



WEEKLY UPDATE

26th SEPTEMBER 2022

	Price	5 Day % Change	3 Month % Change	1yr % Change
S&P/ASX300	78,365	-2.48%	2.00%	-6.69%
MSCI World Ex-Aus. (Unhedged)	12,875	-2.65%	-0.81%	-11.68%
MSCI World Ex-Aus. (Hedged)	2,067	-4.64%	-5.24%	-17.65%
Bloomberg AusBond 0+ Composite	9,340	-0.89%	0.30%	-12.40%
BloombergBarclays Global Agg. (Hedged)	963	-1.33%	-2.58%	-12.32%
S&P/ASX300 Property	52,191	-5.40%	-7.23%	-19.96%
FTSE EPRA Nareit Global Real Estate (Hedged)	2,495	-6.20%	-8.70%	-18.22%
S&P Global Infrastructure (Hedged)	5,698	-4.45%	-2.42%	3.56%
Bloomberg All Hedge Fund Index	1,982	N/A	2.98%	0.32%
VIX	29.9	13.76%	9.88%	68.56%
Bloomberg Commodity Index (USD)	112.40	-3.72%	-7.35%	13.56%
Iron Ore Index (62% Fe Aus. Off. China, USD)	100.00	-0.50%	-14.89%	-8.26%
LME Copper Spot (USD)	7,446.00	-4.44%	-13.20%	-19.52%
Coal 1st Future (Newcastle Export, USD)	435.20	-0.87%	9.48%	134.10%
Brent Crude 1st Future (USD)	86.15	-5.69%	-21.72%	11.52%
LNG 1st Future (Japan/Korea)	37.57	-10.89%	1.19%	40.19%
Gold in AUD	2,518	0.97%	-4.71%	5.41%
AUDUSD	0.6528	-2.80%	-5.35%	-10.51%
AUDEUR	0.6737	0.42%	2.78%	7.75%
AUDNZD	1.1362	1.25%	3.32%	9.16%
AUDGBP	0.6020	2.26%	6.60%	11.68%
AUDJPY	93.5950	-2.62%	0.59%	14.00%

Source: Bloomberg, S&P Dow Jones, MSCI, FTSE Russell, 25th September 2022

Central banks emphasised their determination to tame inflation last week, explicitly entertaining the notion that a recession may follow as a consequence. The speeches ended any lingering hope of a “Fed put”. Bonds yields and the US dollar set new records, pulling down valuations, while the earnings outlook soured. As a result, global equities breached critical support levels, suggesting that stocks may have entered a more significant bear market.

President Putin took steps to escalate the conflict in Ukraine, mobilising reserves and beginning the annexation of four Ukrainian regions.

This week will see more inflation data in Europe and the US, Chinese PMIs, Japanese activity data, and Australian retail sales.

MSCI AC World Index (Weekly Candles)



