Xtra-Ordinary Opportunities

WEEKLY UPDATE

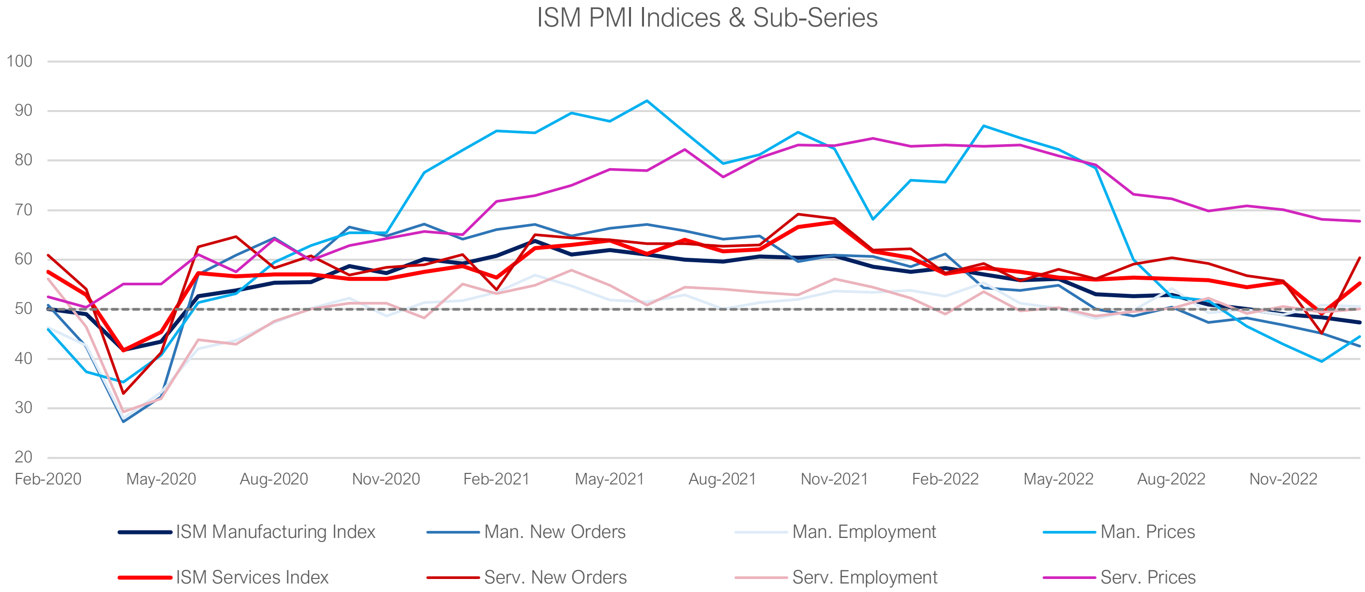
6th FEBUARY 2023

	Price	5 Day % Change	3 Month % Change	1yr % Change
S&P/ASX300	90,462	0.85%	10.20%	10.49%
MSCI World Ex-Aus. (Unhedged)	14,002	3.01%	3.95%	-5.61%
MSCI World Ex-Aus. (Hedged)	2,324	1.52%	9.57%	-6.73%
Bloomberg AusBond 0+ Composite	9,734	1.10%	4.09%	-5.52%
BloombergBarclays Global Agg. (Hedged)	985	0.34%	3.98%	-7.82%
S&P/ASX300 Property	64,109	4.39%	16.86%	-1.17%
FTSE EPRA Nareit Global Real Estate (Hedged)	2,741	1.56%	11.70%	-10.82%
S&P Global Infrastructure (Hedged)	6,011	-0.47%	5.48%	5.03%
Bloomberg All Hedge Fund Index	1,973	N/A	-3.47%	-0.59%
VIX	18.3	-0.97%	-25.34%	-21.06%
Bloomberg Commodity Index (USD)	107.07	-4.07%	-8.87%	-2.28%
Iron Ore Index (62% Fe Aus. Off. China, USD)	127.00	1.60%	51.19%	-14.19%
LME Copper Spot (USD)	9,060.00	-3.05%	20.64%	-7.41%
Coal 1st Future (Newcastle Export, USD)	236.00	-34.10%	-32.76%	6.79%
Brent Crude 1st Future (USD)	79.94	-7.75%	-15.56%	-12.26%
LNG 1st Future (Japan/Korea)	18.53	-5.00%	-33.40%	-23.89%
Gold in AUD	2,694	-0.80%	3.97%	6.58%
AUDUSD	0.6923	-2.49%	10.08%	-3.05%
AUDEUR	0.6413	-2.00%	-0.59%	2.67%
AUDNZD	1.0941	-0.01%	0.43%	1.99%
AUDGBP	0.5743	0.14%	1.86%	8.57%
AUDJPY	90.8280	-1.64%	-2.66%	9.61%

