Market Update – October 2023

Asset class total return to 31/10/2023	1M (%)	3M (%)	6M (%)	1Y (%)	3Y (% p.a.)	5Y (% p.a.)	Current Yield (%)
Cash	0.3	1.0	2.0	3.7	1.6	1.3	4.4
Fixed Term Deposits	0.4	1.2	2.3	4.0	1.7	1.6	5.1
Australian Bonds	-1.8	-2.6	-5.2	-1.2	-4.6	-0.1	4.8
Australian Bank Hybrids	-0.6	0.5	1.9	5.0	3.6	3.5	5.0
Australian Property	-5.7	-12.0	-10.3	-3.9	2.9	2.3	4.9
Australian Shares	-3.8	-7.2	-5.3	3.0	8.9	7.2	4.2
Global Shares (unhedged)	-1.0	-3.4	2.9	11.7	12.0	10.8	2.0
Global Infrastructure (hedged)	-0.7	-9.4	-11.5	-6.1	2.8	2.9	3.5

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	31/10/23	1M	3M	6M	1Y
AUD/USD (cents)	0.63	-0.01	-0.04	-0.03	-0.01
Aust. 10-year bond yield (%)	0.49	-4.00	-3.56	-2.89	-3.26
Gold US$/ounce	1,983	7.3%	0.9%	-0.3%	21.4%
Brent oil US$/bbl	87	-8.3%	2.2%	17.3%	-6.2%
Iron ore US$/t	119	-1.7%	6.3%	14.4%	28.0%
Copper US$/pound	3.64	-2.3%	-8.8%	-5.8%	6.7%

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

Global

Bond yields continued to rise in October, with the US 10-year bond yield touching 5.0%. This seemed to relate to US economic growth and inflation remaining above expectations plus the widening US budget deficit. In addition, the recent conflict in Israel/Gaza led to a short-term rally in the oil price, which is likely to maintain inflationary pressure.

However, the US Federal Reserve (the Fed) did acknowledge the tightening in financial conditions and opted to hold the cash rate at 5.25-5.50% at its recent meeting. The market now believes the Fed is finished raising interest rates for this cycle but core inflation (4.1%) retreating to target (2.0%) will still be the key determinant of the Fed's path.

China's economy continues to remain sluggish with growth running below its 5.0% target. The central government has offered further stimulus by increasing its budget deficit to 3.8% of GDP (from 3.0%) which will fund 1 trillion (A$217bn) in new spending across disaster relief and infrastructure. This has led to a recent rally in commodities, particularly iron ore. China's relations with Australia also seem to be on the mend, with trade and travel barriers gradually being removed.

Australia

Growth and employment remain resilient but unfortunately so too is inflation, which continues to run at a 5.4% annual rate – well above the RBA's 2-3% target range. It seems Government policy is not helping at all with high immigration levels (500,000 p.a.) feeding housing and rent inflation, wage increases feeding services inflation and infrastructure spending (at the State level) keeping construction costs elevated. Without improved supply and productivity, it seems it will be hard to get inflation down to target.

The RBA has been left to handle inflation alone and has had to increase the cash rate for the 13th time to 4.35% in early November. Markets are pricing in a peak rate of 4.45% by June 2024, which suggests a high probability of one more 25bps rate hike to go in the cycle. If so, the AUD/USD should have upside from here, as the Australian cash rate moves closer to the US cash rate.

Outlook

Interest rates have been creeping higher, which is good for cash and term deposits but bad for interest rate sensitive assets like bonds, property and infrastructure. Equities have been mixed with Australian shares stuck in a trading range, while global equities have been relatively buoyant, supported by the big US technology stocks and a lower AUD.

With the interest rate cycle likely to be near its peak, we see good value in many of the beaten-up interest rate sensitive sectors, mentioned above. We remain cautious on equities, as the impact of rising interest rates on earnings seems to have been delayed due to various reasons, including cash buffers built up during the COVID pandemic and the gradual transition from low-rate loans.

Overall, we are adopting a cautious but opportunistic mindset. We think our focus on quality, value and yield will be important in the short to medium term. Longer term, growth assets should recover as interest rates come down.

The next key events on the calendar include:

- Australian Bank reporting season – November 2023
- Australian AGM season – November 2023
- RBA meeting – 5 December 2023
- Fed meeting – 12/13 December 2023

Bill Keenan

Principal, Portfolio Manager

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

Date issued: Wednesday, November 8, 2023

This document is provided by Sunbird Portfolios Pty Ltd (Sunbird) |ABN 91 620 481 218 | AFSL 503266.

Warnings

Any advice provided in this document is general in nature only and does not take into consideration your objectives, financial situation or needs. Before acting on the advice, you must consider whether it is personally appropriate considering your financial circumstances or should seek independent financial advice on its appropriateness. Past performance is not a reliable indicator of future performance.

Disclosures

Sunbird DOES NOT accept fees or gifts from companies or product issuers. Sunbird and its respective officers may have an interest in the financial product of any entities referred to in this material. See www.sunbirdportfolios.com.au for a list of Director shareholdings. All views expressed in this report accurately reflect the author's personal views about the subject investment theme and/or company securities.

Disclaimer

The material in this report has been obtained from sources reasonably believed to be true and neither Sunbird nor its associates make any representation or warranty concerning the accuracy, or reliability or completeness of the information or the performance of the companies or portfolios referred to in this report.

Any opinions and/or recommendations expressed or implied in this material are subject to change without notice and Sunbird is not under any obligation to update or keep current the information contained herein. References made to third parties are based on information believed to be reliable but are not guaranteed as being accurate. Every attempt has been reasonably made by Sunbird to verify the accuracy of the information contained in the report. Sunbird, its associates, officers, directors, employees and agents are not liable for any errors or omissions (except any statutory liability which cannot be excluded) in connection with this report. Except for any liability which cannot be excluded, Sunbird, its directors, employees and agents accept no liability or responsibility for any loss or damage of any kind, direct or indirect, arising out of the use of all or any part of this report.

This report is intended for certain recipients only. It is confidential and may contain information which is privileged or personal. If you are not an intended recipient, you must not disclose or use this report for any purpose. If you have received this report in error, please call us and then destroy the report or delete it from your computer system.

W www.sunbirdportfolios.com.au

E support@sunbirdportfolios.com.au

M 0403534426

T 03 8840 7886

A Exchange Tower, Level 1, 530 Little Collins Street, Melbourne, VIC 3000