Source: Bloomberg, MSCI, 25th September 2022

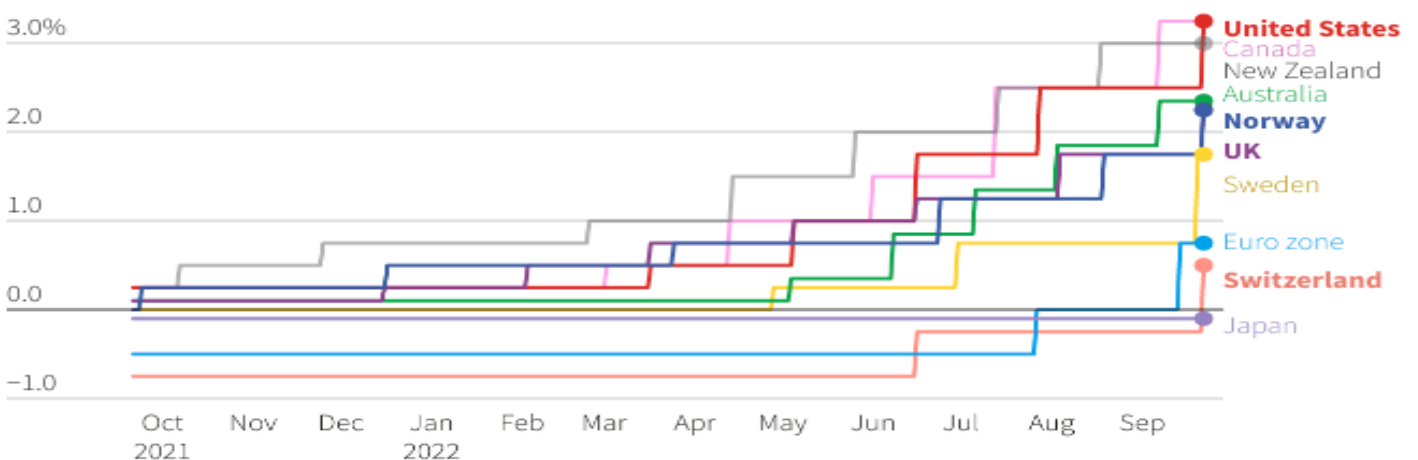
Last week was tough for investors as the Federal Reserve and other central banks drove bond yields higher and growth assets lower. Rising yields cause price multiples to move lower, while the likely impact of higher rates on growth is also driving downward earnings revisions. A slight improvement in the flash PMI surveys did little to improve sentiment. The MSCI AC World punched through the 200-week moving average, which tends to delineate bull and bear markets, suggesting that the predominant trend will likely continue to the downside. Interest-sensitive property and infrastructure were hit particularly hard. On Friday, the US dollar index also rose to the highest level in more than twenty years, sending the Australian dollar below US\$ 0.66. The Australian market is expected to open -1.25% lower this morning.

The Swedish Riksbank raised rates by a full percentage point to 1.75% - the first time such a large raise has occurred in the thirty-year history of the inflation-targeting framework. The Bank of England also raised by +0.50% at the second consecutive meeting. But the Federal Reserve stole the show as the updated “dot plots” and forecasts stunned the market.

Core PCE inflation was also revised up from 2.7% to 3.1% next year. At the press conference, Fed Chair Jerome Powell openly entertained the idea that the economy could experience a recession but that the duration and severity would depend on the persistence of inflation.

Central banks ramp up fight against inflation

Policy rates of central banks overseeing the 10 most traded currencies, last 12 months



Source: Refinitiv Datastream | Reuters, Sept. 22, 2022 | By Vincent Flasseur

The US 2yr Treasury yield surged to 4.2%, well above the June high of 3.4% market now expects the US Federal Funds rate to reach 4.7% by May next year. On Friday this week, the core PCE index is expected to rise from +4.6% to +4.7% yoy.

The plots indicated that the FOMC members now see interest rates remaining in restrictive territory, above the long-run 2.5% average, all the way through to 2025. In addition, the Summary of Economic Projections saw 2022 expected GDP growth revised down to just +0.2% and from +1.7% to +1.2% in 2023, while 2023 unemployment was revised up from 3.9% to 4.4%.

Longer-term yields also rose, but not to the same extent. The yield curve is now the most inverted since 1980, with the 2s-10s spread now at -0.52%, indicating that the market sees a recession as increasingly likely, and perhaps much sooner than policymakers envisage. Over the last fortnight, the Atlanta Fed's estimate of current-quarter GDP has fallen to an annualised rate of just +0.3%.

The German 2yr yield also rose sharply to 1.9%, the highest since 2008. Also released this Friday, eurozone core CPI is expected to have increased to +4.7% yoy in September, up from +4.3% in August. The market expects ECB rates to reach 3% in 2023, having only recently risen from negative territory.

Europe might already be in recession as energy price rises are particularly severe. The Bank of England also believes that the UK recession has begun but was forced to raise interest rates regardless to stem inflation. That task was made harder last week as the new Conservative party leadership announced a range of tax cuts to support growth at the expense of a ballooning government deficit. As a result, government bond yields surged, and the pound sterling plummeted.

