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Market Review Monthly

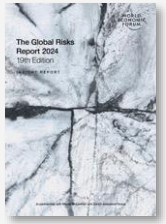
March 2024

A business of Marsh McLennan

Key takeaways

- Economic **growth remains regionally divergent,** with the US notably resilient.
- **US Federal Reserve kept interest rates unchanged** in March, with Chair Powell noting that recent higher inflation data does not alter the downward inflation trajectory.
- **Internationally**, we expect **growth to remain resilient** with the US to slow but China and other emerging economies to improve**.**
- **Domestically,** the risks to growth appear tilted to the downside.
- We prefer **emerging markets over developed markets** due to their more appealing valuations and promising economic prospects.
- We favour Australian government bonds over cash with **growing signs that cash rates have peaked** and more interest rate cuts are likely than priced in by markets.

[AI governance]



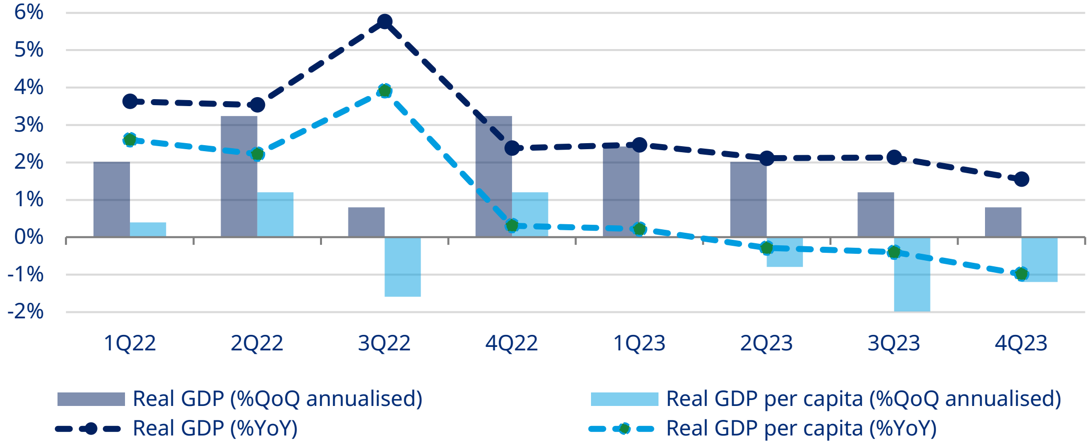
[Global Risks Report 2024]

Economic review

Australia: Resilient but softer signs emerging

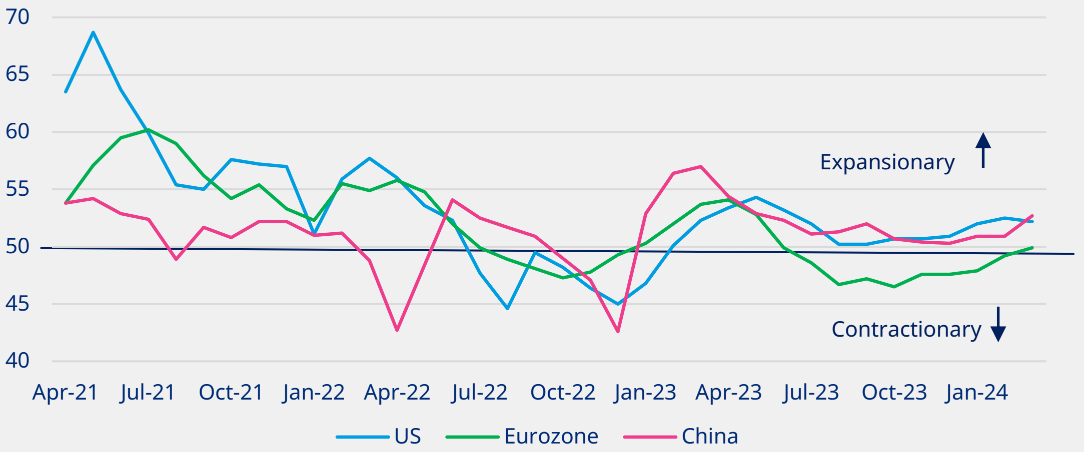
- Economic conditions remained broadly resilient with unemployment rate remaining low and NAB Business Survey indicating that business conditions are holding up.
- Q4'23 GDP was weak, with the underlying details suggesting that households are feeling the pinch, with consumption and spending on discretionary items down over the quarter.
- The Reserve Bank of Australia (RBA) kept interest rates unchanged at 4.35% p.a., however, set a neutral tone by stating that it is "not ruling anything in or out".

