# Monthly Economic Wrap

**February 2023**

## Summary

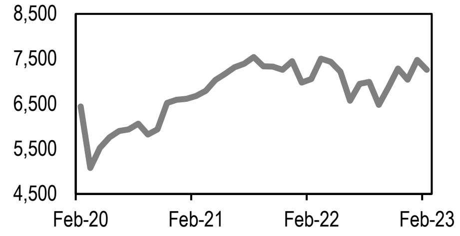
### Economic

- The Conference Board reports that the global economy is so far weathering headwinds better than expected. Incoming activity data for the fourth quarter of 2022 beat expectations, even though they do point to continued slowing momentum.
- Global real GDP is forecasted to grow by 2.3% in 2023 according to the Conference Board, down from 3.3% in 2022. Most of the weakness is expected to be concentrated in Europe, Latin America and the U.S., though it is weighing on the industrial sector globally.
- Asian economies are expected to drive most of global growth in 2023, as they benefit from ongoing reopening dynamics and less intense inflationary pressures compared to other regions.

### Markets

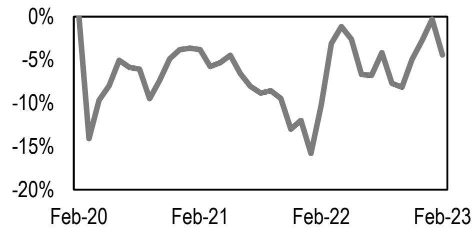
- Both the S&P 500 and the S&P ASX 200 performed poorly during February. The S&P 500 fell by 2.61% for the month, while the Australian S&P 200 fell by 2.92%.
- In Australia, Growth and Quality were the best performing styles for February, and were the only styles to produce a positive return for the month. Globally, Growth was the best performer, followed by Small Caps, with Equal Weight being the only style in negative territory.
- Within Fixed income markets, both government bonds and credit lost some ground this month. For February, the main Australian fixed interest index, the Bloomberg AusBond Composite 0+ Years Index lost 1.3%, while the Bloomberg AusBond Credit 0+ Years Index lost 0.6%.
- Global High Yield bonds, as measured by the Bloomberg Barclays Global High Yield Total Return Index Hedged into AUD lost 1.6% for February, but are still up so far this year after excellent returns in January.
- Given the whole Australian Government yield curve is now higher than it was one month ago, composite Australian Fixed Interest funds are now looking somewhat more attractive, relative to credit.

**1. S&P/ASX 200 Price Index**



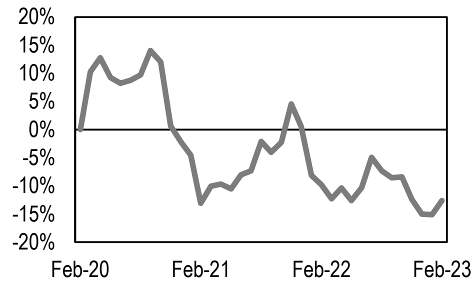

Source: Bloomberg, IOOF

**2. ASX200 vs All-World, US$ terms**



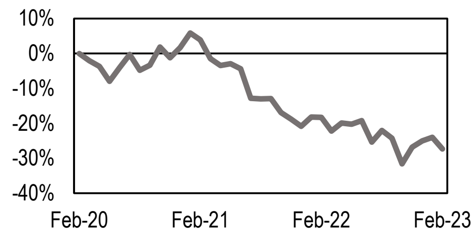

Source: Bloomberg, IOOF

**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 – February 2023

| ASX/S&P 200 Sectors (GICS) | | | | |
|---|---|---|---|---|
| | **Monthly** | **% ∆** | **Quarterly** | **% ∆** |
| ▼ | Consumer Discretionary | -1.24 | Consumer Discretionary | 0.81 |
| ▲ | Consumer Staples | 0.90 | Consumer Staples | 4.88 |
| ▼ | Energy | -1.70 | Energy | -4.51 |
| ▼ | Financials ex Property | -3.83 | Financials ex Property | -1.97 |
| ▼ | Financials | -3.83 | Financials | -1.97 |
| ▼ | Health Care | -0.38 | Health Care | -1.05 |
| ▲ | Industrials | 1.41 | Industrials | 0.38 |
| ▲ | IT | 2.24 | IT | 2.08 |
| ▼ | Materials | -6.90 | Materials | 0.44 |
| ▼ | Property Trusts | -0.78 | Property Trusts | 1.27 |
| ▲ | Telecommunications | 0.41 | Telecommunications | 3.02 |
| ▲ | Utilities | 2.28 | Utilities | -2.92 |

Source: Bloomberg, IOOF

| Best and Worst S&P/ASX 200 Performers | | | |
|---|---|---|---|
| **Top five stocks** | | **Bottom five stocks** | |
| **Monthly** | | | |
| G.U.D. Holdings Ltd | +23.3% | Domino's Pizza Enterprises | -34.0% |
| Eagers Automotive Ltd | +19.9% | St Barbara Ltd | -28.3% |
| Link Administration Holdings | +19.3% | Lake Resources Nl | -23.3% |
| Flight Centre Travel Group | +18.8% | Silver Lake Resources Ltd | -22.7% |
| Orora Ltd | +18.5% | AMP Ltd | -22.5% |
| **Quarterly** | | | |
| Smartgroup Corp Ltd | +33.4% | Star Entertainment Grp Ltd | -40.9% |
| G.U.D. Holdings Ltd | +26.1% | Lake Resources Nl | -37.5% |
| Link Administration Holdings | +24.5% | Core Lithium Ltd | -31.4% |
| Sims Ltd | +22.9% | Novonix Ltd | -30.4% |
| Boral Ltd | +20.1% | Liontown Resources Ltd | -29.7% |

