



# WEEKLY UPDATE

25<sup>th</sup> JULY 2022

	Price	5 Day % Change	3 Month % Change	1yr % Change
S&P/ASX300	79,532	2.91%	-8.82%	-4.50%
MSCI World Ex-Aus. (Unhedged)	13,106	0.68%	-4.95%	-7.51%
MSCI World Ex-Aus. (Hedged)	2,214	2.64%	-6.82%	-10.58%
Bloomberg AusBond 0+ Composite	9,508	-0.22%	-1.25%	-10.99%
BloombergBarclays Global Agg. (Hedged)	1,008	0.80%	-0.76%	-8.84%
S&P/ASX300 Property	58,607	2.40%	-11.29%	-4.51%
FTSE EPRA Nareit Global Real Estate (Hedged)	2,785	3.44%	-12.02%	-10.23%
S&P Global Infrastructure (Hedged)	5,889	0.80%	-3.82%	9.34%
Bloomberg All Hedge Fund Index	1,937	N/A	2.18%	-0.67%
VIX	23.0	-4.95%	-14.77%	33.90%
Bloomberg Commodity Index (USD)	116.52	2.69%	-8.13%	21.77%
Iron Ore Index (62% Fe Aus. Off. China, USD)	102.50	2.50%	-32.12%	-51.07%
LME Copper Spot (USD)	7,372.00	5.31%	-27.94%	-21.43%
Coal 1st Future (Newcastle Export, USD)	409.20	0.65%	25.10%	173.26%
Brent Crude 1st Future (USD)	103.20	2.02%	-3.23%	39.86%
LNG 1st Future (Japan/Korea)	38.99	-0.23%	52.93%	173.13%
Gold in AUD	2,493	-0.85%	-6.49%	1.82%
AUDUSD	0.6929	2.00%	-4.35%	-6.10%
AUDEUR	0.6780	0.68%	1.08%	7.54%
AUDNZD	1.1060	0.36%	1.34%	4.28%
AUDGBP	0.5770	0.79%	2.21%	7.09%
AUDJPY	94.2560	0.18%	1.25%	13.74%

Source: Bloomberg, S&P Dow Jones, MSCI, FTSE Russell, 24<sup>th</sup> July 2022

**The slowing global economy appeared in both micro and macroeconomic data last week, with Friday's flash PMI surveys indicating a broader and steeper slowdown. The prospect of an earlier peak in interest rates lifted both bond and stock prices.**

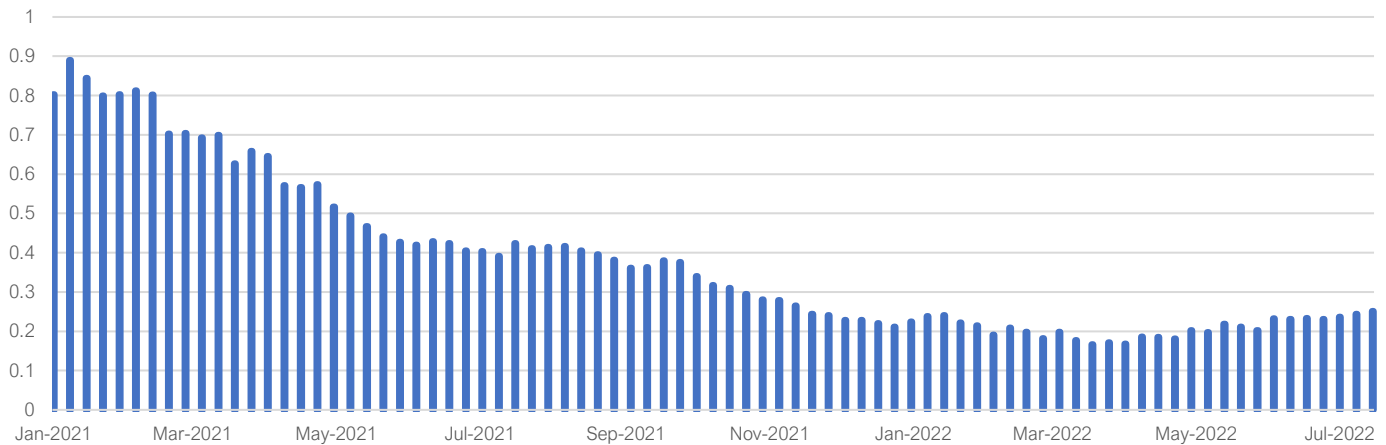
**Second-quarter CPI data will be released on Wednesday, with the data expected to show the fastest Australian price rises since 2001.**

