MarketSay"

sayers

What You Need to Know

Month of September: Global equities reached new all-time highs in September as the global central banks' rate-cutting cycle accelerated. The S&P 500 closed higher in September for the first time in five years. A surprise in China, with a long-awaited stimulus policy announcement targeted at boosting confidence in the property and capital markets, generated a surge in Chinese and Hong Kong-listed equities.

Policy Watch: Firmer inflation data in the U.S. did not prevent the Fed from dramatically commencing its cutting cycle, delivering a 50bp cut. The Reserve Bank of Australia (RBA) left the cash rate at 4.35%. The RBA did not discuss the need for a rate hike, which suggests the mood may be changing. The European Central Bank cut rates by 25bps contributing to the growing cutting momentum around the world. The Bank of Japan remained on the sidelines.

Inflation Watch: US headline CPI increased 19bp while 12-month CPI inflation dropped from 2.9% in July to 2.5%; its lowest level since February 2021. However, Core CPI prices rose 28bp, an increase that was above consensus and left the annual rate at a stubbornly high 3.2%. The unreliable and volatile Australian monthly consumer price index was in line with expectations, and the headline rate fell from 3.5% year-over-year (y/y) to 2.7% y/y, illustrating the impact of government subsidies on lowering energy costs.

Risk Budget: Equity market volatility spiked early in the month again, with the VIX breaking through 20 before moving lower as equities recovered. October is seasonally the most volatile month of the year. With an uncertain political outlook in the US, conflict in the Middle East and repricing of interest rate paths that may well prove to be the case this year.

Our Portfolio: With global developed markets slightly negative in AUD terms for the month, our allocation to emerging market equities and alternatives helped drive outperformance in our Growth and High Growth portfolios.

Outlook: US equities, as measured by the S&P 500 has seen its biggest year-to-date advance of the 21st century to September 30. US equity markets continue to be lifted higher on resilient earnings, a weak US Dollar, weak oil prices, lower bond yields, favourable macro background (growth surprising on the upside/inflation surprising on the downside), a dovish central bank pivot, and now fresh stimulus out of China.

There is plenty for markets to worry about with a US election that is still too close to call and potential instability afterwards, Middle East tensions and yen carry trade unwinding and withdrawing capital. Seasonally too, October is historically a volatile month.

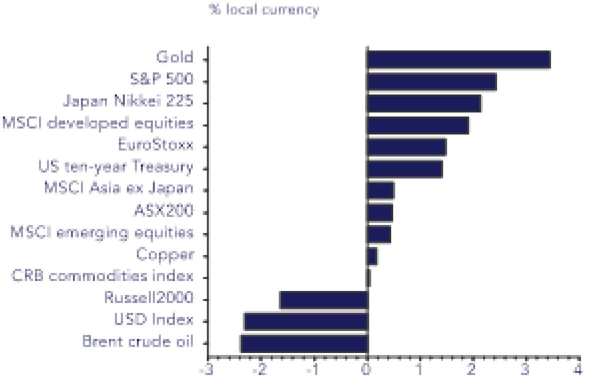
How to Position: We added Gold to our multi-asset Growth and High Growth Portfolios. Despite the recent rise in the commodity, we believe strength is likely to continue as US real yields are yet to move materially lower, and central bank demand and retail flows are set to remain strong as investors move away from the US Dollar while political and geopolitical risks remain at the forefront.

Date of Publication: 8 October 2024
Sayers Wealth Pty Ltd | ABN 61 642 217 007 | AFSL No. 525093

Markets in September

Global equities reached new all-time highs in September as the global central banks' rate-cutting cycle accelerated. A surprise in China, with a long-awaited stimulus policy announcement targeted at boosting confidence in the property and capital markets, generated a surge in Chinese and Hong Kong-listed equities.

Chart 1: September Asset Class Performance



Source: LSEG Datastream/Fathom (Note: Past Performance is not a reliable indicator of future performance)

Firmer inflation data and moderating labour data in the U.S. did not prevent the Fed from dramatically commencing its cutting cycle, delivering a 50bp cut. While the FOMC signalled 250 basis points (bps) of rate cuts through 2026, this wasn't quite as much as the market was expecting.