Australian real GDP and real GDP per capita



Source: Bloomberg, Mercer; QoQ = Quarter-on-Quarter, YoY = Year-on-Year

Composite Purchasing Managers' Index



Source: Bloomberg, Mercer

International: Improving signs in China and Eurozone

- Surveys of business activity point to resilient conditions in the **US**, with the services sector performing well and manufacturing sector showing signs of improvement.
- Business conditions in the **Eurozone** and **China** also showed signs of improvement, driven by services.
- The pace of disinflation has shown signs of slowing with year-on-year headline inflation in the US rising slightly in February.
- The **US** and **Eurozone** kept interest rates unchanged with comments continuing to guide expectations for lower rates.
- **Japan** meanwhile raised interest rates for the first time in 17 years, raising its policy rate from -0.1% p.a. to 0.0-0.1% p.a. and terminating its Yield Curve Control program, whilst indicating that any further rate increases will occur slowly.

Market review

Equity markets record another positive month

- **International equities** rose in March on positive signs for international growth and comments from Fed Chair Powell, which indicated that interest rate cuts were still likely despite the recent inflationary readings.
- **Australian equities** also rose with strong contributions from the real estate sector among the drivers.
- **Emerging markets** lagged developed markets with the Chinese market recording subdued performance.

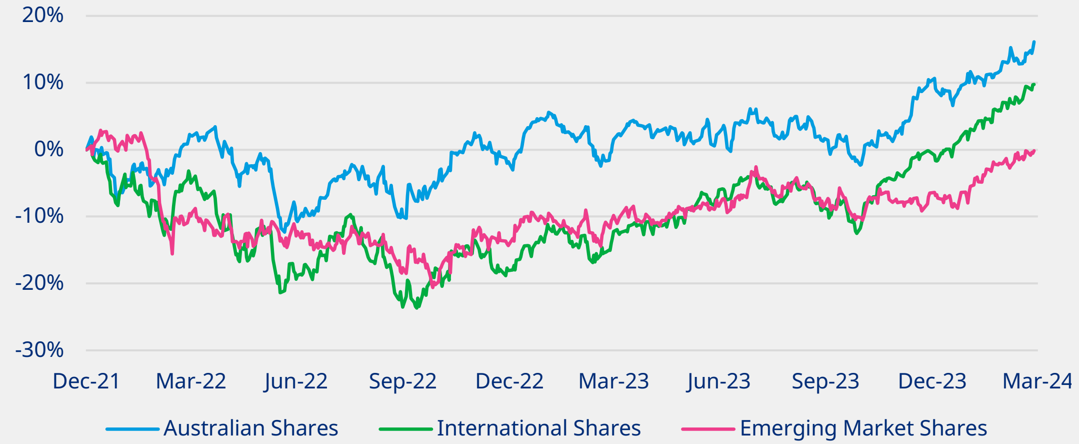
Bond yields close lower

- **International government bond** yields broadly ended the month lower, after an intra-month rise following the higher US inflation reading. Though central bankers are saying the next move in interest rates is likely to be down.
- **Australian government bond** yields also declined, with the shift in the RBA's rhetoric to a more neutral tone adding to the decline.

