Xtra-Ordinary Opportunities

WEEKLY UPDATE

3rd OCTOBER 2022

	Price	5 Day % Change	3 Month % Change	1yr % Change
S&P/ASX300	77,135	-1.57%	0.86%	-6.17%
MSCI World Ex-Aus. (Unhedged)	12,782	-0.72%	0.35%	-9.79%
MSCI World Ex-Aus. (Hedged)	2,011	-2.72%	-5.18%	-17.51%
Bloomberg AusBond 0+ Composite	9,347	0.08%	-0.64%	-11.36%
BloombergBarclays Global Agg. (Hedged)	955	-0.87%	-4.36%	-12.94%
S&P/ASX300 Property	50,706	-2.85%	-8.22%	-19.31%
FTSE EPRA Nareit Global Real Estate (Hedged)	2,400	-3.80%	-11.41%	-20.26%
S&P Global Infrastructure (Hedged)	5,402	-5.19%	-8.72%	-1.59%
Bloomberg All Hedge Fund Index	1,982	N/A	2.96%	0.30%
VIX	31.6	5.68%	10.14%	36.65%
Bloomberg Commodity Index (USD)	111.49	-0.81%	-4.75%	10.65%
Iron Ore Index (62% Fe Aus. Off. China, USD)	100.00	0.00%	-18.03%	-15.61%
LME Copper Spot (USD)	7,647.00	2.70%	-7.25%	-15.42%
Coal 1st Future (Newcastle Export, USD)	407.70	-6.32%	5.64%	87.02%
Brent Crude 1st Future (USD)	85.14	-1.17%	-25.84%	8.43%
LNG 1st Future (Japan/Korea)	38.73	3.07%	0.17%	24.54%
Gold in AUD	2,595	3.03%	-0.89%	6.73%
AUDUSD	0.6400	-1.96%	-7.29%	-11.44%
AUDEUR	0.6531	-3.15%	-0.84%	4.44%
AUDNZD	1.1436	0.65%	3.33%	8.40%
AUDGBP	0.5735	-4.97%	1.15%	6.47%
AUDJPY	92.6530	-1.02%	-1.12%	13.20%

Source: Bloomberg, S&P Dow Jones, MSCI, FTSE Russell, 1st October 2022

The UK sparked several days of bond market volatility last week. Long-term yields spiked, and the pound fell before the Bank of England was forced to intervene with bond purchases.

Shorter-term yields remained elevated as generally positive data is likely to keep central banks in tightening mode. The OECD also cut growth forecasts, and there was a further escalation of the Ukrainian conflict. All three factors weighed on growth assets.

The RBA is expected to raise the cash rate by another +0.50% tomorrow to 2.85% but may signal that rate rises will slow from November. There will also be ISM data this week and the US labour report on Friday night. NSW enjoys a public holiday today, while China will celebrate the national holidays through to the weekend.

