Bentleys™ Wealth
THINKING AHEAD

Economic Snapshot

March 2023

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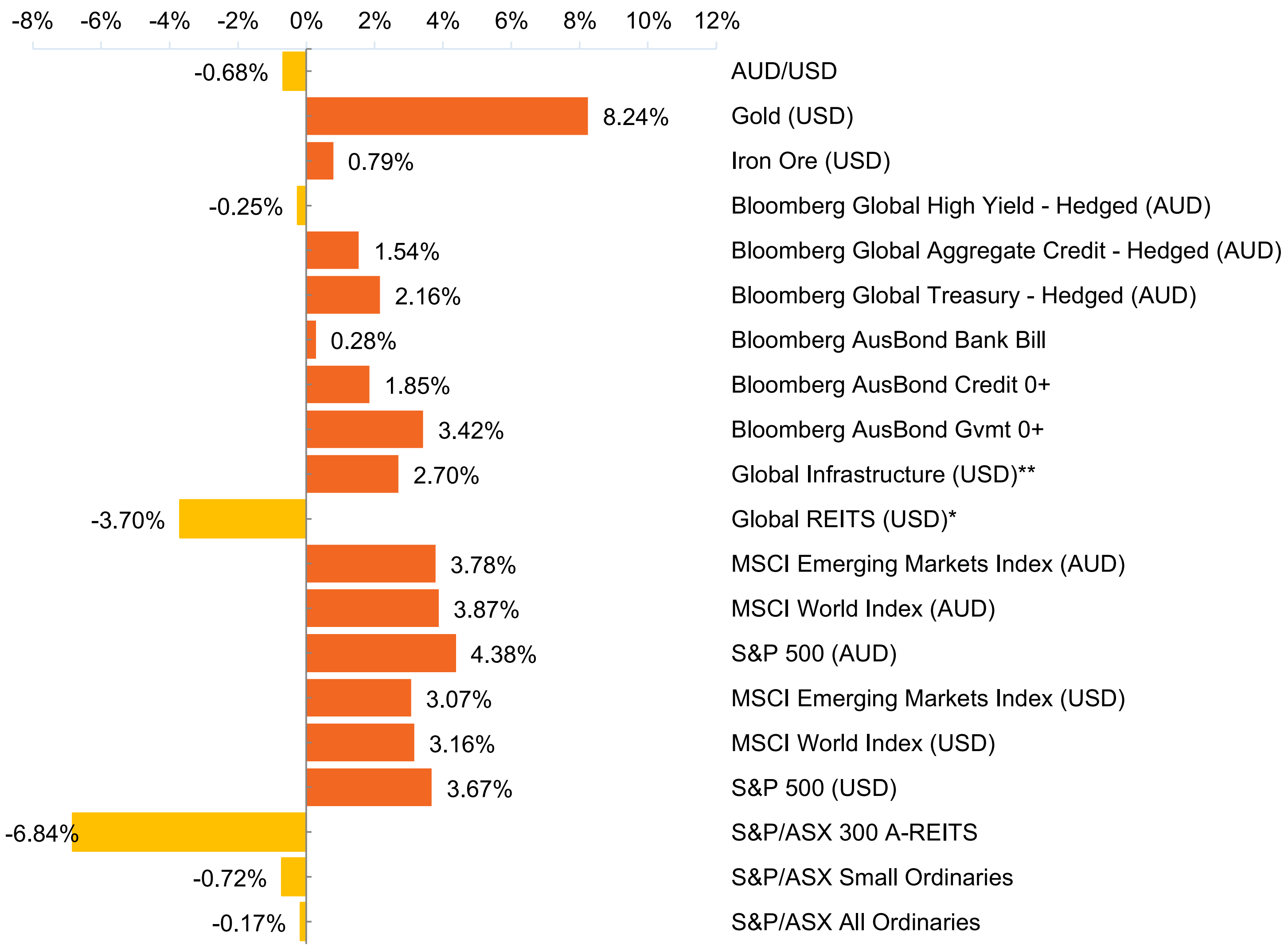
Monthly Highlights

- The collapse of US regional banks Silicon Valley Bank, Signature Bank and European heavyweight, Credit Suisse, dominated the headlines this month, sending shockwaves through financial markets fearful that many more bank failures could follow.
- Markets fell in response before staging a sharp recovery late in the month once it became clearer that the situation was contained. That did not stop Gold rising however, for the second consecutive quarter in Q1, ending 8.2% higher – its best quarterly performance since Q2 2020.
- Australia's latest inflation print surprised pundits on the downside, marking the second consecutive month of lower annual inflation.
- The Reserve Bank of Australia (RBA) raised the cash rate by 25 basis points to 3.60% in March, delivering the 10th consecutive rate hike. Subsequent comments from the RBA that inflation has peaked and growth in the Australian economy has slowed, was interpreted as a strong sign that the RBA is ultimately close to the end of its tightening cycle.

Selected Market Returns, March 2023



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

Key Economic Developments in March

The turmoil that erupted in the wake of the failures of Silicon Valley Bank, Signature Bank and Credit Suisse led to a bout of risk-off sentiment in the first half of March which subsequently recovered as the banking dust settled in the weeks following. Initially, equities sold off globally, the oil price fell, and government bonds rallied amid worries of contagion. Fortunately, the situation did not become a self-fulfilling prophecy as was originally feared.

