

Investment Report

Market Overview

As at 20 September 2024

Volatility returned to financial markets in recent months, as investors grappled with uncertainty around the imminent interest rate-cutting cycle in the US. The Federal Reserve had signalled clearly that it would begin cutting rates in September, but how far and how fast they will cut over the next year or two is still up in the air.

Global equity markets declined sharply in early August, as soft employment data raised fears over the possibility of recession in the US, and the market moved swiftly to price in more rate cuts. Meanwhile a surprise 0.15 percentage point (ppt) rate hike and hawkish signalling from the Bank of Japan suggested the path for monetary policy there might be tighter than previously expected.

The selloff was particularly severe in Japan's equity market, as well as technology-heavy markets such as Taiwan, South Korea, and the NASDAQ index in the US. Volatility quickly eased over the rest of August though, with the US S&P 500 and NASDAQ Composite indexes both managing to end the month positively, and Japan's Nikkei 225 index ending August just 1.2% lower. However, another soft US employment print saw volatility spike again in early September, triggering another round of equity market declines.

While volatility has again eased in the following weeks, with equity markets regaining most of their lost ground, there is clearly some nervousness regarding the outlook for the US economy, with fears that the softening in some data could be signalling a recession on the horizon.

The case for a recession in the US is not clear yet, with many parts of the economy still showing solid momentum and jobs growth remaining positive. But with underlying inflation trending back towards target and jobs growth slowing, the US Federal Reserve has seen enough to justify lowering interest rates from currently restrictive levels, and began with a 0.50 ppt rate cut in mid-September.

Financial markets are pricing in an additional 2.0 ppts of easing in rates by the end of 2025. The Fed's messaging following the September meeting was that this pace of cuts would not be far from its own expectations (they had another 1.5ppts of easing by end-2025 in their projections) in the event of a 'soft landing' in which growth runs close to trend and inflation continues to ease towards 2%. But there are risks in either direction. If inflation and/or growth were to end up stronger, then fewer rate cuts could be expected. But were a more meaningful slowdown in growth to eventuate, then the Fed would likely cut much further in an attempt to stimulate the economy.

As financial markets continue to weigh the probabilities of these different outcomes, volatility may remain elevated. What seems clear at the moment is that markets are largely priced for that benign 'soft landing' outcome (equity valuations are high, and bond markets are pricing in a decent amount of rate cuts). That is probably consistent with recent data – when announcing the September rate cut Fed Chair Jerome Powell himself stated, "I don't see anything in the economy right now that suggests that the likelihood ... of a downturn is elevated". Nonetheless, investors will no doubt be watching closely for any signs of further weakness in US economic data over the coming months.

Monthly Performance

Accumulation Options – Investment Performance as at 31/08/2024

	High Growth	Growth Plus	Growth (MySuper) - Default	Conservative Growth	Conservative	Cash	Australian Shares	Diversified Fixed Interest	Overseas Shares	Indexed Diversified	Property
1 month	-0.12%	0.00%	0.09%	0.24%	0.41%	0.35%	0.24%	0.77%	-1.07%	0.44%	2.08%
6 months	4.59%	4.21%	3.86%	3.34%	2.94%	2.11%	6.30%	3.17%	4.37%	5.42%	3.57%
FYTD	2.13%	2.02%	1.95%	1.72%	1.55%	0.71%	3.60%	1.94%	2.42%	2.86%	4.35%
1 year	11.40%	10.06%	9.03%	7.54%	6.09%	4.13%	13.01%	5.85%	15.17%	12.81%	3.62%

Media Super merged with Cbus on 9 April 2022. The historical performance prior to this relates to Cbus' investment options and does not incorporate the performance of Media Super investment options before April 2022. Returns are based on the crediting rate, which is returns minus investment fees, taxes and until 31 January 2020, the percentage-based administration fee. Excludes fees and costs that are deducted directly from members' accounts. Past performance is not a reliable indicator of future performance.