Xtra-Ordinary Opportunities

WEEKLY UPDATE

27th MARCH 2023

	Price	5 Day % Change	3 Month % Change	1yr % Change
S&P/ASX300	84,257	-0.58%	-0.72%	-2.44%
MSCI World Ex-Aus. (Unhedged)	14,094	2.05%	5.56%	1.38%
MSCI World Ex-Aus. (Hedged)	2,227	1.18%	3.34%	-10.88%
Bloomberg AusBond 0+ Composite	9,839	0.96%	3.88%	0.09%
BloombergBarclays Global Agg. (Hedged)	988	0.33%	2.57%	-4.54%
S&P/ASX300 Property	56,089	-3.23%	-0.98%	-14.76%
FTSE EPRA Nareit Global Real Estate (Hedged)	2,384	-1.85%	-4.67%	-23.96%
S&P Global Infrastructure (Hedged)	5,801	-0.38%	-1.29%	-4.14%
Bloomberg All Hedge Fund Index	2,042	N/A	1.06%	5.27%
VIX	21.7	-14.78%	0.42%	4.47%
Bloomberg Commodity Index (USD)	103.02	0.42%	-9.12%	-20.66%
Iron Ore Index (62% Fe Aus. Off. China, USD)	123.00	-7.17%	9.33%	-16.33%
LME Copper Spot (USD)	8,927.00	3.55%	7.44%	-14.34%
Coal 1st Future (Newcastle Export, USD)	175.35	1.36%	-56.28%	-46.32%
Brent Crude 1st Future (USD)	74.99	2.77%	-10.64%	-37.00%
LNG 1st Future (Japan/Korea)	12.70	-3.64%	-54.84%	-63.38%
Gold in AUD	2,977	0.22%	11.37%	14.25%
AUDUSD	0.6645	-0.78%	-1.22%	-11.55%
AUDEUR	0.6176	-1.70%	-2.38%	-10.62%
AUDNZD	1.0714	0.18%	0.28%	-0.69%
AUDGBP	0.5432	-1.27%	-2.67%	-4.89%
AUDJPY	86.8620	-1.67%	-2.65%	-5.84%

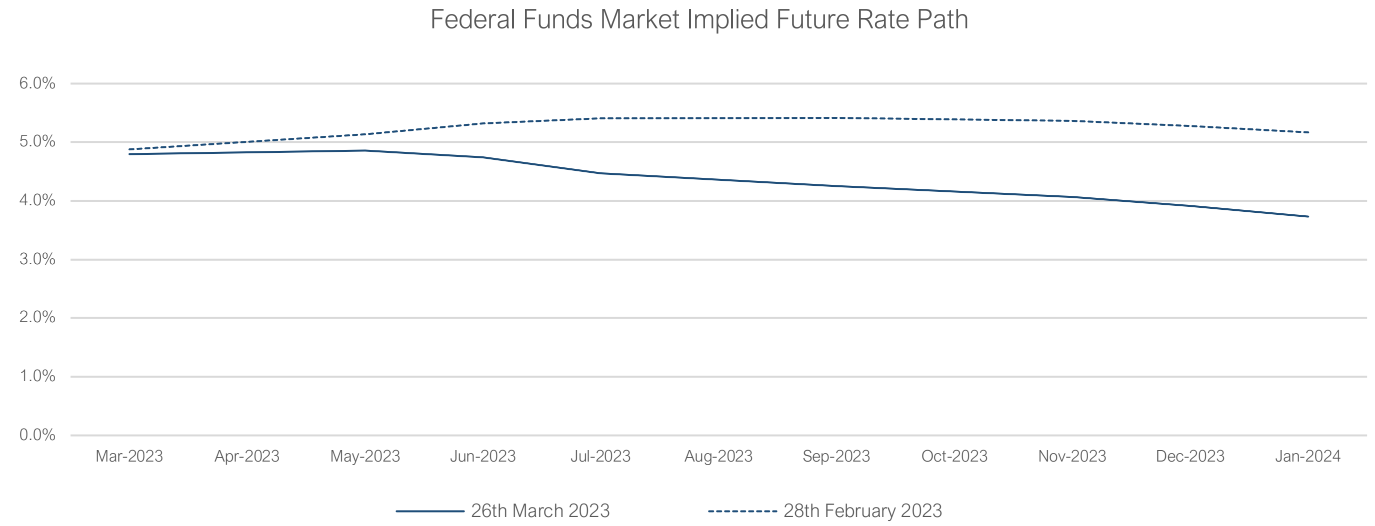
Source: Bloomberg, S&P Dow Jones, MSCI, FTSE Russell, 25th March 2023