Real GDP growth projections

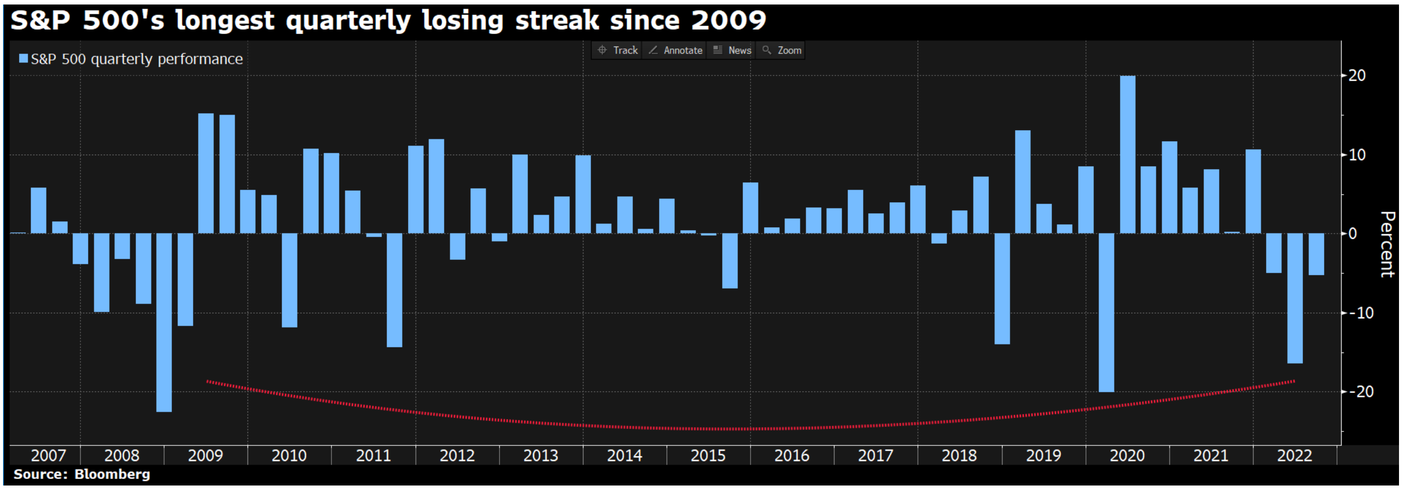
G20 economies, %

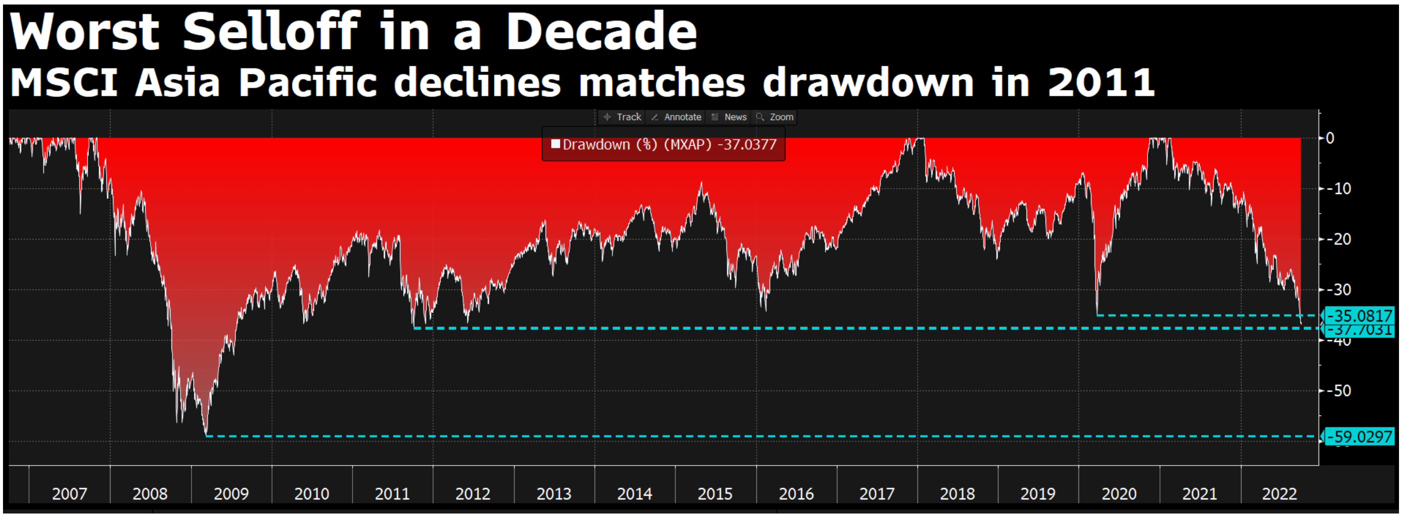
▲ upward revision, by 0.3pp or more ▬ no change or smaller than 0.3pp ▼ downward revision, by 0.3pp or more

	2021		2022		2023		2021		2022		2023
World	5.8	▬	3.0	▼	2.2	**G20**	6.2	▬	2.8	▼	2.2
Australia	4.9	▬	4.1	▼	2.0	**Argentina**	10.4	▬	3.6	▼	0.4
Canada	4.5	▼	3.4	▼	1.5	**Brazil**	4.9	▲	2.5	▼	0.8
Euro area	5.2	▲	3.1	▼	0.3	**China**	8.1	▼	3.2	▬	4.7
Germany	2.6	▼	1.2	▼	-0.7	**India**	8.7	▬	6.9	▼	5.7
France	6.8	▬	2.6	▼	0.6	**Indonesia**	3.7	▬	5.0	▬	4.8
Italy	6.6	▲	3.4	▼	0.4	**Mexico**	4.8	▬	2.1	▼	1.5
Spain	5.5	▲	4.4	▼	1.5	**Russia**	4.7	▲	-5.5	▼	-4.5
Japan	1.7	▬	1.6	▼	1.4	**Saudi Arabia**	3.4	▲	9.9	▼	6.0
Korea	4.1	▬	2.8	▼	2.2	**South Africa**	4.9	▬	1.7	▬	1.1
United Kingdom	7.4	▬	3.4	▬	0.0	**Türkiye**	11.0	▲	5.4	▬	3.0
United States	5.7	▼	1.5	▼	0.5						

