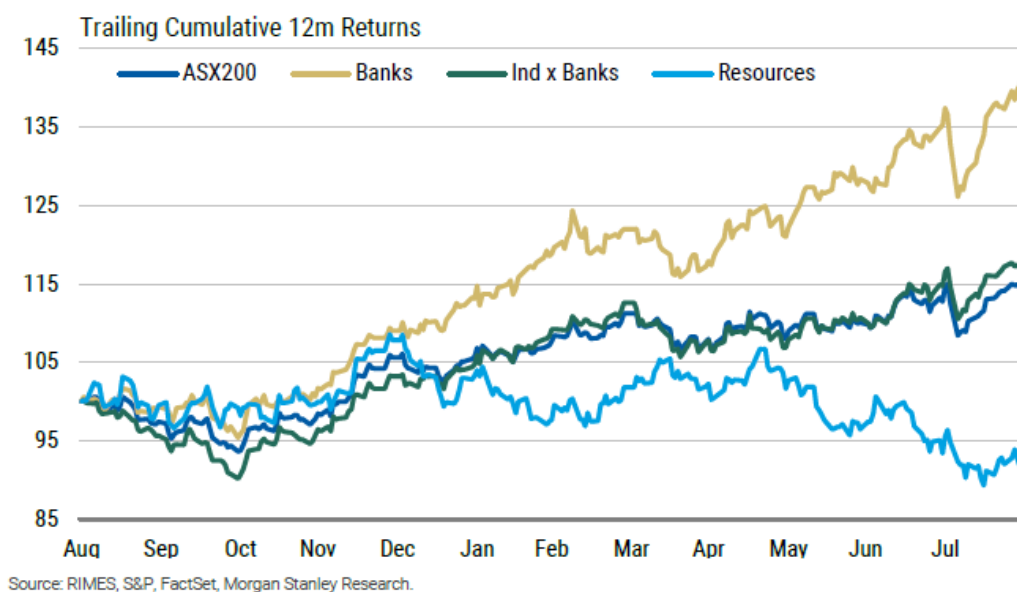


MONTHLY SUMMARY

MARKET SUMMARY

- **After a volatile month Equities broadly eked out gains** – In local currency terms, the ASX200 (+0.5%) underperformed the US S&P500 (+2.3%), the MSCI World ex Australia Index (+2.5%) and the MSCI Asia Pacific ex Japan Index (+2.1%) during the month. In AUD terms however, the MSCI World ex Australia Net Total Return Index actually fell 0.84%. Australian property securities (AREITs) gained 0.54%.
- **Market volatility increased** – While equities ended up for the month, intra-month moves were volatile and varied. In early August, softer US employment data along with hawkish comments out of the Bank of Japan (BoJ) triggered a sharp unwind of the ‘carry trade’ (short Yen / long USD) which reverberated across many asset classes. Equity volatility spiked ferociously, and bond yields fell aggressively as investors priced in synchronised central bank rates cuts. **However**, concerns were quickly alleviated as stronger US economic data was delivered and the BoJ signalled they wouldn’t hike rates until market stability was restored. This catalysed a strong equity market reversal which was further supported when the US Federal Reserve all but confirmed rate cuts would be delivered in the short term.
- **Reporting Season was solid, but forward earnings revised down** – Australian and US markets saw a flurry of result announcements. In aggregate in Australia results were reasonable with more beats than misses. Banks, IT, Retailers and Contractor results were better than expected. However FY25 earnings were slightly downgraded given cautious outlook statements. Cost pressures remain a focus also.
- **Sector & stock contributors** – In Australia, the best performing sectors for the month (total returns) were Information Technology (+7.9%), Industrials (+3.9%) and Communication Services (+3.5%). These companies generally delivered positive earnings surprises at their results. The worst performers were Energy (-6.0%), Materials (-1.9%) and Utilities (-1.1%). Concerns about China have continued to weigh on Resource and Energy stocks. Taking market capitalisation (size) into account, the major banks (ex-NAB), WiseTech Global (WTC) and Brambles (BXB) drove the market higher, while BHP, QBE, Goodman Group (GMG) and Cochlear (COH) dragged on the index. Globally, REITs, Healthcare and Consumer Staples performed best.