Banking sector concerns continue to preoccupy investors, although equity markets are proving to be surprisingly resilient.

Shorter-term activity data is not yet indicating a sharp slowdown, despite the central banks continuing to raise interest rates and anticipating a further tightening in credit conditions. However, a wide gap has developed between Federal Reserve interest rate projections and market pricing.

Australian activity data has been slightly weaker than in the major economies, and the RBA has revealed that it will reconsider pausing rate rises in April.

Inflation data and banking sector worries will likely dominate market headlines this week.



Source: Bloomberg, 26th March 2023

As a result of turmoil in the banking sector, investors have retreated into the relative safety of bonds and gold. Weakness in international property has begun to spread to Australian REITs, although equities have generally been surprisingly resilient.

The flash PMI surveys indicated mild expansion in global services, while manufacturing continued in slight contraction. **The services reading from Australia was notably weaker, suggesting that interest rate rises are gaining more traction in the local economy.**

Last week began with the news that UBS would take over Credit Suisse, in a move put together with the help of the Swiss government and Swiss National Bank. Finance Minister Karin Keller-Sutter later said that confidence in Credit Suisse had become so dented that it would not have survived another day's trading on Monday.

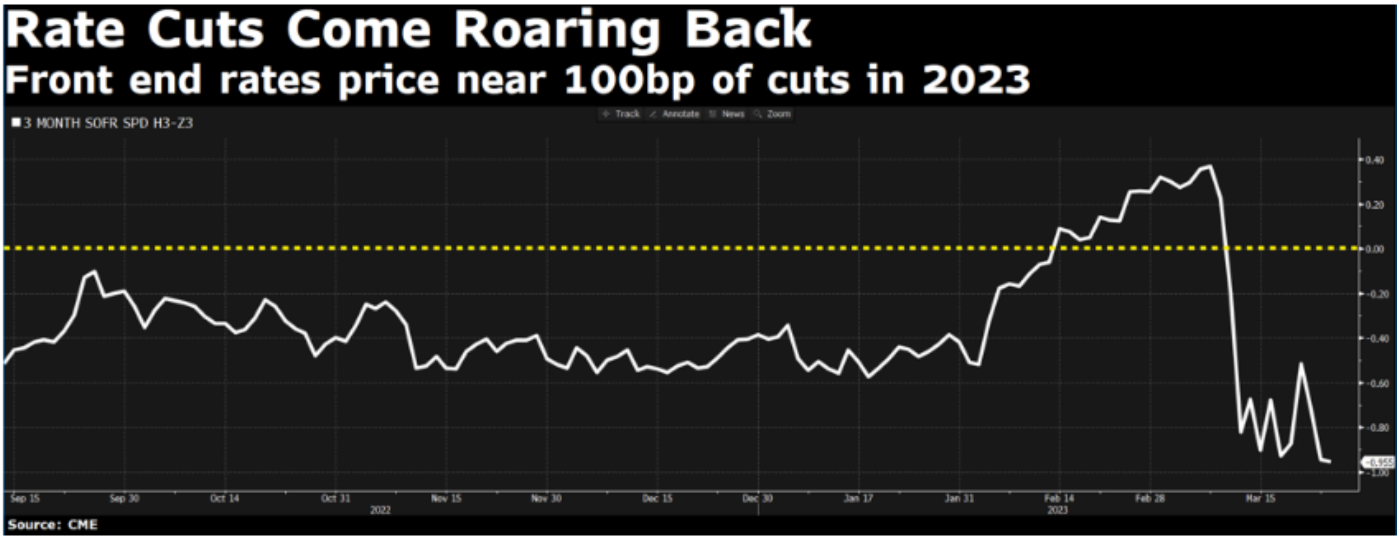
Credit Suisse's position in global markets implies that a collapse could have been a severe market contagion event, not unlike Lehman Brothers in 2008. However, avoiding the event has come at a cost. The extension of taxpayer-funded loans to UBS has been used to justify some of the Credit Suisse bonds being forced into default by the Swiss authorities. A series of Additional Tier 1 (AT1) securities, roughly equivalent to Australian hybrids, are currently scheduled not to be repaid. This has been a controversial step since the bonds would typically rank higher in the capital structure than common equity capital, and the shares will continue to hold some value. Legal action to challenge the decision is highly likely.

