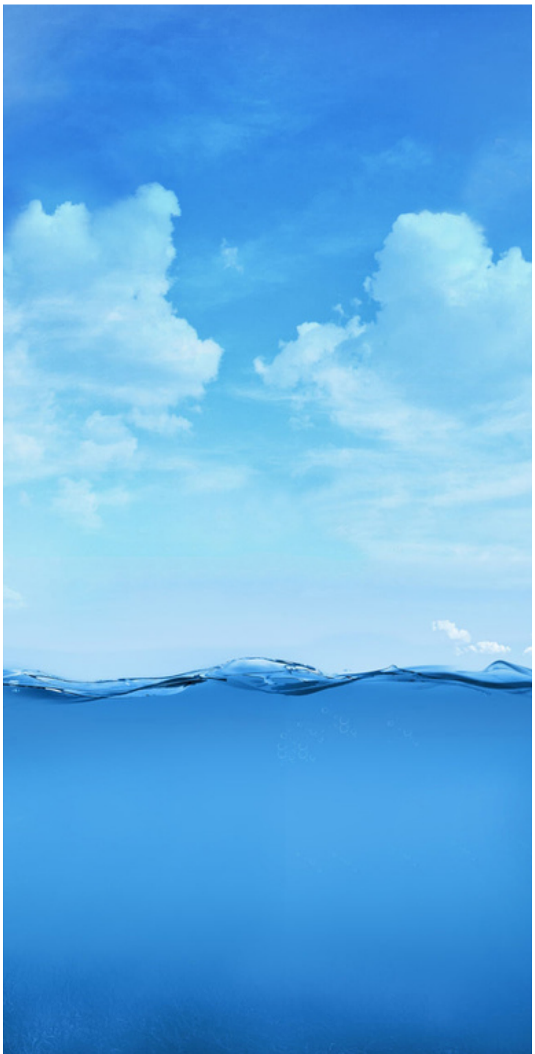
ARRIVE
WEALTH MANAGEMENT

INVESTMENT AND ECONOMIC SNAPSHOT

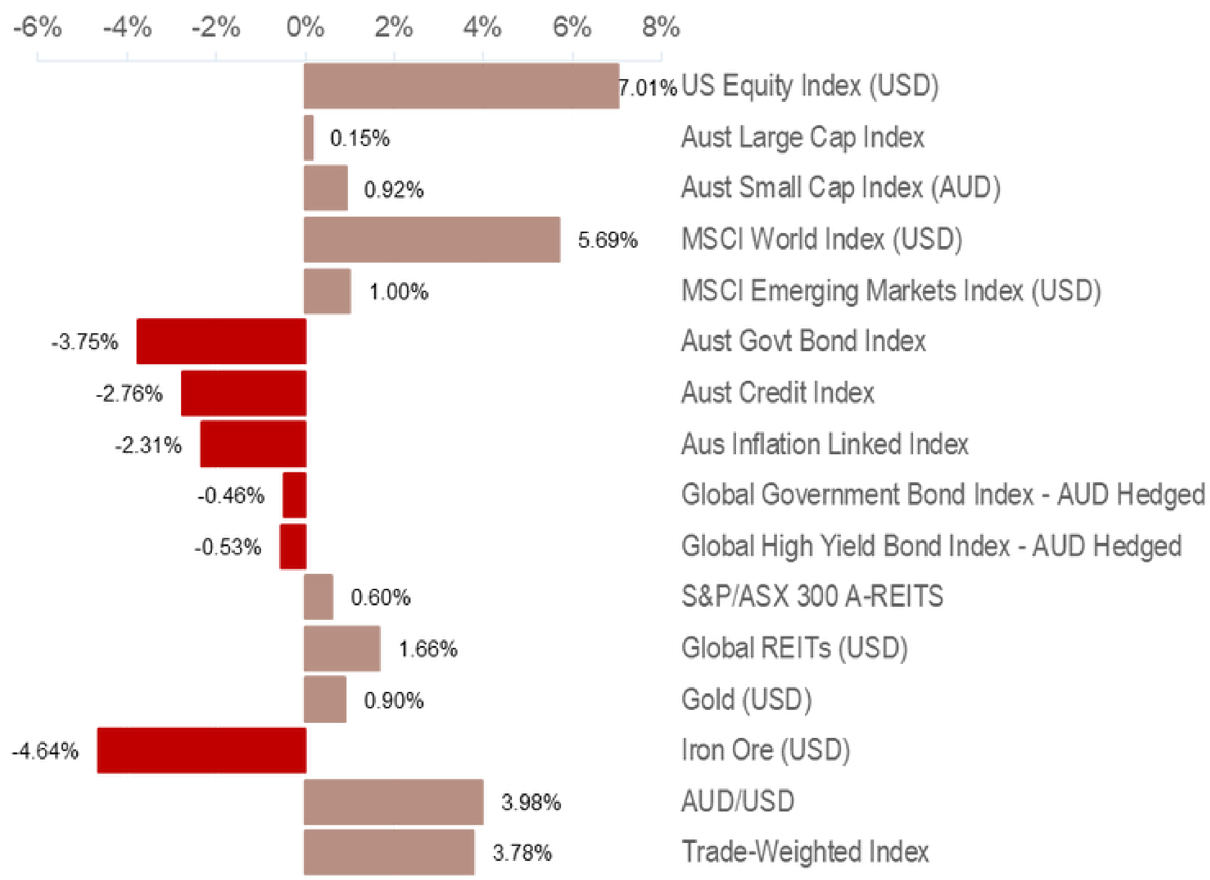
OCTOBER 2021

HIGHLIGHTS

- Global economic activity continued to stabilise.
- Inflation surprises on the upside.
- Bond markets continue to fall in response to global inflationary pressures and market expectations of accelerated central bank tightening.
- Global equities bounce back following a volatile September.


SELECTED MARKET RETURNS OCTOBER 2021



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

OCTOBER 2021 KEY DEVELOPMENTS

Throughout the month, further evidence surfaced suggesting that Australia's economic recovery is on track and is quickly gaining momentum. Investor and consumer confidence continued to rise, buoyed by promising vaccine statistics, and a gradual easing of lockdown restrictions. Many firms are now hiring, and employment is expected to pick up strongly over the coming months.

The Reserve Bank of Australia (RBA) is currently forecasting economic growth of 3% over the remainder of the year, followed by a healthy 5.5% throughout 2022. Unemployment levels are expected to drop from 4.5% to closer to 4% by the end of 2023 which augurs well for wage growth (currently 1.7%) as the labour market gradually tightens over the next 1-2 years.

Global inflation however has picked up noticeably and rapidly in the US (5.4% year on year) and in Australia (3%). At 3%, inflation is currently sitting right at the upper bound of the RBA's target band. This development has taken the RBA somewhat by surprise, but they consider the uplift in inflation to be largely attributable to disruptions to the global supply chains borne out of the pandemic and accentuated by higher oil prices and rising transport costs, all of which are assumed to be temporary by nature. The RBA's base case expectation is that inflation, whilst currently higher than expected, is unlikely to stay high once supply chain bottlenecks resolve themselves over time.

Interestingly, central banks such as New Zealand, Norway and South Korea are thinking differently and are not as patient as the US and Australia. These central banks have recently raised official interest rates which suggests that they consider inflationary pressures to be more persistent. For example, New Zealand increased their official cash rate from 0.25% to 0.5% last month.

Other developed economies are recognising the risks of higher inflation but are choosing for the moment to reduce, and or remove, other stimulus measures rather than raise rates. The Bank of Canada ended its quantitative easing programme in October and has flagged that monetary policy support could potentially be eased 'sometime in the middle quarters of 2022' once their inflation target is achieved.

The US Federal Reserve has also communicated that it will begin to taper asset purchases from mid-November in recognition that substantial gains towards their goals have been achieved.

