



## WEEKLY UPDATE

15<sup>th</sup> MAY 2023

	Price	5 Day % Change	3 Month % Change	1yr % Change
S&P/ASX300	88,204	0.75%	0.28%	6.84%
MSCI World Ex-Aus. (Unhedged)	14,744	0.99%	3.90%	9.96%
MSCI World Ex-Aus. (Hedged)	2,331	-0.09%	-0.06%	3.81%
Bloomberg AusBond 0+ Composite	9,850	0.02%	2.95%	3.62%
Bloomberg Barclays Global Agg. (Hedged)	988	0.02%	1.77%	-2.10%
S&P/ASX300 Property	60,398	-0.11%	-0.83%	1.32%
FTSE EPRA Nareit Global Real Estate (Hedged)	2,509	-1.53%	-6.41%	-12.15%
S&P Global Infrastructure (Hedged)	6,111	0.29%	1.73%	1.64%
Bloomberg All Hedge Fund Index	2,074	N/A	5.23%	5.32%
VIX	17.0	-0.93%	-6.58%	-41.01%
Bloomberg Commodity Index (USD)	101.18	-1.72%	-5.79%	-21.14%
Iron Ore Index (62% Fe Aus. Off. China, USD)	103.00	3.00%	-18.25%	-17.93%
LME Copper Spot (USD)	8,240.00	-3.50%	-7.47%	-8.63%
Coal 1st Future (Newcastle Export, USD)	164.90	-2.80%	-27.07%	-57.88%
Brent Crude 1st Future (USD)	74.17	-1.50%	-14.15%	-30.97%
LNG 1st Future (Japan/Korea)	11.12	-1.77%	-38.20%	-52.76%
Gold in AUD	3,026	1.25%	13.71%	13.86%
AUDUSD	0.6646	-1.53%	-4.59%	-3.06%
AUDEUR	0.6122	-0.07%	-6.09%	-7.87%
AUDNZD	1.0739	0.17%	-2.03%	-2.45%
AUDGBP	0.5335	-0.20%	-7.55%	-5.33%
AUDJPY	90.1540	-0.99%	-2.31%	2.43%

Source: Bloomberg, S&P Dow Jones, MSCI, FTSE Russell, 13<sup>th</sup> May 2023

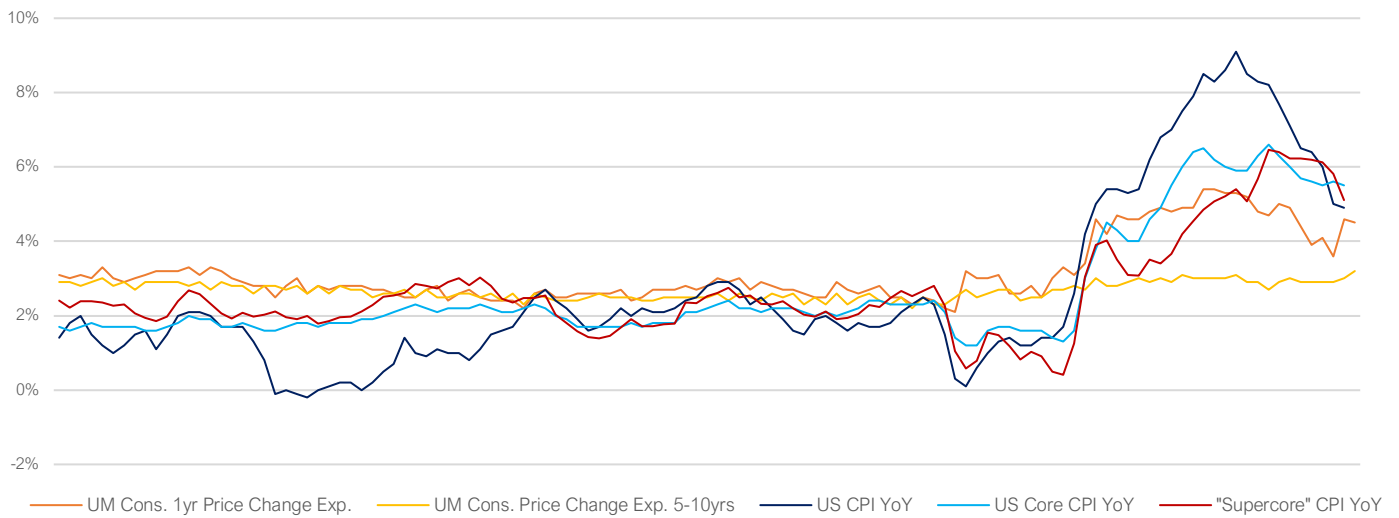
**Global capital markets were relatively steady last week, while commodities were slightly lower on signs of slowing economic growth and a stronger US dollar. With the US government soon to run out of cash, investors are waiting for some good news from Washington on the progress of debt ceiling negotiations.**