Equity markets initially rebounded following the takeover announcement, but banking sector worries continued throughout the week, with American policymakers heavily criticised for sending mixed messages. Treasury Secretary Janet Yellen gave four speeches over the week, including Congressional testimony on Wednesday and Thursday. In prepared remarks, she first stated, "*As I said last week, the US banking system is sound. The federal government's recent actions have demonstrated our resolute commitment to take the necessary steps to ensure that depositors' savings remain safe*", implying that the government would effectively guarantee all deposits. This was then modified the next to "*As I have said, we have used important tools to act quickly to prevent contagion. And they are tools we could use again. The strong actions we have taken ensure that Americans' deposits are safe. Certainly, we would be prepared to take additional actions if warranted.*" The changes were interpreted as walking back some of the previous day's apparent commitment.

The Federal Reserve went ahead with the anticipated +0.25% interest rate rise to 4.75%-5.0% on Wednesday. The statement said that "*The U.S. banking system is sound and resilient. Recent developments are likely to result in tighter credit conditions for households and businesses and to weigh on economic activity, hiring, and inflation. The extent of these effects is uncertain. The Committee remains highly attentive to inflation risks.*"

The summary of economic projections indicates that another rate rise is possible, and none of the FOMC members anticipates cutting the Federal Funds rate before the end of 2023. The market is now pricing a very different path, with the

Federal Funds rate priced to be a full percentage point lower by the end of the year (see chart below) as both inflation and economic growth slow. At the end of February, before the banking troubles became apparent, market pricing was more aligned to the FOMC projections.



Despite the crisis, the Federal Reserve was not alone in raising rates. The Swiss National Bank raised its policy rate by +0.5% to 1.5%, the Bank of England raised by +0.25% to 4.25%, and the Norwegian Central Bank raised by +0.25% to 3.0%.

All of the rate rises were already priced in by the market based on the inflation outlook. Before the Bank of England meeting, UK inflation unexpectedly reaccelerated to +10.4% yoy. Economists had been expecting a decline from +10.1% to +9.9% yoy. Core inflation (+6.2% yoy) also reaccelerated.

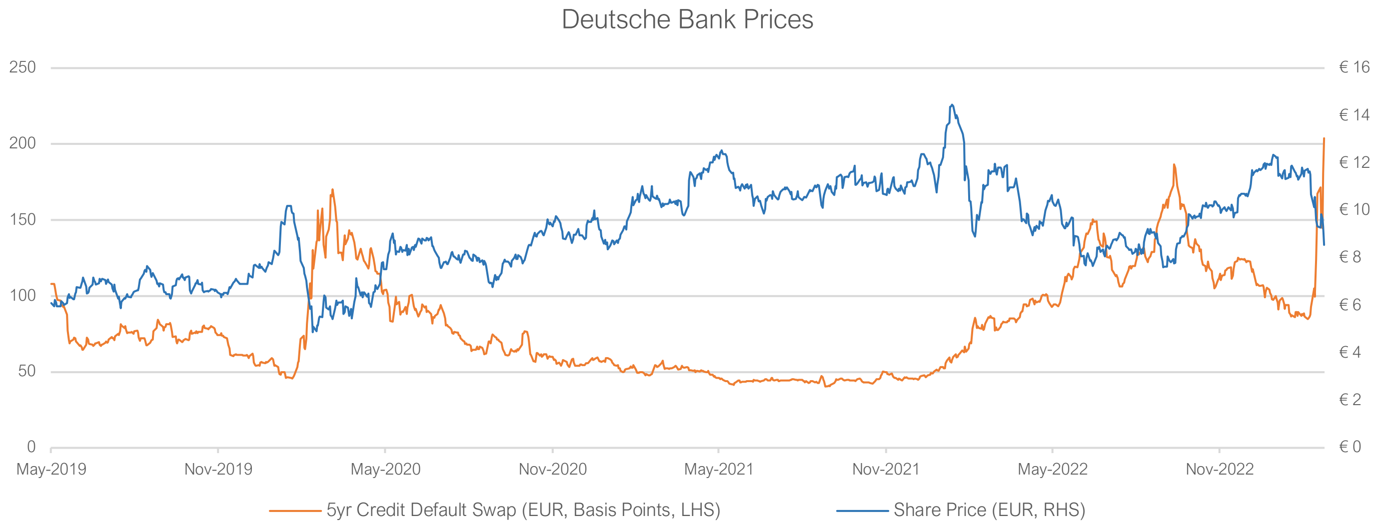
On Friday, Japanese CPI surprised on the upside, with core inflation accelerating from +3.2% to +3.5% yoy.