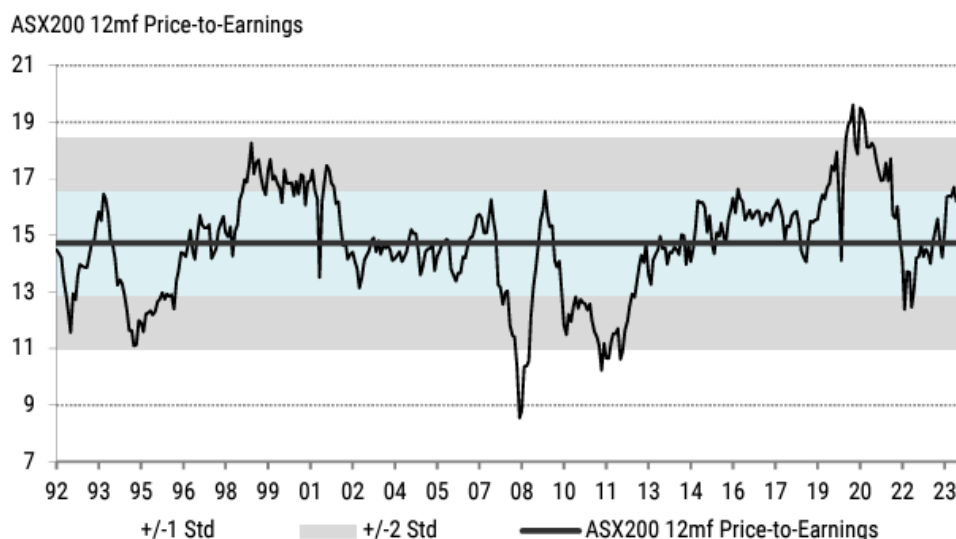
In Australia, the Banks have outperformed Resource stocks considerably over the last 12 months.





- **Bonds rallied as the market priced in rate cuts** – The Bloomberg AusBond Comp 0+Y rose 1.21%. US 10-year bond yields fell 13bp to 3.90%, while Australian 10-year bond yields fell 15bps to 3.97%. US and Australian Investment grade credit spreads slightly widened in August.
- **Australian Economy: RBA to lag on rate cuts** – Despite a better-than-expected inflation number at the end of July, the RBA pushed back on near term rate cuts citing the war against inflation had not yet been won. Employment data confirmed conditions are easing slightly, but still solid. Wages growth is slowing however, and retail trade is subdued.
- **Global Economics: US to cut in Sept** – The US Fed Funds rate held at 5.5%. Year-on-year inflation data has fallen to 2.9%. US Manufacturing data is weak, but services is more resilient. The labour market continues to slowly cool and housing data is soft. Markets are pricing in ~7 rate cuts by the US Federal Reserve over the next year starting in September. The US Dollar fell against most major currencies as investors bet the Fed would start cutting rates. The AUD/USD rose 3.4% to 67.65. Chinese data continues to weaken. Manufacturing data is sluggish, credit data is soft, and the property market remains subdued.
- **Gold continued to shine in the commodities space** – Gold continued its ascent rallying another 2.3% to US\$2504/oz aided by US rate cuts expectations, a weaker US Dollar, and ongoing geopolitical tensions. The LME (Base) Metals Index rose 2.8% supported by gain in Aluminium prices. Iron ore finished broadly flat at US\$100/t but at one point dropped to ~US\$90/t. Oil (WTI) dropped 5.6%, Hard Coking coal fell 8.9% and Lithium prices continued their dramatic fall due to ongoing concerns about oversupply.
- **Earnings and valuations** – In aggregate, ASX200 12-month-forward earnings revisions were negative (-1.2%) impacted by downgrades to Utilities, Healthcare, Materials and Energy. IT and Financials (ex-property) saw upgrades. ASX200 earnings are currently expected to grow by 4% in FY25 and 5.9% in FY26. The ASX200 now trades on a price to earnings (PE) multiple of 17.4x, a 16% premium to long-term average levels (15x). Based on 12-month forward consensus forecasts most expensive sectors are Information Technology (91.2x), Health Care (30.6x) and Communication Services (26.1x). Cheapest sectors are Energy (11.5x), Materials (11.8x) and Utilities (16.0x). The 1-year forward Dividend yield on the ASX200 is 3.7%. Global equity one-year forward earnings rose 1.8% over the month. International equities are trading on ~19x FY25F Price-earnings ratio while offering earnings growth of ~13% and a dividend yield of 1.9%.

The ASX200 12-month-forward Price-Earnings (PE) ratio has edged up into expensive territory and needs earnings upgrades to justify current levels.



Source: RIMES, IBES, Morgan Stanley Research. As at August 30, 2024.

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