RIPPL Investment Commentary

SEPTEMBER QUARTER 2024

In Q3 2024, the global economy experienced mixed performance, with high interest rates leading to a slowdown in growth, while inflation showed signs of moderation. Major economies like the U.S. and Europe saw weaker consumer spending and investment, while Asia presented varied outcomes—China's recovery lagged, and India maintained strong growth. Australia's economy grew moderately, with easing inflation but persistent challenges in consumer spending and housing due to tighter monetary policy. The outlook for Q4 remains uncertain, influenced by central bank decisions, geopolitical risks, and China’s economic trajectory.

Global Economic Overview

The global economy in Q3 2024 has experienced mixed results across major regions, driven by various factors such as inflation management, interest rate adjustments, geopolitical tensions, and technological advancements. Some key trends are worth noting:

- Slowdown in Global Growth: Global growth has slowed compared to previous quarters, driven by high interest rates in many developed economies. Central banks, notably the Federal Reserve, ECB, and Bank of England, have maintained tighter monetary policies to curb inflation, resulting in reduced consumer spending and lower business investments.
- Inflation Moderation: Inflation has shown signs of easing in major economies, but it remains above central banks’ target levels in most regions. Supply chain improvements, falling energy prices, and reduced global commodity demand have all contributed to this decline. However, core inflation, especially in services, remains sticky.
- Energy Markets and Commodities: Global energy markets have experienced price fluctuations, particularly oil and gas. Oil prices briefly spiked in response to geopolitical tensions in the Middle East, but weaker global demand kept prices within moderate ranges. Industrial metals prices have remained subdued due to weaker manufacturing activity.

CENTRAL BANK ACTIONS

United States

The U.S. economy exhibited resilience, but signs of a slowdown emerged in Q3:

- GDP Growth: The U.S. experienced a deceleration in growth to an estimated annualised 2.0% in Q3, compared to stronger growth in the first half of the year. Consumer spending, particularly in durable goods, has softened as higher interest rates dampened demand.
- Monetary Policy: The Federal Reserve maintained its policy stance after raising rates earlier in the year. While inflation has eased, the Fed remains cautious about signalling any cuts, with a focus on bringing core inflation closer to its 2% target. Labour market conditions remain tight, though job growth has moderated.
- Housing Market: Higher mortgage rates have slowed housing activity. Home sales and construction have both weakened, but home prices remain elevated due to low supply in key regions.

Europe

European economies, particularly the Eurozone and the UK, faced challenges stemming from inflation, slow growth, and geopolitical tensions:

- Eurozone: Economic activity in the Eurozone remained subdued in Q3, with growth nearing stagnation. The ECB has maintained high interest rates, which has curbed consumer spending and industrial output. Germany, the region's largest economy, continues to struggle with manufacturing sector weakness, although services have remained relatively resilient.
- United Kingdom: The UK economy narrowly avoided a recession but experienced stagnation. Inflation, although moderating, is still one of the highest in developed economies. The Bank of England's continued rate hikes have pressured consumer spending and investment. A notable decline in business sentiment suggests weak growth prospects in Q4.

Asia

Asia's economic performance was mixed, with China and India leading the regional narrative:

- China: China's economic recovery has been slower than anticipated. The post-pandemic bounce has faded, with Q3 GDP growth coming in below expectations at around 4.4%. Weaker real estate and exports weighed on the economy. The government's recent stimulus measures, including infrastructure spending and interest rate cuts, have not yet had the desired impact.
- India: India continues to experience robust economic growth, benefiting from strong domestic demand and policy support. GDP growth in Q3 is expected to exceed 6.0%. The services sector has been a key driver, along with strong foreign direct investment and exports. Inflation remains under control, allowing the Reserve Bank of India to maintain a neutral monetary policy stance.
- Japan: Japan's economic outlook improved in Q3, buoyed by higher consumer spending and business investment. While inflation remains above the Bank of Japan's target, it is manageable. A weaker yen has helped boost exports, especially in automotive and electronic sectors.

Emerging Markets

Emerging markets faced a challenging environment in Q3 2024, dealing with the effects of higher global interest rates, weak external demand, and domestic inflationary pressures.

- Latin America: Economic growth across Latin America has slowed, with Brazil and Mexico seeing reduced growth momentum. Both countries have faced inflationary pressures and higher borrowing costs, which have tempered consumer demand. However, commodity exports, particularly in agriculture, have provided some resilience.
- Africa: Sub-Saharan Africa continues to grapple with high inflation and weak growth. While commodity-exporting countries like Nigeria and South Africa have benefited from moderate energy prices, political instability and weak infrastructure investment have weighed on overall growth prospects.

