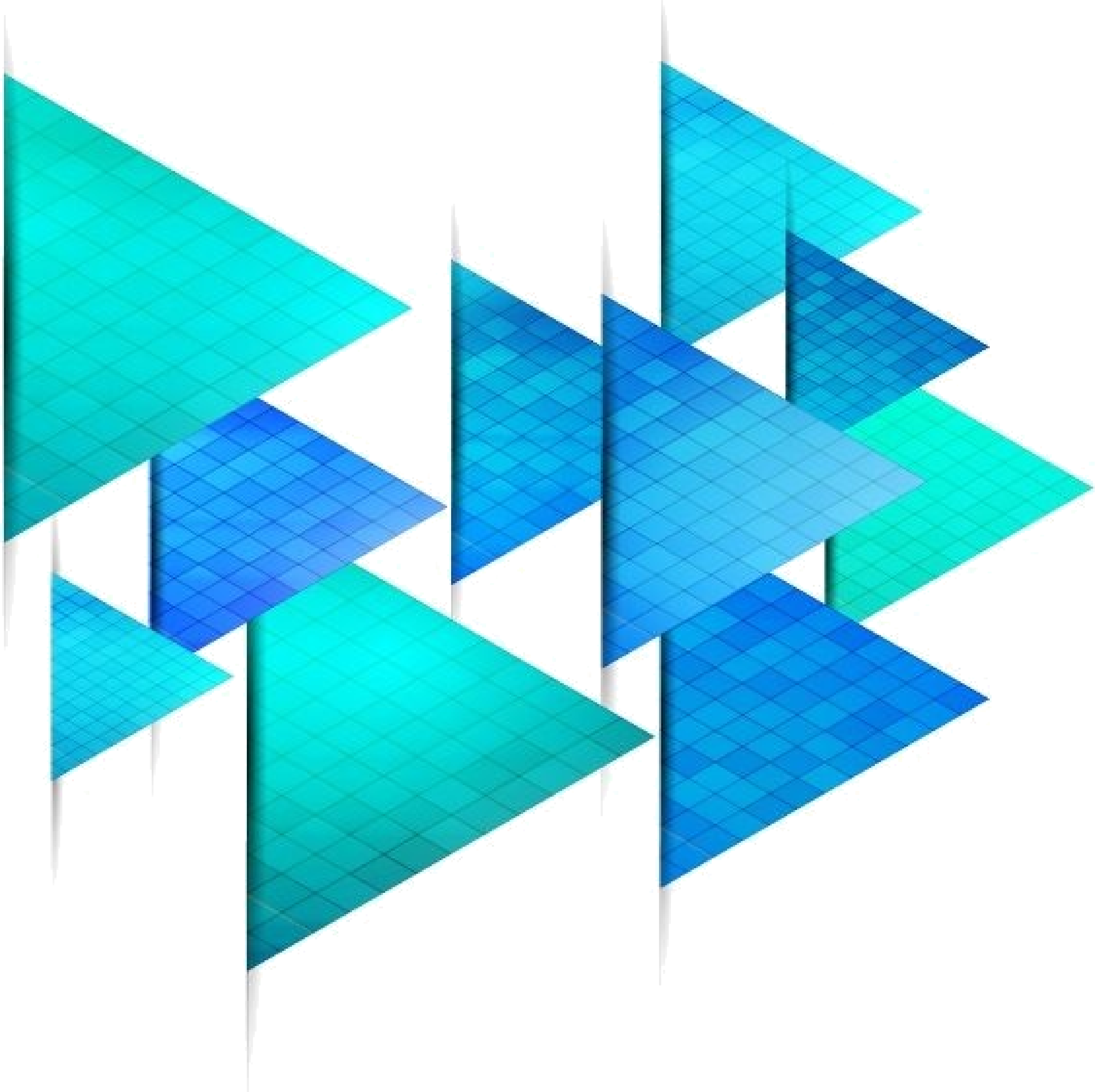

NEWSLETTER

February 2024

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Introduction

In this newsletter, we see both Australian and US stock markets doing well, with the US market seeing bigger increases. The housing market is also growing steadily, but how much it's growing varies by region. The RBA has kept the interest rate the same, showing it is focused on getting inflation back to target. Enjoy!

