Market Update – August 2023

Asset class total return to 31/08/2023	1M (%)	3M (%)	6M (%)	1Y (%)	3Y (% p.a.)	5Y (% p.a.)	Current Yield (%)
Cash	0.3	1.0	1.9	3.5	1.4	1.2	4.1
Fixed Term Deposits	0.4	1.2	2.3	3.8	1.6	1.5	5.0
Australian Bonds	0.7	-0.7	1.4	1.8	-3.1	0.6	4.2
Australian Bank Hybrids	-0.5	2.3	0.9	4.3	3.6	3.5	5.1
Australian Property	2.2	6.1	2.0	5.9	7.7	4.4	4.4
Australian Shares	-0.7	3.9	3.0	9.6	10.7	7.0	3.9
Global Shares (unhedged)	1.6	7.0	16.0	22.6	13.3	10.8	1.8
Global Infrastructure (hedged)	-4.6	-2.2	-2.7	-9.4	4.4	3.6	3.3

Total returns and yields are before franking credits. Source: RBA cash rate, 12M Bank term deposit, Bloomberg Austbond Composite Index, Solactive Aust Banking Preferred shares Index, S&P/ASX 300 A-REIT Index TR, S&P/ASX 200 TR, MSCI World ex-Aust unhedged TR, FTSE Developed Core Infrastructure 50/50, hedged, TR.

Financial Indicator movement	31/08/23	1M	3M	6M	1Y
AUD/USD (cents)	0.65	-0.03	-0.01	-0.03	-0.04
Aust. 10-year bond yield (%)	4.04	-0.01	0.44	0.17	0.43
Gold US$/ounce	1,940	-1.2%	-1.4%	6.2%	13.4%
Brent oil US$/bbl	87	1.5%	21.3%	3.5%	-10.0%
Iron ore US$/t	109	-2.7%	3.8%	-14.2%	11.2%
Copper US$/pound	3.77	-5.6%	3.9%	-7.9%	7.2%

Source: Refinitiv. Note: Past performance is not a reliable indicator of future performance.

Global

The US economy remains resilient, but Europe and China continue to slow. The US cash rate is at 5.25-5.50% and US bond yields have been creeping above 4.20%, which seems to relate to the large funding requirement of the US budget deficit (US$2 trillion), the US Federal Reserve (the Fed) reducing its bond holdings and the recent US credit rating downgrade to AA+ (from AAA).

The Fed is widely expected to remain on hold for the remainder of the year, but one complicating factor is the recent rally in the oil price, which will put upward pressure on headline inflation, which is currently around 3.3% versus the target level of 2.0%.

China has implemented a number of stimulus programs to boost its slowing economy but there remains considerable doubt that the property market can recover without structural reforms. Geopolitical tensions continue between the western world and China, with President Xi a noticeable absentee at the upcoming G20 meeting in India.

Commodity prices have been weakening on concerns over global slowdown, although oil has rallied to US90/bbl in recent weeks, as OPEC and Russia extend production cuts to the end of the year.

Australia

Australian GDP growth remained resilient to the June quarter but is negative on a per capita basis. Monthly inflation has fallen to 4.9% and seems on track to hit 4.0% by the end of 2023. The RBA has maintained the cash rate at 4.10% for the last three meetings but maintains a tightening bias. The futures market predicts a small chance of one more rate rise to finish this cycle, with rate cuts not expected until 2H 2024.

The RBA still has concerns around core inflation, particularly services, wages and rent inflation. Wages are rising and productivity is falling, which will make it challenging to bring core inflation down to its 2-3% target.

As mentioned above, China has been slowing and is trying to arrest problems in its property market. It is widely expected that Chinese steel production will continue to fall, from elevated levels, which poses downside risks for iron ore and coking coal – two of Australia's largest exports.

Outlook

We retain a cautious outlook, despite interest rates potentially nearing a peak and inflation trending in the right direction. We are still concerned that the 'last mile' to target will be a challenge and that interest rates could stay at current levels for an extended period. Interest rates remaining on hold still has a tightening effect, as households and companies gradually transition to higher loan rates.

While commercial property valuations have been adjusting to higher interest rates, we are not so sure that equity valuations have adjusted enough, particularly in the US. The other major concern we have is China. We think China is coming to the end of the road on its property bubble and will need to implement major structural reforms. We expect falling steel production and weakness across many steel-related commodities, such as iron ore and coal.

We are conscious that the September-October period ahead tends to be a period of seasonal weakness. That said, we remain invested but positioned defensively, with a focus on quality, value and yield. We will become more bullish once market valuations have adjusted lower and we are closer to Central Banks easing interest rates.

The next key events on the calendar include:

- G20 meeting – September 9/10
- Fed meeting – September 19/20
- RBA meeting – October 3

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	Bill Keenan is the founder of Sunbird Portfolios. Sunbird provides independent advice to leading financial advisers across Australia. Bill has 28 years' experience in financial markets and holds a Bachelor of Business in Accounting and a Graduate Diploma in Finance and Investment.

Warnings, Disclosures and Disclaimer

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