Commodity markets broadly stronger

- **Gold prices rose**, reaching an all-time high of US$2,214 per ounce, driven by speculation of near-term interest rate cuts, whilst **oil prices** also ended the month higher driven by the improving economic data momentum.
- **Iron ore** ended the month lower with reports of a rise in inventories on Chinese ports.

Cumulative equity market returns



Source: Bloomberg, Mercer

Iron ore - US$ per tonne

Source: Bloomberg, Mercer

Market Insights

Australia: Potential downside risks ahead

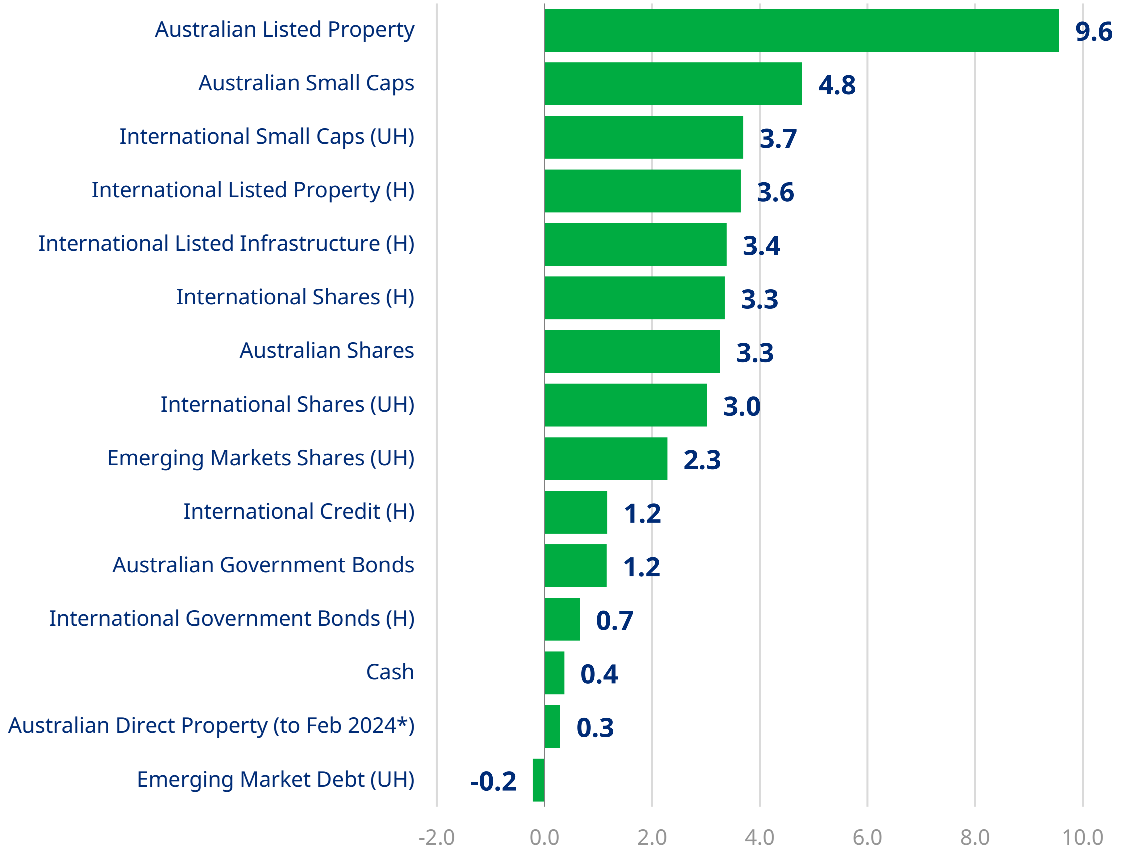
- We expect **growth to slow** as previous supporting factors like population growth and (low) fixed rate mortgages fade, and tighter monetary conditions take their toll.
- **Inflation is also likely to slow**, albeit less than other developed economies due to pressures from the residential rental markets.
- The risks of a more pronounced **slowdown** in activity appears more likely than currently anticipated by markets.
- Consequently, we continue to **favour Australian government bonds** with growing signs that cash rates have peaked and with risks tilted for more rate cuts than currently priced in by markets.

