September to Remember

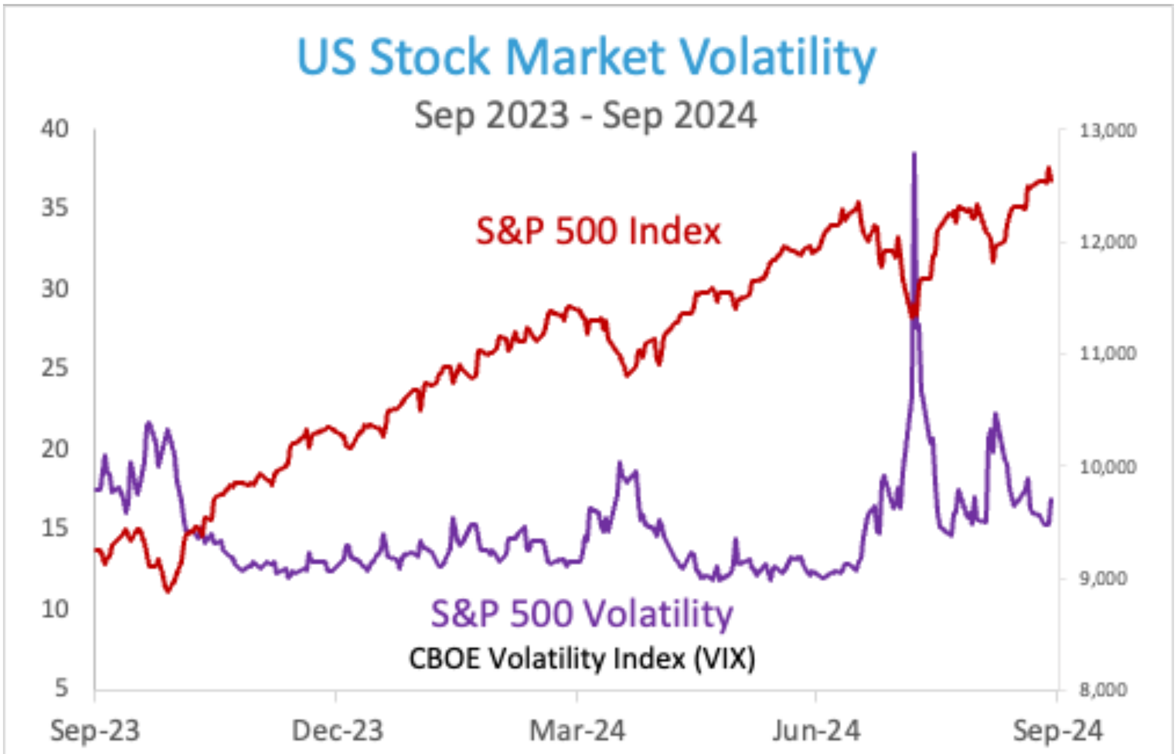
At the start of the September quarter there were widespread fears of recession as disappointing US economic data led to a sharp sell-off across global markets. But by the end of the quarter markets were hitting new highs, spurred on by the Federal Reserve decision to cut its policy interest rate by 0.5 percentage points and the announcement by the People's Bank of China to bolster their real estate sector and the broader economy. It has been a September to Remember.

The September Quarter for 2024 has been marked by a number of economic events that have moved markets both up and down. Stock volatility spiked at the beginning of the quarter after the publication of disappointing US economic data and an interest rate hike by the Bank of Japan, which sparked a sharp sell-off across global markets.

There were a number of reasons for the elevated volatility. An unexpectedly weak US jobs report, which raised renewed fears of a recession in the world's largest economy, hit at the same time as other tensions in the global economy were building. Worries about China's growth rattled commodities markets from oil to copper, and there were fresh warnings that AI's promise to benefit global economies was far from being realized, making it hard to justify valuations.

The chart below shows the spike in volatility in the first week of August in the US market – it was the third highest spike ever, after the GFC in 2008 and COVID in 2020. The S&P 500 index was down by 3.7% while the tech-heavy Nasdaq was down by more than 5%. Nvidia shares tumbled 9.5%, wiping out $US280 billion in the biggest loss of value ever for a US stock.

