Xtra-Ordinary Opportunities

WEEKLY UPDATE

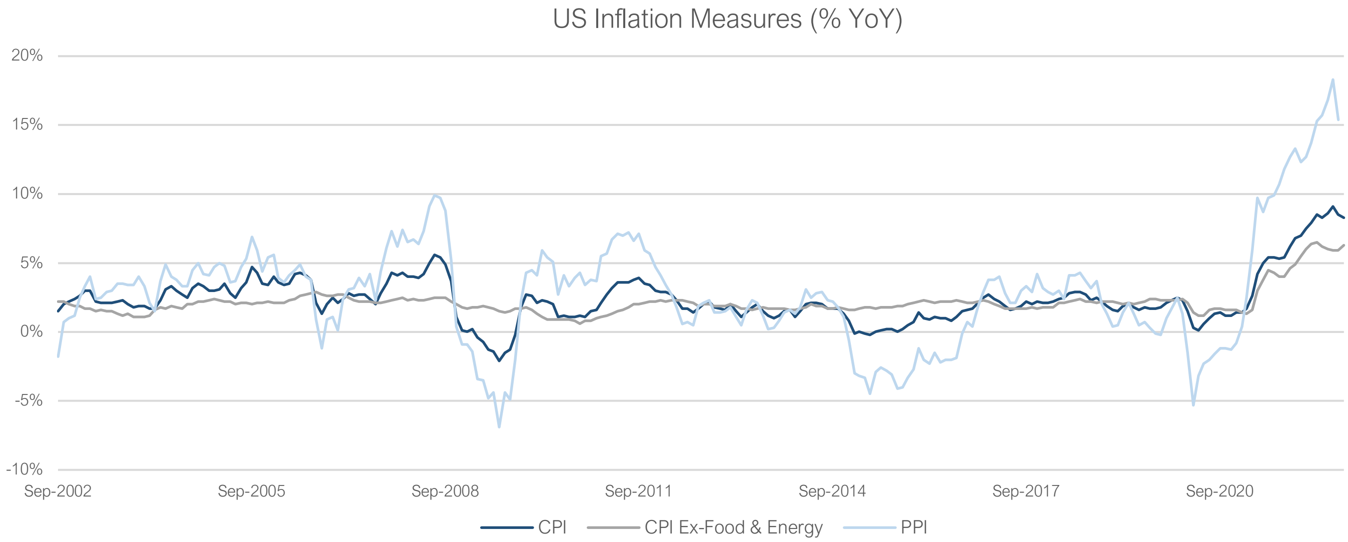
19th SEPTEMBER 2022

	Price	5 Day % Change	3 Month % Change	1yr % Change
S&P/ASX300	80,358	-2.19%	6.25%	-5.10%
MSCI World Ex-Aus. (Unhedged)	13,225	-2.30%	6.84%	-8.71%
MSCI World Ex-Aus. (Hedged)	2,168	-4.11%	4.77%	-13.38%
Bloomberg AusBond 0+ Composite	9,424	-0.93%	2.07%	-11.61%
BloombergBarclays Global Agg. (Hedged)	976	-0.57%	-0.52%	-11.44%
S&P/ASX300 Property	55,173	-4.46%	5.04%	-16.69%
FTSE EPRA Nareit Global Real Estate (Hedged)	2,660	-4.13%	1.66%	-13.51%
S&P Global Infrastructure (Hedged)	5,963	-2.57%	5.13%	9.34%
Bloomberg All Hedge Fund Index	1,982	N/A	2.96%	0.29%
VIX	26.3	15.40%	-15.52%	26.38%
Bloomberg Commodity Index (USD)	116.74	-1.50%	-7.91%	19.68%
Iron Ore Index (62% Fe Aus. Off. China, USD)	100.50	-2.90%	-23.86%	-12.99%
LME Copper Spot (USD)	7,792.00	-2.42%	-14.42%	-17.04%
Coal 1st Future (Newcastle Export, USD)	439.00	0.86%	13.33%	149.43%
Brent Crude 1st Future (USD)	91.35	-1.60%	-23.75%	20.72%
LNG 1st Future (Japan/Korea)	42.16	-21.78%	21.67%	80.02%
Gold in AUD	2,494	-0.62%	-5.37%	3.70%
AUDUSD	0.6716	-1.83%	-4.70%	-7.90%
AUDEUR	0.6709	-1.54%	0.46%	7.60%
AUDNZD	1.1220	0.16%	1.30%	8.16%
AUDGBP	0.5884	-0.36%	3.06%	10.16%
AUDJPY	96.0440	-1.60%	3.04%	16.66%

Source: Bloomberg, S&P Dow Jones, MSCI, FTSE Russell, 18th September 2022

All asset classes suffered last week as a reacceleration in American inflation caused investors to expect more aggressive interest rate action from the Federal Reserve this week. Subsequent data has led the market to converge around another +0.75% hike, with the central banks of the UK, Switzerland, Sweden, and Norway also expected to raise rates this week. Chinese and Japanese rates are expected to remain unchanged.