International: Emerging markets favoured over developed markets

- We expect growth to remain resilient but remain **regionally divergent**.
- We expect the **US** to slow, yet remain resilient, as the impact of higher interest rates and tighter financial conditions take effect.
- We anticipate improving conditions in the **Eurozone** as manufacturing activity picks up and inflation slows.
- **China** is expected to see stronger growth driven by supportive policy and recovery in the manufacturing inventory cycle.
- Stronger growth is also likely in other **emerging economies** with their central banks positioned to lower interest rates.
- We **favour emerging markets** over developed markets due to their more promising economic prospects and attractive valuations.

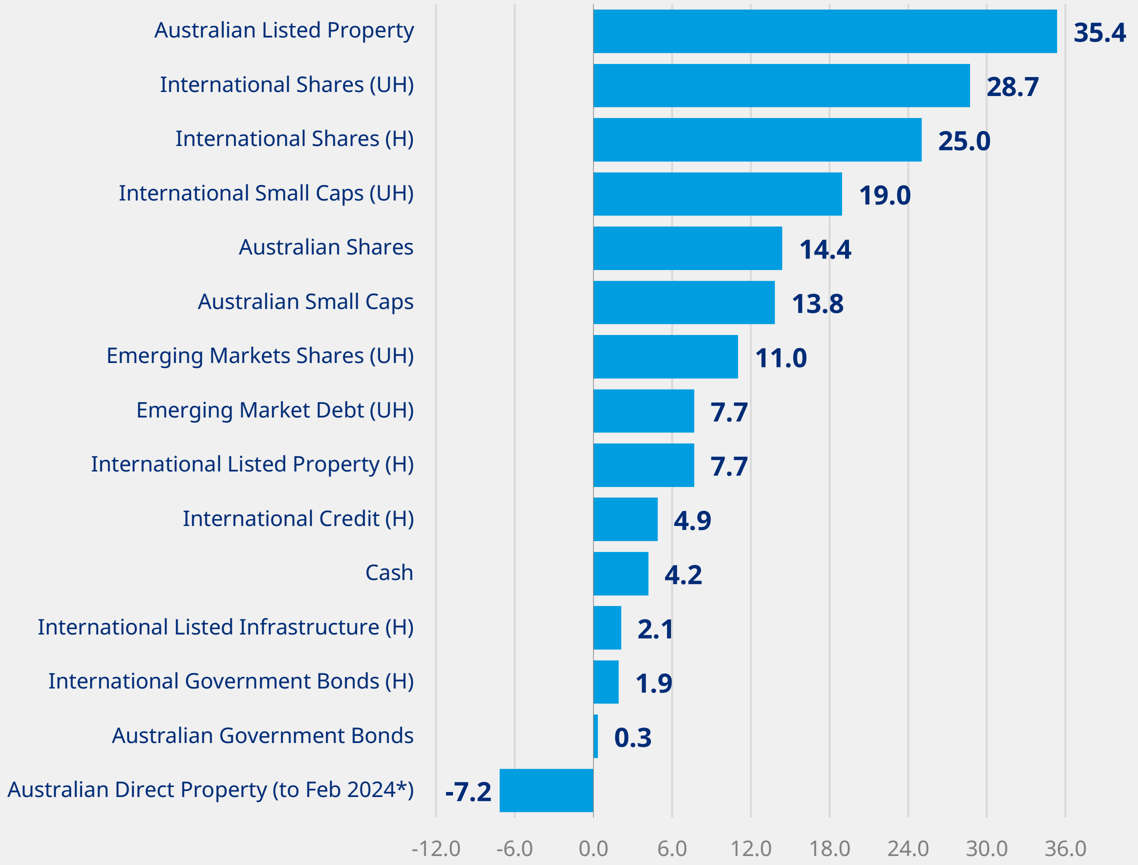
Performance

Market performance March 2024



Data source: Refinitiv Datastream. Data provided 'as is' . Details on chart constituents can be found on back page