The volatility led to a flight to quality, with bond yields falling and gold hitting fresh highs in US dollar terms. With growth concerns around the US economy, short term bond yields began falling in anticipation that the Federal Reserve would begin its easing cycle. The Federal Reserve didn't disappoint and cut its policy interest rate by 0.5% at its September meeting.

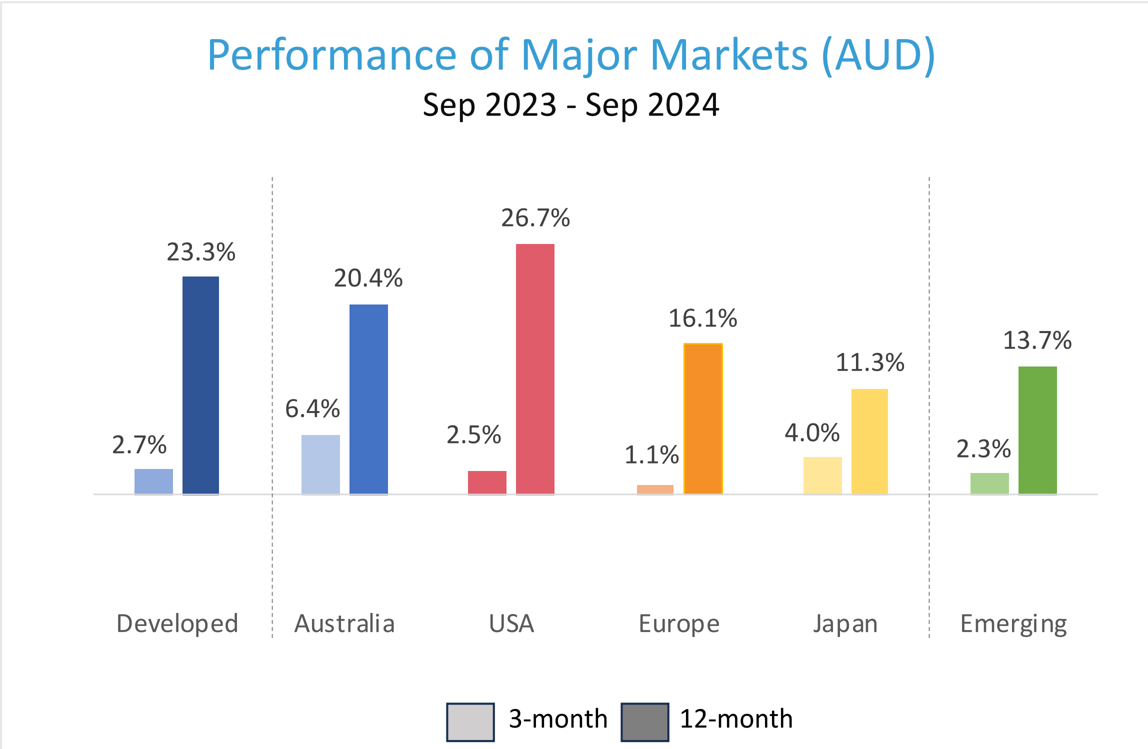


This was the Fed's first rate cut in more than four years after holding it at 5.25% to 5.50% for more than a year, its highest level in two decades. Despite the market sell-off in August, the S&P 500 Index has finished the quarter up over 5% and is up by more than 35% for the previous 12 months, hitting new highs on the last day of September.

The Australian sharemarket also closed at a new record high although the economic picture is different to the US. The ASX 200 Index is up over 6% for the quarter and is up 20% for the previous 12 months, but as the chart below shows it has been a tail of two Sectors. For most of this year the Australian market has been driven by banks, with the Financial Sector up over 35% for the year, but this has been hampered by the poor performance of the Resource sector, which is tied to China's slowing economy.