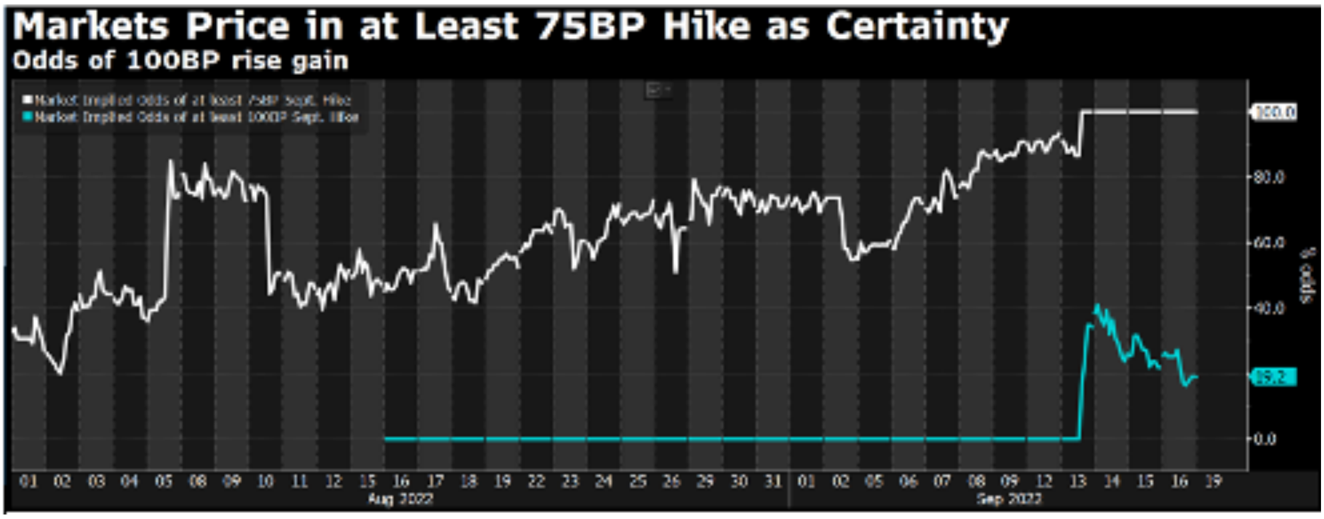
Australia will hold a National Day of Mourning on Thursday. The latest flash PMI surveys are due on Friday.



Source: Bloomberg, BLS, 18th September 2022

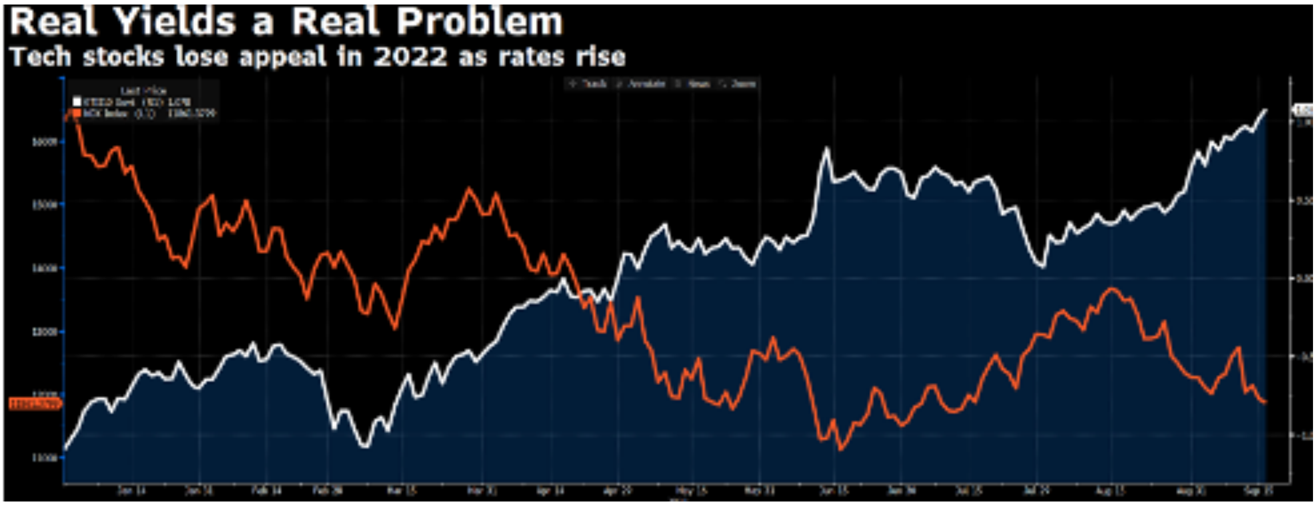
Bonds, stocks, property, and infrastructure all recorded losses last week. A reacceleration in the American August core CPI figures released on Tuesday sent bond yields higher and equity indices sharply lower, recording the biggest single-day losses since June 2020. The S&P 500 fell by -4.3%, while the more interest-sensitive Nasdaq Composite fell by -5.2%.

