INVESTMENT AND ECONOMIC SNAPSHOT

SEPTEMBER 2022

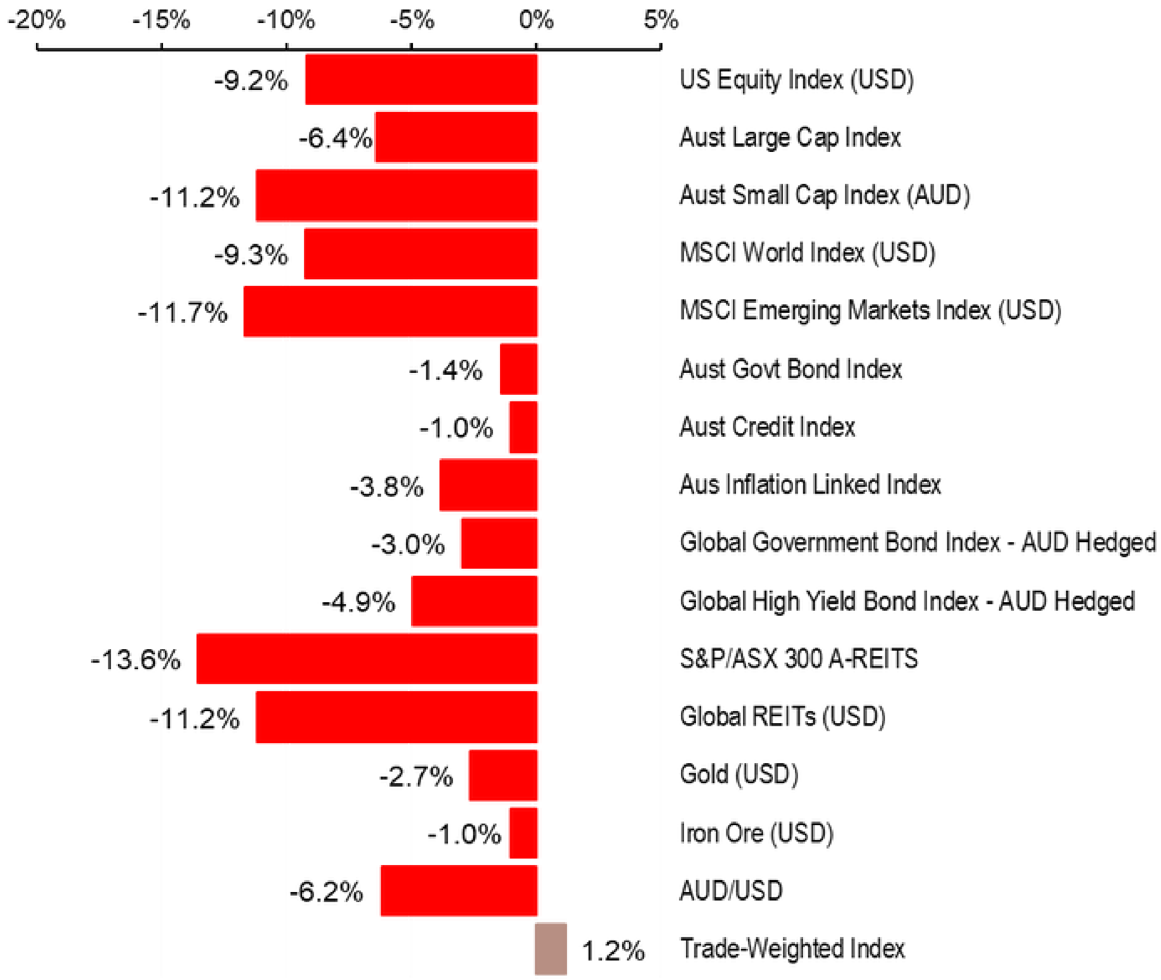
HIGHLIGHTS

All major financial markets except for the US dollar went into rapid retreat last month. Global and US fixed-income markets posted poor returns as central banks continued to fight fire with fire with outsized interest rate hikes.

Meanwhile, global manufacturing activity continued to deteriorate adding to the weight of evidence that the global economy is struggling and running head-first into a recession.

Equities across the board sold off heavily in response to deepening concerns about the worsening global economic environment.

SELECTED MARKET RETURNS SEPTEMBER 2022



Sources: Refinitiv, Bloomberg. Equity returns are total return.

SEPTEMBER KEY DEVELOPMENTS

September lived up to its reputation as an extremely poor month for global equity markets. The MSCI World (USD) Index sold off heavily, falling -9.3% with emerging markets leading the race to the bottom, plummeting -11.7%. At the other end of the global scale, the US share market plunged -9.2% as higher rates, a higher US Dollar and inflation ate into corporate earnings prospects. The Australian bourse also capitulated. The market here was down -6.4%, completely erasing the gains from the brief rally experienced in July. Bond markets were not spared either, with short-term yields rising rapidly. Credit spreads also widened as the outlook for credit markets worsened. The US Dollar continued its golden run on the back of its safe-haven status and its increasingly attractive interest rate differential compared with foreign countries, luring investors attracted by the higher returns on offer there.

