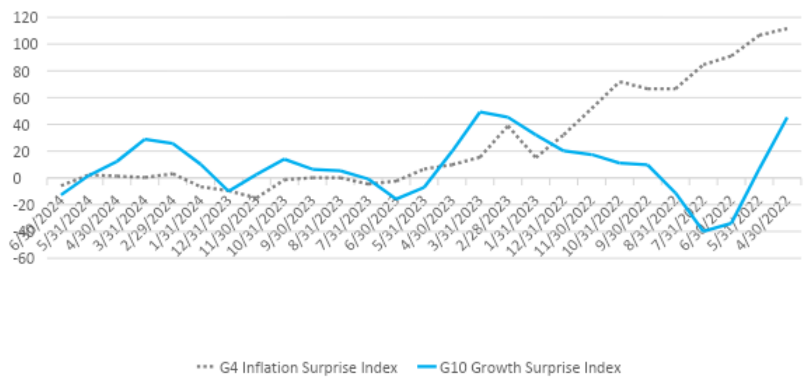
Legacy Wealth Advisors

Q2 Macro & Market Review 2024

The second quarter of 2024 was marked by a complex interplay of strong financial market performance, persistent inflation, and geopolitical risks. While consumer spending and labor markets remained robust in key economies like the U.S., inflation and geopolitical uncertainties posed ongoing challenges. The global economic outlook remained cautiously optimistic, with central banks' monetary policies and geopolitical developments being critical factors to watch.

Both growth and inflation drifted lower through the second quarter. By the quarter's close, most parts of the global economy experienced a downward bias in growth and inflation levels around market expectations.

Chart 1: Global economic surprise – inflation and growth

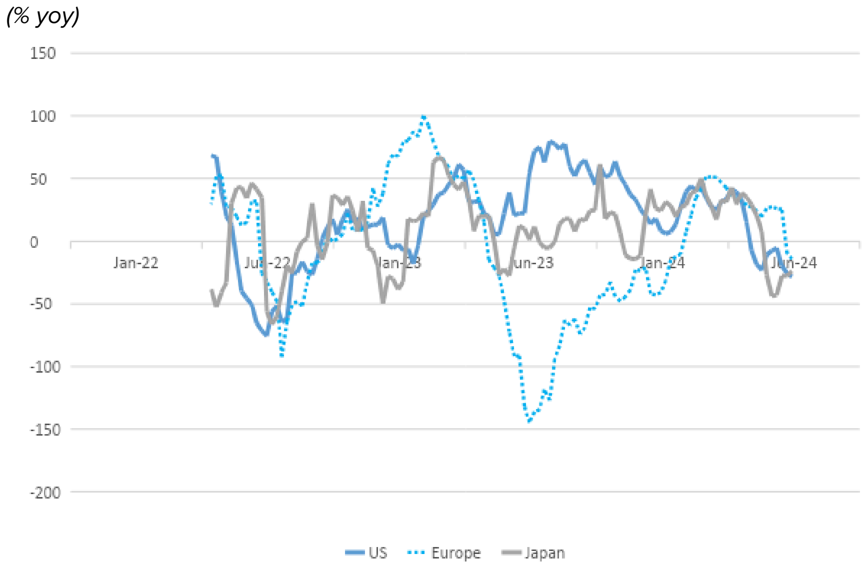


Source: Bloomberg

Economic growth momentum slipped in the major developed markets, with Europe and the United States showing signs of weakness as the quarter closed. A generic concern is that inflation has weighed on sentiment and spending power. Although job gains have been strong and wage growth has picked up, the persistence of inflation has surprised consumers, diminishing their appetite to spend. Additionally, the hesitant interest rate cuts from central bankers have not instilled confidence. The ECB initially appeared bold in cutting interest rates but did not promise future rate cuts. In the case of the Fed, their last policy meeting of the quarter saw them revise their expectations from three rate cuts for the year to just one. The market still anticipates up to two rate cuts by year-end.

European growth prospects were also compromised by geopolitics. European elections and the subsequent French elections, announced in a seeming fit of pique by French President Macron, concerned the market. The rise of extreme left and right parties as potential leaders of any new government raised market concerns that a new government in France could substantially increase spending and come into direct conflict with the EU and the ECB on fiscal rules.

