ARRIVE
WEALTH MANAGEMENT

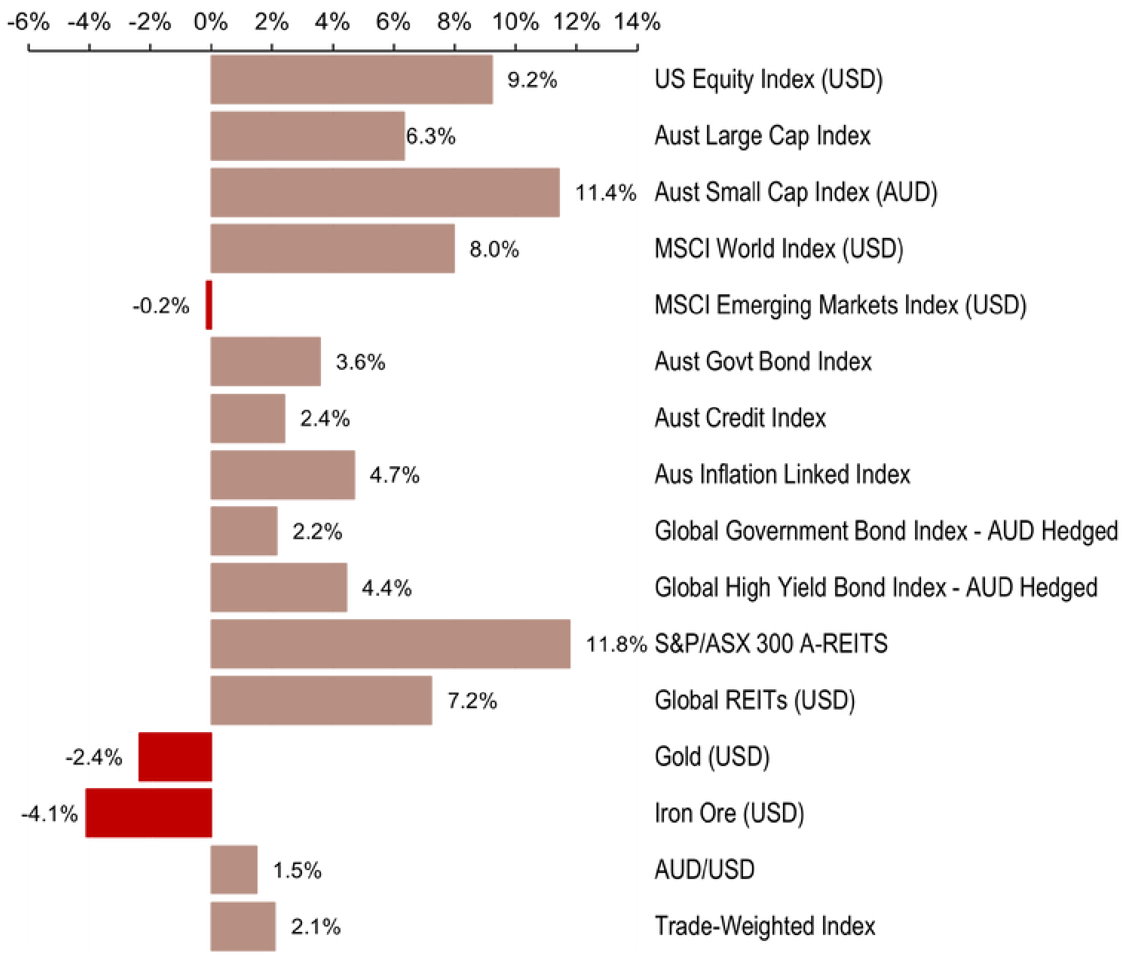
INVESTMENT AND ECONOMIC SNAPSHOT

JULY 2022

HIGHLIGHTS

- Financial markets roar back to life following a terrible June and end of financial year.
- Global central banks continue to aggressively lift interest rates to reduce the risk that above-target inflation becomes embedded.
- The outlook for global growth continues to be challenged. Much depends on whether inflation can be brought to heel and if not, to what extent central bankers will go to bring it under control without breaking the economy in the process.

SELECTED MARKET RETURNS JULY 2022



Sources: Thomson Reuters, Bloomberg. Equity returns are total return.

JULY KEY DEVELOPMENTS

The month of July saw domestic equities rebound from June's heavy sell-off, in direct response to a sharp fall in long-term bond yields. Interestingly, the Australian 10-year bond yield peaked at 4.2% in mid-June, before falling a massive ~110bps to 3.1% by month-end in July. This development in turn supported a strong rebound in growth stocks, with the MSCI Australia Growth Index (+8.0%) up strongly for the month. Value stocks (+1.9%) lagged as commodities prices fell backwards and investor attention turned to downside earnings risks as the growth outlook deteriorated.