Source: Bloomberg, IOOF

## Share Markets, Returns

| | Australian Indices | 28 Feb 2023 Price | 1M return (%) | 30 Nov 2022 Price | 3M return (%) |
|---|---|---|---|---|---|
| ▼ | S&P/ASX 200 | 7258 | -2.92 | 7284 | -0.35 |
| ▼ | All Ordinaries | 7458 | -2.97 | 7481 | -0.30 |
| ▼ | Small Ordinaries | 2864 | -3.91 | 2914 | -1.71 |
| | **US Indices** | | | | |
| ▼ | S&P 500 | 3970 | -2.61 | 4080 | -2.70 |
| ▼ | Dow Jones | 32657 | -4.19 | 34590 | -5.59 |
| ▼ | Nasdaq | 11456 | -1.11 | 11468 | -0.11 |
| | **Asia Pacific Indices** | | | | |
| ▼ | Hang Seng | 19786 | -9.41 | 18597 | 6.39 |
| ▲ | Nikkei 225 | 27446 | 0.43 | 27969 | -1.87 |
| | **UK & Europe Indices** | | | | |
| ▲ | FTSE 100 | 7876 | 1.35 | 7573 | 4.00 |
| ▲ | CAC40 | 7268 | 2.62 | 6739 | 7.86 |
| ▲ | DAX Index | 15365 | 1.57 | 14397 | 6.72 |

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

Many would suggest that the February equity pull back in the U.S., Australian and Chinese/Hong Kong equity markets reflects the January enthusiasm and that each of these markets went a little too far. The expectations that were being priced in were very benign, however, higher than expected inflation and labour markets in the U.S. and Australia has helped take some of the heat out of these markets.

Over the past three months, we are seeing the arguably lower valuation equity markets i.e., European and Hong Kong/China in positive territory. Chinese equities faced headwinds prior to COVID, with government regulatory risk from pulling the Ant Financial IPO, mandating reduced profitability in education & childcare companies, combined with property developer's debt issues have all contributed to a lower valuation market, as foreign investors were happy to be underweight the region.

The Chinese re-opening, including support for the property developers and the potential for Chinese fiscal support for the broader economy, is now offering attractive diversification characteristics to investor portfolios that have been overweight western equity markets.

**S&P 500 (Yellow) vs Hang Seng (Blue): 31 August 2020 – 28 Feb 2023**

Source: tradingview.com, accessed 19/03/2023
Note: The earnings growth of the two indices have differed over the past 2 ½ years.

| | 1-mth | 3-mth | 6-mth | 1-yr |
|---|---|---|---|---|
| **MSCI World Index** | 2.0% | -0.6% | 5.8% | -0.3% |
| Value | 1.3% | -1.5% | 8.3% | 5.0% |
| Value-Weighted | 2.1% | 1.5% | 10.3% | 5.5% |
| Momentum | 1.0% | -5.2% | 4.0% | -4.3% |
| Growth | 2.5% | 0.4% | 2.9% | -6.5% |
| Quality | 1.7% | -1.7% | 5.2% | -2.3% |
| Low volatility | 0.2% | -3.5% | 2.8% | 1.9% |
| Equal weight | -1.0% | 1.6% | 6.5% | 8.8% |
| Small caps | 2.3% | 2.7% | 8.0% | 0.8% |

Source: Bloomberg, IOOF, MSCI

AUD weakness in February, especially against the USD (-4.6%) Australian investors obtain positive returns from unhedged global equities. Unhedged Global Growth and Small Companies provided robust returns in February, but Value-Weighted continues to outperform.

## Australian equity markets

The Australian market, as measured by the S&P/ASX 200 Index was down 2.9%, slightly below the MSCI Australia Index of down 2.4%. The MSCI Australia lagged its global counterpart MSCI World by 4.4%, but relative to the MSCI World (A$ Hedged), the MSCI Australia Index only slightly underperformed (-2.4% versus -1.6%).

| | 1-mth | 3-mth | 6-mth | 1-yr |
|---|---|---|---|---|
| **MSCI Australia Index** | -2.4% | 0.7% | 7.6% | 9.3% |
| Value | -3.6% | 0.9% | 12.3% | 12.5% |
| Value-Weighted | -2.7% | 1.3% | 9.4% | 10.3% |
| Momentum | -3.0% | -1.5% | 6.5% | 7.7% |
| Growth | 2.6% | 0.5% | 3.0% | -6.5% |
| Quality | 2.5% | -1.3% | 5.8% | -2.7% |
| Low volatility | -0.6% | 2.3% | 5.9% | 5.7% |
| Equal weight | -1.0% | 1.6% | 6.5% | 8.8% |
| Small caps | -3.7% | -1.2% | -2.0% | -8.0% |

Source: Bloomberg, IOOF, MSCI

Unlike our global counterparts, MSCI Australia Value and Small caps lagged the broader market. The weak AUD helped support Growth and Quality companies that traditionally have a greater proportion of their earnings offshore.