For the time being, the RBA continues to maintain that the Australian economy is not overheating. Sustainable inflation, full employment and wage growth are not in evidence just yet. That said, the RBA's recent monetary policy meeting announcement speaks volumes that they are hedging their bets and leaving the door ajar for an earlier monetary policy response if circumstances force their hand. This opinion is based on the RBA's November decision to discontinue their target of 10 basis points for the April 2024 Australian Government bond which suggests that in the absence now of a stated timeline, rates could potentially rise a lot earlier than first thought.

In fact, the Board noted that the decision to end the yield target was driven by “improvement in the economy and the earlier-than-expected progress towards the inflation target”. In addition, the Board noted that since the market expected higher inflation, the “effectiveness of the yield target in holding down the general structure of interest rates in Australia has diminished”. This is quite a development and a shift in narrative for the RBA which raises the likelihood of a rate rise sooner than later.

We are watching this development with interest given the wider implications the prospects of higher inflation and tighter monetary policy has on the end consumer, future returns on investment and Australia’s international competitiveness. It is a fascinating yet complex dynamic.

As far as financial markets were concerned, October proved to be a better month for global equities following a relatively weak and volatile September quarter. US Equities led the way posting an impressive 7% return for the month with Energy, Materials, and Information Technology the major contributors. Australian equities finished the month just above water at 0.2%, held back by underperforming Telecommunications, Healthcare, and Industrial sectors.

On the other hand, Bond market returns continued to fall as yields rose in response to global inflationary pressures and a growing expectation that central banks will bring forward the timetable for raising interest rates as described in this update.

Also catching attention this month were commodity markets. Iron ore, Australia’s largest export, fell a further -4.6% after plummeting over -25% in September. Conversely, surging demand for oil and a worldwide shortage of supply saw the oil price rise by 11% in October and appreciate a staggering 135% over the past year.

MAJOR MARKET INDICATORS

	31-Oct-21	30-Sep-21	31-Aug-21	Qtr change	1 year change
Interest Rates (at close of period)					
Aus 90 day Bank Bills	0.04%	0.01%	0.01%	+2.0	-3.0
Aus 10 yr Bond	1.72%	1.28%	1.12%	+47.0	+90.0
US 90 day T Bill	0.05%	0.04%	0.04%	-1.0	-4.0
US 10 yr Bond	1.56%	1.53%	1.30%	+31.7	+69.7
Currency (against the AUD)					
US Dollar	0.751	0.722	0.731	2.18%	6.96%
British Pound	0.547	0.536	0.532	3.34%	0.35%
Euro	0.647	0.622	0.620	4.12%	7.28%
Japanese Yen	85.74	80.51	80.47	6.50%	16.49%
Trade-Weighted Index	63.10	60.80	61.20	2.44%	6.05%
Equity Markets					
Australian All Ordinaries	0.1%	-1.6%	2.6%	1.1%	29.0%
MSCI Australia Value (AUD)	-0.2%	-1.0%	1.6%	0.4%	36.3%
MSCI Australia Growth (AUD)	0.8%	-3.0%	4.4%	2.0%	16.7%
S&P 500 (USD)	7.0%	-4.7%	3.0%	5.1%	42.9%
MSCI US Value (USD)	5.7%	-3.6%	2.0%	3.9%	42.7%
MSCI US Growth (USD)	8.2%	-5.7%	3.9%	5.9%	43.9%
MSCI World (USD)	5.7%	-4.1%	2.5%	3.9%	41.0%
Nikkei (YEN)	-1.9%	5.5%	3.0%	6.6%	27.8%
CSI 300 (CNY)	1.0%	1.3%	0.1%	2.4%	6.5%
FTSE 100 (GBP)	2.2%	-0.2%	2.1%	4.1%	34.5%
DAX (EUR)	2.8%	-3.6%	1.9%	0.9%	35.8%
Euro 100 (EUR)	5.4%	-2.4%	2.3%	5.2%	47.3%
MSCI Emerging Markets (USD)	1.0%	-3.9%	2.6%	-0.4%	17.3%
Commodities					
Iron Ore (USD)	-4.6%	-25.2%	-14.3%	-38.9%	-4.6%
Crude Oil WTI U$/BBL	11.2%	9.6%	-7.2%	13.0%	134.7%
Gold Bullion $/t oz	0.9%	-2.5%	-0.9%	-2.5%	-5.5%