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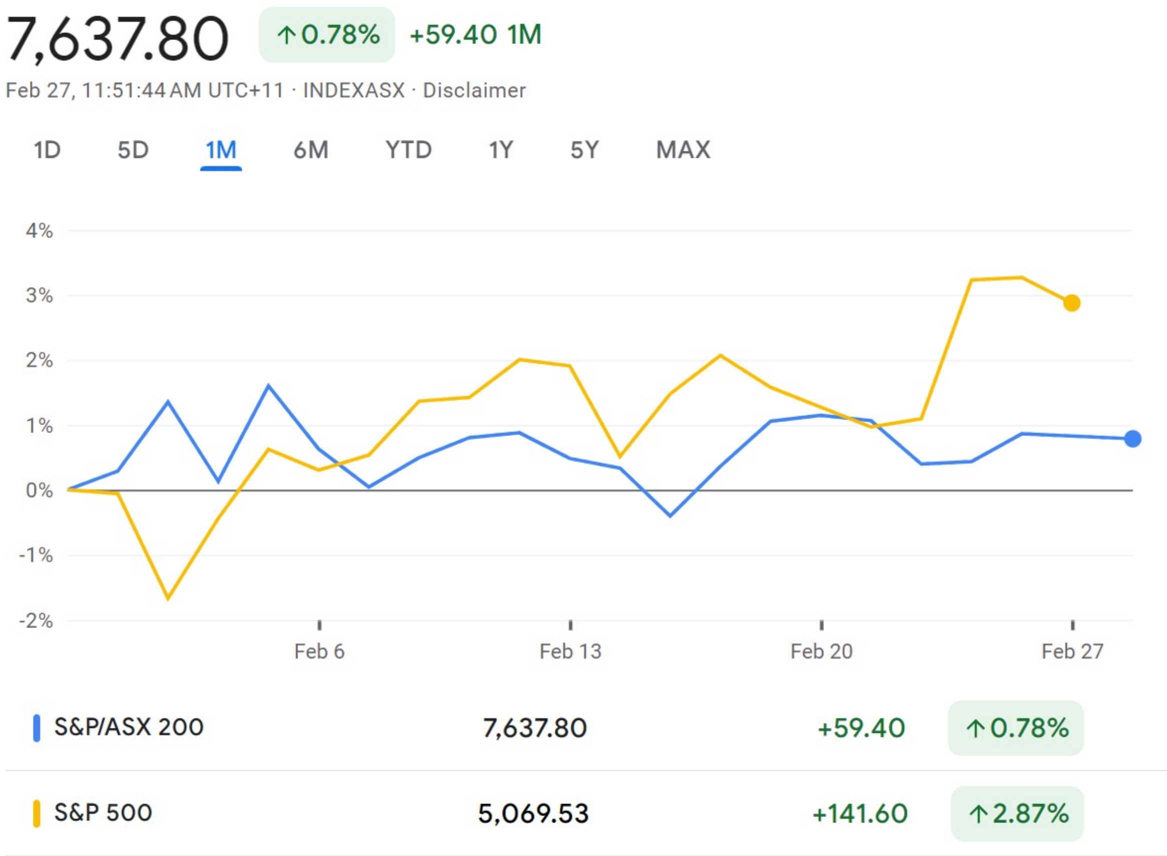
The Share Market

Let's take a look at how the S&P/ASX 200 and the S&P 500 indexes went in February. The S&P/ASX 200, mark in blue, had a slight rise of 0.78%, reaching 7,637.80 points. In comparison, the S&P 500, coloured in yellow, had a bit more of a wild ride with a significant jump of 2.87%, closing at 5,069.53 points, according to Google Finance:



Source: Google Finance

From this graph, it's clear that while both indices have experienced growth over the past month, the S&P 500 has seen a larger increase in percentage terms compared to the S&P/ASX 200. The graph's timeline includes fluctuations for both indices, with the S&P 500 showing more pronounced movements, both upward and downward, while the S&P/ASX 200 appears to have maintained a steadier, more incremental growth pattern.

As we examine the ASX 200's movements in February, We see a market carefully navigating through uncertain economic times, moving with cautious optimism as it reacts to changes happening both in Australia and globally.