## Fixed Income

| Fixed Income | | 28 Feb 2023 Price | 1M return (%) | 30 Nov 2022 Price | 3M return (%) |
|---|---|---|---|---|---|
| ▲ | Australian Cash rate | 3.35 | 0.25 | 2.85 | 0.50 |
| ▲ | 10-year Bond Yield | 3.85 | 0.30 | 3.53 | 0.32 |
| ▲ | 3-year Bond Yield | 3.60 | 0.42 | 3.17 | 0.44 |
| ▲ | 90 Day Bank Accepted Bills SFE-Day | 3.60 | 0.26 | 3.05 | 0.56 |
| ▲ | US 10-year Bond Yield | 3.92 | 0.41 | 3.61 | 0.31 |
| ▲ | US 3-year Bond Yield | 4.53 | 0.63 | 4.05 | 0.48 |
| ▲ | US Investment Grade spread | 1.80 | 0.10 | 1.93 | -0.13 |
| ▲ | US High Yield spread | 4.70 | 0.07 | 5.01 | -0.31 |

Source: Bloomberg, IOOF

## Australian bond market

After a good month in January, we saw a turn around again in performance with February generally being negative for Fixed Interest investments globally. The main Australian Fixed Interest index, the Bloomberg AusBond Composite 0+ Years Index lost 1.3% during February. Australian yields rose over the month, with the short end (3-year) of the curve rising by 42 basis points. At the long end of the curve, the 10-year yield rose by 30 basis points.

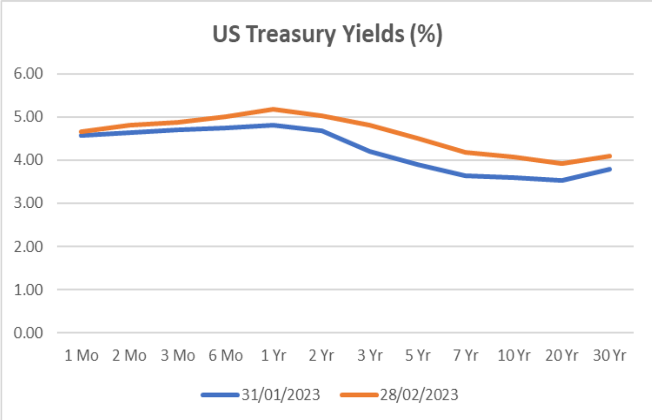
Australian corporate bonds also lost ground during February, with the Bloomberg AusBond Credit 0+ Years Index losing 0.6%.

The yield to maturity is currently around 4% for Australian Bonds, with the index having around 5.2 years duration. This makes most mainstream Australian Fixed Interest funds significantly more attractive than they were at the start of 2022 when the yield to maturity of the Index was around 1.7% with approximately 5.7 years duration.

## US bond market

Over the month of February, U.S. Government bond yields rose across the board, which meant poor returns / losses for investors.

As can be seen in the chart below, the U.S. yield curve rose most noticeably around the 3-to-7-year range, but rose across all maturities. Note the 2-year / 10-year part of the curve remains significantly inverted at -95 basis points as at the end of February, but that is 14 basis points less inverted than at the end of January. Having said that, this is still indicating that a recession is expected.




Source: U.S. Department of the Treasury, accessed 07/03/2023

In the U.S., credit spreads widened during February, with investment grade credit spreads rising by 10 basis points, while high yield credit spreads rose by 7 basis points. For February, Global High Yield bonds as measured by the Bloomberg Barclays Global High Yield Total Return Index Hedged into AUD lost 1.6%, but are still positive for the year to date. Note the U.S. makes up the large majority of the high yield market globally.

While the widening in credit spreads detracted from performance in February, the duration element of the credit markets, both investment grade and high yield, had a greater impact on the monthly total return.

While nominal yields on corporate bonds continue to look reasonable on face value, most major U.S. economic indicators, with the exception of unemployment, continue to show the U.S. is well into an economic downturn. So, at this point in the cycle, we are now seeing duration exposures as somewhat preferable to credit.

## Currencies

| Currency | 28 Feb 2023 Price | 1M return (%) | 30 Nov 2022 Price | 3M return (%) |
|---|---|---|---|---|
| ▼ $A vs $US | 67.29 | -4.62 | 67.88 | -0.87 |
| ▼ $A vs GBP | 55.97 | -2.26 | 56.29 | -0.57 |
| ▼ $A vs YEN | 91.67 | -0.13 | 93.72 | -2.19 |
| ▼ $A vs EUR | 63.63 | -2.03 | 65.22 | -2.44 |
| ▼ $A vs $NZ | 108.81 | -0.69 | 107.80 | 0.94 |
| ▼ $A TWI | 61.40 | -1.60 | 62.10 | -1.13 |
| ▲ $US vs EUR | 94.56 | 2.73 | 96.09 | -1.59 |
| ▲ $US vs CNY | 6.94 | 2.67 | 7.09 | -2.21 |
| ▲ $US vs GBP | 83.18 | 2.48 | 82.93 | 0.30 |
| ▲ $US vs JPY | 136.17 | 4.67 | 138.07 | -1.38 |
| ▲ $US vs CHF | 94.22 | 2.84 | 94.57 | -0.37 |
| ▲ US Dollar Index | 104.87 | 2.72 | 105.95 | -1.02 |
| ▼ JPM EM Curr Index | 50.22 | -1.98 | 50.28 | -0.12 |

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 104.9 as of 28 February 2023, rebounding from its January lows.

The U.S. bond market yields quickly reversed the January declines, as higher Peak Fed Cash rates were factored in during February. This supported the USD from an interest rate differential perspective; however, this also pressured the value of risk assets, further supporting the USD through its status as a safe haven currency.

The interest rate differential will be an interesting factor to watch in 2023, as the U.S. prices mortgages off the 30-year interest rate, while other countries like Australia, price their mortgages off of the cash rate. As a result, consumers in countries that link their mortgages to the cash rate are more likely to respond quicker and at lower interest rate levels than would be the case in the US.