Australian government bond yields ended largely unchanged with 10 years at 3.97%. There were bigger moves in the U.S. as the 2-year U.S. Treasury yield fell 28 bps to 3.64% and the 10-year fell 13 bps to 3.79%, steepening the yield curve.

The AUD rose another 2.19% against the USD in September, up some 5% in two months. Again, this hurt global equity returns for Australian investors. In USD terms, the MSCI World ex-Australia Index rose by +1.7% but fell 0.47% in AUD terms.

In the US the S&P 500 increased (+2.1%) in local currency terms, its first rise in September for five years. The S&P/ASX 200 outperformed global equities, increasing by (+3.0%). Emerging markets outperformed the Developed markets, increasing (+6.0%) across the month. Globally, the Utilities (+5.5%), Consumer Discretionary (+5.3%), and Materials (+4.9%) sectors relatively outperformed in USD terms. The Energy (-3.2%), Health Care (-2.9%), and Consumer Staples (+1.0%) sectors relatively underperformed in September

Materials (+13.1%), IT (+7.4%), and REITs (+6.6%) outperformed in Australia. The Health Care (-3.2%), Consumer Staples (-1.7%), and Communication Services (0.9%) sectors were the relative worst performers.

Chart 2: Selected Equity Markets YTD Relative Performance (0 = 1 Jan 2024)

Source: LSEG Datastream/Fathom (Note: Past Performance is not a reliable indicator of future performance)

The oil price moved lower with Brent crude down 9.8% to US$72/bl. Softening demand expectations and possibly increased supply from Saudi Arabia weighed on prices. Whilst Iron Ore prices were supported by Chinese stimulus rising by US$10.50 to US$113.00/Mt. Gold rallied by nearly 4%.

Key Themes

Fed cuts by 50bps

The US Fed delivered a larger cut at its September meeting than was priced and signalled 250 basis points (bps) of rate cuts through 2026. The debate is now around the pace and magnitude of these cuts.

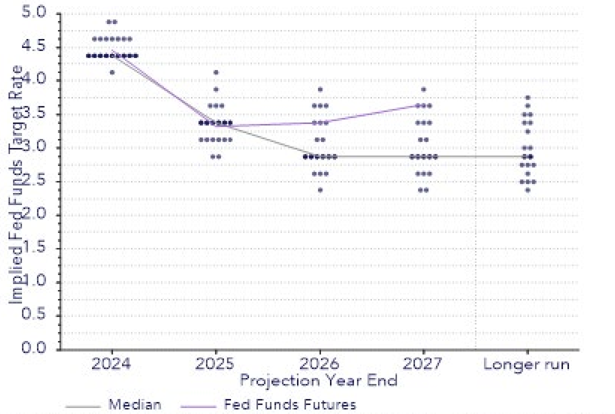
Each member of the FOMC submits their estimates for the future path of the Fed Funds rate, which they revisit each quarter. Looking at the 2026 and 2027 year-end projections as well as the longer run estimates, the market was surprised at how high and flat FOMC participants believe the future path of monetary policy will be.

Treasury yields had already declined well ahead of the start of the rate cuts in the U.S., but the yield curve continues to steepen. Barring any shock to

Date of Publication: 8 October 2024
Sayers Wealth Pty Ltd I ABN 61 642 217 007 I AFSL No. 525093

the economy, most of the movement in yields may now be behind us. Longer dated yields are likely to be stable as the economic growth outlook remains strong.

Chart 3: FOMC Dot Plot



Source: LSEG Datastream/Fathom (Note: Past Performance is not a reliable indicator of future performance)

China Stimulates Finally

The coordinated action from Chinese policymakers surprised the market late in September and fuelled a substantial rally in the equity market. While the policy announcements were not dissimilar to those made in the past two years, the breadth of the announcement and the expected fiscal support demonstrated a renewed sense of urgency. More importantly, the measures see a shift from supply-side policy support to demand-driven growth.

