Economic Snapshot

October 2022

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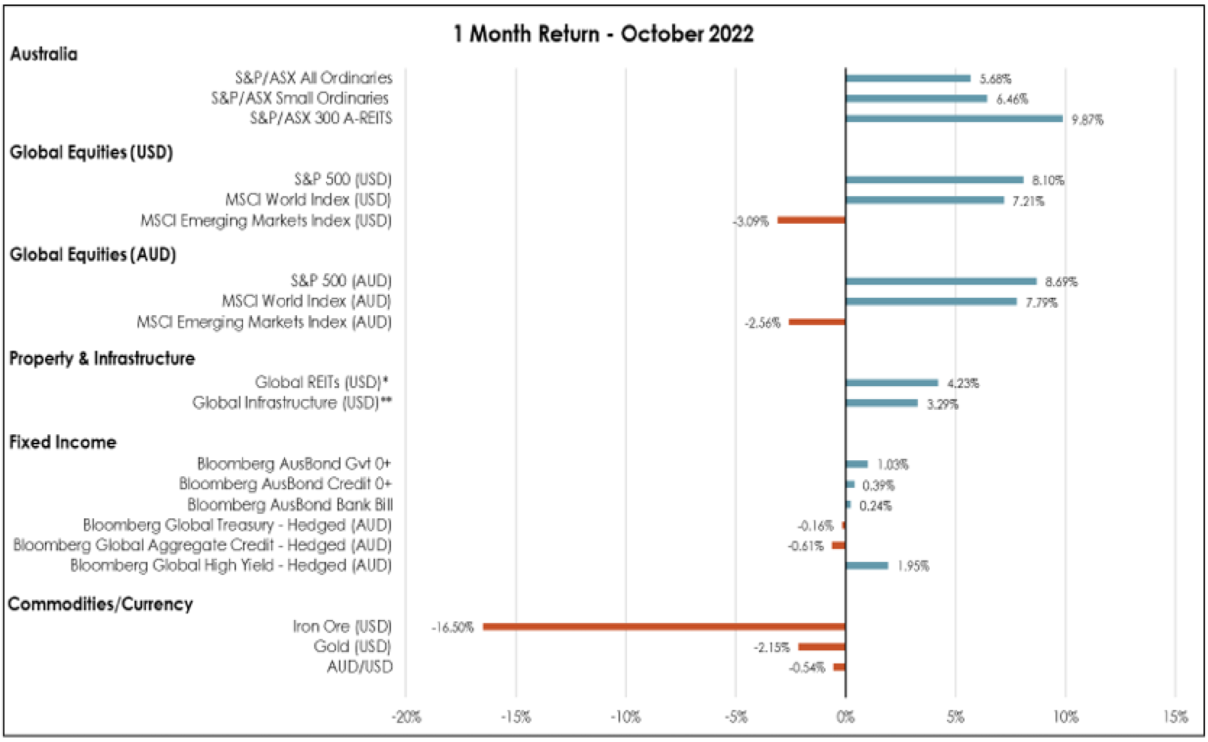
Monthly Highlights

- Most global financial assets rebounded this month, following a sustained period of mediocre performance over August and September.
- Global sovereign bonds posted a small gain in October following a gradual decline in real yields as the month progressed.
- In China, the 20th Communist Party Congress has come and gone with Xi Jinping extending his grip on power for a third term.
- The Reserve Bank of Australia (RBA) surprised markets with a less than expected 25bp rate hike. Australia was also the first among developed market economies to slow its pace of hikes despite elevated inflation.

Selected Market Returns, October 2022



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

Key Economic Developments

Most global financial assets roared back to life in October following two months in the doldrums. The ASX rose +5.6%. The MSCI World Index was up +7.2%. US Equities led the way posting a solid +8.1%. Global bonds also got in on the act, posting small gains. REITs also joined the party, bouncing back strongly following heavy losses experienced recently. It was not all one way traffic, however. Emerging Markets (-2.5%) and Chinese equities (-7.7%) fell backwards as did Gold (-2.2%).

Markets aside, it was a fascinating month in the world of global economics and politics. The 20th Communist Party Congress was held in which President Xi claimed a record third, five year term as the chief of China's Communist Party, following his lengthy report outlining China's achievements, ambitions, and vision for the future. For the time being, China has plenty of work to do if current economic measures count for anything. We know, for example, that Purchasing Managers Index (PMI) data continues to paint a bleak picture of domestic demand conditions in China and the general health of the manufacturing industry there. Export growth continues to decelerate due to global growth concerns. China's real estate sector continues to struggle. Residential property sales contracted by 28.6% year on year in the first nine months of the year. Unemployment is also ticking up marginally. But on a positive note, China's September quarter GDP (economic) growth data surprised to the upside. It accelerated to 3.9%, beating expectations, and reversing the downward trend witnessed in the June quarter.