- US and European central banks' swift response to the developing crisis appears to have done the trick, calming markets and improving sentiment in the latter part of the month.
- The S&P500 finished the month up a creditable 3.7%. The MSCI World and Emerging Markets exchanges also performed strongly after a volatile start. The ASX however struggled to gain ascendancy against regional peers over the past couple of months, closing -0.2%, despite a late surge.
- Government bonds proved extremely popular this month with yields falling materially, as investors sought safe harbour during the global banking tempest.
- Similarly, the price of gold also attracted attention, surging +8.2%, ending the month just below $2000/oz.
- The US dollar, generally considered a safe haven, weakened amid expectations that the deteriorating economic outlook would cause the Fed to pivot to cutting interest rates in the second half of the year.

US regional banks may have dominated all of the attention this month, but central banks did their level best to steal the limelight. The US Federal Reserve hiked rates by 25 basis points to 4.75%-5%, matching the February increase. The decision came in line with expectations from most investors although some believed the central bank should pause the tightening cycle to shore up financial stability.

Of interest, the Fed's updated economic forecasts released during the month showed that 10 out of 18 meeting participants expect the Fed funds rate to end the year between 5.0% and 5.25%, 25 bps above current levels. Seven out of 18 participants anticipate an even higher fed funds rate and only one is calling for the funds rate to hold steady at its current level. It will be fascinating to see how this unfolds.

On how the US Federal Reserve plans to incorporate the recent banking turmoil into its decision-making process, Chair Jerome Powell drew clear distinctions between the Fed's interest rate policy and the new lending facilities that were set up to deal with bank liquidity. On interest rate policy, Powell said that he views a tightening of bank lending standards as a drag on economic growth equivalent to some uncertain number of rate hikes. In other words, the Fed will not cut rates to deal with bank liquidity issues. Rather, it will consider what tighter bank credit means for the overall economic outlook and let that guide its interest rate policy.

In other news, the Purchasing Managers Index (PMI), a measure of the prevailing direction of economic trends in global manufacturing, delivered a poor signal about the overall health of global manufacturing activity in March. The J.P. Morgan Global Manufacturing PMI softened from 49.9 to 49.6, marking the seventh consecutive month below the significant 50 boom-bust line. The US S&P Global Manufacturing PMI – as well as the ISM (non-manufacturing) measure – also ticked down and missed consensus estimates. Similarly, the Eurozone manufacturing index fell for the second consecutive month and printed a sub-fifty reading for the ninth month in a row. China's Caixin Manufacturing PMI was not far behind, slipping 1.6 points to record a borderline result of fifty.

In Australia, the Reserve Bank opted for a rate pause in their April meeting following 10 consecutive rate hikes that pushed the cash rate up by 350 basis points to 3.6%. The decision to pause was justified by the desire to assess the lagged impact of the "substantial increase" in interest rates to date and given the environment of "considerable uncertainty". Notwithstanding this pause, the RBA retained its tightening bias, noting that "some further tightening may well be needed" and that they would be assessing "when and how much further interest rates need to increase".

Major market indicators

	31-Mar-23	28-Feb-23	31-Jan-23	Qtr change	1 year change
Interest Rates (at close of period)					
Aus 90 day Bank Bills	3.64%	3.46%	3.32%	+47.0	+347.0
Aus 10yr Bond	3.47%	3.71%	3.62%	-10.0	+97.0
US 90 day T Bill	4.68%	4.72%	4.58%	+38.0	+417.0
US 10 yr Bond	3.55%	3.91%	3.53%	-28.8	+122.6
Currency (against the AUD)					
US Dollar	0.670	0.674	0.705	-1.24%	-10.81%
British Pound	0.542	0.559	0.570	-3.73%	-5.07%
Euro	0.615	0.635	0.649	-3.19%	-8.17%
Japanese Yen	88.75	91.76	91.73	-0.70%	-2.69%
Trade-Weighted Index	60.30	61.40	62.40	-1.79%	-5.19%
Equity Markets					
Australian All Ordinaries	-0.2%	-2.5%	6.4%	3.6%	-1.1%
MSCI Australia Value (AUD)	0.0%	-2.7%	6.5%	3.7%	2.4%
MSCI Australia Growth (AUD)	-0.7%	-1.0%	6.5%	4.7%	-0.5%
S&P 500 (USD)	3.7%	-2.4%	6.3%	7.5%	-7.7%
MSCI US Value (USD)	-0.7%	-3.4%	3.2%	-1.0%	-5.8%
MSCI US Growth (USD)	7.9%	-1.3%	10.3%	17.4%	-12.2%
MSCI World (USD)	3.2%	-2.4%	7.1%	7.9%	-6.5%
Nikkei (YEN)	3.1%	0.5%	4.7%	8.5%	3.1%
CSI 300 (CNY)	-0.5%	-2.1%	7.4%	4.7%	-1.8%
FTSE 100 (GBP)	-2.5%	1.8%	4.3%	3.6%	5.4%
DAX (EUR)	1.7%	1.6%	8.7%	12.2%	8.4%
Euro 100 (EUR)	0.9%	1.8%	7.9%	10.7%	10.2%
MSCI Emerging Markets (USD)	3.1%	-6.5%	7.9.8%	4.0%	-10.3%
Commodities					
Iron Ore (USD)	0.8%	-2.3%	9.7%	8.1%	-19.6%
Crude Oil WTI U$/BBL	-1.7%	-2.4%	-1.7%	-5.7%	-24.5%
Gold Bullion $/t oz	8.2%	-5.3%	6.2%	8.9%	1.8%

Source: Quilla, Refinitiv

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