

Market Review Monthly

October 2024



Key takeaways

- The **US economy broadly remains resilient**, supported by strong household consumption.
- China's economic activity remains subdued with the property sector weakening further. Investors were disappointed with the limited details provided on its economic stimulus plans.
- A **"soft landing" is expected for the international economy**, characterised by slowing but positive growth, while **growth in emerging economies is expected to be supported** by expansionary policies.
- We prefer **emerging markets over developed markets** in light of their favourable economic prospects and appealing valuations. We also favour **global listed property** for their strong fundamentals and attractive valuations.
- We expect growth to remain subdued in Australia and favour **Australian government bonds over cash**, as cash rates are likely to have peaked.

Research



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Monetary Policy Decision

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[Managing risks and opportunities
as space exploration enters new
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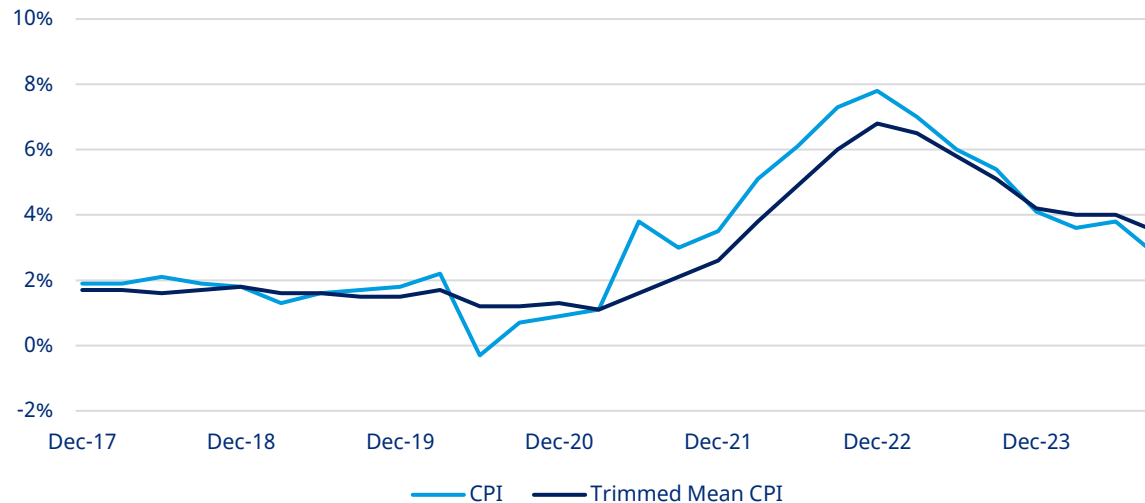


Economic review

Australia: Inflation eases on government energy rebate

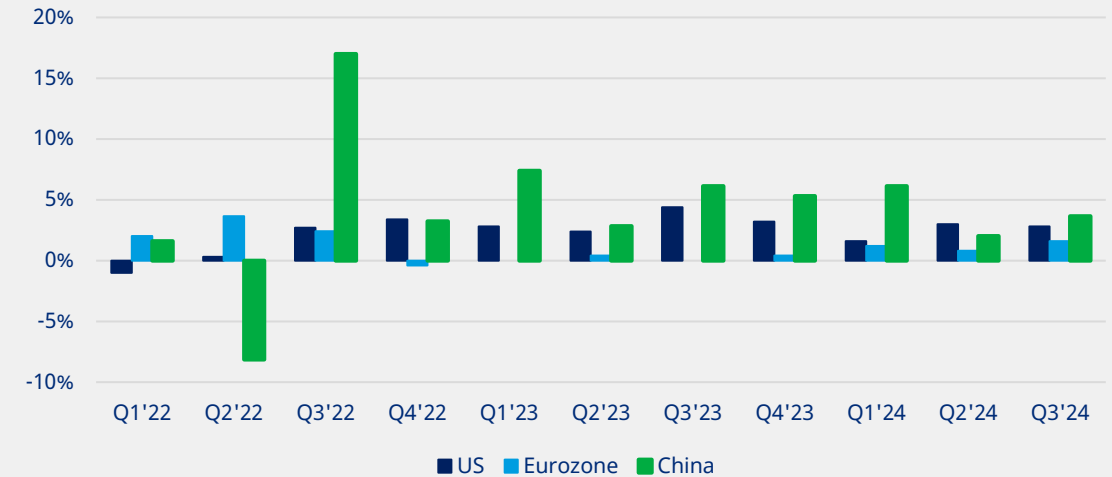
- The Consumer Price Index (CPI), which measures inflation, declined further bringing the Year-on-Year (YoY) rate to 2.8% in Q3'24 from 3.8% in Q2'24. The government's energy rebate was the main reason for the decline.
- Labour markets remain strong with about 64,100 jobs added in September. The unemployment rate stayed at 4.1% as the participation rate increased, from 67.1% in August, to 67.2%.
- Business surveys show conditions are subdued but positive, with the Retail and Manufacturing sectors facing the most challenges.