## Commodities

| Commodity | 28 Feb 2023 Price | 1M return (%) | 30 Nov 2022 Price | 3M return (%) |
|---|---|---|---|---|
| ▼ Aluminium | 2337 | -11.09 | 2480 | -5.76 |
| ▼ Copper | 409 | -3.42 | 374 | 9.46 |
| ▼ Nickel | 24620 | -18.60 | 27032 | -8.92 |
| ▼ Zinc | 3014 | -11.34 | 3037 | -0.76 |
| ▼ Crude Oil - Brent | 83.89 | -0.71 | 85.43 | -1.80 |
| ▲ Natural Gas | 2.75 | 2.35 | 6.93 | -60.36 |
| ▲ Metallurgical Coal | 370 | 11.78 | 268 | 38.06 |
| ▲ Iron Ore | 125.75 | 1.93 | 93.25 | 34.85 |
| ▼ Gold | 1837 | -5.58 | 1775 | 3.47 |
| ▼ Silver | 21.07 | -12.35 | 21.93 | -3.92 |

Source: Bloomberg, Insignia Financial

The S&P GSCI Index declined 4% in February, as the market focused on higher peak U.S. cash rates and its impacts on global growth. China also implied that they would be conservative regarding stimulus. The market is now viewing the Chinese re-opening to mainly benefit Chinese domestic consumption companies, especially in the services sector, and to not be a significant influence on near term global growth.

China also lifted its "unofficial" ban on Australian Coal in January that has helped support Coal prices. The "ban" was put in place as part of China's response to Australia's call for an investigation into COVID-19's origins almost three years ago.

The London Metal Exchange (LME) faces two fresh lawsuits from ten hedge funds and asset managers after it enraged investors this time last year by cancelling nickel trades to stop the wild market swings.

### Nickel Prices February 2021 – February 2023

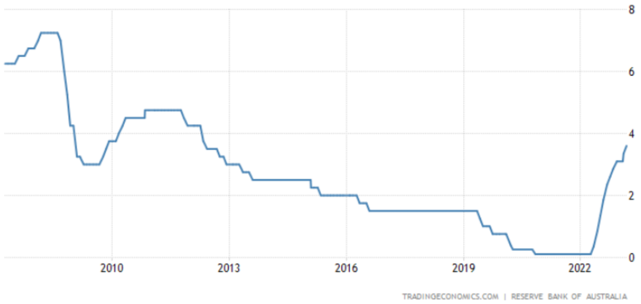

Source: Tradingeconomics.com, LME, accessed 09/03/2023

# Australia

**The labour market eased slightly, as the unemployment rate rose to 3.7% surprising the market, however, the annual change in the Hourly Rates of Pay continued to rise. The RBA Board increased the cash rate target by 0.25% to 3.6% on 7 March, which is now an accumulated increase of 3.5% over 10 months. The RBA economic analysis department estimates $350 billion in credit will roll off of fixed interest rates to variable throughout 2023.**

## Monetary Policy

**RBA Cash Rate: 15 years to March 2023**




Source: Tradingeconomics.com, accessed 08/03/2023

The Reserve Bank lifted the cash rate for a tenth consecutive meeting on 7th March, up 0.25% to 3.6%. The 0.25% increase was widely expected following the Q4 2022 jumps in inflation: Headline CPI jumping from 7.3% to 7.8% and the trimmed mean CPI jumping from 6.1% to 6.9%

The RBA has indicated that it will be data driven. “When and how much further interest rates need to increase” would depend on “developments in the global economy, trends in household spending and the outlook for inflation and the labour market”.

Also, as we progress through 2023, the RBA’s economic analysis department is well aware of the mortgages rolling off current fixed or honeymoon rates. The department estimates approximately 800,000 mortgages or $350 billion in credit will roll off of fixed interest rates to variable this year.

## Labour Market

Australia's seasonally adjusted unemployment rate unexpectedly increased to 3.7% in January 2023 from December's near five-decade low of 3.5% and above market estimates of 3.5%. This was the highest jobless rate since last May, as the number of unemployed climbed by 21,900 to 523,200. The participation rate edged down to 66.5% from 66.6% in December.

Australia's seasonally adjusted wage price index advanced by 3.3% p.a. year on year in Q4 2022, up from a 3.2% p.a. rise in Q3, but below market forecasts of a 3.5% p.a. gain. This was the highest reading since 2012 driven by further improvement in business conditions after the COVID pandemic. Wages in the private sector quickened to 3.6% p.a., the highest since Q3 2012, while public employees’ wages only rose to 2.5% p.a., still the highest since Q2 2019. The wholesale trade industry recorded the sharpest annual wage growth since Q4 2012 at 4.2% p.a, while at the lower end of the increases, wages for the education and training industry only rose 2.4% p.a.

**Australia Annual Change in Hourly Rates of Pay: 15 years to February 2023**


Source: Tradingeconomics.com, accessed 08/03/2023

## Growth

Australia's economic growth slowed to 2.7% p.a. year-on-year in Q4 2022 from 5.9% p.a. in Q3 2022. The data was in line with market expectations. On a quarter-on-quarter basis, GDP grew 0.5% in Q4 2022, less than market forecasts of 0.8%, and below Q3’s rise of 0.7%. This was the fifth consecutive period of economic growth, but the softest pace in the sequence, as household consumption advanced the least in Q4 (0.3% vs 1.0% in Q3) due to intense cost pressures and elevated interest rates. The household savings ratio fell to 4.5%, the lowest since 2017, from the previous 7.1%. Private investment decreased (-1.7% vs 1.2%) and Public investment declined at a slower rate (-0.7% vs -3.5%), even though levels of investment remained high. Government spending rose further (0.6% vs 0.2%), and net external demand contributed positively, as exports added 1.1%, while imports lost -4.3%.