Source: Bloomberg, S&P Dow Jones, MSCI, FTSE Russell, 4th February 2023

Despite the Federal Reserve, ECB and Bank of England all raising interest rates last week, asset prices moved higher in all classes save infrastructure. However, it's difficult to reconcile some price action across markets, especially the dramatic rise in technology stock prices after disappointing earnings results. The Nasdaq booked the fifth consecutive weekly gain.

The Reserve Bank will set interest rates and publish its updated economic forecasts this week. The Board is expected to raise by +0.25% tomorrow. But bond prices will be more sensitive to the changes in expected inflation, which many economists now believe may recede more slowly than previously anticipated.



Source: Bloomberg, ISM, 4th February 2023

Every asset class bar Infrastructure made gains during a very unusual week for price action. Energy commodities fell sharply, with Newcastle coal futures falling by more than 30%. The US dollar fell as the Federal Reserve slowed the pace of interest rate rises, then exploded higher on Friday after a blowout jobs report. US bond yields rose after the labour market data, while Australian yields and the Aussie dollar both fell ahead of this week's RBA updates.

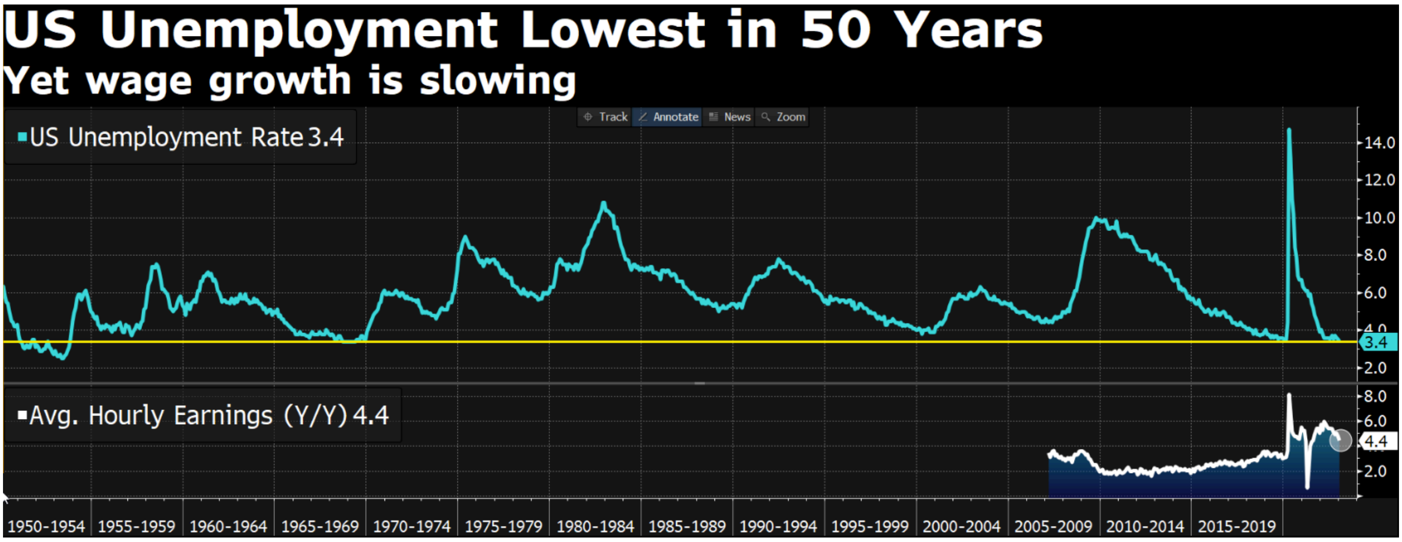
American technology stocks rallied hard, despite lacklustre earnings from Meta, Alphabet, Amazon and Apple. The price rises were unusual since the stocks are usually highly correlated with liquidity-sensitive assets and bonds, all of which moved in the opposite direction on Friday. After the dramatic falls of the last year, it seems likely that the Federal Reserve meeting prompted a short squeeze which may lead to further near-term outperformance.

