Monthly Economic Wrap

January 2023

Summary

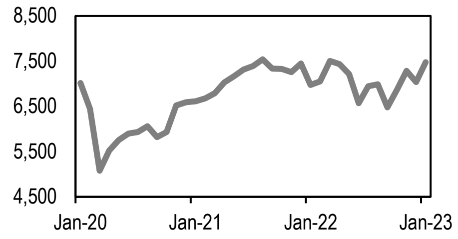
Economic

- The International Monetary Fund (IMF) has made a slight increase to its global growth outlook for 2023, due to "surprisingly resilient" demand in the U.S. and Europe, easing energy costs and the reopening of China's economy, after Beijing abandoned its strict COVID-19 restrictions.
- The IMF still sees the pace of global growth falling this year compared with 2022, but by a smaller margin than it predicted in October. The IMF is now forecasting 2.9% growth for 2023, up from a 2.7% forecast in October and compared to 3.4% growth last year.
- Despite most global economic indicators looking negative, job vacancies and unemployment rates continue to buck the downward economic trend.

Markets

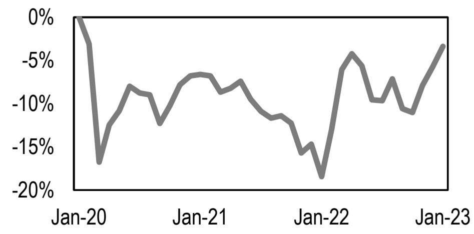
- Both the S&P 500 and the S&P ASX 200 performed very well during January. The S&P 500 rose by an impressive 6.18% for the month, while the Australian S&P 200 rose by a very similar amount (6.22%). In Australia, Value and Small caps were the best performing styles for January, although most styles performed very similarly for the month, with Quality being the only real underperformer. Globally, Growth was the best performer, with Momentum and Low Volatility being in negative territory.
- Within Fixed income markets, both government bonds and credit had a solid month. For January, the main Australian fixed interest index, the Bloomberg AusBond Composite 0+ Years Index gained 2.8%, while the Bloomberg AusBond Credit 0+ Years Index gained a respectable 2.2%.
- Global High Yield bonds as measured by the Bloomberg Barclays Global High Yield Total Return Index Hedged into AUD gained a very impressive 3.6% for the month.
- Given credit has performed well over the last three months, and given global economic indicators remain negative for 2023, Government bonds are becoming somewhat more attractive relative to credit.

1. S&P/ASX 200 Price Index



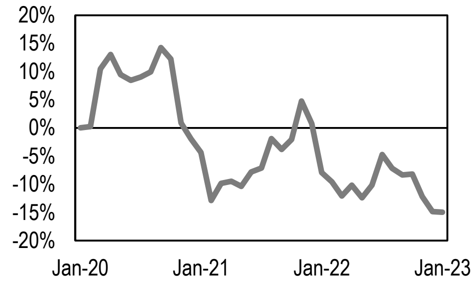
Source: Bloomberg, IOOF

2. ASX200 vs All-World, US$ terms



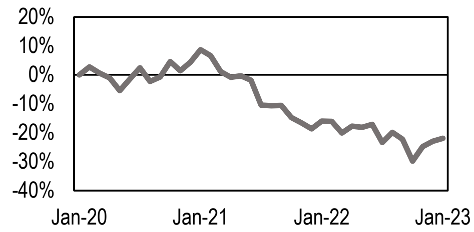
Source: Bloomberg, IOOF

3. Australia – Growth vs Value stocks



Source: Bloomberg, IOOF

4. Emerging markets vs Developed Markets, (In USD)



Sources: Bloomberg, MSCI, S&P, IOOF

Sector and stock returns – January 2023

ASX/S&P 200 Sectors (GICS)				
	Monthly	% Δ	Quarterly	% Δ
▲	Consumer Discretionary	9.82	Consumer Discretionary	4.90
▲	Consumer Staples	5.93	Consumer Staples	7.88
▲	Energy	1.28	Energy	-0.32
▲	Financials ex Property	5.61	Financials ex Property	3.10
▲	Financials	5.61	Financials	3.10
▲	Health Care	3.94	Health Care	5.25
▲	Industrials	4.75	Industrials	4.74
▲	IT	5.64	IT	2.71
▲	Materials	8.88	Materials	25.40
▲	Property Trusts	8.12	Property Trusts	7.95
▲	Telecommunications	5.34	Telecommunications	4.77
▼	Utilities	-2.98	Utilities	14.71

Source: Bloomberg, IOOF

Best and Worst S&P/ASX 200 Performers			
Top five stocks		Bottom five stocks	
Monthly			
Sayona Mining Ltd	+36.8%	Brainchip Holdings Ltd	-15.4%
Pilbara Minerals Ltd	+26.7%	Whitehaven Coal Ltd	-10.8%
Corporate Travel Management	+24.6%	Computershare Ltd	-9.4%
Arb Corp Ltd	+24.0%	Incitec Pivot Ltd	-8.5%
Novonix Ltd	+23.5%	Megaport Ltd	-8.4%
Quarterly			
Sandfire Resources Ltd	+81.5%	Star Entertainment Grp Ltd/T	-34.0%
Evolution Mining Ltd	+53.8%	Novonix Ltd	-32.3%
Champion Iron Ltd	+52.8%	Elders Ltd	-25.2%
Fortescue Metals Group Ltd	+51.3%	Lake Resources Nl	-23.1%
Chalice Mining Ltd	+51.3%	Liontown Resources Ltd	-16.7%

Source: Bloomberg, IOOF

Share Markets, Returns

Australian Indices	31 Jan 2023 Price	1M return (%)	31 Oct 2022 Price	3M return (%)
▲ S&P/ASX 200	7477	6.22	6863	8.93
▲ All Ordinaries	7686	6.43	7055	8.95
▲ Small Ordinaries	2981	6.53	2781	7.20
US Indices				
▲ S&P 500	4077	6.18	3872	5.28
▲ Dow Jones	34086	2.83	32733	4.13
▲ Nasdaq	11585	10.68	10988	5.43
Asia Pacific Indices				
▲ Hang Seng	21842	10.42	14687	48.72
▲ Nikkei 225	27327	4.72	27587	-0.94
UK & Europe Indices				
▲ FTSE 100	7772	4.29	7095	9.54
▲ CAC40	7082	9.40	6267	13.02
▲ DAX Index	15128	8.65	13254	14.14

Sources: Bloomberg, MSCI, FTSE, S&P, IOOF
Note: return is reported on a price basis and in local currency terms e.g., S&P500 performance is in US dollars and excluding dividends

Global equity markets

Global equity markets enjoyed a beginning of the year January rally. Global Bond yields also declined. Investors were positive that the peak in inflation was behind us. Investors bought growth with the Nasdaq up 10.7% in January and beaten-up European Companies with the French and German stock exchanges up 9.4% and 8.7% respectively.