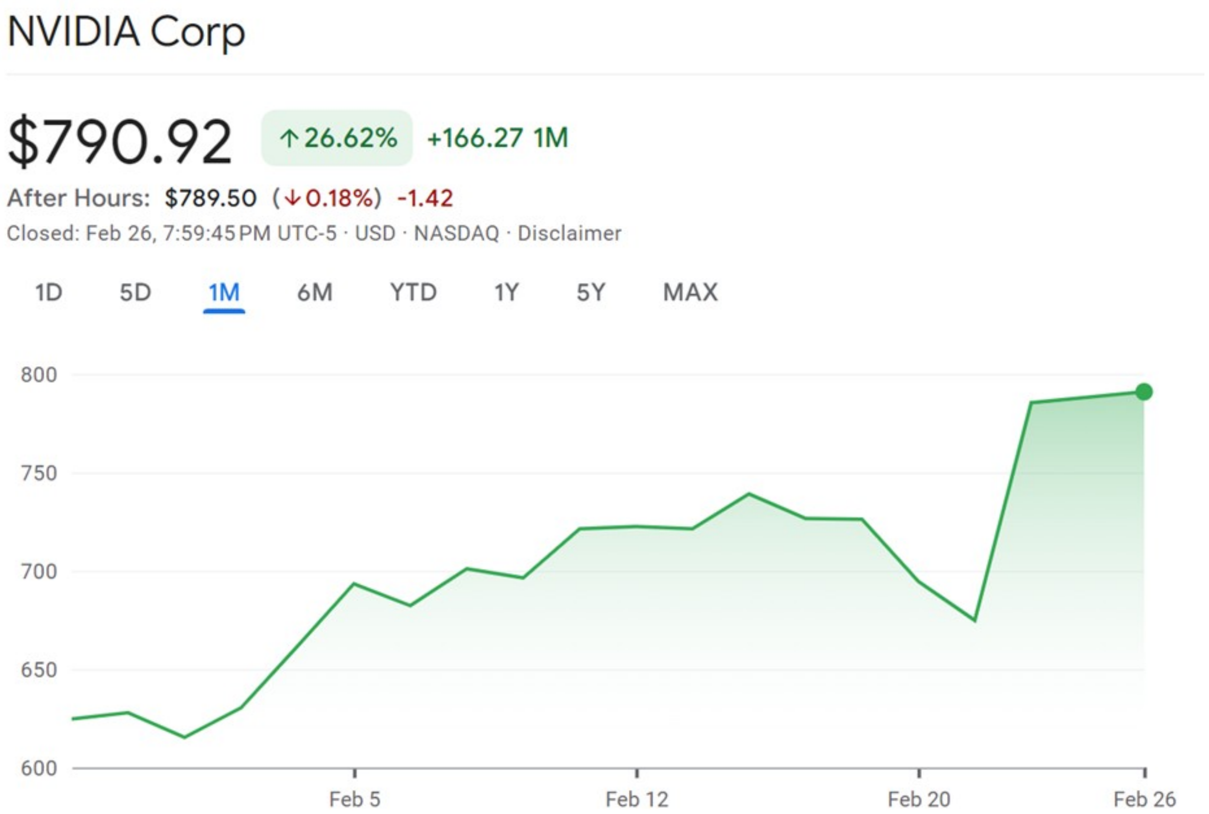
Domestically, the Reserve Bank of Australia (RBA)'s careful approach to increasing rates shows they're being cautious with monetary policy (We'll go into the details about interest rates and inflation later on in this newsletter). This caution probably comes from several issues: weaker GDP numbers that suggest the economy might be slowing down, and the impact of China's economic slowdown, which affects Australia's economy that relies a lot on exports. All this creates a situation where the market is trying to keep growing while also preparing for possible tough times ahead.

The ASX 200 typically moves in the opposite direction to the RBA's Cash Rate. The RBA's Official Cash Rate suggests that the market is paying attention to what the central bank is doing. The anticipation of a pivot from the rate hiking cycle to potential cuts later in the year has possibly led investors to adjust their strategies, seeking to make the most of future easing of monetary policy.

In February, the market was affected by geopolitical tensions, including conflicts in the Middle East and the Russia-Ukraine crisis. This situation made the market factor in the risk of increased conflict leading to higher energy prices, which could push inflation up again. However, the general opinion seems to be leaning towards a 'soft-landing' scenario, where major economies are expected to smoothly transition to lowering rates without major disruptions.

