ASSET MANAGEMENT

Economic and market update

Bob Cunneen, Senior Economist
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Key events in September 2023

- Global share prices fell sharply in September given expectations that interest rates are to be set at ‘higher for longer’ levels due to inflation risks. These concerns were magnified by oil prices surging above US$90 per barrel and the corresponding large rises in global government bond yields.
- Wall Street’s indexes declined in September given inflation and interest rate concerns. US consumer annual inflation edged higher in August to 3.7% due to rising fuel prices. While the US central bank kept interest rates steady, the Federal Reserve warned that it was “prepared to raise interest rates further”.
- European share markets also retreated with continuing worries over rising interest rates as well as the Russia-Ukraine conflict. The European Central Bank (ECB) raised interest rates by a further 0.25% in September given that inflation is “still expected to remain too high for too long”.
- Chinese share markets delivered sharply negative performances in September. 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 September in line with global shares. The Real Estate Investment Trusts (REITs, -8.6%) and Information Technology (-7.9%) sectors led the market declines due to concerns over the impact on ‘higher for longer’ interest rates. There were also sharp weaknesses in Health Care (-6.2%) and Consumer Discretionary (-3.7%) with worries about the consumer’s ability to tolerate higher inflation and interest rates. The only positive sector was Energy with a solid 1.6% gain on the back of higher oil prices.
- Australia’s economy is still displaying significant slowdown signs with inflation concerns. Retail spending is subdued as consumers struggle with the squeeze from higher prices, rising mortgage interest rates as well as rents. Consumer annual inflation rose from 4.9% in July to 5.2% in August largely on the back of higher fuel prices according to the Australian Bureau of Statistics (ABS) monthly indicator. The Reserve Bank of Australia (RBA) again held the cash interest rate steady at 4.1% but maintained guidance that further interest rate rises “may be required”.

Asset class summary

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

	CYTD %	1 month %	3 months %	1 year %	3 years pa %	5 years pa %	10 years pa %
Australian shares	3.7	-2.8	-0.8	13.5	11.0	6.7	7.4
Global shares (hedged)	10.2	-3.6	-2.7	18.0	7.0	5.8	8.7
Global shares (unhedged)	15.6	-3.8	-0.4	20.3	10.7	8.9	11.6
Emerging markets (unhedged)	7.0	-2.3	0.1	11.3	1.8	2.9	5.9
Australian property securities	0.3	-8.7	-3.0	11.9	4.9	2.8	7.6
Global property securities (hedged)	-4.3	-5.6	-5.2	-0.4	1.1	-1.7	3.3
Global listed infrastructure (hedged)	-8.5	-4.1	-7.3	-2.7	2.6	2.8	6.4
Australian bonds	1.2	-1.5	-0.3	1.6	-3.9	0.3	2.3
Global bonds (hedged)	-0.1	-1.8	-2.1	0.5	-4.6	-0.2	2.2
Global high yield bonds (hedged)	3.6	-1.4	-0.3	8.0	0.1	1.9	4.2
Australian inflation-linked bonds	4.0	-0.9	0.6	7.4	1.1	2.4	2.9
Cash	2.8	0.3	1.1	3.6	1.4	1.3	1.7
AUD/USD	-4.8	-0.3	-3.0	0.4	-3.4	-2.3	-3.6

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 September

Global share prices have finally responded to a wall of worries. High inflation with rising bond yields and interest rates caused global shares (hedged) to deliver a weak -2.7% return for the three months to September. The falling Australian dollar has partly mitigated the impact for unhedged global shares which recorded a negative -0.4% quarterly return.

Wall Street's benchmark S&P 500 Index delivered a very weak -3.4% return 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 rising oil prices, a revival in inflation and guidance from the US central bank that it was prepared to raise interest rates further and to hold them at a *"restrictive level".*

European shares (MSCI AC Europe) also disappointed with a weak -1.9% return for the quarter. Higher interest rates and the tragic Russia-Ukraine conflict have weighed on European shares.

Asian share markets have also struggled. The MSCI China Index declined by 2% 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 despite assurances from the central bank of continued low interest rate settings.

Global bonds (hedged) delivered a sharply negative -2.1% 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 small -0.3% loss for the quarter. The current elevated levels of high yields and reduced corporate bond issuance has seen more resilience compared to global shares.

Key events in Australia over the last three months to September

Australian shares delivered a mildly negative -0.8% return with a mixed performance across industry sectors. The Energy sector recorded exceptionally strong gains of 11.2% given higher oil and gas prices. The Financial sector was also solid with a 2.4% return for the quarter. However, this was countered by sharp negative returns for Health Care (-8.6%) and Consumer Staples (-5.9%) with disappointments over their recent profit performances. Information Technology (-5.8%) also fell sharply as investors curbed their enthusiasm for the promise of 'Artificial Intelligence' (AI).

Australia's economy shows significant slowdown signs by recording a notional 'per capita' recession in the first six months of this year. This occurs where economic activity growth is less than population growth. The clearest signs that the Australian economy is struggling is seen in weak retail spending and falling housing construction. The impact of higher goods and services prices and rising mortgage interest rates has been a 'painful squeeze' on Australian consumers. However there have been positive surprises. Employment has recorded strong gains and the unemployment rate remains low at 3.7%. The RBA has also held the cash interest rate steady at 4.1% since June. Yet the RBA is still 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 significant setback. 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 ensure lower inflation outcomes.

Accordingly, there are significant inflation and interest rate risks that investors should be cautious on. Clearly the Russian-Ukraine conflict is also a major concern. For investors, assessing these considerable risks is very challenging. Given there are multiple positive and negative outcomes possible over coming months, investors should maintain a disciplined and diversified strategy.