# United States

**The Conference Board forecasts that real GDP growth will slow to 0.3% in 2023. Inflation has declined to 6.4%, but is remaining somewhat stubbornly high as expectations were for 6.2%. Expect further Fed rate rises.**

### Growth

The Conference Board forecasts that economic weakness will intensify and spread more widely throughout the U.S. economy over the coming months, leading to a recession starting in early 2023. This outlook is associated with persistent inflation and the Federal Reserve hawkishness. They forecast that real GDP growth will slow to 0.3% in 2023, and then rebound to 1.6% in 2024.

Real U.S. consumer spending began to contract in the final months of 2022, and the Conference Board expects this trend to continue over the coming quarters.

### Labour Market

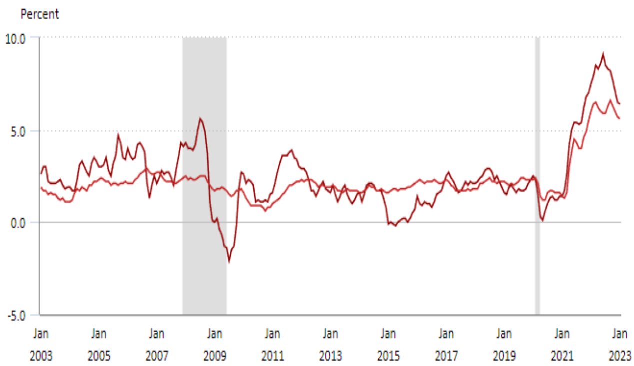
The number of job openings in the United States fell by 410,000 to 10.824 million in January 2023 from an upwardly revised 11.234 million in December, compared to market expectations of 10.5 million. Over the month, the largest decreases were in construction (-240,000), accommodation and food services (-204,000), and finance and insurance (-100,000). On the other hand, the number of available positions increased in transportation, warehousing, and utilities (+94,000) and in non-durable goods manufacturing (+50,000). Meanwhile, the number of hires and total separations changed little at 6.4 million and 5.9 million, respectively. Within separations, quits decreased to 3.884 million, the lowest level since May 2021, while layoffs and discharges went up to 1.7 million.

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%. February's figure is currently expected to be unchanged at 3.4% when released.

### Inflation

According to Trading Economics, the annual inflation rate in the US slowed only slightly to 6.4% in January 2023 from 6.5% in December, less of a decline than the market was expecting (6.2% expected). Still, it was the lowest reading since October 2021. A slowdown was seen in food prices (10.1% vs 10.4%), while the cost of used cars and trucks continued to decline (-11.6% vs -8.8%). In contrast, the cost of shelter increased faster (7.9% vs 7.5%), as well as energy (8.7% vs 7.3%), with gasoline prices rising 1.5%, reversing from a 1.5% decline in December. On the other hand, both fuel oil (27.7% vs 41.5%) and electricity prices slowed (11.9% vs 14.3%). Although inflation has shown signs of peaking at 9.1% in June last year, it remains more than three times above the Fed's 2% target and continues to point to a broad-based advance on the general price level, particularly services and housing. Compared to December, the CPI rose 0.5%, the most in three months, mostly due to the higher cost of shelter, food, gasoline, and natural gas.

**Headline and Core Inflation**




Source: U.S. Bureau of Labor Statistics, accessed 06/03/2023

### Policy

Almost all FOMC participants agreed that it was appropriate to raise the target range for the federal funds rate by 0.25% at February monetary policy meeting, although a few officials favoured raising it by 0.50%, according to the minutes from the meeting. Also, all participants continued to anticipate that ongoing increases would be appropriate until data provided confidence that inflation was on a sustained downward path to 2%, which was likely to take some time. Participants noted that recent inflation data showed a welcome reduction in the monthly pace of price increases, but stressed that substantially more evidence of progress across a broader range of prices would be required to be confident that inflation was on a sustained downward path. The Fed raised the target range for the fed funds rate by 0.25% to 4.5%-4.75% in its February 2023 meeting, dialling back the size of the increase for a second straight meeting, but still pushing borrowing costs to the highest since 2007.

## China

**China's PMIs moved further into expansionary territory in February beating market expectations. The PMIs also indicated robust job creation that is expected to support the return of the Chinese consumer in 2023. The Lunar New Year Festival gave a boost to inflation helping it to edge up from subdued levels.**

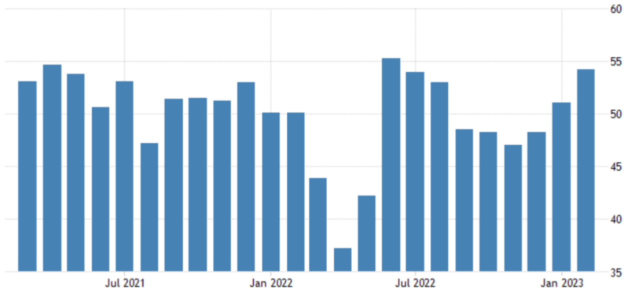
### Inflation

China's annual inflation rate rose to 2.1% in January from 1.8% in December, but came in below market consensus of 2.2%. The Lunar New Year festival and the removal of pandemic measures supported prices, especially Food (6.2% vs 4.8% in December), boosted by a sharp rebound in prices of fresh vegetables. Non-food edged up to 1.2% from 1.1%, with prices continuing to rise for clothing (0.6% vs 0.5%), health (0.8% vs 0.6%), and education (2.4% vs 1.4%). On the other hand, the cost of housing remained subdued (-0.1% vs -0.2%). Core consumer prices went up 1.0% p.a. after gaining 0.7% p.a. in December.