Chart 2: All major economic see growth slip as the quarter closed



Source: Bloomberg

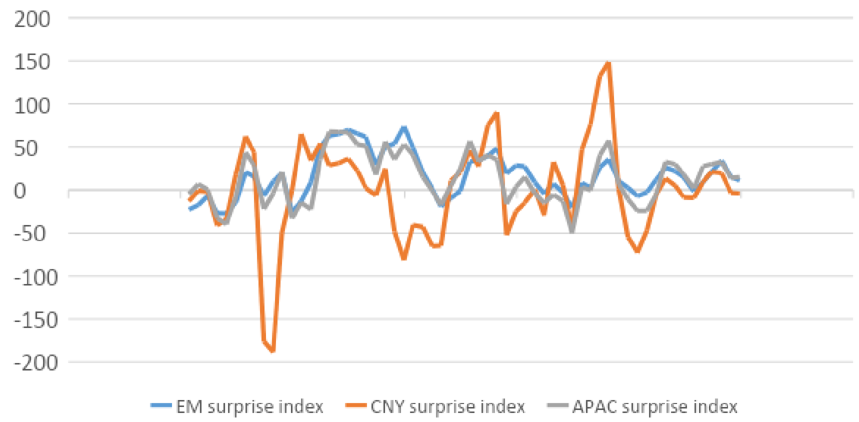
The Australian economy shows a mixed picture. Economic growth has been relatively modest, with a GDP growth rate of 1.1% as of June 2024. Inflation stands at 3.6%, indicating persistent price pressures, while the unemployment rate is stable at 4.0%. The economy has seen a slight contraction in public and private fixed investment, although private and public spending have gained momentum recently. Over the medium term the economy will likely benefit from an eventual strong performance from commodity markets though that will depend on a recovery in the momentum of the Chinese economy.

Emerging market economies lost some momentum through the quarter after a strong start to the year. With the Fed reluctant to cut rates anytime soon and the dollar remaining relatively strong, EM central banks had to scale back their more ambitious targets for rate cuts.

The Chinese economy, after a strong start to the year, has seen a slowdown but has not turned into the disaster some had predicted. Consumer spending remains tepid, and industrialists are cautious due to ongoing threats to exports from U.S. and European sanctions. While the worst of the real estate issues may be over, they continue to dampen activity. The authorities have implemented measures in recent months that have stabilized the market. All eyes are now on the upcoming Congress meeting, the so-called third Plenum, where there is anticipation of structural policy shifts by the government. The markets are hopeful that these measures will support the domestic economy, instill confidence, and encourage more substantial growth in consumer spending.

In India, the recent elections were a shock to the incumbent government and the markets, with the BJP losing overall control. However, in partnership with smaller parties, Narendra Modi retained his position as Prime Minister. Recent data indicates that the economy is running hot. India's economy showed impressive growth in the last quarter of FY24 (the first quarter calendar-wise), with a real GDP growth rate of 7.8% year-over-year (YoY), exceeding market expectations of 6.7%. This data equated to GDP growth of 8.2% for the entire fiscal year, up from 7% in FY23, marking the third consecutive year of growth exceeding 7%.

Chart 3: Economic Growth for Asia and EM around Neutral



Source: Bloomberg

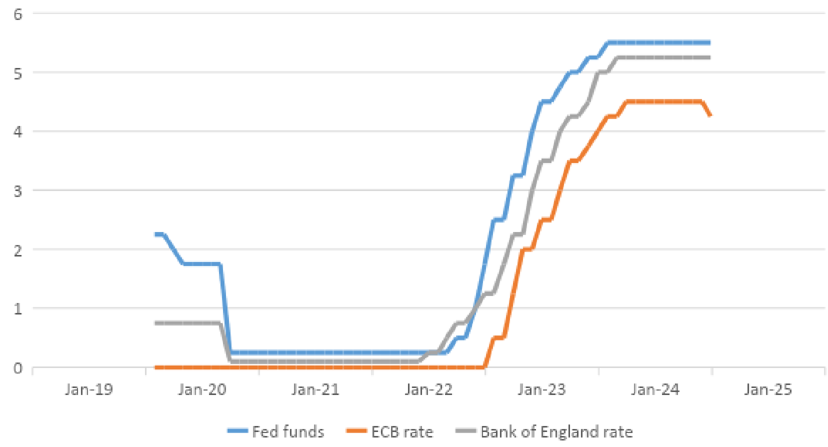
Economists and central bankers still worry about inflation. While we are way past the peaks seen in previous quarters, inflation is still hanging around, particularly in the service sector. A broad index of commodity prices has pushed higher from a late first quarter low and represents another reinforcement of the sticky inflation still prevalent in the global economy.

