ARRIVE
WEALTH MANAGEMENT

INVESTMENT AND ECONOMIC SNAPSHOT

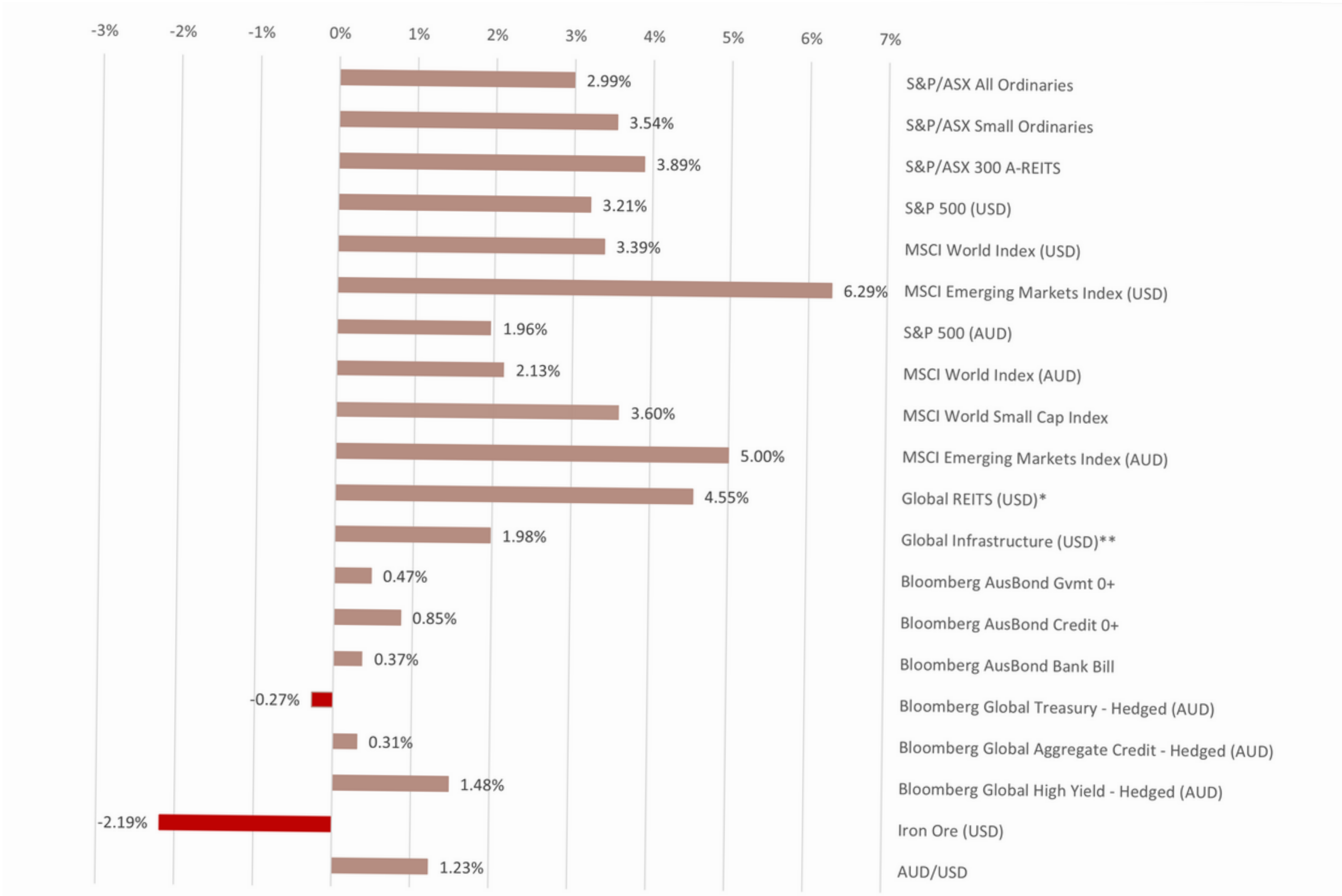
JULY 2023

Liability limited by a scheme approved under Professional Standards Legislation.

HIGHLIGHTS

- Global financial markets improved in July with solid returns recorded for major assets.
- Asian markets led the way, particularly Chinese stocks.
- U.S. stocks had a strong end to the month due to better-than-expected earnings with market hopes of a soft landing for the economy.
- Safe haven government bonds however underperformed and sold off. Yields on 10-year U.S. Treasuries and Australian government 10-year bonds closed up at 3.95% and 4.03% respectively.
- Australian inflation continued to soften but remains high, with CPI at 5.9% in the June quarter.
- The RBA kept rates unchanged at 4.10% in August.
- The U.S. Federal Reserve hiked rates by 25bps, with continued concerns about inflation and tight labour markets.
- The Bank of Japan made a marginal move to its Yield Curve Control (YCC) program.
- Chinese economic data showed a slowdown in consumer spending and GDP growth, but an increase in industrial production. However, the Chinese property sector remained weak.