The outperformance of growth stocks was driven by Information Technology (+15.2%), Consumer Discretionary (+8.2%) and Health Care (+7.7%) while the main laggard was Industrials (+3.5%). Defensives and sectors most exposed to the commodity cycle were the key underperformers. Materials (-0.7%) and Energy (+2.1%) traded sideways, giving back some of this year's gains as commodity pricing lost momentum on global growth concerns. Defensive sectors of Utilities (+3.1%), Consumer Staples (+4.5%) and Telecoms (+4.8%) all lagged as is typical in a risk-on month. Financials (+9.3%) and Property (+11.9%) were the big movers amongst cyclicals, rebounding from recent weakness.

Pleasingly, most global exchanges performed well this month with the noticeable exception being China (-6.3%) which is still challenged by its declining property sector, zero COVID-19 policy and a recent stimulus package that still needs time to work its way through the system. In stark contrast, the US market (S&P500) closed the month up (+9.2%) in quite the turnaround, after falling (-8.4%) in June. In part, the strong showing reflected a better than expected US corporate earnings season, but it was also driven by 'lofty' market expectations that central banks may pivot away from lifting rates aggressively and may even consider cutting rates next year. Certainly, the bond yield curve is signalling this possibility (it is currently inverted), even if central bankers are suggesting the opposite with their words and actions.

During the month, the US Federal Reserve (Fed) raised rates by another 0.75%, taking the funds rate to a range of 2.25 to 2.5%, with Fed Chair Jerome Powell noting that inflation is still a major concern even though there is growing evidence that inflation pressures are starting to show signs of easing in the US. Based on recent data points, oil, and gasoline prices appear to have peaked. Prices of agricultural commodities such as corn, wheat and soybeans are declining rapidly.

Meanwhile, the Baltic Dry Index has been trending down for the past couple of months which suggests that shipping costs are also showing signs of moderating. These promising developments suggest that price pressures are receding which is a positive sign for the global inflation outlook and the future direction of global monetary policy.

As widely expected, the Reserve Bank of Australia (RBA) raised the cash rate by a further 50bps during the month in response to a higher than expected inflation read of 6.1% over the year, the highest year ended CPI inflation reading since the early 1990s. Behind the decision, a study of the August Statement on Monetary Policy revealed that the central bank had revised up its CPI inflation target to 7.75% in 2022 and expected it to remain slightly above target at 4% in 2023.

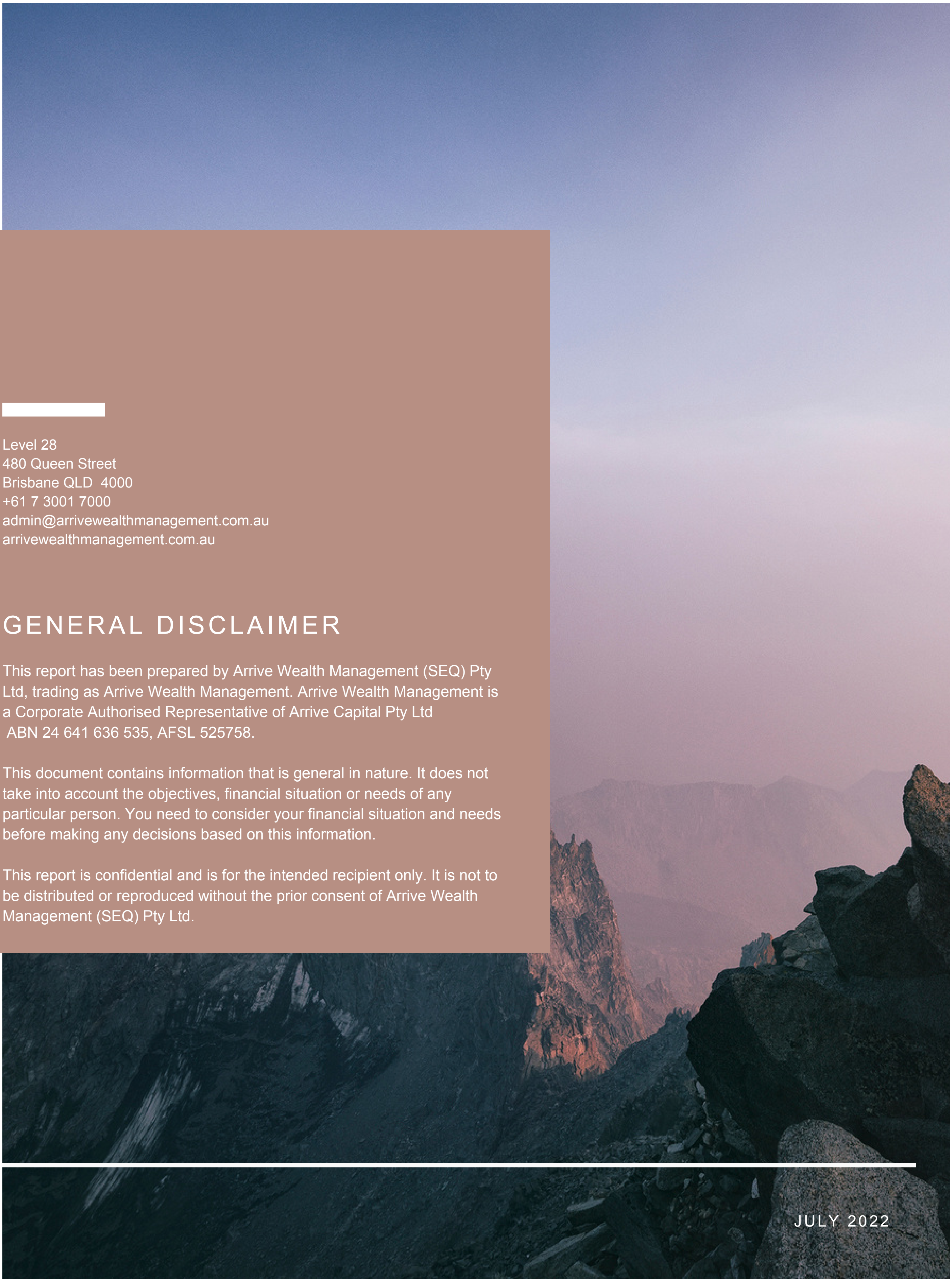
The RBA also downgraded its economic outlook and now forecasts GDP growth of 3.25% in 2022 and 1.75% in 2023 and 2024. In addition, the central bank reiterated that “the size and timing of future interest rate increases will be guided by the incoming data and the (RBA’s) assessment of the outlook for inflation and the labour market”. This ‘wait and see’ approach to policy was warmly welcomed by markets.

