

MONTHLY MARKET UPDATE

July 2024

How the different asset classes have fared:

(As of 31 July 2024)

Asset Class	10 Yr % p.a.	5 Yr % p.a.	3 Yr % p.a.	1 Yr % p.a.	YTD %	6 Mth %	3 Mth %	1 Mth %
Cash ¹	1.87	1.69	2.57	4.37	2.56	2.18	1.10	0.37
Australian Bonds ²	2.11	-0.69	-2.33	4.50	1.58	1.37	2.63	1.54
International Bonds ³		-1.06	-3.47	4.24	0.96	1.38	3.62	2.05
Australian Shares ⁴	8.25	7.81	7.08	13.44	8.23	7.08	5.48	3.84
Int. Shares Unhedged ⁵	13.69	13.45	11.25	22.26	19.03	13.94	7.86	4.03
Int. Shares Hedged ⁶	10.46	11.10	6.91	18.36	14.75	12.75	7.71	1.26
Emerging Markets Unhedged ⁷	5.77	3.86	0.49	8.75	11.94	14.09	4.14	2.66
Listed Infrastructure Unhedged ⁸	9.29	5.09	7.41	10.99	12.42	12.21	8.83	8.75
Australian Listed Property ⁹	9.31	5.47	7.87	27.21	17.00	15.60	9.05	6.76
Int. Listed Property Unhedged ¹⁰	6.71	1.95	0.80	9.79	6.91	7.95	10.59	8.36
Gold Bullion Unhedged ¹¹	6.45	11.08	9.79	23.73	17.32	18.73	4.53	3.95
Oil Unhedged ¹²	-10.36	-0.62	14.50	7.48	16.47	9.63	-1.41	-2.78

1 S&P/ASX Bank Bill TR AUD, 2 Vanguard Australian Fixed Interest Index, 3 Vanguard Global Aggregate Bd Hdg ETF, 4 S&P/ASX All Ordinaries TR, 5 Vanguard International Shares Index, 6 Vanguard Intl Shares Index Hdg AUD TR, 7 Vanguard Emerging Markets Shares Index, 8 FTSE Developed Core Infrastructure 50/50 NR AUD, 9 S&P/ASX 300 AREIT TR, 10 FTSE EPRA/NAREIT Global REITs NR AUD, 11 LMBA Gold Price AM USD, 12 S&P GSCI Crude Oil TR

Source: Centreport Research Team, Morningstar Direct

Key Themes:

- **Technology share rotation:** Both international and Australian equity markets posted positive performance, as investors rotated out of tech stocks and into value and small caps.
- **Fixed Income continues to rise:** Both international and Australian bond prices continued to rise, and yields fell following positive data in the US and Australia.
- **Australian Dollar depreciates:** The Australian Dollar has depreciated following a fall in the price of major export commodities.
- **Commodities ended mixed:** Oil fell despite tensions in the Middle East while gold rose.

International Equities:

In July there was a significant deviation between unhedged and hedged international equity returns, unhedged equities grew by 4.03% while hedged equities grew by just 1.26%. This disparity has occurred due to a fall in the price of Australia's main exports, metals and energy, which has led to a depreciation in the value of the Australian Dollar (AUD). The three market sectors that performed the best in July were Real Estate, Utilities, and Industrials, with these sectors each growing by 7.54%, 6.61%, and 5.07% respectively. In an inverse of the past six months the only two sectors to retreat were Technology, which fell by 3.15%, and Communication Services, which fell by 3.31%. This change was due to investors rotating out of the mega cap growth stocks that have dominated the global market over the past six months. As confidence in a September rate cut by the Federal Reserve grew

investors decided to sell off some of the mega cap growth stocks in order to buy into cheap value and small cap stocks that will benefit from a declining rate environment.

Australian Equities

The Australian equity market outperformed other major markets, returning 3.84% in July, a significant acceleration from last month's growth of 0.70%. Seven out of eleven sectors posted positive returns with Consumer Discretionary, Financials, and Real Estate returning 9%, 6.8%, and 6.4% respectively. Consumer Discretionary was boosted due attractive valuations and an expectation that income tax cuts and low unemployment will contribute to greater consumer spending in FY25. The Financials sector was supported by the continued share price growth of the big four banks.

The biggest loser was the Utilities sector which lost 2.9%, followed by Technology and Materials which only lost 0.6% and 0.5%. Utilities retreated as investors grew cautious around AGL Energy, this occurring due to the retirement of two power stations.

Domestic and International Fixed Income

By the end of July Australian bonds have returned 1.54%. While headline CPI in the June quarter rose from 3.6% to 3.8% core inflation fell from 4% to 3.9%. The RBA uses the core inflation as a measure of underlying inflation in the economy, so investors see a reduction in core inflation as a point towards an eventual rate cut. This is in line with our predictions from last year, stating that we would not see a rate cut in Australia until 2025. Due to this, bond yields fell drastically at the end of the month with the 10-year bond yield falling from 4.3% to 4.1% and the two-year bond yield falling from 4.1% to 3.9%. This reduction had the effect of rapidly elevating bond prices.

International bonds grew slightly more than Australian bonds, growing by 2.05% in July. The global story was less sudden than in Australia but yields slowly fell further over the course of the month, with the 10-year yield falling from 4.5% to 4.1% and the two-year yield falling from 4.8% to 4.3%. This reduction causing the corresponding increase in bond prices. This occurred as investors continued to believe that a September rate cut by the Federal Reserve was on the horizon, this view being supported as US inflation fell by 0.1% from May to June.

Australian Dollar

In July the Australian Dollar depreciated against the US Dollar by 1.8% from 0.67 to 0.65. As stated previously this depreciation was mostly due to a reduction in the price of Australia's largest exports, those being energy and metals. The AUD is heavily influenced by the price of our main commodity exports, this is because if the price of these exports decrease it means that overseas buyers require less AUD to purchase the same amount of the commodity they desire, lowering the overall demand for AUD.

Commodities – Gold and Oil

The price of oil fell by 2.78% in July. The oil price has continued to fall as investors are undaunted by the rollercoaster of tensions in the Middle East surrounding Israel. This situation did appear to be changing at the end of the month as US stockpiles of oil fell and Israel announced that it had killed Hamas leader Ismail Haniyeh in Iran, both of which contributed to a bump in the price of oil.

Unhedged gold prices grew by 3.95% in July. This rise is because investors continue to believe in a September Federal Reserve rate cut, and as rates do start to go down the opportunity cost of holding gold decreases, increasing demand for gold.

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