The Eurozone recorded just +0.1% GDP growth in Q4, leading to a +1.9% annual increase, according to Eurostat.

The ECB and Bank of England both raised the policy interest rate by half a percentage point, more or less in line with expectations. The ECB is expected to continue with another +0.5% rise in March, while the Bank of England is likely to slow to a +0.25% increase.

The Federal Reserve matched market pricing by slowing the pace of interest rate rises to +0.25%. But the Chairman's appearance at the press conference had a far greater impact on the market. In particular, his tone seemed to suggest a lack of confidence and determination compared to December, despite prepared comments that maintained the official hawkish direction. He was asked more than once about the easing in financial conditions but, in contrast to previous appearances, seemed less concerned by the developments. Perhaps this is because Fed Funds, now in the 4.5%-4.75% range, are finally above the level of Core PCE inflation (+4.4% yoy) and could finally be considered "restrictive". But there is also the possibility that widespread talk of recession is starting to cause some members of the FOMC to lean more dovish, particularly as inflation appears to be moderating faster than expected. Nevertheless, he remarked that inflation is still high and that the Fed still has "*more work to do*". He clearly suggested that rates would pause after two more +0.25% hikes. However, he also commented that services inflation was still stubbornly high and may take longer to moderate than the market is anticipating. Fed Funds futures now reflect a 99.6% probability of a increase in rates by 25 basis points at the next policy meeting.

The most recent data seems to support the Fed's view. Friday's ISM services survey showed a sudden recovery, with solid readings for new orders and prices. Manufacturing prices may also be rising and employment seems surprisingly robust, matched by an unexpected surge in the December JOLTS job openings figures. Pandemic-related seasonal adjustments heavily distorted Friday's unbelievably strong non-farm payrolls increase (+517k). However, the headline unemployment rate fell to a new 53yr low of 3.4%. This was accompanied by a +0.1% increase in labour force participation, sparking hopes that growth might surprise to the upside while wage inflation continues to moderate. Even so, bond yields rose sharply in Friday's session and the US dollar strengthened. At the same time, breakeven inflation



Source: Bloomberg

Source: Bloomberg, ABS, 4th February 2023

estimates are settling 0.20%-0.40% above the Fed's 2% target over five- and ten-year maturities.

The RBA meets this week and is also expected to raise interest rates by +0.25% to 3.35%. The quarterly Statement on Monetary Policy follows on Friday, including updated inflation forecasts. In testimony last week, RBA officials maintained the view that inflation peaked in December. However, estimates from sell-side analysts suggest that there may be an altered trajectory of higher-for-longer inflation.

Australian bond yields fell sharply after December retail sales fell much more sharply than expected. Economists had expected a drop of just -0.2%. Instead, the figures fell by -3.9%. However, December figures are subject to large seasonal adjustments and have not tended to be indicative of the trend in subsequent months. With a possible higher inflation path and a recovery in retail sales, further yield volatility seems likely in the weeks ahead.

Treasurer Jim Chalmers published an essay in the The Monthly entitled "Capitalism after the crises", the three crises being the global financial crisis, the pandemic and the supply chain crisis. He outlined his vision of a "values-based capitalism for Australia". The essay has received a mixed reaction from business leaders but, in any event, is extremely well-written and, given the future policy initiatives discussed, worthy of a few minutes' read.

Significant Upcoming Data:

	Monday	Tuesday	Wednesday	Thursday	Friday
Australia	**Retail Sales; Melbourne** Institute Inflation	**RBA Meeting; Trade**			**RBA Statement on Monetary Policy**
US		**Trade; Consumer Credit**	**WSale Trade & Inventories;** MBA Mortgage Apps	Weekly Jobless Claims	**UMich Cons. Sentiment;** Monthly Budget Statement
Europe	**EZ Retail Sales & Sentix Investor Conf.; German Factory Orders;** S&P Global German & UK Construction PMI; UK New Car Reg.	**German, Spanish, Norwegian & Irish Ind. Prod.; Swiss Unempl.;** French & Finnish Trade	**Italian Ret. Sales; Danish Curr. Acc. & Ind. Prod.; Swedish Ind. Orders, Prod. & Household Consumption;**	**Swedish Riksbank Policy Rate; German & Dutch CPI;** UK RICS House Prices	**UK Q4 GDP, Trade & Construction Output; German & Finnish Curr. Acc.; UK, Italian & Finnish Ind. Prod.; Danish & Norwegian CPI; Norwegian PPI;**
Japan		**Leading & Coinc. Indices; Labour & Real Cash Earnings; Household Spending**	**Trade & Curr. Acc.; Bank Lending; Eco. Watchers Survey;** Tokyo Office Vacancies	**M2 & M3 Money Stock; Machine Tool Orders**	**PPI**
China				**M0 / M1 / M2 Money Supply**	**CPI & PPI; Curr. Acc.**

US Earnings:

Monday, February 6 - Activision Blizzard (NASDAQ:ATVI), Tyson Foods (TSN), and Take-Two Interactive (TTWO)

Wednesday, February 8 - Disney (DIS), CVS Health (CVS), Dominion Energy (D), Uber (UBER), MGM Resorts (MGM), Affirm (AFRM) and Under Armour (UAA)

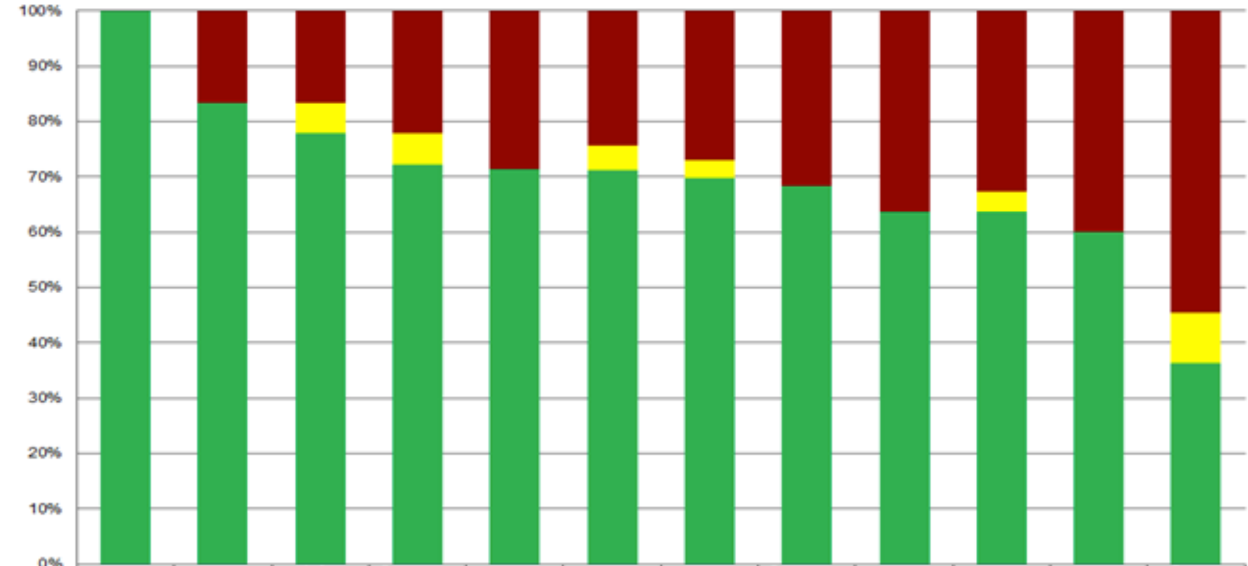
Thursday, February 9 - AbbVie (ABBV), PepsiCo (PEP), Philip Morris (PM), PayPal (PYPL), Ralph Lauren (RL), Lyft (LYFT), and Kellogg (K)

Friday, February 10 - Enbridge (ENB) and Magna International (MGA)

Half the S&P500 companies have reported earnings to last Friday. Companies have reported a lower earnings for the fourth quarter relative to the end of the previous quarter, marking the first year-on-year decline since Q3 of 2020 according to FactSet. Communication Services, Information Technology and Consumer Discretionary Sectors saw the largest earnings declines.