The Chinese equity markets continued to benefit from the change in sentiment from harsh Zero-COVID lockdowns to re-opening. The Hong Kong stock exchange (Hang Seng) reflecting the positive momentum rising 10.4% in January and surging 48.7% over the past 3 months.

Hang Seng Index: 31 Dec 2021 – 31 Jan 2022

Source: tradingview.com, accessed 13/02/2023

Returns to 31 January 2023	1-mth	3-mth	6-mth	1-yr
MSCI World Index	3.0%	-0.5%	1.2%	-7.5%
Value	1.3%	-0.7%	5.4%	-0.7%
Value-Weighted	4.0%	2.3%	6.2%	-1.4%
Momentum	-2.2%	-5.8%	2.1%	-9.8%
Growth	6.1%	-0.3%	-3.2%	-14.2%
Quality	2.7%	-0.3%	-0.9%	-10.0%
Low volatility	-0.8%	-1.8%	1.4%	-2.4%
Equal weight	5.7%	9.3%	10.5%	12.5%
Small caps	5.7%	1.6%	4.0%	-3.8%

Source: Bloomberg, IOOF, MSCI

Global Growth companies enjoyed a rebound over the month, as the traditional January rally was supported by general acceptance that we are now passed peak inflation and the dramatic increases in interest rates of 2022 were behind us. This helped investors re-look at the pricing of Growth companies. Breadth of the global equity rally was positive with Equal Weight and global Small Caps performing strongly.

Australian equity markets

The Australian market, as measured by the S&P/ASX 200 Index was up 6.22%, slightly below the MSCI Australia Index of 6.5%.

Returns to 31 January 2023	1-mth	3-mth	6-mth	1-yr
MSCI Australia Index	6.5%	10.5%	11.0%	15.1%
Value	6.6%	14.8%	19.1%	21.8%
Value-Weighted	6.5%	11.2%	13.1%	17.8%
Momentum	6.0%	10.7%	11.0%	12.0%
Growth	6.1%	-0.4%	-3.3%	-14.4%
Quality	2.1%	-0.2%	-1.6%	-11.4%
Low volatility	5.6%	9.6%	5.8%	9.2%
Equal weight	5.7%	9.3%	10.5%	12.5%
Small caps	6.6%	7.6%	2.3%	-4.4%

Source: Bloomberg, IOOF, MSCI

Australian equities outperformed global markets in January, up a strong 6.5%. The MSCI Australia Index has solidly outperformed the MSCI World Index over 3, 6 and 12 months, due to our relative lack of technology companies and our exposure to energy and materials companies.

Value led the way in January, as Banks benefited from the easing in global and Australian bond yields and the implied reduction in default probabilities. Small Caps and Growth also benefited as investors sought reasonable prices for future growth potential.

As with our global counterparts, Quality has been punished almost as much as Growth. Interestingly, Growth has experienced a change in sentiment with investors willing to buy into the lower valuations. Quality companies, however, have yet to reattract investors and appear to only be pulled along in a generally rising equity market.

Fixed Income

	Fixed Income	31 Jan 2023 Price	1M return (%)	31 Oct 2022 Price	3M return (%)
	Australian Cash rate	3.10	--	2.60	0.50
▼	10-year Bond Yield	3.55	-0.50	3.76	-0.20
▼	3-year Bond Yield	3.18	-0.32	3.29	-0.11
▲	90 Day Bank Accepted Bills SFE-Day	3.34	0.08	3.09	0.25
▼	US 10-year Bond Yield	3.51	-0.37	4.05	-0.54
▼	US 3-year Bond Yield	3.90	-0.32	4.44	-0.54
▼	US Investment Grade spread	1.70	-0.16	2.16	-0.46
▼	US High Yield spread	4.63	-0.46	5.10	-0.47

Source: Bloomberg, IOOF

Australian bond market

After a poor year in 2022 for Australian Fixed Interest funds in general, returns during January were particularly good. The main Australian Fixed Interest index, the Bloomberg AusBond Composite 0+ Years Index gained 2.8%. Australian yields tightened over the month, with the short end (3-year) of the curve falling by 32 basis points. At the long end of the curve, the 10-year yield fell by 50 basis points.

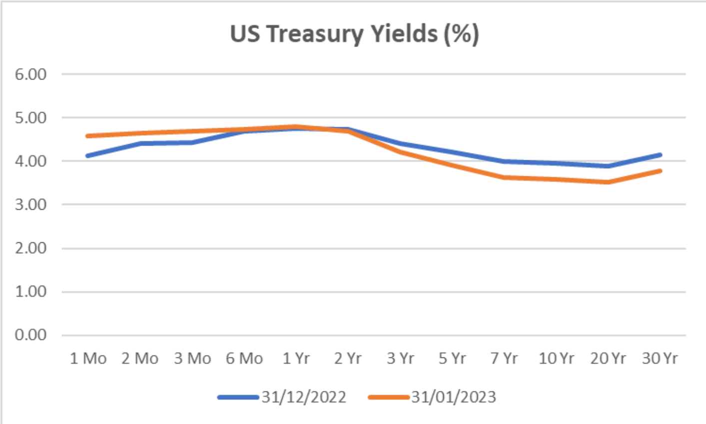
Interestingly, now that the yield to maturity is around 4% for Australian Bonds, we are now seeing some coupon income flowing through in the returns. Of the 2.8% return for the month, around one-third was coupon income, while approximately two-thirds was capital gains due to the falling yields.

