May 2024

Virtuous Wealth Monthly Market Update

Soft Landing Still Expected

INFORMATION CONTAINED IN THIS REPORT CURRENT AS AT 17 JUNE 2024

In May, investment markets were buoyed once again by expectations that the interest rate cycle had peaked. Global shares, as represented by the MSCI World Index increased 4.1%, emerging market shares gained 0.5% and the Australian S&P/ASX 200 index increased by 0.9%. The increase in global shares was driven by both lower bond yields and continued strong corporate profit results predominantly thanks to technology companies, particularly Nvidia. Global bonds generated a positive of 1.3% thanks to greater progress on stemming inflation whilst the Australian bond market, which returned 0.40%, performed in line with Australian cash over the month however is just 0.9% higher over the year.

In the US, the Federal Reserve kept its policy rate unchanged and lowered its guidance on interest rate reductions to just a single 0.25% reduction in 2024 (although many on the committee did think two cuts are still a possibility). The Federal Reserve expects GDP growth to slow from last year's elevated pace as tight monetary policy and financial conditions continue to weigh on economic activity. Interestingly, the Summary of Economic Projections (SEP), showed that the median FOMC member anticipated higher inflation over the next two years than was the case in March. Whilst that remains to be seen, we received good news on the level of US inflation in May. The headline inflation reading was unchanged over the month to be 3.3% over the year which was down from 3.4% in April. A nice cooling indeed. This news saw market analysts readjust their expectations for 2 interest rate reductions of 0.25% by the end of the year in contrast to the Federal Reserve Chairman's guidance. Producer prices significantly undershot expectations suggesting prices are cooling for businesses too.

Although US non-farm payrolls surprised to the upside, the unemployment rate increased to 4% due to an increase in the participation rate. Moreover, hiring plans from the NFIB survey, temporary employment and initial unemployment claims, point to significantly lower payroll employment growth. Weaker US labour market and business sentiment data added to expectations of interest rate reductions which are likely to commence in the September quarter. We continue to believe that the US will experience a soft landing.

In Australia, the GDP report confirms that the Australian economy is soft. Domestic demand has limped along at a quarterly pace of 0.1–0.2% for two quarters. Household consumption remains weak, but it is not collapsing. Real household income was flat in the quarter and again lagged in population growth over the year. Rising mortgage payments along with a lift in tax payable and the effects of elevated inflation have weighed on household purchasing

Emmanuel Calligeris
Chairman of the Investment Committee

power. Furthermore, the tailwind of pent-up savings on consumer spending has largely run its course. Economic growth is likely to remain below trend over coming quarters which will ultimately lead to lower inflation. The latest NAB business survey confirmed that the easing in business conditions over the past two years persisted into May. Having experienced eight consecutive months of forward order declines, businesses are understandably circumspect over the outlook, with confidence moving sharply lower in the month. We maintain our view that the RBA Cash Rate has peaked but do not expect interest rate relief until next year.

In Europe, the Central Bank (ECP) delivered on its widely expected rate cut. The Governing Council however, revised its headline (core) inflation forecast higher to an average of 2.5% (2.8%) in 2024, 2.2% (2.2%) in 2025 and 1.9% (2.0%) in 2026, indicating it expects inflation to remain above target well into next year. Economic growth forecasts were slightly upgraded. Although seemingly inconsistent the cut represents a moderation in the degree of restriction rather than an outright pivot to easy policy.

The Chinese economy saw mixed data releases over the past month, but most indicators came in weaker than analysts forecast. The key theme for the month was both the private sector and households remaining cautious. Credit data showed that aggregate financing declined for the first time since 2005, and money supply growth also fell to record lows. After a strong 2023, credit contracted sharply in 2024. Real interest rates remain too high for the current state of the economy and there is an increasing probability that interest rates will be reduced in the second half of the year. Retail sales in China showed that consumers also remained cautious, falling to a new post-pandemic low of 2.3% over the year. Consumers have shied away from big-ticket purchases. Fixed asset investment was also disappointed due to a drag from private sector investment, which grew at a tepid rate. With property prices seeing a sharp decline in April and developer sentiment breaking new lows, it was unsurprising to see that real estate investment remained a major overhang on the economy.

Last month we highlighted that different countries and regions were exhibiting different rates of economic growth, different inflation levels and different labour market dynamics. We maintain the view that interest rates globally have peaked but the path of reductions will be slow and measured. Pressure on Australian household budgets persists and will continue to affect consumption. The Stage 3 tax cuts will provide some relief and we continue to see stronger growth in the second half of the year. Stimulus in China should be good for Australia too.

Returns

31st May 2024

ASSET CLASS RETURNS ARE BASED ON

Australian Cash
RBA Bank accepted Bills 90 Days

Australian Bonds
Bloomberg AusBond Composite 0+ Yr TR AUD

International Bonds Hedged
BarCap Global Aggregate TR Hdg AUD

Australian Listed Property
S&P/ASX 200 A-REIT TR

International Property Hedged
FTSE EPRA/NAREIT Dv REITS TR Hdg AUD

Australian Shares
S&P/ASX 200 TR

International Shares
MSCI World Ex Australia NR AUD

Emerging Market Shares
MSCI EM GR AUD

RETURNS TO THE 31ST MAY 2024

	1 Month	3 Months	6 Months	1 Year	3 Years	5 Years	10 Years
Australian Cash	0.36	1.08	2.16	4.30	2.47	1.65	1.85
Australian Bonds	0.39	-0.50	2.08	0.87	-2.09	-0.55	2.20
International Bonds Hedged	0.77	-0.14	1.73	1.71	-2.83	-0.59	2.02
Australian Listed Property	1.94	3.12	22.39	24.11	7.52	5.17	9.22
International Property Hedged	3.62	0.26	4.98	5.88	-2.75	-0.03	4.26
Australian Shares	0.92	1.16	10.66	12.93	6.80	7.83	7.78
International Shares	2.02	1.67	14.62	21.70	12.30	13.81	13.00
Emerging Market Shares	-1.81	1.35	7.13	9.36	-1.36	4.40	6.17

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