Xtra-Ordinary Opportunities

WEEKLY UPDATE

28th NOVEMBER 2022

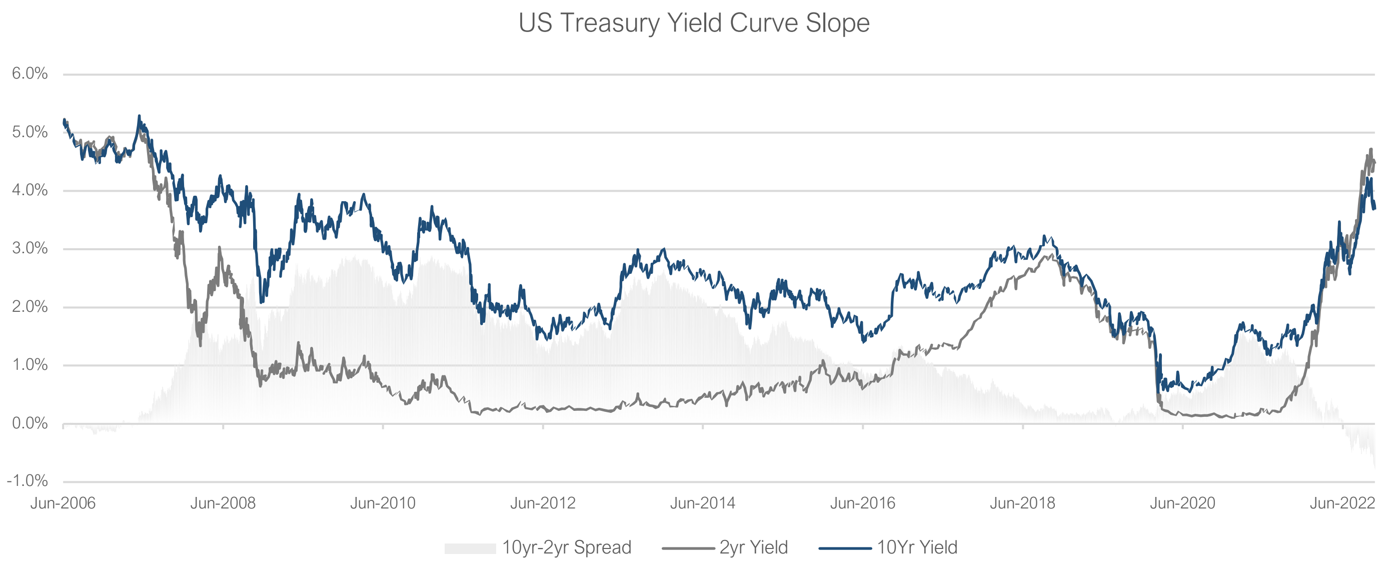
	Price	5 Day % Change	3 Month % Change	1yr % Change
S&P/ASX300	86,701	1.45%	3.77%	3.59%
MSCI World Ex-Aus. (Unhedged)	13,856	0.83%	1.15%	-8.88%
MSCI World Ex-Aus. (Hedged)	2,252	1.44%	-3.06%	-13.96%
Bloomberg AusBond 0+ Composite	9,540	0.13%	1.17%	-7.16%
BloombergBarclays Global Agg. (Hedged)	973	0.65%	-2.37%	-11.42%
S&P/ASX300 Property	58,296	2.59%	-1.91%	-13.83%
FTSE EPRA Nareit Global Real Estate (Hedged)	2,586	1.27%	-7.04%	-18.07%
S&P Global Infrastructure (Hedged)	5,973	2.09%	-3.46%	8.74%
Bloomberg All Hedge Fund Index	2,084	N/A	6.85%	7.62%
VIX	20.5	-14.33%	-10.17%	10.33%
Bloomberg Commodity Index (USD)	114.92	-0.18%	-7.88%	10.94%
Iron Ore Index (62% Fe Aus. Off. China, USD)	98.50	0.00%	-6.64%	-7.51%
LME Copper Spot (USD)	8,070.00	0.29%	-1.04%	-18.75%
Coal 1st Future (Newcastle Export, USD)	360.80	5.05%	-13.58%	128.35%
Brent Crude 1st Future (USD)	83.63	-4.55%	-15.81%	1.71%
LNG 1st Future (Japan/Korea)	29.96	13.85%	-57.17%	-17.25%
Gold in AUD	2,600	-0.92%	3.18%	4.48%
AUDUSD	0.6751	1.17%	-3.29%	-6.11%
AUDEUR	0.6493	0.45%	-7.79%	1.22%
AUDNZD	1.0811	-0.39%	-3.62%	3.05%
AUDGBP	0.5581	-0.56%	-5.72%	3.30%
AUDJPY	93.9280	0.28%	-1.45%	11.69%

Source: Bloomberg, S&P Dow Jones, MSCI, FTSE Russell, 26th November 2022

Markets appear to have reached a fork in the road. Equity indices, bond yields, the VIX index, and the US dollar are all pushing against important technical levels, which could give way to surprisingly bullish moves. The most likely catalysts would be a combination of further evidence of an inflationary peak and, oddly, signs that economic growth is deteriorating. This would lead to the conclusion that central banks are approaching a peak in monetary tightening, providing some relief to investors.