Australian CPI YoY



Source: Bloomberg, Mercer

Real GDP QoQ annualised



Source: Bloomberg, Mercer

International: US resilience continues

- In Q3'24, the US economy grew by 2.8% Quarter-on-Quarter (QoQ) annualised, driven by strong personal spending. Meanwhile business surveys showed strength in the services sector, but the manufacturing sector has remained weak.
- Eurozone Q3'24 GDP growth improved to 0.4% QoQ, partly due to the Olympics.
- In terms of interest rates, the Reserve Bank of New Zealand and Bank of Canada cut rates by 0.5% while the European Central Bank cut rates by 0.25%, as inflationary pressures ease. The Bank of Japan kept rates unchanged with the governor signaling further rate rises ahead as concerns over the US economy and financial markets have reduced.
- Economic activity remains subdued in China with Q3'24 GDP rising 0.9% QoQ bringing the YoY rate to 4.6%. Following the pledge by Chinese policymakers in September to stop the decline in the property market, announcements over the past month have not met investor expectations.

Market review

Equity markets retrace

- International Shares (Hedged) ended October lower due to disappointing guidance from major US companies and fading investor optimism about the prospect of US interest rate cuts.
- International Shares (Unhedged) produced positive returns, boosted by the depreciation of the Australian Dollar (AUD).

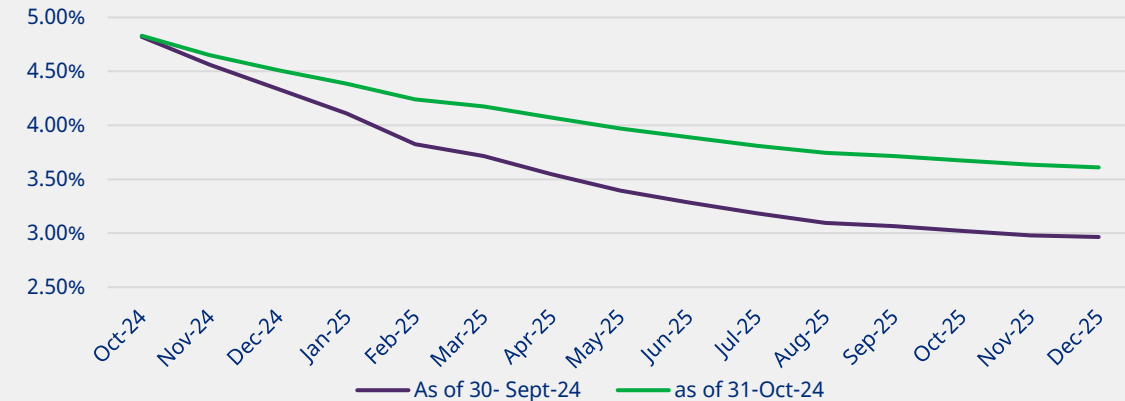
Fixed income markets lower

- International Government Bonds ended the month lower due to rising yields as investors became more optimistic about the US economy and tempered their expectations for future US interest rate cuts.
- International Credit also ended the month lower due to rising yields, while emerging market debt performed well, helped by the weaker AUD.