Chart 4: Chinese Shares - CSI300

Source: LSEG Datastream/Fathom (Note: Past Performance is not a reliable indicator of future performance)

There is a clear sense that the authorities also wish to stabilise both capital and property markets to restore investor confidence. The result for Chinese equities and in particular property related equities was enormous. The CSI 300 recorded both a 52-week low and 52 high within ~2 weeks. While Hong Kong (Hang Seng) equities ran well past levels seen in May this year.

Chart 5: China Property Hopes

Source: LSEG Datastream/Fathom (Note: Past Performance is not a reliable indicator of future performance)

The longevity of this rally is likely dependent on an improvement in activity data, but that may take some time to come through. So, its more likely to follow up on stimulus measures that the market is now counting on.

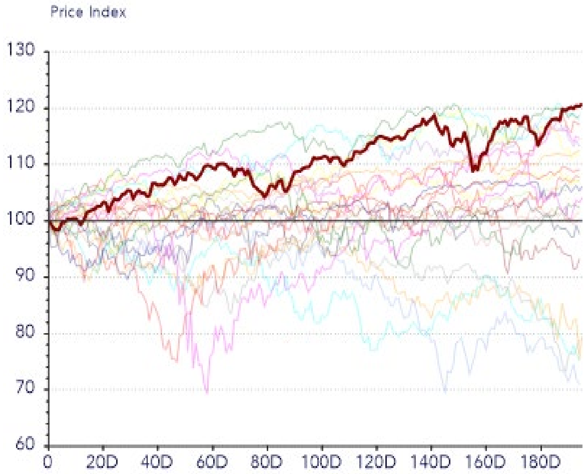
Outlook

US equities, as measured by the S&P 500 has seen its biggest year-to-date advance of the 21st century to September 30. US equity markets continue to be lifted higher on resilient earnings, a weak US Dollar, weak oil prices, lower bond yields, favourable macro background (growth surprising on the upside/inflation surprising on the downside), a dovish central bank pivot, and now fresh stimulus out of China.

There is plenty for markets to worry about with a US election that is still too close to call and potential instability afterwards, Middle East tensions and yen carry trade unwinding and withdrawing capital. Seasonally too, October is historically a volatile month.

Chart 6: S&P 500 Performance to 30 September

Date of Publication: 8 October 2024
Sayers Wealth Pty Ltd I ABN 61 642 217 007 I AFSL No. 525093



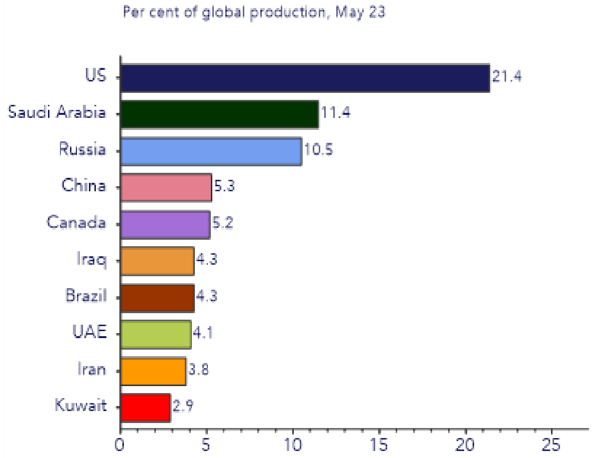
Source: LSEG Datastream/Fathom (Note: Past Performance is not a reliable indicator of future performance)

While stronger-than-expected US economic growth is certainly good for corporate earnings and consumer sentiment, it may mean a less aggressive cutting path from the Fed. With more recent job data looking a little better than previous months, the impetus to step in to "save" the labour market is less present. Additionally, inflation progress appears to be stalling, while lower than it was in the past two years, progress into the Fed's target band is slowing and indeed not occurring at all. This puts the risk on the table of fewer cuts than the market now expects or the Fed even sitting out at one of the November or December meetings.

