

# Where you want to be.



## Economic Snapshot

**February 2023**

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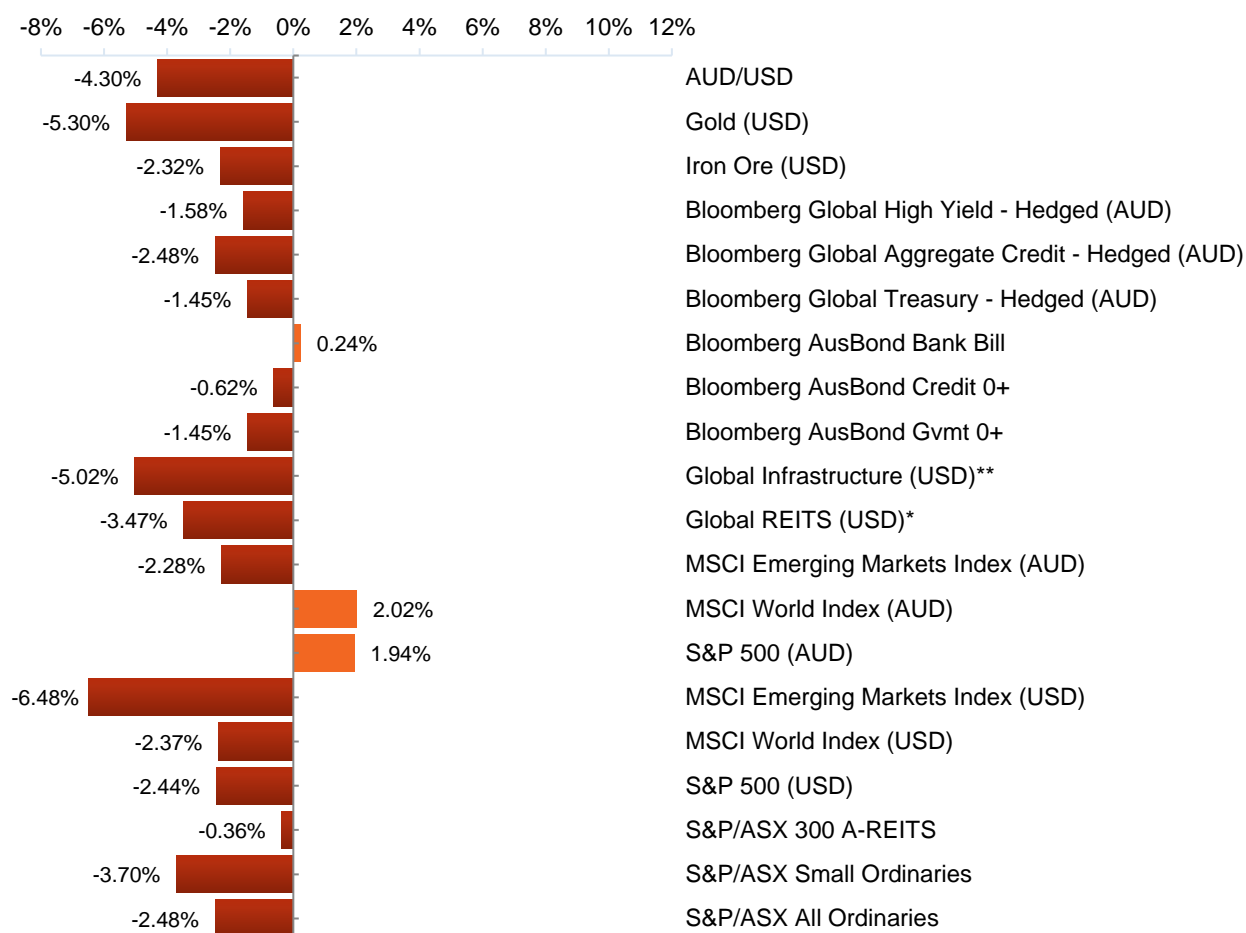
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## February 2023

### Monthly Highlights

- Hawkish statements from central banks in early February, suggesting that further rate hikes are necessary to bring inflation sustainably to target, triggered a widespread sell-off across equity and bond markets.
- The 10-year US Treasury yield climbed 43 basis points to end the month at 3.91%.
- Global and emerging market equities also followed suit, falling -2.4% and -6.5% respectively.
- Australia's economy continued to forge ahead last quarter but is doing so at a slower pace, suggesting that price pressures are starting to hit home.
- Current US data continues to provide a mixed picture of economic conditions and the risk of recession.

### Selected Market Returns, February 2023



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



## Key Economic Developments in February

In stark contrast to January's positive start to the year, February proved to be a stern reminder that the current bear market may have further to run. Over the past few weeks, global bond yields have risen materially, amid concerns that better-than-expected economic data raises the risk that central banks will need to respond more forcefully with higher interest rates to keep elevated inflation at bay. In the US, the 10-year Treasury yield is now hovering around 4%, its highest level since November last year.

The significant sell-off of government bonds this month also weighed on equity markets as interest rate expectations were revised up, raising fears of a bigger hit to future earnings from expected economic weakness. The S&P500 and the MSCI World (USD) both fell -2.4%. Notably at the country level, a relatively defensive sector exposure helped keep UK equities stable. Chinese investable stocks however sold off as did emerging markets (-6.5%), which experienced the greatest loss among the major global equity indices.