On Friday this week, the Federal Reserve's preferred inflation measure, the core PCE deflator, is expected to remain at +4.7% yoy, while the headline is expected to slow to +5.1% yoy.

Also on Friday, Eurozone core CPI is expected to rise by +0.1%, to +5.7% yoy, while the headline figure slows to +7.1% yoy.

On Wednesday, according to economists polled by Bloomberg, the Australian monthly CPI indicator is expected to slow from +7.4% to +7.1% yoy. The minutes of the March RBA meeting have revealed that the Board agreed to reconsider a pause in rate rises next month, although further tightening is still expected in the coming months. The rising cost of living was reported to be a significant factor in the NSW election over the weekend, which saw the ALP return to government for the first time since 2011.

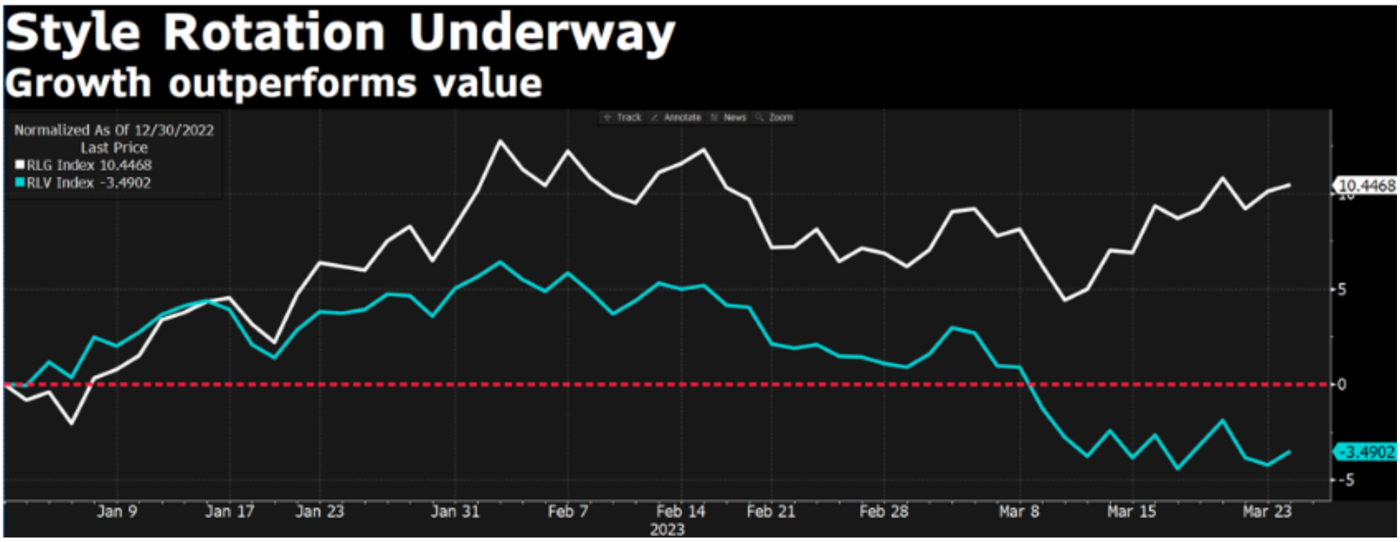
While inflation keeps central banks in a hawkish mood, bank sector turmoil will likely continue. Deutsche Bank became the latest bank to see its share price drop. The bank's 5yr credit default swap – the cost of insuring against default – surged in Friday's trading without any clear reason for the spike, prompting concerns that the German lender could be the next domino to fall. (See chart below)



