GPS Wealth Monthly Market Update

Fading inflation sees markets react positively

INFORMATION CONTAINED IN THIS REPORT CURRENT AS AT 16 DECEMBER 2022

The S&P/ASX 200 Accumulation Index increased 6.58% in November following the lead from global share markets. The MSCI World Index, increased 2% over the month as the Australian dollar increased over the period. A softer than expected US inflation report and comments from the Federal Reserve Chairman – Mr. Powell, that hinted at a slowing pace of tightening, provided relief to markets. However, Mr. Powell continued to caution that interest rates would need to head higher over the medium term to reduce inflation. He added that the Federal Reserve was currently uncertain about when the peak in interest rates would occur, given very uncertain factors such as energy costs and labour supply. He warned that current trends might “require holding policy at a restrictive level for some time”. The 2-year treasury bond fell from 4.45% to 4.20% whilst the 10-year bond closed at 3.70%. International Bonds returned 2.4% over the month for Australian investors whilst the domestic bond index returned 1.5%.

Despite the rhetoric from the central bank chair, the underlying economic data was mixed. The ISM manufacturing release came in below market expectations (49.0 versus 49.7) and below 50, the level viewed as the balance between economic expansion and contraction, for the first time since the COVID crisis. However, other data remained robust as the third quarter GDP was revised higher to 2.9% annualised from 2.6% on higher consumer spending and export growth. The labour market also remains tight despite softer ADP data for November, as figures for October showed there were still over 10 million job openings in the US for the sixteenth month in a row. The closely watched non-farm payrolls report was strong, with 263k jobs added over the month (vs 200k expected) and previous months' data revised upwards. The strong print and an increase in average hourly earnings over the month (0.6% versus 0.3% expected) suggests that the Federal Reserve may have to leave rates on hold for longer than expected, even if the pace to get there might be more gradual.

The positive bond and share market sentiment was reinforced further by tentative signs of re-opening in China following the largest political protests since Tiananmen Square. China’s citizens openly protested in defiance of draconian COVID-19 lockdown restrictions and what many see as President Xi’s mishandling of the country’s economic path. Rising youth unemployment and low growth, is reflected in an economy facing deflationary pressures, including the easing of travel and quarantine restrictions and suggestions Chinese authorities may move away from their COVID-zero approach.

In Australia third quarter GDP reading was slightly weaker than market expectations at 0.6% for the quarter and 6.9%

Emmanuel Calligeris
Chairman of the Investment Committee

over the year. Household spending was the key support in the three months to September, with a further reduction in the savings rate and robust nominal income gains facilitating a 1.1% lift in consumption. This represents a clear slowdown in the pace of consumption growth from the first half of the year, indicating that the reopening effect is fading. As spending patterns continue to normalise and the full effect of rapidly rising interest rates and inflation's hit to real incomes is felt, consumption growth should slow further. Some components of household spending are already beginning to wilt under these headwinds, as evinced by the 11.2% decline in real estate turnover which subtracted 0.2% from GDP growth in the third quarter. Conditions for business investment remain mixed. Supply issues, and on occasion the weather, are limiting the pace at which the sector's pipeline of work can progress. Though, with capacity tight and tax incentives continuing to support, business remains constructive on the outlook for investment over the coming year. Labour force data was stronger than expected, with employment rebounding and the unemployment rate falling to a new cycle row of 3.4%. The housing market continues to weaken with house prices, building approvals and housing finance all declining over the month. The latest NAB business survey showed a decline in business confidence to below its long-run average however business conditions remain relatively buoyant with trading conditions, employment and profitability staying at elevated levels. After surprising markets in October with a dovish 0.25% hike, the RBA raised rates by another 0.25% in November to 2.85%. Higher interest rates are showing a lagged effect on retail sales, which declined in October, but are still resilient given a low unemployment rate, wage inflation and a high level of savings.

The US Federal Reserve has not finished tightening policy this cycle, however, is likely to be less aggressive as we head into 2023. The Reserve Bank of Australia has become more cautious in its policy settings and the global economy is already near recession because of the strong U.S. dollar and a weak Chinese economy. China has started to back away, slowly, from the policies that have been depressing activity. The near-term outlook is challenging however markets are forward looking and sensing a pause in the interest rate cycle, have rallied strongly since September. We are likely to see further strength in early 2023 before a more turbulent second half.

Returns

30th November 2022

ASSET CLASS RETURNS ARE BASED ON

Australian Cash
RBA Bank accepted Bills 90 Days

Australian Bonds
Bloomberg AusBond Composite 0+ Yr TR AUD

International Bonds Hedged
BarCap Global Aggregate TR Hdg AUD

Australian Listed Property
S&P/ASX 200 A-REIT TR

International Property Hedged
FTSE EPRA/NAREIT Dv REITS TR Hdg AUD

Australian Shares
S&P/ASX 200 TR

International Shares
MSCI World Ex Australia NR AUD

Emerging Market Shares
MSCI EM GR AUD

RETURNS TO THE 30TH NOVEMBER 2022

	1 Month	3 Months	6 Months	1 Year	3 Years	5 Years	10 Years
Australian Cash	0.25	0.72	1.22	1.37	0.58	1.02	1.66
Australian Bonds	1.55	1.09	0.32	-7.72	-2.74	0.86	2.56
International Bonds Hedged	2.37	-1.59	-3.49	-11.51	-2.84	0.09	2.50
Australian Listed Property	5.78	0.45	-2.76	-13.02	-1.56	4.21	8.90
International Property Hedged	4.88	-4.15	-9.68	-15.13	-3.19	2.03	6.73
Australian Shares	6.58	6.04	3.51	5.00	5.93	8.20	9.37
International Shares	2.02	6.43	5.25	-5.89	7.93	10.12	14.66
Emerging Market Shares	9.64	0.55	-1.61	-12.58	0.47	2.11	6.69

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