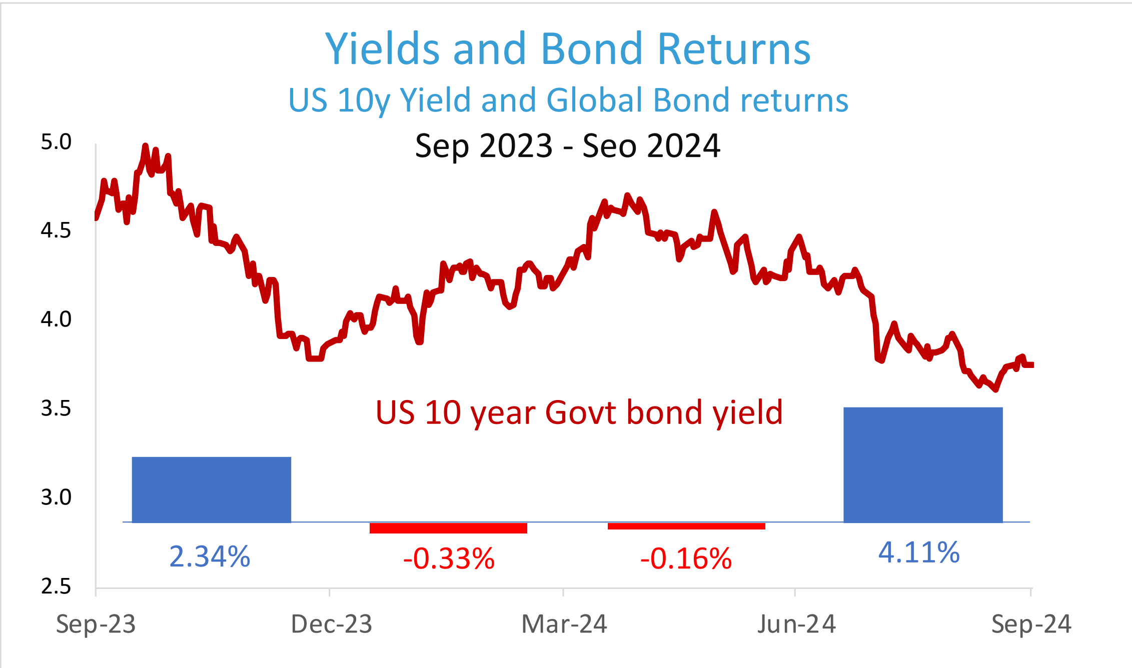
However, in the last week of the quarter the People's Bank of China announced measures to bolster the real estate sector and the broader economy. China's economy has been dragged down by a property market crisis, consumer price weakness and rising global trade tensions. The measures aim to stimulate China's property market, a significant consumer of iron ore.

The China policies have broad implications across risk assets, however, one of the most immediate beneficiaries is the resources sector which recouped some of its year-to-date underperformance on the back of rebounding commodity prices. Banks were the main funding source, with ASX 300 Materials up 9% for the week and Financials down 4%.



Other global markets all had excellent returns over the quarter and over the previous 12 months, as shown. The US was again the standout market, helping the MSCI World index to a 1-year return of 23.3%. China makes up around 30% of the Emerging Markets index, and the Chinese stimulus package fired up the MSCI China index by more than 20%, which in turn helped the Emerging Markets have one of their best quarters in years.

Disinflation is occurring around the world and September has been the biggest month of global monetary easing since April 2020. Short-term bond yields have started to fall below longer-term yields in the U.S., UK, and now Germany, as markets anticipate an accelerated rate cutting cycle. As yields have decreased bonds are now making strong returns for investors. The chart below shows the Global Bond index (hedged to AUD) has returned over 4% for the quarter and more than 6% for the previous 12 months.



As we look back on the quarter, the volatility of only a few weeks earlier has all but been forgotten in the wake of inflation continuing to fall and asset prices across equities, bonds and commodities continuing to rise. The September quarter is a great example of the importance of remembering long-term financial goals and tuning out the day-to-day noise from the financial media. This has been a September to remember.

Dr Steve Garth
October 1st, 2024