



# Economic and market update

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## Key events in July 2022

- The Russia-Ukraine war continues with dramatic consequences for the global consumer. Energy and food prices remain high given the threat to future supply from trade sanctions imposed on Russia. Consumer annual inflation has surged to 9.6% in Europe, 9.1% in the US and 6.1% in Australia.
- Central banks continue to rapidly raise interest rates to contain inflation. Australia's central bank raised the interest rate by 0.5% in both July and August. The US central bank raised interest rates by 0.75% and the European Central Bank by 0.5% in July.
- Global shares made encouraging gains in July after the sharp falls seen in the first six months of this year. Early signs that commodity price and supply chain pressures were moderating allowed longer dated bond yields to fall, thereby providing relief to bruised global share prices. Wall Street's benchmark S&P 500 Index made a 9.2% gain in July while Europe's Stoxx 50 Index delivered 7.3%.
- Australian shares recorded strong gains in July with the ASX 200 delivering 5.7%. Leading the market were the robust surges in the Information Technology (15.2%), Real Estate Investment Trusts (11.9%) and Financial (9.3%) sectors given a recovery in risk appetite and fall in long term bond yields. Consumer Discretionary also posted a strong performance (8.2%) in July with signs of solid retail spending against the tide of higher interest rates and soft consumer confidence. By contrast, there was weak performance from the Resources (-0.8%) sector as concerns over global growth prospects weighed.

## Asset class summary

### Asset class returns in Australian dollars – periods to 31 July 2022

	CYTD %	1 month %	3 months %	1 year % pa	3 years % pa	5 years % pa	10 years % pa
Australian shares	-4.7	5.7	-6.0	-2.2	4.3	8.0	9.4
Global shares (hedged)	-13.0	7.0	-1.5	-8.3	7.7	7.8	11.0
Global shares (unhedged)	-11.0	5.4	-0.1	-5.7	8.1	10.8	13.9
Emerging markets (unhedged)	-14.4	-1.7	-4.7	-15.8	0.5	3.7	7.2
Australian property securities	-14.0	11.8	-8.4	-1.2	0.9	7.4	10.1
Global property securities (hedged)	-12.3	7.7	-5.3	-7.2	0.8	3.3	7.0
Global listed infrastructure (hedged)	2.0	4.7	1.1	8.6	5.3	6.6	10.1
Australian bonds	-6.4	3.4	0.9	-9.1	-1.8	1.5	2.9
Global bonds (hedged)	-7.2	2.5	0.6	-8.2	-1.0	1.2	3.2
Global high yield bonds (hedged)	-2.6	2.2	-2.7	-0.9	1.5	2.5	0.0
Australian Inflation-linked bonds	-2.9	2.9	1.7	-3.2	1.1	2.5	2.6
Cash	0.2	0.1	0.2	0.2	0.3	0.9	1.7
AUD/USD	-4.0	1.5	-1.8	-5.1	0.4	-2.7	-4.0

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 July

Concerns about the continuing conflict in Ukraine, persistent inflation pressures and central banks raising interest rates have featured prominently on investors' minds. Global shares (hedged) delivered a weak -1.5% return for the three months to July. The fall in the Australian dollar mitigated the pain for global shares (unhedged) portfolios with only a mild -0.1% negative return.

Wall Street's benchmark S&P 500 Index delivered a subdued 0.3% return for the past three months. Inflation concerns have dominated with US consumer inflation reaching 9.1% in the year to June. US government bond yields and interest rates have risen sharply given these inflation risks, thereby constraining investor sentiment. The US Federal Reserve (Fed) has aggressively raised the US interest rate by 2% over the past three months in response to high inflation.

European shares have disappointed in response to inflation concerns as well as the Ukraine crisis. The EURO STOXX 50 Index delivered a weak -2.5% return for the past three months.

Asian share markets have also struggled by posting a -2% quarterly return (MSCI AC Asia Index). Korea (-9%) and Taiwan (-6.8%) have led the declines given concerns over global economic prospects.

Global bonds (hedged) have managed to stabilise with a positive 0.6% quarterly return after a poor start for the year. Government bond yields had climbed earlier this year given inflation pressures and worries over aggressive interest rate rises by central banks.

Global high yield bonds (hedged) posted a disappointing -2.7% return. Investors have become very cautious given rising inflation and weaker share markets this year.

## Key events in Australia over the last three months to July

Australian shares have fallen sharply in response to global political and inflation concerns. For the three months to July, Australian shares delivered a very weak -6.0% return. Resource shares were particularly disappointing (-10.7%) given sharp falls in iron ore and metal prices as China's economic slowdown became pronounced. The Information Technology (-6.4%) sector was also weak given the negative assessment of prospects with higher inflation and interest rates. Financials (-5.8%) declined given concerns that higher interest rates will adversely impact demand for loans.

However, Australia's economy appears to be resilient judging by solid results in business surveys, employment, and retail spending. Australia's unemployment rate has fallen to 3.5% in June, the lowest since 1974. Yet the inflation acceleration is very concerning and has warranted the Reserve Bank of Australia (RBA) raising interest rates by 1.25% in the past three months. Australia's consumer inflation accelerated to a 6.1% annual pace in the year to June.

## Looking forward

The troubling trio of rising inflation, higher interest rates and the war in Ukraine is providing a more challenging and painful investing climate this year. Inflation has moved to multi-decade highs around the world. Central banks with inflation targets have been compelled to rapidly raise interest rates to cool these pricing pressures.

Accordingly, investors are worried about whether central banks can safely navigate the challenge of moderating inflation without severely damaging economic growth. As interest rates sharply rise and financial conditions for borrowers become tougher, investors become naturally concerned that a recession could occur.

Investors face a difficult task in assessing these considerable inflation and interest rate risks in the coming financial year. Given the current investment climate is dynamic with multiple positive and negative scenarios possible, investors should maintain a disciplined and diversified strategy to manage these extraordinary risks.

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