Source: OECD, 26th September 2022

Investor sentiment remained in “risk-off” mode last week as a range of adverse events hit markets. Equities and commodities traded slightly weaker, but enough for the S&P500 to break below the June lows. In addition, property and infrastructure were struck by rising global bond yields. The first nine months of 2022 has seen three quarterly declines, the longest losing streak for the S&P and Nasdaq since 2008 and the Dow’s longest quarterly slump since 2015.



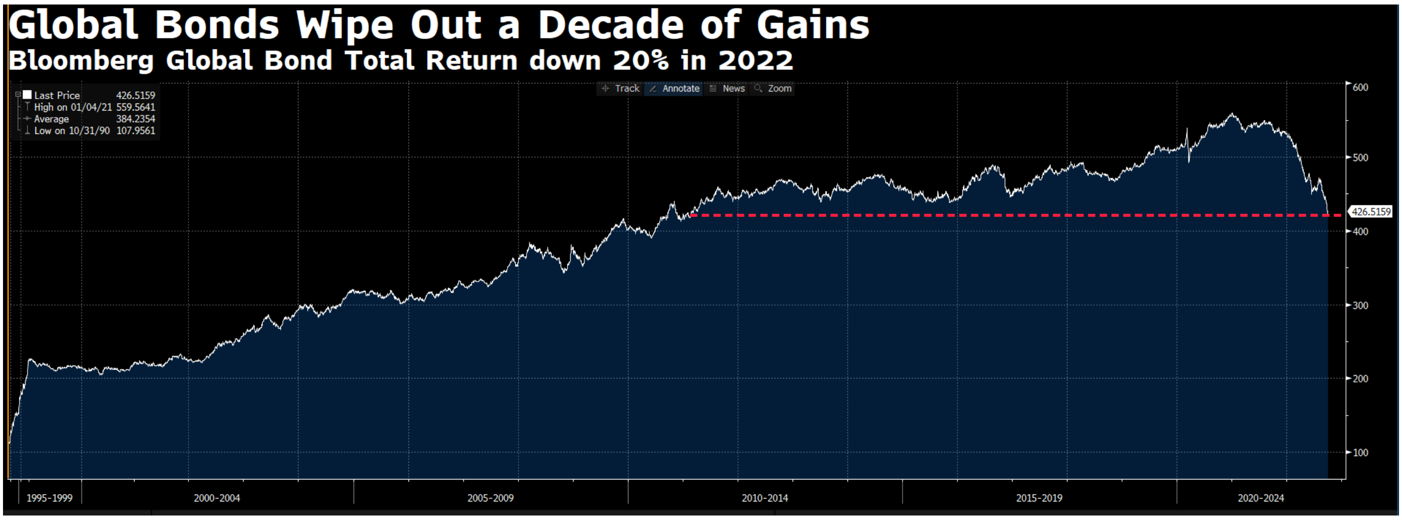


The week began with the expected victory of a collection of right-wing parties in the Italian election. Italy is a large government debt issuer and has a high debt-to-GDP ratio. Any hint of populism tends to push European periphery yields higher. On Monday, President Christine Lagarde stated that the European Central Bank would not commence balance sheet reduction until it was done raising interest rates – a complete reversal of the policy outlined earlier this year. However, the presumptive prime minister-in-waiting, Giorgia Meloni, whose radical Brothers of Italy party won the most seats, has shown that she is a financial realist, despite her part tracing its roots back to Mussolini. As a result, Italian sovereign bond spreads narrowed over the week.

Instead, it was the new leadership of the British Conservative party that sparked a bond market rout. Having vowed to cut taxes without providing any accompanying modelling or projections in the previous week, chancellor Kwasi Kwarteng issued a statement on Sunday. However, he failed to reassure investors that the UK would be able to service its rising debt burden and tame inflation. On Monday, the governor of the Bank of England lamented that the budget would make it tougher to reign in prices but declined to act.