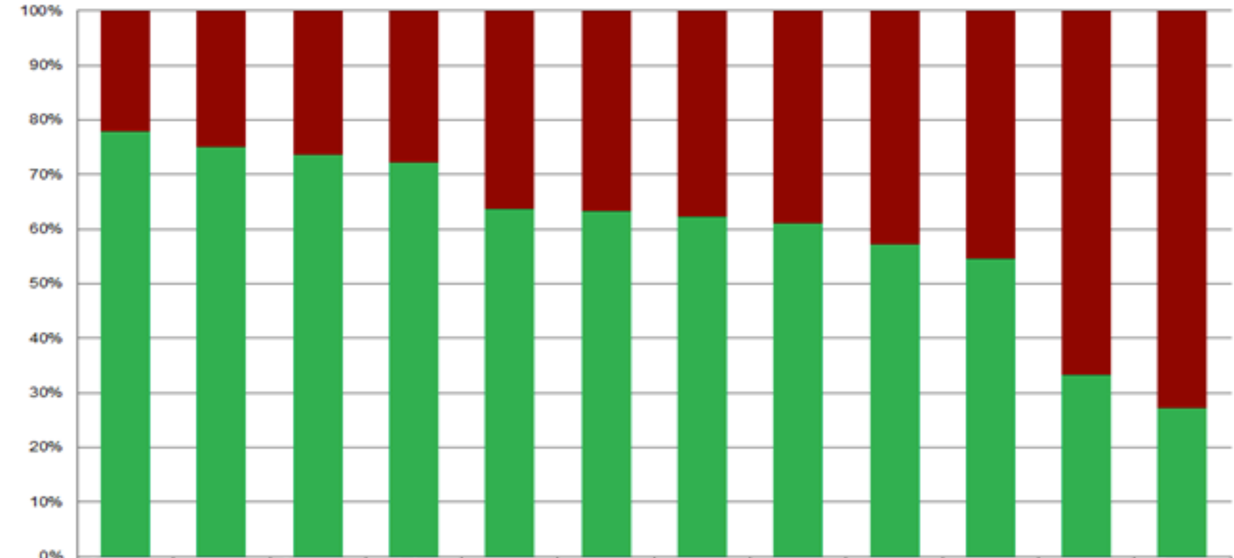
Please use the link to get the full FactSet round up

https://insight.factset.com/sp-500-earnings-season-update-february-3-2023?utm_source=Feedotter&utm_medium=Email&utm_campaign=FO-02-03-2023&utm_content=httpsinsightfactsetcomsp500earningsseasonupdatefebruary32023



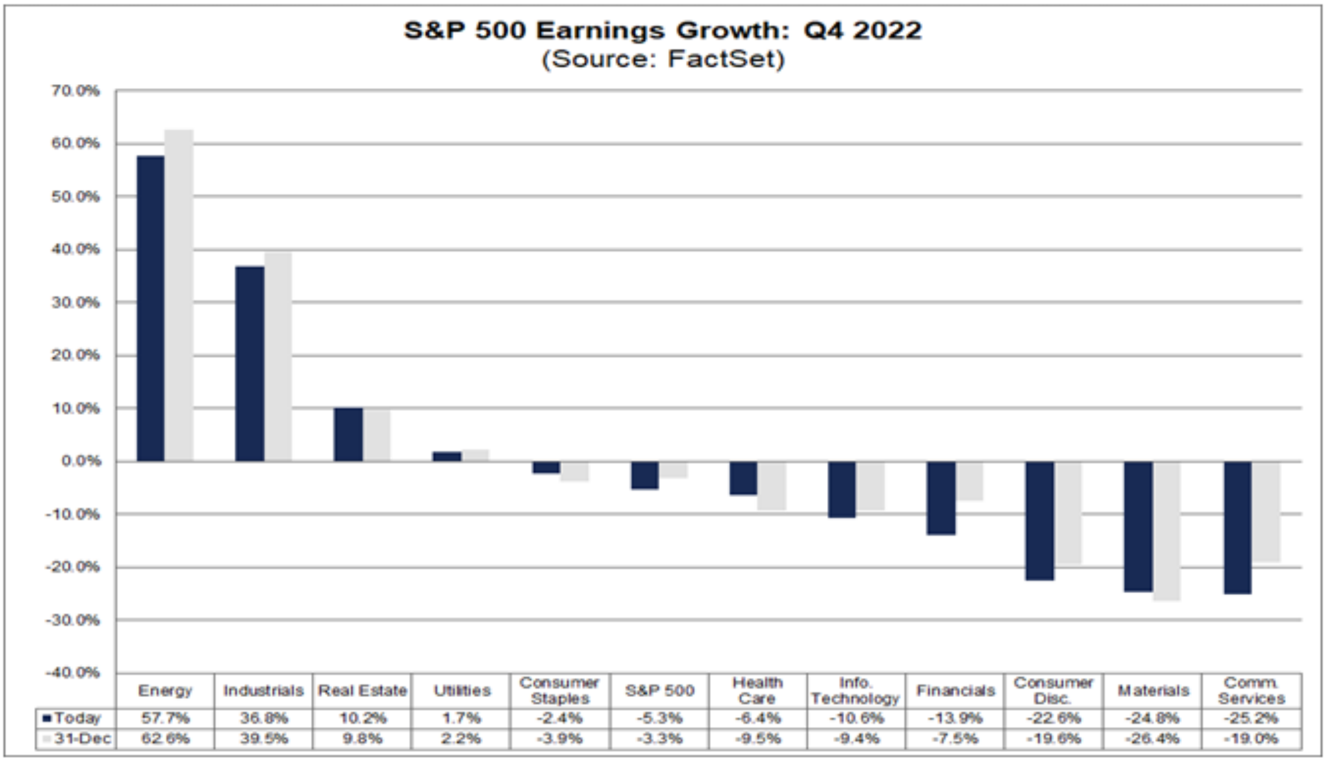
S&P 500 Earnings Above, In-Line, Below Estimates: Q4 2022
(Source: FactSet)

