RIPPL Investment Commentary

MARCH QUARTER 2024

Within the first quarter of 2024, the US stock market displayed significant resilience, with technology and value stocks leading to substantial gains amid AI boom and despite the apprehensions about prolonged high-interest rates. This period marked nearly 30% total returns over the past year, highlighting an economic strength that prevented the anticipated recession. Strong GDP growth and a solid labour market were crucial in this, challenging the expectations of immediate Federal Reserve rate cuts.

CENTRAL BANK ACTIONS

The U.S. economy's dodge of a predicted recession was supported by several factors, including solid private sector balance sheets, labour hoarding, and a staggered recovery across sectors. Immigration and unexpected government spending also played roles in reducing the impact of high borrowing costs. However, potential stresses, such as those from the commercial real estate sector on small banks, suggested that recession risks, while reduced, were not entirely eliminated.

Inflation remained a complex issue. The latest 2024 data about economic growth and some sectors is stirring concerns in the market. But, in a closer look at the economy, it is shown that the typical inflation drivers were being balanced by a faster expansion of the supply side, including improvements in supply chains and worker productivity. This implied that the economy might continue to balance strong growth with moderating inflation, aiming for an "immaculate disinflation."

Credit market conditions appeared to improve, with credit spreads tightening, and bank lending practices becoming more stable. This situation suggests that the credit landscape might be divided which might affect firms of different sizes in different ways, imposing strategic financial adjustments in a possibly prolonged high-rate environment.

The U.S. economy and financial markets were at a pivotal point, balancing strong economic growth against inflationary pressures and anticipating Federal Reserve rate cuts. This nuanced stage presented both opportunities and risks for investors and policymakers, highlighting the difficulty of dealing with monetary policy, economic indicators, and market dynamics.

Internationally, the economic landscape was similarly complex, with emerging markets expected to show strong expansion and European markets benefiting from cooling inflation pressures. In Japan, a significant policy shift by the Bank of Japan displayed confidence in overcoming deflation, with potential implications for the yen and global markets.

In Australia, the investment landscape was undergoing a transition, with a focus on practical and reasonably valued investments considering the normalized returns post the era of low interest rates and heavy monetary intervention. This shift emphasised the complexity of the evolving economic narrative in 2024, also a move towards balancing growth and managing inflation amid cautious monetary policy anticipation.

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