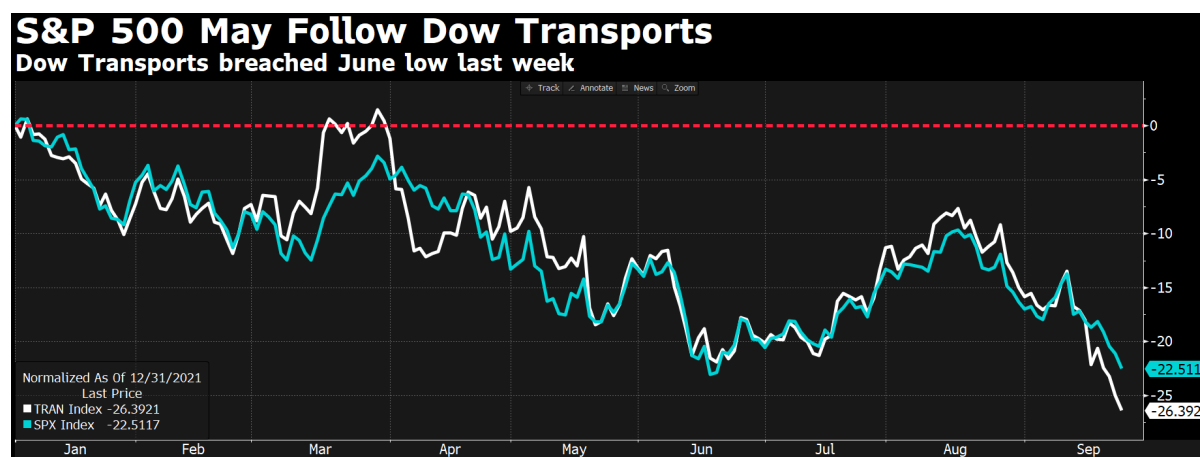
Chinese and Japanese interest rates were unchanged, as expected. But the Japanese were forced to intervene in the foreign exchange market to defend the yen.

The Australian government announced a A\$50bn windfall in the budget due to higher commodity prices. However, Treasurer Jim Chalmers is unlikely to turn on the taps in the 25th October budget as Australian inflationary pressure also continues to rise. Just two weeks ago, the market expected the cash rate to peak at 3.6% in May next year. Market pricing has shifted dramatically higher, now expected to reach as high as 4.15% by next June.

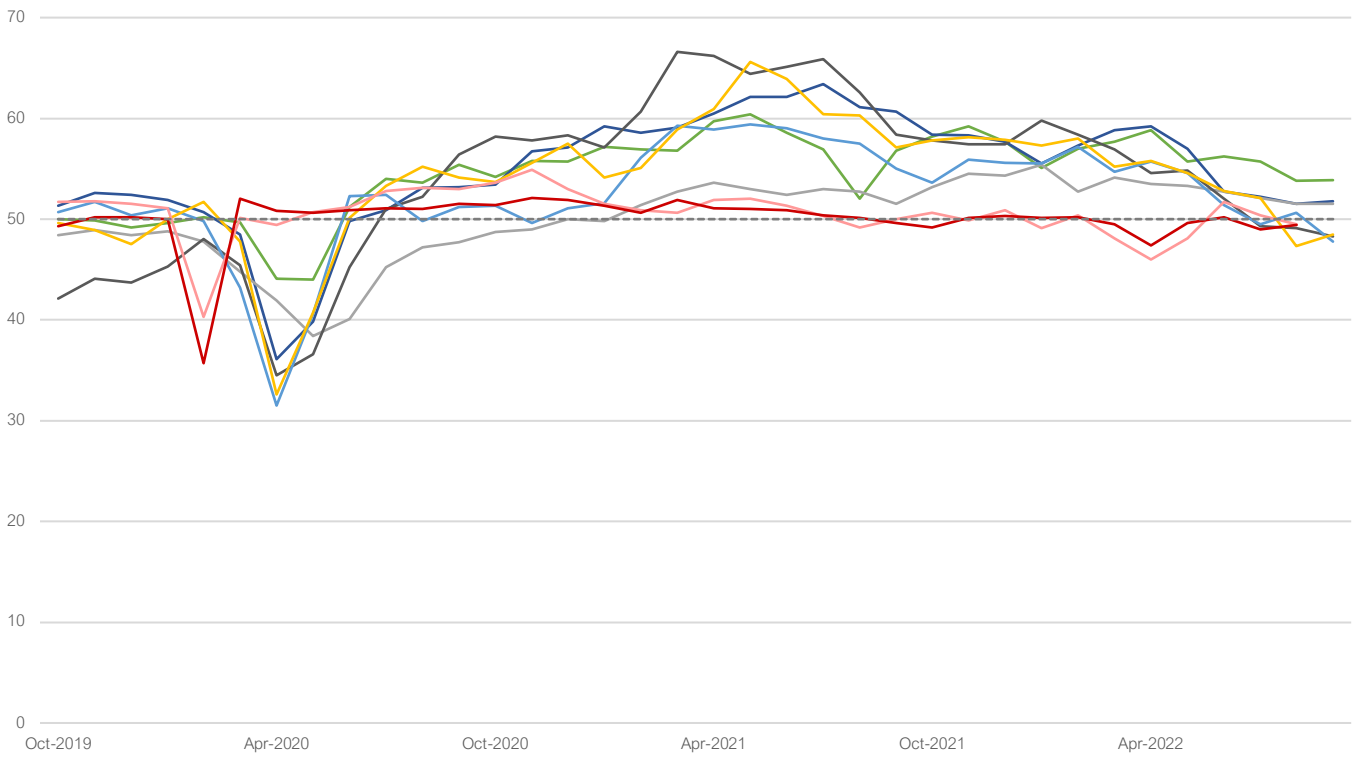
President Joe Biden and other world leaders spoke against the Russian invasion of Ukraine at the United Nations last week. President Putin nevertheless launched an escalation of the conflict, mobilising thousands of reserve troops and holding sham referenda in four Ukrainian provinces. The referenda will provide the pretence for Russia to annex the four regions and claim them as Russian territory, as happened in Crimea in 2014. The war has entered an extremely dangerous phase as the move will potentially allow the Russians to use tactical nuclear weapons. Facing protests at home and little international support, Putin's failing grip on power may lead to further escalation. UN discussions will continue this week.