**The Federal Reserve meeting is likely to lead to a second consecutive +0.75% rise in American interest rates on Wednesday night.**

**The American earnings season continues, and Q2 GDP figures from several developed economies will also be released, as well as the latest World Economic Outlook from the IMF.**



US Initial Jobless Claims (millions)



Source: Bloomberg, Dept. of Labor, 24<sup>th</sup> July 2022

It was a good week for risk assets as equities, commodities, property, and infrastructure all made gains. The Australian dollar appreciated against the G4 currencies, and the US dollar weakened. Bonds were mixed, as yields fell by more in international markets than in Australia.

At the start of the week, the attention was on individual stocks. ANZ formalised its offer for Suncorp's banking business, while Perpetual and Pandal confirmed that the two fund managers were still in talks, although no formal bid or merger will necessarily eventuate.

So far, US earnings results are showing a -5.8% decline from last quarter, with just over 20% of the S&P 500 having reported. This represents a beat of a little over +4% compared to analyst forecasts. However, the expected slowdown in response to tightening financial conditions began to appear in the outlook. Apple and Google were the latest companies reported to be freezing hiring plans as companies adjust to a lower growth trajectory. The stronger US dollar is impacting US corporates. IBM announced that Q2 revenue growth was 9%, but would have been 16% if not for the negative effects of a stronger dollar. Similarly, Dow Inc. and Johnson & Johnson said a stronger currency impacted results by 3% and 5% respectively.

**Figure 8. SPX Q2 earnings season so far**

	Reported	Earnings Growth YoY %*			Earnings Surprise %		
		Current Season	Previous Season	Q2 2021	Current Season	Previous Season	Q2 2021
All Securities	66/498	-7.3%	6.5%	100.6%	4.2%	3.5%	16.3%
> Materials	0/28	0.0%	42.6%	143.6%	0.0%	9.6%	4.7%
> Industrials	8/69	149.0%	34.3%	414.1%	-1.8%	1.4%	11.7%
> Consumer Staples	6/35	1.2%	0.2%	25.8%	4.6%	3.8%	10.2%
> Energy	3/23	40.1%	272.4%	N.M.	-6.3%	1.4%	14.9%
> Technology	9/78	7.2%	4.5%	57.4%	4.9%	5.0%	14.2%
> Consumer Discretionary	8/55	58.6%	-31.1%	2010.7%	9.9%	-20.1%	24.5%
> Communications	2/25	12.1%	1.5%	73.2%	16.3%	4.0%	20.5%
> Financials	23/61	-28.3%	-21.2%	180.1%	3.1%	6.2%	29.2%
> Health Care	5/64	10.4%	14.4%	28.7%	7.7%	7.7%	9.5%
> Utilities	0/29	0.0%	9.8%	7.0%	0.0%	1.7%	4.6%
> Real Estate	2/31	12.4%	29.7%	35.5%	0.9%	5.8%	9.1%

\*Earnings growth YoY, for each quarterly season

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Source: Citi Research, Bloomberg

By the end of the week, the slowdown had become visible in the macroeconomic data. American weekly initial jobless claims now appear to be trending higher, having bottomed in the first quarter of the year. Friday's flash PMI surveys also disappointed as activity slowed by more than expected across both manufacturing and services, causing a sudden drop in bond yields. Central banks now face the difficult task of remaining tough on inflation as economic growth deteriorates faster than anticipated.

