Crystal Wealth Partners Market Commentary – September 2024

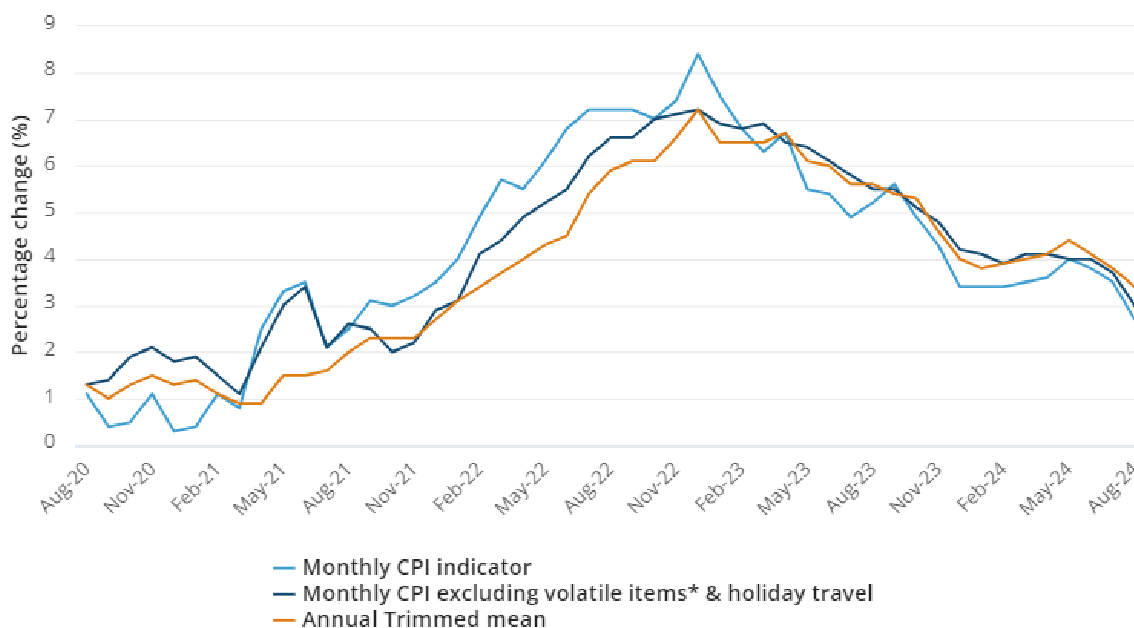
Please find our commentary on investment markets to 30th September 2024.

While September can be a weak month historically, this year surprised to the upside with a larger than expected 0.5% US Fed rate cut, taking the Fed funds (cash) rate to the 4.75%-5% range. Markets already have priced in further rate cuts over the next 12 months in excess of 1.5%.

However, the real message this month from the Fed was around its view regarding inflation. The Fed believes now that inflation should continue to ease in line with an easing in the tight labour market, and hence an aggressive rate cut to start its easing cycle was seen as taking out 'insurance' against a more significant slowdown in the economy. The next rate move will be watched with interest to see if this view continues.

Domestically, the RBA decided again to leave cash rates on hold. The latest headline CPI report showed some easing but the underlying adjusted or 'trimmed mean' level of annual inflation still remained above the target 2%-3% band at 3.4% (August data). The RBA again played down the likelihood of rate cuts this calendar year, however markets continue to price in around 1% in easing over the next 12 months.

Annual movement (%) in key CPI metrics



Source: Australian Bureau of Statistics, Monthly Consumer Price Index Indicator for August 2024, released 25 September 2024

Outside the US, European growth remains weak and last month we commented on China also remaining a weak point (economically) with respect to global growth. During the month, Chinese authorities finally announced a range of stimulus measures to address their slowing growth concerns. This drove the mainland Chinese and Hong Kong equity markets significantly higher (by 21% and 17.5% respectively) and provided support for core resource stocks and the AUD in the process.

While the narrative remains focused around the 'soft landing' scenario, particularly led by the US, it is important to note that recession risks clearly remain in view. This includes elevated market valuations, heightened geopolitical risk in the Middle East and the US Federal election in November.

The rebalancing of labour markets (i.e. supply and demand) will be closely watched for clues on how the adjustment process is likely to play out from here. If labour markets cool too much, rate cuts may not be enough to offset a 'harder landing' scenario which would be negative for equity markets. For now, markets continue to price in a more positive outcome.

US Markets

Economic data released in September continued to show a resilient US economy. With inflation falling and a gradual loosening in the labour market, the US Federal Reserve delivered it's highly anticipated first rate cut this cycle, lowering rates by 50 basis points. Fed Chair Powell noted that "economic activity has continued to expand at a solid pace" and that the larger rate cut was to prevent a further weakening of the labour market. The Fed also released updated 'dot plots', an estimated projection of interest rates, which showed the median projection is for another 50 basis points of cuts before the end of 2024 followed by another 100 basis points in 2025.

After experiencing some weakness early in the month, US equities moved broadly higher in September, with the S&P500 up 2.02%. The technology and growth dominated NASDAQ100 added 2.46% over the month while the Dow Jones Industrial Average gained 1.85% in September. On a sector

level, Discretionary was the best performer, increasing almost over 7% in September, while the laggard was Energy once again, down 2.7%. The past three months saw periods of narrow market leadership, where a handful of stocks outperform and push the benchmark higher. More recently, there has been a healthy rotation into previously underperforming sectors and industries.

US Treasuries rallied again in September, following the Fed's 50 basis point rate cut, marking the fifth consecutive monthly advance. US 10 year yields finished the month 12 basis points lower while 2 year yields saw a sharper decline, falling 28 basis points. As a result, the US yield curve is now positively sloped (steeper), the first time in two years. Note investors are expecting rates to fall faster than the Fed projects, with 75 basis points of cuts anticipated in 2024 and more than 100 basis points in 2025.

