Crystal Wealth Partners Market Commentary – June 2024

Please find our commentary on investment markets to 30th June 2024.

Inflation and interest rates remain the key

Collectively, investors' perceptions of the likely outlook for inflation and interest rates have and will continue to drive market returns over the next few years. From a longer-term perspective, tight labour markets remain the core worry for Central Banks. Encouragingly for the inflation outlook, labour markets continue to show signs of easing with job vacancies falling and unemployment creeping up – but these changes are small and progress is slow.

Where the possibility of a wages breakout and accompanying wage-price spiral remains with tight labour markets, we expect that Central Banks will be loath to cut interest rates prematurely as no one wants to risk inflation accelerating again. Domestically, economic data remains mixed with resilient employment and inflation data offset by weaker consumer and housing data. This makes the policy task for the Reserve Bank increasingly difficult and suggests lower rates may still take some time to eventuate here. Elsewhere, domestic price pressures remain in key economies such that inflation remains still above target.

Markets will continue to closely monitor economic data and inflation prints to see how Central Banks are progressing along their respective interest rate trajectories. The challenge remains to administer monetary policy that squeezes inflation without also triggering a 'recession'. It also means monitoring the impact of any signs of slowing growth (supported by lower inflation readings) on corporate earnings that could accompany moderating growth and inflation trends.

Since the start of the year market sentiment has shifted from a more benign outlook (i.e. slowing inflation and growth with easing interest rates to create a "soft-landing") to a less supportive position built around 'higher-for-longer' interest rates. This means it will be important to continue to monitor relative market valuations carefully.

US Markets

Inflation data in the US in April and May suggests price pressures are continuing to ease. May's Core Personal Consumption Expenditure (PCE), the Federal Reserve's (Fed) preferred measure of inflation, was 2.6% year-on-year, down from 2.8% the prior month. Economic data was also a little softer in June, with the US continuing to show signs of some moderation with soft consumer data and an unemployment rate coming in a little higher than expected (4% versus 3.9%). However, the Federal Reserve struck a more hawkish tone at its June meeting, with only one interest rate cut now being projected in 2024 as it noted inflation progress remained modest.

All three major US indices lifted in June, with the technology and growth dominated NASDAQ100 and S&P500 pushing to new all-time highs late in the month. The Dow Jones Industrial Average gained 1.12% over the month and has gained 3.79% since the start of the year. The S&P500 finished June almost 3.5% higher and has gained almost 14.5% in the first six months of the year. Boosted by AI-names, the NASDAQ100 had a strong June (up 6.18%) and first half of 2024, lifting almost 17%. Technology was the best performing sector in June, increasing 9.3%, while Utilities was the laggard, down 5.5%. A small group of large-cap growth stocks with outsized index weightings had robust gains and continue to contribute considerably to wider index gains, leading to narrow market leadership.

Softer economic data helped push US 10-year Treasury bond yields 10 basis points lower in June. The US yield curve has now remained inverted since July 2022, which is the longest inversion on record. Historically, an inverted curve has been an early warning signal for an upcoming recession, however a recession is yet to materialise in this cycle in the US. Rate expectations continue to oscillate, with investors expecting one rate cut from the Fed in the November meeting, with a further cut partially priced in for December. For context, in January 2024 around six rate cuts were anticipated, highlighting the unpredictability of interest rate expectations (and better than expected economic performance in the year to date).

World Markets

After heavily signalling a cut to policy rates, the European Central Bank (ECB) became the latest developed market central bank to reduce interest rates (but only by 0.25%). However, sticky services inflation means the ECB also stressed that the path for any further rate reductions will be data dependent. European bond yields rose in June after the results from the European parliamentary elections and the announcement of snap French elections. France's CAC40 fell sharply amid the political uncertainty, down almost 6.5% for June, while Germany's DAX fell almost 1.50% for the month. Meanwhile, German 10-year bond yields fell 15 basis points and French 10-year bond yields rose 16 basis points, widening the spread between the two from 50 basis points to around 80 basis points (given French political uncertainty).

In the UK, sticky services inflation again pushed back hopes of a June interest rate cut by the Bank of England (BOE). Although headline inflation returned to target in June, the BOE felt unable to cut rates due to a series of strong wage prints and a forecast reacceleration in inflation. The BOE has signalled, however, that a policy rate cut could be on the cards in August. UK bond yields pushed higher in the lead up to the UK elections on July 4. The FTSE100 fell 1.3% in June but has risen over 5.5% since the start of 2024.

In Japan, inflation continued to accelerate in the Tokyo-area, with June CPI rising to 2.1% year-on-year, which was higher than expected. The CPI increase was driven by services inflation and has increased speculation that the Bank of Japan (BOJ) would normalise monetary policy soon. Retail sales and industrial production grew more than expected in May. 10-year Japanese government bond yields

finished June at 1.06%, marginally lower than the previous month, as anticipation mounts on further monetary policy tightening by the BOJ. The Yen is now hovering around 38-year lows, falling to JPY 160.60 against the USD. The Nikkei225 rose 2.85% in June and is up over 18% in the first six months of 2024.