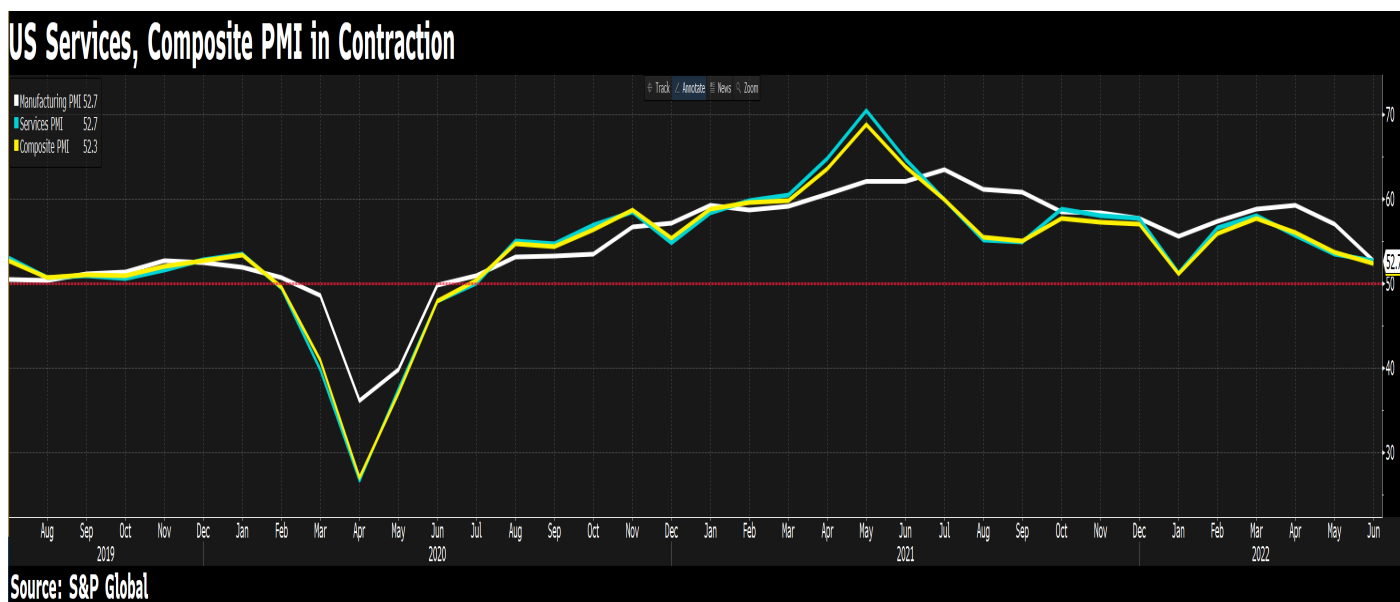
This week the Federal Reserve is expected to raise by +0.75% to 2.5% on Wednesday night. But the market expects the Fed Funds rate to peak at just 3.35% and already start to decline by February next year.

Both the deputy governor and governor of the RBA delivered speeches on consecutive days last week. Deputy Governor Michele Bullock focused on the ability of Australian households to withstand higher interest rates, while the governor spoke about the challenges posed by inflation:

*“The policy challenge for the RBA is to return inflation to the 2–3 per cent target range while, at the same time, keeping the economy on an even keel. We don’t need to return inflation to target immediately, as we have long had, for good reasons, a flexible medium-term inflation target. But we do need to chart a credible path back to 2–3 per cent. We are seeking to do this in a way in which the economy continues to grow and unemployment remains low.*

*It is certainly possible to do this, but the path ahead is a narrow one and it is clouded in uncertainty. Global factors, including Russia’s invasion of Ukraine, are one source of this uncertainty. And domestically, the path back to 2–3 per cent inflation will be shaped by how the general inflation psychology in Australia evolves and how Australians respond to higher interest rates. So these are some of the issues we will be watching carefully over the months ahead.”*

The second quarter CPI figures will be published on Wednesday this week and are expected to hit the highest level in over two decades. Headline inflation is expected to reach +6.3% yoy, with core trimmed mean prices expected to accelerate from +3.7% yoy in Q1 to +4.7% yoy at the end of the June quarter. The market expects the Board to raise the cash rate by +0.5% at each of the next two meetings, eventually matching the expected US rate of 3.35% at the end of the year.



Source: Bloomberg

The European Central Bank is grappling with an even more complex set of challenges. Russia resumed gas supplies this week as planned maintenance concluded. However, energy analysts suspect that the Kremlin may still attempt to hold the Europeans to ransom later in the year as winter arrives, which usually sees a cyclical increase in demand for gas and heating oil.

