ARRIVE
WEALTH MANAGEMENT

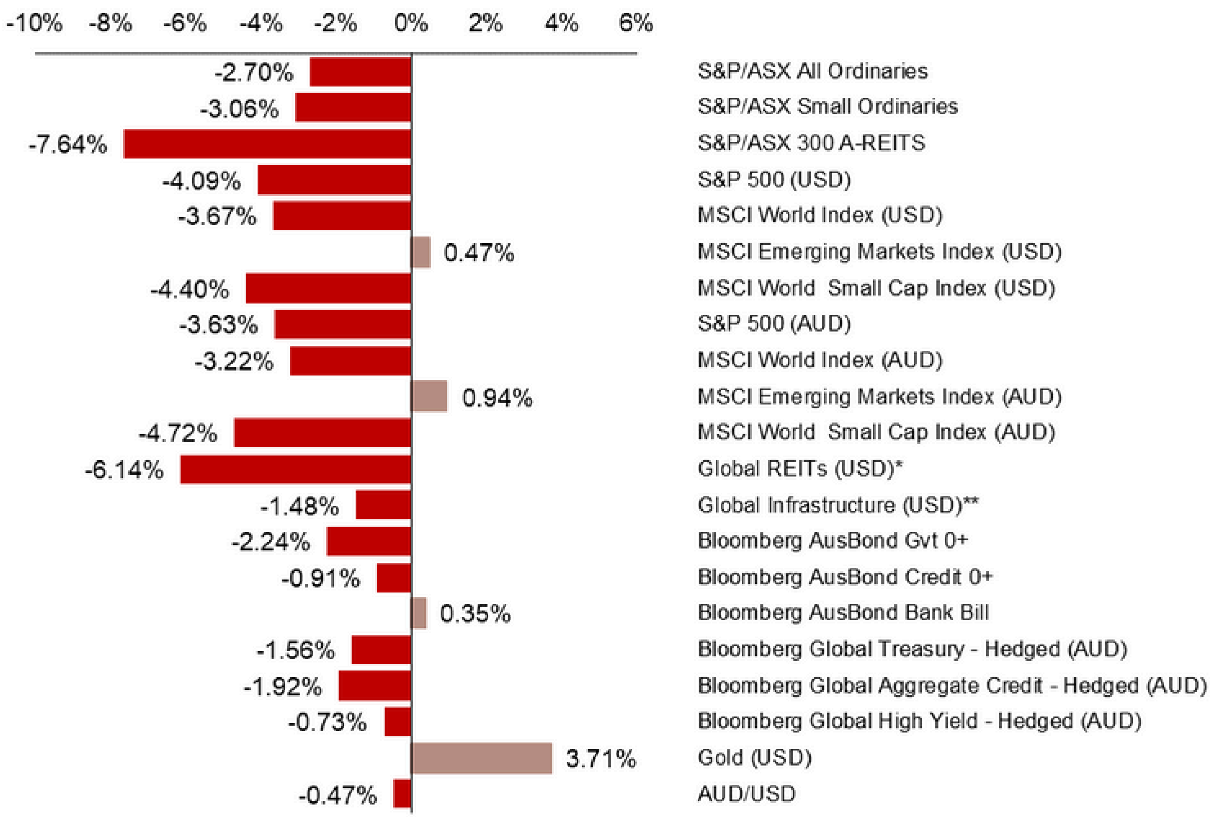
INVESTMENT AND ECONOMIC SNAPSHOT

APRIL 2024

HIGHLIGHTS

- Risk aversion and moderating expectations for interest rate cuts pressure bond and equity markets.
- Australian and U.S. inflation data releases came in higher than expected as services inflation remains elevated.
- Geopolitical tensions escalated as Iran launched over 300 rockets toward Israel, pushing gold to new all-time highs.
- Hong Kong-listed Chinese shares drove the Hang Seng Index into a bull market rising over 20% from the January lows.

SELECTED MARKET RETURNS (%) APRIL 2024



Sources: *FTSE EPRA Nareit DEVELOPED, **FTSE Global Core Infrastructure 50/50 Index

APRIL KEY DEVELOPMENTS

GLOBAL MARKETS PULL BACK

After a robust start to the year, global markets experienced a pullback in April, with the MSCI World Index (USD) closing the month lower by 3.67%.

Global equity markets reacted negatively to inflation data that broadly surprised to the upside, highlighting the stickiness of the last mile of the inflation fight. This led to a recalibration of interest rate expectations by markets as the outlook for interest rate cuts was again pushed further into the future. Additionally, an escalation in the conflict in the Middle East added impetus to the broader sell off. However, the U.S. earnings season did provide some support for markets in the second half of April.