Australian corporate bonds also had a solid month, with the Bloomberg AusBond Credit 0+ Years Index gaining 2.2%.

US bond market

Over the month of January, U.S. Government bond yields generally declined (except for the very short end of the curve), which meant solid returns for investors.

Over the month, as can be seen in the chart below, the U.S. yield curve rose at the short end of the curve, that is 6 months and less, while the 1- and 2-year section was relatively unchanged, and the long end of the curve materially declined. Note the 2-year / 10-year part of the curve became even more significantly inverted (-109 basis points) during January. This is now clearly indicating that a recession is expected.



Source: U.S. Department of the Treasury, accessed 7/02/2023

In the U.S., credit spreads tightened significantly during January, with investment grade credit tightening by 16 basis points, while high yield credit spreads tightened by 46 basis points, which was very favourable for high yield investors. For January, Global High Yield bonds as measured by the Bloomberg Barclays Global High Yield Total Return Index Hedged into AUD gained a very impressive 3.6%. Note the U.S. makes up the large majority of the high yield market globally.

While the contraction in credit spreads added significantly to performance during January, currency hedging also boosted the returns due to a significant move upwards in the AUD versus the USD.

While nominal yields on corporate bonds still seem reasonable on face value, most major U.S. economic indicators, with the exception of unemployment, continue to show the U.S. is in an economic downturn. This combined with the significant spread contraction during January means valuations for U.S. and global credit, both investment grade and high yield, are continuing to become less attractive.

Currencies

	Currencies	31 Jan 2023 Price	1M return (%)	31 Oct 2022 Price	3M return (%)
▲	$A vs $US	70.55	3.55	63.99	10.25
▲	$A vs GBP	57.27	1.65	55.83	2.57
▲	$A vs YEN	91.78	2.70	95.16	-3.55
▲	$A vs EUR	64.95	2.03	64.74	0.32
▲	$A vs $NZ	109.57	2.10	110.05	-0.44
▲	$A TWI	62.40	1.63	61.30	1.79
▼	$US vs EUR	92.05	-1.46	101.20	-9.04
▼	$US vs CNY	6.76	-2.08	7.31	-7.52
▼	$US vs GBP	81.17	-1.92	87.19	-6.90
▼	$US vs JPY	130.09	-0.79	148.71	-12.52
▼	$US vs CHF	91.62	-0.90	100.13	-8.50
▼	US Dollar Index	102.10	-1.38	111.53	-8.46
▲	JPM EM Curr Idx	51.23	2.67	48.82	4.94

Source: Bloomberg, Insignia Financial

The ICE **US Dollar Index (DXY)** – a measure of the currency's strength against a basket of rival currencies including the Euro (EUR), Japanese Yen (JPY) and British Pound (GBP) – stood at the 102.1 mark as of 31 January 2023, one of its lowest points in seven months. Note that the USD versus the euro makes up around 57% of the DXY index, with the next largest exposure being the Yen versus USD at around 14%.

The USD's status as a safe-haven currency was boosted by global economic slowdown fears and expectations of a hawkish Fed over the course of last year. However, slowing rates of inflation, a perceived policy pivot by the Fed, and fears of a potential recession in the U.S. have pulled the greenback off its late September 2022 highs. This led to the AUD to appreciate significantly during January versus the USD. The AUD was up 3.55% over January, to close at 70.55 U.S. cents.

Against other currencies, the AUD was up 2.70% against the Yen and 1.65% against the Pound. On a Trade-Weighted Index basis, the AUD was up by 1.63%.

Commodities

	Commodities	31 Jan 2023 Price	1M return (%)	31 Oct 2022 Price	3M return (%)
▲	Aluminium	2618	10.97	2227	17.59
▲	Copper	423	10.90	336	25.87
▲	Nickel	30185	0.73	21839	38.22
▲	Zinc	3407	14.21	2694	26.50
▼	Crude Oil - Brent	84.49	-1.65	94.83	-10.90
▼	Natural Gas	2.68	-40.02	6.36	-57.77
▲	Metallurgical Coal	331	16.96	315	5.08
▲	Iron Ore	123.37	10.86	92.43	33.47
▲	Gold	1945	5.60	1670	16.52
▼	Silver	23.84	-0.85	19.30	23.53

Source: Bloomberg, Insignia Financial

The S&P GSCI Index recorded a negative performance in January. Energy and livestock were the worst-performing components of the index, while industrial metals and precious metals achieved strong gains. Within energy, the price of natural gas was sharply lower in the month, within industrial metals, the price of lead fell in January, while zinc, aluminium and copper all achieved robust gains.

Natural Gas Price – Last Year (USD/MMBtu)

Source: Tradingeconomics.com, accessed 13/02/2023

Within agriculture, wheat and cocoa prices fell in January, while sugar and coffee recorded significant price growth. Within precious metals, the price of gold was significantly higher than a month earlier, while silver fell back slightly.

Australia

The trade surplus increased in November as Australia continues to enjoy windfalls from iron ore and natural gas. The labour market remains tight with the unemployment rate at 3.5%, although a surprise decline in employed people might be a positive sign that monetary policy may be having the desired effect. The RBA Board increased the cash rate target by 0.25% to 3.35% on 7 February, which is now an accumulated increase of 3.25% over 9 months and the sharpest annual tightening in over 30 years.

Monetary Policy

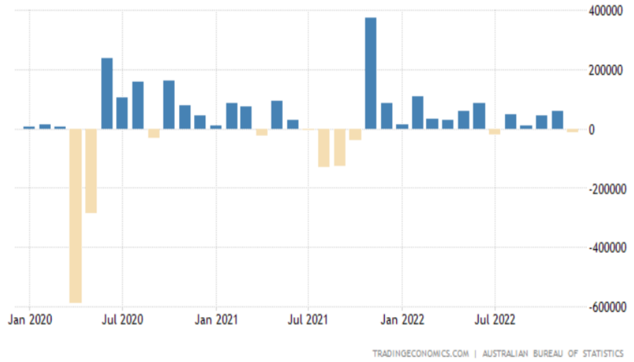
The RBA increased the cash rate target 0.25% to 3.35% on 7 February matching market forecasts. Tuesday's move was the ninth-rate hike since May last year, which brought borrowing costs to a level last seen in September 2012. A total of 3.25% of increases also marked the sharpest annual tightening since 1989.