The Italian economy is one of the most exposed to Russian energy, but opinions in government differed on how to respond. The broad coalition fell apart with Prime Minister Mario Draghi resigning last week. The ECB then unveiled the new Transmission Protection Instrument (TPI), designed to ensure that monetary policy functions as uniformly as possible throughout the eurozone. More specifically, the TPI allows the ECB to buy bonds in countries where yield spreads have widened in a manner “not warranted by country-specific fundamentals”. The market was underwhelmed, to say the least, since it’s not clear how Italy would satisfy the four conditions necessary for intervention. Italian 10yr yields remain more than +2.25% higher than the German 10yr yield of just over 1%. At the same time, the ECB abandoned forward guidance and raised by +0.50% last week, bringing the key policy rate up to 0% from -0.50%.

The UK also registered a new forty-year high inflation figure of +9.4% yoy last week, slightly above forecasts.

In Westminster, the Conservative party selected the final two candidates to replace Boris Johnson; former Chancellor (equivalent to the Treasurer) Rishi Sunak and Foreign Secretary Liz Truss. The final vote will be determined by the party membership, with the result due by 5<sup>th</sup> September. Mr Sunak led in each of the previous rounds of MP voting. But Ms

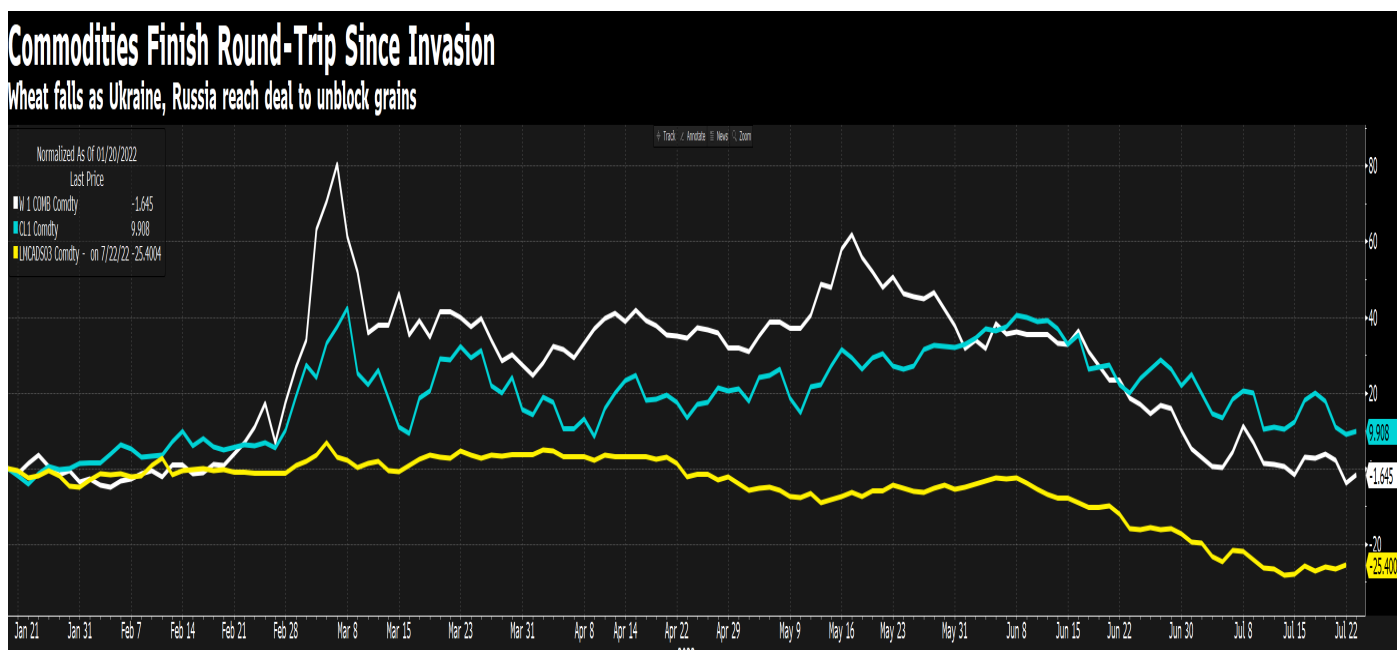
Truss is the odds-on favourite, according to Oddschecker, since Mr Sunak is widely seen as responsible for bringing down the former leader.