SELECTED MARKET RETURNS JULY 2023



Sources: *Refinitiv G-7 Diversified REIT Index, **FTSE Global Core Infrastructure 50/50 Index

JULY KEY DEVELOPMENTS

FINANCIAL MARKETS YIELD SOLID RETURNS

Global financial markets improved in July, with most major financial assets generating solid returns for the second consecutive month.

Asian markets, especially Chinese investable stocks (+5.4%), led the way with relatively strong returns. Emerging Market equities saw a boost in performance (+6.3%) due to the Chinese rally. All other major regions posted positive returns in July, with Eurozone equities bringing up the rear, registering a small positive gain of 2.1%. U.S. stocks ended July positively as investors welcomed better-than-expected earnings and hoped for a soft landing for the economy amid cooling inflation and rising interest rates.

The Australian dollar has been fairly steady in its trade-weighted value since May. The difference in yields between Australian Government Securities and those of major advanced economies has eased recently but remains similar to a few months ago. The exchange rate dropped due to weaker domestic data, like inflation and the decision to keep the cash rate unchanged in August. Concerns about China's economic recovery also pushed the Australian dollar down against other currencies. The currency's trade-weighted index was helped by gains against the Japanese yen and Chinese renminbi, which make up about 40 percent of the index. In Japan, yields stayed low because of the Bank of Japan's lenient policies. While in China, bond yields fell due to worries about the country's economy and easier monetary policies from Chinese authorities.

In the Australian equity market, there was a rally of +5.8% from intra-month lows to close at +2.9% in July, with all sectors participating. However, Health Care and Consumer Staples sectors lagged in recovery and were the worst-performing sectors for the month. Energy and Financials were the top-performing sectors, adding the most value to the broader market total returns, with Banks' outperformance contributing significantly (135bp).

AUSTRALIAN INFLATION REMAINS HIGH

Recent data indicates that inflation is showing signs of moderation; however, it remains at an elevated level, with the trimmed mean settling at 5.9% in the June quarter. According to the RBA's central forecast, inflation is not expected to return to the target range of 2-3% until late 2025. Meanwhile, domestic economic conditions are facing challenges, as retail sales contracted by 0.8% in June, and consumer confidence remains subdued.

THE RBA KEEPS RATES ON HOLD IN AUGUST

The RBA decided to keep its key interest rates steady at 4.10% as it observed that previous rate hikes had begun to cool demand. Despite maintaining a tightening bias, the RBA's messaging leaned towards a dovish stance, highlighting the advantages of allowing "further time" to assess the delayed effects of rate increases and continuously evaluating potential risks. Additionally, the RBA expressed slightly reduced concern regarding inflation expectations.

U.S. LIFTS RATES DESPITE BETTER INFLATION NUMBERS

July's Federal Reserve Bank meeting unfolded largely as anticipated, with a 25bps hike that elevated the target range for the funds rate to 5.25%-5.50%. Following the meeting, Chair Powell acknowledged the positive June inflation data but expressed concern about the potential for inflation's decline to be halted by tight labour markets and robust economic activity before reaching the target level.

U.S. LABOUR MARKET CONTINUES TO SURPRISE.

Labour market resilience was highlighted by the consecutive decrease in layoffs for the third month, indicating employers' efforts to retain workers after facing labour shortages during the COVID-19 pandemic. Notably, in June, there were 1.61 job openings for every unemployed person, which increased from 1.58 in May. However, the latest report from the U.S. Labor Department also revealed a decline in worker confidence, with resignations experiencing the most significant fall since April 2020.

JULY KEY DEVELOPMENTS CONT.

U.S. GOVERNMENT'S CREDIT RATING DOWNGRADED

In a surprising move, credit ratings agency Fitch downgraded the U.S. government's credit rating to AA+ from AAA, citing concerns over the expected fiscal deterioration in the next three years and a growing general government debt burden. As a result of the Fitch downgrade, U.S. financial markets experienced a risk-off sentiment that interrupted the previously bullish investor mentality, particularly in light of recent positive surprises in U.S. economic growth. One intriguing reaction was seen in the U.S. Treasury market, which would typically be the most directly affected by a debt downgrade. However, contrary to expectations, Treasury yields rose after the announcement.

JAPAN LOSES CONTROL

During the month, the Bank of Japan made an important adjustment to its YCC program. Notably, the decision was influenced by several factors. Inflation in Japan has surpassed the 2% target, indicating some upward price pressures in the economy. Additionally, the manufacturing sector is experiencing expansion, and overall domestic economic conditions are showing signs of improvement. Because of this policy tweak, the yield on 10-year Japanese government bonds surged to its highest level in almost nine years, reflecting market reactions to the shift in the Bank of Japan's approach to yield curve management.

