THE HOPKINS GROUP

What happened to markets during August?

August in Australia is reporting season for most companies in the ASX200. Reported results were in line with forecasts, but soft guidance and cost pressures caused analysts to revise their 2024 earnings down. We expect further downgrades as interest rate hikes take effect and impact company profits. For the Australian market to continue to rise, valuations need to increase from already high levels. Valuations are the highest they have been compared to bonds, based on the equity risk premium, since 1975, when the data series started. Being defensive has not worked recently with health particularly performing poorly.

Discretionary retail has, counterintuitively, been a solid performer. This is likely to switch back over the coming months with defensives outperforming.

The ASX fell 0.7% for the month in AUD but down 4.3% in $US terms, led by discretionary retail which was up 5.8%. Solid results from Wesfarmers (up 10.6%), led by Bunnings, Premier Investments (up 16.1%) and Dominoes Pizza (up 10.9%).

The worst performing sector was Health Care, with Resmed down 24% and Ramsay Healthcare down 12.7%.

Globally, the US market was down 1.7%, the UK down 4% and China down 9% in $US terms. The currency is having an impact with buying of $US on the expectation of further rate rises due to the strength in the US economy. The weak Australian dollar is inflationary for Australians. The strength of the US economy contrasts with China, where the economy is growing less than previously expected. Property developers continue to struggle with major social implications. This impacts demand for Iron Ore, but BHP remains confident that prices will stay above $80.

Economic News in August

The Reserve Bank kept interest rates at 4.1% in August. The inflation rate slowed to 4.9% for the month. While encouraging, it is too early to call an end to the fight. This figure did not include electricity price rises, recent wage increases and the massive increase in oil in August, largely due to the falling Australian Dollar.

Property markets remained solid during the month, with price rises reported nationwide. Demand and supply are favouring sellers. Demand from immigration, a lack of new homes, and people staying in their homes are creating price pressure. We expect this imbalance to continue even with supply like to increase in the spring selling season.

News Impacting you

Statistically, September has the lowest returns of all months on the ASX with an average price return of -1.7% with a negative return in 7 of the last ten years. This is also true for the US market.

Mortgage competition is returning after a few months, where competition dropped off. There are some good deals in the market if you are looking for a loan. Lending competition is expected to remain strong, with slower loan growth resulting in greater competition for existing loans.

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