CRYSTAL Wealth Partners

Crystal Wealth Partners Market Commentary – August 2024

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

August saw a sharp increase in risk aversion and associated market volatility, as crowded and similar market positioning trades started to unwind. This included an unwind of the massive Yen carry trade (where money was borrowed in 'cheaper' Yen to invest in high yielding assets, particularly US stocks and treasuries.

Over the month, investor scrutiny on the 'mega-cap' technology stocks in the US increased amidst details of ongoing AI centric capital expenditure programs. This meant the market started to look towards broader market participation and consider traditional defensive stock positions across the healthcare, consumer staples and infrastructure sectors.

While the economic growth data appears to be easing, for now consumer spending (particularly in the US) remains robust despite the higher borrowing costs. This means the question remains as to whether we are seeing normalisation in growth from above-trend levels (post-COVID) or the hallmarks of a recession gathering, despite the prospect of lower rates (noting monetary policy always operates with a lag effect in the real economy).

As a result, coupled with the reduction in inflation continuing, the market's focus has now shifted towards growth and employment given a softer jobs market (hence income growth) and lower level of consumer savings. This backdrop increases the focus on the upcoming US monthly jobs report as the pre-cursor to the all-important September US Federal Reserve meeting where the first interest rate cut is widely anticipated.

In recent months we have seen a high correlation in performance across government debt, corporate credit and equities. The significant increase in the S&P 500 index in the run-up to the first interest-rate cut of a potential 'easing cycle' is also worth noting. This means that for markets to continue to perform we need to see a 'soft landing' (continued easing in inflation coupled with sufficiently robust employment), trend or above-trend economic growth and support still from consumer spending to

continue the momentum trade. It requires balance in the labour market and support from government to focus on growing the economy and not just leaving it to the Federal Reserve and monetary policy.

Outside the US, China remains a weak point from current economic data and the European Central Bank received further evidence to support rate decreases from lower growth and euro-area inflation in August but remain cautious. This continues to place significant weight on the US economic engine to do a lot of the current heavy lifting presently. Domestically, we expect the June quarter GDP figures to show weak growth and consumer spending yet the RBA to remain hawkish and unlikely to consider rate cuts this year. This means public (government) spending and exports continue to remain the two core growth components.

US Markets

Surprisingly weak US employment and manufacturing data triggered a sell-off in US equities at the beginning of August. The unemployment rate rose to 4.3%, compared to the expected 4.1%. Investment markets initially assessed that the US Federal Reserve might be behind on monetary policy easing, which could lead to a recession. However, it was relatively short-lived as stronger US economic data released throughout the rest of August alleviated some investor concerns about the US economy.

At the annual Jackson Hole Economic Symposium held in August, Fed Chair Jerome Powell confirmed that the central bank will lower interest rates at the September meeting, with many expecting a 25 basis point cut. However, investors believe that if labour market data, released before the meeting, comes in below expectations, a 50 basis point cut could be on the table. An interest rate cut in September would see the Fed join other central banks in many advanced economies that have begun their monetary easing cycles.

After initially falling 6% in the first three trading days of August, the S&P500 rebounded, recovering the losses to close out August up 2.28%. The technology and growth dominated NASDAQ100 added 1.1% over the month while the Dow Jones Industrial Average gained 1.76% in August. From a sector viewpoint, Staples was the best performer, increasing almost 6% in August, while the laggard was Energy, down 1.7%. There was a defensive shift over August, with sectors like staples, healthcare and utilities outperforming the broader market.

It was also a busy month for earnings, with a majority of reporting companies releasing results, which were mixed-to-positive. 49% of companies reported a beat on revenues, while 71% reported revenue growth, with an average growth rate of 5.2%.

US Treasuries rallied again in August, marking the fourth consecutive monthly advance. US 10 year yields finished August 10 basis points lower and are now back to their level at the start of 2024 (around 3.9%), while 2 year yields saw a sharper decline, falling 34 basis points. As a result, the US yield curve inched closer to flattening, with the 2 year and 10 year spread narrowing to just 2 basis points. This suggests the Federal Reserve is more likely to deliver a rate cut sooner, and investors continue to anticipate the first cut will be in September and are currently pricing in 100 basis points of rate cuts in the US in 2024.

World Markets

Inflation in the Eurozone continued to moderate, with headline annual inflation coming in at 2.2% in August, down from 2.6% in July. It’s the lowest level in three years and a touch above the European Central Bank’s (ECB’s) 2% target. Core inflation also ticked lower while services inflation, which is closely watched by policymakers, quickened to 4.2% from 4%. As such, some ECB policymakers remain cautious about lowering policy rates, emphasising that incoming data would need to be supportive for

another rate cut in September. Equities were positive in August, with France's CAC40 increasing 1.32%, while Germany's DAX rose 2.15%. In the UK, the FTSE100 underperformed, eking out a small 0.1% gain for August.

