Market Update to 30 April 2024

May 2024

What happened in April

Australia/New Zealand

- Inflation during the first quarter remained high in New Zealand and Australia, mainly due to ongoing service cost pressures that continued to push non-tradeable inflation upward. (Non-tradeable inflation measures goods and services that face a low degree of foreign competition e.g.: services, rates, insurance etc.)
- Consequently, the Reserve Bank of New Zealand kept rates at 5.5%, while Australia maintained rates at 4.35% in April.
- In New Zealand, the Consumer Price Index (CPI) for the first quarter increased by 0.6%, with an annual rise of 4.0%, down from 4.7%. These figures were in line with market expectations. The unemployment rate in New Zealand rose from 4.0% to 4.3% annually in the first quarter. According to the RBNZ's forecast, the unemployment rate is expected to reach 5.0% by the end of this year.

China

- China's economy is performing better than expected despite weak domestic demand, attributed to the struggling property market. The country's economy expanded by 5.3% in the first quarter compared to the previous year, exceeding the anticipated 4.6%. However, domestic demand remains sluggish, and growth has relied on government investments in new technologies.
- Retail sales were low, growing at 3.1% year on year, falling short of the expected 4.5%. This data indicates weak domestic demand as households are increasing their savings to offset the sharp decline in property prices.
- The property market in China has yet to stabilise, with prices of new homes experiencing their sharpest decline in over eight years, dropping by 2.2% in March compared to the previous year and by 0.3% from the previous month. However, there have been positive signs as average prices in 11 out of 70 cities saw an increase.

U.S.A

- At the start of April, the market anticipated the Federal Reserve to reduce interest rates by 0.75% in 2024. However, the market is now only pricing in a single 0.25% cut expected in December. This shift in projection was influenced by three consecutive months of higher-than-expected inflation figures, robust employment data, and strong consumer demand. Consequently, the Fed chose to maintain rates at 5.25-5.5% during their April meeting.
- In the first quarter of 2024, the economy grew at an annualised rate of 1.6%, down from 3.4% in the previous quarter and significantly lower than the consensus estimates of around 2.5%. This outcome surprised the market and raised concerns about stagflation, characterised by rising prices alongside declining growth. However, such a scenario is unlikely as many other economic indicators indicate a robust and resilient US economy.

Asset class performance to 30 April 2024

	NZ Fixed Income	Global Fixed Income	NZ Shares	Australian Shares	Global Shares	Global Property
Month	-1.0%	-2.5%	-1.2%	-2.9%	-2.7%	-6.1%
3 months	-0.2%	-3.2%	-0.7%	-0.2%	0.9%	-4.3%
One year	1.9%	-2.5%	-0.5%	6.1%	15.8%	-4.0%

Source: MorningStar

Equities

April was a volatile month in equities as the market remained range-bound, due to heightened tensions in the Middle East and persistent inflation leading to a change in rate projections. Despite this, first-quarter earnings for S&P 500 companies were positive, with a majority surpassing expectations and offering optimistic outlooks for 2024. Notably, earnings are diversifying beyond the "Magnificent Seven," with strong performances in consumer discretionary, communication services, health care, and industrial sectors.

- Among these, Alphabet (Google) stood out with a 15% increase in quarterly revenues to US$80.5 billion, driven by robust cloud and advertising revenues. The company also announced a US$70 billion buyback program and its inaugural cash dividend.

- Microsoft reported a 17% year-over-year revenue growth, with net income surging from US$18.3 billion to US$21.94 billion. The Intelligent Cloud segment generated US$26.71 billion in revenues; surpassing consensus estimates by 20%.

- Apple exceeded revenue expectations, with excitement among investors for its announcement of a USD 110 billion share buyback, the largest in history.

- Meta experienced a 10% decline in earnings post-announcement, attributing it to revised forecasts due to substantial capital expenditure in AI infrastructure, resulting in increased costs and lower-than-expected revenues.

Fixed income

- Bond yields were back on the rise in April as the market and central banks push back expectations of when the first-rate cut will be due to higher-than-expected inflation.
- US 10-year yield moved 0.5% higher to close the month at 4.7%.
- NZ 10-year yield moved 0.3% higher to close the month at 4.9%.

New Zealand Dollar to 30 April 2024

	NZD/USD	NZD/EUR	NZD/JPY	NZD/GBP	NZD/AUD
Month	-0.3%	0.7%	3.0%	0.4%	-0.7%
3 months	-2.6%	-1.5%	3.3%	-1.5%	-2.1%
One year	-3.2%	-4.0%	10.6%	-3.2%	-3.8%
Closing Price	0.60	0.56	93.3	0.47	0.91

Source: Bloomberg

Overview

Higher-than-anticipated inflation in the US led to increased interest rates, consequently bolstering the US dollar. The recent surge in the USD has sparked significant worries for the Japanese Yen, reaching 160, its highest point since 1990. This prompted the Bank of Japan to intervene, swiftly reducing USD/JPY from 160 to 155 within an hour. The BoJ has intervened once more since the USD/JPY reached 160.

Outlook

NZD/USD: The NZD/USD closed the month down by 0.3%, reaching new lows for the year and is anticipated to weaken further. Nonetheless, BNZ perceives oversold conditions according to their models and foresees the NZD strengthening in the latter half of this year and into the next year.

NZD/AUD: The NZD/AUD has touched 10-month lows and is projected to weaken further over the year, driven by New Zealand's unemployment rate climbing faster than Australia's.

Looking ahead

New Zealand/Australia

- Financial conditions have slightly eased since the February statements from the Reserve Bank of New Zealand (RBNZ) and the Reserve Bank of Australia (RBA). However, there is still considerable progress required before both central banks have increased confidence that inflation will return to the 2% target. As a result, it is anticipated that rates will remain unchanged at their meetings in May. The RBNZ's projections indicate that the Official Cash Rate (OCR) will average around 5.25% over the next two years, while the RBA is expecting a 0.25% cut in November to end the year at 4.35%.

China

- Growth will persist with government investments in technology, while domestic demand is forecasted to remain subdued until consumers regain confidence in the property market.
- Chinese authorities have introduced several measures to bolster the struggling sector, including easing home purchase requirements, supporting urban village renovations, and encouraging banks to speed up loan approvals. Despite these initiatives, many analysts doubt their long-term effectiveness in altering homebuyers' sentiments. Prospective buyers remain apprehensive about highly indebted developers' capacity to deliver projects on schedule.

United States

- It is expected and has been reiterated by Federal Reserve Chair Jerome Powell that to remove the last bit of inflation from the economy will be bumpy and may take some time to disappear. It will be interesting to see how inflation behaves after the weak GDP data announced last month, as weak growth can often lead to a rapid decline in inflation.
- The Federal Reserve has also announced a change to its strategy regarding its quantitative tightening program, which began in 2022 to reduce its bond holdings after injecting a substantial amount of money into the economy (quantitative easing) during the pandemic.
- Under the new plan, the Fed will slow the pace of reducing the bond holdings. By doing so, it will alleviate pressure on long-term rates and signal the Fed's confidence that current interest rate levels are sufficient to slow economic activity.

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