Labour Market

The Australian labour market remains tight, as the seasonally adjusted unemployment rate came in at 3.5% in December, unchanged from November and slightly above market estimates of 3.4%. The latest data remained near five-decade lows, as the number of unemployed increased by 5,800 to 499,800.

Employment fell by 14,600 to 13.75 million, the first drop since July, missing forecasts of 22,500 growth. Part-time employment declined by 32,200 to 4,128,100, partially offset by a rise in full-time employment of 17,600 to 9,619,000. The participation rate slid to 66.6% from a record high of 66.8% in November.

Australia's Monthly Employment Change

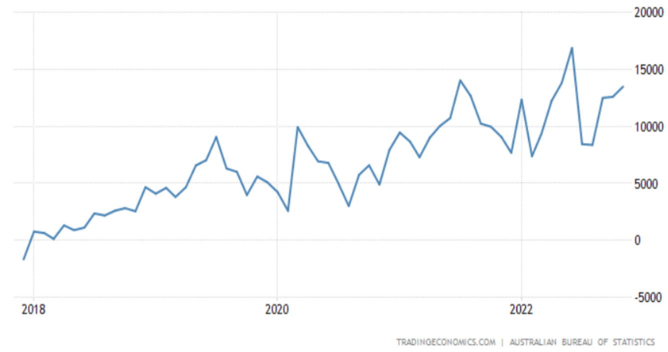


Source: Tradingeconomics.com, accessed 10/02/2023, data January 2020 – December 2022

Trade

Australia's trade surplus increased to $13.20 billion in November from October's $12.74 billion and beating market forecasts of an $10.5 billion surplus. It was the largest trade surplus since June, as exports dropped less than imports amid high inflation and aggressive monetary tightening by major central banks. Exports declined 0.4% from October to a three-month low of $59.35 billion, while imports fell at a faster 1.5% to a five-month low of $46.15 billion. Over the first 11 months of 2022, the trade surplus has widened to $127.36 billion from $111.41 billion. Australia has posted monthly trade windfalls for 4.5 years, buoyed by robust sales of iron ore and natural gas.

Australia's Trade Surplus, 5 years to Nov 2022



Source: Tradingeconomics.com, accessed 10/02/2023

Inflation

The annual inflation rate climbed to 7.8% in Q4 from 7.3% in Q3 and above market forecasts of 7.5%. This was the highest since Q1 1990, boosted by the rising costs of food, automotive fuel, and new dwelling construction. Food prices grew the most since Q3 2006 (9.2%). Prices also increased further for transport (8.0%), housing (10.7%), furnishings (8.4%) and recreation (9.0%). On a quarterly basis, consumer prices went up 1.9% in Q4, after a 1.8% surge in Q3. The quarterly increase was above market expectations and marks the fourth consecutive period of record numbers last seen after the introduction of the Goods and Services Tax in 2000.

Meanwhile, the RBA Trimmed Mean CPI advanced 6.9% p.a., the fastest pace since the series began in 2003. Quarter-on-quarter, the trimmed mean index rose by 1.7%.

United States

The Federal Reserve has now raised its target range for the federal funds rate 4.50%-4.75%. While increasing another 0.25%, it was a slowing of the rate of increase. Inflation remains elevated, but headline inflation has now dropped 2.6% from its peak and is clearly in a downward trend.

Growth

The International Monetary Fund (IMF) has made a slight increase to its global growth outlook for 2023, due to "surprisingly resilient" demand in the United States and Europe, easing energy costs and the reopening of China's economy after Beijing abandoned its strict COVID-19 restrictions.

The IMF now expects US GDP growth of 1.4% this year, up from a 1.0% prediction in October and following 2.0% growth in 2022. This is due to stronger-than-expected consumption and investment in the third quarter of 2022, a robust labour market and strong consumer balance sheets.

Labour Market

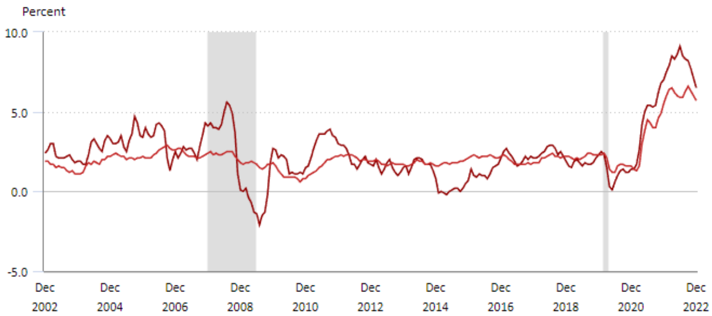
The number of job openings in the United States increased to 11.0 million in December 2022, the most in 5 months and above market expectations of 10.25 million. Over the month, the largest increases were in accommodation and food services (+409,000), retail trade (+134,000), and construction (+82,000). On the other hand, the number of available positions decreased in information (-107,000). Meanwhile, the number of hires and total separations changed little at 6.2 million and 5.9 million, respectively. Within separations, quits (4.1 million) and layoffs and discharges (1.5 million) changed little. The ratio of openings to unemployed people rose to a near record-high 1.9 from 1.7 a month earlier and compared to 1.2 before the pandemic.

The unemployment rate in the U.S. inched lower to 3.4% in January 2023, the lowest level since May 1969 and below market expectations of 3.6%, as the number of unemployed people declined by 28,000 to 5.69 million and the number of employed increased by 894,000 to 160.1 million.

Inflation

According to Trading Economics, the annual inflation rate in the U.S. slowed for a sixth straight month to 6.5% in December 2022, the lowest since October 2021, in line with market forecasts. It follows a 7.1% reading in November. Energy cost increased 7.3%, well below 13.1% in November, as the gasoline price dropped 1.5%, following a 10.1% surge in November. Also, fuel oil cost slowed (41.5% vs 65.7%) while electricity prices rose slightly faster (14.3% vs 13.7%). A slowdown was also seen in food prices (10.4% vs 10.6%), while the cost of used cars and trucks continued to decline (-8.8% vs -3.3%). On the other hand, the cost of shelter increased faster (7.5% vs 7.1%). Compared to the previous month, the CPI edged 0.1% lower, the first decline since May 2020, and beating forecasts of a flat reading. Inflation seems to have peaked at 9.1% in June 2022, but it still remains more than three times above the Fed's 2% target.