This week, besides the Federal Reserve meeting and Australian inflation data, there will be preliminary second-quarter GDP results from the US, the eurozone, and several individual European countries. The figures are expected to show slow but not quite zero economic growth. However, if the US falls short of expectations, the economy risks a second consecutive quarter of negative growth.

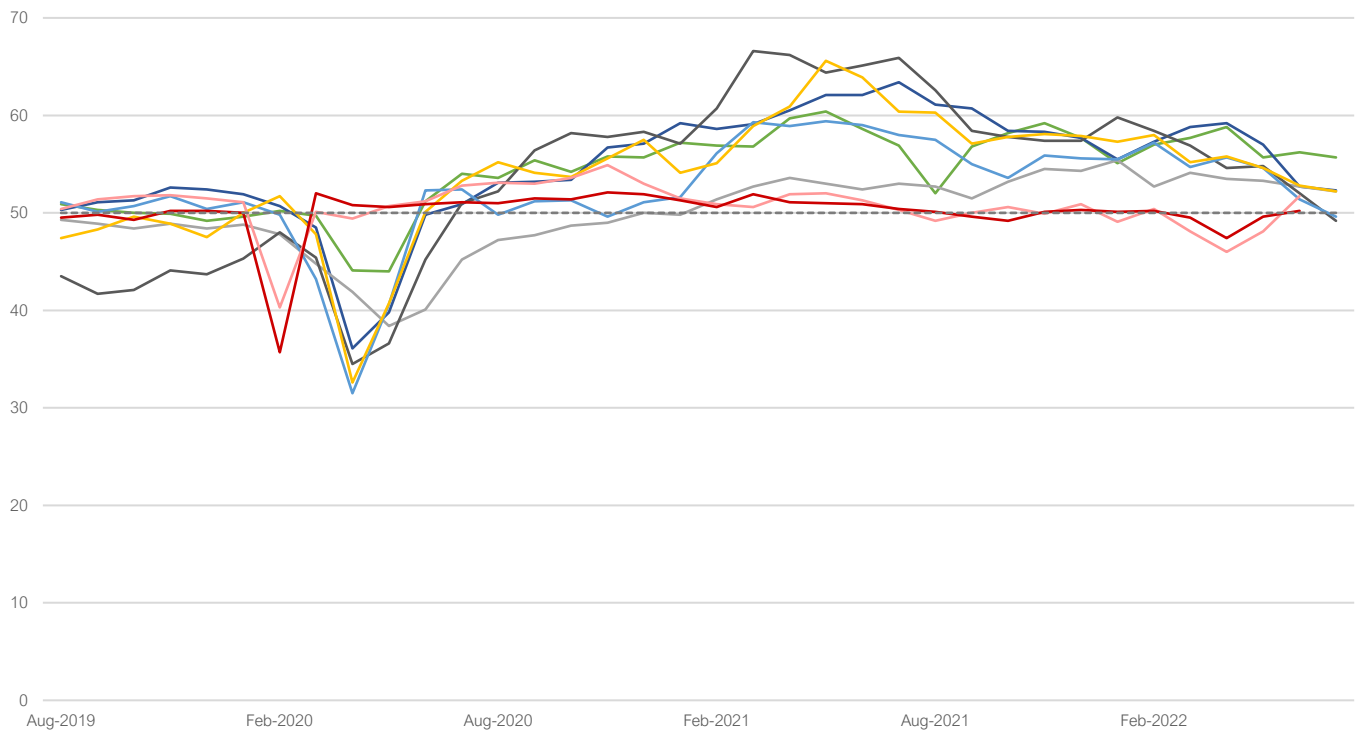
The major economies will also see a wide range of confidence, production and employment data, and the latest official Chinese PMIs will be released.

US PCE inflation figures will be published as well as Eurozone and Japanese CPI, with investors watching closely for signs of a peak. On Tuesday, the IMF will also publish the latest World Economic Outlook, with inflation likely to dominate the report.