Last week saw lower volumes due to the American holidays, mixed flash PMI surveys, and a reserve ratio cut from the PBOC. Governor Lowe also gave a speech that included a section explaining how inflation may be more volatile in the future.

This week there will be more inflation data in the US, Eurozone, and Australia, as well as the American labour report and official Chinese PMI surveys.



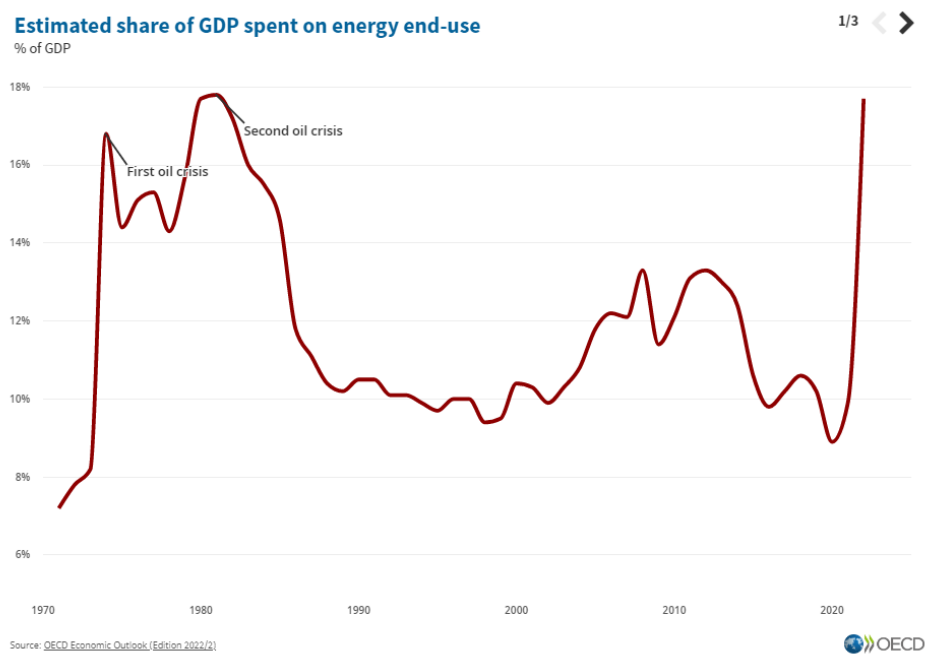
Source: Bloomberg, 26th November 2022

There were relatively light trading volumes last week due to the American Thanksgiving holidays and perhaps partly due to the distraction of the FIFA World Cup taking place in Qatar.