Core CPI excludes the more volatile food and energy items and is viewed by the Federal Reserve as a predictor of future inflation. **The annual change in core consumer prices was expected to rise from +5.9% to +6.1%. But instead, the series rose by +6.3%.** Since the Fed had expressly indicated that several months of weaker inflation prints would likely be needed before they would stop tightening monetary policy, the news was interpreted as heralding more aggressive interest rate hikes. The market quickly began to price a move by as much as +1.0% at this Wednesday's FOMC meeting, bringing the Fed Funds rate (cash rate equivalent) to 3.5%. Moreover, a drop in the weekly initial jobless claims suggested that there was no softening in the labour market that would stand in the way of raising. However, following a later drop in producer prices – also a leading indicator of future consumer price inflation – as well as softer production and consumer inflation expectations, **pricing has now settled on a third consecutive +0.75% increase on Wednesday.**



Technical patterns have turned bearish, particularly in the US market. The S&P500 appears likely to re-test the June lows just below 3,700, especially if the Federal Reserve maintains its very hawkish line this week. In addition, the central banks of the UK, Sweden, Norway and Switzerland are all expected to raise by at least +0.50% this week, with the Banks of Japan and China expected to hold.

Interestingly the effect on rising interest rates has taken a more pronounced effect on those sectors considered "long duration", which particularly effects sectors such as technology as highlighted in the chart below which shows the inverse effect on Nasdaq index since the rate rising cycle commenced.



Last week the warnings from the corporate sector also grew a little louder. Global logistics firm FedEx caught the market's attention as the company withdrew earnings guidance and warned of a difficult global recession ahead. The Dow transport selloff has sent an important message about the health of the broader stock market given that the index is view by many as a leading economic indicator.

More positively, there was an improvement across the board in the monthly data from China released on Friday. Industrial production increased from +3.8% to +4.2% compared to last year, and retail sales surged from +2.7% to +5.4%, well ahead of expectations.

Westpac's Australian consumer confidence improved by +3.9% compared to last month, while the NAB business conditions index maintained the same level. The Australian economy also added +33.5k jobs in August. Employment data has become a little "noisy" over the winter, as absences have increased due to coronavirus infections. A rebound in participation saw the headline unemployment rate rise from 3.4% to 3.5%, which seems to have little significance in an otherwise positive report.

The RBA minutes will be released on Tuesday. Giving testimony in Canberra on Friday, the Governor stuck to the language of the recent post-meeting statement:

"*In terms of the outlook for interest rates, the Reserve Bank Board expects that further increases will be required to bring inflation back to target. We are not on a pre-set path, though, especially given the uncertainties I have just spoken about. The increase in interest rates has been rapid and global and we know monetary policy operates with a lag. At some point, it will be appropriate to slow the rate of increase in interest rates and the case for doing that becomes stronger as the level of interest rates increases. As I have said previously, the size and timing of future interest rate increases will be guided by the incoming data and the Board's assessment of the outlook for inflation and the labour market*".

Some economists have interpreted his comments as implying an imminent slowing in interest rate rises from the current monthly pace of +0.50%. That may be the case since the transmission to the economy is more direct in Australia than in other economies due to the high proportion of variable-rate mortgages. However, it's far from certain, considering that inflation is still rising, and market pricing is evenly split on whether the October rise will be by +0.25% or +0.50%.