In the local market, the Australian All Ordinaries closed lower in April by 2.7%, pulling back from the all-time highs reached in March. Real estate and consumer discretionary shares led the declines, followed closely by communications services and energy. Utilities had a strong month, while the materials sector remained flat.

Within the U.S. share market, the sell off saw the S&P500 close 4.09% lower, while the Nasdaq closed 4.51% down for the month. Small caps fared worse, with the Russell 2000 falling by 7.09%. According to Factset, approximately 50% of S&P500 companies reported earnings during the month, with nearly three-quarters of results beating earnings per share expectations and approximately 60% beating revenue expectations.

Earnings from mega-cap technology companies continued to be a major focus, and while overall growth and earnings remained robust, forward guidance was mixed. Meta released strong earnings that beat expectations, but its shares dropped by over 10% on the same day due to softer forward guidance than the market had hoped. In contrast, the Alphabet (Google) share price responded to its results by gaining over 10% on the same day and 7.5% for the month, reaching a $2tr market cap.

European markets also ended the month lower, with the Euro Stoxx 50 losing 3.19%. In contrast, the UK market reached a new all-time high as the FTSE100 gained 2.7%, buoyed by a weaker pound and investor reaction to a combination of slowing UK inflation and rising confidence that the Bank of England will likely cut interest rates twice this year.

Asian equity markets had a larger dispersion of performances. The Nikkei 225 fell 4.9%, pulling back from the all-time highs reached in March. However, Chinese equities had a strong month buoyed by an improving growth outlook and a rise in foreign investor flows. This helped the Hang Seng Index gain 7.4% and enter a bull market by rallying more than 20% from its January lows. The Chinese mainland CSI 300 produced a more modest gain of 2%.

The volatility in commodity markets continued. Copper prices were in focus as BHP Billiton made a bid for Anglo American with an eye on their copper assets. This, coupled with improved global manufacturing data led by China, helped drive copper prices higher by 13% during the month. Iron ore prices rebounded strongly by 15.8% following a multi month sell off. As geopolitical tensions mounted, gold moved higher by 3.7%. However, it fell over $100 from its intra month highs to finish the month close to $US, 2,300/ounce.

Bond markets were considerably weaker during April as concerns about inflation and the consequent outlook for interest rates weighed heavily on both Australian and U.S. bonds. As a result, the Australian 10-year bond yield rose by 38 bps ending the month at 4.43%, while the U.S. 10-year bond yield rose by 47 bps to 4.68%, both trading at the highest levels since November 2023.

APRIL KEY DEVELOPMENTS CONT.

RECALIBRATION OF INTEREST RATE EXPECTATIONS

One of the major data points for the Australian economy was the inflation print. Positively, the data showed that inflation has continued to trend lower in the March quarter with CPI measuring 3.6% year-on-year, down from 4.1% previously. The Trimmed Mean CPI also showed moderating inflation, coming in at 4% year-on-year, down from 4.2%. However, both inflation gauges came in higher than both the RBA and economist expectations.

Prices in the services sector have remained stickier than prices for goods, which have moderated to 2.1% on an annualised basis for the quarter. In contrast, services inflation is running at 5% annualised, propped up by housing, education, healthcare and insurance. With inflation measures tracking slightly higher than forecasted, the RBA will likely be cautious about its outlook and could reinstate its hawkish tone after turning more dovish in March. Financial markets are now pricing in the possibility that the RBA could raise rates later this year, although the probability at this stage is low.

Consumer activity levels came in under expectations. Retail sales were expected to increase by 0.2% month-on-month but instead fell 0.4%. Private sector credit also came in lower than expected with 0.3% growth month-on-month, down from 0.5% in the previous month.

The jobs market showed signs of cooling as the unemployment rate increased to 3.8%, up from 3.7% in March. Despite this increase, the jobs market remains tight with full-time employment increasing by 27,900.

SLOWING GROWTH AND STICKY U.S. INFLATION

Headline inflation in the U.S. was released in early April and came in at 0.4% for the month, and 3.5% on an annualised basis, with both data points printing higher than expectations of 0.3% and 3.4% respectively.

Like Australia, service inflation has remained stubbornly high, raising concerns that inflation is showing signs of re-acceleration. Shelter inflation also persisted at higher than forecasted levels. This set the tone for weaker bond and equity markets that needed to recalibrate the outlook for interest rates.

The disappointing U.S. inflation data was compounded by U.S. GDP figures which showed a meaningful slowdown in growth from 3.4% in the fourth quarter of 2023 to 1.6% in the first quarter of 2024. The term stagflation, referencing a low growth and high inflation environment, began to pop up in the market. However, the underlying data showed a less gloomy picture of growth where personal consumption and private investment showed strong growth, with offsetting softness in government spending weighing on GDP.