The performance of the ASX 200 is closely linked to its biggest sectors. Large mining companies like BHP, Rio Tinto, and Fortescue Metals have a large impact on the index. With the market being sensitive to the prices of commodities, the rise in metal prices, helped by the fall of the US dollar, has given these stocks a lift. This highlights how important the cycles of commodity prices are to Australia's market health.

At the same time, the tech sector in the US had a big boost, especially after Nvidia's earnings beat expectations and sparked a jump in AI-related stocks. This push saw Nvidia reach a market value of over $US2 trillion, and the S&P 500 climbed above 5100 points on February 22, showing that investors are very confident in technology and AI. This is a sharp difference from the Australian market, which has been more quiet in the tech area. Despite the global buzz around technology, Australia's tech sector is smaller, meaning the ASX 200 doesn't experience the large ups and downs that typically come with the excitement surrounding tech markets.



Source: Google Finance

The banking sector is a key part of the ASX 200. The movements of the Big Four banks often reflect how the index is doing. They made good profits in 2023, but there appears to be concerns about whether they can keep this up in 2024. With the RBA raising interest rates, which affects loans and spending, how the banks perform and what strategies they use will be very important for investors trying to figure out where the market is headed.

One other factor that could steer the February markets trend is the different types of investors. We see a nuanced relationship between the collective actions of retail and institutional investors and the corresponding market responses.

Institutional investors, like pension funds, insurance companies, and mutual funds, focus on long-term investment horizons. They have traditionally been a stabilising force for the ASX 200. Institutional investors often invest in sectors like banking and mining that are big parts of the ASX 200 and offer both growth and stability. The strong performance of the mining sector, helped by rising metal prices, shows that these core industries are still trusted by institutional investors.

On the other hand, retail investors, who are quicker to respond to market changes, tend to jump on short-term opportunities. Their decisions are often swayed by global trends and new technologies, like the recent boost in the S&P 500 after Nvidia's impressive earnings. But since the ASX 200 doesn't have as much investment in the AI sector, Australian retail investors might not have seen the same benefits as those in the US, leading to a less dramatic performance for the ASX 200.

The difference between types of investors adds an interesting dynamic to the markets. Institutional investors like pension funds help keep things steady, often evening out the ups and downs that come from the quicker actions of retail investors. This dynamic was seen in the ASX 200's performance in February 2024, which remained steady with a slight upward trend despite the lack of exposure to the fast-growing AI sector that helped the S&P 500 a lot.

The way investors choose different parts of the market to focus on can dictate where the market heads. The mining sector, for example, stays strong because of global demand for resources and changes in currency values. This attracts institutional investors and protect the market from the short-term changes that often attract retail investors. On the other hand, the tech sector, usually popular with retail investors, influenced the S&P 500's direction but not ASX200’s.

The Australian share market trend isn't only influenced by what's happening in Australia's economy or how companies are doing, but also by global market trends and new technologies. Retail investors, who often chase these global trends and tech developments, and institutional investors, who arguably focus more on local economic policies and company performance, together shape the market's movements.

Looking forward, the way these two types of investors interact with their preferred sectors will keep guiding the market's flow. With the RBA putting a break on its rate increases and maybe even lowering them, both retail and institutional investors could align their strategies, potentially causing a stronger rise in the ASX 200 in the second half of 2024. This would merge the careful optimism of institutional investors with the more adventurous spirit of retail investors, promising an exciting time for the Australian share market.

