Crystal Wealth Partners Market Commentary – March 2024

Please find our commentary on investment markets to 31st March 2024.

It was another positive month for global equities, on the back of continuing resilient economic data which helped push many indices to new all-time highs. Fixed income markets moved slightly higher, as investors became more confident that increasingly dovish commentary from central banks will lead to monetary policy easing in the second half of 2024. However, investors continue to push out assumptions for interest rate cuts further into 2024 on the back of ongoing jobs strength.

US Markets

Economic data continued to paint a strong picture of the US economy in March, with the December 2023 quarter GDP result showing the economy expanded at an annual rate of 3.4% versus an initial 2% consensus. The Purchasing Manager's Index (PMI) remained firmly in expansionary territory (above 50), boosting investor sentiment. The labour market also remained resilient. Despite some surprisingly high monthly inflation prints since the start of the year, the Federal Reserve continues to forecast that inflation will decline slowly. The Fed's preferred inflation measure, Core Personal Consumption Expenditure (PCE) cooled slightly to 2.8% in February from 2.9% in January, measured year-on-year, moving closer towards the 2% annualised target.

All three major US indices notched monthly gains in March and all three reached new all-time highs again. The Dow Jones Industrial Average rose over 2% for March, to be up 5.62% for the first three months of 2024. The S&P500 added over 3% in March and is over 10% higher since the start of the year and the technology and growth dominated NASDAQ100 increased 1.17% in March, up almost 8.5% since the beginning of the year. All sectors finished higher, with Energy outperforming with a 10.6% rise for the month alone. The Communication sector was the strongest performing sector for the first three months of 2024, finishing the quarter 15.8% higher. The S&P500 has now had its second consecutive quarter of double-digit gains for only the ninth time since 1940.

Looking ahead, the US Q1 earnings season approaches. Analysts are expecting S&P500 companies to report earnings-per-share (EPS) growth for a fourth consecutive quarter. The second half of 2023 highlighted narrow market leadership, when the majority of index gains had been realised by a small number of large cap growth stocks (predominantly 'AI' names). While large cap and growth stocks continue to outperform, market breadth (i.e. more companies gaining) has been steadily improving since the start of the year.

The US bond market moved up slightly in March as rate cuts continue to be expected from around the middle of this year. The US 2-year bond yield fell by 1 basis point to 4.62%, while the 10-year bond and 30-year Treasury bond yields fell by 6 basis points and 4 basis points respectively, to 4.20% and 4.34% respectively.

World Markets

Eurozone inflation slowed more than expected in March, further solidifying expectations of monetary policy easing by the European Central Bank in the coming months. The annual consumer price growth in the region fell to 2.4% from 2.6% and marks a four-month low. Core inflation decelerated from 3.1% to 2.9%, a two-year low. Markets are currently pricing in four rate cuts by the ECB by the end of 2024, with the first expected to commence in June. The Swiss central bank unexpectedly reduced its policy rate by 25 basis points in March and signalled that another rate cut within a few months is likely. It's the first developed market central bank to reduce its policy rate since the beginning of the global monetary policy tightening cycle.

European equities were mostly higher in March though underperformed other developed markets. The rise in equities came despite confirmation of a significant slowdown in some major economies. German retail sales plunged almost 2% in February, below consensus expectations. The country is also expected to grow by just 0.1% in 2024, down from previous forecasts of 1.3%. Germany's DAX index, however, outperformed to finish March up 4.67%. France's CAC40 reached new all-time highs in March and finished the month up 3.51%.

In the UK, inflation continues to fall, down from over 11% in 2022 to 3.4% in the 12 months to February. The Bank of England left cash rates steady at 5.25% and the Governor said there has been "further encouraging signs that inflation is coming down", while also maintaining the BoE needed more certainty that price pressures were fully under control. It was the first time since September 2021 that no committee member voted for a rate hike. UK equities rose off the back of the BoE's meeting, with the FTSE100 rising 4.23% in March.

The big news out of Japan was the central bank's long-awaited decision to end its negative interest rate policy (i.e. yield curve control), and its purchases of equity ETFs and REITs. The Bank of Japan (BOJ) raised its policy rate to between 0% and 0.1% in March, bringing it into positive territory for the first time since 2016. However, the BOJ will remain active in the government bond market, despite abandoning its Yield Curve Control (YCC). These policy adjustments reflect greater confidence that the 2% inflation target will be sustainably achieved, following decades of deflation. The central bank's guidance remains dovish, noting that conditions will remain accommodative, and that this adjustment does not mark the start of an aggressive tightening cycle. The Nikkei225 rose almost 3% in March and over a staggering 20% for the first three months of the year. The 10-year Japanese government bond yield finished the month marginally lower at 0.70%.