Outlook for Q4 2024

Looking ahead to Q4 2024, several key factors will shape Australia's economic performance:

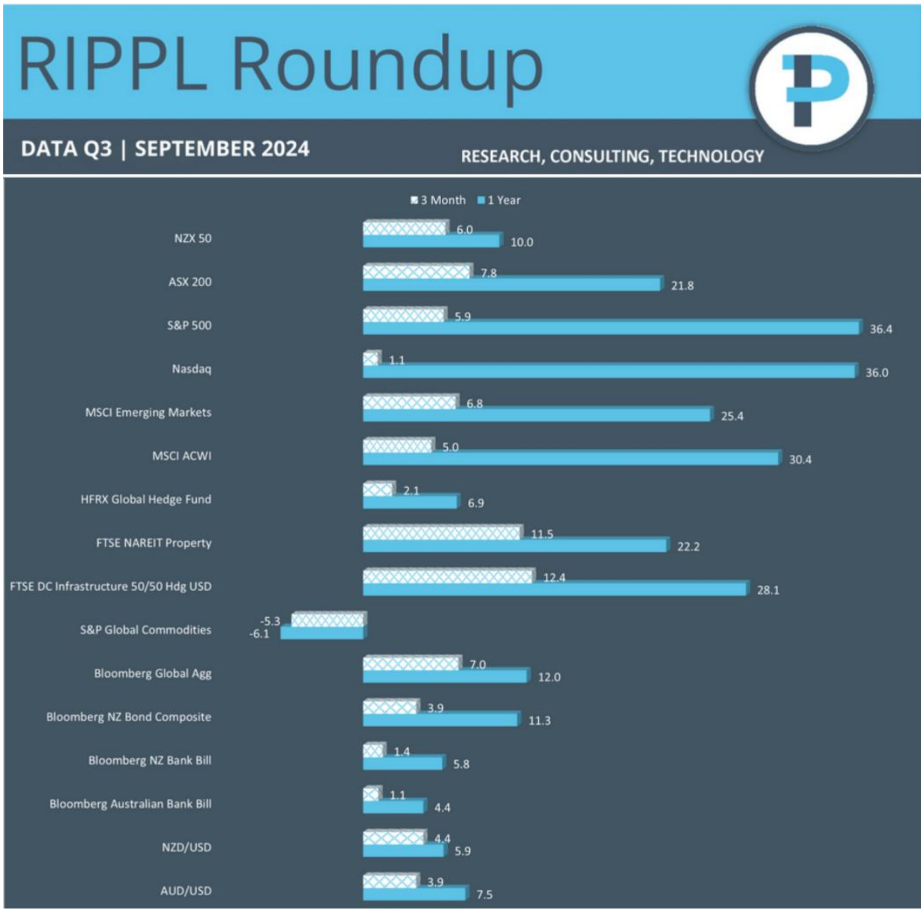
- Monetary Policy and Inflation: While inflation is showing signs of easing, the RBA's future rate decisions will be crucial in determining the path of growth. If inflation remains sticky, further rate hikes could be implemented, which would place additional pressure on household spending and investment.

- China's Economic Recovery: China's economic performance will continue to be a major factor in Australia's external sector. A stronger recovery in China would benefit Australia's export sector, particularly for commodities like iron ore and coal, which remain crucial to Australia's trade balance.
- Housing Market Adjustments: The housing market will likely remain a key focus, particularly regarding affordability and the supply-demand mismatch in the rental market. Higher rates are expected to keep housing demand subdued, but any signs of a rate cut in the future could reignite housing activity.
- Geopolitical and Trade Factors: Global geopolitical risks, including tensions in the Indo-Pacific region and the ongoing effects of trade policies, will continue to influence business sentiment and investment. Trade diversification efforts, particularly with India and Southeast Asia, will be essential to mitigate risks tied to any economic slowdown in China.
- Technology and Innovation: Continued investment in technology and green energy transitions is expected to provide new opportunities for growth, particularly in advanced economies. However, challenges remain in balancing traditional energy needs with new energy investments.

In conclusion, the global economy in Q3 2024 has seen mixed performance, with some regions managing growth amid inflationary challenges, while others have struggled with stagnation. The outlook for Q4 remains uncertain, with central bank policies, geopolitical risks, and China's recovery playing pivotal roles in shaping the next phase of the economic cycle.

