FINANCIAL MARKET CONDITIONS
June 2024

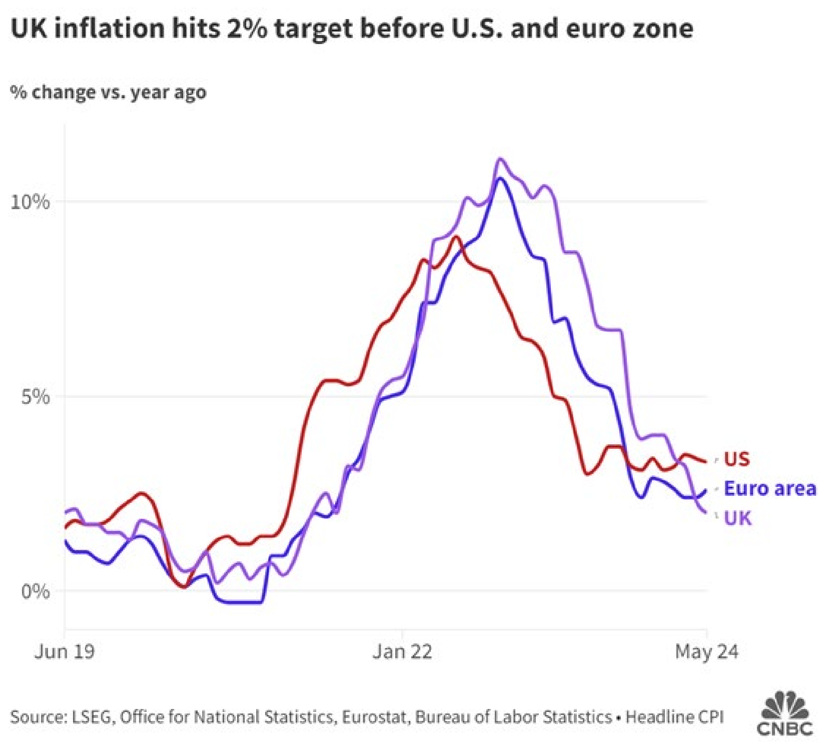
Local Government Finance Authority

Global equities broadly followed May's theme in June, rallying higher by around 2%. Global stocks rose to fresh highs in June, largely driven by the US market, with an exception being Europe where the snap election decision in France drove equity markets 1% lower due to uncertainty in markets. The near-term focus has been focused on politics over recent weeks, whilst prospects vary there was focus on the UK, France and US leadership changes, however the US presidential election is yet to move markets.

Data in the United States continued to be mixed, with GDP estimates suggesting solid growth as well as strong retail sales and manufacturing data. However, US inflation continued to cool, falling to 3.4%, its slowest pace in three years. Recent US data suggests that inflation is getting back on a downward path, but more of the same is needed before Fed officials can consider lowering interest rates. US unemployment rose to 4.1% at the start of July which points to a cooling employment market with the move increasing the probability of the Federal Reserve delivering its first rate cut in September to 80%.

The European Central Bank (ECB) cut its interest rate by 0.25% to 3.75% at its June meeting, its first cut in nearly five years. The ECB remained vague about the future direction in interest rates 'not pre-committing to a particular rate path' and for future decisions to be data dependent.

In the UK, headline inflation fell back to the Bank of England's (BoE) 2% target for the first time in three years, however sticky services inflation is still prevalent. BoE as expected, left its policy rate unchanged at 5.25%, but opened the door to a rate cut in August.



In China inflation remains weak, edging down to 0.2% in June, falling short of market expectations of 0.4%, with declining food and energy costs. China is continuing to be challenged by its weak real estate sector, and the manufacturing sector stayed in contraction for a second consecutive month in June, underscoring the weak demand backdrop, which continues to threaten their goal for 5% growth in 2024.

In Australia, it's a very different story, with inflationary pressure continuing to surge printing at 4% in May, well above expectations and the fastest pace of monthly price rises since November 2023. Whilst employment has weakened with the unemployment rate increasing to 4.0% and vacancies are easing, retail sales, building approvals and investor activity improved and house prices also rose once again in June. Prices are now up 37% on pre-covid levels.

The Reserve Bank of Australia (RBA) kept the cash rate steady at 4.35%, as expected, however the commentary shifted in a hawkish direction. Governor Bullock commented that the Board did discuss the case for a rate hike at this meeting and highlighted that the Board is alert to the potential upside risks to inflation. Q2 CPI is clearly going to be important for the RBA in assessing the risks around their inflation outlook, and major banks now expect that the RBA will remain on hold until potentially May 2025 (previously November 2024), with financial markets not pricing in a full rate cut until July 2025.