Economic and market update

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Key events in June 2023

- Global shares made strong gains in June. Optimism over 'Artificial Intelligence' (AI) prospects and encouraging signs that inflation is moderating outweighed concerns over rising interest rates.
- Wall Street's benchmark S&P 500 Index made robust gains in June**.** The promise of AI boosting productivity and profit margins for technology companies was the key positive contributor. Encouraging signs that US consumer annual inflation has fallen from 4.9% in April to 4% in May also boosted investor sentiment.
- European share markets made solid gains even with inflation and interest rate concerns as well as continuing worries over the Russia-Ukraine conflict.
- Asian share markets delivered a strong performance. The MSCI China Index rebounded after the weak performance earlier this year. Hopes for further stimulus measures by China's central bank and government helped shares after the softer results for retail spending and weak property construction.
- Australian shares made mild gains given signs that inflation pressures were abating and hopes that China will pursue more stimulatory policy settings. The Resources sector surged 4.6% on China's growth hopes with strong gains in iron ore prices. The Information Technology sector also made strong gains of 3.5% on the back of investor's enthusiasm for anything remotely connected with AI.
- Australia's economy displayed more positive signs with strong jobs growth, a rebound in retail spending and inflation moderating. May saw Australia's employment expand by a robust +75,900 jobs and the unemployment rate edge down from 3.7% to 3.6%. Consumers were also more willing to raise their retail spending in May, but this also reflected "*promotional activity and sales events"* according to the Australian Bureau of Statistics. Consumer price pressures moderated in May with annual inflation coming in at 5.6% compared to April's 6.8% result. However, the looming strong rises in electricity costs and residential rents in the new financial year still suggest a 'painful squeeze' on consumer budgets. The Reserve Bank of Australia (RBA) again surprised with another 0.25% interest rate hike in June to a 4.1% cash interest rate.

Asset class summary

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

	CYTD %	1 month %	3 mths %	1 year %	3 years pa %	5 years pa %	10 years pa %
Australian shares	4.5	1.8	1.0	14.8	11.1	7.2	8.6
Global shares (hedged)	13.3	5.3	6.3	14.6	10.2	7.4	9.7
Global shares (unhedged)	16.1	2.9	6.8	20.4	12.2	10.4	12.3
Emerging markets (unhedged)	6.9	0.9	1.5	5.1	3.5	3.1	6.3
Australian property securities	3.5	-0.1	3.2	7.5	8.5	3.9	8.0
Global property securities (hedged)	1.0	2.8	0.9	-5.9	3.1	-0.6	4.0
Global listed infrastructure (hedged)	-1.3	1.8	-0.9	-3.0	5.5	4.5	7.6
Australian bonds	1.5	-2.0	-2.9	1.2	-3.5	0.5	2.4
Global bonds (hedged)	2.1	-0.2	-0.3	-1.2	-3.6	0.2	2.5
Global high yield bonds (hedged)	3.9	1.3	0.9	7.0	1.5	2.5	0.0
Australian Inflation-linked bonds	3.4	-1.7	-1.7	5.2	1.5	2.3	2.9
Cash	1.7	0.3	0.9	2.9	1.0	1.2	1.7
AUD/USD	-1.8	2.9	-0.6	-3.2	-1.1	-2.1	-3.1

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) - Barclays US High Yield Ba/B Cash Pay x Financials ($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 June

Global share prices continue to climb the wall of worries this year. High inflation, rising interest rates, banking stress and the Ukraine conflict has not curbed investor's enthusiasm. Global shares (unhedged) delivered a very strong 6.8% return for the three months to June. The weaker Australian dollar also added to this gain. By comparison the hedged global shares provided a strong 6.3% return.

Wall Street's benchmark S&P 500 Index delivered a remarkable 8.6% return, in local currency terms. These strong gains came despite the US central bank continuing to raise interest rates. Investors appear to have gained solace from milder consumer inflation with May's 4% annual result being the lowest in the past two years. US economic activity remains mixed with robust jobs growth being in sharp contrast to slower retail spending and weaker housing construction.

European shares (EURO STOXX 50) made a solid quarterly gain of 1.9%, in local currency terms, despite the Russia-Ukraine conflict on their doorstep.

The performance of Asian share markets has been mixed. The MSCI China Index returned -9.0%, in local currency terms, given concerns over China's economy. By contrast, Japan's Nikkei 225 Index delivered an exceptionally strong return of 18.5%, in local currency terms, with the central bank maintaining their low interest rate and bond yield targets.

Global bonds (hedged) delivered a mildly negative -0.3% quarterly return with inflation concerns still prominent.

Global high yield bonds (hedged) made a positive gain with a 0.9% return. Investors have regained their appetite for high yield with optimism that the global economy is proving resilient to the wall of worries.

Key events in Australia over the last three months to June

Australian shares delivered a positive 1.0% return with a mixed performance across industry sectors. Information Technology (21.1%) led the market gains in line with the global mania for AI. There were also strong gains for Energy (3.8%) and Industrials (3.8%). However, there was sharp weakness in the Health Care (-3.2%) sector. Resources (-1.8%) also disappointed as iron ore and coal prices corrected on China's growth concerns.

Australia's economy is struggling judging by sedate retail spending and weak housing construction activity. Consumers are understandably reluctant to spend given the budget challenges of high inflation and interest rates. The RBA's surprise 0.25% interest rate hike in both May and June to a 4.1% cash interest rate has only added to the worry list. Housing provides a complex profile with a rebound in house and apartment prices over recent months, but a dramatic slide in new housing approvals and rise in insolvencies amongst builders.

There are some positive signs amidst this gloom. The labour market remains strong with May recording a 75,900 surge in jobs and the unemployment rate is close to 50 year lows at 3.6%. Inflation pressures have moderated with May's 5.6% annual rise being materially lower than April's 6.8% result.

Global prospects

Global share prices have positively surprised this year by making strong gains. However, investors appear to be precariously treading between optimism that inflation is moderating and pessimism that a recession may be looming. The rapid interest rate increases and tighter credit conditions after a sequence of financial shocks – sudden US bank collapses such as Silicon Valley Bank in March as well as Credit Suisse takeover - have materially increased the downside risks to the global economy and share prices.

For investors, assessing these considerable risks is very challenging. Given that there are multiple positive and negative outcomes possible over coming months, investors should maintain a disciplined and diversified strategy.