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Summary of Key Views

Insights from our CIO: Caution amidst the calm?

An eerie calm has fallen over markets in recent weeks, as the banking stresses of early March fade into the background. Market measures of risk, such as the VIX, have retreated, while global equity markets have rebounded strongly, buoyed by a resurgence in technology stocks.

We remain somewhat cautious. We have seen a rapid shift from record-low interest rates and abundant liquidity to an environment of higher interest rates, central banks shrinking their bloated balance sheets and a general tightening in lending standards. These tighter liquidity conditions will continue to impact the economy and markets over the course of the year.

From a macro perspective, inflation has peaked but is proving sticky. While goods inflation has come down as the covid-era shortages have largely eased, services inflation and rising wage costs are complicating issues. We think central banks may have more work to do to really drive those inflation numbers down. A lengthy period of sub-par growth may be required to tame inflation, meaning a pause is more likely than an outright pivot, barring any further financial instability.

Growth has been surprisingly resilient to date thanks in part to a resilient consumer, tight labour markets, a milder European winter than expected and the China re-opening story. However, our base case remains that growth will slow as the year progresses, as the lagged effect of rising interest rates and cost of living pressures make their way through the economy.

In our view, none of these factors point to a great environment for risk assets despite the more attractive valuations we are seeing. We remain close to benchmark with a slight underweight in global equities while remaining alert to risks and opportunities as they emerge.

Market developments during April 2023 included:

Australian Equities

The S&P/ASX 200 Accumulation Index finished April with a gain of 1.9% after two negative performing months. Softer inflation figures and a pause in the RBA's rate hikes led to strong gains in the first half of the month, while a slump in commodity prices, particularly iron ore, moderated those gains in the back-half of April. Property was a key contributor (+5.3%), with I.T. (+4.8%) and Industrials (+4.5%) also performing strongly. Materials (-2.6%) was the sole detractor.

Property led all sectors for the month off the back of the RBA's rate decision, meanwhile, slowing construction activity in China contributed to the declines in Materials stocks. Overall, domestic markets were driven by relief from inflation data and the interest rate pause, while concerns around the U.S. banking system were somewhat tempered. These factors were all conducive to a positive month for the Index.

In April, Value (+3.8%) and Enhanced Value (+3.3%) factors were the best performers. This continues the rotation to Value stocks with strong gains YTD (+7.2%). While all equity factor indices closed the month positively, Growth was a minimal gainer (+0.1%).

Global Equities

Global equities started with another positive month despite mounting higher interest rates. Emerging markets underperformed developed market counterparts returning 0.2% (MSCI Emerging Markets Index (AUD)) versus a 3.2% gain according to the MSCI World Ex Australia Index (AUD).

A greater proportion of earnings surprises and decreased investor expectations have buoyed the U.S. markets, coupled with an outlook for disinflation to continue. Over half of companies have now reported, with the S&P 500 Index posting a 1.6% return (in local currency terms) for the month.

UK economic data followed a similar pattern with headline inflation also falling slightly. The FTSE 100 Index was one of the top performers globally having a gain of 3.4% (in local currency terms). This was driven by a resurgence in value stocks leading the UK index charge.

Equities across China saw a decline off the back of concerns on the economic recovery slowing down. This was reflected by the Hang Seng Index and the CSI 300 Index, returning -2.4% and -0.5% respectively (in local currency terms) for the month. Expectations are that China's central bank will ease policy to support weakening economic data.

Fixed Interest

In April, the bond market remained range-bound despite concerns over fallout from banking developments in March. US short-term Treasury Bills declined due to uncertainty regarding the debt ceiling with further volatility expected over the next few months.

The Australian 2-year and 10-year government bond yields were relatively unchanged, only moving up 9bps and 4bps respectively. The Bloomberg Ausbond Composite 0+ Yr Index reflected a return of 0.2% for the month. The US 2- and 10- year Government bond yields fell by 2bps and 5bps, respectively. In the United Kingdom, GILT yields rose due to resilient activity data and inflation surprises. The 2 Year Gilt yields rose 34bps and 10 Year Gilt yields rose 22bps. During the month, higher quality fixed income delivered strong performance as spreads remained narrow despite apprehensions about the economic outlook. The

Bloomberg Barclays Global Aggregate Index (AUD Hedged) returned 0.4% for the month.

REITs (listed property securities)
The S&P/ASX 200 A-REIT Accumulation Index finished +5.3% higher in the month of April as the A-REIT sector rebounded from its negative first quarter. In a global context, G-REITs (as represented by the FTSE EPRA/NAREIT Developed Ex Australia Index (AUD Hedged)) ended April +1.9% higher. The Australian Infrastructure sector (As represented by the S&P/ASX Infrastructure Index) finished +2.3% higher in line with the A-REIT sector.

In the month of April, M&A activity was relatively muted, however several companies provided operational updates. Charter Hall Retail REIT (ASX: CQR) invested in a convenience long WALE retail partnership with Hostplus via the acquisition of an initial 18% interest in Long WALE Investment Partnership 2 (LWIP2). Growthpoint Properties Australia (ASX: GOZ) reaffirmed their FY23 guidance and provided ongoing updates on their REITs portfolio. Scentre Group (ASX: SCG) provided an operational update on their business. Mirvac Group (ASX: MGR) provided a quarterly update and slightly downgraded EPS guidance.

The Australian residential property market experienced an increase by +0.7% Month on Month (as represented by CoreLogic's five capital city aggregate). Sydney was the biggest riser alongside Perth (+0.6%) also performing strongly. In contrast, Darwin (-1.2%) was the only city to regress during April.

Alternatives
Preliminary estimates for April indicate that the index decreased by 5.2 per cent (on a monthly average basis) in SDR terms, after decreasing by 2.5 per cent in March (revised). The rural sub-index increased in the month while the non-rural and base metal sub-indices decreased. In Australian dollar terms, the index decreased by 4.3 per cent in April. Over the past year, the index has decreased by 19.2 per cent in SDR terms, led by lower coking coal, iron ore, liquified natural gas and rural commodity prices. The index has decreased by 11.8 per cent in Australian dollar terms.