World Markets

With inflation continuing to cool and activity relatively muted in Europe, the European Central Bank (ECB) delivered its second interest rate cut this cycle in September, taking the policy rate to 3.5%. Swedish and Swiss central banks also cut their policy rates, and both indicated further reductions are likely necessary this year. The Bank of England kept interest rates on hold at their September meeting, having lowered rates for the first time this cycle in August. Equity markets were mixed in the region in September, with France's CAC40 flat and Germany's DAX rising 2.21%. The FTSE100 underperformed, closing September 1.67% lower.

The Bank of Japan (BoJ) left policy rates steady at their September meeting. Comments from the Governor were perceived as relatively dovish, suggesting that the central bank was in no rush to raise rates further, which supported domestic equities. However, the Nikkei225 still closed out September 1.88% lower. The Tokyo-area CPI, a leading indicator of nationwide trends, rose 2% year-on-year in September, down from a 2.4% reading in the previous month.

China announced a raft of stimulus measures in an effort to boost its economy in September. The People's Bank of China (PBOC) cut its reserve requirement ratio by 50 basis points for most banks and reduced policy rates on a number of short and medium-term lending facilities. Other measures included a rate cut for existing home mortgages and reducing the down payment ratio for second home purchases. Markets welcomed the measures, and the Shanghai Composite rallied almost 17.5% in September with its single best week since 2008. Likewise, the Hang Seng also rallied strongly in the month. However, there is general consensus that significant fiscal stimulus is required to lift the growth rate in the Chinese economy and it remains to be seen if the country will reach it's 5% economic growth target this year. To date, the detail of such measures remains unannounced.

Australia

At the September meeting, the Reserve Bank of Australia (RBA) left cash rates unchanged at 4.35%, which was once again widely expected. The RBA remains concerned about core inflation taking too long to return to the midpoint of its target range and reiterated that it does not expect to lower interest rates in 2024. However, a sharper slowdown in the economy and the labour market are key factors that could bring forward a reduction in interest rates.

Inflation continued to fall in line with the RBA's latest forecasts, driven predominantly by lower fuel prices and short-term electricity rebate measures. The labour market remains resilient for now, with the unemployment rate steady at 4.2%, underpinned by solid public sector job growth rather than private sector job growth. Private sector activity continues to be weak, with household spending and residential construction remaining subdued. Population growth also remained strong in the first half of 2024.

Australian equities were weak to start September but finished the month up 2.2% to reach a new all-time high. Eight of the eleven sectors closed September higher, with Materials the best performer, rallying 13% followed by Information Technology up 7.42%. Healthcare was the laggard, down 3.18%. Year-to-date, Information Technology continues to be the best performing sector, having risen over 48.5% so far in 2024. Small cap equities outperformed mid and large caps, adding over 5% in September.

Despite RBA signalling, investors are still pricing a 70% chance of one 25 basis point cut in 2024. Looking further ahead, a total of 75 basis points are priced in by mid-2025 by investors. Australian 10-year bond yields were little changed, rising 3 basis points. The spread between the Australian 2-year Treasury yield and the US 2-year Treasury yield continued to narrow in September, as expectations grow for further sharper rate cuts in the US.

Other Markets

The price of oil extended falls experienced in previous months, coming under pressure from OPEC+ plans to begin increasing production in December. Additionally, demand in China, the world's largest oil importer, remains soft. However, there is some support forming as tensions in the Middle East continue to escalate. The commodity closed September at USD$68.17 a barrel, down 7.31%.

Iron ore prices trended downwards for most of September, reaching the lowest level in recent years due to China's weak economy, which caused uncertainty in commodity markets and reduced demand from steelmakers. Prices recovered into the end of the month following China's newly announced stimulus measures, with the price of iron ore jumping more than 7% in one day. Iron ore finished September at USD$93.83 per tonne, almost 5% lower for the month.

Gold continued to go from strength to strength, pushing higher again in September. The precious metal's rally has largely been driven by interest rate reduction expectations in the US, with the Federal Reserve initiating its first interest rate cut in September and the possibility of more in the short-term. Meanwhile, escalating risk of a broader conflict in the Middle East continues gold's appeal as a safe haven asset. As such, it finished September 5.26% higher at USD$2,635 per/oz, close to an all-time high of USD$2,672 per/oz, reached earlier in the month.

After a weak start, the AUD rose against the USD in September, with the currency pushing higher after the US Federal Reserve cut rates. Momentum continued as the USD weakened and the Chinese government announced a slew of stimulus measures to support its ailing property market. Over the month, the AUD traded between USD$0.6652 and USD$0.6913 before closing September at its high of USD$0.6913.

Index*	1 Month	3 Months
US – Dow Jones	1.85%	8.21%
US – Nasdaq (100)	2.46%	1.89%
US – S&P 500	2.02%	5.53%
Germany – DAX	2.21%	5.97%
UK – FTSE 100	-1.67%	0.89%
Shanghai Composite - SSE	17.39%	12.44%
Hong Kong- Hang Seng	17.48%	19.27%
Japan – Nikkei 225	-1.88%	-4.20%
S&P/ASX 200	2.20%	6.47%

All Ordinaries Index	2.67%	6.55%
Gold (USD)	5.26%	13.28%
Oil (USD) – WTI	-7.31%	-16.40%
Iron Ore (USD)	-4.93%	-11.90%
10 Year Aus Gov’t Bonds (yield)	0.48%	-8.23%
10 Year US Gov’t Bonds (yield)	-3.23%	-13.82%
AUD/USD	2.25%	3.73%

* 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.