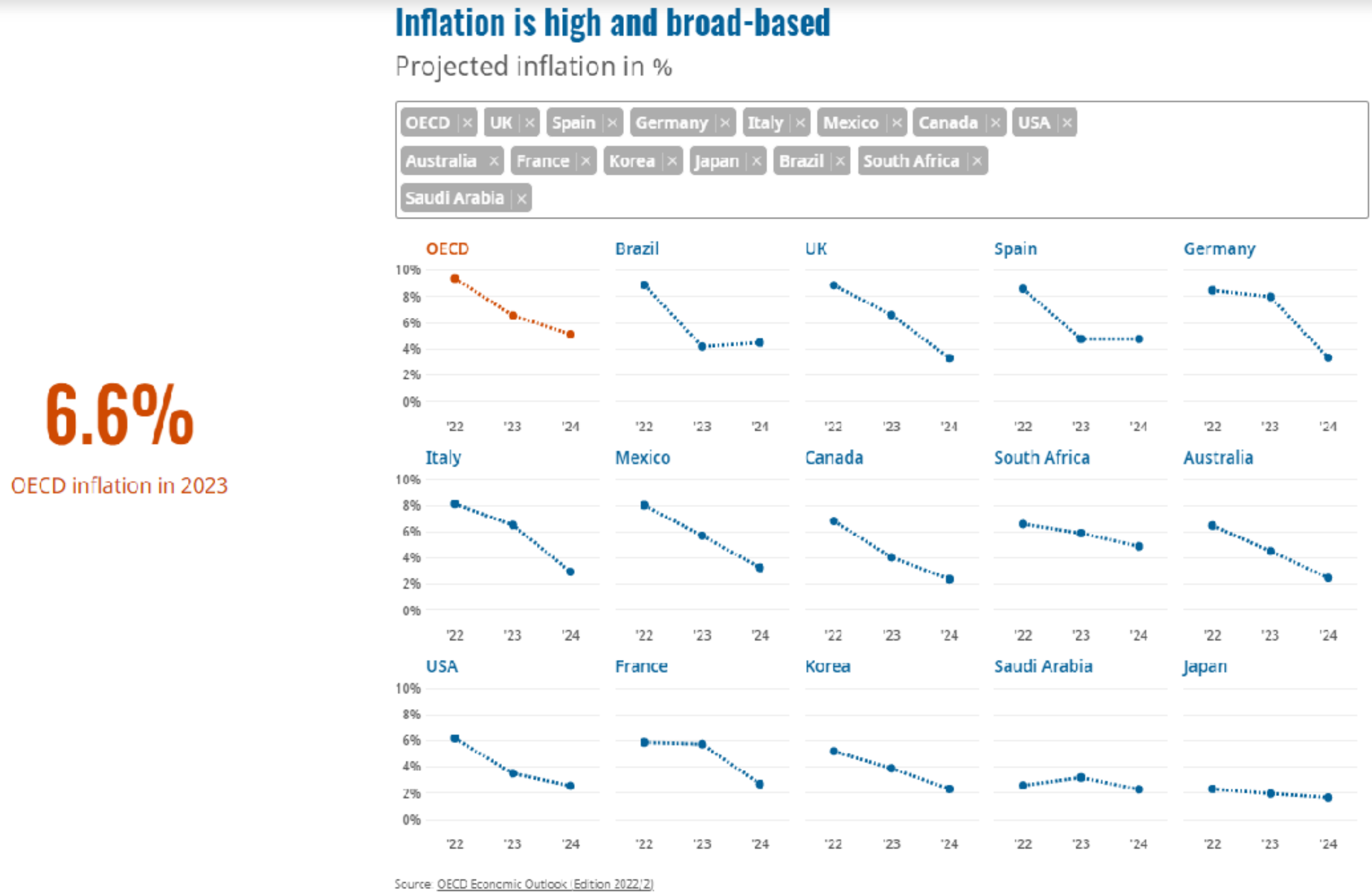
Despite the lower volumes, there were broad-based gains across asset classes and signs of growing optimism in some areas. This optimism may soon challenge the dominant narrative that equity indices will fall as the global economy slows sharply. Markets appear to have reached a fork in the road, which will either see a continuation of the bearish trend or a surprisingly good end to 2022.

The S&P500 and MSCI AC World indices are pushing towards the 200-day moving averages, which have served as upside resistance in 2022. Yet higher dividend-paying and more value-oriented markets such as Australia and Japan have already breached that upside resistance. Last week the VIX fell sharply to near the 19 level, which has served as significant support. A break below that barrier would likely coincide with a move higher in stocks. At the same time, the US dollar has fallen to the 200-day moving average and may soon break downwards, and bond yields reflect much lower long-term inflation risks. The US Treasury yield curve is very inverted, signalling a high recession probability. But if the 2yr yield soon follows the 10yr yield lower, the dollar may fall through support and earnings multiples could expand.

Last week the OECD updated its economic forecasts, predicting a sharp slowdown in growth in 2023 linked to the “massive” oil-price shock this year. The Organisation estimates that 17.7% of global GDP is being spent on energy, a level not seen since the 1970s. However, oil prices continue to decline despite a seasonal backdrop that tends to be favourable to energy producers as the northern hemisphere enters winter.