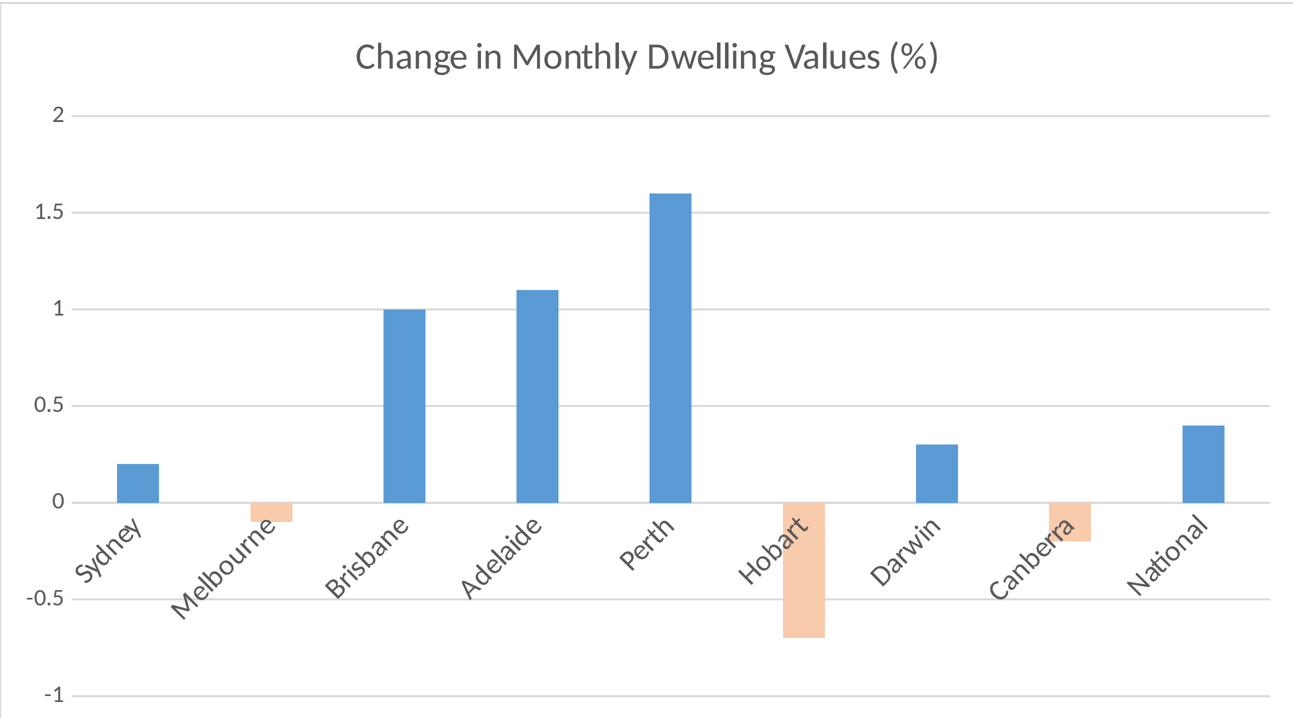
The Residential Property Market

As 2024 unfolded, Australia's property market kept its momentum, growing steadily. It's a sign that homebuyers and sellers are both hopeful and cautious. There's now a clear choice for standalone houses over apartments — a trend that suggests people are after more room. This could be due to how our lifestyles and work have changed since the pandemic.

At the time of this writing, our latest figures are from January, so that's where we'll zoom in. The CoreLogic Home Value Index for January 2024 shows a steady rise in house prices by 0.4%. This rise has been going on for a whole year now, showing that the property market is on the up and up. But it's not the same story everywhere. While most places are seeing prices go up, a few cities like Melbourne, Hobart, and Canberra saw a slight dip. On the other hand, Perth, Adelaide, and Brisbane reveal a bigger jump in prices.

In Sydney, the market demonstrated a tempered growth of 0.2% for the month, contributing to a modest quarterly increase of 0.1% and an annual rise of 11.4%. This steady growth translated into a strong total return of 14.6% and a median value that soared past the million-dollar threshold, settling at $1,122,430.

Melbourne's narrative took a contrasting turn, with a slight monthly decline of 0.1% and a quarterly dip of 0.9%. Despite the weaker short-term performance, Melbourne's annual growth remained positive at 3.9%, with a total return of 7.4% and a median value of $777,250.



Source: Based on CoreLogic's Home Value Index for January 2024

Brisbane and Adelaide emerged as stories of resilience and robust growth, with monthly increases of 1.0% and 1.1% respectively. Brisbane's quarter saw a substantial 3.2% rise, contributing to a remarkable annual upswing of 14.8% and a total return of 19.5%, with a median value nearing the $800,000 mark. Adelaide's narrative was similar, with a quarterly change of 3.7% and an annual increase of 10.3%, resulting in a median value of $721,376.

Perth stands out as the beacon of capital gains, with home values rising by a notable 1.6% in January. This city's property market has consistently demonstrated a rapid rate of growth, with an impressive 16.7% increase over the past year. Despite these gains, Perth's housing prices remain relatively affordable compared to most capital cities, with the median dwelling value hovering just below the $677,000 mark.

Houses Over Units

One big change we've noticed at the start of 2024 is the growing difference in prices between houses and apartments. This gap has reached a new record of 45.2%, showing that more Australians prefer standalone houses. The value of houses in big cities has jumped by 11.0%, which is more than the increase in apartment values, which went up by 6.9%. This shows a clear trend where people are willing to pay more for the space and privacy that comes with houses.