	Utilities	Health Care	Info. Technology	Consumer Staples	Real Estate	Industrials	S&P 500	Consumer Disc.	Energy	Financials	Materials	Comm. Services
Below	0%	17%	17%	22%	29%	24%	27%	32%	36%	33%	40%	55%
In-Line	0%	0%	6%	6%	0%	4%	3%	0%	0%	4%	0%	9%
Above	100%	83%	78%	72%	71%	71%	70%	68%	64%	64%	60%	36%

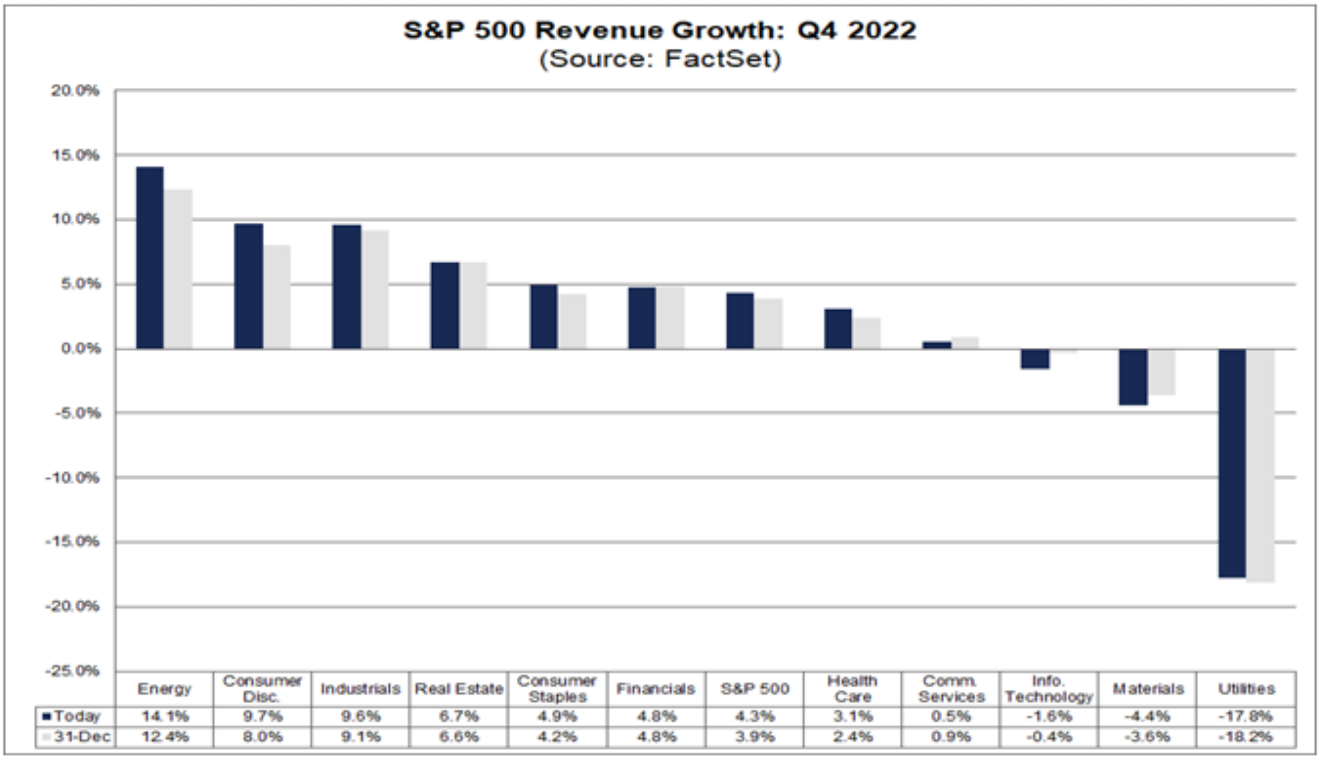


S&P 500 Revenues Above, In-Line, Below Estimates: Q4 2022
(Source: FactSet)

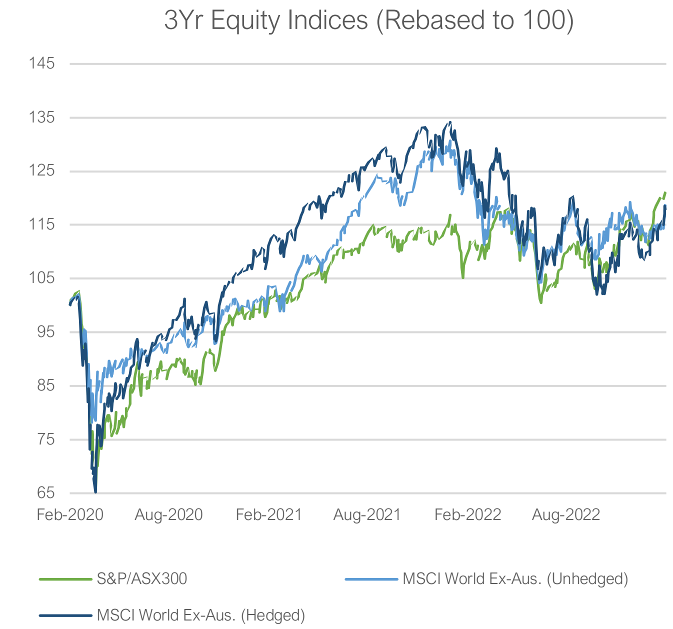
	Consumer Staples	Utilities	Consumer Disc.	Info. Technology	Energy	Health Care	Industrials	S&P 500	Real Estate	Financials	Materials	Comm. Services
Below	22%	25%	26%	28%	36%	37%	38%	39%	43%	45%	67%	73%
In-Line	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Above	78%	75%	74%	72%	64%	63%	62%	61%	57%	55%	33%	27%