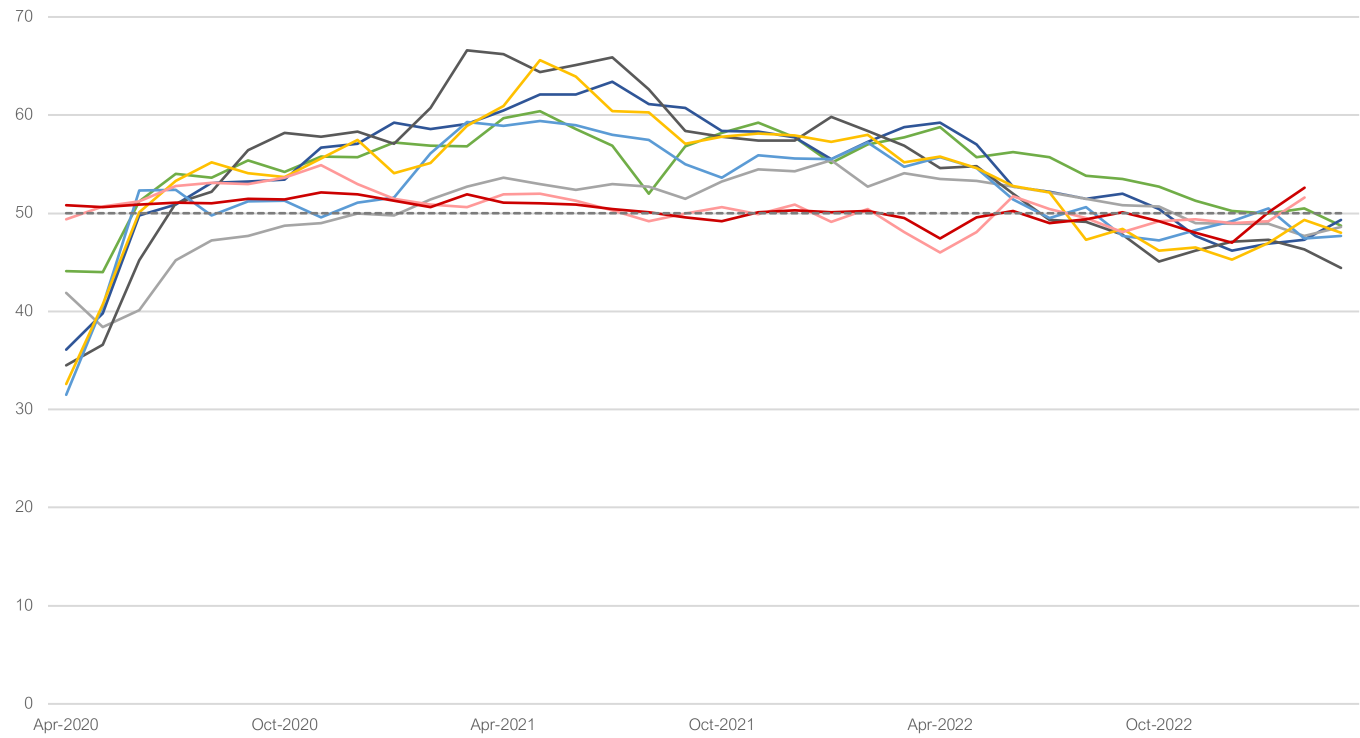
Source: Bloomberg, 26th March 2023

Other vulnerable American banks, such as First Republic, are said to be considering strategic options. At the same time, Valley National Bancorp and First Citizens BancShares Inc. are reported to be interested in acquiring Silicon Valley Bank. However, an eventual takeover is unlikely to see shareholders recover any value.