SLOWING INFLATION IN EUROPE BUOYS EXPECTATIONS FOR RATE CUTS

Euro-area inflation slowed more than expected, strengthening the case for an interest rate cut by the European Central Bank (ECB) this year. Consumer prices rose 2.4% year on year in March, down from 2.6% in February, which was lower than the expected increase of 2.5%.

The inflation report shows that the ECB is on track to return inflation to the 2% target, allowing them to dial back soon their restrictive monetary policy. ECB President Christine Lagarde, has signaled a first cut in June this year. Similarly, slowing inflation in the UK has also led to expectations for an August rate cut.

APRIL KEY DEVELOPMENTS CONT.

CHINESE GROWTH AHEAD OF EXPECTATIONS

Chinese GDP for the first quarter of 2024 measured 5.3%, beating economists' expectations for 5% growth and the previous quarter's growth of 5.1%. This was aided by an increase in export volumes of 14%. The manufacturing sector continued to show signs of improvement with both the official Manufacturing PMI and Caixin Manufacturing PMI measures expanding more than expected.

Other economic measures disappointed. While industrial output and retail sales grew in March, they missed expectations. Activity in the real estate market continues to dampen economic sentiment as the slow deleveraging process works through the economic system.

Chinese equities have now seen their longest foreign buying streak in a year as investors weigh the potential that the Chinese economy has troughed.

GEOPOLITICAL TENSIONS SPIKE IN THE MIDDLE EAST

The escalation in the conflict between Israel and Iran came to the fore in April, as a barrage of rockets were fired from Iran towards Israel with markets becoming increasingly nervous as to the degree of Israeli retaliation and any potential for a major escalation between the two nuclear-armed nations. Israel's response was concise and pinpointed and alleviated market fears of an extreme reaction that would ignite a major conflict. Thankfully, both nations showed their military capabilities and subsequently moderated their aggressions.

OUTLOOK

Markets remain relatively balanced heading into May with the following months being a seasonally weaker period for financial market returns. Global growth has mostly remained resilient with growth expectations close to longer term trends. With growth holding steady, fears of a hard landing for global economies have lowered.

However, recent inflation prints locally and in the U.S. are cause for central bank consternation as the trajectory of inflation becomes less clear, pointing to a higher for longer interest rate scenario. Markets have pared back both RBA and Fed rate cut expectations with only one cut now expected from the Fed this year.

The weakness in global markets in April is not unusual especially as global markets retrace from the highs set in the first quarter. Exuberant sentiment indicators have also come off the boil providing a healthy pullback in markets.

Geopolitical uncertainties and the threat of persistent inflation continue to pose risks. However, amidst this turbulence, tactical portfolio adjustments can capitalise on market downturns, presenting opportunities for favourable returns. As the outlook for global economies and markets remains finely balanced, so should portfolios be balanced between prudently managing risks and positioning for optimal future returns.

MAJOR MARKET INDICATORS

	30-Apr-24	31-Mar-24	29-Feb-24	Qtr change	1 year change
Interest Rates (at close of period)					
Aus 90 day Bank Bills	4.37%	4.35%	4.34%	+2.0	+71.0
Aus 10yr Bond	4.43%	4.05%	4.14%	+28.4	+108.9
US 90 day T Bill	5.25%	5.23%	5.25%	+3.0	+30.0
US 10 yr Bond	4.68%	4.21%	4.24%	+73.2	+125.2
Currency (against the AUD)					
US Dollar	0.649	0.652	0.651	-1.77%	-1.74%
British Pound	0.521	0.517	0.515	0.41%	-1.81%
Euro	0.610	0.604	0.602	0.38%	1.60%
Japanese Yen	102.10	98.68	97.53	5.86%	13.26%
Trade-Weighted Index	62.20	61.50	61.10	1.30%	4.01%
Equity Markets					
Australian All Ordinaries	-2.7%	3.1%	1.2%	1.5%	9.9%
MSCI Australia Value (AUD)	-2.9%	3.0%	0.2%	0.2%	11.2%
MSCI Australia Growth (AUD)	-3.9%	2.9%	2.8%	1.6%	9.7%
S&P 500 (USD)	-4.1%	3.2%	5.3%	4.3%	22.7%
MSCI US Value (USD)	-4.2%	4.9%	3.5%	3.9%	13.8%
MSCI US Growth (USD)	-4.0%	1.6%	7.2%	4.5%	32.3%
MSCI World (USD)	-3.7%	3.3%	4.3%	3.7%	19.0%
Nikkei (YEN)	-4.9%	3.8%	8.0%	6.6%	35.6%
CSI 300 (CNY)	2.0%	0.6%	9.4%	12.2%	-8.2%
FTSE 100 (GBP)	2.7%	4.8%	0.5%	8.2%	7.7%
DAX (EUR)	-3.0%	4.6%	4.6%	6.1%	12.6%
Euro 100 (EUR)	-0.8%	4.7%	2.6%	6.5%	13.0%
MSCI Emerging Markets (USD)	0.5%	2.5%	4.8%	7.9%	10.3%
Commodities					
Iron Ore (USD)	15.8%	-13.2%	-11.7%	-11.3%	11.4%
Crude Oil WTI U$/BBL	-0.6%	6.0%	3.9%	9.5%	8.8%
Gold Bullion $/t oz	3.7%	8.3%	-0.1%	12.1%	15.4%