Chinese economic data continues to highlight an uneven recovery for the country. The official Manufacturing Purchasing Manager's Index (PMI) remained unchanged at 49.5 in June marking a second consecutive month of contraction (a print below 50 signifies a contraction). Industrial profits at large companies moved 0.7% higher in May from a year ago, down from April's 4% gain. The decline reflects sluggish consumption amid China's property downturn and persistent deflationary pressures. Chinese equities underperformed their global counterparts, falling 3.87% in June. The Shanghai Composite is mostly flat so far this calendar year, down 0.25%. Hong Kong equities ended a four month winning streak, with the Hang Seng Index closing June 2% lower. The index has gained almost 4% since the start of the year, outperforming Chinese equities.

Australia

At its June meeting, the Reserve Bank of Australia (RBA) left interest rates on hold at 4.35%. RBA Governor Michele Bullock's comments post-meeting were interpreted as slightly hawkish, though she continued to describe the Board's policy stance as neutral. It was noted, however, that the Board weighed a 25-basis point rate *hike* but considered the case for holding rates unchanged as the stronger of the two positions.

Broader economic indicators continue to suggest softening economic conditions. This includes warnings from several companies, noting increased cost of living pressures, softer demand and hence weaker consumer spending. March quarter GDP showed the domestic economy grew by just 0.1% and contracted in per capita terms. Higher interest rates continue to weigh on household spending and construction activity. The Fair Work Commission increased minimum and award wages by 3.75% this year, a lower outcome than the previous two years, but May inflation surprised on the upside. This pushed expectations for an August interest rate *hike* to almost 50%, although this has since dropped back to around 32%.

Australian equities rose in June, with the S&P/ASX200 up 0.85%. There was some dispersion across the sectors, with eight of the eleven sectors finishing the month higher. Financials was the best performing sector in the month, up over 5%. Materials was the clear laggard, down almost 6.5%. Year-to-date, Information Technology has risen almost 28% to be the best performing sector so far in 2024. Large cap equities continued to outperform mid and small caps, with the differential between the large and small cap returns widening to 2% since the start of 2024.

Australian 10-year bond yields remained volatile in June after the May inflation print and RBA decision, but ultimately finished the month 10 basis points lower, driven by the fall in US yields. The spread between the Australian 2-year Treasury yield and the higher US 2-year Treasury yield continued to narrow in June, representing the difference in interest rate expectations between the two countries.

Other Markets

Oil prices gained almost 6% in June, almost reversing the decline in May, boosted by OPEC+ extending output cuts until 2024. Oil was also pushed higher due to expectations of higher demand during the summer driving season in the Northern Hemisphere and concerns about the conflict in the Middle East reducing global oil supplies. The commodity closed June at USD$81.54 a barrel, 13.80% higher than the start of 2024.

Iron ore prices fell over 9% in June and are now almost 22% lower since the start of 2024. Weakness around China's property sector continue to weigh on the commodity's outlook. Recent data showed that iron ore production by Chinese mining companies increased by 13.4% year-on-year in the January to May period. Over the same period, however, steel production declined 1.4% year-on-year as profits have been squeezed by low margins. Iron ore closed June at USD$106.51 per tonne.

It was a volatile month for gold, which ended up finishing June where it started, around USD$2,326 per/oz. The precious metal peaked at USD$2,377 per/oz early in the month, before falling to a low of USD$2,293 per/oz soon after. After the first half of the year, gold is 12.76% higher. Geopolitical risks, increased purchases by central banks, monetary policy easing expectations and currency movements collectively have helped to support gold prices.

The AUD had its third monthly increase in the past four months and its highest monthly close since December last year, closing June 0.3% higher. The local currency was relatively stable and range-bound over the month as the relative strength in the USD offset the impact of a more hawkish RBA and higher-than-expected domestic inflation. Over the month, the AUD traded between USD$0.6582 and USD$0.6689 before closing June at USD$0.6670.

Index*	**1 Month**	**3 Months**	**6 Months**
US – Dow Jones	1.12%	-1.73%	3.79%
US – Nasdaq (100)	6.18%	7.82%	16.98%
US – S&P 500	3.47%	3.92%	14.48%
Germany – DAX	-1.42%	-1.39%	8.86%
UK – FTSE 100	-1.34%	2.66%	5.57%
Shanghai Composite - SSE	-3.87%	-2.43%	-0.25%
Hong Kong- Hang Seng	-2.00%	7.12%	3.94%
Japan – Nikkei 225	2.85%	-1.95%	18.28%
S&P/ASX 200	0.85%	-1.64%	2.33%
All Ordinaries Index	0.54%	-1.72%	2.35%
Gold (USD)	-0.04%	4.17%	12.76%
Oil (USD) – WTI	5.91%	-1.90%	13.80%
Iron Ore (USD)	-9.37%	6.40%	-21.90%
10 Year Aus Gov't Bonds (yield)	-1.09%	8.75%	9.68%
10 Year US Gov't Bonds (yield)	-2.01%	4.80%	14.12%
AUD/USD	0.33%	2.35%	-2.10%

* 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.