# Monthly Market Update

October 2024

**The highlights:**

- **Donald Trump clinched a second term as US president in a decisive victory,** with a Republican majority poised to implement lower taxes and higher trade tariffs expected to drive inflation.
- **Shares and fixed interest markets retreated as investors shifted to 'Trump Trades' in October,** anticipating a GOP election victory with pro-growth, inflationary policies driving bond yields and the US dollar higher.
- **International shares experienced a mixed month,** as the weakening Australian dollar was a tailwind for unhedged currency exposure but was a drag for hedged exposure. Meanwhile, **Australian shares struggled,** due to stubborn inflation dampening hopes of near-term rate cuts.
- **Global and local bonds yields climbed, weighing on returns for fixed interest markets,** as spreads continued to tighten across government and corporate bonds (credit).

## Key markets – trailing total returns (%)

| As at 31 October 2024 | 1 mth | 3 mths | 6 mths | 12 mths | 3 yrs p.a. | 5 yrs p.a. | 10 yrs p.a. |
|---|---|---|---|---|---|---|---|
| Australian shares | -1.3 | 2.1 | 8.4 | 24.9 | 8.0 | 8.2 | 8.3 |
| Australian small-cap shares | 0.8 | 3.8 | 5.8 | 26.6 | -0.6 | 4.7 | 7.1 |
| International shares (hedged) | -1.2 | 2.2 | 9.8 | 30.7 | 5.5 | 10.2 | - |
| International shares | 3.5 | 2.3 | 9.9 | 28.4 | 10.4 | 12.2 | 12.3 |
| Developed market shares (hedged) | -0.9 | 2.2 | 10.1 | 31.5 | 6.2 | 11.0 | 10.2 |
| Developed market shares | 3.8 | 2.1 | 10.2 | 29.2 | 11.4 | 13.2 | 13.1 |
| Emerging market shares (hedged) | -3 | 2.5 | 7.8 | 24 | -0.8 | 3.7 | - |
| Emerging market shares | 1.2 | 3.3 | 7.7 | 21.1 | 3.2 | 5.0 | 6.5 |
| International small-cap shares | 3.2 | -0.8 | 8.3 | 25.1 | 4.8 | 9.0 | 10.8 |
| International property (hedged) | -3.7 | 3.6 | 13.1 | 26.2 | -3.0 | -0.8 | 3.4 |
| International infrastructure (hedged) | -1.3 | 3.7 | 12.5 | 25.8 | 4.2 | 3.8 | 6.3 |
| Australian fixed interest | -1.9 | -0.4 | 2.3 | 7.1 | -0.6 | -0.7 | 2.1 |
| International fixed interest (hedged) | -1.5 | 0.5 | 4.0 | 8.4 | -1.9 | -0.6 | 2.0 |
| Cash - bank bills | 0.4 | 1.1 | 2.2 | 4.5 | 2.9 | 1.9 | 1.9 |

# Market observations

In October, investors began to rotate into “Trump trades” in anticipation of a Republican election victory. Trump’s policies – such as corporate tax cuts, higher fiscal deficits, reduced immigration, and tariffs on imports – are seen as both pro-growth and inflationary, fuelling a rise in bond yields and strengthening the US dollar.

Although the steady rise in US government bond yields hasn’t sparked any major concerns yet, continued increases alongside rising inflation expectations could destabilise the US share market, as seen in September 2022, October 2023 and April of this year. The US 10-year bond yield ended the month at 4.29% and has since risen as high as 4.47%. Any move approaching 5.0% is a risk to watch closely in the weeks ahead.

The stronger US dollar (USD) led unhedged global equities to outperform hedged positions. We see the Australian dollar (AUD) as undervalued against the USD, but acknowledge that the US's comparatively robust economic growth, which could continue, is a key headwind for the AUD in the near term.

In China, a sharp post-stimulus rally in equity markets fizzled, with a -5.6% drop in October as momentum waned. Key indicators to watch now are consumer sentiment and residential property prices, both critical to gauging the success of stimulus efforts and a potential economic turnaround.

# Economic review

## Australia

The annual headline inflation rate fell to 2.8% in the September quarter, down from 3.8% mid-year, thanks to large falls in fuel prices and government energy subsidies. However, prices of most other goods and services continue to rise, resulting in annual core inflation – which excludes volatile items and is the preferred measure of the Reserve Bank of Australia's (RBA) – came in stubbornly high at 3.5%, well above the RBA's 2-3% target band.