Australians on the eastern seaboard will have to look forward to another wet summer. The BOM last week declared that the La Niña patterns of sea currents would continue, leading to elevated flood risks.

Yvon Chouinard, the mountaineer and founder of the outdoor clothing company Patagonia, sensationally announced that he would give away the company to a trust that will use future profits to "help fight" the climate crisis. "Earth is now our only shareholder," he said in a message to staff and customers. "Instead of 'going public', you could say we're 'going purpose'. Instead of extracting value from nature and transforming it into wealth for investors, we'll use the wealth Patagonia creates to protect the source of all wealth." The plan was sparked by his inclusion in a Forbes list of the wealthy, which ran contrary to the founder's objectives to help fellow climbers and to make the world a better and fairer place.

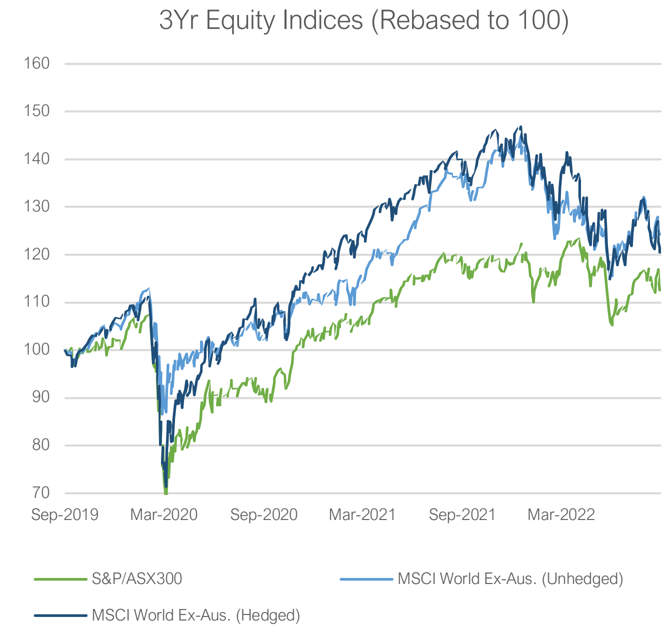
There was good news for the NATO+ global western alliance last week as Ukraine recaptured a large area of territory and material in the country's northeast. The rapid advance is likely to slow, but the inflicted severe losses in terms of Russian resources cut important supply lines. At the Shanghai Cooperation Organisation summit in Uzbekistan this week, President Putin acknowledged the “concerns” of China, India and other countries present and appeared to be showing signs of strain. With further evidence of war crimes uncovered this week, Russia is increasingly isolated internationally. It is unclear how and when Russia would be reintegrated into the global economy, even if the war were to end sooner than anticipated.

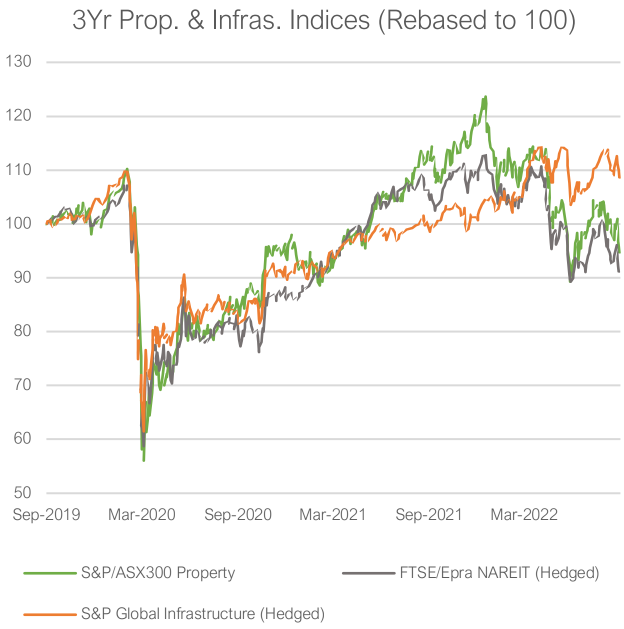
Besides this week’s central bank updates, there will be national days of mourning for Queen Elizabeth II in the UK on Monday and Australia on Thursday, giving Victorians a four-day AFL Grand Final weekend. On Friday, the latest flash PMI surveys will provide an update on corporate activity.