The Bank of Japan's decision to increase its policy rate by 25 basis points and Governor Ueda's hawkish tone contributed also to an abrupt unwinding of 'carry' trade positions. This sparked a large sell-off in Japanese equities, with the Nikkei225 falling almost 20% over a few trading sessions. Interestingly, the market sell-off was relatively short-lived, with the Nikkei225 clawing back to finish August 1.16% lower.

Chinese economic data released in August continued to suggest a struggling economy and several China economists reduced their 2024 growth forecasts as the country continues to grapple with a prolonged property sector slump and weak domestic demand. Retail sales are now expected to grow 4% this year, down from estimates of 4.5%. The weaker outlook raised the prospect that the country may miss its official growth target of 5% this year and raised expectations that the central bank may loosen policy further in the near future. Chinese equities were weaker in August, falling 3.28%, while Hong Kong equities advanced to end a two-month losing streak, with the Hang Seng gaining 3.72%.

Australia

At the August meeting, the Reserve Bank of Australia (RBA) left rates unchanged at 4.35%, which was widely expected. The following press conference and communication was interpreted as hawkish, as the central bank continues to balance inflation possibly taking longer to return to target with the risk of a sharp deterioration in the labour market. As such, the RBA has strongly signalled that an interest rate cut in 2024 is unlikely, contrasting with many other central banks around the world who have either begun to cut policy rates or have signalled that they are close.

Domestic economic data released in August continues to suggest a softening in underlying economic conditions. Inflation continues to moderate while economic activity has remained weak, in particular household consumption and residential construction. In the June quarter, wages growth fell further while the labour market continued to gradually loosen.

Australian equities were volatile over August, with the S&P/ASX200 recovering quickly from a 6% drop early in the month to finish mostly flat. Corporate earnings reports were also released over the month, leading to some share price movements on an individual company level. It was also a mixed month from a sector viewpoint, with six of the eleven sectors closing August higher. Information Technology was the best performer, increasing 7.86%, followed by Industrials rising 3.88%. Energy was the laggard, down 6%. Year-to-date, Information Technology continues to be the best performing sector, having risen over 38% so far in 2024. Mid cap equities led the local market with a 2% gain in August, placing it ahead of large and small caps.

Despite RBA signalling, investors are still currently pricing in the likelihood of one 25 basis point cut in 2024. Australian 10-year bond yields fell 15 basis points in August, driven by softer economic data and lower yields in the US. The spread between the Australian 2-year Treasury yield and the US 2-year Treasury yield continued to narrow in August, representing the difference in interest rate expectations between the two countries.

Other Markets

Following falls in July, oil prices retreated 5.6% in August after pessimism around Chinese demand growth intensified impacting commodity markets more broadly. On the supply side, OPEC announced plans to increase production, with eight members raising output, putting further pressure on prices,

although oil prices could be supported in the near term as tensions in the Middle East continue. The commodity closed August at USD$73.55 a barrel.

Iron ore prices came under pressure again in August, following soft economic data in China and rising inventories. Manufacturing data from the commodity's top consumer contracted further in August while industry data out of China also revealed that total inventories of imported iron ore jumped to its highest level since April 2022. Iron ore finished August at USD$98.70 per tonne, over 6.8% lower. Lithium prices also continued to sag given relative over supply against a slowing in demand growth of electric vehicles and concerns. The price of lithium carbonate is now back to near pre-bull market prices yet supply levels have not significantly reduced.

Gold was one material that continued to push higher in August, driven by weaker US economic data and the Fed's Chairman Powell's comments from Jackson Hole noting that interest rate cuts were very likely in the near term (possibly at the September meeting). Meanwhile, escalating risk of a broader conflict in the Middle East has also enhanced the precious metal's appeal as a 'safe haven' asset. As such, it finished August 2.29% higher at USD$2,503 per/oz, close to an all-time high of USD$2,525 per/oz, reached earlier in the month.

The AUD rose against the USD in August, with much of the increase driven by weakness in the USD, likely as a result of unwinding USD and Japanese yen positions, anticipation of US interest rate cuts and pressure from a rally in US Treasuries. Over the month, the AUD traded between USD$0.6498 and USD$0.6798 before closing August at USD$0.6765.

Index*	1 Month	3 Months
US – Dow Jones	1.76%	7.44%
US – Nasdaq (100)	1.10%	5.60%
US – S&P 500	2.28%	7.03%
Germany – DAX	2.15%	2.21%
UK – FTSE 100	0.10%	1.22%
Shanghai Composite - SSE	-3.28%	-7.92%
Hong Kong- Hang Seng	3.72%	-0.50%
Japan – Nikkei 225	-1.16%	0.42%
S&P/ASX 200	0.00%	5.07%
All Ordinaries Index	-0.04%	4.34%
Gold (USD)	2.29%	7.57%
Oil (USD) – WTI	-5.60%	-4.47%
Iron Ore (USD)	-6.83%	-16.01%
10 Year Aus Gov't Bonds (yield)	-3.29%	-9.68%
10 Year US Gov't Bonds (yield)	-3.08%	-13.18%
AUD/USD	3.43%	1.68%

* 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.