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Central Banks walking on a tightrope. The March 2024 Quarterly Market Update

By Perpetual Wealth Management
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The March 2024 Perpetual Private Quarterly Market Update (QMU) considers how a central bank conundrum, labour market resilience and narrow market leadership will ultimately impact investors over the coming months. Is a rare soft landing on the horizon?

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 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 Reserve[3] 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. Nevertheless, historically high valuations and bullish sentiment still raise concerns. Even with a positive outlook, close monitoring of macro and microeconomic risks is crucial.

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). Whilst 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.

Narrow market leadership: A cause for concern, but not a bubble

The rally in equity markets over the last 15 months has been largely driven by gains in a concentrated small group of technology stocks, nicknamed the "Magnificent Seven." This has led investors to be concerned that we are experiencing something similar to the concentrated narrow leadership seen in the late-1990s, which ultimately ended with the bursting of the dot-com bubble. However, a closer look reveals key differences that suggest we're not on the precipice of a similar collapse.

Echoes of the dot-com bubble?

The late-1990’s dot-com bubble serves as a cautionary tale of how narrow market leadership and excessive speculation can lead to a dramatic market correction. Unprofitable internet companies with sky-high valuations soared, driven by hype rather than fundamentals. The "Four Horsemen" – Microsoft, Intel, Cisco, and Dell – personified this trend, boasting an average price-to-earnings (P/E) ratio of 85[5] in 1999, far exceeding any reasonable measure of profitability.

The "Magnificent Seven": Different breed, but still a concern

Today's "Magnificent Seven," while undeniably expensive with a P/E ratio of 31[6], are established companies with robust earnings growth. Unlike the dot-com era, their valuations, although high, are grounded in real financial performance. This is a key distinction between the two eras.

Another crucial difference lies in the breadth of the current market upswing. Over the last quarter, the rally is spreading beyond these mega-caps. Small and mid-cap companies, international markets, and even value stocks have all participated in the recent upswing. This broader market engagement suggests a less fragile foundation compared to the dot-com bubble, which was heavily concentrated in internet-related stocks.

Whilst a full-blown bubble might be less likely, the concentration of gains in technology does raise concerns and investors should remain aware of potential risks associated with narrow market leadership.

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

[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] FactSet. P/E LTM

[6] FactSet. P/E LTM

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