Chart 4: Goldman Sachs Commodity Price Index Pushes Higher

Source: Bloomberg

Central bankers have remained tentative in their easing through the second quarter. The ECB was the only major central bank to cut rates in line with the direction they had given to the market in the last first quarter. The Fed mainly guided through its dot plots and various speeches by Fed governors that it was no longer minded to cut rates three times through the year but just once. In the UK inflation has surprised to the downside giving scope for the Bank of England to cut rates in the third quarter.

Chart 5: ECB breaks the mold by cutting rates



Source: Bloomberg

Markets

Equities

While global equities provided an aggregate positive return in the second quarter, there was a greater dispersion of returns. U.S. equity market returns continued to be dominated by the strong performance of the tech sector. The Dow Jones 30 fell by 1.6% over the quarter, while the NASDAQ Composite rose by 8.3%.

For the first half of 2024, US stocks rose 14%, slightly less than their increase in 1H 2023 but still one of the strongest performances historically. However market leadership was still very narrow, with 5 stocks out of the “magnificent 7” driving almost 60% of the gain. Nvidia, Microsoft, Amazon, Meta and Apple rallied on optimism of benefiting from the artificial intelligence boom. In contrast the equal weighted S&P 500 was only up 4%.

Europe and Japan were hampered by a drop-off in domestic growth, and in Japan's case, by a slide in the Yen, which undermined international demand for the market. As the quarter closed, political turmoil in France undermined the broader European markets as investors fretted about the prospect of an extreme party gaining power.

Australian equities have continued to struggle to perform. The limited scope in the very near term for any rate cuts has held back the domestic economy while a mixed performance from the commodity market has held back the market.

Table 1: Equity Market Returns

	-1mth	-3mths	YTD
US	3.5%	3.9%	14.6%
NASDAQ	6.0%	8.3%	18.1%
Europe ex UK	-2.4%	-0.4%	5.5%
Japan	-0.7%	-4.3%	6.3%
UK	-1.0%	3.6%	7.8%
Switzerland	-0.1%	2.2%	7.7%
Asia ex Japan	4.3%	7.2%	9.7%
Australia	2.8%	1.6%	2.4%
India	7.0%	10.2%	16.9%
China	-3.9%	-2.4%	-0.3%
Brazil	-3.7%	-12.2%	-18.7%
Emerging markets	**3.9%**	**5.0%**	**7.5%**
Global	**2.0%**	**2.6%**	**11.7%**

Source: Bloomberg

In the emerging markets, despite the surprise in the Indian elections, the Indian equity market showed stellar returns for the quarter, helped by stronger-than-expected GDP growth. There is also an anticipation that the government, in trying to keep all political factions happy in the new coalition of parties, may adopt a more fiscally loose policy.

Table 2: Equity Market Returns by Sector

Global Sectors	-1mth	-3mths	-12mths
Energy	-1.9%	-1.3%	8.3%
IT	8.7%	11.4%	25.1%
Consumer Staples	-1.5%	0.1%	3.4%
Consumer Discret	2.3%	-2.3%	4.3%
Healthcare	1.9%	0.5%	8.0%
Banks	-1.5%	2.5%	13.9%

Source: Bloomberg

Bonds

Global bonds held their levels, with high yield and emerging market bonds clipping their coupons, adding to their aggregate returns. The markets rocked backwards and forwards in terms of their anticipation of future interest rate cuts but the returns ended up quite modest on investment grade bonds. Amongst the total universe of high yield bonds default rates remain around the 2-3% level in line with long-term norms.

Table 3: Bond market returns

	-1mth	-3mths	-12mths
Global Aggregate	0.9%	0.1%	0.1%
Global investment Grade	0.6%	0.2%	0.1%
Emerging markets debt $	0.6%	0.7%	2.2%
US Corporate High yield	0.9%	1.1%	2.6%

Source: Bloomberg

FX and Precious metals

Despite dollar strength gold outperformed providing solid absolute returns. Bitcoin saw some profit taking after the large run up in the first quarter. The strength of gold despite dollar strength, suggests that investors are concerned about matters well beyond the US economy.

The Yen remained under pressure against the dollar with seeming barriers breached one-after-the-other with the level of 160 against the dollar the latest to fall.

Table 4: Performance of precious metals and currencies

	-1mth	-3mths	-12mths
US Dollar Trade weighted	1.1%	1.3%	4.5%
Euro Trade weighted	-0.7%	0.0%	0.3%
GBP trade weighted	0.1%	0.9%	2.3%
Yen/$	-2.2%	6.3%	14.1%
Gold	0.0%	4.3%	12.8%
Bitcoin	-8.5%	-12.6%	45.6%

Source: Bloomberg

End of Report

Sources: Legacy Wealth Advisors, Global CIO, Bloomberg
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