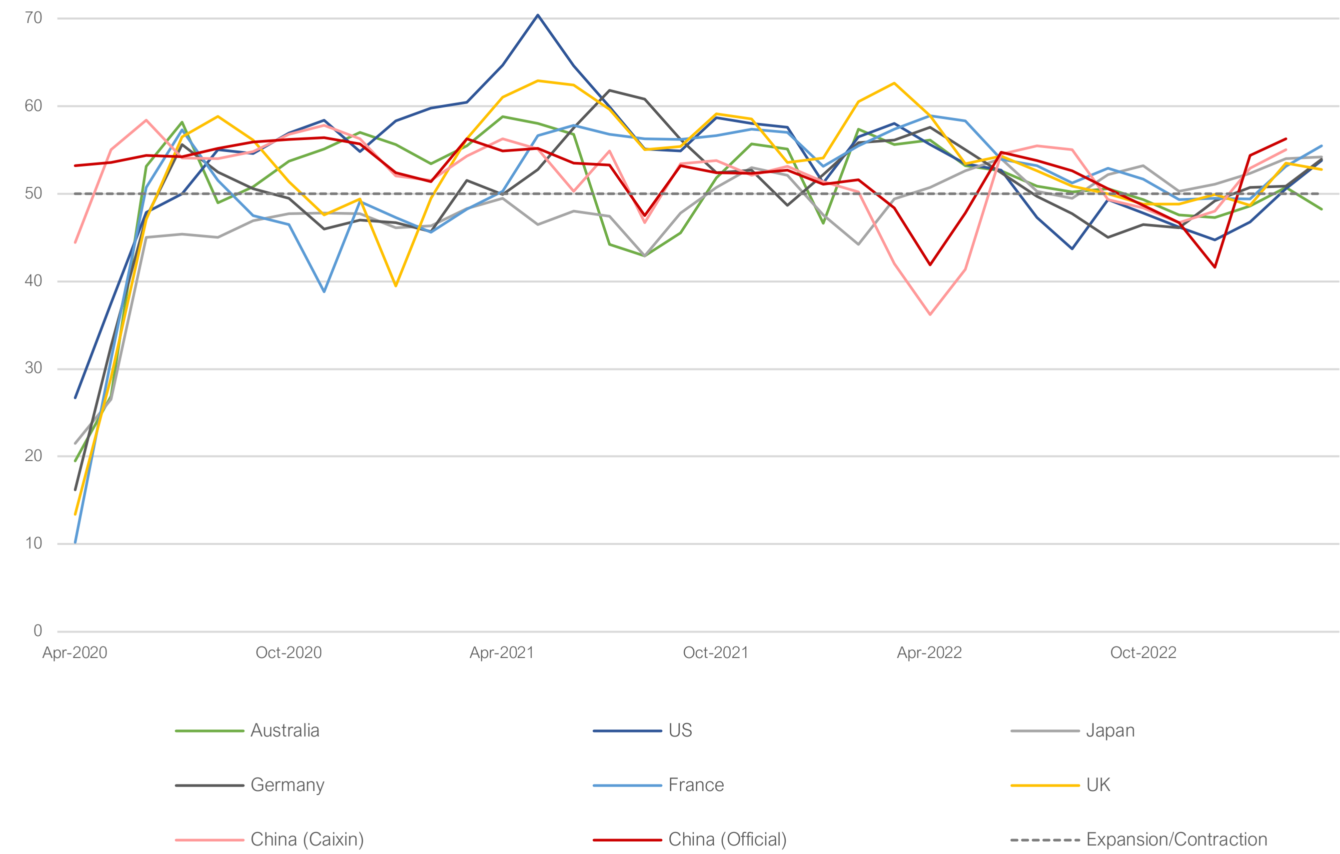
Despite the underlying uncertainty across markets globally, its interesting to observe the outperformance of the growth sector since the start of the year. (See chart below). This has been attributed to the large underperformance in the sector when the interest rate increasing cycle commenced. With the expectation that the increasing cycle may be coming to an end towards the end of this year, there has been a clear rotation back into growth style assets in the expectation that rates will peak and begin to fall towards the end of the year.



