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Economic Snapshot

April 2023

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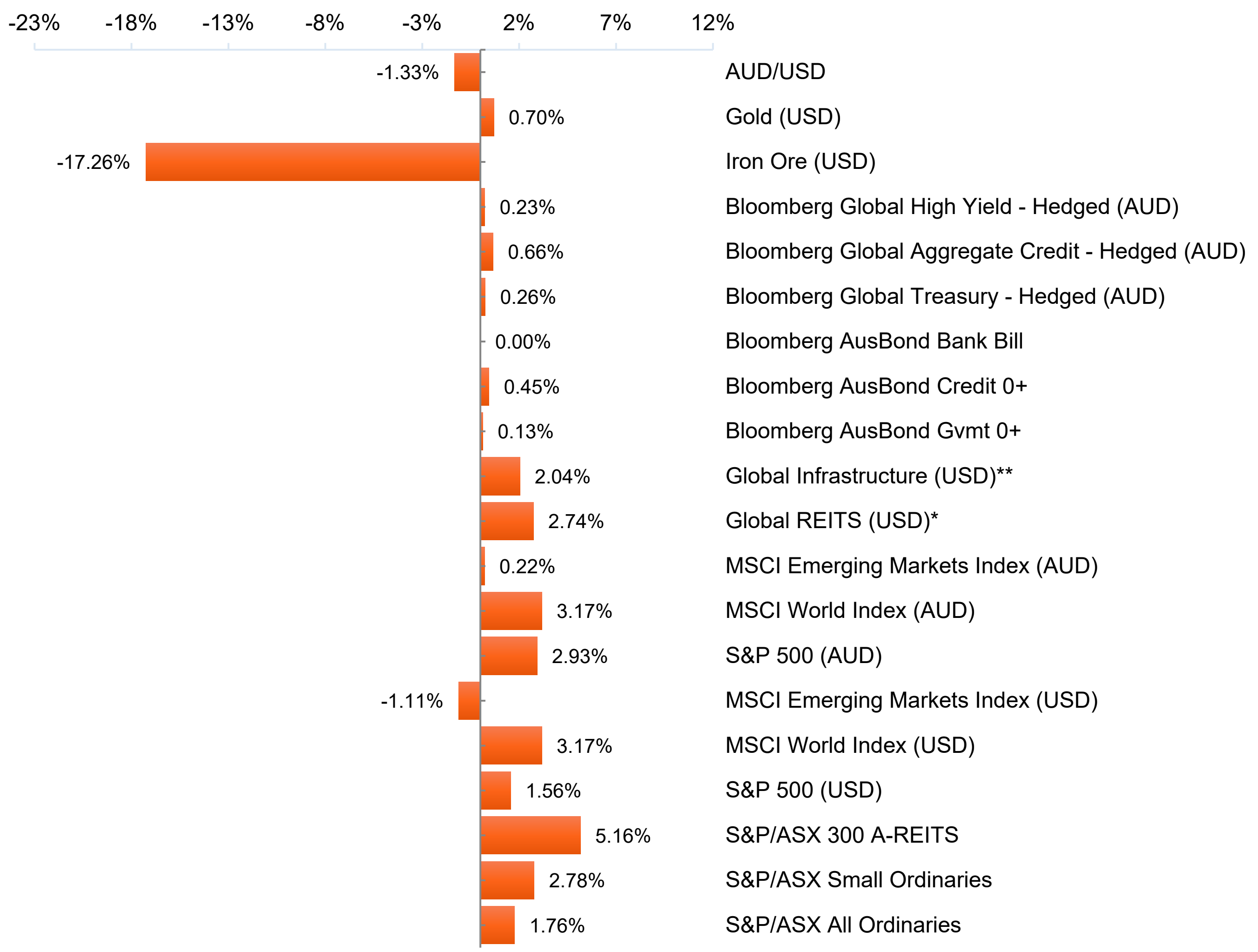
April 2023

Monthly Highlights

- Global financial markets kicked off the month on a positive note. Iron ore, however, fell heavily in response to reduced Chinese steel mill production.
- The Reserve Bank of Australia (RBA) surprised markets with a 25bp rate hike at its early May meeting, bringing the cash rate to 3.85%.
- As expected, the US Fed delivered a 25bps rate hike soon after the RBA. However, unlike the RBA, Chair Jay Powell's post-meeting remarks signalled that this increase may mark the end of the tightening cycle.
- First Republic Bank followed in the footsteps of Silicon Valley Bank and Signature Bank to become the third large-cap US bank to fold when regulators seized it and then sold it to JP Morgan Chase.
- The Fed's Beige Book was released showing that the slight increase in US economic activity earlier this year is starting to fade.
- 80% of companies in the S&P 500 have now reported fourth quarter results and are on track to report a 2.7% pullback in quarterly profit year over year. This would mark a second consecutive quarter of declining earnings.

Selected Market Returns, April 2023



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

Key Economic Developments in April

Markets Push Through

Global financial markets finished the month on a positive note. European bourses were at the forefront of the global equity rally with UK and Euro Area equities boosted by strong gains in their currencies versus the US Dollar. Meanwhile, Chinese investable and domestic stocks were in the red, dragging down the emerging markets equity benchmark.
Within the commodity complex, the prices of both gold and oil ended the month marginally higher. However, most of the gains occurred in the first half of the month – on the back of the surprise OPEC production cuts. Iron ore (which is especially sensitive to Chinese industrial activity) was the main underperformer in April.

The RBA catches markets off guard with a surprise rate hike.