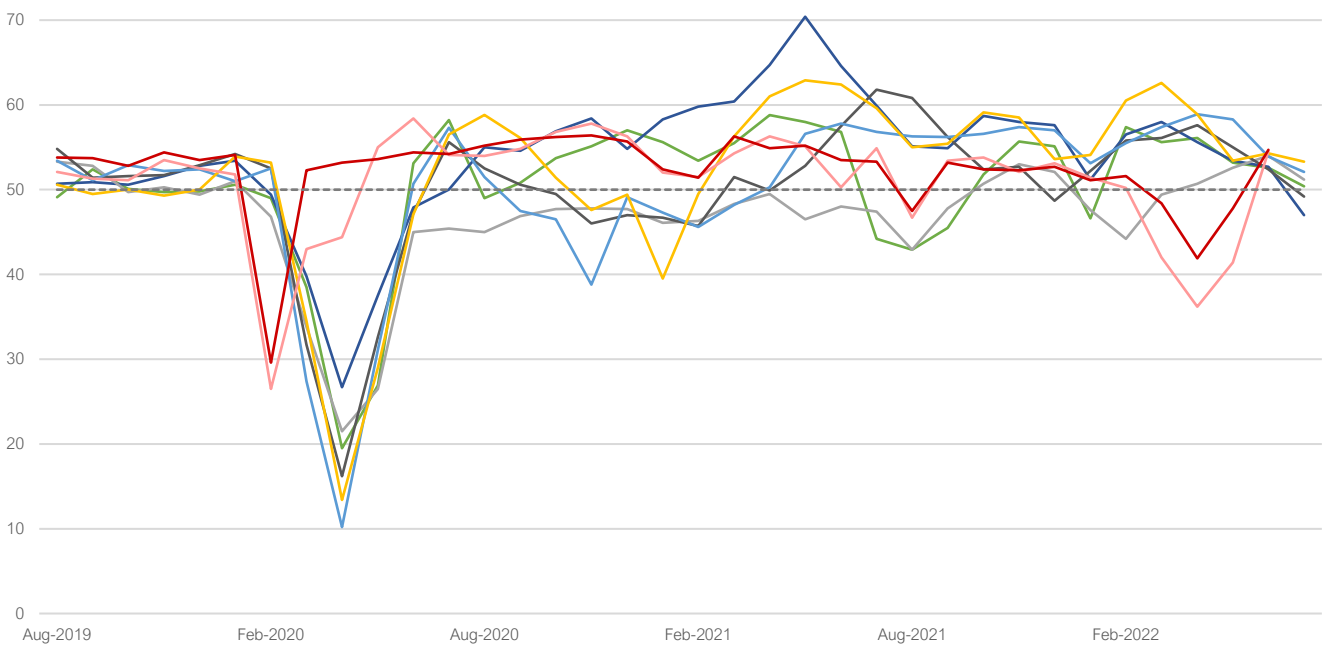
On Friday a UN/Turkish brokered agreement between Russia and Ukraine was signed, allowing the safe passage of 22 million tonnes of Ukrainian grain and other agricultural products from the ports of Odesa, Chernomorsk and Yuzhny. Ukraine is one of the world's largest exporters of wheat, corn and sunflower oil. However, within hours of the agreement, Russia launched rockets into the Odesa port region in violation of the agreement.



### Global Manufacturing PMI Surveys



### Global Services PMI Surveys



- Australia
  - Germany
  - China (Caixin)
- US
  - France
  - China (Official)
- Japan
  - UK
  - - - - Expansion/Contraction

