

Economic and market update

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March 2023

Key events in March 2023

- Global shares provided a positive surprise in March with solid gains despite the turmoil in the global banking system. The failure of three US banks and Credit Suisse's sudden takeover caused bank share prices to fall sharply. However milder inflation and lower bond yields have helped mitigate this banking turbulence.
- Wall Street's benchmark S&P 500 Index made a remarkable recovery, increasing by 3.6%, in local currency terms. The shock of three US regional bank collapses (Silicon Valley, Signature and Silvergate) initially caused US share prices to slump. However, a rapid response from the US Treasury and the US central bank provided comfort to investors. Both Silicon Valley and Signature Bank depositors are secured and the US central bank is to provide additional cash resources to commercial banks and other central banks. There were also encouraging signs that US consumer annual inflation has moderated further from 6.4% in January to 6% in February.
- European share markets made a modest positive return even with the stress on Switzerland's second largest bank and continuing concerns over the Russia-Ukraine conflict
- Notably government bond yields fell sharply in response to the banking turmoil as well as moderate inflation results. Both the Australian and the US central banks raised their cash interest rate by a further 0.25% in March while the European Central Bank increased their policy rate by 0.5%.
- Australian shares slipped into negative territory in March. The sharpest falls were in the real estate (-6.8%) and financial (-4.9%) sectors given global banking concerns. However, strength in the resources sector (+5.0%) given hopes for a China economic recovery helped limit the downside in Australian share markets.
- Australia's economy appears to be softening judging by more sedate retail spending. Consumers are more cautious given high inflation and rising mortgage interest rates. In a welcome sign, Australia's consumer inflation seems to have peaked with annual inflation falling from 7.4% in January to 6.8% in February.

Asset class summary

Asset class returns in Australian dollars – periods to 31 March 2023

	CYTD	1 month	3 months	1 year	3 years pa	5 years pa	10 years pa
Australian shares	3.5%	-0.2%	3.5%	0.1%	16.5%	8.7%	8.2%
Global shares (hedged)	6.6%	2.4%	6.6%	-7.6%	14.0%	6.7%	9.2%
Global shares (unhedged)	8.7%	3.8%	8.7%	3.8%	11.9%	9.9%	12.9%
Emerging markets (unhedged)	5.3%	3.7%	5.3%	0.1%	4.6%	1.8%	6.6%
Australian property securities	0.3%	-6.8%	0.3%	-14.0%	14.2%	5.2%	8.0%
Global property securities (hedged)	0.1%	-3.9%	0.1%	-21.3%	5.7%	0.7%	3.7%
Global listed infrastructure (hedged)	-0.4%	2.3%	-0.4%	-7.4%	8.6%	5.8%	7.7%
Australian bonds	4.6%	3.2%	4.6%	0.3%	-2.4%	1.3%	2.8%
Global bonds (hedged)	2.4%	2.1%	2.4%	-5.5%	-2.8%	0.3%	2.4%
Global high yield bonds (hedged)	3.0%	1.5%	3.0%	-4.5%	4.6%	2.4%	0.0%
Australian Inflation-linked bonds	5.2%	3.0%	5.2%	4.8%	2.7%	2.9%	2.8%
Cash	0.8%	0.3%	0.8%	2.0%	0.7%	1.1%	1.7%
AUD/USD	-1.2%	-0.7%	-1.2%	-10.8%	3.0%	-2.7%	-4.3%

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) - Composite of BCGA US Corp HY BB/B (A\$ hedged) & S&P LSTA BB/B Leveraged Loan Index; 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 March

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 a very strong 8.7% return for the three months to March. The weaker Australian dollar partly detracted from this gain, with hedged global shares providing a 6.6% return.

Wall Street's benchmark S&P 500 Index surged 7.4%, 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 an exceptionally strong 13.7% 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.

Asian share markets delivered solid gains. The MSCI China Index rebounded by 5.1%, in local currency terms, with encouraging signs that China's government is relaxing their regulatory scrutiny on technology companies by allowing Alibaba to split into six different units and raise capital. There were also some modest growth signs in China's industrial production and retail spending in the opening months of the year. Japanese shares (Nikkei 225 Index) also delivered a positive return of 8.5%, in local currency terms, with the Japanese central bank maintaining their low interest rate and bond yield targets.

Global bonds (hedged) delivered a 2.4% quarterly return after tough times in the past year. Government bond yields fell in response to signs that global inflation pressures are moderating as well as concerns that banking stress would cause slower economic activity later this year.

Global high yield bonds (hedged) also made a strong gain with a 3.0% 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 March

Australian shares delivered a strong 3.5% return. Consumer discretionary (+11.4%) and staples (+7.6%) led the market gains with hopes that the end was near on rising interest rates squeezing consumers. There were also very strong gains for communication services (+9.4%) and information technology (8.1%). The resources sector delivered strong gains (+6.2%) given iron ore and metal prices on China's economic recovery hopes. However, there was weakness in the financial sector (-2.7%) as the global banking turmoil in March cautioned investors.

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. The Reserve Bank of Australia raised the cash interest rate in both February and March by 0.25% to 3.6%. There has been some welcome news that consumer inflation is starting to moderate with annual inflation edging down from 7.4% in January to 6.8% in February.

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.

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