We note that the International Monetary Fund (IMF), an international financial institution representing 190 countries, downgraded their outlook for global growth and increased its inflation forecasts this month citing monetary tightening, China lockdowns and the war in Ukraine. Commodity markets echoed the IMF’s view concerning slowing global demand and global growth prospects, with oil (-5.8%), iron ore (-4.1%), and gold (-2.6%) all contracting.

MAJOR MARKET INDICATORS

	31-Jul-22	30-Jun-22	31-May-22	Qtr change	1 year change
Interest Rates (at close of period)					
Aus 90 day Bank Bills	2.07%	1.60%	1.00%	+166.0	+205.0
Aus 10yr Bond	3.06%	3.66%	3.35%	+41.0	+217.0
US 90 day T Bill	2.34%	1.66%	1.13%	+151.0	+228.0
US 10 yr Bond	2.64%	2.97%	2.84%	-24.3	+140.3
Currency (against the AUD)					
US Dollar	0.698	0.688	0.717	-1.81%	-5.07%
British Pound	0.575	0.567	0.570	0.63%	8.52%
Euro	0.686	0.659	0.669	1.18%	10.45%
Japanese Yen	93.16	93.62	92.46	1.62%	15.73%
Trade-Weighted Index	63.10	61.80	63.20	0.00%	2.44%
Equity Markets					
Australian All Ordinaries	6.3%	-9.4%	-3.1%	-6.6%	-2.6%
MSCI Australia Value (AUD)	5.1%	-9.7%	-1.8%	-6.7%	2.5%
MSCI Australia Growth (AUD)	8.0%	-7.0%	-3.5%	-3.1%	-2.0%
S&P 500 (USD)	9.2%	-8.3%	0.2%	0.4%	-4.6%
MSCI US Value (USD)	5.7%	-8.2%	1.9%	-1.2%	0.1%
MSCI US Growth (USD)	13.3%	-8.4%	-2.7%	1.0%	-14.4%
MSCI World (USD)	8.0%	-8.6%	0.2%	-1.2%	-8.7%
Nikkei (YEN)	5.3%	-3.1%	1.6%	3.8%	3.9%
CSI 300 (CNY)	-6.3%	10.4%	2.1%	5.6%	-11.5%
FTSE 100 (GBP)	3.7%	-5.5%	1.1%	-1.0%	9.6%
DAX (EUR)	5.5%	-11.2%	2.1%	-4.4%	-13.3%
Euro 100 (EUR)	9.6%	-7.6%	0.9%	2.2%	0.8%
MSCI Emerging Markets (USD)	-0.2%	-6.6%	0.5%	-6.3%	-19.8%
Commodities					
Iron Ore (USD)	-4.1%	-11.9%	-4.2%	-19.0%	-36.8%
Crude Oil WTI U$/BBL	-5.8%	-6.1%	9.5%	-3.2%	37.1%
Gold Bullion $/t oz	-2.4%	-2.1%	-3.3%	-7.6%	-3.2%

Source: Quilla, Thomson Reuters Datastream



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