**The Treasurer delivered a Budget that focused on the cost-of-living and clean energy, spending some of the additional revenue that is likely to lead to the first surplus since 2008 this year.**

**Bond yields rose on Friday after a worrying increase in the University of Michigan survey that might make it harder for the Federal Reserve to cut rates as growth slows.**

**The Chinese central bank may cut interest rates later today, ahead of tomorrow's activity data. In addition, Japanese GDP, US retail sales and Australian employment figures will also be published this week.**

## US CPI & University of Michigan Consumer Inflation Expectations



Source: Bloomberg, BLS, University of Michigan, 13<sup>th</sup> May 2023

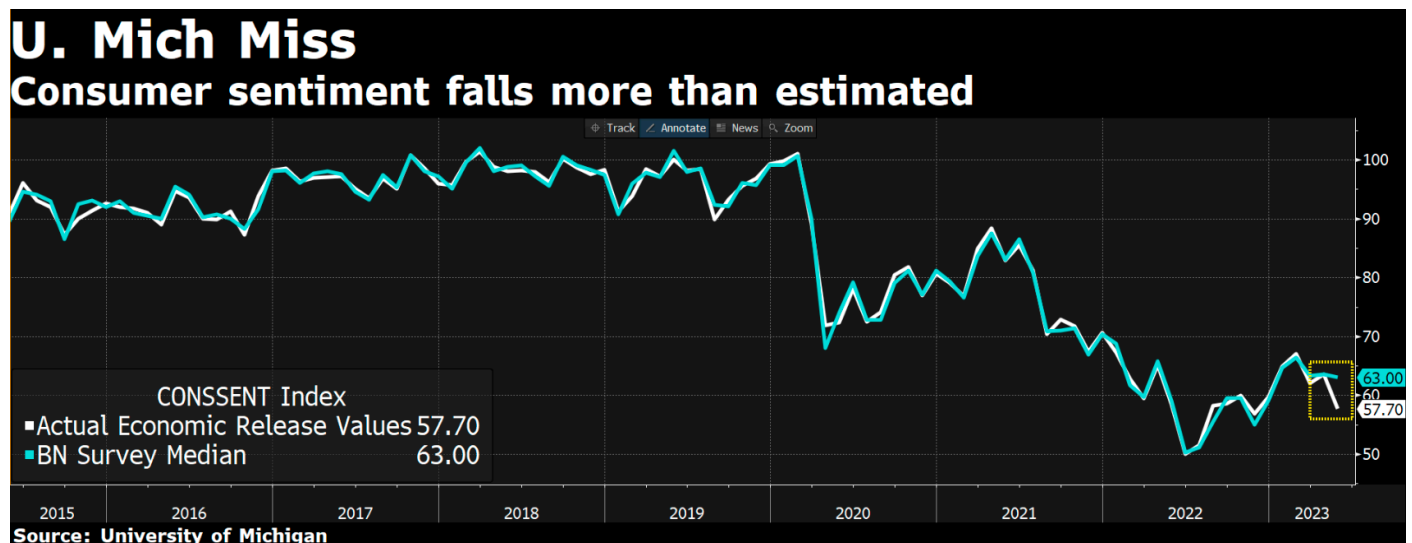
Asset classes were relatively little moved over the last week as the global earnings season entered the final phase, and investors waited for signs that the Democrats and Republicans might be able to raise the debt ceiling and avoid an American default or ratings downgrade. Treasury Secretary, **Janet Yellen, warned that the government would soon run out of cash, although the precise timing is difficult to determine.** House Republicans met with the President, although a deal still seems some way off.

**International real estate remained under pressure as default and bank sector concerns continued in the background.**

Treasurer Jim Chalmers delivered the Albanese government's first full Budget on Tuesday, emphasising measures to combat the cost-of-living crisis and the transition to cleaner energy. The Treasury forecasts that the Budget will be in surplus this financial year for the first time in fifteen years due to higher-than-expected commodity prices, higher employment, and rising wages. However, new spending measures will likely push the Budget back into deficit next year.

