

# Investment Report

## Market Overview

### As at 23 August 2024

The last month has seen a spike in global financial market volatility and a short, fast-paced selloff in global equities, most of which was quickly reversed. The volatility appeared to be triggered in part by a recalibration of expectations for interest rates in the US and Japan, with markets pricing in a potential for more rate rises in Japan and a faster and deeper monetary easing cycle in the US.

The change in rate expectations in Japan came after the Bank of Japan (BoJ) surprised markets in late July with a 0.15 percentage point (ppt) rise in the main policy interest rate as well as some hawkish signalling suggesting further tightening was likely. In the US, weaker-than-expected jobs growth and a jump in the unemployment rate added to some disappointing manufacturing data to raise fears that the US economy could be heading into recession, which would necessitate a swifter rate of monetary easing than had previously been expected.

With some global investors having gotten used to borrowing at low interest rates in Japan and investing at higher rates in the US (and driving down the value of the yen against the US dollar in the process), the recalibration of relative interest rates between these economies triggered a fast unwind in some of this market positioning, causing a rapid appreciation in the yen. As market volatility spread, other market positions that had performed strongly for investors and become crowded in recent months, such as buying Japanese shares and US technology (particularly AI-related) shares, also unwound sharply.

Some of these markets declined heavily as a result, with the US tech-heavy NASDAQ Composite index falling almost 8% in a three-day period in early August and Japan's Nikkei 225 index plunging over 12% in a single day, while other tech-heavy equity markets in Asia, such as Taiwan and South Korea, also sold off sharply. Meanwhile, expectations of lower US interest rates, combined with the risk-off market sentiment, saw the prices of many government bonds rally strongly, with US 2-year and 10-year government bond yields falling particularly sharply (bond yields move inversely to bond prices).

The spike in volatility and large market moves seen in early August appeared to have eased by the middle of the month, perhaps as investors realised that not a huge amount had changed in terms of the fundamentals and outlook for the global economy. While the softening in some US economic data is of some concern, other data suggest the US economy is continuing to hold up reasonably well, and further weakening in the data would be needed to convince policymakers such as the US Federal Reserve (Fed) that the US economy was indeed falling into recession. In short, markets had likely moved from underestimating to overestimating the likelihood of a US recession, though have since come to a more balanced view, with volatility easing and markets subsequently recovering as a result.

Helpfully, underlying inflation has continued to slowly ease in many advanced economies, giving central banks breathing space to ease monetary policy proactively and support growth. As expected, the Bank of England has now begun its rate-cutting cycle and the Bank of Canada cut rates again, while the Reserve Bank of New Zealand also lowered rates for the first time this cycle, though this was due to a weakening economic outlook as much as falling inflation. In the US, further signs of moderation in core CPI inflation mean the US Fed is expected to begin cutting rates at the next meeting in September, recession or not.

Price pressures had been more resilient in Australia in recent months, but CPI data for the June quarter brought some relief as it showed that underlying inflation had eased slightly, rather than reaccelerating as had been feared. Prior to the data release, financial markets had placed around a 1-in-5 chance that the Reserve Bank of Australia (RBA) would hike rates at its early-August meeting, but the weaker-than-expected inflation data meant such a move was not necessary. With the RBA's August meeting occurring amidst the

spike in global volatility, markets had by then switched to expectations of rate cuts before the end of the year, though Governor Bullock pushed back against this in her public commentary.

Nonetheless, subsequent wage data suggest that wage growth has likely peaked in Australia, and labour supply continues to outpace resilient employment growth. Thus the unemployment rate continues to rise, which should help contain inflationary pressures. If these trends continue, the next interest rate move from the RBA is most likely to be down, though it may not be until 2025 if the loosening of the labour market remains gradual.

Overall, while data continue to point to moderating inflation and positive growth across most economies (i.e. a so-called soft landing), the recent market volatility demonstrates that the outlook remains uncertain and markets can be vulnerable to changes in data and expectations.

# Monthly Performance

## Accumulation Options – Investment Performance as at 31/07/2024

	High Growth	Growth Plus	Growth (MySuper) - Default	Conservative Growth	Conservative	Cash	Australian Shares	Diversified Fixed Interest	Overseas Shares	Indexed Diversified	Property
<b>1 month</b>	2.25%	2.02%	1.86%	1.48%	1.14%	0.35%	3.35%	1.16%	3.53%	2.41%	2.22%
<b>6 months</b>	7.59%	6.62%	5.80%	4.48%	3.21%	2.06%	7.17%	2.27%	11.38%	7.18%	1.86%
<b>FYTD</b>	2.25%	2.02%	1.86%	1.48%	1.14%	0.35%	3.35%	1.16%	3.53%	2.41%	2.22%
<b>1 year</b>	11.18%	9.87%	8.80%	7.33%	5.95%	4.12%	11.86%	5.47%	17.60%	12.27%	0.44%

*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.*