Headline and Core Inflation



Source: U.S. Bureau of Labor Statistics, accessed 7/02/2023

Policy

"Inflation data received over the past three months show a welcome reduction in the monthly pace of increases," Fed Chairman Jerome Powell said in his latest post-meeting news conference. "And while recent developments are encouraging, we will need substantially more evidence to be confident that inflation is on a sustained downward path."

The Federal Reserve raised the Fed funds rate by 25 basis points to 4.50%-4.75% during its first monetary policy meeting of 2023, pushing borrowing costs to the highest level since late 2007, and in line with market expectations.

The Fed's latest statement included language noting that the FOMC still sees the need for "ongoing increases in the target range." Market participants had been hoping for some softening of the phrase, but the statement, approved unanimously, was kept it intact.

China

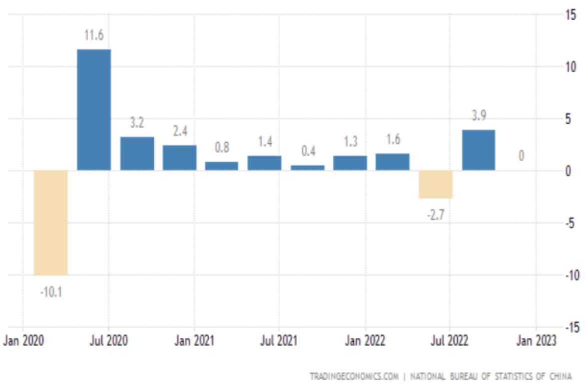
0% GDP growth in Q4 is a positive relative to expectations of -0.8%, indicating the significance of China's economic re-opening. China's inflation at 1.8% remains low relative to the rest of the world, providing the Chinese Government scope to stimulate the economy. Chinese interest rates continue to remain unchanged.

Inflation

China's annual inflation edged up slightly from November's 8-month low of 1.6% to 1.8% p.a. in December, in line with consensus forecasts. The latest result largely reflected a 4.8% rise in food prices, even as domestic demand was sluggish amid a spike in COVID infections. Non-food inflation was unchanged (at 1.1%). Core consumer prices, excluding volatile prices of food and energy, rose 0.7% p.a. in December, after a 0.6% gain in November.

Growth

China's GDP Growth Rate



Source: Tradingeconomics.com, National Bureau of Statistics of China, 10/02/2023

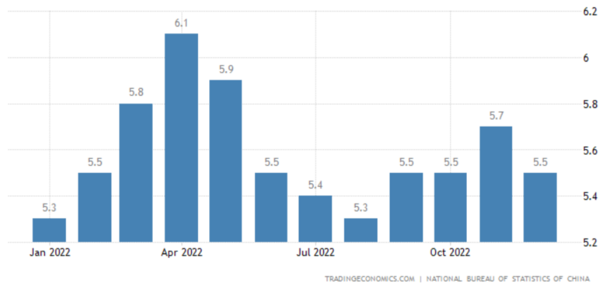
The Chinese economy unexpectedly showed 0% growth on a seasonally adjusted basis in Q4, compared with market consensus estimate of -0.8%. The latest result underlined Beijing's sudden economic reopening in December after protests against strict COVID restrictions in several large cities, including Beijing and Shanghai. The Chinese government has pledged more support to revive the country's domestic consumption and business activity.

The Chinese economy expanded by 2.9% p.a. in Q4 missing the official target of 5.5% and marking the second slowest pace since 1976 amid the impact of Beijing's zero-COVID policy.

Labour Market

China's surveyed urban unemployment rate declined to 5.5% in December from November's six-month high of 5.7% amid easing zero-COVID policy restrictions. The unemployment rate of the population aged 25-59 declined to 4.8% in December from 5.0% in November, while those aged 16-24 eased by 0.4% to 16.7%.

China's Unemployment Rate



Source: Tradingeconomics.com, National Bureau of Statistics of China, 10/02/2023

A total of 12.06 million new urban jobs were created throughout the year, exceeding the annual target of 11 million. Meanwhile, the country's population dropped for the first time since 1961 to 1.4118 billion people at the end 2022 from 1.4126 billion a year earlier.

Balance of Trade

China's trade surplus dropped to US $78.01 billion in December slightly above market forecasts of US $76.2 billion, but down from US $93.21 billion in December 2021. Exports plunged 9.9%, the largest decline in nearly three years, while imports fell at a slightly softer 7.5%, the third month of decrease. The full year trade surplus increased 31% to US $876.91bn, the highest value on record. The increase over the year was driven by a 7% rise in exports and only a 1% increase in imports.

Retail Trade

China's retail trade dropped 1.8% p.a. in December, softer than the 5.9% p.a. decline in November, but better than market expectations of -8.6%. This was the third month of decrease, as consumption was hurt by a new wave of COVID infections. Sales fell for almost all categories during December with cosmetics (-19.3%), clothing (-12.5%), furniture (-4.5%), home appliances (-13.1%), oil products (-2.9%), communications equipment (-4.5%), tobacco and alcohol (-7.3%), and daily necessities (-9.2%).

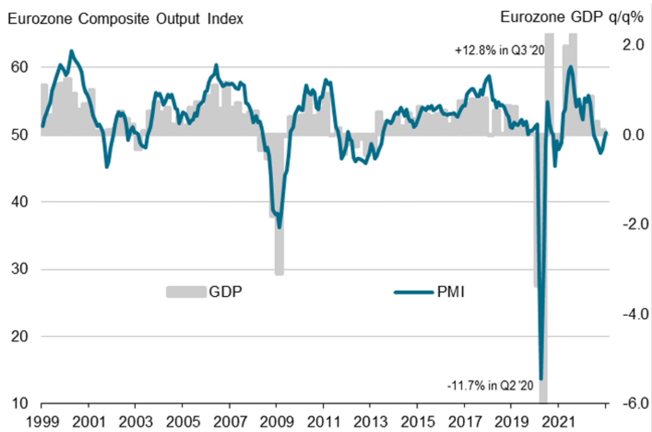
Europe

After six successive months of contraction, the eurozone economy saw a very small expansion in January 2023. Inflation seems to be coming of the boil, while unemployment remains relatively low across the Euro Area, and particularly low in Germany.

