts

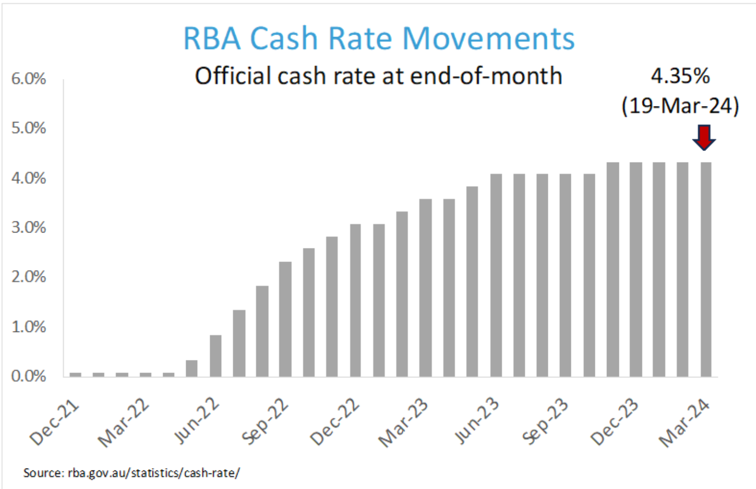
INFLATION CONTINUES TO FALL BUT REMAINS ABOVE TARGET.

There has been a rapid fall in inflation across the globe since the end of 2022. Australia's inflation rate was 4.1% yoy in Q4 of 2023 – which was below expectations – and is forecast to be 3.1% for this quarter. While cost pressure in the country have eased inflation still remains outside the 2% - 3% target range.



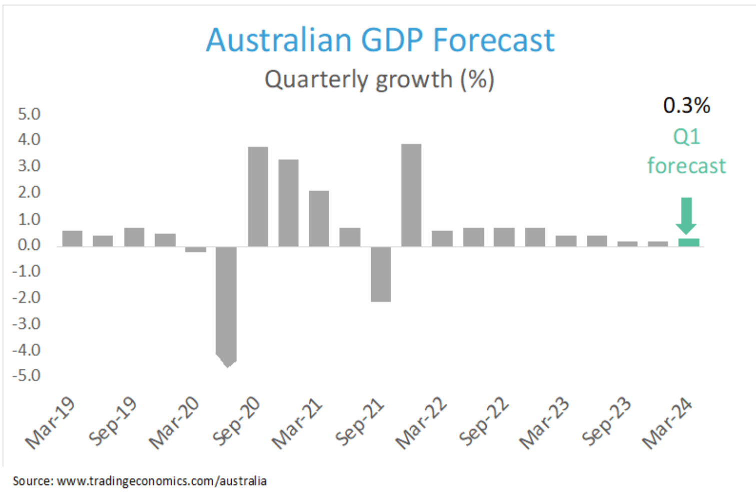
INTEREST RATES REMAIN ON HOLD.

As inflation continues its downward trend, the RBA remains in a wait and see mode. The Board reiterated at their March meeting that the path of interest rates will depend upon the data and the evolving assessment of risks. The central bank has reiterated that they need to be confident that inflation will return to the target range of 2% to 3% in 2025.



AUSTRALIA REMAINS ON TRACK FOR A SOFT LANDING.

The Gross Domestic Product (GDP) in Australia expanded 0.20%t in the fourth quarter of 2023 over the previous quarter. This was the ninth straight period of quarterly growth but the softest pace in 5 quarters, as household spending was subdued. However, GDP Growth Rate is forecast to be 0.30% by the end of this quarter.



Market Returns

Asset Class	3 Months	1 Year	3 Year	5 Year	10 Year
Cash	1.1%	4.2%	2.1%	1.5%	1.8%
Australian Bonds	1.0%	1.5%	-1.3%	0.2%	2.6%
Global Bonds	-0.3%	2.5%	-2.4%	-0.1%	2.3%
Australian Equity	5.3%	14.4%	9.6%	9.2%	8.3%
Developed Markets	14.2%	29.4%	15.0%	14.7%	14.1%
Developed Markets (hedged)	10.0%	25.0%	8.7%	11.2%	10.5%
Emerging Markets	7.1%	11.5%	0.4%	4.4%	7.0%
Australian REITS	16.8%	36.6%	11.4%	6.4%	10.5%
Global REITs	3.3%	10.3%	6.0%	2.9%	7.6%

- Bonds have pulled back after the strong rally in Q4 2023, as central banks have reiterated that they are in no rush to start moving interest rates down, and consequently expectations for rapid interest rate cuts have been scaled back.
- The Australian sharemarket is up 5.3% for the quarter, led by the strong performance of the banks. However, this has been offset by the miners, where falling iron ore and nickel prices have led to a negative return for the materials sector in Q1.
- Global stock markets have risen 14% in the quarter. The charge has been led by the S&P 500, which has closed at a record high on 22 separate occasions during the quarter. But what began as a tech-driven rally last year has gradually broadened out across the quarter, with equities in Europe and Japan keeping pace with the US.
- The Aussie dollar fell 4.4% against the US dollar in the last quarter on the expectation that the RBA will be slower to cut rates than the Feds. Consequently, the hedged MSCI World index underperformed the unhedged index by 4% in the quarter.
- Emerging Markets continue to lag developed markets, due to the poor performance of the Chinese stock market. China returned 2.3% for the quarter and -15% over the year.
- Australian REITs outperformed the equity market in the quarter and over the year, although it was the reverse when looking at global REITs against global equities.