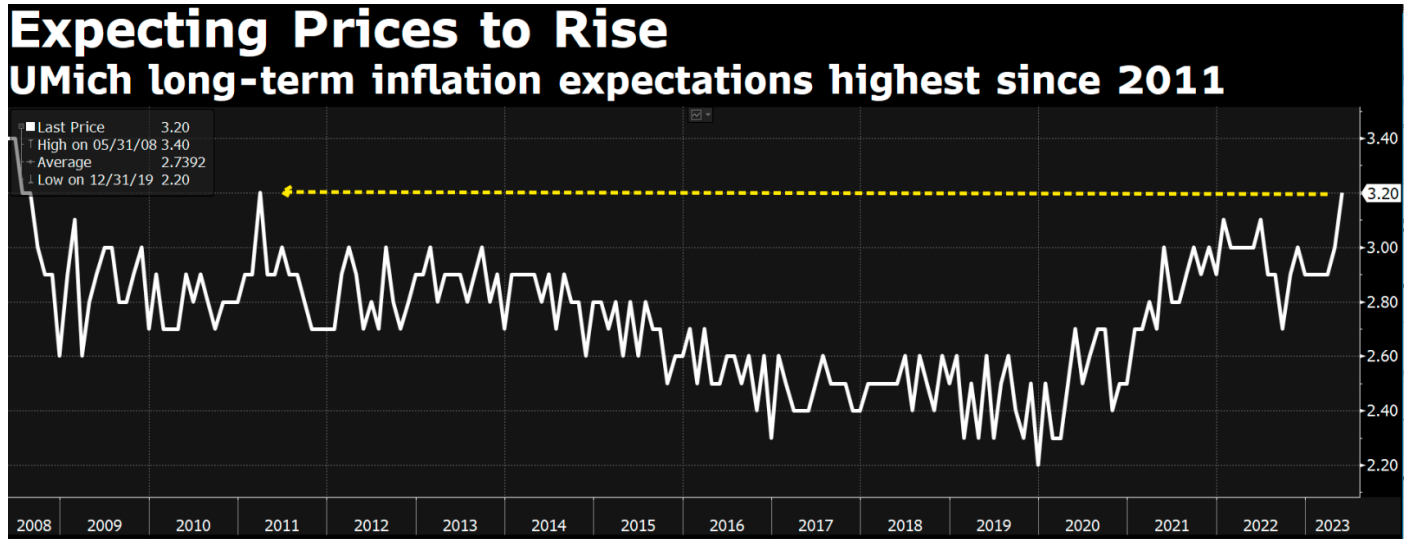
Targeting lower-income households, the fiscal measures raised concerns that inflation might increase despite power subsidies and the tax on tobacco combining to shave an anticipated -0.6% off headline CPI. Nevertheless, **the market is only pricing a slim 15% chance of an additional +0.25% rate hike from the RBA in the next few months.**

The US dollar strengthened, and Treasury yields rose sharply on Friday night following the release of the **University of Michigan Consumer Sentiment** survey with sentiment falling greater than expected (see below chart)



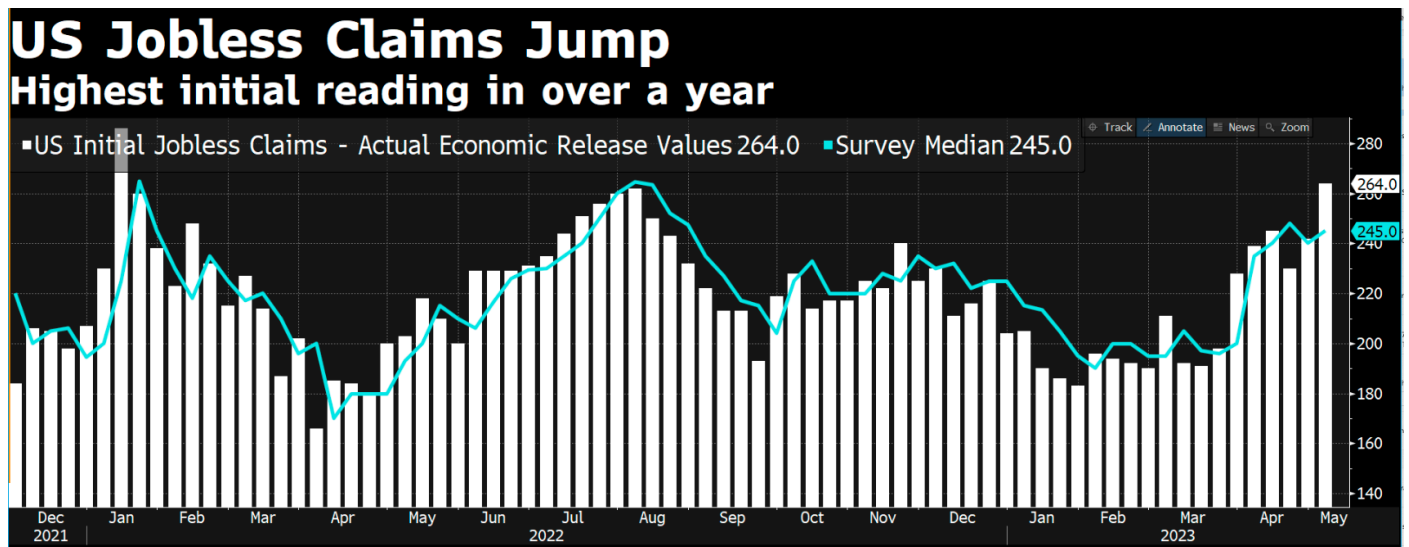
Earlier in the week, the April consumer price index had increased by +0.4%, reaccelerating from +0.1% in March. However, the increase was expected by economists and, incorporating more timely price readings in the housing and autos sectors, it is highly likely that headline CPI will continue to slow in the coming months. Moreover, the updated Federal Reserve Senior Loan Officer Survey confirmed on Monday that credit conditions remain tight, further reducing inflationary pressure and constraining economic growth.