Growth

Following six successive months of contraction, the eurozone economy produced a marginal expansion at the start of 2023. Higher levels of business activity were accompanied by stronger jobs growth, as the region's labour market continued to exhibit a remarkable level of resilience, as well as a strengthening of business confidence. Although new orders fell, in line with the trend since the summer of 2022, the rate of decline was the softest over this period. Backlogs of work also decreased, particularly in the manufacturing sector. Input cost inflation continued its downward trend, easing to a 21-month low, although output prices increased at a slightly faster clip in January.

S&P Global Eurozone Composite PMI Output Index



Source: S&P Global, Eurostat.

Accessed: 7/02/2023

Inflation

Euro area annual inflation is expected to be 8.5% in January 2023, down from 9.2% in December according to a flash estimate from Eurostat, the statistical office of the European Union. Looking at the main components of euro area inflation, energy is expected to have the highest annual rate in January (17.2%, compared with 25.5% in December), followed by food, alcohol & tobacco (14.1%, compared with 13.8% in December), non-energy industrial goods (6.9%, compared with 6.4% in December) and services (4.2%, compared with 4.4% in December).

Labour Market

According to Eurostat, the Euro Area seasonally adjusted unemployment rate was 6.6% in December 2022, stable compared with November 2022 and above market forecasts of 6.5%. A year earlier, the jobless rate was higher at 7.0%. The number of unemployed increased by 23,000 from a month earlier to 11.048 million. Meanwhile, the youth unemployment rate, measuring jobseekers under 25 years old, was unchanged at 14.8%. Amongst the largest Euro Area economies, the highest jobless rates were recorded in Spain (13.1%), Italy (7.8%) and France (7.1%), while the lowest rate was recorded in Germany (2.9%).

Policy

The ECB's Governing Council have indicated they will stay the course in raising interest rates at a steady pace and keep them at levels that are sufficiently restrictive to ensure a timely return of inflation to its 2% medium-term target. Accordingly, the Governing Council on 2 February 2023 decided to raise the three key ECB interest rates by 50 basis points, and it expects to raise them further. Accordingly, the interest rates on the main refinancing operations, marginal lending facility, and the deposit facility will be increased to 3.00%, 3.25% and 2.50% respectively, with effect from 8 February 2023.

In view of the underlying inflation pressures, the Governing Council has stated it intends to raise interest rates by another 50 basis points at its next monetary policy meeting in March and it will then evaluate the subsequent path of its monetary policy. The ECB has stated that keeping interest rates at restrictive levels will over time reduce inflation by dampening demand and will also guard against the risk of a persistent upward shift in inflation expectations.

In any event, the Governing Council's says future policy rate decisions will continue to be data-dependent and follow a meeting-by-meeting approach, but this seems somewhat inconsistent with the indication that they have already made up their minds that rates will be going up in March.

Economic Scorecard – As of 10 February 2023

The below summarises the current position of major markets across Growth, Inflation, Interest Rates and Currencies. It also provides Insignia Research's view on the likely direction of these economic indicators over the next 12 months. **Please note that these views are not guarantees, and a range of factors could impact their direction such that the end outcomes are different to our predictions.**

	USA			Australia			EuroZone			China		
	Current	**Direction**	**1 year forward**	**Current**	**Direction**	**1 year forward**	**Current**	**Direction**	**1 year forward**	**Current**	**Direction**	**1 year forward**
Growth (Latest Qtr Nominal GDP)	0.7% (Rebound from Tech Rec)	Flat / Moderating	Recession / Below trend	0.6% (About trend)	Moderating	Below trend / Recession	0.10%	Weakening	Recession	0	Rebounding (Zero COVID)	At trend
Inflation (Headline CPI)	6.5% (Significantly above target)	Moderating	Above target	7.8% (Above target)	Peaking	Above target	8.5% (Significantly above target)	Moderating	Above target	2.1% (Below target)	Returning to trend	At target
Interest Rates (official cash rate or equivalent)	4.50%-4.75%	Increasing at a slower rate/ contractionary	5.1% Higher with the Fed (Stable / decreasing)	3.35%	Increasing at a slower rate/ contractionary	3.85% Trading Economics (Stable)	0.03	Increasing/ contractionary	4.00% Trading Economics (Stable)	3.65%	Stable/ expansionary	Stable
		AUD/USD										
	Current	**Direction**	**1 year forward**									
Currencies (relative PPP basis)	0.70 (PPP 0.691) less than 1 Stdev	Risk off	Fair value range									

Company news - best and worst performers for January 2023

Sayona Mining Ltd +36.8%

Sayona Mining (SYA) bucked the trend of falling lithium prices and progress towards its concentrator restart of its North American Lithium (NAL) project in Quebec nears 90% completion. SYA announced that all critical equipment was received and deployed, with first load of spodumene production expected in 1Q23. SYA also commenced a PFS for its Moblan Lithium Project, targeting development of lithium mine and concentrator, while also acquiring a further 1,824 claims neighbouring Moblan, greatly expanding the northern lithium hub. The JV with Morella Corporation (1MC) was finalised and is expected to accelerate lithium exploration in the Pilbara and South Murchison.

Pilbara Minerals Ltd +26.7%

Pilbara Minerals (PLS) released a positive 2Q23 4C Cashflow report, with spodumene production up 10% to 162,151 dmt on a 33% higher average selling price of US$5,668 dmt. PLS also achieved lower unit operating costs, decreasing 5% to A$579/dmt, as increased volumes produced greater scale economies. Cash balance remains strong at $2.2bn to fund future expansion projects slated for FY23 and beyond. PLS P680 expansion is currently under construction, which is expected to increase production to 680 ktpa, and its P1000 expansion is expected to be a long-term expansion goal of reaching 1,000 ktpa.