Triggering the widespread market sell-off this month, was more evidence that global economic activity is deteriorating, and a recession is looming courtesy of an imperfect storm comprising of high inflation, tightening monetary policy, Russia's ongoing war in Ukraine, and COVID-19 lockdowns, combined with a property induced slowdown in China and a worrying energy crisis that is affecting Europe and the UK.

To date, the elephant in the room continues to be inflation which remains persistently high even if it is starting to show signs of softening. US headline inflation is still hovering around 8.3% year on year. Headline inflation (largely influenced by skyrocketing energy prices) is currently 9.1% in Europe, 9.9% in the UK, and 6.1% in Australia with RBA expectations that this could rise to 7.75% by year-end.

Global central banks faced with a universal high inflation dilemma are responding by tightening monetary policy rapidly to bring demand into alignment with recovering supply chains. It is proving to be a delicate balancing act, however. It is worth pointing out that including the US Federal Reserve, nine central banks in advanced economies (including Australia), accounting for half of global GDP, have raised rates by 1.25% or more in the past six months.

For the moment at least, many central banks remain hell-bent on bringing inflation down to a more modest and affordable level even if the costs include jobs and it takes a recession to achieve it. The market is clearly fearful of this scenario playing out as well as the risk of overzealous central banks raising rates too high for too long, which could be the difference between a soft landing or a deep recession.

In the case of Australia, with personal debt levels at stratospheric levels, the combination of high mortgage rates and job losses would be especially hard felt.

So far, the risk of recession appears to be a 2023 problem thanks to a tight job market and ample savings accumulated over the pandemic period. But there is growing evidence that recessionary risks are mounting, and savings are starting to be exhausted. The US Purchasing Managers Index (PMI) for example, which measures the prevailing direction of economic trends in manufacturing, remained in contraction territory for the third consecutive month in September. Worryingly, PMIs in other developed and emerging economies are also showing signs of weakness.

These warning signs did not escape the attention of the Organisation for Economic Cooperation and Development (OECD) which released its latest interim forecasts during the month. It reported that GDP growth is projected to slow in both 2022 and 2023 in most G20 economies.

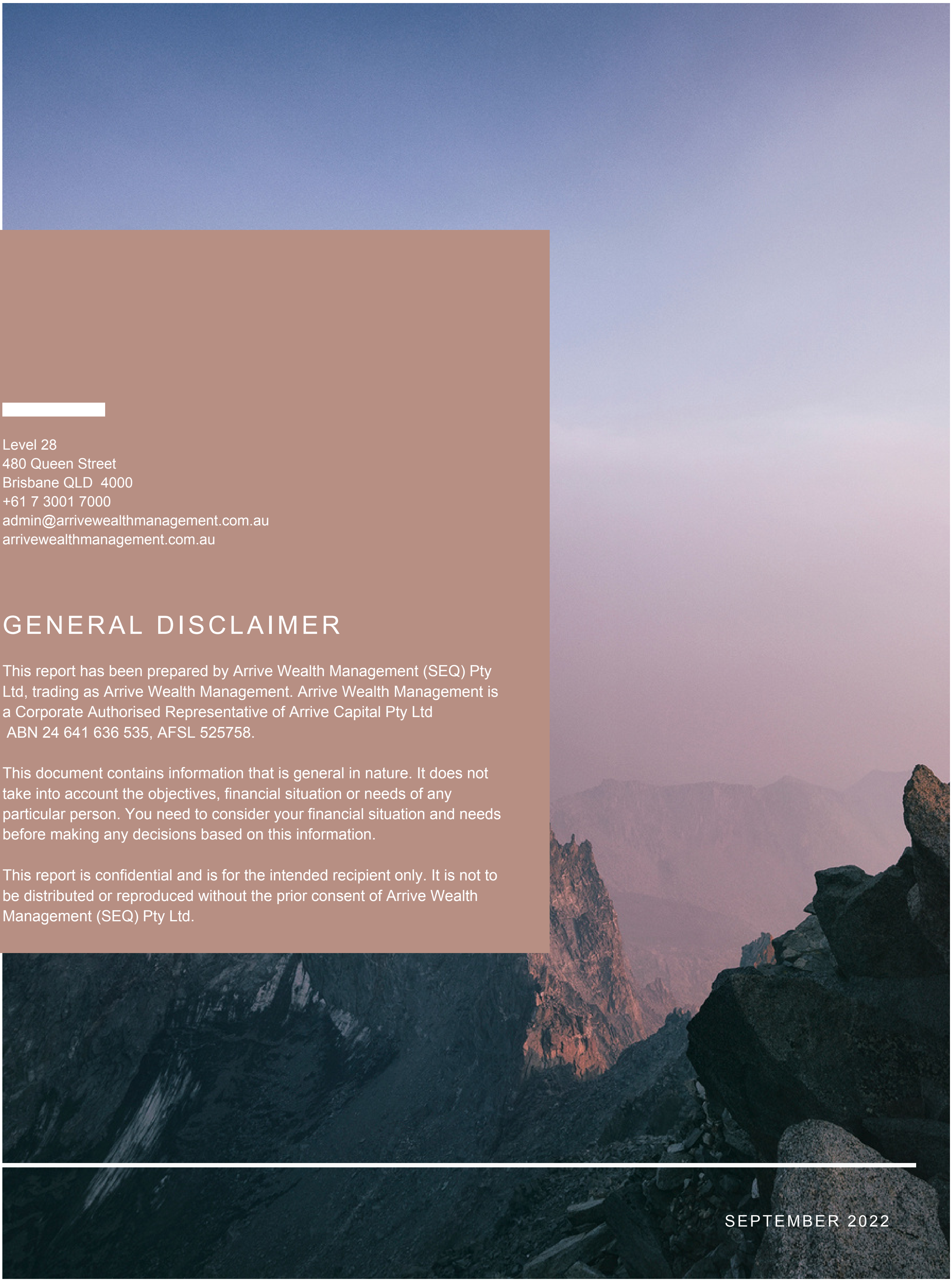
For the United States, annualised growth is projected to be well below potential, at around 0.5% during the latter half of 2022 and through 2023. In Europe, many economies are likely to have at best weak growth in the second half of 2022 and the first quarter of 2023 before some improvement through the remainder of 2023. Japan, Korea, and Australia have stronger growth momentum currently than Europe and the United States, but that is projected to wane over the coming quarters, in part due to softer external demand.