Source: Quilla and Refinitv

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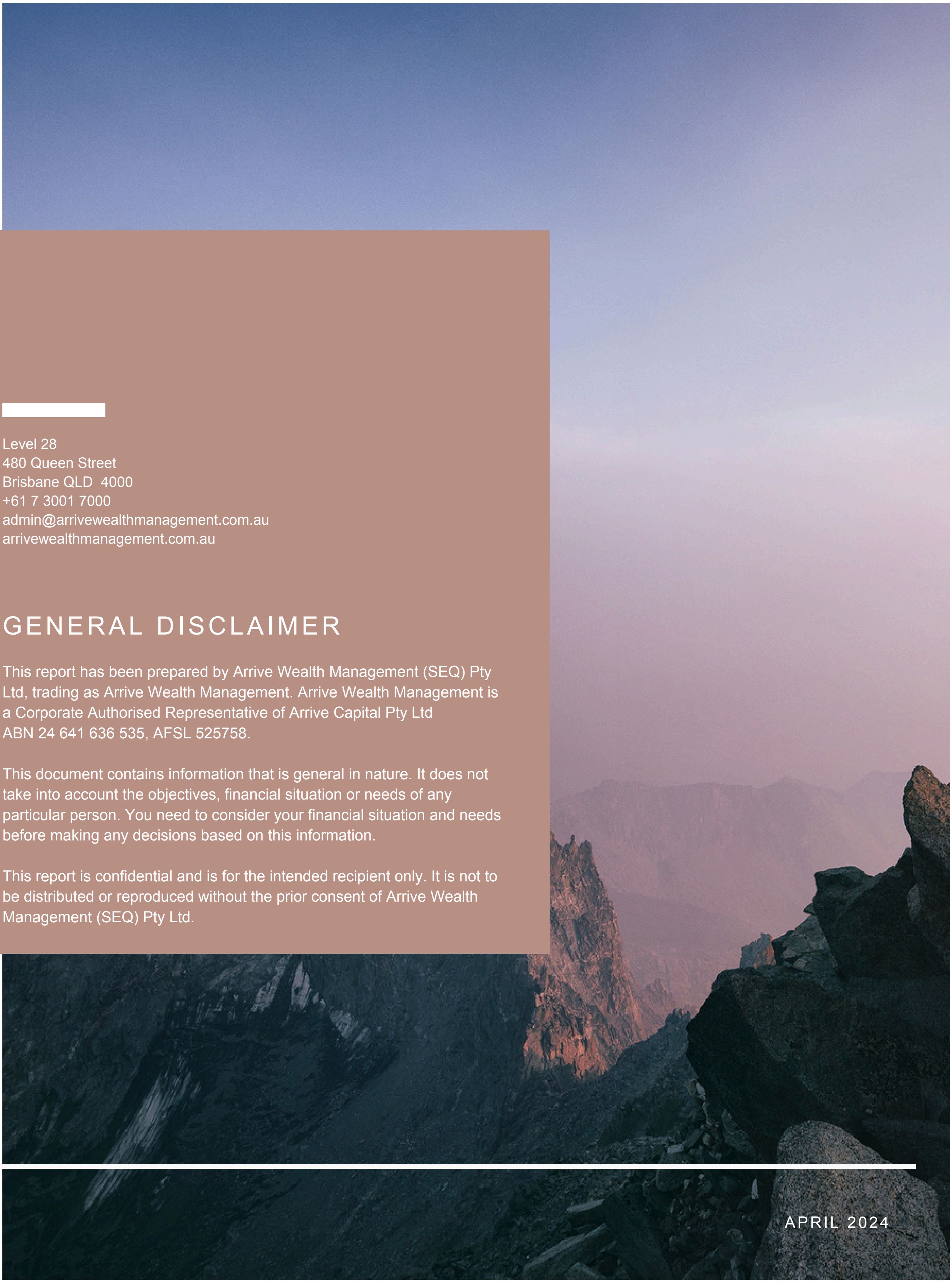

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