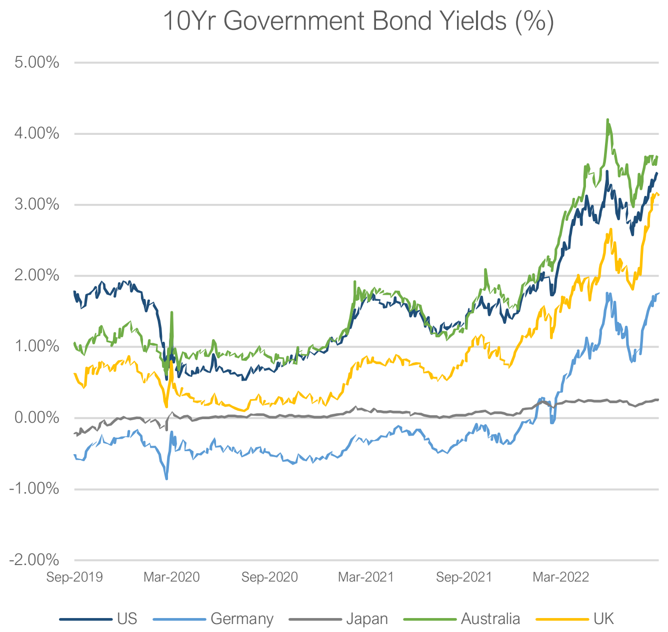
Source: Bloomberg, S&P Dow Jones, 18th September 2022

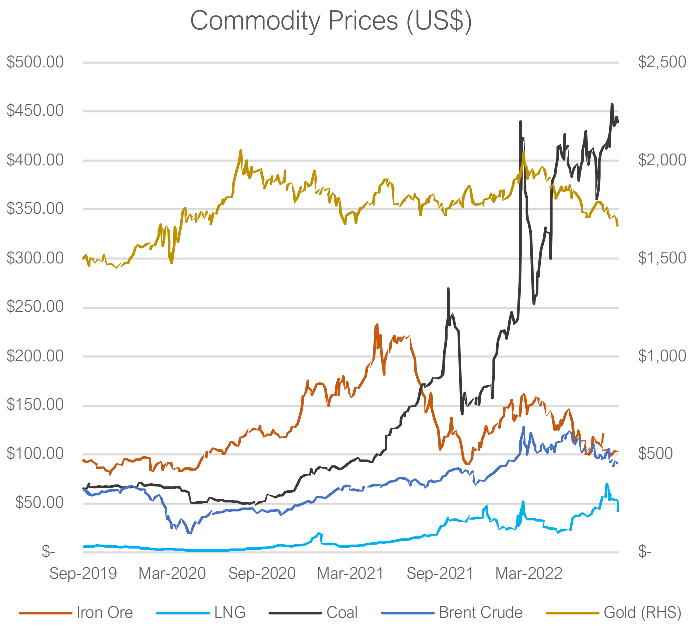
Significant Upcoming Data:

	Monday	Tuesday	Wednesday	Thursday	Friday
Australia		**RBA Minutes**	**Westpac Leading Index**	**National Mourning Day**	**(AFL Grand Final Day VIC)** **S&P Global Flash PMIs**
US	**NAHB Housing Index**	**Building Permits; Housing Starts**	**FOMC Meeting;** MBA Mortgage Apps	**Leading Index; Current Acc.; Kansas City Fed Manuf. Activity;** Weekly Jobless Claims	**S&P Global Flash PMIs**
Europe	**(National Mourning Day UK);** EZ Constr. Output	**Swedish Riksbank Rates; ECB & Italian Curr. Acc.; Swiss & Spanish Trade;** Finnish Unemp.	**UK Public Finances; Swiss M3 Money Supply; Swedish Unempl.;** Dutch Cons. Conf. & Spending	**Bank of England, Norges Bank & Swiss SNB Rates; Norwegian Unemp.; ECB Econ. Bulletin; French Business Conf.;** Dutch House Prices; Irish PPI	**S&P Global Flash PMIs; EZ & UK GfK Cons. Conf.;** Spanish & Dutch Q2 GDP (F); Norwegian Credit Indicator; French Quarterly Wages
Japan	**Respect for the Aged Day**	**National CPI**	Tokyo Condos for Sale	**BoJ Meeting;** Dept. Store Sales	**Autumnal Equinox Day**
China		**1yr / 5 yr Prime Loan Rate**			









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