Market Commentary

BlackRock.

April 2024

Market Overview

Global markets retreated in April against the backdrop of upside inflation surprises across several developed economies and rising geopolitical tensions in the Middle East. Sovereign bond yields continued to trend higher as investors pared back the timing and magnitude of central bank rate cuts – resulting in negative returns for most fixed income asset classes. Global equities, as measured by the MSCI World Index (hedged), ended the month down 3.3% in Australian dollar terms, while Fixed Income markets, as represented by the Bloomberg Barclays Global Aggregate Index (hedged), declined 1.7%.

United States

In the US, the S&P 500 Index retreated from all-time highs and fell by 4.1% in April (in local currency terms), as robust economic data and sticky inflation prompted a repricing of future monetary policy easing. Interest-rate sensitive sectors like Real Estate and Information Technology underperformed, while Utilities delivered gains. The US Federal Reserve (Fed) held interest rates steady in its latest meeting, citing a “lack of further progress” in lowering inflation. While Fed Chair, Jerome Powell, acknowledged the hotter than expected core inflation of 3.7% for Q1, he ruled out the possibility of a rate hike in the next policy meeting. On the data front, US unemployment edged down to 3.8% in April, while the GDP report for Q1 showed robust private consumption despite a weak headline figure. Meanwhile, strong corporate earnings have acted as a backstop for markets, however investors have been quick to punish companies with weaker-than-expected forward guidance amid the highly uncertain outlook.

Europe

European equities, as represented through the Euro Stoxx 50 Index, fell 2.4% over the month (in local currency terms) alongside weaker earnings results and sticky price pressures. Core inflation printed above forecasts at 2.7% year-on-year, while the Eurozone saw economic growth of 0.5% annualised for Q1 which was ahead of market expectations. Meanwhile, the European Central Bank (ECB) reaffirmed that a first rate cut is likely in June. However, the pace of cuts remains undecided and ECB President, Christine Lagarde, reiterated that the ECB will follow a “data-dependent” approach.

In the UK, the FTSE 100 Index outperformed its developed market peers and gained 2.7% in April (in local currency terms) to reach fresh record highs. Markets have priced in upcoming rate cuts by the Bank of England (BoE), which was previously one of the first central banks to tighten monetary policy, while economic growth continues to recover after the UK experienced a technical recession in Q4. Although inflation modestly declined to 3.2% annualised in March – which was slightly above expectations – BoE Governor, Andrew Bailey, described the fall as being in line with forecasts.

Asia

Following a period of underperformance, China’s CSI 300 Index rose 2.0% in April (in local currency terms). Chinese equities rallied alongside positive corporate earnings, while new sharemarket reforms announced by the Chinese regulator helped restore investor confidence. On the data front, China’s Caixin PMI – which tracks both the services and manufacturing sector – provided some optimism and remained in expansionary territory at 52.7. China’s Q1 GDP also surprised to the upside and grew 5.3% year-on-year driven by strong exports, however March inflation printed at 0.1% annualised which was weaker than expectations. Meanwhile, property concerns continue to weigh on the economy, with new home prices declining 2.7% in March compared to the year prior.

Japanese equities, as represented by the Nikkei 225 Index, fell 4.9% over the month (in local currency terms). The Bank of Japan (BoJ) kept policy unchanged and reiterated that its accommodative monetary stance will remain for the near-term. As a result, the Japanese yen depreciated against the US dollar to reach 34-year lows before rebounding due to suspected government intervention by the Ministry of Finance. The yen has been the worst-performing G10 currency this year, however this weakness has provided a tailwind for exports which rose 7.3% year-on-year in March. Investors continue to closely monitor for potential efforts by Japanese authorities to support the yen. Meanwhile, Japanese core consumer inflation slowed sharply to 1.6% annualised in April and undershot consensus projections.

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Australia

The S&P/ASX 300 Accumulation Index declined 2.9% in April, with Real Estate and Consumer Discretionary among the worst performing sectors. Australia's headline inflation was stronger than expectations at 3.6% year-on-year for Q1, which saw markets contemplate the possibility of an additional rate hike by the Reserve Bank of Australia (RBA) later this year. Unemployment ticked up to 3.8% over the month, however the labour market remains historically tight. Retail sales also saw a reversal of February's gains and significantly surprised to the downside by falling 0.4%. Australian house prices, as represented by CoreLogic Home Value Index, continued their steady march upwards and rose 0.6% in April.

Fixed Income

Fixed income markets were weaker in April as markets repriced yields higher alongside sticky inflation and tight labour market data across most developed economies. Over the month, the US 10-year yield rose by 48 basis points, while the Australian 10-year yield increased by 46 basis points to end April at 4.7% and 4.4% respectively. The rise in rates pushed bond prices lower. The Global Aggregate index (hedged) finished the month down 1.7%, while the Australian composite bond index fell 2.0% over April. Riskier parts of the fixed income market were also weaker, as investment grade and high yield corporate credit declined and emerging market debt indices sold off over the period.

Commodities & FX

Commodity and energy prices trended higher over the month. Across industrial metals, Copper increased 13.0% in April while Iron Ore rebounded sharply to rise 17.8% – buoyed by improved demand and expectations of Chinese policy support following China's Politburo meeting in April. Gold further gained 2.5% across the period. Oil experienced significant volatility with prices spiking early in the month due to heightened tensions in the Middle East, before paring gains to close April up a modest 0.2%. Within currencies, the US dollar appreciated 1.6% over the month against its developed market peers, while the Australian dollar fell 0.7% against the US dollar.

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