Declining inflation would give the Federal Reserve more scope to respond to slowing growth with interest rate cuts, if necessary. The shock in the Michigan report was an unexpected rise in longer-term inflation expectations. (see below chart)



The Federal Reserve, and central banks more generally, make frequent reference to the importance of inflation expectations remaining well anchored to avoid a wage-price spiral. **Rising expectations could prompt the FOMC to raise rates higher than currently priced and hold them higher for longer**, even if faced with a slowing economy and rising unemployment. The consequence would then be a longer and deeper downturn.

The signs of a US slowdown are already beginning to appear. On Thursday, weekly initial jobless claims rose to 264k, the highest level since October 2021, suggesting that the labour market is starting to soften. Falling copper and energy commodity prices also indicate slowing global economic activity.



The UK narrowly avoided slipping into recession in the first quarter. The Office for National Statistics estimates that the economy grew by +0.1%, matching the growth in the fourth quarter of last year.

The Bank of England was the latest among major developed central banks to raise interest rates on Thursday. The Monetary Policy Committee raised by +0.25% to 4.5%, following similar increases from the Federal Reserve, the ECB, and the RBA earlier this month.

In contrast, low Chinese inflation and money supply growth has prompted speculation that the PBOC may be ready to cut interest rates as soon as today to support the lacklustre recovery of the world's second-largest economy. Key monthly activity data will follow tomorrow.

Also this week, Japan is expected to announce +0.2% GDP growth in the first quarter. Australian unemployment is expected to have remained at 3.5% in April when released on Thursday. US retail sales and UK employment data will also be published, although the focus will likely remain on the debt ceiling negotiations in Washington.

#### Companies of note reporting this week:

**Monday, May 15** – XP (XP), Tower Semiconductor (TSEM), and Nu Holdings (NU).

**Tuesday, May 16** - Home Depot (HD), Sea Limited (SE), and Baidu (BIDU).

**Wednesday, May 17** - Cisco (CSCO), Target (TGT), TJX Companies (TJX), Jack in the Box (JACK), and Take-Two Interactive (TTWO).

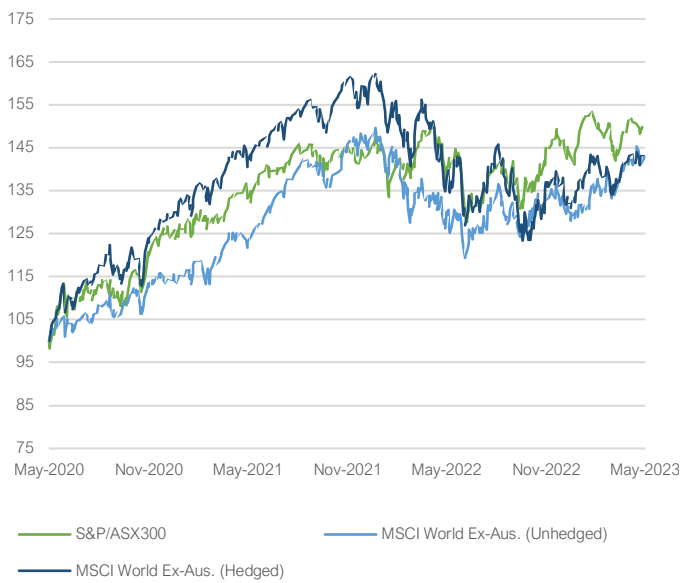
**Thursday, May 18** - Walmart (WMT), Alibaba (BABA), Applied Materials (AMAT), Farfetch (FTCH), Canada Goose (GOOS), and Ross Stores (ROST).