In the US, the current economic picture is also mixed. Whilst there is evidence of modest growth in spending and production, core inflation has now increased to a 40 year high of 6.6%. To apply downward pressure on inflation, the US Federal Reserve has been aggressively tightening monetary policy. The current cash rate is now in the range of 3.75% to 4%, its highest level in 15 years. Whilst the most recent 75bp hike in rates on 2 November was widely expected, and initially well received, markets did a complete backflip when Federal Reserve Chair, Jerome Powell suggested that rates must go higher and that it would be 'very premature' to be thinking about pausing. This prompted a heavy sell-off across markets in early November as hopes of a pivot (cut in rates) were all but dashed.

In a surprise of a different kind, the RBA chose to break ranks with other central banks, by slowing the pace of rate hikes this month to 25bps after four consecutive 50bp rises. According to the RBA, the decision to scale back was based on the speed and magnitude of the recent rate hike cycle, as well as the lagged effects of monetary policy on household confidence and on the budgets of households. Currently, inflation in Australia is 7.3%, which is the highest reading recorded since 1990. To make matters worse, the RBA expects a further increase in inflation over the months ahead, with inflation now forecast to peak at around 8% later this year. Inflation is then expected to decline next year due to the ongoing resolution of global supply-side problems, recent declines in some commodity prices, and slower growth in demand.

The net effects of all these macroeconomic developments were clearly seen in the performance of the Aussie dollar this month. The smaller than anticipated rate hike, coupled with reduced demand from China for iron ore is creating major headwinds for the currency of late against both the US Dollar and against the currencies of our major trading partners.

Major market indicators

	31-Oct-22	30-Sep-22	31-Aug-22	Qtr change	1 year change
Interest Rates (at close of period)					
Aus 90 day Bank Bills	2.95%	2.76%	2.31%	+88.0	+291.0
Aus 10yr Bond	3.92%	3.74%	3.37%	+50.0	+220.0
US 90 day T Bill	4.06%	3.22%	2.87%	+172.0	+401.0
US 10 yr Bond	4.08%	3.80%	3.13%	+143.5	+252.1
Currency (against the AUD)					
US Dollar	0.639	0.643	0.686	-8.36%	-14.86%
British Pound	0.554	0.584	0.591	-3.67%	1.15%
Euro	0.645	0.662	0.688	-6.06%	-0.36%
Japanese Yen	95.31	92.57	95.10	2.31%	11.17%
Trade-Weighted Index	61.30	61.50	63.30	-2.85%	-2.85%
Equity Markets					
Australian All Ordinaries	5.7%	-6.4%	1.3%	0.2%	-3.5%
MSCI Australia Value (AUD)	6.7%	-5.3%	0.6%	1.7%	3.8%
MSCI Australia Growth (AUD)	5.9%	-7.3%	-0.6%	-2.4%	-6.3%
S&P 500 (USD)	8.1%	-9.2%	-4.1%	-5.9%	-14.6%
MSCI US Value (USD)	11.1%	-8.2%	-2.8%	-0.8%	-4.5%
MSCI US Growth (USD)	4.6%	-10.4%	-5.0%	-11.0%	-28.1%
MSCI World (USD)	7.2%	-9.3%	-4.1%	-6.7%	-18.1%
Nikkei (YEN)	6.4%	-6.9%	1.1%	0.1%	-2.4%
CSI 300 (CNY)	-7.7%	-6.7%	-2.0%	-15.6%	-27.0%
FTSE 100 (GBP)	3.0%	-5.2%	-1.1%	-3.4%	1.7%
DAX (EUR)	9.4%	-5.6%	-4.8%	-1.7%	-15.5%
Euro 100 (EUR)	7.3%	-6.8%	-4.5%	-4.6%	-8.6%
MSCI Emerging Markets (USD)	-3.1%	-11.7%	0.5%	-14.0%	-30.7%
Commodities					
Iron Ore (USD)	-16.5%	-1.0%	-16.2%	-30.8%	-28.3%
Crude Oil WTI U$/BBL	8.2%	-11.2%	-11.2%	-14.6%	3.5%
Gold Bullion $/t oz	-2.2%	-2.6%	-2.5%	-7.2%	-7.8%

Source: Quilla, Refinitiv

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