Also, this week, retail sales, quarterly job vacancies and private credit will round out the month's Australian data. The OECD is due to update the economic outlook today, and there will be American consumer confidence and sentiment. Chinese PMIs and Japanese activity data will be published on Friday, ahead of the European and US inflation data. There will also be speeches by several FOMC members.

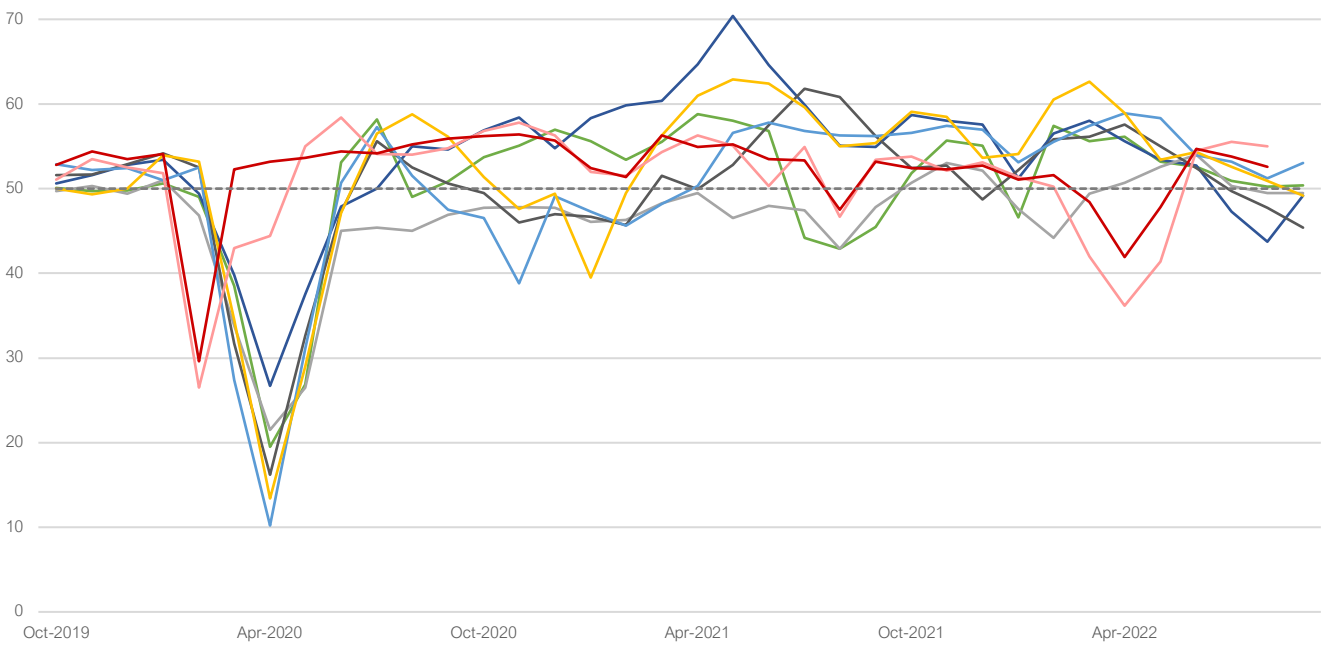
The S&P broke through a 200 week moving average on Friday which is seen as a sign that the market has further to fall in to a bear market.