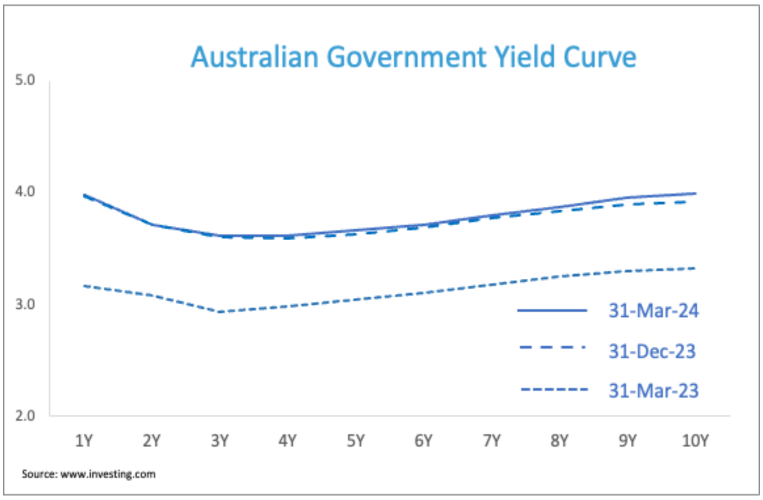
CHINA DRAGS DOWN IRON ORE, MATERIALS SECTOR.

Pessimism over demand in China has pushed the price of Iron Ore down by 20% in Q1. The slowdown comes amid continued worries that headwinds in the construction sector will have long-lasting effects on China's demand for new property. This in turn has contributed to a negative quarter for the ASX Materials Sector, which is down 6.2%.

Yield Curves

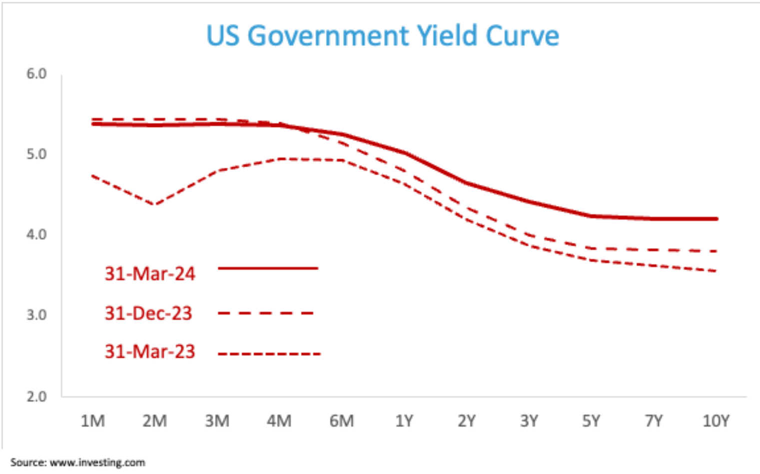
AUSTRALIA

The Australian yield curve is little changed over the quarter, has the RBA has kept its cash rate at 4.35% for the fourth straight meeting. However, the bond market has walked back expectations on how quickly interest rate cuts will happen. But the RBA has dropped a previous warning that a further hike could not be ruled out, indicating confidence that inflation will continue to ease.



UNITED STATES

The change in the US yield curve reflects the changing expectations around interest rate cuts from the Federal Reserve. At the start of the year the market had priced in three 25 bp cuts over 2024. However, the Feds have reiterated that they will proceed cautiously as it decides when to begin cutting rates while carefully considering the latest economic data points.



Equity Factors - Small and Value Premiums

Asset Class	3 Months	1 Year	3 Year	5 Year	10 Year
Australian Large	5.4%	18.3%	10.7%	9.6%	8.4%
Australian Growth	7.7%	19.2%	9.0%	8.2%	9.1%
Australian Small	6.6%	15.7%	5.6%	8.8%	8.5%
Australian Value	3.0%	17.2%	12.0%	10.2%	7.3%
Global Large	14.2%	33.7%	15.0%	14.7%	14.1%
Global Growth	15.5%	40.6%	15.4%	17.6%	16.6%
Global Small	9.2%	23.3%	7.1%	10.3%	11.4%
Global Value	12.8%	26.5%	14.0%	11.1%	11.2%

Source: FE Analytics. See below for MSCI indices used to define Large, Small, Value and Growth

MSCI Australia TR	MSCI World ex Australia Index (ATR, AUD)
MSCI Australia Small Cap TR	MSCI World ex Australia Small Cap Index (ATR., AUD)
MSCI Australia Value TR	MSCI World ex Australia Value Index (ATR, AUD)
MSCI Australia Growth TR	MSCI World ex Australia Growth Index (ATR, AUD)

AUTRALIAN FACTORS

Factors are very volatile over short time periods. Looking over the course of the last 12 months, Australian growth stocks have done better than value stocks, mainly driven by strong returns from mega cap stocks CBA and CSL. Smaller companies are seeing a resurgence and have done better than large caps in Q1, although still trail over the last 12 months.

GLOBAL FACTORS

The global markets are dominated by the US, which accounts for approximately 70% of the MSCI World Index. The biggest driver of US returns in the last few years has been the large growth tech stocks, resulting in value and small cap stocks underperforming the broader market. However, the MSCI World ex-USA index has delivered a value premium.

If you have any queries or would like to discuss your circumstances in more detail, please reach out to your APW adviser on 03 9826 6610.