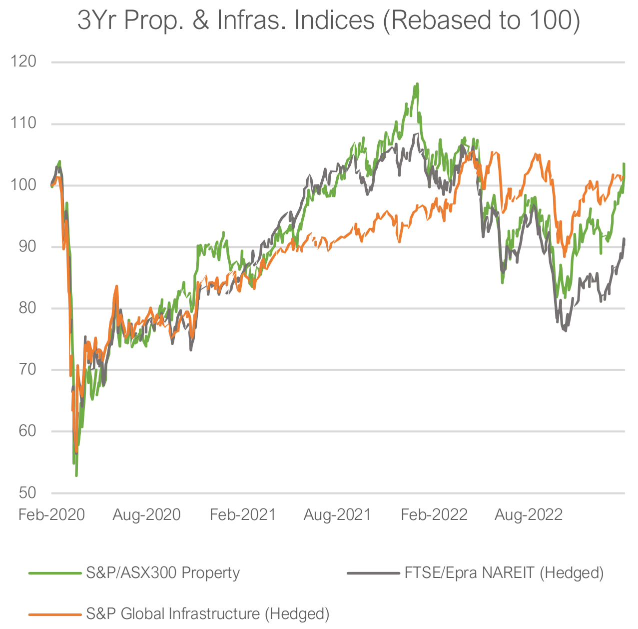


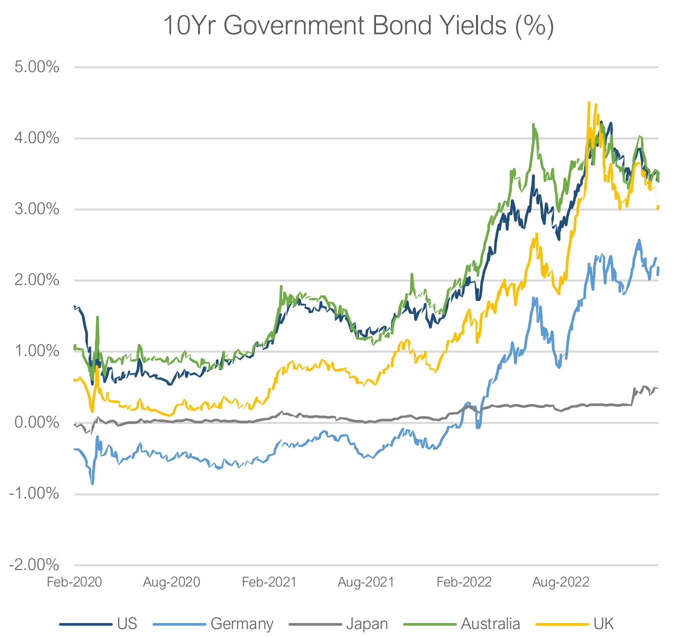
	Energy	Industrials	Real Estate	Utilities	Consumer Staples	S&P 500	Health Care	Info. Technology	Financials	Consumer Disc.	Materials	Comm. Services
Today	57.7%	36.8%	10.2%	1.7%	-2.4%	-5.3%	-6.4%	-10.6%	-13.9%	-22.6%	-24.8%	-25.2%
31-Dec	62.6%	39.5%	9.8%	2.2%	-3.9%	-3.3%	-9.5%	-9.4%	-7.5%	-19.6%	-26.4%	-19.0%

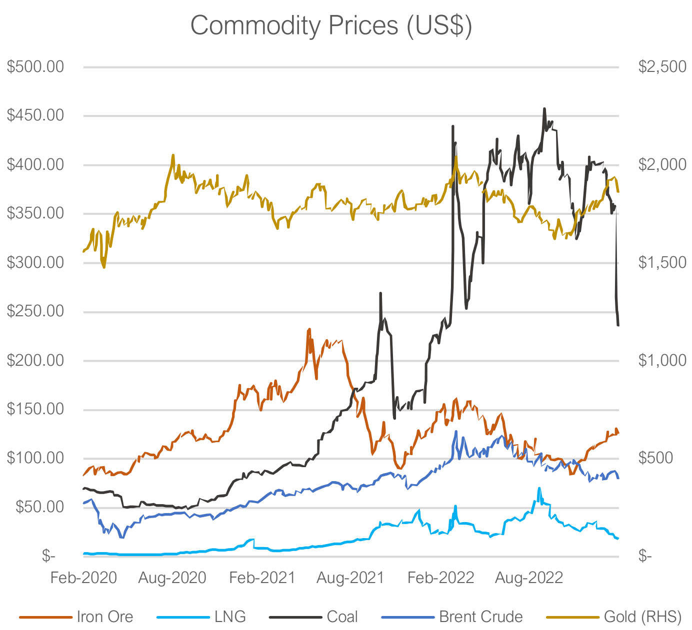


	Energy	Consumer Disc.	Industrials	Real Estate	Consumer Staples	Financials	S&P 500	Health Care	Comm. Services	Info. Technology	Materials	Utilities
Today	14.1%	9.7%	9.6%	6.7%	4.9%	4.8%	4.3%	3.1%	0.5%	-1.6%	-4.4%	-17.8%
31-Dec	12.4%	8.0%	9.1%	6.6%	4.2%	4.8%	3.9%	2.4%	0.9%	-0.4%	-3.6%	-18.2%









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