Economic and market update

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Key events in October 2023

- Global share prices fell sharply in October. The shock of the violent Hamas terrorist attack in Israel on 7 October generated fears of a broader conflict in the Middle East that could endanger global energy supplies and generate further inflation pressures. Rising global government and corporate bond yields with stronger US economic activity has also cautioned investors' sentiment to global shares.
- Wall Street's correction continued in October with further share price falls. European share markets also retreated given Middle East concerns, higher bond yields as well as the continuing Russia-Ukraine conflict.
- Chinese share markets again delivered negative returns in October**.** The MSCI China Index fell given concerns over continued weakness in the property sector. The financial woes of China's large property developers such as Country Garden and Evergrande continue to dominate the headlines.
- Australian shares fell in October in accord with weaker global share markets. Information Technology (-7.6%) led the market declines as investors are becoming more cautious following Wall Street's decline. There was also sharp weakness in the Health Care sector (-7.2%) as market heavyweight CSL is being challenged by both cost pressures and global competitors. Industrial shares (-6.4%) and Real Estate (-5.8%) also delivered negative returns given a heightened sensitivity to rising interest rates.
- Australia's economy is giving mixed signals with some positive signs being balanced against concerns over stubborn inflation pressures. Retail spending improved in September given a warmer spring season that encouraged clothing and hardware sales. There were also mild job gains in September with the unemployment rate edging down to 3.6%. However, consumers are still struggling with the squeeze from higher consumer prices, mortgage interest rates and rents. Consumer annual inflation came in at 5.4% in the September quarter on the back of higher fuel prices, insurance costs and holiday travel. This rebound in inflation generated concern that the Reserve Bank of Australia (RBA) would consider raising the cash interest rate again in November.

Asset class summary

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

	CYTD %	1 month %	3 months %	1 year %	3 years pa %	5 years pa %	10 years pa %
Australian shares	-0.2	-3.8	-7.2	3.0	8.9	7.2	6.6
Global shares (hedged)	7.1	-2.8	-8.3	8.1	6.9	6.7	8.0
Global shares (unhedged)	14.3	-1.1	-3.8	11.6	10.4	9.9	11.2
Emerging markets (unhedged)	4.8	-2.0	-6.5	11.9	-0.3	3.9	5.3
Australian property securities	-5.4	-5.7	-12.0	-3.9	2.9	2.3	6.7
Global property securities (hedged)	-8.6	-4.5	-12.3	-7.7	0.7	-1.9	2.5
Global listed infrastructure (hedged)	-9.7	-1.3	-9.8	-6.9	2.4	2.8	5.9
Australian bonds	-0.6	-1.8	-2.6	-1.2	-4.6	-0.1	2.1
Global bonds (hedged)	-0.9	-0.8	-2.9	0.1	-4.8	-0.4	2.0
Global high yield bonds (hedged)	2.6	-1.0	-2.3	4.1	-0.3	2.1	3.8
Australian Inflation-linked bonds	3.5	-0.5	-0.6	3.6	0.7	2.2	2.8
Cash	3.1	0.3	1.0	3.7	1.5	1.3	1.7
AUD/USD	-6.6	-1.9	-6.0	-1.0	-3.4	-2.2	-3.9

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 October

Global share prices have responded to a wall of worries. High inflation with rising bond yields and interest rates as well as conflict in the Middle East caused global shares (hedged) to deliver a very weak -8.3% return for the three months to October. The falling Australian dollar has partly mitigated the impact for unhedged global shares which recorded a negative -3.8% quarterly return.

Wall Street's benchmark S&P 500 Index delivered a very weak -8.4%, in local currency terms, for the past three months. This comes after the extraordinarily strong returns of 16.6% in the first six months of this year. Investors appear to have become more cautious given a revival in inflation and guidance from the US central bank of a willingness to raise interest rates again and to hold them at a *"restrictive level".*

European shares (MSCI AC Europe) also disappointed with a weak -5.4% return, in local currency terms, for the quarter. Higher interest rates and the tragic Russia-Ukraine conflict weighed on European shares.

Asian share markets have also struggled. The MSCI China Index fell sharply by -15.0%, in local currency terms, with persistent concerns over China's economic activity and the financial stress in the property sector. Japan's Nikkei 225 Index also delivered weak returns with the central bank raising their bond yield target given inflation.

Global bonds (hedged) delivered a sharply negative -2.9% quarterly return with inflation concerns dominating on the back of rising oil prices and the tough rhetoric from central banks on the need to keep interest rates 'higher for longer'.

Global high yield bonds (hedged) recorded a -2.3% loss for the quarter. With concerns over high interest rates dominating and risk appetite diminishing, high yield bonds have proven vulnerable.

Key events in Australia over the last three months to October

Australian shares delivered a very weak return of -7.2% with a mixed performance across industry sectors. The best performing sectors were Energy -3.0% and Consumer Discretionary -3.1%. There were sharp negative returns for Health Care (-13.9%) with disappointments over their recent profit performance. Information Technology shares (-16.6) also fell sharply as investors curbed their enthusiasm for the promise of 'Artificial Intelligence' (AI).

Australia's economy shows significant slowdown signs with weak retail spending and falling housing construction. The impact of higher goods and services prices, rising mortgage interest rates and rent has seen a 'painful squeeze' for Australian consumers. However there have been positive surprises. Employment has recorded solid gains and the unemployment rate remains low at 3.6%. The RBA has also held the cash interest rate steady at 4.1% since June, albeit the RBA is warning that further interest rate rises "*may be required*" to get inflation back in their 2% to 3% target range.

Global prospects

Global share prices had positively surprised earlier this year by making very strong gains. The mania for AI and anything with a technology flavour had been the key driver. However, the past quarter has delivered a sharp setback with negative returns. Rising oil prices and tougher rhetoric from central banks suggest that interest rates could be further raised and held high for a considerable time to lower inflation. The tragic Russian-Ukraine War and now the Gaza-Israel conflict are dramatic challenges to global economic stability.

Accordingly, there are significant inflation, interest rate and political risks that investors should be cautious of. For investors, assessing these complex risks is very challenging. As there are multiple positive and negative outcomes possible over coming months, investors should maintain a disciplined and diversified strategy.

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