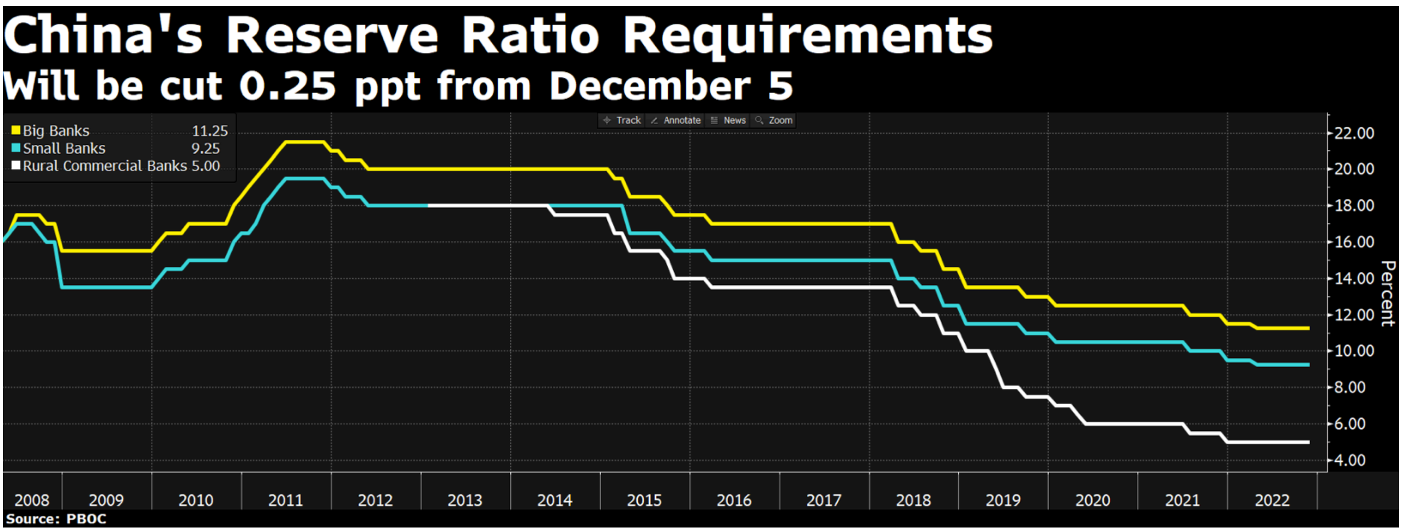
Declining oil prices could simply be indicative of slowing growth. However, lower oil prices tend to lead to lower inflation



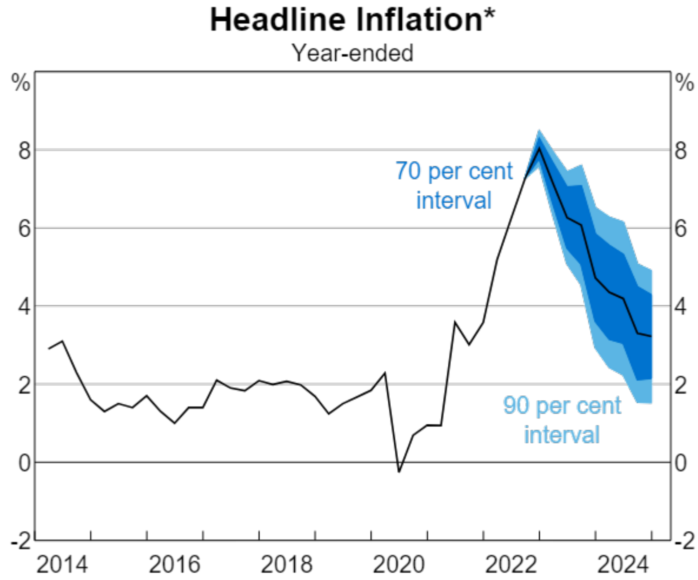
readings, which calms inflation expectations and relieves central banks of some of the pressure to raise interest rates.

Positive inflation developments are becoming more prevalent and are the most likely reason for the more bullish market sentiment and the lower American dollar. One of the most striking graphics in the OECD report was the inflation outlook summary showing consistently lower inflation predictions across major economies. The level of expected inflation remains high, but the direction is favourable and lends credibility to the actions of central banks.

The improved inflation outlook also suggests that the peak in monetary tightening may be closer than previously thought. Last week the PBOC cut the reserve ratio requirement for Chinese banks by -0.25%, easing monetary conditions. The Federal Reserve minutes also echoed the recent speeches of FOMC members suggesting that the Fed may "*soon*" slow the pace of interest rate rises. A smaller +0.5% hike is now fully priced in for December. This week will see Chair Jerome Powell speak and, as the most powerful member and one of the most hawkish, any signs of optimism are likely to weigh further on the 2yr yield and the US dollar while lifting stocks.



However, the Swedish Riksbank and RBNZ both raised policy rates by +0.75% last week, and the ECB and Bank of England are set to continue with more hawkish policy moves, illustrating that there is no universal agreement that inflation has been tamed.