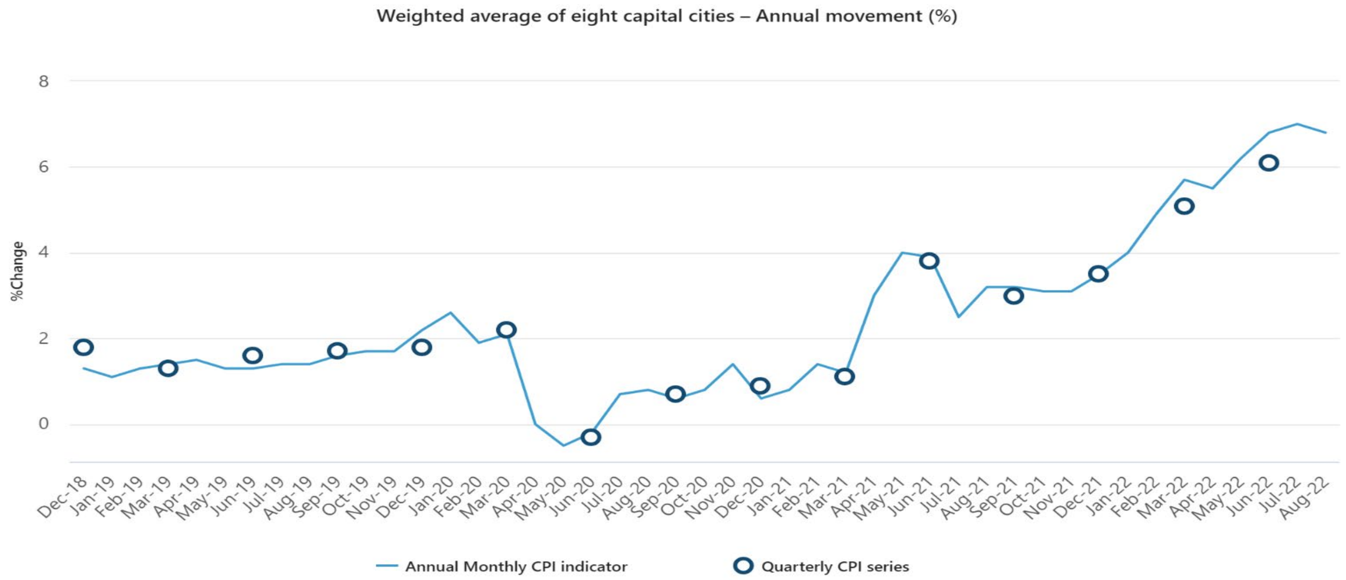
By Tuesday, the UK 10yr government yield had risen from 3.3% just before the budget announcement to 4.5%. The pound sterling was bashed to near the lowest level on record against the US dollar. The extreme moves then sparked a series of margin calls that some large UK pension funds were unable to meet, risking insolvency. At this point, the Bank of England was forced to step in with bond purchases to restore financial stability. The 10yr yield fell back to 4.1% by the end of the week, and since the Bank of England is likely to have to raise the base rate even higher to fight inflation, the pound recovered almost all of its losses since the announcement.

Shorter maturity bond yields remain elevated. A week of generally positive surprises in US data will likely keep the Federal Reserve in tightening mode. Fed speakers confirmed as much, with later presentations acknowledging the need to be attentive to unintended consequences such as those experienced by the UK. The FOMC does not meet again until 2nd November when the market expects another +0.75% increase in the Fed Funds rate to 3.75%-4.0%. The US labour report is due out on Friday, with economists forecasting +250k additional payrolls and the unemployment rate holding at 3.7%.



The OECD published updated growth and inflation forecasts on Monday, painting a grim picture for 2023 due to higher energy and food prices and tighter monetary policy. GDP growth is expected to average just +0.5% in the US and +0.3% in the Euro area, while the UK is not forecast to experience any growth at all.

ABS Monthly CPI Indicator



Source: Australian Bureau of Statistics, Monthly CPI indicator rose 6.8% in the year to August 29/09/2022

Escalating the conflict last week, President Putin pushed ahead with the annexation of four Ukrainian regions. Russia also appears to have sabotaged the Nord Stream gas pipelines, effectively cutting supply to Germany ahead of the winter. While the destruction in itself may be manageable for Europeans, the move also serves as a warning that other pipelines may also be sabotaged, such as those supplying gas from Norway.