In response, the RBA held the cash rate at 4.35% in early November, reiterating that while inflation is easing, it isn't expected to return to 2.5% sustainably until 2026. The central bank's February or April meetings next year are seen as the most likely timing for an anticipated move lower. Australia's labour market remains tight. The unemployment rate held steady in September at 4.1% but has risen 0.6% of its recent lows. While there has been some softness in labour demand, it is growth in the number of people looking for work that is pushing the unemployment rate higher. The impact of elevated interest rates continues to filter through the economy – house price and retail sales growth were muted in September.

## US

Despite a cooling labour market and declining inflation, the US economy remains resilient. Annual core personal consumption expenditures (PCE) inflation, the Fed's preferred measure, held steady at 2.7% in September. As expected, the Fed cut its federal funds rate by 0.25% to 4.50%-4.75% in early November. Fed Chair Jerome Powell noted that economic growth remains solid while inflation continues to move towards the Fed's 2% target but cautioned about potential "bumps" ahead.

In a decisive victory, Donald Trump won the US presidency for the second time. With a likely Republican majority in both the Senate and House, the result could have major implications for future spending and tax policies in the US. Trump's policies are set to focus on lower tax rates and trade tariffs, which economists believe may fuel to inflation.

## Europe

Eurozone inflation fell below the European Central Bank's (ECB's) 2% target for the first time in over three years, leading the ECB to reduce its key interest rate by 0.25% in October to 3.25%. Preliminary data shows inflation rebounded to 2% in October as last year's energy price base effects faded. The European economy also grew more than expected in the September quarter. However, with growth expected to slow in the final three months of 2024, the ECB was unlikely to be deterred from cutting rates again in December.

Despite a pick-up in growth in August, the UK's economy has slowed in recent months. Inflation eased to 1.7% in September, falling below the BoE's 2% target. The Bank of England (BoE) reduced its key interest rate by 0.25% to 4.75% in November. A potentially inflationary Budget, recently released by a new government, could complicate the path for further cuts.

## Asia

Economic growth in China slowed to 4.6% year-on-year in the September quarter, again weighed down by property market struggles, soft domestic demand, and trade frictions. The September inflation also missed expectations, indicating continued lacklustre demand. To counter these issues, authorities have unveiled a raft of measures to inject cash into the economy, including a string of rate cuts and easing of home-buying restrictions.

A loss of majority by Japan's ruling coalition parties introduced new political uncertainty in Japan, complicating the Bank of Japan's (BoJ's) cautious path toward future interest rate hikes. Economic conditions remain solid, as confirmed at the BOJ meeting at the end of October. While no policy changes were made, the BOJ's statement hinted they might take action in December, but this would still depend on market conditions and economic developments.

# Asset class review

### Australian shares

Australian share performance was weak in October. After recovering from early turbulence to reach new highs in the middle of the month, stubborn inflation data blunting hopes of near-term rate cuts saw the local market retreat by the month's end. The S&P/ASX 200 Index fell -1.3% in October, ending a string of successive monthly gains. Smaller companies continued their recent outperformance against their larger peers, recording a solid +0.8% gain for the month.

Sector performance was broadly negative in October, with a few bright spots. Financials (+3.3%) continued to perform strongly, with hawkish comments from the RBA and a resilient consumer supporting views that higher rates will benefit the margins of the Big 4 banks. Health care (+0.9%) and communication services (+0.8%) also advanced, benefiting from a rotation into defensive sectors amid the volatility. In contrast, utilities (-7.2%) and consumer staples (-7.0%) fared worst, as broker downgrades for key names disappointed. Materials (-5.2%) declined as the miners gave back much of their prior month's gains as enthusiasm from China stimulus announcements faded on subsequent detail. Energy (-5.0%) was also weaker on concerns about weaker oil demand growth.