**Earnings spotlight: Friday, May 19** – Deere (DE) and Foot Locker (FL).

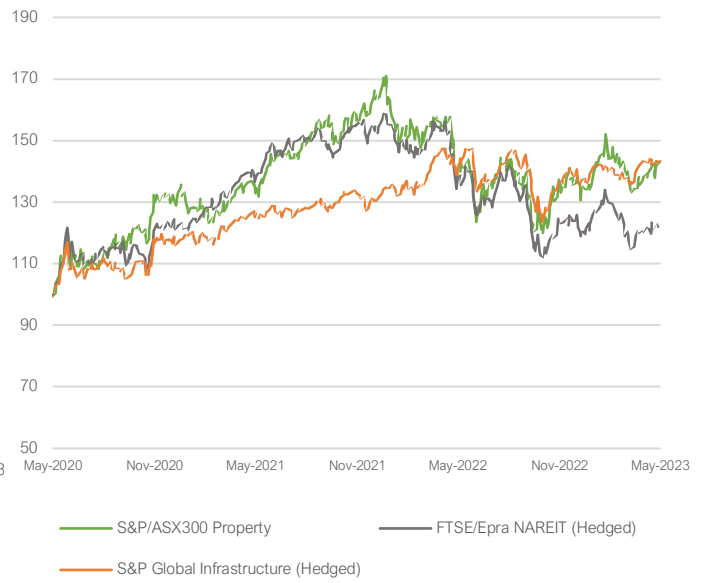
#### Significant Upcoming Data:

	Monday	Tuesday	Wednesday	Thursday	Friday
<b>Australia</b>		<b>RBA Minutes</b>	<b>Q1 Wage Index; Westpac Leading Index</b>	<b>Employment</b>	
<b>US</b>	<b>Empire Manuf.;</b> TIC Flows	<b>Ret. Sales; Ind. Production; NY Fed. Services Activity;</b> Business Inventories; NAHB Housing Market Index	<b>Housing Starts Building Permits;</b> MBA Mortgage Apps	<b>Philly Fed.;</b> <b>Leading Index;</b> Existing Home Sales; Weekly Jobless Claims	
<b>Europe</b>	<b>EZ Ind. Prod.;</b> <b>Swedish &amp; Finnish CPI;</b> <b>German Wsale Prices;</b> <b>Danish GDP Ind. &amp; PPI;</b> <b>Italian Govt. Debt;</b> EU Commission Econ. Forecasts; Norwegian Trade	<b>ZEW Survey;</b> <b>EZ, Dutch &amp; Finnish GDP;</b> <b>EZ Trade &amp; Employment;</b> <b>UK Unempl.;</b> Italian CPI; Dutch Cons. Spending	<b>French &amp; Dutch Unempl.;</b> <b>Italian &amp; Irish Trade;</b> EZ (Final) & Austrian CPI; EU27 New Car Reg.; Irish Property Prices	<b>Spanish Trade &amp; House Prices;</b> ECB Econ. Bulletin	German PPI; UK GfK & Irish Cons. Conf.; French Ret. Sales
<b>Japan</b>	<b>PPI;</b> Machine Tool Orders		<b>Q1 GDP;</b> <b>Ind. Production</b>	<b>Trade;</b> Tokyo Condos for Sale	<b>Natl. CPI;</b> <b>Tertiary Ind. Index</b>
<b>China</b>	<b>1yr Med. Term Lending Rates</b>	<b>Industrial Prod.;</b> <b>Ret. Sales;</b> <b>Surveyed Jobless;</b> <b>Prop. Inv.;</b> <b>Fixed Asset Inv.</b>	<b>New Home Prices</b>		

3Yr Equity Indices (Rebased to 100)



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



10Yr Government Bond Yields (%)



Commodity Prices (US\$)



Source: Bloomberg, S&P Dow Jones, MSCI, FTSE Russell, 13<sup>th</sup> May 2023

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