CHINA POSTS A MIXED REPORT CARD

Overall, while industrial production surprised with positive growth this month, other indicators, such as consumer spending and property sector data, point to challenges in the Chinese economy. The slower retail sales and weaker GDP growth suggest potential headwinds, while the property sector's ongoing weakness is still cause for concern.

OUTLOOK

While the easing of inflation and a robust U.S. equity market has sparked hopes for a "soft landing", economic history suggests that prolonged aggressive monetary tightening can eventually lead to a slowdown and recession. Notably, global manufacturing and growth in Europe and China are showing signs of rapid decline. Additionally, equities' expensive valuation compared to bonds and the prevailing bullish investor sentiment make them less attractive investment options for the moment.

Given the current circumstances and available evidence, we continue to recommend a low-risk investment portfolio. Our approach involves being underweight in equities and credit, overweight in government bonds, and maintaining a benchmark weight in cash. Although the AI/technology fuelled rally has made some question if a recession is still likely, we still believe the risks appear to be skewed to the downside on a 12-month investment horizon. As such, it's prudent to prioritise safety in investment decisions rather than taking unnecessary risks.

MAJOR MARKET INDICATORS

	31 Jul-23	30 Jun-23	31 May-23	Qtr change	1 year change
Interest Rates (at close of period)					
Aus 90 day Bank Bills	4.30%	4.25%	3.90%	+64.0	+223.0
Aus 10yr Bond	4.03%	3.92%	3.50%	+69.0	+60.1
US 90 day T Bill	5.28%	5.17%	5.26%	+33.0	+294.0
US 10 yr Bond	3.95%	3.81%	3.63%	+52.1	+130.7
Currency (against the AUD)					
US Dollar	0.674	0.666	0.647	1.97%	-3.43%
British Pound	0.520	0.525	0.524	-1.94%	-9.54%
Euro	0.607	0.610	0.607	1.07%	-11.60%
Japanese Yen	95.57	96.10	90.58	6.01%	2.59%
Trade-Weighted Index	61.30	61.70	59.80	2.51%	-2.85%
Equity Markets					
Australian All Ordinaries	3.0%	1.9%	-2.6%	2.2%	11.1%
MSCI Australia Value (AUD)	3.8%	3.2%	-3.6%	3.2%	15.0%
MSCI Australia Growth (AUD)	1.5%	0.8%	-1.7%	0.6%	5.9%
S&P 500 (USD)	3.2%	6.6%	0.4%	10.5%	13.0%
MSCI US Value (USD)	3.6%	6.2%	-4.1%	5.5%	7.1%
MSCI US Growth (USD)	3.3%	7.1%	5.0%	16.2%	18.2%
MSCI World (USD)	3.4%	6.1%	-0.9%	8.7%	14.1%
Nikkei (YEN)	0.0%	7.6%	7.0%	15.1%	22.0%
CSI 300 (CNY)	5.4%	2.1%	-5.6%	1.6%	-1.2%
FTSE 100 (GBP)	2.3%	1.4%	-4.9%	-1.3%	7.8%
DAX (EUR)	1.9%	3.1%	-1.6%	3.3%	22.0%
Euro 100 (EUR)	2.1%	4.4%	-2.9%	3.6%	15.0%
MSCI Emerging Markets (USD)	6.3%	3.9%	-1.7%	8.6%	8.8%
Commodities					
Iron Ore (USD)	-2.2%	13.4%	-4.7%	5.7%	-4.7%
Crude Oil WTI U$/BBL	15.8%	3.7%	-11.3%	6.6%	-19.3%
Gold Bullion $/t oz	2.7%	-2.8%	-1.0%	-1.1%	11.6%

Source: Quilla and Refinitv

ARRIVE
WEALTH MANAGEMENT

Level 28
480 Queen Street
Brisbane QLD 4000
+61 7 3001 7000
admin@arrivewealthmanagement.com.au
arrivewealthmanagement.com.au

GENERAL DISCLAIMER

This report has been prepared by Arrive Wealth Management (SEQ) Pty Ltd, trading as Arrive Wealth Management. Arrive Wealth Management is a Corporate Authorised Representative of Arrive Capital Pty Ltd ABN 24 641 636 535, AFSL 525758.

This document contains information that is general in nature. It does not take into account the objectives, financial situation or needs of any particular person. You need to consider your financial situation and needs before making any decisions based on this information.

This report is confidential and is for the intended recipient only. It is not to be distributed or reproduced without the prior consent of Arrive Wealth Management (SEQ) Pty Ltd.

JULY 2023