Economic Snapshot

August 2022

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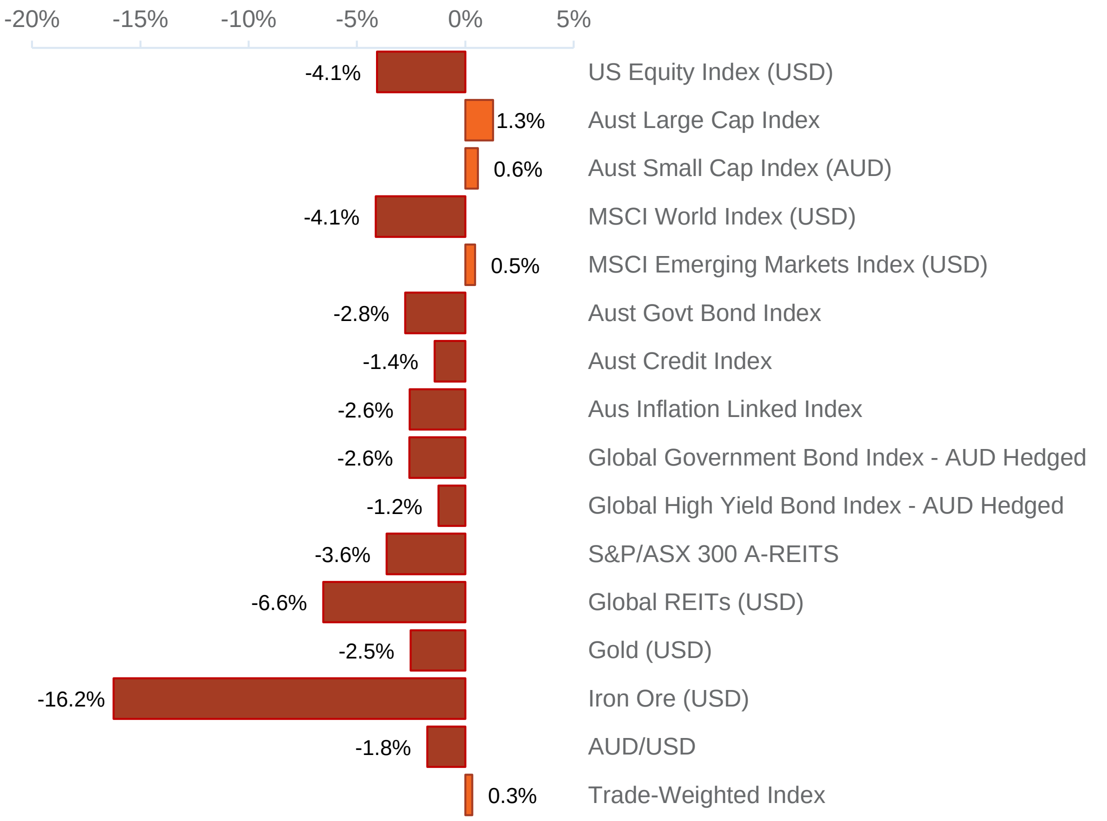
In Summary

A brief rally kicked off the month as evidence of easing price pressures and deteriorating demand conditions led investors to speculate that the Federal Reserve will be forced to abandon its hawkish stance. However, all bets of a 'Fed pivot' were abruptly put to bed and the market was given a reality check following Federal Reserve Chair Powell's speech at 'Jackson Hole' (the location of the Fed Reserve's annual symposium) where he reiterated that the Fed remains doggedly determined to bring inflation under control, even at the price of the economy slowing significantly. Other than Australian equities (+1.3%), most major global markets finished August lower in response.

Selected Market Returns, August 2022



Sources: Refinitiv, Bloomberg.

Key Economic Developments

Markets took a breather this month after a surprisingly sharp rebound off mid-June lows. After a promising start, the broad-based market selloff that has characterised most of the year returned vigorously in the back half of August.

The Global and US fixed income markets, which led all other major financial assets in July, posted weaker numbers as yields tracked higher. Meanwhile, the performance of equity markets was one of starting well but finishing poorly. Initially, evidence of easing price pressures coupled with signs of deteriorating demand encouraged investors to bet that the Fed will soon be forced to abandon its hawkish stance and even entertain the idea of cutting rates. However, the welcome rally proved to be fleeting and rapidly reversed after the US Fed voiced its fervent desire to bring inflation back down to target. In fact, US Federal Reserve Chair, Jerome Powell, could not have been clearer in his messaging to markets. Following the Fed's annual conference at Jackson Hole, Powell was brief but direct when he said: "Reducing inflation is likely to take a sustained period of below-trend growth.…[It] will also bring some pain to households and businesses…We are taking forceful and rapid steps to moderate demand…We will keep at it until we are confident the job is done".