There is also the possibility of an escalation in the Middle Eastern conflict. Markets seem to be taking the most recent developments with Lebanon and Iran stepping into the fray, in their stride. Only the oil price has responded in a meaningful way and even then, a large price increase beyond current levels may not occur.

A substantial shift in the share of oil production has occurred with the US now the dominant player thanks to shale production. Russia is already largely removed from the market. While Iran is the 9th largest producer now. Its ability to export is hampered by EU and US sanctions. So even if Israeli strikes knock out its storage and export facilities the impact is not as great as it would have been some decades ago.

Chart 7: Major oil producers in 2023



Source: LSEG Datastream/Fathom (Note: Past Performance is not a reliable indicator of future performance)

In our view, the market should be concerned with equity market valuations, sustainability of earnings, market concentration, the Middle East conflict and a range of other factors. But to date, it has largely been able to ignore them. Investors believe that valuations can be sustained by a Fed-cutting cycle that is just getting started and a US economy that is still strong.

How to Position

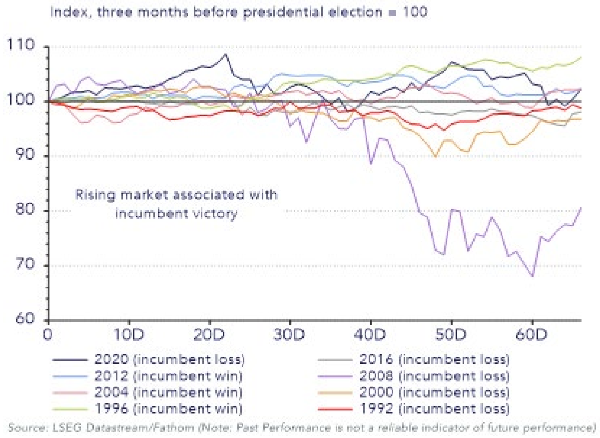
We added Gold to our multi-asset Growth and High Growth Portfolios. Despite the recent rise in the commodity, we believe strength is likely to continue as US real yields are yet to move materially lower, central banks, as well as retail flows, are set to remain strong as investors move away from the US Dollar while political and geopolitical risks remain at the forefront.

Equities: Resilient, but expensive?

US quarterly earnings season starts in early October, with expectations once again for strong earnings growth from most sectors outside energy. As we saw in the previous quarter, we would expect any downgrades in guidance or outlook to be pounced upon with outsized moves to the downside as stocks are priced for perfection.

Uncertainty around the US election may not play a part in equities markets until after the election if the result is disputed, too close to call for some time or civil unrest occurs. Past elections are not much use as a guide, although markets favour an incumbent winning, but only slightly.

Chart 8: S&P500 ahead of US presidential elections



In Australia, after the recent Chinese stimulus measures were announced there has been a tentative shift in equities out of banks with full valuations to resources. Investors have been hiding in banks with commodity prices headed lower.

Cash Rates: RBA to cut in the first half of next year?

Market expectations are for the RBA to start cutting around February 2025, with a full cut priced in by March. Bank deposit rates are already declining in anticipation and strong capital flows into deposit products as interest rates remain attractive.

Corporate Bonds: Remain well bid

Corporate bonds remain well supported by yield hungry investors. We would encourage clients to use any back up in bond yields as an opportunity to enter the market and secure high running yields.

Holders of ASX listed Hybrids will have to gradually find other sources of income should APRA's proposal to phase out the instrument proceed unchanged. Given the lack of supply we encourage clients to look to exit these instruments where alternatives are more attractive.

Alternatives: Invaluable in times of stress

We continue to advocate clients add alternative assets to portfolios. The recent market volatility has illustrated how valuable these allocations can be, with many of our funds continuing to deliver strong returns regardless of broader market performance.

Currencies: USD Strength Moderating

The AUD was strong in September, pushed higher by the potential for a wider interest rate differential with the US as the RBA stays on hold while the Fed cuts. Chinese stimulus measures also helped the Aussie along, with a renewed bid for commodities. While consensus points to a further USD weakening, there may be upside surprise to this in our view, with the potential for support via a risk-off move stemming from the Middle East or a change in the implied path of interest rates as US economic growth surprises on the upside.