### Growth

The Caixin China General Composite PMI jumped to 54.2 in February from 51.1 a month earlier. This is the second successive period of growth in private sector activity and the strongest since June 2022.

**China's Caixin Composite PMI**




Source: Tradingeconomics.com, Markit Economics, 06/03/2023

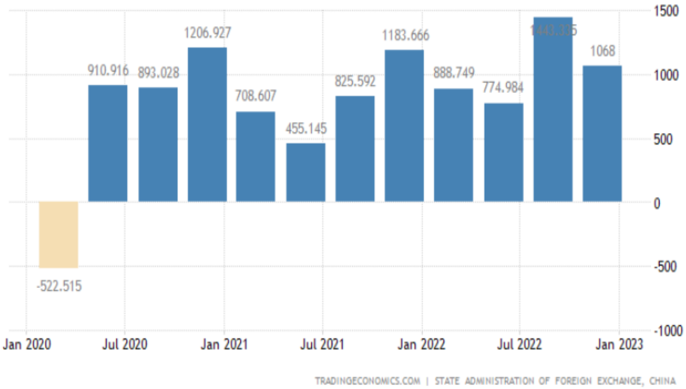
Confidence was unchanged from January's decade high. "The economy has entered a post-COVID recovery," said Dr. Wang Zhe, an economist at Caixin Insight. "Currently, the foundation for the recovery has yet to solidify, and it will take time for production and social order to get back to normal."

The Caixin Manufacturing PMI increased to 51.6 in February from 49.2 in January and above market consensus of 50.2. This was the first increase in factory activity since last July, and the highest reading in 8 months. Output grew for the first time in 6 months, while new orders and new export orders both expanded for the first time in 7 months. Meanwhile, buying levels rose for the first time in 4 months, and at the fastest pace since June 2021.

The Caixin Services PMI climbed to 55.0 in February, up from 52.9 in January and above market expectations of 53.8. New business rose the most since April 2021, and new export growth hit a nearly four-year high, as the relaxation of COVID-19 restrictions helped lift customer numbers and demand. In addition, employment levels increased for the first time in four months, with job creation accelerating the most since November 2020. On the price front, both input costs and prices charged grew modestly. Finally, business sentiment remained high, despite the degree of optimism slipping from January's near 12-year high.

### Trade

**China's Current Account Surplus**




Source: Tradingeconomics.com, State Administration of Foreign Exchange, China, 06/03/2023

China's Current Account Surplus narrowed slightly to US $106.8 billion during Q4 2022 from US $118.4 billion in Q4 2021. Goods surplus shrank to US $164.1 billion from US $182.8 billion, with both exports and imports dropping 9.8%. At the same time, the secondary income surplus was slightly down to US $2.8 billion from US $6.2 billion a year ago, and the services deficit widened to US $28.8 billion from US $15.2 billion. The primary income gap, however, fell to US $31.3 billion from US $55.5 billion. Considering 2022 full year, the Current Account Surplus widened to US $417.5 billion, up 32% from 2021 and the largest since 2008, helped by a rise in exports and a decline in imports as the domestic economy slowed.

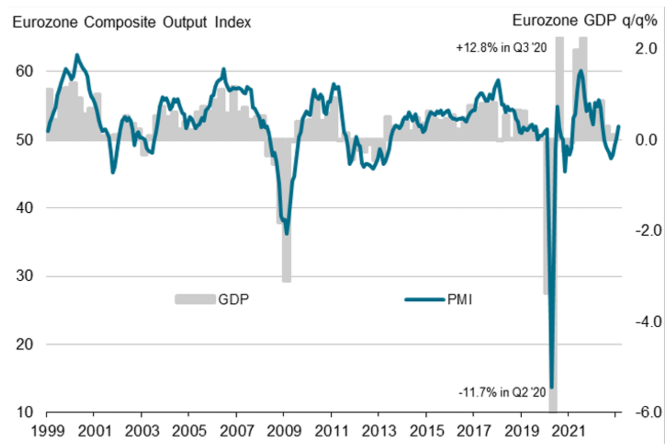
# Europe

**European growth has accelerated to an eight-month high. Inflation was marginally lower at 8.5%, but this was above expectations and remains excessively high. The ECB is still expected to raise interest rates further.**

### Growth

Private sector business activity across the eurozone expanded for a second successive month during February, with growth accelerating to an eight-month high, as renewed stability in manufacturing production was accompanied by a stronger improvement in services output. Notably, the level of incoming new business rose for the first time since May 2022, as increases in client activity reportedly supported a strengthening in underlying demand.

**S&P Global Eurozone Composite PMI Output Index**




Source: S&P Global, Eurostat.

Accessed: 06/03/2023

### Inflation

The consumer price inflation in the Euro Area inched lower to 8.5% in February 2023, the lowest since last May, but above market expectations of 8.2%, a preliminary estimate showed. The latest data added to signs that inflationary pressure remained high in Europe and bolstered expectations that the European Central Bank will remain hawkish for longer. Energy inflation slowed to 13.7% from 18.9% in January, while prices rose at a faster pace for food (15.0% vs 14.1%), non-energy industrial goods (6.8% vs 6.7%) and services (4.8% vs 4.4%). Amongst the Eurozone's largest economies, inflation accelerated in Germany, France, Spain and the Netherlands, while in Italy, it slowed. Meanwhile, the core rate, which excludes volatile items such as energy and food, rose to a fresh record high of 5.6% in February.