Commodity markets produce mixed results

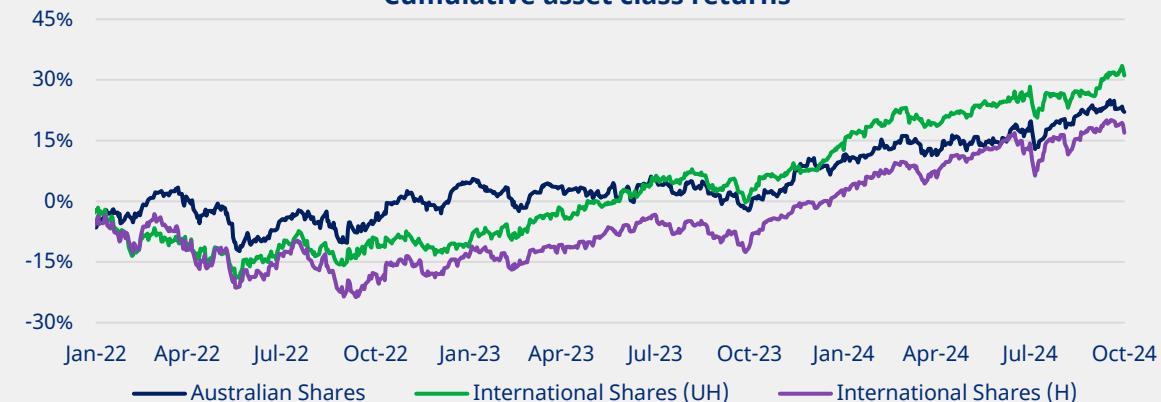
- Iron Ore ended the month lower as investors were disappointed by the lack of detailed announcements about China's economic stimulus plans.
- Oil ended the month slightly higher, in a volatile month driven by rising tensions in the Middle East and speculation that OPEC+ might delay their planned production increase in December.
- The Gold price increased due to rising geopolitical tensions and as central banks around the world continue to cut interest rates.

Market expectation of US interest rates



Source: Bloomberg, Mercer * based on Fed fund futures prices

Cumulative asset class returns



Source: LSEG DataStream; MSCI. Data provided 'as is'. Details on chart constituents can be found on back page.

Market Insights

Australia: Newsflash – Interest rates unchanged at 4.35%

- We expect growth to remain weak as higher interest rates and cost-of-living pressures are likely to keep consumption suppressed.
- We expect core inflation to slow down but not as quickly as in other developed economies, with pressures from the residential rental markets expected to continue.
- Whilst the Reserve Bank of Australia (RBA) is cautious about rising inflation risks, we do not believe that it will raise interest rates significantly due to weak growth. Instead, we believe interest rates have likely peaked for this cycle.
- Domestically, we favour Australian sovereign bonds over cash, with interest rates likely to have peaked this cycle.