Global Manufacturing PMI Surveys



Global Services PMI Surveys



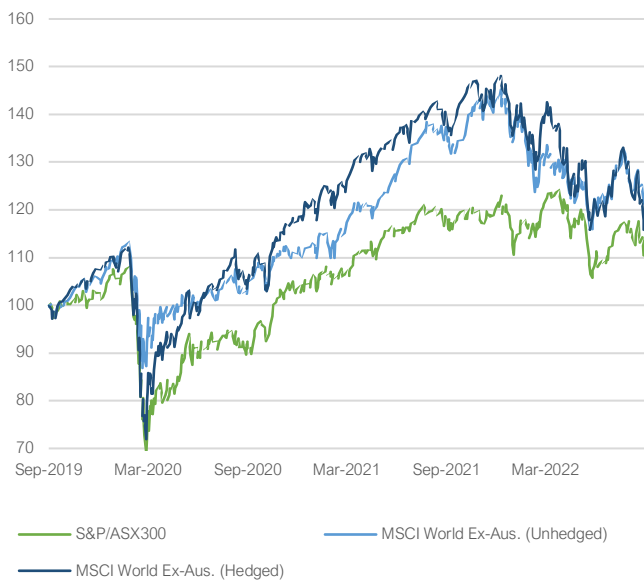
- Australia
- US
- Japan
- Germany
- France
- UK
- China (Caixin)
- China (Official)
- - - Expansion/Contraction

Source: Bloomberg, Bloomberg, IHS Markit, JPMorgan, Jibun, BME, CFLP, CIPS, 25th September 2022

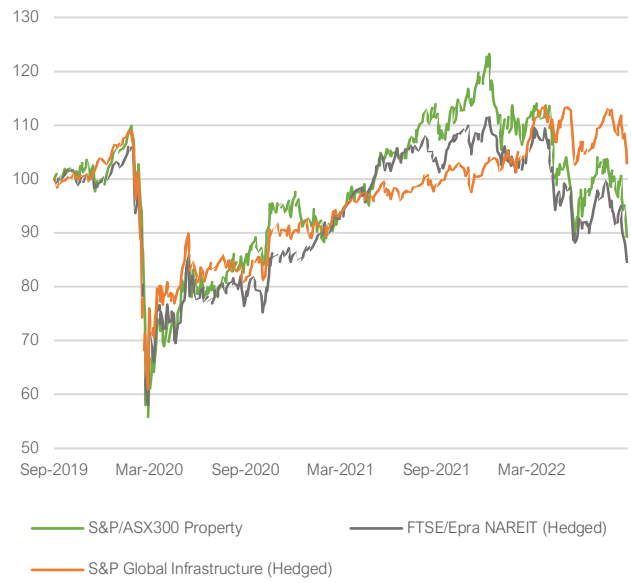
Significant Upcoming Data for the week beginning 26th Sept:

	Monday	Tuesday	Wednesday	Thursday	Friday
Australia			Retail Sales	Job Vacancies (Quarterly)	Private Sector Credit
US	Chicago Fed. Natl. Activity Index; Dallas Fed. Mfg Activity;	Conf. Board Cons. Conf.; Durable Goods; Richmond Fed. Mfg. Index; S&P CoreLogic & FHFA House Prices; New Home Sales;	Advanced Goods Trade; Ret. & Wsale. Inventories; Pending Home Sales; MBA Mortgage Apps	Q2 GDP (3 rd Est.); Weekly Jobless Claims	PCE Inflation; MNI Chicago PMI; UMich Sentiment; Personal Inc. & Spending
Europe	OECD Outlook; German IFO Surveys; Spanish & Finnish PPI; Belgian Bus. Conf. UK Rightmove House Prices; Bank of Ireland Ec. Pulse	EZ M3 Money Supply; Swedish PPI, Trade & Household Lending; Finnish Cons. & Bus. Conf.;	Danish, Norwegian, Swedish & Irish Ret. Sales; German GfK, French & Italian Cons. Conf.; Unicredit Bank Austria Mfg PMI.; UK Nationwide House Prices; Italian & Swedish Manuf. Conf.;Italian Econ. Sentiment & Ind. Sales	EZ Econ. Serv. & Ind. Conf.; German, Belgian & Spanish CPI; Italian PPI; UK M4 Money Supply; Finnish House Prices; Dutch Prod. Conf.;	EZ CPI; EZ, German, Belgian, Danish, Norwegian & Italian Unempl.; Swiss, Spanish, Dutch & Finnish Ret. Sales; UK & Spanish Current Acc.; French Cons. Spending; UK & Danish Q2 GDP (Final); Swiss KOF Leading Indicator; Swedish Wages
Japan	Jibun Flash PMIs	Machine Tool Orders; Services PPI	Leading & Coinc. Indices		Ind. Prod.; Retail Sales; Cons. Conf.; Jobless Rate; Job-to-Applicant Ratio; Housing Starts
China		Industrial Profits			Official PMIs Caixin Manuf. PMI

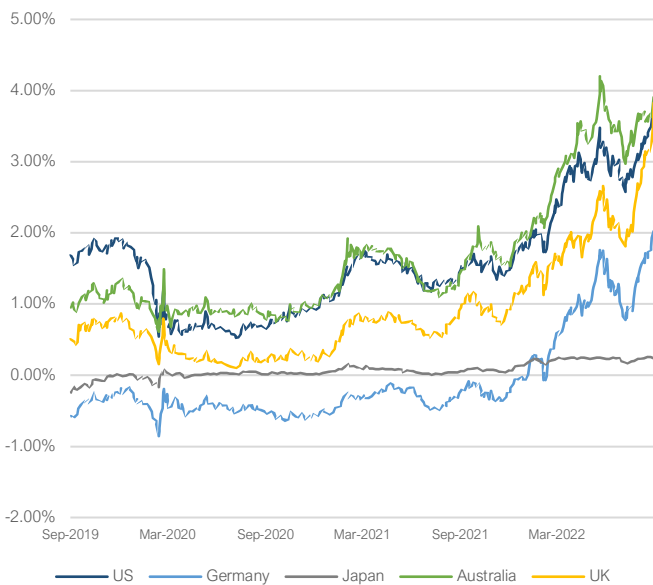
3Yr Equity Indices (Rebased to 100)



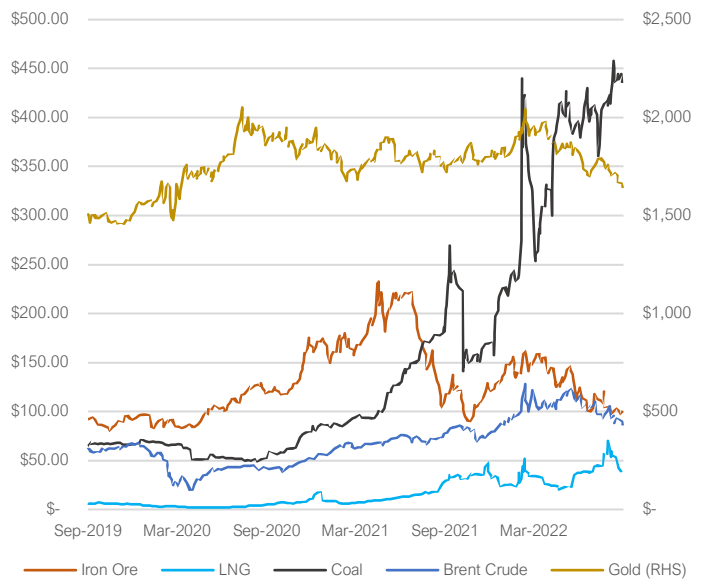
3Yr Prop. & Infrac. Indices (Rebased to 100)



10Yr Government Bond Yields (%)



Commodity Prices (US\$)



Source: Bloomberg, S&P Dow Jones, MSCI, FTSE Russell, 25th September 2022

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