* Confidence intervals reflect RBA forecast errors since 1993.
Sources: ABS; RBA

In a speech given at the CEDA Annual Dinner last week, RBA Governor Philip Lowe took time to explain some of the nuances in the situation facing central banks. He outlined several short-term reasons to believe that inflation is peaking; supply chain disruptions are resolving, commodity prices are falling, "*and third, the increase in interest rates here and around the world will result in slower growth in aggregate demand*". He continued:

"*As always, there is uncertainty around this outlook. We can't rule out further bad news abroad that throws us off this path. And domestically, we need to avoid a price-wage spiral. To date, while wages growth in parts of the private sector has picked up materially, aggregate wage outcomes in Australia have been consistent with a return of inflation to target. In contrast, a number of other advanced economies are experiencing much faster rates of wages growth. So this is an area we are watching carefully.*"

The link between wages and inflation is well-understood and uncontroversial. Easing wage pressures are central to the RBA's forecasts of a peak in inflation in the next three months. However, the Governor included an unexpected passage on changes related to the supply side:

"*Looking forward, the supply side looks more challenging than it has been for many years and it is likely to play a more prominent role in inflation outcomes. The very recent past has served as a powerful reminder of just how influential the supply side can be, with COVID disruptions and Russia's invasion of Ukraine contributing to the highest inflation in decades. But beyond these recent shocks, there are a number of longer-term developments that are likely to create more variability in inflation than we have become used to.*"

These developments include deglobalisation, the peak in working-age population ratios, the rising frequency of extreme weather events, and the required energy transition away from fossil fuels. These can generate higher inflation through a combination of more frequent shocks and less elastic supply curves. In other words, inflation may be peaking but is also likely to be more volatile in the coming years, leading to more ups and downs in interest rates.

The Governor also reiterated that the Reserve Bank is less likely to issue explicit forward guidance but indicated that the RBA was likely not done raising just yet:

"*Given our mandate for price stability and full employment, the Board expects to increase interest rates further over the period ahead. We are not on a pre-set path though. We have not ruled out returning to 50 basis point increases if that is necessary. Nor have we ruled out keeping rates unchanged for a time as we assess the state of the economy and the outlook for inflation. The Board's priority is to return inflation to target over time. It is resolute in its determination to make sure that this current period of high inflation is only temporary.*"

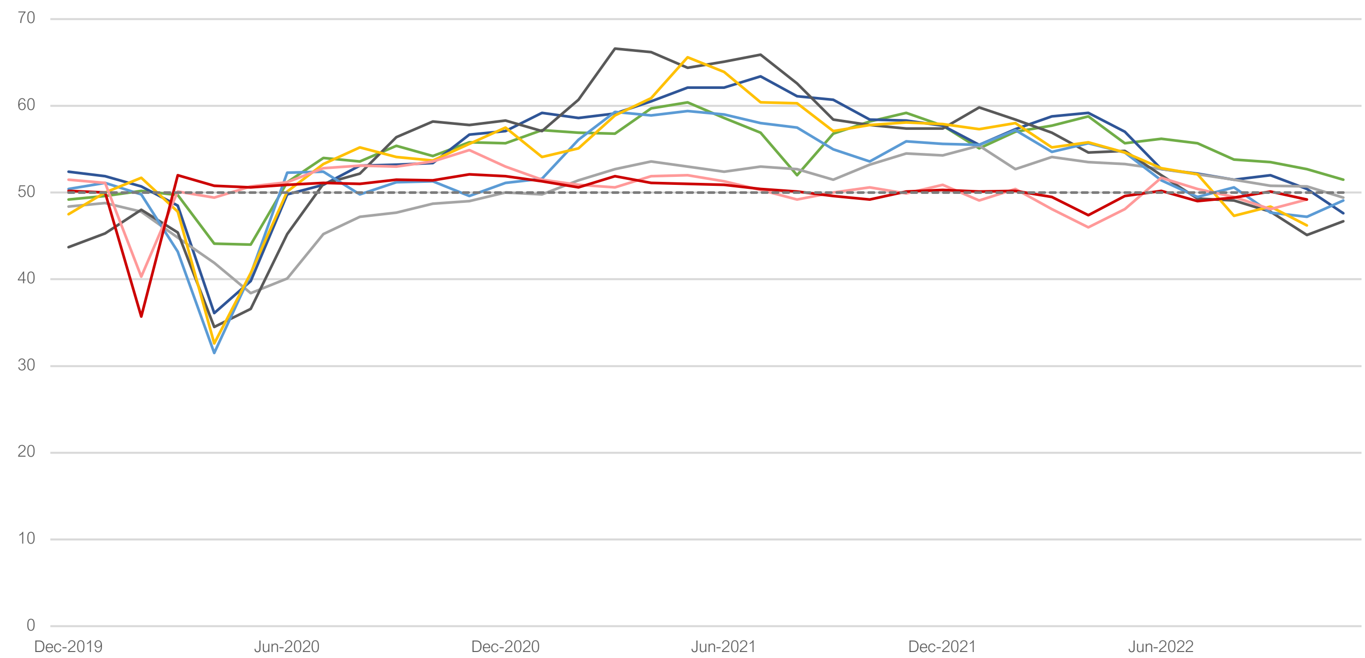
This week's data is likely to provide some indication of whether the short-term optimism is justified. Here, it is definitely a case of "bad news is good news", as weaker growth figures are interpreted as allowing central banks some scope to slow or even pause monetary tightening.

