

Will geopolitics derail the rally? The March 2024 Quarterly Market Update

By Perpetual Wealth Management

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The March 2024 Perpetual Private Quarterly Market Update (QMU) explores how, despite a backdrop simmering with geopolitical tensions – the ongoing war in Ukraine, the intractable conflict in Gaza, a relentless cycle of national elections (not least the crucial US election later this year) and simmering tensions with China – markets have continued their remarkable climb.

You can watch the video above, download our full report, or read our concise review below.

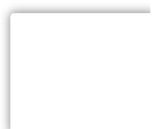
Please note: except where otherwise noted or quoted, the views in this article are those of Perpetual Private's Investment Research Team.

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March Quarter 2024: What happened?

Markets continued their ascent in the first quarter of 2024. Positive sentiment fuelled by steady economic growth, the easing of inflation, and the potential for central bank rate cuts propelled asset values higher. Indeed, the chances of a rare soft-landing continue to grow and the confidence this is generating is becoming self-fulfilling.

Equity market rally broadens



The rally that began last November continued into Q1 2024, with the MSCI All Country World Index rising 13.2%¹ and the S&P/ASX 300 gaining 5.4%². A positive combination of economic factors and ever-growing enthusiasm towards Artificial Intelligence (AI) propelled stocks higher. Pleasingly, many major global stock indices reached new highs with stocks outside the US "Magnificent 7" (large-cap tech companies) contributing more meaningfully to the upswing.

Fixed income navigates higher yields

Fixed income faced a slower start. Bond returns were subdued as yields rose on disappointing inflation data and investors pushed back expectations for central bank rate cuts, anticipating a potential "higher for longer" interest rate environment. At the time of writing, the bond market is now expecting less than 0.75% in cuts from the US Federal Reserve³ in 2024, which is quite different than the 1.5% priced in at the start of the year. Similarly, in Australia, bond markets have scaled back their expectations from nearly three cuts starting in June, to only one rate cut late this year.

Australia's resilient households

The RBA remains data-dependent, emphasising the need for further inflation control before considering rate cuts. Their latest assessment highlights the resilience of Australian households and businesses. Low unemployment and wage growth have bolstered household finances, even with adjustments to spending habits. However, a sharp rise in unemployment could threaten this resilience.

Entering Q2, we find ourselves in a favourable environment, mirroring the mid-1990s soft landing. This comparison is explored in further detail in the March 2024 Quarterly Market Update report. Nevertheless, even the successful 1990's experience wasn't without challenges, and whether a soft landing materialises later this year remains to be seen. While the current environment is encouraging, vigilance is crucial, and the potential for negative news shouldn't be ignored.

Geopolitics: A simmering backdrop

Despite the visceral nature of conflict and war grabbing our attention, geopolitical events rarely have a lasting impact on investment returns. This paradox of market resilience can be attributed to several factors.

Why markets remain buoyant

Perhaps most importantly, the potential for major disruptions from these geopolitical flashpoints hasn't materialised (yet). While the tensions and conflict persist, they haven't escalated to a level that significantly disrupts global trade or financial flows. Additionally, institutions like the United Nations, the European Union, and NATO, despite their limitations, appear to be functioning as a

buffer against widespread conflict. Beneath the surface tensions, a modicum of rationality seems to be prevailing in international relations.

Geopolitical risks and investment decisions

Understanding geopolitical risks is one thing, but translating those views into investment decisions is challenging. Financial markets can take years to price in a particular geopolitical event, making it difficult to hedge a portfolio specifically against geopolitical risks.

Long-term focus is key

Whilst major geopolitical events can have a negative short-term impact, especially in commodity markets, history suggests markets tend to recover over the long term. For example, even significant events like World War 1, World War 2, and 9/11 were accompanied by short-term market downturns of 10% or more but were followed by rebounds exceeding 15%⁴ just a year later.

Attempting to predict the precise impact of a geopolitical event on asset prices is difficult, and in most cases minimal. However, as with all potential investment risks, we will continue to be vigilant in monitoring these and other conflicts for any indication of significant escalation that might impact portfolio characteristics over the medium-to-long term.

Responsible Investing: A trend with staying power

Responsible investing, which considers environmental, social, and governance (ESG) factors alongside financial returns, is experiencing a surge in popularity. This trend shows no signs of slowing down in 2024 or beyond.

According to the Amundi Group, one of the world's largest asset managers, assets under management in responsible funds have quadrupled since 2020, and now account for 17% of total assets worldwide, plus more than half of European ones⁵. This impressive trend is likely to remain on an upward trajectory, with over two-thirds of asset owners (67%) currently believing ESG has become more crucial to investment policy in the past 5 years⁶.

Tailwinds from policy and innovation

Government initiatives like the US Inflation Reduction Act and the EU Green Deal Industrial Plan are fuelling significant investments in green technology, expected to create substantial tailwinds for responsible investors. These plans represent hundreds of billions of dollars directed towards green innovation, creating opportunities for companies and investors focused on sustainability solutions.

Addressing backlash and transparency



Despite its rise, responsible investing has faced criticism in recent years. However, it is our view that this is a sign of a maturing industry. Investors increasingly expect responsible investment products to deliver on both financial and sustainability goals and for investment managers to provide clear communication about how they incorporate ESG principles into their investment philosophy.

Popularity in Australia

The trend towards responsible investing is strong in Australia as well. According to data from the Responsible Investment Association of Australia, over two-thirds of Australians are familiar with the term, with climate change being the top concern for responsible investors.

With growing investor interest, supportive government policies, and a focus on transparency, responsible investing is poised to continue its rise in 2024 and beyond. Investors seeking to align their values with their portfolios can find a growing range of responsible investment opportunities with the potential for competitive returns.

The bottom line

The recent rally reflects positive fundamentals, and the parallels to the mid-1990s soft landing are explored in detail within the March 2024 Quarterly Market Update report. However, even the successful 1990's experience wasn't without challenges, and whether a soft landing materialises later this year remains to be seen. While the current environment is encouraging, vigilance is crucial, and the potential for negative news shouldn't be ignored.

Perpetual Private's Quarterly Market Update for March 2024 provides a comprehensive overview of the changing investment landscape, including the outlook for shares, fixed income, real estate, currency, and alternatives.

[Download the report](#)

[1] FactSet. Returns are net of fees and are in AUD (unhedged)/sub>

[2] FactSet. Returns are net of fees and are in AUD

[3] CME Group – Fed Watch Tool - <https://www.cmegroup.com/markets/interest-rates/cme-fedwatch-tool.html>

[4] FactSet. Calculated using S&P 500 returns (USD)

[5] Amundi Group - <https://research-center.amundi.com/article/2024-responsible-investment-views>

[6] Morningstar

Take your first step - contact us 1800 631 381

If you're looking for an expert view on where to invest in 2024 and beyond, our experienced financial advisers and investment specialists would love to help you. Contact your Perpetual Private adviser, submit the form below or call us on 1800 631 381.

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