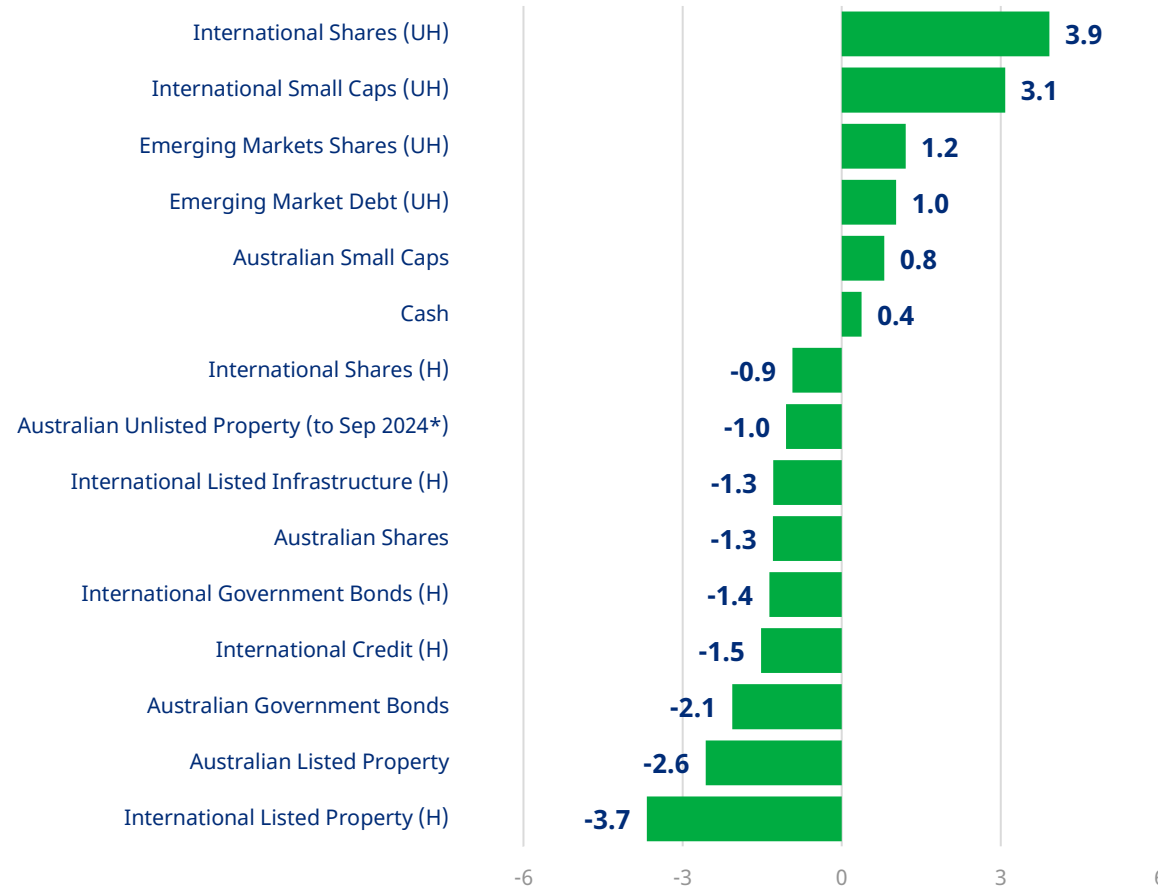


International: Regional divergence expected

- We expect international economic growth to remain resilient but regionally divergent.
- We expect US economic growth to slow but not enter a recession, due to healthy corporate and household finances and positive effects from private and public investments.
- We expect most developed market central banks to cut interest rates as inflation decreases. The exception is Japan where we expect interest rates to rise as it emerges from a multi-decade deflation period.
- We expect China's growth to improve with supportive stimulus policies and other emerging economies to benefit from these policies as well as their own central bank actions.
- We favour emerging markets over developed markets in light of their more attractive valuations and promising economic prospects. We also favour global listed property because outside of the US office sector, fundamentals are strong, and valuations are attractive.