### Labour Market

According to Eurostat, the Euro Area seasonally adjusted unemployment rate stood at 6.7% in January 2023, unchanged from December and slightly above market estimates of 6.6%. Still, the jobless rate remains very close to a record low level of 6.6% touched in October. A year earlier, it was higher at 6.9%. The number of unemployed increased by 43,000 from a month earlier to 11.169 million. Meanwhile, the youth unemployment rate, measuring jobseekers under 25 years old, was up to 14.4% in January from a seven-month low of 14.3% in the prior month. Amongst the largest Euro Area economies, the highest jobless rates were recorded in Spain (13%), Italy (7.9%) and France (7.1%), while the lowest rate was recorded in Germany (3%).

### Policy

European Central Bank President Christine Lagarde said interest rate increases may need to persist beyond a planned half-point move in mid-March.

“At this point in time, it’s possible that we continue on that path,” Lagarde said. “By which amount in each and every meeting is impossible to say at this point.”

When asked about the so-called terminal rate, Lagarde said, “The real honest answer is that it will determined by data.” Borrowing costs will have to remain at levels that restrict economic activity and can’t be cut until inflation is guaranteed at the target, she said.

“What’s very certain is that we’ll do whatever is needed in order to bring inflation back to 2%”, Lagarde said.

She described the retreat in price growth as not “stable.”.

At this stage, it appears the market still expects the ECB to lift rates to around 3.75%-4%, but any significant changes in the economic data for Europe will undoubtedly change the ECB’s view of what should be the peak rate in the current cycle.

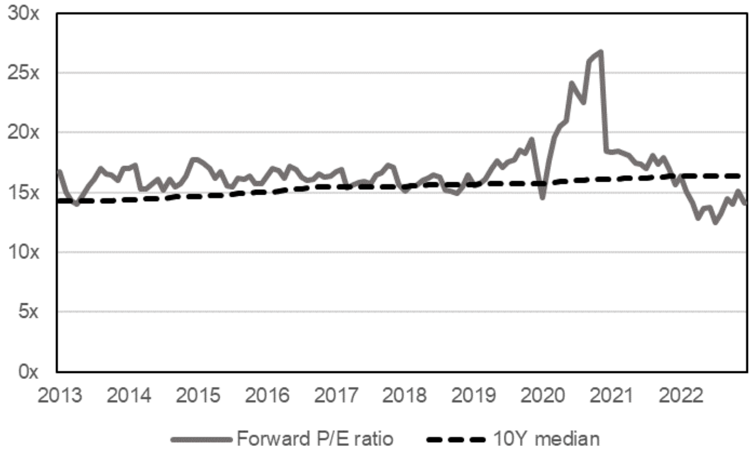
# Economic Scorecard – As of 9 March 2023

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.**

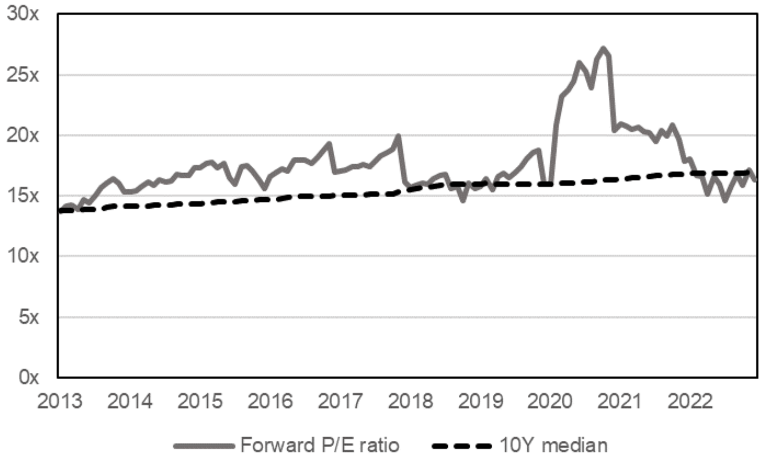
| | USA | | | Australia | | | EuroZone | | | China | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | **Current** | **Direction** | **1 year forward** | **Current** | **Direction** | **1 year forward** | **Current** | **Direction** | **1 year forward** | **Current** | **Direction** | **1 year forward** |
| **Growth (Latest Qtr Nominal GDP)** | 0.7% (Rebound from Tech Rec) | Flat / Moderating | Recession / Below trend | 0.5% (About trend) | Moderating | Below trend / Recession | 0.00% | Weakening | Recession / Below trend | 0 | Rebounding (Zero COVID) | At trend |
| **Inflation (Headline CPI)** | 6.4% (Significantly above target) | Moderating | Above target | 7.8% (Above target) | Peaking | Above target | 8.6% (Significantly above target) | Moderating | Above target | 1.0% (Below target) | Returning to trend | At target |
| **Interest Rates (official cash rate or equivalent)** | 4.50%-4.75% | Increasing at a slower rate / contractionary | 5.25% (Stable / decreasing) | 3.60% | Increasing at a slower rate / contractionary | 3.85% (Stable / declining) | 0.03 | Increasing / contractionary | 3.75% (Stable) | 3.65% | Stable / expansionary | Stable |
| | | **AUD/USD** | | | | | | | | | | |
| | **Current** | **Direction** | **1 year forward** | | | | | | | | | |
| **Currencies (relative PPP basis)** | 0.659 (PPP 0.691) less than 1 Stdev | Risk off | Fair value range | | | | | | | | | |