Corporate Travel Management +24.6%

Corporate Travel Management rebounded on the strength in travel data points after the market unreasonably extrapolated seasonable weakness over November/December for business travel as weakening indicators. Flight Centre's (FLT) $220m buyout of Scott Dunn also provided tacit support for the stock as it indicated FLTs positive outlook on the corporate travel sector globally.

Brainchip Holdings Ltd -15.4%

Brainchip (BRN) released a mixed 4C cashflow report showing that net operating cashflows of -US$1.9m ahead of -US$3.8m for the same prior period. Cash for the Dec 2022 quarter was US$23.1m, a slight decline on the previous quarter of US$24.6m. BRN continues to pursue commercialisation for its flagship Akida neuromorphic IP and added two North American and one Korean sales executives over the quarter, and continues to search for talent in Germany and Japan, while also appointing a new Chief Marketing Officer to lead marketing efforts. Brainchip joined Intel Foundry's IFS Accelerator-IP Alliance, extending access to the Akida IP, in anticipation of further growth.

Whitehaven Coal Ltd -10.8%

Whitehaven Coal (WHC) traded lower, as the coal price moderated from record highs. For 2Q23, WHC achieved an average coal price of A$527/t compared to A$581/t for the prior quarter, with EBITDA for 1H23 expected to be ~$2.6bn. ROM production increased +21% to 4.8Mt and WHC ended the quarter on a strong net cash balance of $2.5bn.

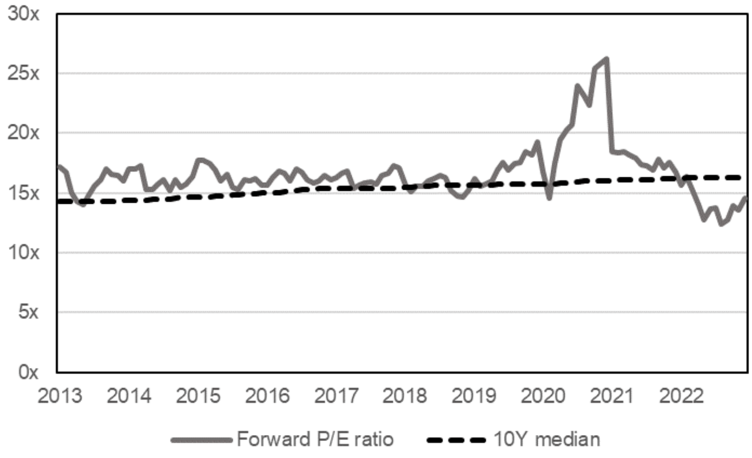
Computershare Ltd -9.4%

Computershare (CPU) slid over January, as leading indicators signalled that inflation may have reached its peak. CPU provided an updated and revised guidance at its AGM, with Margin Income expected to be ~$800m, up $200m since August 2022 guidance. FY23 is expected to produce an EPS increase of +90%, with EBIT excluding Margin Income expected to be lower due to subdued transaction volumes, event-based activities, and provision for higher costs.

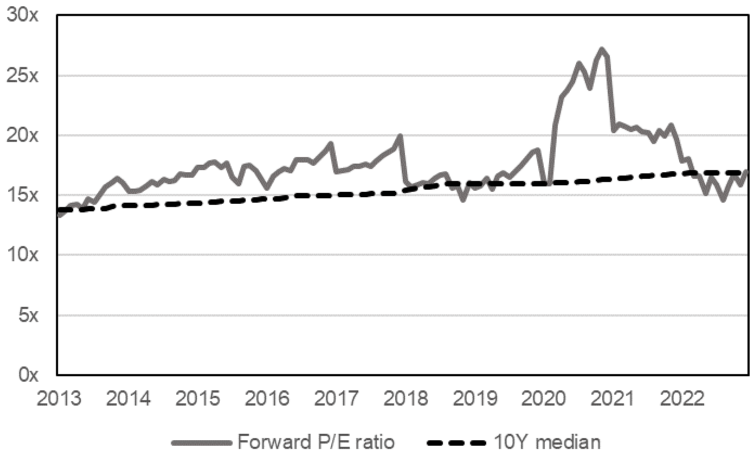
Sources: ASX company announcements, Bloomberg, Factset, Fund manager disclosures, Australian Financial Review, Sydney Morning Herald

Market valuations (Forward P/E vs 10Y median Forward P/E)

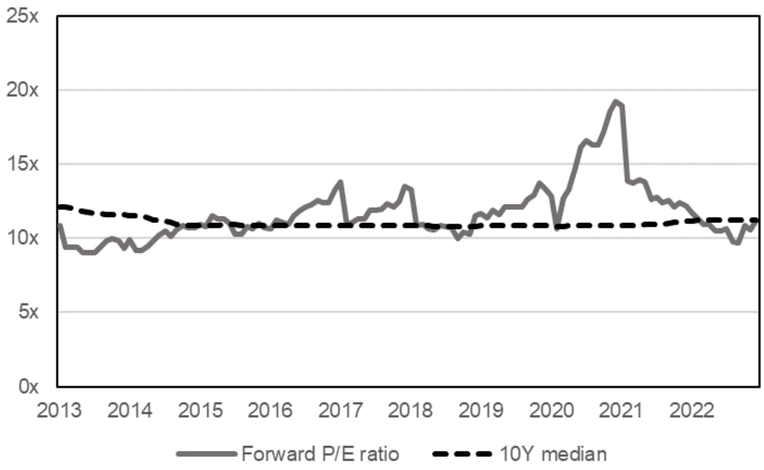
Australian Shares Forward P/E – spot vs trailing 10Y median (January-13 to January-23)



Global Shares Forward P/E – spot vs trailing 10Y median (January-13 to January-23)



Emerging Market Shares Forward P/E – spot vs trailing 10Y median (January-13 to January-23)



Sources: Bloomberg, MSCI, S&P (January 2023)

Indices (top to bottom): Australian Shares: S&P/ASX 200 Index; Global Shares: MSCI World ex Australia Index; Emerging Markets Shares: MSCI Emerging Markets index.