Investment Markets Commentary

Over the course of the quarter and the year to September 30, 2024, market indices indicate there has been strong positive contributions across markets. Commodities is the exception and has varied from negative to marginally positive on a month to month basis through the quarter. This has caused volatility to increase.



Australia Quarterly Economic Commentary

Australia's economy in Q3 2024 showed signs of resilience, but ongoing challenges around inflation, household consumption, and external demand have kept growth moderate. The impact of tighter monetary policy, fluctuating commodity prices, and a shifting labour market landscape contributed to a mixed economic picture this quarter.

Economic Growth

- GDP Growth: Australia's GDP growth for Q3 2024 is estimated to be around 1.8% on an annualised basis, reflecting a slight slowdown from Q2. The slowdown can be attributed to weaker household spending and subdued external demand, particularly from China, Australia's largest trading partner. Export volumes have remained stable, but lower prices for iron ore and other key commodities have dampened revenue.
- Domestic Demand: Household consumption, which accounts for a significant portion of Australia's GDP, weakened in Q3 as higher interest rates continued to bite. Discretionary spending has been constrained as inflation and cost-of-living pressures erode real incomes, particularly in sectors such as retail, travel, and entertainment. However, essential goods spending has remained robust.

Inflation and Monetary Policy

- Inflation Moderation: Inflation has continued to moderate in Q3 2024, with the Consumer Price Index (CPI) easing to 4.1% on an annualised basis, down from 5.2% in the previous quarter. While headline inflation has improved, core inflation, particularly in services and housing, remains sticky. Rent increases and elevated utility costs have been significant contributors to ongoing price pressures.
- RBA's Policy Response: The Reserve Bank of Australia (RBA) maintained its cash rate at 4.35% throughout Q3 after earlier rate hikes aimed at curbing inflation. The RBA is adopting a cautious stance, recognising the balance between managing inflation and avoiding an economic slowdown. Although inflation is showing signs of easing, the RBA has made it clear that further rate hikes are possible if price pressures persist, particularly in the housing and service sectors.

Labour Market

- Job Market Resilience: Australia's labour market has remained relatively strong, although job growth has softened in Q3. The unemployment rate hovered around 3.8%, reflecting a tight labour market despite economic headwinds. However, wage growth has decelerated slightly compared to the earlier part of the year, largely due to businesses facing higher input costs and cautious hiring amid economic uncertainty.
- Labour Shortages: Certain sectors, particularly healthcare, construction, and information technology, continue to face labour shortages, putting upward pressure on wages in these industries. Immigration, which has played a crucial role in alleviating labour shortages in recent quarters, has slowed due to changes in migration policies and weaker global demand for skilled labour.

Housing Market

- Housing Demand Weakness: Higher interest rates have had a dampening effect on Australia's housing market. In Q3, housing price growth stalled in many key cities, while transaction volumes dropped due to affordability constraints and tighter lending conditions. The combination of higher mortgage rates and elevated home prices has pushed many potential buyers out of the market, particularly first-time homebuyers.
- Rental Market: The rental market, however, has remained tight, with rents continuing to increase significantly. This is largely due to a mismatch between housing supply and demand, as well as increased immigration. Higher rents have added to inflationary pressures and posed affordability issues for lower-income households.

External Sector

- Commodity Exports: Australia's export sector experienced mixed results in Q3. While volumes of key exports such as iron ore, liquefied natural gas (LNG), and coal remained stable, weaker global demand, particularly from China, resulted in lower prices. Iron ore prices have been volatile as China's economic recovery continues to underperform.

- Tourism and Education: The services export sector has shown positive signs, particularly in tourism and international education. As international borders have fully reopened and travel demand has picked up, Australia's tourism industry has seen a boost, with inbound travel from key markets such as China, India, and Southeast Asia increasing steadily. The education sector has also benefited from an influx of international students, contributing to stronger service exports in Q3.

Business Investment

- Mining Sector Investment: Business investment in Australia's mining sector has been relatively stable, with firms continuing to invest in operational efficiency and sustainability. However, new capital investment has slowed somewhat due to softer commodity prices and global uncertainty.

- Non-Mining Sector Investment: Outside the mining sector, business investment remained cautious in Q3, particularly in retail, construction, and manufacturing. Higher borrowing costs and weakening demand have led businesses to adopt a wait-and-see approach before committing to significant capital expenditures.

In conclusion, Q3 2024 was a period of moderate growth for Australia, with inflation easing but remaining a concern. Tighter monetary policy has weighed on consumer spending and housing demand, but the labour market remains resilient. External risks, particularly around commodity prices and China's economic recovery, will be key factors shaping Australia's economy as we move into Q4 2024.

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