Source: Bloomberg, S&P Global, JPMorgan, Jibun, BME, CIPS, CFLP, 28th May 2022

**Significant Upcoming Data:**

	<b>Monday</b>	<b>Tuesday</b>	<b>Wednesday</b>	<b>Thursday</b>	<b>Friday</b>
<b>Australia</b>			<b>CPI</b>	<b>Retail Sales; Import/Export Prices</b>	<b>PPI; Private Sector Credit</b>
<b>US</b>	<b>Chicago Fed Natl Activity Index; Dallas Fed. Manuf. Activity;</b>	<b>Conf. Board Cons. Conf.;</b> <b>Richmond Fed Manuf. Index;</b> S&P CoreLogic & FHFA House Prices; New Home Sales	<b>FOMC Rate Decision;</b> <b>Durable Goods; Advance Goods Trade;</b> <b>Retail &amp; Wsale Inventories;</b> Pending Home Sales; MBA Mortgage Apps.	<b>Q2 GDP; Kansas City Fed. Manuf. Activity;</b> Weekly Jobless Claims	<b>PCE Inflation; Personal Inc.&amp; Spending; Employment Cost Index;</b> <b>MNI Chicago PMI;</b> <b>UMich. Cons. Sent.;</b>
<b>Europe</b>	<b>IFO Survey;</b> Finnish PPI; Belgian Bus. Conf.;	Swedish & Spanish PPI; Finnish Unempl.;	<b>EZ M3 Money Supply;</b> <b>German GfK, French, Italian &amp; Finnish Cons. Conf.;</b> <b>Italian Econ. Sent., Manuf. Conf. &amp; Hourly Wages;</b> <b>Unicredit Bank Austria Manuf. PMI;</b> Swedish Trade & Household Lending	<b>EZ &amp; Swedish Cons. Conf.;</b> <b>EZ Econ. &amp; Indus. Conf.;</b> <b>German &amp; Belgian CPI;</b> <b>Spanish &amp; Norwegian Unempl.;</b> <b>Spanish, Swedish, Danish &amp; Irish Ret. Sales;</b> <b>Swedish &amp; Belgian Q2 GDP;</b> Italian Indus. Sales; French PPI;	<b>EZ, French, Spanish, Italian &amp; Austrian CPI;</b> <b>EZ, German, French, Spanish, Italian &amp; Austrian Q2 GDP;</b> <b>German, Danish, Swedish &amp; Norwegian Unempl.;</b> <b>UK Money Supply;</b> <b>Italian &amp; Austrian PPI;</b> <b>Swiss KOF Lead Indicator;</b> <b>Spanish Curr. Acc.;</b> Swiss, Norwegian, Finnish & Dutch Retail Sales; Finnish Trade & House Prices;
<b>Japan</b>	Natl./Tokyo Dept. Store Sales	Services PPI	<b>Leading &amp; Coinc. Indices</b>		<b>Ind. Production;</b> <b>Jobless Rate;</b> <b>Job-to-Appl. Ratio;</b> <b>Retail Sales;</b> <b>Tokyo CPI;</b> <b>Housing Starts;</b> <b>Cons. Conf.;</b> Dept. Store & Spuermarket Sales
<b>China</b>	[FDI]		<b>Industrial Profits</b>		<b>Official PMIs</b>

## SPX Earnings releases

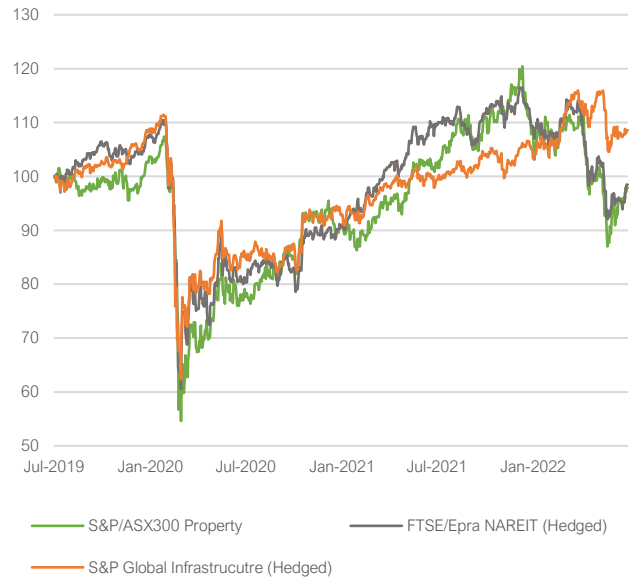
Name	Expected Time	Expected Date	Market Cap Weight % SPX
APPLE INC	Aft-mkt	07/28/2022	6.7%
MICROSOFT CORP	Aft-mkt	07/26/2022	5.3%
ALPHABET INC-C	N/A	07/26/2022	4.0%
ALPHABET INC-A	N/A	07/26/2022	4.0%
AMAZON.COM INC	Aft-mkt	07/28/2022	3.4%
META PLATFORMS-A	Aft-mkt	07/27/2022	1.3%
VISA INC-CLASS A	Aft-mkt	07/26/2022	1.2%
EXXON MOBIL CORP	Bef-mkt	07/29/2022	1.0%
PROCTER & GAMBLE	Bef-mkt	07/29/2022	0.9%
MASTERCARD INC-A	Bef-mkt	07/28/2022	0.9%
PFIZER INC	Bef-mkt	07/28/2022	0.8%
CHEVRON CORP	Bef-mkt	07/29/2022	0.8%
COCA-COLA CO/THE	Bef-mkt	07/26/2022	0.7%
ABBVIE INC	Bef-mkt	07/29/2022	0.7%
MERCK & CO	Bef-mkt	07/28/2022	0.6%
THERMO FISHER	Bef-mkt	07/28/2022	0.6%
COMCAST CORP-A	Bef-mkt	07/28/2022	0.5%
MCDONALDS CORP	Bef-mkt	07/26/2022	0.5%
QUALCOMM INC	Aft-mkt	07/27/2022	0.5%
T-MOBILE US INC	07:00	07/27/2022	0.4%