The RBA's decision to hike interest rates by 25bps following a pause in early April surprised markets. Although inflation has been easing, remarks from Governor Philip Lowe highlighted that at 7.0%, inflation still is too high for comfort. The central bank's base case is that it will take a couple of years from here for inflation to slow to the upper limit of the 2-3% target.

Influencing the RBA on this occasion was the fact the domestic housing market has regained some momentum recently with house prices rising for the second consecutive month in April. Also of note was the RBA's parting comment that 'some further tightening of monetary policy may be required to ensure that inflation returns to target in a reasonable timeframe, but that will depend upon how the economy and inflation evolve.'

The US Federal Reserve hikes but hints at a pause.

The US Federal Reserve followed the RBA's lead, with a 25bp rate hike of their own. However, unlike the RBA, Powell revealed that while there was a strong consensus behind the 25bps increase, policymakers did discuss the possibility of pausing at the next meeting. Powell also indicated that over the past 6-7 weeks, the Fed has been focused on the economic implications of credit tightening. That said, Powell noted that if inflation evolves according to the Fed's forecast, then rate cuts would not be appropriate in the second half of the year.

The Fed Beige Book suggests that the US economy is showing signs of deterioration.

This month the Fed's Beige Book was published. The report gathers anecdotal information on current economic conditions across US financial districts and serves as an important input into the Fed's decision making. Interestingly, the report suggests that the slight increase in US economic activity earlier this year is waning.

The number of districts reporting modest growth fell to three from six in the February release. Moreover, two of the twelve districts expect a deterioration in future growth. Despite ongoing supply chain improvements, manufacturing activity as well as transportation and freight volumes were flat to down.
Furthermore, there was a general decline in lending activity and loan demand among both consumers and businesses. Notably, labour market conditions softened with several districts noting that the pace of employment growth slowed, and labour market tightness is easing. As such, although wages are still elevated, they moderated. Nevertheless, higher inventory and labour costs – as well as elevated demand – contributed to higher consumer prices.

US regional banking woes continue.

Fallout from the recent collapse of US regional banks, Silicon Valley Bank and Signature Bank, continued this month with the demise of First Republic Bank. Once again, a big bank came to the rescue, in this case, JPMorgan Chase, agreed to buy most of the failed regional bank. Small and mid-sized banks sold off sharply in response.

US earnings season better than expected but declining, nevertheless.

Currently 80% of companies in the S&P500 have reported fourth quarter results with 78% of those companies topping analysts' consensus earnings forecasts, according to FactSet. That is slightly above the 5 year average of 77% and above the 10 year average of 73%. Companies in the S&P 500 are on track to report a 2.7% pullback in quarterly profit year over year, which would mark a second consecutive quarter of declining earnings.

Outlook
We still think that recession is highly likely and that risk assets have yet to price one in, with equity valuations and credit spreads nowhere near recessionary levels just yet. In the meantime, we suggest staying defensively positioned - underweight to risk assets, and overweight to safe havens such as government bonds, and high-yielding cash.

Major market indicators

	30-Apr-23	31-Mar-23	28-Feb-23	Qtr change	1 year change
Interest Rates (at close of period)					
Aus 90 day Bank Bills	3.66%	3.64%	3.46%	+34.0	+325.0
Aus 10yr Bond	3.34%	3.47%	3.71%	-28.1	+33.1
US 90 day T Bill	4.95%	4.68%	4.72%	+37.0	+412.0
US 10 yr Bond	3.43%	3.48%	3.91%	-10.1	+54.3
Currency (against the AUD)					
US Dollar	0.661	0.670	0.674	-6.22%	-7.01%
British Pound	0.530	0.542	0.559	-7.03%	-7.16%
Euro	0.600	0.616	0.635	-7.49%	-11.50%
Japanese Yen	90.15	88.75	91.76	-1.72%	-1.66%
Trade-Weighted Index	59.80	60.30	61.40	-4.17%	-5.23%
Equity Markets					
Australian All Ordinaries	1.8%	-0.2%	-2.5%	-0.9%	1.5%
MSCI Australia Value (AUD)	1.2%	0.0%	-2.7%	-1.5%	3.9%
MSCI Australia Growth (AUD)	3.3%	-0.7%	-1.0%	1.5%	2.0%
S&P 500 (USD)	1.6%	3.7%	-2.4%	2.7%	2.7%
MSCI US Value (USD)	1.3%	-0.7%	-3.4%	-2.9%	0.3%
MSCI US Growth (USD)	1.2%	7.9%	-1.3%	7.7%	2.8%
MSCI World (USD)	1.8%	3.2%	-2.4%	2.5%	3.7%
Nikkei (YEN)	2.9%	3.1%	0.5%	6.6%	10.0%
CSI 300 (CNY)	-0.5%	-0.5%	-2.1%	-3.0%	2.6%
FTSE 100 (GBP)	3.4%	-2.5%	1.8%	2.6%	8.2%
DAX (EUR)	1.9%	1.7%	1.6%	5.2%	12.9%
Euro 100 (EUR)	1.6%	0.9%	1.8%	4.3%	13.5%
MSCI Emerging Markets (USD)	-1.1%	3.1%	-6.5%	-4.7%	-6.1%
Commodities					
Iron Ore (USD)	-17.3%	0.8%	-2.3%	-18.5%	-27.0%
Crude Oil WTI U$/BBL	1.4%	-1.7%	-2.4%	-2.7%	-26.7%
Gold Bullion $/t oz	0.7%	8.2%	-5.3%	3.2%	4.3%

Source: Quilla, Refinitiv

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