Performance as of 31 January 2023

						Annualised					
		1-mth	3-mth	6-mth	1-yr	3-yr	5-yr	7-yr	10-yr	15-yr	20-yr
Shares	Australia	6.20%	9.60%	10.30%	12.20%	6.00%	8.50%	10.30%	8.80%	6.40%	9.30%
	Australia - mid cap	6.00%	6.10%	9.50%	8.80%	10.40%	9.70%	13.10%	12.20%	7.00%	10.80%
	Australia - small cap	6.60%	7.60%	2.30%	-4.40%	2.40%	4.40%	8.40%	5.40%	2.40%	6.90%
	Australia - micro cap	7.20%	6.80%	0.80%	-10.00%	13.60%	9.30%	13.40%	6.70%	3.30%	-
	World ex Australia	3.00%	-0.70%	0.90%	-7.90%	5.80%	9.50%	10.60%	13.60%	8.20%	7.70%
	World ex Australia (Hedged)	6.20%	6.20%	0.00%	-8.30%	6.20%	6.10%	10.10%	10.50%	8.00%	9.90%
	World - small cap	5.70%	1.60%	4.00%	-3.80%	5.20%	7.40%	10.00%	12.90%	9.20%	9.50%
	Emerging Markets	3.80%	10.90%	3.90%	-12.10%	-0.30%	1.30%	7.40%	6.20%	3.70%	8.20%
Property & Infrastructure	A-REITS	8.10%	9.70%	0.50%	-5.00%	-0.90%	5.60%	6.00%	8.50%	3.90%	5.70%
	Global REITs	4.90%	2.60%	-5.60%	-13.40%	-4.10%	4.40%	3.80%	7.70%	4.60%	-
	Global REITs (hedged)	8.00%	9.00%	-6.60%	-13.30%	-3.60%	1.40%	3.30%	5.00%	4.00%	-
	Global infrastructure	-1.30%	-1.80%	-3.80%	0.60%	0.00%	8.20%	8.00%	11.20%	6.70%	-
	Global infrastructure (Hedged)	1.40%	4.60%	-4.70%	-0.10%	0.70%	5.30%	7.40%	8.50%	8.10%	-
Growth Alternatives	Trend following (USD)	-2.70%	-6.40%	-4.20%	4.90%	5.00%	1.10%	-0.20%	2.70%	2.80%	4.20%
Fixed income	Australia Total Market	2.80%	2.20%	-0.80%	-6.30%	-2.70%	1.10%	1.50%	2.60%	4.40%	4.40%
	Australia government bonds	2.90%	2.10%	-1.10%	-6.80%	-3.10%	1.10%	1.40%	2.50%	4.30%	4.40%
	Australia corporate bonds	2.20%	2.90%	0.80%	-4.20%	-1.00%	1.90%	2.50%	3.30%	5.00%	5.00%
	Australia floating rate bonds	0.40%	1.20%	1.80%	1.70%	1.20%	1.70%	2.20%	2.60%	3.60%	4.20%
	Global Total Market (Hedged)	2.10%	3.20%	-3.50%	-8.90%	-3.10%	0.30%	1.20%	2.60%	4.60%	5.20%
	Global government bonds (Hedged)	1.70%	1.60%	-4.10%	-9.00%	-3.30%	0.30%	0.90%	2.60%	4.50%	5.10%
	Global corporate bonds (Hedged)	3.20%	6.70%	-2.40%	-10.20%	-3.20%	0.50%	2.10%	3.00%	5.30%	5.60%
	Global high yield bonds (Hedged)	3.60%	7.70%	3.10%	-7.30%	-1.50%	0.70%	4.30%	4.20%	7.30%	8.70%
	Emerging Market bonds (Hedged)	3.10%	10.90%	1.60%	-15.00%	-6.40%	-2.00%	1.50%	2.00%	5.30%	7.50%
Cash	Bloomberg AusBond Bank Bill Index	0.30%	0.80%	1.30%	1.50%	0.60%	1.00%	1.30%	1.70%	2.70%	3.50%

Appendix – Index sources

Asset class	Index
Australian equities (S&P/ASX 200)	S&P/ASX 200 Accumulation Index
Australian equities - Mid caps	S&P/ASX Accumulation Midcap 50 Index
Australian equities - Small caps	S&P/ASX Accumulation Small Cap Ordinaries Index
Australian equities - Micro caps	S&P/ASX Emerging Companies Total Return Index
International equities	MSCI World ex Australia Net Total Return (in AUD)
International equities (Hedged)	MSCI World ex Australia Hedged AUD Net Total Return Index
International equities - Small caps	MSCI World Small Cap Net Total Return USD Index (in AUD)
Emerging Markets equities	MSCI Emerging Markets EM Net Total Return AUD Index
Australian REITs	S&P/ASX 200 A-REIT Accumulation Index
Global REITs	FTSE EPRA/NAREIT Developed Index Net Total Return (in AUD)
Global REITs (Hedged)	FTSE EPRA/NAREIT Developed Index Net Total Return (Hedged to AUD)
Global Infrastructure	FTSE Global Core Infrastructure 50/50 Net Total Return in AUD
Global Infrastructure (Hedged)	FTSE Global Core Infrastructure 50/50 100% Hedged to AUD Net Tax Index
Trend following	SGI Cross Asset Trend Following Index (USD)
Australian bonds	Bloomberg AusBond Composite 0+ Yr Index
Australian bonds – government	Bloomberg AusBond Govt 0+ Yr Index
Australian bonds – corporate	Bloomberg AusBond Credit 0+ Yr Index
Australian bonds - floating rate	Bloomberg AusBond Credit FRN 0+ Yr Index
Global bonds (Hedged)	Bloomberg Barclays Global Aggregate Total Return Index Value Hedged AUD
Global bonds - government (Hedged)	Bloomberg Barclays Global Aggregate Treasuries Total Return Index Hedged AUD
Global bonds - corporate (Hedged)	Bloomberg Barclays Global Aggregate Corporate Total Return Index Hedged AUD
Global bonds - High Yield (Hedged)	Bloomberg Barclays Global High Yield Total Return Index Hedged AUD
Emerging Market bonds (Hedged)	J.P. Morgan EMBI Global Core Hedged Index Level AUD
Cash (AUD)	Bloomberg AusBond Bank Bill Index