Global Manufacturing PMI Surveys



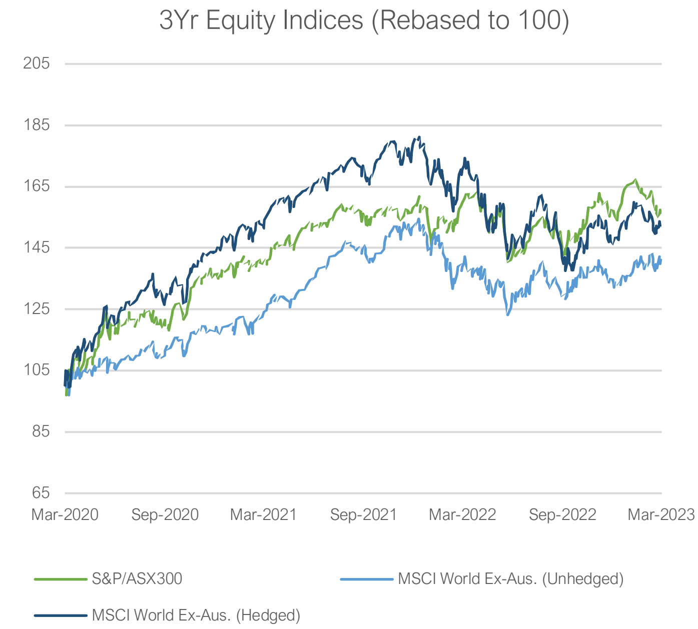
Global Services PMI Surveys

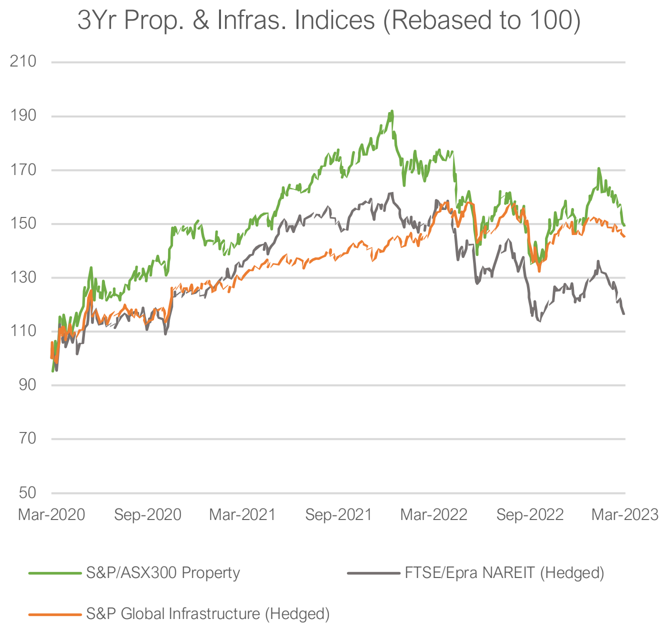


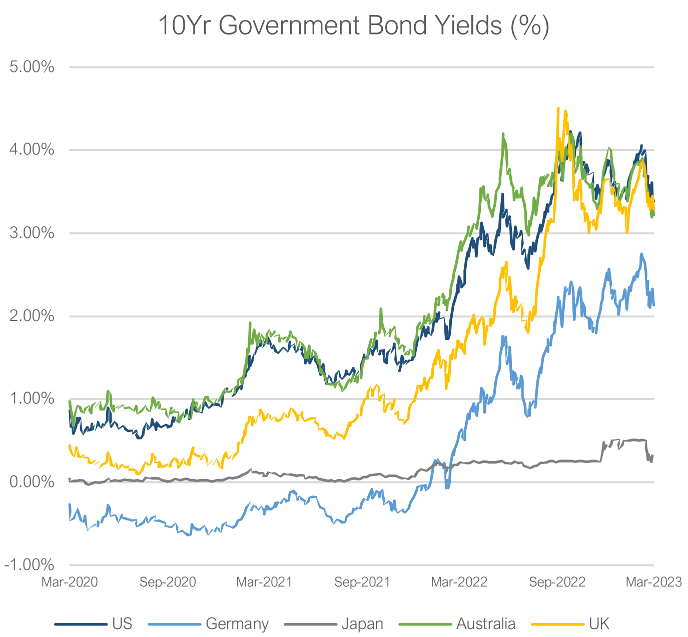
Source: Bloomberg, S&P Global, JPMorgan, Jibun, BME, CIPS, CFLP, Judo Bank, 26th March 2023