Last week's European flash PMI surveys were slightly firmer than expected. However, the readings from Australia, Japan and the United States were slightly softer. This week economists expect to see the ISM Manufacturing survey drop into contractionary territory. A softening in the American labour market is also forecast as job advertisements roll over and the pace of non-farm payroll growth slows to +200k. The unemployment rate is expected to hold at 3.7%.

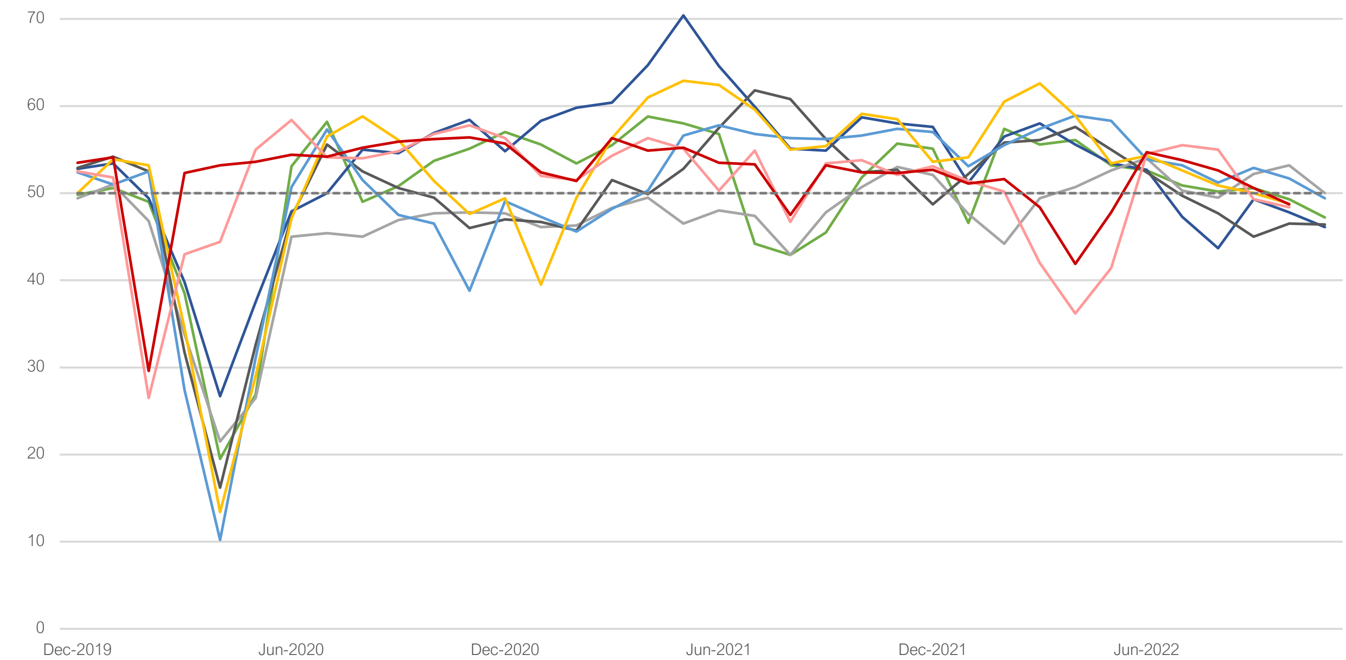
However, firmer inflation readings could still spoil the mood since the market is anticipating more signs of a peak. On Wednesday, the Australian monthly CPI series is expected to continue to rise towards the 8% annual peak forecast by the

RBA. But Eurozone CPI is expected to fall to +10.4% yoy later in the week, and the Fed's preferred core PCE measure is expected to fall from +5.1% to +5.0% yoy when released on Thursday. If the numbers match the forecasts, the market may yet enjoy a Santa rally to end the year.

