June 2024

VIRTUOUS WEALTH

Virtuous Wealth Monthly Market Update

Slower US Growth on the Horizon

INFORMATION CONTAINED IN THIS REPORT CURRENT AS AT 26 JULY 2024

A combination of stabilising growth and inflation edging lower in the US saw financial markets perform well in June. International shares increased by 3.51% thanks mainly to large technology companies including Adobe Inc., Broadcom Inc. Apple, Amazon and Nvidia. These company's profit expectations increased yet again and their share prices increased on the back of these expectations. Share market valuations look high both globally and domestically despite the general market outlook that the US economy is headed for a soft landing which means a gradual slowdown in economic growth without a recession. This outlook is likely to be tested in the next six months as the US economy cools further.

The US economy is finally cooling in response to tight monetary policy, as evidenced by falling inflation, job and wage growth. Jobs growth is cooling, particularly in the private sector and the unemployment rate has now broken above 4%, which is helping to keep wages in check. Rising unemployment will prompt consum¬ers to raise precautionary savings. The personal savings rate stood at 3.6% in April – half of what it was in 2019. Unlike 2022, US households no longer hold significant excess savings. With little accumulated savings to draw on and credit availability becoming more constrained, many households will have little choice but to curb spending. The US Federal Reserve has signalled that it will be patient and flexible in adjusting its monetary policy stance, considering the inflation and employment goals as well as the risks and uncertainties in the global and domestic environment. To this end the first rate cut of 0.25% is expected in September with another expected in December 2024.

In Australia, the economy continues to show resilience, but consumers are hurting. Retail sales have stalled and inflation remains stubborn. Whilst most OECD economies are seeing encouraging inflation falls, it is not the case domestically. The chance of rate cuts this year were reduced following the release of the inflation data over the month. Consumer sentiment dipped in May with the detail showing renewed cost-of-living and inflation concerns more than offset a relatively well-received Federal Budget. Pessimism continues to dominate, albeit with some faint glimmers of hope starting to show through around the outlook for family finances, where the prospect of tax cuts is giving some support. Australian housing finance approvals fell by 1.7% in June, following a robust 11.6% increase over the previous three months. This slowdown suggests a tempered outlook for the housing market, including prices and turnover, heading into next year. Meanwhile, the latest NAB business survey painted a gloomy picture of business conditions, highlighting ongoing declines in forward orders and hiring activity.

Emmanuel Calligeris
Chairman of the Investment Committee

There was a positive note in policy circles as indicators for prices and costs showed signs of easing after a spike in May.

In China, GDP growth fell to 4.7%, much softer than forecasts for 5.1%. This brought the year-to-date GDP growth down to 5.0% for the first half of the year, which keeps China still on pace to achieve its target. The two big drags on GDP growth continued to be the property sector and consumption. Property investment slumped -10.1% in the first half of 2024 and this is likely to continue due to the large amount of inventory that needs to be digested before new investment takes place. Retail sales grew by just 2% year-on-year, the weakest level since exiting pandemic restrictions. Weak consumer confidence is a major headwind to the economic recovery. A negative wealth effect from falling property and stock prices, as well as low wage growth amid various industries' cost cutting is dragging consumption and causing a pivot from big-ticket purchases toward a basic consumption. The PBoC lowered interest rates marginally, however this is unlikely to have a meaningful effect on stimulating the economy. The challenges facing the economy warrant further rate cuts and stimulus over the next 6-to-12 months. However, the authorities are likely to tread carefully to avoid triggering a rapid yuan devaluation which could trigger panic in financial markets, undermine consumer and business confidence, and delay economic recovery. The closely watched Third Plenum adjourned without any specific prescriptions to reverse China's economic slump. The communiqué was large on consultant-speak and scant on specifics. It is not necessarily the last word on the proceedings but the evidence so far indicates that the Party's leaders have no intention of injecting the stimulus for which many global investors are hoping.

In Europe cooling inflation has increased real wages to the benefit of the pro-cyclical Euro Area economy, but these tailwinds are fading as interest rates are unlikely to be reduced materially further given lingering inflation concerns will keep the ECB from making swift proactive adjustments to its policy rate. The ECB will only cut aggressively in the event of a recession. Germany faces significant headwinds as the fiscal thrust is negative, and China's competitively priced exports are cutting into German manufacturers' efforts to claim their share of already softening global demand. The German ZEW, an indicator of manufacturing activity, marginally surprised to the upside in July but growth is still trailing the broader Euro Area. Moreover, German industrial production has contracted for 10 out of the past 12 months. The improvement in expectations reflects the stabilisation in the Euro Area manufacturing activity since the lows of last year, but this trend is unlikely to persist.

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 persist 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.

We feel that there is risk in the markets particularly as we head into the US election. Trump is ahead in the polls however, President Biden announced that he was not running for re-election. The situation remains fluid. A trump victory would be positive for share markets in the short-term but negative in the long term as the policies being pursued are inflationary.

Returns

30th June 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 30TH JUNE 2024

	1 Month	3 Months	6 Months	1 Year	3 Years	5 Years	10 Years
Australian Cash	0.35	1.07	2.15	4.32	2.59	1.70	1.86
Australian Bonds	0.77	-0.84	0.18	3.68	-2.06	-0.60	2.19
International Bonds Hedged	0.78	-0.16	-0.48	2.67	-2.74	-0.69	2.04
Australian Listed Property	0.39	-5.63	10.17	24.65	5.74	4.38	8.91
International Property Hedged	1.39	-1.19	-2.07	4.17	-2.96	-0.02	4.26
Australian Shares	1.01	-1.05	4.22	12.10	6.37	7.26	8.06
International Shares	1.61	0.28	14.37	19.92	11.18	13.01	13.13
Emerging Market Shares	3.51	2.57	9.82	12.18	-1.29	4.12	6.41

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