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

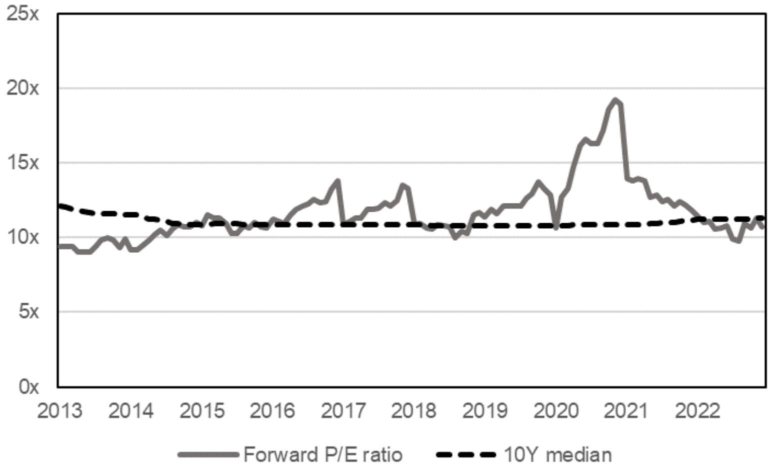
Australian Shares Forward P/E – spot vs trailing 10Y median (February-13 to February-23)




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




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




Sources: Bloomberg, MSCI, S&P (February 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 28 February 2023

| | | | | | Annualised | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | 1-mth | 3-mth | 6-mth | 1-yr | 3-yr | 5-yr | 7-yr | 10-yr | 15-yr | 20-yr |
| Shares | Australia | -2.4% | 0.3% | 6.4% | 7.2% | 7.9% | 7.9% | 10.1% | 8.0% | 6.2% | 9.5% |
| | Australia - mid cap | -3.2% | -2.2% | 1.7% | 5.7% | 13.0% | 8.8% | 12.4% | 11.5% | 6.6% | 10.8% |
| | Australia - small cap | -3.7% | -1.2% | -2.0% | -8.0% | 4.2% | 3.6% | 7.7% | 4.9% | 1.9% | 6.9% |
| | Australia - micro cap | -4.2% | -1.0% | -5.1% | -12.2% | 17.8% | 8.4% | 12.2% | 6.5% | 3.0% | - |
| | World ex Australia | 2.1% | -0.7% | 5.7% | -0.5% | 8.3% | 10.1% | 11.2% | 13.6% | 8.7% | 8.1% |
| | World ex Australia (Hedged) | -1.6% | -0.9% | 2.0% | -7.3% | 8.8% | 6.6% | 10.0% | 10.1% | 8.0% | 9.9% |
| | World - small cap | 2.3% | 2.7% | 8.0% | 0.8% | 8.3% | 8.1% | 10.4% | 12.9% | 9.6% | 9.9% |
| | Emerging Markets | -2.3% | -1.2% | -0.7% | -8.8% | -0.5% | 1.0% | 7.2% | 5.8% | 3.4% | 8.4% |
| Property & Infrastructure | A-REITS | -0.3% | 3.4% | 3.9% | -6.5% | 0.7% | 6.3% | 5.5% | 8.1% | 4.3% | 5.8% |
| | Global REITs | -0.1% | 0.6% | -0.9% | -8.7% | -2.6% | 5.0% | 3.9% | 7.4% | 5.1% | - |
| | Global REITs (hedged) | -3.6% | 0.1% | -4.5% | -14.3% | -2.0% | 2.0% | 2.9% | 4.4% | 3.9% | - |
| | Global infrastructure | -0.5% | -5.1% | -4.5% | 3.6% | 1.7% | 8.5% | 7.8% | 10.8% | 7.0% | - |
| | Global infrastructure (Hedged) | -4.0% | -5.3% | -7.6% | -3.3% | 2.3% | 5.5% | 6.7% | 7.8% | 7.9% | - |
| Growth Alternatives | Trend following (USD) | -0.3% | -2.6% | -5.8% | 2.8% | 4.4% | 2.4% | -0.7% | 2.7% | 2.3% | 4.1% |
| Fixed income | Australia Total Market | -1.3% | -0.7% | 0.4% | -6.4% | -3.4% | 0.8% | 1.2% | 2.4% | 4.3% | 4.3% |
| | Australia government bonds | -1.5% | -1.0% | 0.2% | -6.9% | -3.9% | 0.7% | 1.0% | 2.3% | 4.2% | 4.2% |
| | Australia corporate bonds | -0.6% | 0.9% | 1.7% | -3.7% | -1.4% | 1.7% | 2.3% | 3.2% | 5.0% | 4.9% |
| | Australia floating rate bonds | 0.4% | 1.2% | 1.9% | 2.1% | 1.3% | 1.8% | 2.2% | 2.6% | 3.6% | 4.2% |
| | Global Total Market (Hedged) | -1.8% | -1.0% | -2.6% | -9.4% | -4.1% | 0.0% | 0.7% | 2.3% | 4.5% | 5.0% |
| | Global government bonds (Hedged) | -1.4% | -1.5% | -2.9% | -9.3% | -4.2% | 0.0% | 0.5% | 2.3% | 4.3% | 4.9% |
| | Global corporate bonds (Hedged) | -2.7% | -0.3% | -1.8% | -10.8% | -4.4% | 0.2% | 1.6% | 2.6% | 5.1% | 5.4% |
| | Global high yield bonds (Hedged) | -1.6% | 1.8% | 2.7% | -6.6% | -1.5% | 0.5% | 3.9% | 4.0% | 7.2% | 8.5% |
| | Emerging Market bonds (Hedged) | -2.7% | 0.4% | 0.3% | -11.7% | -6.9% | -2.1% | 0.8% | 1.7% | 5.1% | 7.2% |
| Cash | Bloomberg AusBond Bank Bill Index | 0.2% | 0.8% | 1.4% | 1.8% | 0.7% | 1.1% | 1.3% | 1.7% | 2.7% | 3.5% |

## 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 |