Global Manufacturing PMI Surveys



Global Services PMI Surveys



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

Source: Bloomberg, S&P Global, JPMorgan, Jibun, BME, CIPS, CFLP, 26th November 2022

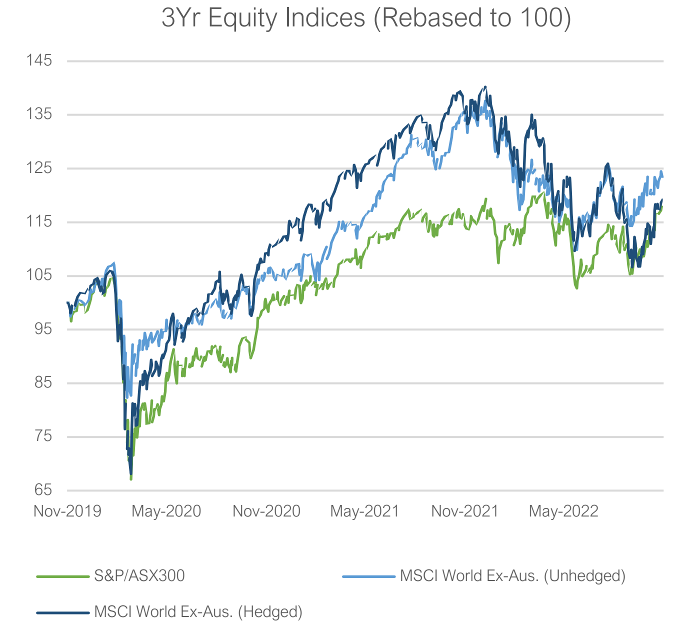
Significant Upcoming Data:

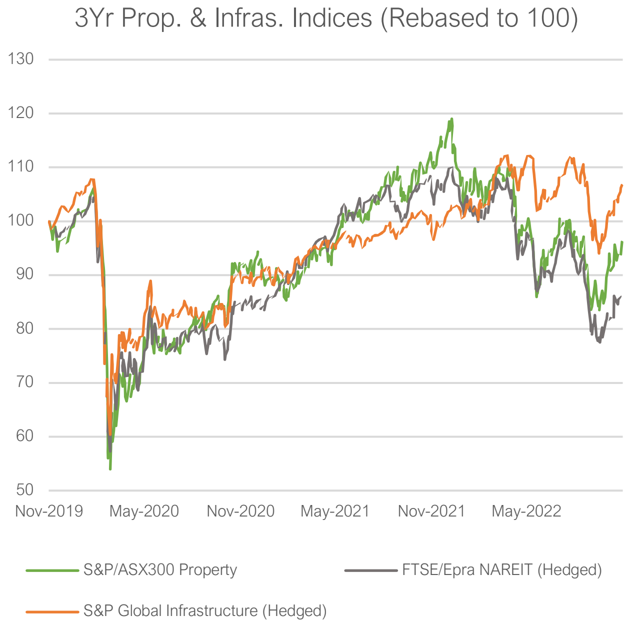
	Monday	Tuesday	Wednesday	Thursday	Friday
Australia	**Retail Sales**		**CPI;** **Building Apps;** **Private Sector Credit;** Private Sector Houses; Construction Work Done	**CoreLogic House Prices;** **Commodity Index;** **Private Capex;** S&P Global Manuf. PMI (Final)	Home Loans
US	Dallas Fed Manuf. Activity	**Cons. Conf.;** FHFA & S&P CoreLogic House Prices;	**JOLTS Job Openings;** **Fed. Beige Book;** **ADP Employment Change;** **MNI Chicago PMI;** **Wsale/Ret. Inventories;** **Adv. Goods Trade;** **Q3 GDP (2nd Est.)** Pending Home Sales; MBA Mortgage Apps;	**PCE Inflation;** **ISM Manuf. Survey;** Personal Inc./Spending; Challenger Job Cuts; Construc. Spending; S&P Global Manuf. PMI (Final); Weekly Jobless Claims [Wards Vehicle Sales]	**Labour Report**
Europe	**EZ M3 Money Supply;** **Germain, Irish & Norwegian Ret. Sales;** German Import Prices; UK Nationwide House Prices	**German & Swedish Ret. Sales.;** **EZ, UK & Swedish Cons. Conf.;** **EZ Econ. & Ind. Conf.;** **UK Money Supply;** **German, Spanish & Belgian CPI** Italian PPI & Ind. Sales; Swedish Trade; UK Nationwide House Prices	**EZ CPI;** **German & Danish Unempl.;** Danish & Finnish Q3 GDP; Spanish Curr. Acc.; German, Spanish & Finnish Retail Sales; French & Austrian PPI	**EZ, Italian & Belgian Unempl.;** **Swiss CPI** **Tier 2 Manuf. PMIs;** Irish Q3 GDP	**EZ PPI;** **German Trade;** Spanish & Norwegian Unempl.; Irish Q3 GDP
Japan		**Jobless Rate;** **Job-to-Applicant Ratio;** **Retail Sales;**	**Industrial Prod.;** **Housing Starts**	**Cons. Conf.;** **Capital Spending;** **Company Sales & Profits;** Jibun Bank Manuf. PMI (Final); Vehicle Sales	**Monetary Base**
China	**[Industrial Profits]**		**Official PMIs**	**Caixin Manuf. PMI**	