Somewhat removed from the direct impacts of the war, the OECD expects growth rates in Asia-Pacific to be significantly higher next year. Nevertheless, the forecast for Australian GDP growth was cut from +2.5% in the June forecasts to +2.0%.

The Treasurer also guided Australians to expect higher unemployment forecasts in the budget scheduled for the 25th of October. He confirmed that the stage 3 Morrison tax cuts would stay in the plan for July 2024, despite international criticism of the UK measures. However, the budget may also include a retroactive prevention of using capital raisings to pay out imputation credits which the AFR expects to be backdated to 2016.

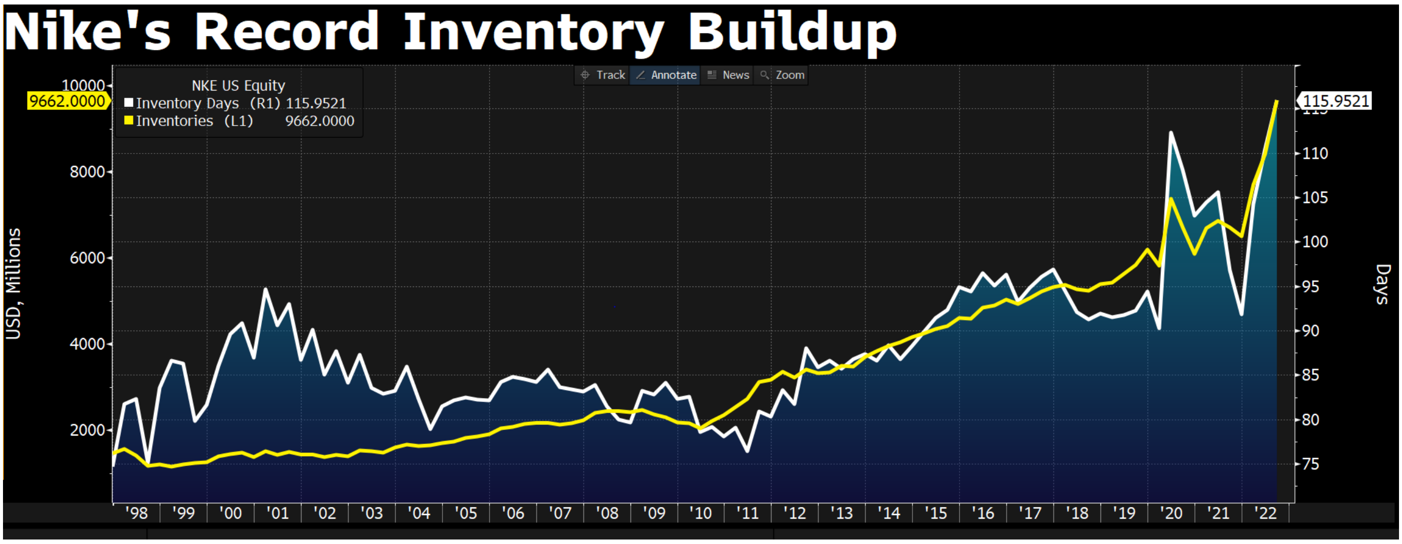
On Thursday, the Australian Bureau of Statistics revealed its new monthly inflation indicator:

"*The ABS is producing this monthly CPI indicator recognising there is value in providing more timely consumer price insights, particularly given the current high rate of inflation. While it will be fit for its purpose as a monthly indicator, we note the data collections underpinning it were not designed with monthly reporting of inflation in mind. As a result, the monthly CPI indicator has some deficiencies relative to the quarterly CPI. In particular, the frequency of price collection and the methods used to compile the two indexes will lead to differences between the monthly CPI indicator and the quarterly CPI.*"

The first reading of +6.8% over the year ending August (+6.2% excluding volatile food and energy items) is likely to encourage the RBA to raise the cash rate by another +0.5% on Tuesday to 2.85%. New dwelling construction costs jumped 20.7% and automotive fuel role 15%. The slight fall in the annual inflation rate from July to August was primarily due to a decrease in automotive fuel prices. Consequently, the spread with the effective US dollar rate would narrow to just 0.25%, perhaps providing some short-term support for the dollar. The RBA will then have raised six times since April while the Fed has raised rates four times. The Federal Reserve has tended to raise rates in larger increments, but the FOMC meets less frequently than every month. However, in early November, the RBA is expected to slow the pace of rate rises to +0.25%, which may already be signalled in tomorrow's statement, while the Fed is still on course to raise by +0.75%, which would again widen the spread.

