ASSET MANAGEMENT

Economic and market update

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Key events in April 2023

- Global shares made solid gains in April following the banking turmoil in March that saw the collapse of three US banks and the takeover of Credit Suisse. Investors gained comfort from the speed and concerted action by other banks and governments to step in and avert (at least for now) any further problems. The limited spread of that global financial stress combined with encouraging resilience in global economic activity saw markets rise. Inflation also appears to be moderating, although both the US and European central banks are still signalling further interest rate rises are likely.
- Wall Street benefitted from milder US consumer inflation with March's annual inflation at 5% compared to the 9% peak in mid-2022. There was also hope that the worst of the US banking crisis is over. Rising Purchasing Managers' Index (PMI) business surveys, solid job gains and better than expected corporate earnings (notably in the Technology sectors) also contributed to the positive US share market performance.
- European shares also made solid gains with encouraging business surveys and the apparent containment of the banking crisis. Hopes that China's improved economic performance could boost global trade were also positive for stocks. In China, there was more optimism on future prospects given the lift in March retail spending and stronger growth in recent quarters.
- Australian shares (1.8%) also made solid gains in April given the global share rebound and signals from the Reserve Bank of Australia (RBA) for a pause in raising interest rates. The strongest gains were from the Australian Real Estate Investment Trusts (5.2%, A-REITs), which benefitted from the lower rates, and the Information Technology (4.8%) sector, which followed its global peers higher. The Resources (-2.3%) sector was dragged down by the Materials (-2.6%) sector as iron ore prices corrected on weak steel demand, but this was partly mitigated by gains in energy and gold stocks.
- The Australian dollar (AUD) was 1.3% weaker against the US dollar (USD) in April, finishing the month at USD 0.6609.

Asset class summary

Asset class returns in Australian dollars – periods to 30 April 2023

	CYTD	1 month	3 months	1 year	3 years pa	5 years pa	10 years pa
Australian shares	5.4%	1.8%	-0.8%	2.8%	14.0%	8.3%	7.9%
Global shares (hedged)	8.0%	1.3%	1.7%	0.6%	11.0%	6.5%	9.1%
Global shares (unhedged)	11.7%	2.8%	8.3%	9.8%	11.7%	9.9%	12.9%
Emerging markets (unhedged)	5.5%	0.2%	1.6%	0.5%	4.0%	1.6%	6.5%
Australian property securities	5.5%	5.2%	-2.4%	-10.2%	11.3%	5.4%	7.7%
Global property securities (hedged)	2.1%	2.0%	-5.5%	-16.4%	4.3%	0.5%	3.2%
Global listed infrastructure (hedged)	1.7%	2.1%	0.3%	-3.4%	7.0%	5.6%	7.3%
Australian bonds	4.8%	0.2%	2.0%	2.1%	-2.3%	1.4%	2.6%
Global bonds (hedged)	2.8%	0.4%	0.7%	-2.3%	-3.2%	0.4%	2.3%
Global high yield bonds (hedged)	3.7%	0.9%	1.0%	2.6%	6.4%	2.9%	0.0%
Australian Inflation-linked bonds	5.6%	0.4%	2.4%	6.1%	2.9%	3.0%	2.8%
Cash	1.1%	0.3%	0.8%	2.4%	0.8%	1.1%	1.7%
AUD/USD	-2.6%	-1.3%	-6.2%	-7.0%	0.3%	-2.6%	-4.4%

Past performance is not a reliable indicator of future performance.
Sources: Australian shares - S&P/ASX 200 Total Return Index; Global shares (hedged) - MSCI All Countries World (A$ hedged, Net); Global shares (unhedged) - MSCI All Countries World in A$ (Net); Emerging markets - MSCI Emerging Markets in A$ (Net); Australian property securities - S&P/ASX 300 A-REIT Accumulation Index; Global property securities - FTSE EPRA/NAREIT Developed (A$ hedged, Net); Global listed infrastructure - FTSE Global Core Infrastructure 50/50 (Hedged $A); Australian bonds - Bloomberg AusBond Composite 0+ Yr Index; Global bonds (A$ hedged) - Barclays Global Aggregate (A$ hedged, Gross); Global high yield bonds (A$ hedged) - Morningstar LSTA US Index BB/B Index (A$ Hedged); Australian inflation-linked bonds - Bloomberg AusBond Inflation Government 0+ Yr Index; Cash - Bloomberg AusBond Bank Bill Index; AUD/USD - WM/Reuters Daily (4 pm GMT).

Key events in global markets over the last three months to April

Financial markets have been remarkably resilient to significant risks this year. Apart from the inflation and interest rate risks as well as the Ukraine conflict, the recent turmoil in the global banking system has not dented this resilience. Global shares (unhedged) delivered an exceptionally strong 8.3% return for the three months to April. The weaker Australian dollar detracted from this gain, with hedged global shares providing a 1.7% return.

Wall Street's benchmark S&P 500 Index delivered 2.6%, in local currency terms. The US central bank continued to raise interest rates with respective 0.25% rises in February and March. However, investors gained solace from milder consumer inflation with February's 6% annual result being the lowest since September 2021.The rapid collapse of three US regional banks in March did place Wall Street into a brief tailspin. This weakness was reversed by the rapid supportive responses from the US central bank and the US Federal Government to assure bank depositors. US economic activity remains mixed with robust jobs growth being in sharp contrast to slower retail spending and weaker housing construction.

European shares also made a very strong recovery even with the Russia-Ukraine conflict on their doorstep. The EURO STOXX 50 Index delivered a strong 4.7% return, in local currency terms. Europe's recovery reflects the benefits of a mild winter and lower energy prices. While Credit Suisse's troubles and the European Central Bank's interest rate increases by 0.5% in both February and March did cause some turmoil, investors appear confident that these are manageable risks.

Performance of Asian share markets was mixed. The MSCI China Index returned -10.7%, in local currency terms. In contrast, the Japanese share market (Nikkei 225 Index) delivered a very strong return of 6.6%, with the Japanese central bank maintaining their low interest rate and bond yield targets.

Global bonds (hedged) delivered a positive 0.7% quarterly return after tough times in the past year.

Global high yield bonds (hedged) also made a positive gain with a 1.0% return. Investors have regained their appetite for high yield with optimism that the inflation and interest rate risks were less threatening than feared.

Key events in Australia over the last three months to April

Australian shares delivered a weak -0.8% return. Communication Services (7.6%) and Information Technology (7.3%) led the market gains, which followed its global peers higher. There were also very strong gains for Utilities (6.4%) and Industrials (6.3%). However, there was weakness in the Materials (-3.7%) and Resources (-3.5%) sectors as iron ore prices corrected on weak steel demand, but this was partly mitigated by gains in energy and gold stocks.

Australia's economy appears to be slowing judging by weaker retail spending as well as falling housing construction and house prices. However, there is still solid jobs growth and the unemployment rate at 3.5% is close to 50 year lows. After raising the cash interest rate in both February and March by 0.25%, in April the RBA decided to leave the rate unchanged at 3.6%. Consumer inflation rose 1.4% in the March quarter, and was 7.0% annually, down from a 30 year high of 7.8% in the December 2022 quarter.

Global prospects

The recent global banking turmoil is another worry that has been added to the troubling trio of high inflation, rising interest rates and the war in Ukraine over the past year. For investors, assessing these considerable risks is challenging. Given the current investment climate has considerable risks with multiple positive and negative possible outcomes, investors should maintain a disciplined and diversified strategy.