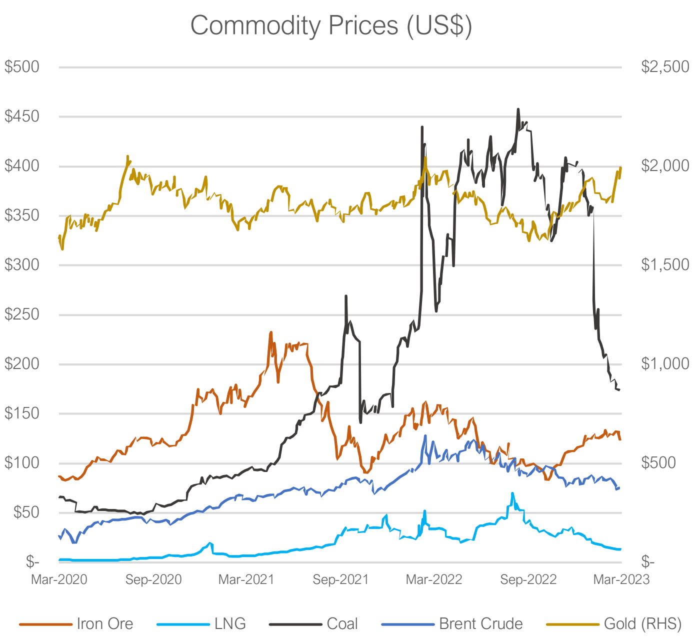
Significant Upcoming Data:

	Monday	Tuesday	Wednesday	Thursday	Friday
Australia		**Retail Sales**	**Monthly CPI**	**Job Vacancies**	**Private Sector Credit**
US	**Dallas Fed. Manuf. Activity**	**Conf. Board Cons. Conf.; Richmond Fed. Bus. Cond. & Manuf. Index; Dallas Fed. Serv. Activity;** Advance Goods Trade; Wsale & Ret. Inventories; FHFA & S&P CoreLogic House Prices	Pending Home Sales; MBA Mortgage Apps	Q4 GDP (3rd Est.); Weekly Jobless Claims	**PCE Inflation; Personal Income & Spending; MNI Chicago PMI; UMich. Cons. Sentiment**
Europe	**IFO Survey; EZ M3 Money Supply;** Swedish Trade	Italian Econ. Sentiment, Cons. & Manuf. Conf.; French Bus. & Manuf. Conf.; Irish Ret. Sales; Finnish House Prices	**UK Money Supply; German GfK, French & Swedish Cons. Conf.; Danish, Swedish & Norwegian Ret. Sales;** Finnish Trade; Unicredit Bank Austria Manuf. PMI	**EZ Conf. Surveys; German, Spanish, Irish & Belgian CPI; Italian & Austrian PPI; Italian & Danish Unempl.; Spanish & Finnish Ret. Sales**	**EZ, French, Italian, Dutch & Austrian CPI; UK & Spanish Curr. Acc.; Swiss Ret. Sales & KOF Leading Indic.;** UK & Danish Q4 GDP (Final Est.); UK Nationwide House Prices
Japan	**PPI; Leading & Coincident Indices**				**Industrial Production; Jobless Rate; Job-to-Applicant Ratio; Retail Sales; Tokyo CPI; Housing Starts**
China	**Ind. Profits**				**Official PMIs; Curr. Acc**









Source: Bloomberg, S&P Dow Jones, MSCI, FTSE Russell, 25th March 2023

Disclaimer