The S&P 500 and the MSCI World Index both fell (-4.1%) in response. Chinese equities continued to weaken (-2.0%). Global REITs, vulnerable to rising rates, fell heavily (-6.6%). US Treasuries continued to sell off, with the US 10-year bond yield reaching over 3.1%, up +50bp.

Whilst persistently high US inflation (a key driver of a lot of the volatility experienced recently) is showing tentative signs of softening, the Fed's expectation and challenge is that inflation is likely to persist above the Fed's 2% target for some time. Core PCE inflation (personal consumption expenditure index excluding food and energy prices) is still relatively high at 4.6%, with the Fed's forecasts indicating that it is likely to fall to 2.7% in 2023, and 2.3% in 2024. To paraphrase the Fed, now is not the time to take the foot off the interest rate pedal.

Despite closing +1.2% higher in August, the Australian share market followed the global trend down, weakening into month end, with Energy the standout sector performer. Resources added value, making up lost ground, whilst Tech, REITs, and Financials reversed last month's results. Australian company reporting season also ended with over 50% of companies reporting an improvement in earnings results from a year ago. The broader market closed the month +1.3% higher.

In the meantime, downside risks to the global economic outlook appear to be mounting. Europe is being hit by the rising cost of living pressures, exacerbated by an energy crisis brought on by its high dependency on Russian energy, and looks especially vulnerable to a much deeper slowdown than what may happen in the US in the year ahead. Complicating the uncertain global picture, Chinese growth is unusually sluggish, with the government's attempts at stimulating the economy hampered by deep problems in the property market, export contraction, and a crippling Covid-19 zero policy.

On the commodities front, iron ore continued to be negatively impacted by the slump in Chinese demand, falling over -16% in August. The price of oil also dropped sharply, down -11.2%. Gold, considered a safe bet amid high inflation and geopolitical uncertainty, continued to move lower and inversely to a surging US Dollar.

Major market indicators

	31-Aug-22	30-Jul-22	31-Jun-22	Qtr change	1 year change
Interest Rates (at close of period)					
Aus 90 day Bank Bills	2.31%	2.07%	1.60%	+131.0	+230.0
Aus 10yr Bond	3.37%	3.42%	3.77%	-1.0	+225.0
US 90 day T Bill	2.87%	2.34%	1.66%	+174.0	+283.0
US 10 yr Bond	3.13%	2.64%	2.97%	+28.8	+183.0
Currency (against the AUD)					
US Dollar	0.686	0.698	0.688	-4.43%	-6.20%
British Pound	0.591	0.575	0.567	3.61%	11.08%
Euro	0.688	0.686	0.659	2.80%	10.87%
Japanese Yen	95.10	93.16	93.62	2.85%	18.18%
Trade-Weighted Index	63.30	63.10	61.80	0.16%	3.43%
Equity Markets					
Australian All Ordinaries	1.3%	6.3%	-9.4%	-2.4%	-3.9%
MSCI Australia Value (AUD)	0.6%	5.1%	-9.7%	-4.5%	1.6%
MSCI Australia Growth (AUD)	-0.6%	8.0%	-7.0%	-0.1%	-6.7%
S&P 500 (USD)	-4.1%	9.2%	-8.3%	-3.9%	-11.2%
MSCI US Value (USD)	-2.8%	5.7%	-8.2%	-5.7%	-4.7%
MSCI US Growth (USD)	-5.0%	13.3%	-8.4%	-1.4%	-21.7%
MSCI World (USD)	-4.1%	8.0%	-8.6%	-5.4%	-14.7%
Nikkei (YEN)	1.1%	5.3%	-3.1%	3.3%	2.0%
CSI 300 (CNY)	-2.0%	-6.3%	10.4%	1.4%	-13.3%
FTSE 100 (GBP)	-1.1%	3.7%	-5.5%	-3.1%	6.2%
DAX (EUR)	-4.8%	5.5%	-11.2%	-10.8%	-18.9%
Euro 100 (EUR)	-4.5%	9.6%	-7.6%	-3.3%	-5.9%
MSCI Emerging Markets (USD)	0.5%	-0.2%	-6.6%	-6.3%	-21.5%
Commodities					
Iron Ore (USD)	-16.2%	-4.1%	-11.9%	-29.2%	-38.2%
Crude Oil WTI U$/BBL	-11.2%	-5.8%	-6.1%	-21.5%	31.2%
Gold Bullion $/t oz	-2.5%	-2.4%	-2.1%	-6.8%	-4.8%

Source: Quilla, Refinitiv

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