Market Update – FY23

Asset class total return to 30/06/2023	1M (%)	3M (%)	6M (%)	1Y (%)	3Y (% p.a.)	5Y (% p.a.)	Current Yield (%)
Cash	0.3	1.0	1.8	3.1	1.2	1.1	4.1
Fixed Term Deposits	0.4	1.0	1.8	3.5	1.3	1.4	5.0
Australian Bonds	-2.0	-2.9	1.5	1.2	-3.5	0.5	4.4
Australian Bank Hybrids	1.2	0.9	-0.4	5.6	3.2	3.4	5.2
Australian Property	-0.1	3.2	3.5	7.5	8.5	3.9	4.5
Australian Shares	1.8	1.0	4.5	14.8	11.1	7.2	4.2
Global Shares (unhedged)	3.1	7.6	17.5	22.6	13.5	11.5	1.5
Global Infrastructure (hedged)	1.6	-0.9	-0.1	-2.8	6.3	4.5	3.1

Source: Refinitiv - RBA cash rate, 12M Term deposit, Australian Composite Bonds, Hybrids cash yield to call, Property ASX 300 AREIT, Australian Shares S&P/ASX 200, Global Shares MSCI World ex-Aust unhedged, Global Infrastructure FTSE Developed Core 50/50, hedged

Financial Indicator movement	30/06/23	1M	3M	6M	1Y
AUD/USD (cents)	0.67	0.02	0.00	-0.01	-0.02
Aust. 10-year bond yield (%)	4.01	0.41	0.78	-0.03	0.32
Gold US$/ounce	1,921	-2.3%	-2.0%	5.3%	6.3%
Brent oil US$/bbl	75	4.6%	-5.4%	-12.8%	-34.8%
Iron ore US$/t	112	10.2%	-3.7%	-9.2%	4.4%
Copper US$/pound	3.76	3.3%	-8.4%	-1.2%	1.2%

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

Global

Equities have proven remarkably resilient in the face of the fastest tightening cycle in history. Central Banks have been increasing interest rates rapidly in an effort to tame inflation, sparked by excess COVID stimulus, the Russia/Ukraine war and supply chain disruptions. But in a post-COVID world, consumer spending, employment and even house prices have continued to remain robust.

That said, rising interest rates have negatively impacted commercial property and infrastructure valuations but equities, led by technology, have rallied from the October 2022 low to be only 8% from record highs.

However, China's recovery from COVID lockdowns has lost steam, as global exports slow and its property sector remains in a structural downturn. Commodity prices have been retreating from record levels, as China slows and Europe adjusts to Russian sanctions.

Australia

Australia remains 'the lucky country' with buoyant demand for key commodities (iron ore, coal, LNG, gold, copper, lithium) and strong employment supporting economic growth and taxes. In turn, this has led to a FY23 Federal Budget surplus of $19bn - well above expectations.

A *La Nina* weather pattern has brought rain across the country and refreshed water supplies (although too much in some areas!). In turn, the agricultural sector has benefited from lush conditions and strong commodity prices.

Despite some problems in the US regional banking sector earlier in the year, the Australian banking sector remains in strong shape in terms of profitability, liquidity and capital ratios.

However, there are still a number of problems, which mainly relate to housing and labour shortages and the rising cost of living. Core inflation remains elevated at around 6% and productivity is down. The Reserve Bank of Australia (RBA) is clearly worried that housing, services and wage inflation will remain persistent. The RBA has lifted the cash rate 12 times to 4.1% and the forecast peak rate keeps rising (currently 4.6% by March 2024). The Federal Government is being criticised for not doing enough to help resolve inflationary pressure and lift productivity.

Despite the strength in the Australian economy, the AUDUSD remains weak at $0.67, which is puzzling at first glance. However, this is mostly explained by the RBA cash rate of 4.1%, remaining at a fair discount to the US cash rate of 5.2%.

Outlook

FY23 is best described as a surprisingly resilient year, in the face of rising interest rates. However, core inflation remains persistent and interest rates continue to move ever higher. We are concerned that a major slowdown, possibly recession, will be required to 'break the back' of core inflation. In addition, we would expect impairments on unsecured loans (and eventually secured loans) to start rising. Throw in a patchy recovery in China and we expect the economic outlook to certainly be more challenging in FY24.

We continue to take a cautious view - the global economy is slowing and company earnings are yet to reflect this. 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:

- US 2Q23 reporting season – early July 2023
- Fed meeting – 25/26 July 2023
- June quarter Aust. CPI – 26 July 2023
- RBA meeting – 01 August 2023
- Aust. FY23 reporting season – early August 2023

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Warnings, Disclosures and Disclaimer

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