The US House of Representatives on Friday passed a stopgap funding bill to avoid a partial shutdown of the government. The bill allows the extension of the deadline until December 16 avoiding an embarrassing partial shutdown less than six weeks before the US midterm elections.

Investors were roiled on Friday with Nike Inc. and VF Corp, two powerhouses in retail fashion issued warnings that their businesses were facing significant headwinds ahead. Inventories for both businesses have increased sharply whilst gross margins have fallen.



As we approach Q3 earnings season expect profits and margins to remain under pressure as, high inflation and wages remain elevated.

Significant Upcoming Data:

	Monday	Tuesday	Wednesday	Thursday	Friday
Australia	**NSW Labour Day** CoreLogic House Prices; Melbourne Institute Inflation; S&P Global Mfg. PMI (F);	**RBA Meeting;** **ANZ Job Ads;** **Commodity Index;** Home Loans; Building Apps; Commodity Index;	S&P Global Serv. & Comp. PMIs (F);	**Trade**	
US	**ISM Manuf. Survey;** Constr. Spending; Wards Vehicle Sales; S&P Global Mfg. PMI (F);	**JOLTS;** **Factory Orders;** **Durable Goods;**	**Trade;** **ISM Services;** **ADP Employment;** S&P Global Serv. & Comp. PMIs (F); MBA Mortgage Apps	Challenger Job Cuts; Weekly Jobless Claims	**Labour Report;** WSale Trade Sales & Inventories; Consumer Credit
Europe	**Swiss CPI;** **2nd Tier Manuf. PMIs;** French & Italian Budget Balance	**EZ PPI;** Spanish Unemp.; Italian New Car Reg.	**German Trade;** **French Ind. Prod.;** **2nd Tier Serv. & Comp. PMIs;** Irish Unemp.; UK New Car Reg.	**EZ Ret. Sales;** **German Factory Orders;** **Spanish & Swedish Ind. Prod.;** Dutch CPI; UK & German Constr. PMIs; Finnish Trade	**German & Italian Ret. Sales;** **German, Danish, Norwegian & Irish Ind. Prod.;** French Trade & Curr. Account Norwegian Monthly GDP; Swiss Unempl.
Japan	**Tankan Survey;** Vehicle Sales; Jibun Bank Mfg. PMI (F);	**Tokyo CPI;** **Monetary Base;**	Jibun Bank Serv. & Comp. PMIs (F);		**Leading & Coinc. Indices;** Real & Labour Cash Earnings; Household Spending
China	**National Holiday Week**				**[Caixin Serv. & Comp. PMIs]**

Earnings:

Tuesday 4th – Acuity Brands (AYI), Smart Global (SGH)

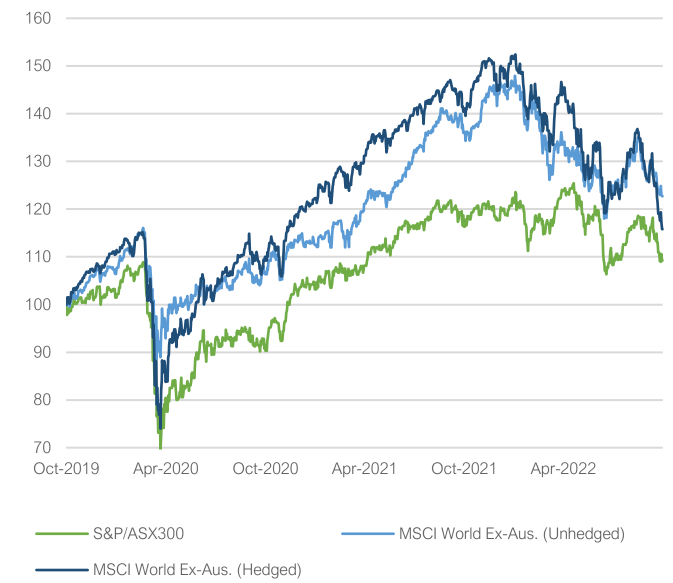
Wednesday 5th – Helen of Troy (HELE), Lamb Weston (LW)

Thursday 6th – Congra (CAG), Constellation Brands (STZ), McCormick (MKC), Levi Strauss (LEVI)