***What fund managers are saying….***

*"The Australian equity market has underperformed the US since the end of the pandemic, apart from 2022 and mid-2023 when global central banks were aggressively raising interest rates.*

*Global investors currently have a strong appetite for the IT growth story, but our local market has only a small tech sector. The Aussie market is seen as being more leveraged to our domestic economy via the banks and consumer discretionary sectors, with miners providing exposure to China and global growth.*

*While domestic growth is likely to be weak in Q2, we expect a rebound to commence for Q3, reflecting tax cuts and real wages growth. Despite these green shoots, the combination of delayed rate cuts and an uneven recovery in China means the market is likely to remain relatively unattractive in the short term.*

*However, it is not all bad news. Chinese steel production and the demand for iron ore has been propped up by auto production - albeit we expect iron ore to weaken by the end of 2025. However, with tax cuts on the way, there doesn't seem to be many downside risks to domestic economic growth in the near term. "*

***Macquarie Wealth Management***

### International shares

International shares experienced a mixed month. A weaker Australian dollar boosted returns for unhedged currency exposure but was a drag for hedged exposure. The MSCI All Country World Index gained +3.5% for October, while the hedged equivalent gave back -0.9%. International small companies also posted strong gains, with the MSCI World ex-Australia Small Cap Net Return AUD Index gaining +3.2% in October. Sector performance was mostly negative, with a few standouts. Financials (+2.1%) and communications services (+2.0%) recorded gains. Real estate (-3.4%) and materials (-3.7%) struggled as investors took profits from recent rallies.

US shares reached a record high mid-month before falling in the last week of October as investors became more cautious ahead of the US election. The S&P 500 Index declined -0.9% in October, while the Nasdaq Composite Index edged -0.3% lower. The Euro Stoxx 50 Index fell -3.3% for the month as weaker economic data weighed on returns. The mixed near-term economic outlook negatively impacted UK shares. The FTSE 100 Index declined -1.4% in October. Despite higher volatility Japanese shares rebounded, with the Topix Total Return Index gaining +1.9%.

Emerging markets experienced a negative month. The MSCI Emerging Markets Index (Hedged) moved -3.0% lower in October, trailing most developed markets. Chinese shares had a down month after stimulus measures failed to sustain an uplift in investor sentiment. The MSCI China Net Total Return Index fell -5.6% in October.

## International shares - trailing total returns (%) all local currency

| As at 31 October 2024 | 1 mth | 3 mths | 6 mths | 12 mths | 3 yrs p.a. | 5 yrs p.a. | 10 yrs p.a. |
|---|---|---|---|---|---|---|---|
| Australia | -1.3 | 2.1 | 8.4 | 24.9 | 8.0 | 8.2 | 8.3 |
| US | -0.9 | 3.7 | 14.1 | 38.0 | 9.1 | 15.3 | 13.0 |
| Europe | -3.3 | -0.7 | -0.7 | 21.9 | 7.0 | 8.5 | 7.1 |
| UK | -1.4 | -2.1 | 1.4 | 15.0 | 7.8 | 6.0 | 6.2 |
| Japan | 1.9 | -2.6 | -0.6 | 22.4 | 13.2 | 12.8 | 9.8 |
| China | -5.6 | 17.1 | 15.9 | 20.6 | -7.9 | -1.1 | 2.5 |
| Asia (ex-Japan) | -3.3 | 4.4 | 10.4 | 27.4 | 1.1 | 6.0 | 5.9 |

***What fund managers are saying....***

*"Chinese equities have surged since the announcement of a significant stimulus package, before giving some of those gains back. We think the rally makes sense. The Chinese government has shown its commitment to supporting economic growth - which is exactly what investors have been waiting to hear.*

*Now, some are hesitant about buying after this huge move, which may explain why the market has corrected from its highs. But history tells us that this rally could have legs. On average, when we have seen 20% rallies in Chinese stocks, that rally has continued over the next several months. And importantly, Chinese stocks are still quite reasonably valued - with valuations only rising back up to historical averages.*

*For international investors there is an additional reason to add China exposure. Correlations with developed markets have fallen just to 30%. So even if the rally does lose momentum, we believe Chinese equities still have a place in investors' portfolios. "*

***Goldman Sachs***

### Property and infrastructure

Stronger than expected economic data in the US and rising bond yields weighed on performance for interest-rate-sensitive global property and infrastructure assets. Reversing a recent trend of gains, the property-focused FTSE EPRA Nareit Developed Index (Hedged) fell -3.7% in October. The FTSE Global Core Infrastructure 50/50 (Hedged) Index also retreated -1.3% for the month.

### Fixed interest

October was a challenging period for fixed interest markets. Government bond yields rose in the US and Australia as investors reevaluated the outlook for inflation and and interest rates following the outcome of the US election. The 10-year US Treasury yield increased +0.51% to 4.29%, while the 10-year Australian Government Bond yield rose by +0.53% to 4.50%. Rising yields weighed on returns for global and Australian bond indices. The Bloomberg Global Aggregate Bond Hedged Index fell -1.5% for the month, while the Bloomberg AusBond Composite 0+ Yr Index retreated -1.9%.