Luke Hansen, James Wright, and James Marchetti
Sayers Investment Solutions Team

8 October 2024

Important Notice

This document has been prepared without consideration of any persons' investment objectives, financial situation, or needs. The document is for wholesale investors only and is general advice only. Before acting on any advice or information contained in this document, Sayers Wealth Pty Ltd | AFS Licence No: 525093 (Sayers Wealth) recommends that you obtain professional advice based on your personal circumstances. Whilst this document is based on the information from sources which are considered reliable, Sayers Wealth, its directors, and employees, do not represent, warrant, or guarantee, expressly or impliedly, that the information is complete or accurate as at the date of publication. This document is not authorised for publication outside of Australia.

This document has been prepared by Sayers Wealth in good faith, but no independent verification has been made, nor is its accuracy or completeness guaranteed. Before making an investment decision, you need to consider whether this information is appropriate to your objectives, financial situation, or needs. Past performance is not a reliable indicator of future performance.

Sayers recommends that you consider the relevant Product Disclosure Statement or other disclosure document, where relevant, before making investment decisions in relation to any particular product mentioned in this report.

Sayers's advisers may provide oral or written market commentary or trading strategies to clients that reflect opinions that are contrary to the opinions expressed in this report, and they may make investment recommendations that are inconsistent with the recommendations or views expressed in this report.

Ownership and Conflicts of Interest

Members of Sayers's Capital Solutions Group (CSG) may from time to time hold financial products that are the subject of a Sayers research report or other material.

The Sayers Conflicts of Interest Policy sets out how Sayers manages these conflicts. Where a holding is deemed to be material this will be disclosed in the client facing report.

The Sayers Group and associates, may have provided, provides, or seeks to provide advisory, capital markets and / or other services, to the issuers and their associates mentioned in this report.

The Sayers Group Conflicts of Interest Policy outlines how these conflicts are identified and managed.

Our Process

Further information about the methodology applied by Sayers in preparing research reports is available on the Sayers website.

General Disclosures

This report is not an offer to sell or the solicitation of an offer to buy any security in any jurisdiction where such an offer or solicitation would be illegal. The information contained in this report is subject to change without notice. The price and value of the investments referred to in this report and the income from them may fluctuate.

So far as laws and regulatory requirements permit, Sayers, its related companies, associated entities and any officer, employee, agent, adviser or contractor thereof (Sayers Group) does not warrant or represent that the information, recommendations, opinions or conclusions contained in this report (Information) is accurate, reliable, complete or current and it should not be relied on as such. The Information is indicative and prepared for information purposes only and does not purport to contain all matters relevant to any particular investment or financial instrument. Subject to any terms implied by law and which cannot be excluded, the Sayers Group shall not be liable for any errors, omissions, defects, or misrepresentations in this report (including by reasons of negligence, negligent misstatement or otherwise) or for any loss or damage (whether direct or indirect) suffered by persons who use or rely on the Information. If any law prohibits the exclusion of such liability, the Sayers Group limits its liability to the re-supply of the Information, provided that such limitation is permitted by law and is fair and reasonable.

Research Disclaimer

The Information accurately reflects the personal views of the author(s) about the securities, issuers and other subject matters discussed, and is based upon sources reasonably believed to be reliable and accurate. The views of the author(s) do not necessarily reflect the views of Sayers. No part of the compensation of the author(s) was, is, or will be, directly or indirectly, related to any specific recommendations or views expressed in this report.

Other

This report has been prepared for distribution only to clients of Sayers (and potentially to clients of other financial advisers). It may not be reproduced or distributed without the consent of Sayers. Please refer to the full details of the important disclosures, available in the Disclosures section of the Sayers Group website

Date of Publication: 8 October 2024
Sayers Wealth Pty Ltd | ABN 61 642 217 007 | AFSL No. 525093