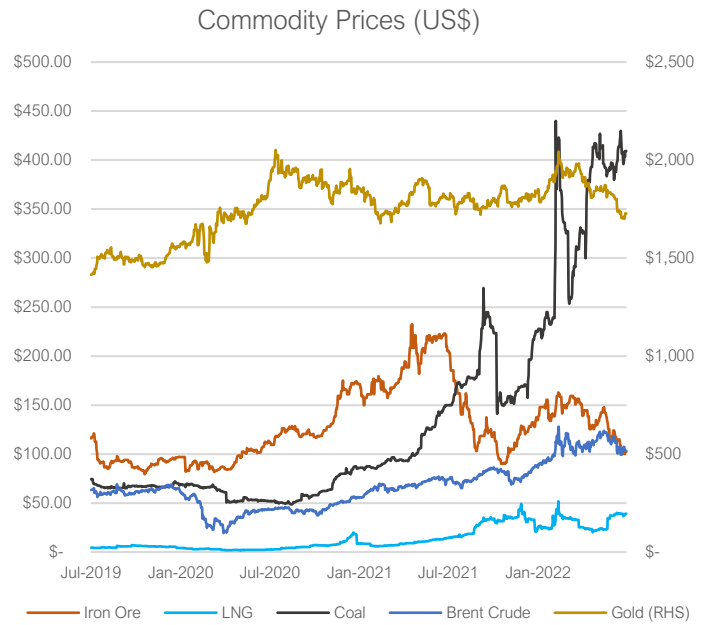
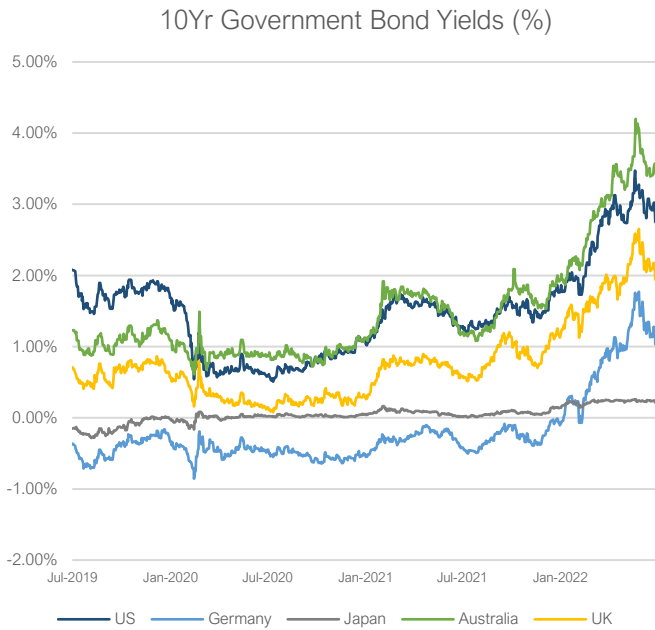
Refer to the attachment for the Australian reporting calendar.

3Yr Equity Indices (Rebased to 100)



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





Source: Bloomberg, S&P Dow Jones, MSCI, FTSE Russell, 24<sup>th</sup> July 2022

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