Market performance 12 Months to March 2024



Data source: Refinitiv Datastream. Data provided 'as is' . Details on chart constituents can be found on back page

Asset class

▲ Australian equity

- The Australian share market produced solid returns in March supported by declining government bond yields and the improving economic data momentum.
- Among the sectors, Real Estate performed well, as did Energy, with the latter benefiting from the rise in energy prices. Materials also produced healthy returns despite the fall in iron ore prices.

▲ International equity

- International equity markets rose again in March following improving signs of economic growth and the US and Eurozone indicating that the next likely change will be interest rate cuts.
- The strength in commodity markets was evident with Energy and Materials among the best performing sectors, whilst Utilities also performed well benefiting from the decline in bond yields.
- Among the regions, Japan was a strong performer, rallying after Bank of Japan (BOJ) Governor noted that monetary policy will remain accommodative for some time, whilst emerging markets lagged with further negative headlines around China’s property sector impacting investor sentiment.

▲ Fixed interest

- International government bonds produced a positive return, with bond yields ending the month lower despite volatility during the month following Fed and ECB hints around interest rate cuts.
- Australian government bond yields outperformed international government bonds, benefiting from the RBA's change from potential interest rate hikes to a neutral bias.

▲ Real assets

- The decline in international government bond yields provided momentum for listed real asset classes, with international listed property and international listed infrastructure producing solid returns for the month.
- Domestic listed property also benefited, with strong gains by Goodman Group amid ongoing optimism regarding its positioning in data centres further boosting returns. Meanwhile, Australian direct property produced a modest return in February, driven by rental incomes.

▲ Currency

- The Australian dollar ended March modestly higher against most major developed market currencies with the RBA shifting to a neutral bias on interest rates whilst other central banks continued to guide expectations for lower rates.
- The most notable appreciation was against the Japanese Yen with weakening following indications from BoJ Governor that any further interest rate hikes would occur slowly.

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Chart Constituents

Asset class	Benchmark	Data type
Australian Shares	S&P/ASX 300	Total Return
Australian Small Caps	S&P/ASX Small Ordinaries	Total Return
International Shares (UH)	MSCI World ex Australia	Net Index
International Shares (H)	MSCI World ex Australia 100% Hedged	Net Index
International Small Caps (UH)	MSCI World Small Cap	Net Return
Emerging Markets Shares (UH)	MSCI Emerging Markets	Net Index
Australian Direct Property (one month lag)	MSCI/Mercer Australia Core Wholesale Monthly PFI	NAV Post Fee
Australian Listed Property	S&P/ASX 300 A-REIT	Total Return
International Listed Property (H)	FTSE EPRA/NAREIT Developed Hedged	Net Return
International Listed Infrastructure (H)	FTSE Global Core Infrastructure 50/50 Hedged	Net Return
International Credit (H)	Bloomberg Global Credit	Hedged Return
Emerging Market Debt (UH)	JP Morgan GBI EM Global Diversified Composite	Total Return
Australian Government Bonds	Bloomberg AusBond Treasury 0+ year	Total Return
International Government Bonds (H)	Bloomberg Global Treasury Hedged	Hedged Return
Cash	Bloomberg AusBond Bank Bill	Total Return

Notes

- *Currency: AUD.*
- *UH: Unhedged.*
- *H: Hedged.*
- *Where a lag exists, the performance start and end dates shift accordingly.*
- *Total Return: Total Return Index with Gross Dividends.*
- *Net Index: Total Return (Net Dividends Reinvested).*

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