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2024 April Market Wrap — Wednesday 1 May 2024

Equity markets have been trading poorly in April primarily due to the repricing of Fed cuts and the subsequent rise in back-end rates , as recent multiple compression has coincided with a decisive break above the 4.35-4.40% 10-year yield range . Should bond yields see additional upside from a rise in the term premium (like last summer/fall), the impact on valuation could be greater given the sensitivity stocks showed to that factor last fall.

Half of the S&P500 have reported, and the EPS beat rate is now at ~78% , while the sales beat ratio is healthy at ~58%. It's notable that the Magnificent 7 is projected to see a whopping 47% year-over-year net income growth in Q1 (versus -12% year-over-year for the SPX ex-Mag7).

While overnight and short rates will likely fall before long, too many investors seem to be counting on a collapse in long rates and a resurgence in cheap capital costs. In my view, any reduction in short rates is more likely to result in more positively sloped yield curves than in precipitous declines in long end borrowing costs. More important, I think borrowing costs, whether for the consumer, enterprises or government entities, are unlikely to revisit all-time lows because aggregate demand is too high, labour too scarce and the need for capital investment too strong.

What's changed?
Today, what's changed is that household savings are now being spent on food, shelter and energy and companies are spending to shorten supply chains at a time when labour is expensive and in short supply. All this spending is growth- and inflation-accretive. Also, inflation today isn't only higher but more volatile than in the slow growth, low inflation paradigm, while budget deficits are far larger than in the recent past. This has led to policy constraint being dictated by the bond market, as we saw in the United Kingdom during the LDI crisis 18 months ago. This matters for risk assets because the hurdle rate to generating positive net income has gotten a lot higher.

Another factor is globalization. Globalization and just-in-time inventorying were tremendous catalysts for profit growth because warehousing goods is costly. Less inventory on hand means more working capital and higher operating and profit efficiencies. Low-cost manufacturing, particularly in Asia, meant many western conglomerates could slash labour expenses.

Changing face of globalization
A prerequisite for just-in-time inventorying and globalization was global peace. Shipping is still cheap, but its cost is rising. More concerning, a global pandemic, two hot wars and a cold one have reduced the certainty that a critical part will arrive just in time. Meanwhile, labour arbitrage with Asia has ended because manufacturing in Asia is no longer cheap and hiring people is difficult almost everywhere.

Globalization isn't over and neither is just-in-time inventorying. But I'm arguing supply chains will become less stretched, cost more or both.

Stronger-than-expected March quarter CPI report suggests fears about sticky inflation are becoming a reality, leaving the RBA board's decision last month to abandon its stated tightening bias looking premature. Trimmed mean prices rose 1 per cent in the three months to March, higher than both

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market expectations and the December quarter figure, both of which were 0.8 per cent. Headline inflation also came in stronger-than-expected, at 1 per cent in the quarter and 3.6 per cent over the year.

One quarterly increase in underlying inflation does not mean disinflation is over – RBA governor Michele Bullock has warned there will be bumps on the journey back to target – but it is an early warning sign that Australia could be going the way of the United States, where inflation is proving hard to tame.

Combined with a strong jobs market and the looming increase in household disposable incomes from the stage three tax cuts, there is little reason to expect rate cuts until late-2024 at the earliest, and it would not be surprising if the CPI data forces some economists to push back their rate cut forecasts into 2025.

As was the case before today, another rate rise cannot be ruled out, even if it's not the market's central forecast.

Aid from the Federal and State Government on spending is not likely, overspending continues hinder the fight against inflation.

If you have any questions do not hesitate to contact me.

Summary of Major share indices

Index	1 Month	52 Weeks	YTD
DJIA	-3.46%	+12.26%	+0.34%
Nasdaq	-3.59%	+29.61%	+4.31%
S&P 500	-3.27%	+22.24%	+5.57%
Russel 2000	-4.41%	+13.96%	-2.62%
Europe 600 Index	-0.72%	+9.50%	+5.41%
UK FTSE 100 Index	+2.63%	+4.77%	+5.31%
Hong Kong Hang Seng	+4.91%	-10.89%	+4.20%
Japan Nikkei 225	-3.51%	+31.87%	+14.77%
China Shanghai Composite	+0.97%	-6.57%	+4.37%
India S&P BSE Sensex	+0.78%	+21.40%	+3.10%
ASX 200 (Australia)	-2.94%	+9.07%	+2.24%

Australian Dollar

	Close	52-week Range
AUD	0.6475%	0.6269-0.6901%

Government Bonds

	Close	52-week Range
US 3 Month Bill	5.384%	5.011-7.959%
US 10 Years Note	4.687%	3.292-5.022%
US 30 Years Bond	4.786%	3.661 – 5.183%
Australia 10 years	4.432%	3.287-5.002%

Source: Wall Street Journal.