June Market Update

Luke Sheather
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Markets recorded solid gains across the board in June, capping off what's been a remarkable financial year for investors.

Central banks, particularly the Federal Reserve, were once again vocal in dismissing recent spikes in inflation as likely temporary rather than persistent. This managed to calm longer-term inflation expectations, which was well received by both the bond and share

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market.[/vc_column_text][vc_single_image image="7001" img_size="large" alignment="center"][vc_column_text]

Two steps forward, one step backwards for the Australian recovery

Economic data continues to impress in Australia, with the latest labour market report revealing an additional drop in the unemployment rate, which now sits at 5.1%. However, our attention has once again shifted to the developing COVID situation with most of the country rushing into a snap lockdown during the final weeks of June. Given the relatively small percentage of people vaccinated, Australia now finds itself more susceptible to future disruptions caused by the dangerous Delta variant. Whilst share market performance hasn't suffered yet, we'd expect any extended lockdowns to materially affect economic growth, which would likely see our share market lag other regions in future periods.

Financial year Winners & Losers

With another financial year behind us, it provides an opportunity to reflect on some of the market's winners and losers over the last twelve months. While growth sectors, such as Information Technology, led the recovery at the start of the financial year, we saw the market rotate sharply to more cyclical sectors in November, once news of a COVID vaccine had emerged.[/vc_column_text][vc_single_image image="7005" img_size="large" alignment="center"][vc_column_text]Consumer discretionary stocks were the clear winners in Australia, as household spending rebounded sharply following the government's fiscal stimulus at the height of the pandemic. Companies such as Wesfarmers, Harvey Norman and Dominos were all able to benefit during periods of COVID disruption. Financials and Materials, the Australian stalwarts, also performed well and were boosted by a swift recovery in both the domestic and Chinese economies. Soaring commodity prices also contributed to the performance of Materials, particularly Iron Ore, which reached a record high in May. Between the big 4 banks and the 3 major iron ore miners, almost half of the gains in the Australian share market were accounted for. Unfortunately, it was a year to forget for Australia's utility majors and several energy companies. As the infrastructure and energy, landscape faces a shakeup and shifts towards more sustainable solutions.

RBA offers a more "hawkish" stance

RBA Governor, Philip Lowe, has reiterated that no interest rate rises before 2024 is still the bank's central scenario. However, he also acknowledged that there were no other plausible scenarios that could lead to rate hikes some time sooner. Such plausible scenarios would involve the economy recovering faster than originally expected and forcing upward pressure on inflation. The open-mindedness towards such scenarios playing out was an obvious change of tone by the RBA and has led markets to bring forward their expectations of future interest rate rises. Following the July meeting, markets priced in cash rates to return to 0.75% by the end of 2023, suggesting three potential rate hikes before Lowe's stated guidance. While future rate rises will likely lead to a short-term pullback in equity and property markets, evidence suggests that strategies designed to time the market around such outcomes will likely underperform over the long term. Even central banks and markets themselves, are not always the best forecasters of future rates changes. As always, investors are best placed to take a long-term view when it comes to expected policy changes, by remaining true to their diversified investment strategy and looking past any short-term market volatility.

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> *As Capital Partners Investment Specialist, Luke does far more than simply identifying and recommending investments, Luke sees it as his role to help clients contemplate and answer life's big questions.*

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