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Monthly view as at 30 June 2024

Global share markets continue to rebound in June

Global share markets rose in June, led higher by the US share market. The US markets continued to outperform the rest of the world, driven higher by better-than-expected inflation data, lower longer-term interest rates, the ongoing resilience of the US economy, and benefiting from AI hype.

Global share markets rose 2.5% in June and are up 13.2% since the beginning of the year.

Global share markets

As has been the case for much of the last twelve months, US technology companies continued to lead the way in June. Since the beginning of the year the US S&P 500 Index has risen 15.3%. The Magnificent Seven (technology companies Nvidia, Microsoft, Apple, Amazon, Meta Platforms, Alphabet, and Tesla) are responsible for 60% of the index's return. Nvidia alone has accounted for 30% of the index outcome and has risen 150% since the beginning of the year.

Nvidia's earnings have grown significantly over the last year and the chip makers products are seen as essential to powering AI technology. Apple shares reached new highs during the month following its decision to partner with OpenAI to help integrate artificial intelligence into its software. The company is looking to develop a new AI platform called Apple Intelligence that will include the ability for Siri to control features within apps.

To underly the dominance of the large US technology companies, the average stock within the S&P 500 Index is up 4.1% since the beginning of the year, as represented by the S&P 500 Equal Weight Index in the graph below. This compares to the broad market index return of 15.3% referenced above. The difference highlights the dominance of the large technology companies in driving returns this year.

The graph above highlights the strong outperformance of tech stocks in June relative to the broader market, the tech heavy US Nasdaq Index rose 6.3% in June and is up 17.5% since the end of 2023.

Outside of tech, both Walmart and Colgate-Palmolive reached record highs during the month on improving earnings outlook while Nike fell over 20% after delivering a disappointing profit update.

A dominant feature impacting markets over June was the rise of geo-political risk as many countries completed or entered election cycles. Across the emerging markets elections in Indian, South Africa, and Mexico led to volatility in respective share markets and currencies. The UK also went to the polls with a huge landslide win for Labour and the Conservative suffering their worst defeat since WW2.

European markets fell -2.3% as measured by the Euro Stoxx 50 Index in June. French President Macron surprised and called a snap election for the French Parliament. This heightened political uncertainty across Europe with the European Parliamentary elections showing poor results for Macron and German Chancellor Scholz.

The month also witnessed the beginning of the US Presidential election race. The US Presidential debate between President Biden and Donald Trump highlighted market concerns over the likely inflationary policies of both candidates and that neither candidate has a credible plan to address America's growing government debt. This placed upward pressure on US interest rates.

Australasian share markets

Over the month New Zealand's share market fell -1.2%, reflecting the ongoing weakness in the local economy. Those companies exposed to the local economy continued to underperform, including Fletcher Building, Sky City, and KMD Brands (owner of Katmandu). Sky City fell nearly 20% after it announced suspension of its dividends and a profit warning.

Infratil was one of the top performers in June, rising 7.1% after they announced a NZ$1.15 billion capital raise to primarily fund further investment in their datacentre business CDC. CDC continues to ramp-up development given growing demand. Tower Insurance also performed well over the month after providing its third projected profit upgrade this year.

Australian equities rose 1.0% in June, benefiting from global developments but faced a headwind of likely higher interest rates after inflation surprised to the upside. Origin Energy performed well. It is seen to be well placed as Australia grapples with its national energy policy. The Australian banks also continued to outperform with bad debt provisions being lower than anticipated. Property stocks such as Lend Lease (-9.2%) and Charter Hall (-7.8%) underperformed given the potential for higher interest rates. Commodity orientated companies also declined over the month on weaker commodity prices. Amongst the larger miners, BHP fell 4.0% and Rio Tinto 7.7%.

Fixed income and cash markets

Global bond yields fell on favourable US inflation outcomes and softer than anticipated US economic data. The US 10-year government bond yield fell 10 basis points (0.10%) to 4.40% over the month. The Bloomberg Global Aggregate Bond Index (New Zealand dollar hedged) returned 0.9% in June.

The commencement of interest rate reductions also helped push global interest rates lower. Both the Bank of Canada and European Central Bank cut interest rates by 0.25% in early June. This follows interest rate reductions by the central banks of Sweden and Switzerland

The US Federal Reserve (Fed) has held the Fed Funds Rate steady (5.25% - 5.50%) at 23-year highs for seven consecutive months. The Fed requires further progress towards its 2% inflation target before it will reduce interest rates.

The most recent inflation data has been lower than expected and provides some comfort that US inflation may resume its downward trend after surprising to the upside over the first three months of 2024. A softening of the US labour market and weaker than expected US economic data provides support that the Fed can reach its inflation target. Given the economic backdrop, it appears only a matter time before the Fed joins other global central banks in reducing interest rates.

New Zealand's longer-term interest rates drifted lower on global events and weaker domestic economic data. The local fixed income market rose 1.0% for the month.

Domestic leading indicators of manufacturing and services activity remain weak, the labour market continues to soften, inflation pressures are easing, and anaemic retail sales point toward recession-like economic conditions. Although the New Zealand economy expanded a better than anticipated 0.2% over the first quarter of this year, this followed two quarters of negative economic growth and local activity appears to have slowed in more recent months.

Against this backdrop the Reserve Bank of New Zealand (RBNZ) maintains the cash rate at 5.5% given the stickiness of non-tradable inflation. The RBNZ recently pushed out the first rate cut to late 2025 from the second quarter of 2025 as previously assumed. In contrast, market participants forecast a rate cut for either the last quarter of 2024 or early 2025. The ongoing deterioration in the domestic economy increases the odds the first rate cut by the RBNZ will be earlier than currently anticipated by them. Arguably, the longer New Zealand's interest rates remain elevated the more interest rate relief there is likely to be in 2025.

Conclusion

Expectations remain for inflation to continue to trend lower over the year ahead and central banks to continue with interest rate reductions. This backdrop is constructive for both fixed income and share markets. The global economic and market environment has not fundamentally changed over the last few months.

Although the US economy is slowing, a moderate rate of growth is anticipated for the rest of 2024. In Europe, economic activity has stabilised recently. This environment is supportive of corporate earnings and as the year progresses companies outside of the large US technology companies will likely make an increasing contribution to global earnings growth. Risks remain around the US recession and ongoing geo-political risks.

Fixed income offers an attractive yield with the potential for capital gains from declines in interest rates. Longer term interest rates are forecasted to decline over the next twelve months, given expectations that inflation will continue to ease and that central banks will commence interest rate reductions. The ongoing weakness in the local economy will place downward pressure on domestic inflation, allowing the RBNZ to commence interest rate cuts. Potentially these could occur earlier than the second half of 2025 as currently anticipated by the Bank.

Indices for Key Markets

As at 30 June 2024	1 Month	3 Months	6 Months	1 Year	3 Years p.a.	5 Years p.a.
S&P/NZX 50 Index	-1.2%	-3.1%	-0.1%	-0.8%	-1.7%	3.0%
S&P/ASX 200 Index (AUD)	1.0%	-1.1%	4.2%	12.1%	6.4%	7.3%
MSCI ACWI Index (Local Currency)	2.5%	3.4%	13.2%	20.7%	7.2%	11.7%
MSCI ACWI Index (NZD)	2.9%	0.9%	15.8%	20.2%	10.3%	12.9%
S&P/NZX 90 Day bank bill Total Return	0.5%	1.4%	2.8%	5.8%	3.6%	2.4%