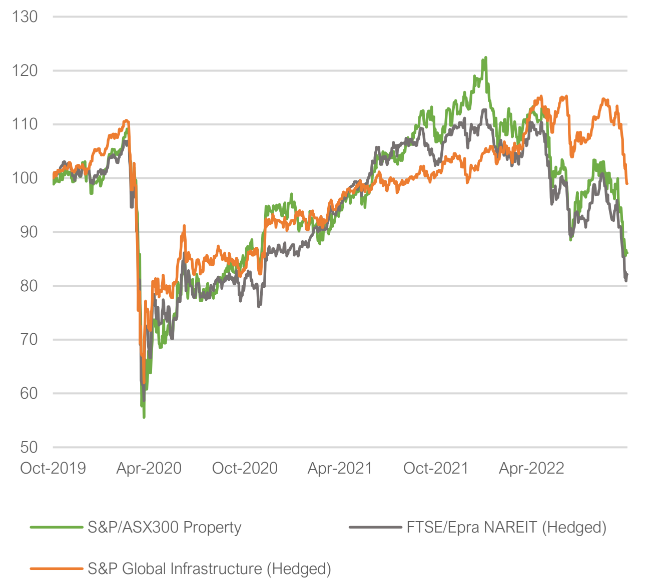
Friday 7th – Tilray (LTRY)

Metabeat event – AN event bringing together Metaverse thought leaders providing guidance on how metaverse technology will transform the way all industries communicate and do business. In attendance – Nvidia, Walmart, P&G, Chipotle and AI firm Solsten.

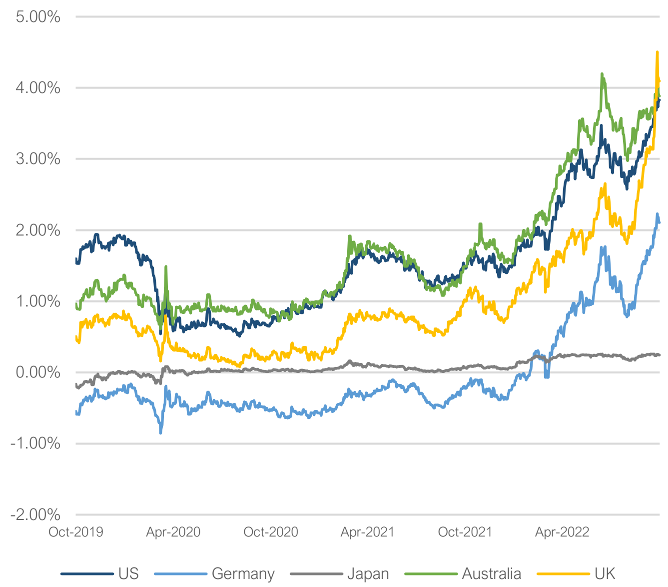
3Yr Equity Indices (Rebased to 100)



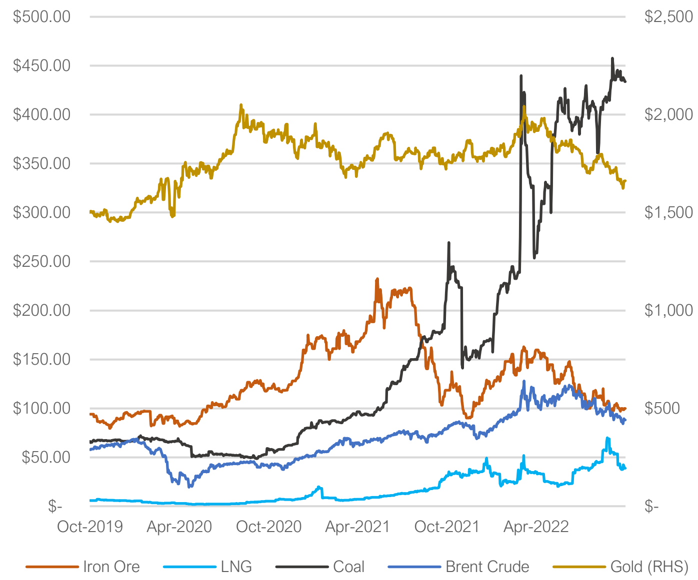
3Yr Prop. & Infras. Indices (Rebased to 100)



10Yr Government Bond Yields (%)



Commodity Prices (US$)



Source: Bloomberg, S&P Dow Jones, MSCI, FTSE Russell, 1st October 2022

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