Source: Quilla, Thomson Reuters Datastream

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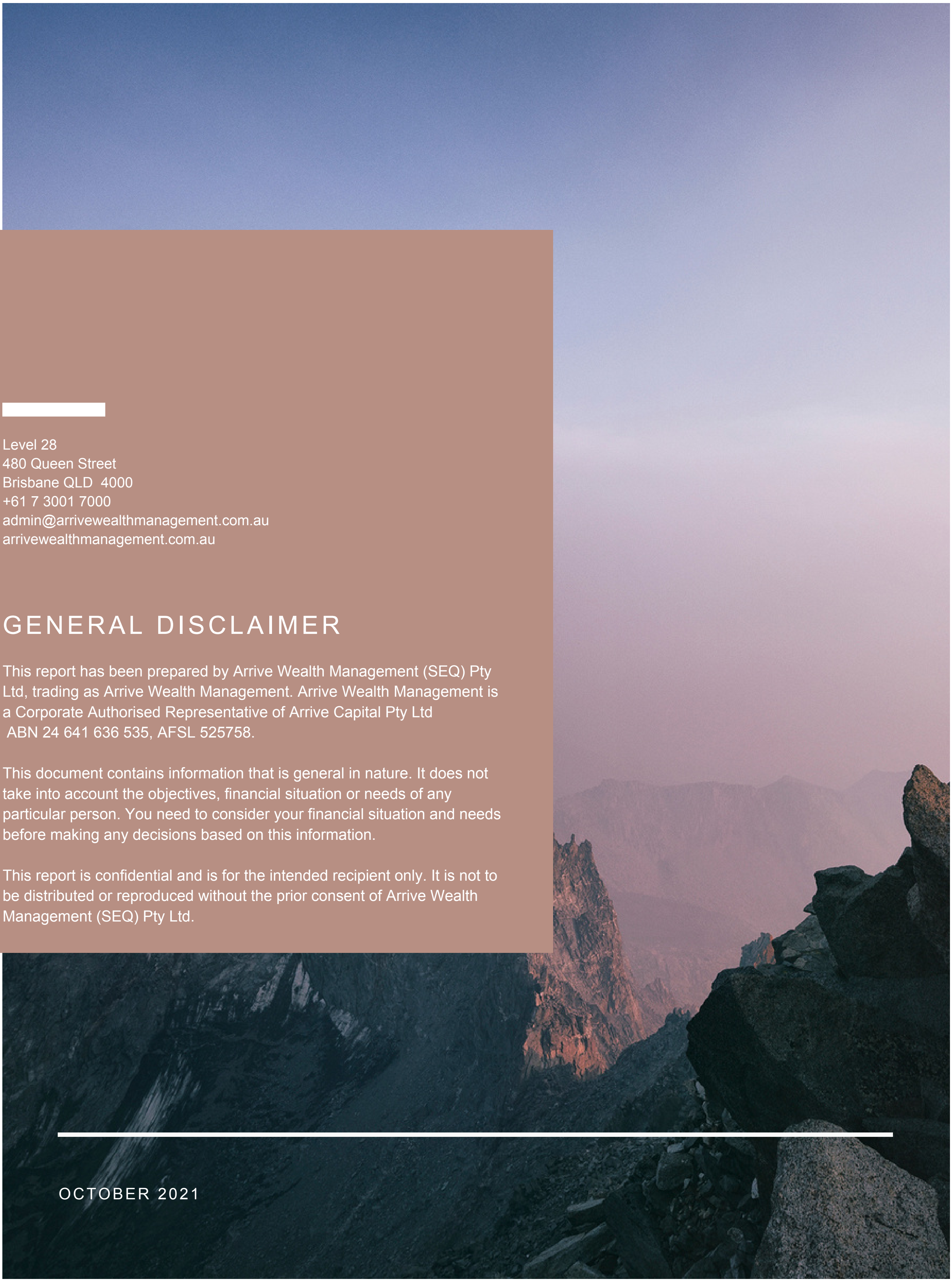

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