Closer to home, the Australian reporting season concluded with large company results meeting rather than exceeding / missing consensus expectations with respect to earnings and dividends. The net earnings miss in small company stocks was more noticeable, down -12%. Overall, the consensus earnings growth for FY23 was revised down by -2.7% to 5.0%, driven by lower forecasts across industrials and energy sectors. According to Macquarie Research, sales were materially higher than expected for over one in five companies, likely supported by price increases in an inflationary environment. But this same inflation drove cost increases that also drove margin misses for two in five companies. The Australian equity market ended the month down -2.48%.

Sticking with Australia, our Gross Domestic Product (GDP) rose 0.5% in the December 2022 quarter and by 2.7% through the year, according to figures released by the Australian Bureau of Statistics. Although this is the fifth consecutive rise in quarterly GDP since the COVID-19 Delta variant lockdowns, growth has slowed in each of the last two quarters. Meanwhile inflation for January came in below expectations, supporting the general view that the quarterly peak is behind us. The annual headline increase in CPI dropped from 8.4% to 7.4%. Recreation and food were the principal drivers, with a sharp drop in 'holiday inflation', which fell -7.2% in January after rising 29% in December.

Another interesting but worrying development in February was that Australians continued to eat into their accumulated savings. Households saved 4.5% of their income during the December 2022 quarter, down from 7.1% in the September 2022 quarter. Driving the spending spree was the fact that interest paid on mortgages grew an enormous 23% during the quarter. In better news, Australia's current account recorded a surplus, reflecting both an increase in the trade surplus and a narrowed income deficit and a robust economy. Our trade surplus was \$40.9 billion, the second highest on record.

In the US, recent economic data releases painted a mixed picture of conditions. Producer Price Index (a measure of wholesale inflation) rose 0.7% in January – the highest since June 2022 and exceeding expectations of 0.4%. Initial unemployment claims were broadly unchanged and have yet to pick up meaningfully, suggesting that the labour market is robust. On the other hand, some of the other releases are showing the impact of tighter monetary policy. Housing starts fell by more than anticipated while building permits were largely unchanged in January, disappointing expectations they would increase.

While the data was mixed, the recent pulse from economic releases both in the US and in Australia, raises the possibility that inflation could remain persistently elevated, forcing the Federal Reserve and the Reserve Bank of Australia to keep rates higher for longer. This outcome, should it play out, would no doubt be viewed as a negative for both equities and bond markets and potentially a trigger for a deep recession if central banks continue this aggressive path. For the time being, however, the 'soft landing' recessionary scenario continues to be the widely held expectation.



## Major market indicators

	28-Feb-23	31-Jan-23	31-Dec-22	Qtr change	1 year change
<b>Interest Rates</b>					
<b>(At close of period)</b>					
Aus 90 day Bank Bills	3.46%	3.32%	3.17%	+40.0	+339.0
Aus 10yr Bond	3.71%	3.62%	3.57%	+0.0	+160.0
US 90 day T Bill	4.64%	4.58%	4.30%	+37.0	+427.0
US 10 yr Bond	3.91%	3.53%	3.83%	+21.3	+207.5
<b>Currency (against the AUD)</b>					
US Dollar	0.674	0.705	0.678	0.69%	-7.07%
British Pound	0.559	0.570	0.563	-0.04%	3.79%
Euro	0.635	0.649	0.636	-1.76%	-1.40%
Japanese Yen	91.76	91.73	89.38	-1.81%	9.83%
Trade-Weighted Index	61.40	62.40	61.40	-1.13%	1.32%
<b>Equity Markets</b>					
Australian All Ordinaries	-2.5%	6.4%	-3.3%	0.4%	6.0%
MSCI Australia Value (AUD)	-2.7%	6.5%	-2.3%	1.3%	10.3%
MSCI Australia Growth (AUD)	-1.0%	6.5%	-4.7%	0.5%	5.9%
S&P 500 (USD)	-2.4%	6.3%	-5.8%	-2.3%	-7.7%
MSCI US Value (USD)	-3.4%	3.2%	-3.7%	-4.0%	-2.4%
MSCI US Growth (USD)	-1.3%	10.3%	-8.1%	0.0%	-15.2%
MSCI World (USD)	-2.4%	7.1%	-4.2%	0.2%	-6.9%
Nikkei (YEN)	0.5%	4.7%	-6.5%	-1.6%	5.8%
CSI 300 (CNY)	-2.1%	7.4%	0.6%	5.8%	-9.1%
FTSE 100 (GBP)	1.8%	4.3%	-1.5%	4.6%	9.6%
DAX (EUR)	1.6%	8.7%	-3.3%	6.7%	6.3%
Euro 100 (EUR)	1.8%	7.9%	-4.2%	5.2%	9.4%
MSCI Emerging Markets (USD)	-6.5%	7.9%	-1.4%	-0.4%	-14.9%
<b>Commodities</b>					
Iron Ore (USD)	-2.3%	9.7%	15.7%	24.0%	-9.3%
Crude Oil WTI U\$/BBL	-2.4%	-1.7%	-0.3%	-4.4%	-19.6%
Gold Bullion \$/t oz	-5.3%	6.2%	3.6%	4.2%	-4.1%

Source: Quilla, Refinitiv

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