Value Growth in Regional Markets

The housing markets in regional areas are starting to outperform the big city markets. Over the last three months, the increase in house values in regional areas was 1.2%, which is slightly higher than the 1.0% increase in the big cities. This shows more people are finding the idea of living outside the cities more attractive. This shift points to the fact that Australians are looking for places that are more affordable and offer more space, which is pushing up the demand and prices for homes in regional areas.

Transaction Volumes

Even though it's getting harder for people to afford homes, especially in larger capital cities, the property market has surprisingly stayed strong. In the last three months leading up to January 2024, more than 115,000 homes were sold. This is almost 12% more than the same time last year and also a bit (0.5%) higher than the average of the last five years. This shows that despite the high prices, plenty of people are still buying homes.

Season Surge in Rental Market

The rental market in Australia has experienced a notable increase early in the year, which is typical for this time. After a quieter end to the previous year, rent prices started to rise again in January, showing the strongest growth since the previous spring. This uptick is a sign that the rental market remains active, with more people looking for places to live as the new year begins. This is often due to students finding accommodation for the new academic year and renters relocating for new opportunities at the start of the year.

In sum, in the early part of 2024, the Australian housing market shows signs of steady growth, though the picture varies from place to place. There's a sense of careful hope as we watch how things will unfold. Everyone with an interest in property is keeping an eye on rent returns, price increases, and the number of sales, as these factors will shape the market's path for the year.

Inflation and Interest Rates in 2024

In the latest update from the RBA on the 6th of February, it has decided to keep the main interest rate, the cash rate target, steady at 4.35 percent, with the interest rate on Exchange Settlement balances also holding firm at 4.25 percent. This comes at a time when inflation, although showing some signs of slowing down, remains a big issue, with the last quarter of the year reporting a high inflation rate of 4.1 percent. The drop in the price of goods, thanks to improvements in global supply chains and Australians buying less, contrasts with the still high prices for services due to strong demand and rising costs.

The RBA's use of higher interest rates aims to bring a better balance between what people want to buy and what's available. This strategy seems to be working, as seen in the job market starting to relax a bit, though it's still more competitive than the RBA would like for keeping employment high and inflation in check. Wages are going up, which is expected to match the inflation target, assuming productivity gets back to its usual rate. However, the impact of high prices on people's spending power, leading to less spending and investment in homes, highlights the ongoing challenges.

Looking ahead, there's a lot of uncertainty. While the price of goods might be starting to stabilise, the continued high prices for services, both here and around the world, are worrying. International issues, like the economic situation in China and global conflicts, add to this uncertainty. Back home, how quickly and effectively the RBA's policies work, along with how businesses set their prices and wages in a slowing economy, are big questions. Changes in how households spend their money also make it hard to predict what will happen next.

The RBA's main goal is to get inflation back down to a manageable 2–3 percent by 2025, sticking to their targets for stable prices and full employment. They're committed to this goal and say that rates might need to go up further. This decision will be based on keeping an eye on the world economy, demand within Australia, and how inflation and the job market are looking.

It is also worth noting that this is the first announcement after the significant meetings structure change at the RBA. Instead of the previous eleven meetings a year, they've cut down to eight and extended each meeting to last two days. The eight scheduled meetings in 2024 are:

- 5–6 February
- 18–19 March
- 6–7 May
- 17–18 June
- 5–6 August
- 23–24 September
- 4–5 November
- 9–10 December

This move aims to give the RBA more time to talk things through and make better decisions. This approach is designed to enhance decision-making quality, improve policy transparency, and strategically signal future policy directions, all while carefully balancing the need for timely responses to economic shifts.

This decision reflects careful attempt to control inflation without stopping economic growth. Although there are many unknowns ahead, the RBA's focus on keeping inflation and employment stable is a strong point of confidence. For those investing in shares or the housing market, it's wise to be on the cautious side, keep up with the latest information, and be prepared for changes in the economy in the coming months.

The Legal Stuff

General Advice Warning

The above suggestions may not be suitable to you. They contain general advice which does not take into consideration any of your personal circumstances. All strategies and information provided on this website are general advice only.

We recommend you seek personal financial, legal, credit and/or taxation advice prior to acting on anything you see on this website.

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