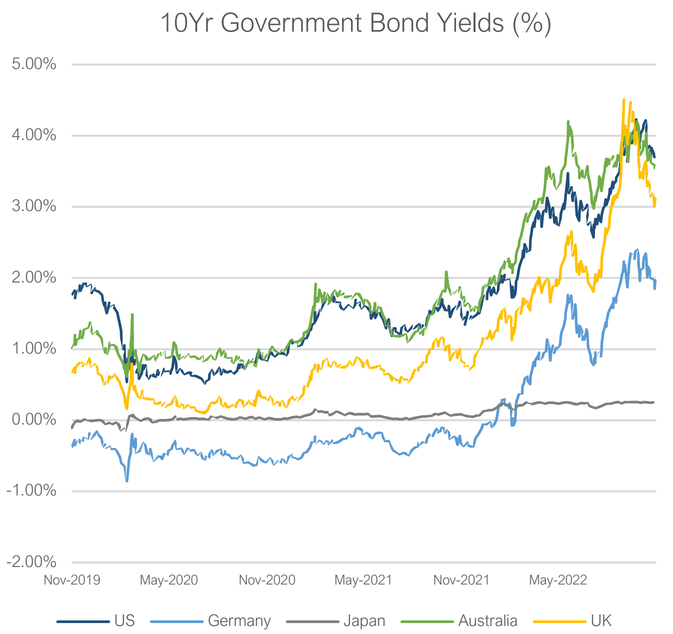
On Friday 2nd December the US employment report will be released with economists expecting a 200k payroll addition in November with the unemployment rate holding steady at 3.7%. The jobs report will be closely watched for the Fed setting rate hike expectations ahead of the next FOMC meeting.

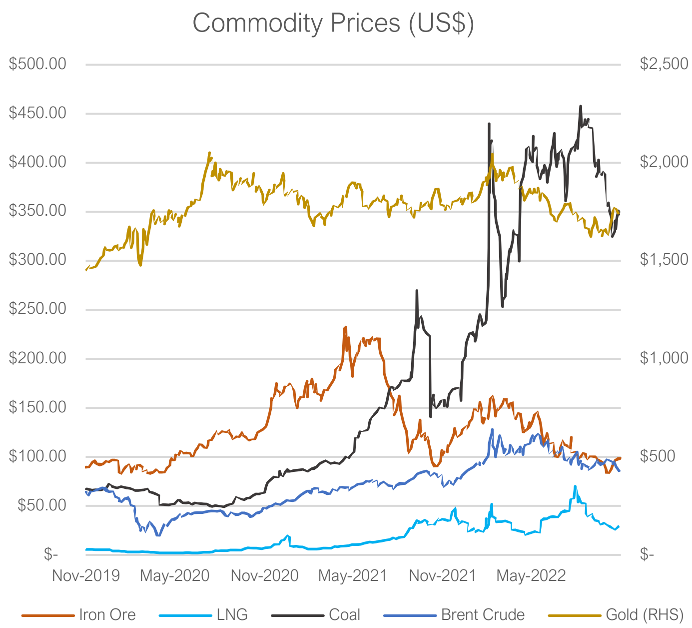
US corporate earnings:

Monday 28th – Pinduodo (PDD)
Tuesday 29th: Intuit (INTU), Workday (WDAY), Crowdstrike (CRWD), Hewlett Packard (HPE), NetApp (NTAP)
Wednesday 30th – Saleforce (CRM), Royal Bank of Canada (RY), Splunk (SPLK), Xpeng (CPEV), Snpwflake (SNOW), Five Below (FIVE)
Thursday 1st – Toronto-Dominion Bank (TD), Dollar General (DG), Ulta Beauty (ULTA), Marvell Technology (MRVL), Kroger (KR)
Friday 2nd – Cracker Barrell (CBRL), Genesco (GCO)









Source: Bloomberg, S&P Dow Jones, MSCI, FTSE Russell, 26th November 2022


FINX
Happy Festive Season
Please note our Office will be closed from the 19th Dec to 9th January 2023

Disclaimer