Deflationary pressures and the ongoing property market slump continue to weigh on investor sentiment in China. However, there are some early signs that the economy may be gaining some traction, with industrial production, fixed-asset investment, and retail sales picking up in the two-month period to March. Chinese authorities also announced that the country is open to foreign investment and have pledged to step-up measures to support growth in several sectors. They also announced an ambitious 5% annual growth target for 2024. The Shanghai Composite index underperformed global equities, rising 0.87% in March. Hong Kong equities rallied early in March before giving back most of the gains made. The Hang Seng finished March modestly higher, up 0.18% for the month.

Australia

Monthly inflation data was slightly lower than expected in February. However, the domestic economy overall remained weak, growing by a modest 0.2% in the December 2023 quarter. Household spending remained soft, however business investment was relatively resilient. Labour market data is volatile, but there continues to be evidence of a gradual easing in the jobs market. Leading indicators also suggest that wages growth has reached its peak for now.

The Reserve Bank of Australia (RBA) left the cash rate unchanged at 4.35% at its second meeting of the year. The Board reiterated that higher interest rates are working to moderate inflation and that employment conditions are gradually easing. The post-meeting statement moved closer to a neutral outlook, changing some wording around being ‘unable to rule out further interest rate increases’ to one of ‘not being able to rule anything in or out’, further highlighting uncertainty around the policy outlook. The market is currently pricing in a 45% chance of a 25 basis point cut in August, with a cut fully priced in for November this year.

Australian equities continued to move higher in March, with the S&P/ASX200 closing the month at another new record high. Sector divergence moderated over the month, with Real Estate performing the strongest with a 9.3% gain, followed by Energy gaining 5.3%. Communication Services was the laggard in March and was the only sector to finish the month lower, retreating 0.6%. Large-caps slightly underperformed mid and small-cap stocks.

Australian 10-year bond yields ended March little changed being only 5 basis points lower. The spread between the Australian 2-year Treasury yield and the higher US 2-year Treasury yield widened in March, representing the difference in interest rate expectations between the two countries.

Other Markets

Lower production from OPEC+, continued geopolitical tensions in the Middle East and the Red Sea and signs of stronger demand for oil all contributed to the rally in oil prices. The commodity closed March a little over USD$83 a barrel, a rise of over 6.2% for the month and 16% higher since January 2024.

Iron ore prices remain under pressure over concerns surrounding the Chinese economy, more specifically, continued weakness stemming from the property sector and rising steel inventories at major Chinese steel mills. The commodity finished March at USD$100.10 per tonne, down 20% over March and down over 25% since the start of the year.

Gold spiked in March, gaining over 9% for the month alone. The precious metal closed the month at USD$2,232 per/oz, an all time high. Geopolitical risks, increased purchases by central banks, monetary policy easing expectations and currency movements collectively appear to be driving the commodity price higher.

The AUD was stronger against the USD in March, boosted by strong (‘risk-on’) market sentiment which sent global equities higher. In fact, the AUD was the strongest member of the G10 currency basket in March. The exchange rate rose early in the month after Fed Chair Powell commented that the FOMC is getting closer to shifting to monetary easing. However, the AUD was weighed down during the second half of the month by the shift of the RBA Board to a more neutral interest rate outlook. The AUD traded between USD$0.6503 and USD$0.6624 before closing March at USD$0.6521.

Index*	1 Month	3 Months
US – Dow Jones	2.08%	5.62%
US – Nasdaq (100)	1.17%	8.49%
US – S&P 500	3.10%	10.16%
Germany – DAX	4.67%	10.46%
UK – FTSE 100	4.23%	2.84%
Shanghai Composite - SSE	0.87%	2.23%
Hong Kong- Hang Seng	0.18%	-2.97%
Japan – Nikkei 225	3.07%	20.63%
S&P/ASX 200	2.57%	4.03%
All Ordinaries Index	2.41%	4.12%
Gold (USD)	9.22%	8.25%
Oil (USD) – WTI	6.21%	16.01%
Iron Ore (USD)	-19.83%	-26.60%
10 Year Aus Gov’t Bonds (yield)	-3.59%	0.86%
10 Year US Gov’t Bonds (yield)	-1.45%	8.45%
AUD/USD	0.59%	-4.06%

* percentage change in local currency unless stated otherwise

If you have any questions in relation to the above, or require any additional information, please do not hesitate to contact your Adviser to discuss your particular circumstances.