Despite spreads (the additional yield a corporate bond offers over a government bond with the same maturity) tightening in October, credit markets (corporate bonds) struggled along with share markets as rising bond yields pushed prices lower. Australian credit benchmark, Bloomberg AusBond Credit 0+ Yr Index, retreated -0.9%, while global credit, as measured by the Bloomberg Global Aggregate Credit Total Return Index Hedged AUD, retreated -1.7%. Less sensitive to interest rates due to shorter maturities and higher coupon rates, the Bloomberg Global High Yield Total Return Index Hedged AUD performed better, ending the month only -0.2% lower.

## Fixed interest - rates, yields and spreads

| As at 31 October 2024 | month end | 1 mth earlier | 3 mths earlier | 6 mths earlier | 12 mths earlier | 10 yr average |
|---|---|---|---|---|---|---|
| Australian RBA cash rate | 4.35 | 4.35 | 4.35 | 4.35 | 4.10 | 1.77 |
| Australian 10-year government bond yield | 4.50 | 3.97 | 4.12 | 4.42 | 4.92 | 2.53 |
| Australian corporate composite bond spread | 1.14 | 1.27 | 1.26 | 1.38 | 1.54 | 1.27 |
| US Fed funds rate | 5.00 | 5.00 | 5.50 | 5.50 | 5.50 | 1.86 |
| US 10-year Treasury yield | 4.29 | 3.78 | 4.03 | 4.68 | 4.93 | 2.43 |
| US corporate bond spread | 0.84 | 0.89 | 0.93 | 0.87 | 1.29 | 1.22 |
| US high yield bond spread | 2.82 | 2.95 | 3.14 | 3.01 | 4.37 | 4.21 |
| Bloomberg AusBond Comp 0+ Yrs yield | 4.53 | 4.11 | 4.29 | 4.56 | 4.94 | 2.46 |
| Bloomberg Global Aggregate yield | 3.64 | 3.33 | 3.62 | 4.06 | 4.35 | 2.02 |

***What fund managers are saying….***

*"For investors, the late stage of this economic cycle has arrived, and this brings the normal advent of rising delinquencies, re-structures and defaults. Not all default cycles end in a crisis for credit markets. This cycle would suggest that defaults in investment-grade companies should remain quite low by historical standards but may be elevated in higher-yielding segments. For the most part, investment-grade companies today remain well funded with debt termed out and highly profitable. From a fundamentals perspective, they remain relatively resilient to an economic growth slowdown. The same cannot necessarily be said for highly leveraged and/or cyclical, consumer-centric businesses, where a default cycle has commenced in loans and pockets of high yield across the globe. Of course, market dislocations can occur with concerns around defaults lower down in credit markets and cause mark-to-market underperformance in higher-quality credit segments. We would assess these events as opportunities to add to investment grade credit without fear, rather than one to be cautious about."*

***Janus Henderson Investors***

The information contained in this document is provided by Evidentia. Evidentia means Evidentia Group Holdings Pty Ltd ACN 665 634 382 and its subsidiaries. All financial services included in this communication are authorised by Evidentia Financial Services Pty Ltd ACN 664 546 525 AFSL 546217. It is general information only and does not constitute financial product advice. If any statements made (either alone or together) constitute advice, then the advice is general advice only and does not take into account anyone's objectives, financial situation or needs.

This document is provided solely to the direct recipient of this document from Evidentia and is provided on a strictly confidential basis. This document may not be copied, reproduced, republished, posted, transmitted, distributed, disseminated or disclosed, in whole or in part, to any other person in any way without Evidentia's prior written consent, which we may withhold in our absolute discretion. By accepting this document, you agree you will comply with these confidentiality restrictions and acknowledge your compliance with these restrictions is a material inducement to us providing this document to you.

This document is based on information considered to be reliable. It is based on our judgement at the time of issue and is subject to change. No representation, warranty or undertaking is given or made in relation to the accuracy or completeness of the information presented in this document. Except for liability which cannot be excluded, Evidentia, its directors, employees, agents, and related bodies corporate disclaim all liability in respect of any error or inaccuracy in, or omission from, this document and any person's reliance on it. This material is not intended for distribution to, or use by, any person or entity in any jurisdiction or country where such distribution or use would be contrary to local law or regulation. If this document contains any performance data, then past performance is not a reliable indicator of future performance.