The outlook from here is still highly uncertain and therefore volatile but with the global economic cycle starting to turn, we maintain a view that inflation is likely to peak over the coming months as the lagged effect of higher interest rates on demand takes hold. Provided inflation moderates as expected over coming quarters, we are firmly of the opinion that this will prompt central banks to ease off on their aggressive rate hiking agenda. This would be warmly welcomed by markets.

MAJOR MARKET INDICATORS

	30-Sep-22	31-Aug-22	31-Jul-22	Qtr change	1 year change
Interest Rates (at close of period)					
Aus 90 day Bank Bills	2.76%	2.31%	2.07%	+116.0	+275.0
Aus 10yr Bond	3.74%	3.37%	3.42%	-3.0	+246.0
US 90 day T Bill	3.22%	2.87%	2.34%	+156.0	+318.0
US 10 yr Bond	3.80%	3.13%	2.64%	+83.0	+227.7
Currency (against the AUD)					
US Dollar	0.643	0.686	0.698	-6.50%	-10.99%
British Pound	0.584	0.591	0.575	2.89%	8.84%
Euro	0.662	0.688	0.686	0.44%	6.48%
Japanese Yen	92.57	95.10	93.16	-1.13%	14.98%
Trade-Weighted Index	61.50	63.30	63.10	-0.49%	1.15%
Equity Markets					
Australian All Ordinaries	-6.4%	1.3%	6.3%	0.8%	-8.6%
MSCI Australia Value (AUD)	-5.3%	0.6%	5.1%	0.2%	-2.9%
MSCI Australia Growth (AUD)	-7.3%	-0.6%	8.0%	-0.4%	-10.7%
S&P 500 (USD)	-9.2%	-4.1%	9.2%	-4.9%	-15.5%
MSCI US Value (USD)	-8.2%	-2.8%	5.7%	-5.7%	-9.2%
MSCI US Growth (USD)	-10.4%	-5.0%	13.3%	-3.6%	-25.6%
MSCI World (USD)	-9.3%	-4.1%	8.0%	-6.1%	-19.2%
Nikkei (YEN)	-6.9%	1.1%	5.3%	-0.8%	-10.0%
CSI 300 (CNY)	-6.7%	-2.0%	-6.3%	-14.3%	-20.1%
FTSE 100 (GBP)	-5.2%	-1.1%	3.7%	-2.7%	0.9%
DAX (EUR)	-5.6%	-4.8%	5.5%	-5.2%	-20.6%
Euro 100 (EUR)	-6.8%	-4.5%	9.6%	-2.4%	-10.2%
MSCI Emerging Markets (USD)	-11.7%	0.5%	-0.2%	-11.4%	-27.8%
Commodities					
Iron Ore (USD)	-1.0%	-16.2%	-4.1%	-20.5%	-18.1%
Crude Oil WTI U$/BBL	-11.2%	-11.2%	-5.8%	-25.7%	6.3%
Gold Bullion $/t oz	-2.6%	-2.5%	-2.4%	-7.4%	-4.9%

Source: Quilla and Refinitv



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