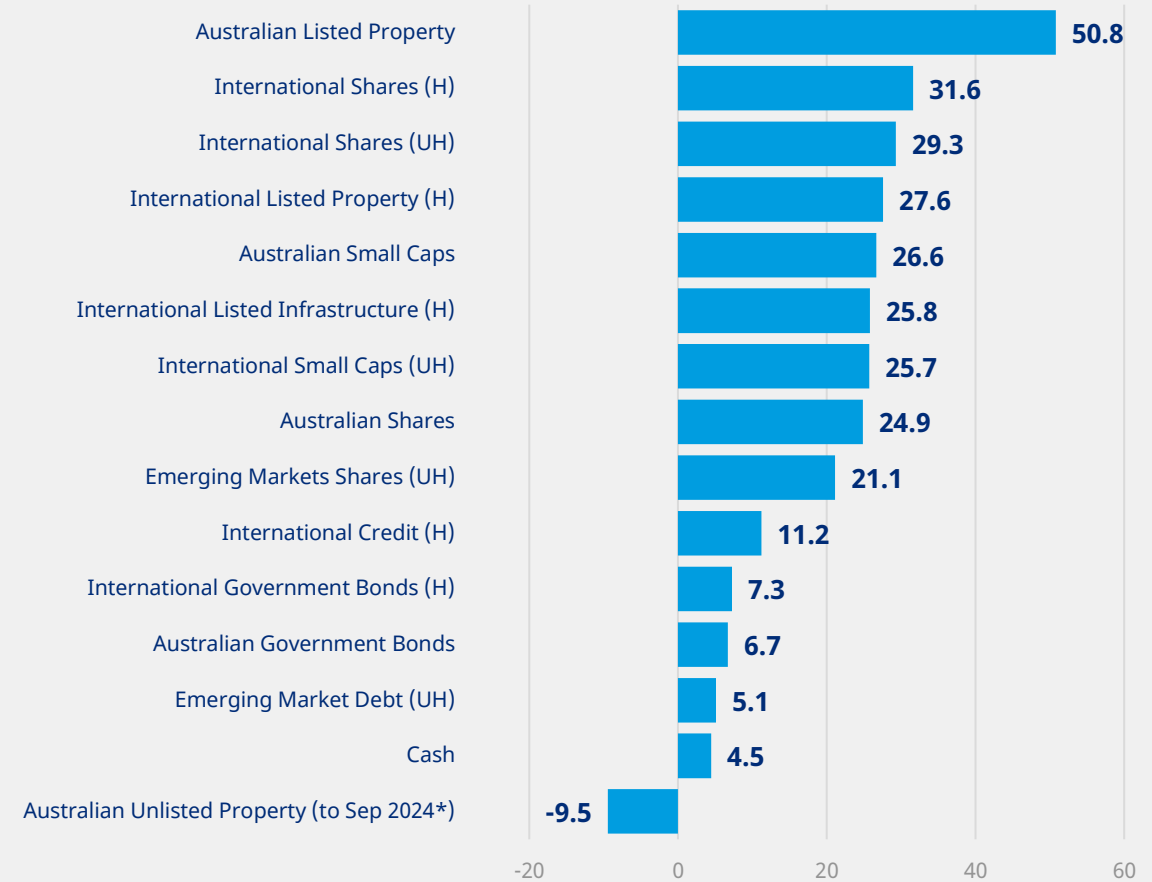
Performance

Market performance October 2024



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

Market performance 12 Months to October 2024



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

Asset class

▼ Australian shares

- Australian Shares ended October lower following lack of detailed stimulus announcements by Chinese policymakers and international market developments.
- The Materials sector underperformed due to falling industrial metals prices, while the Financials sector outperformed as investors rotated into the sector.
- Australian Small Caps performed well due to rising gold prices and specific stocks such as Arcadium Lithium which surged after it received an acquisition offer from Rio Tinto.

▼ International shares

- International Shares (Hedged) ended the month lower as investors reset their expectations for US interest rate cuts, additionally Microsoft and Apple had disappointing revenue projections. The depreciation of the AUD boosted returns for International Shares (Unhedged).
- Emerging Market Shares benefited from the weaker AUD and strong quarterly earnings from Taiwan Semiconductor Manufacturing Company, which also raised its revenue forecast for the year.



▼ Fixed interest

- International Government Bonds had a negative return in October as bond yields rose due to signs of stronger US economic conditions, in turn, lowering investors' expectations in the magnitude of future interest rate cuts.
- Australian Government Bonds were down for the month, despite inflation easing, influenced by international economic and market developments.

▼ Real Assets

- Interest rate sensitive assets like Australian Listed Property, International Listed Property and International Listed Infrastructure performed poorly as government bond yields rose and expectations for interest rate cuts decreased.
- Australian Unlisted Property experienced a negative return for the month driven primarily driven by valuation downgrades in the Office sector.

▼ Currency

- The AUD depreciated against most major currencies, reversing gains made last month as policy announcements in China did not meet investor expectations.
- The depreciation was the strongest against the US Dollar (USD), as the USD was supported by resilient economic data.

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 Unlisted 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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