Monthly Economic Wrap

May 2023

Summary

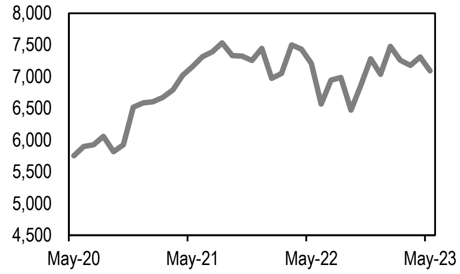
Economic

- Global growth has slowed sharply and the risk of financial stress in emerging market and developing economies is intensifying amid elevated global interest rates, according to the World Bank's latest Global Economic Prospects report.
- After growing 3.1% last year, the global economy is set to slow substantially in 2023, to 2.1%, amid continued monetary policy tightening to rein in high inflation, before a tepid recovery in 2024, to 2.4%.
- The latest forecasts show the enduring effect of the overlapping shocks of the pandemic, the Russian invasion of Ukraine, and the sharp economic slowdown amid tight global financial conditions.

Markets

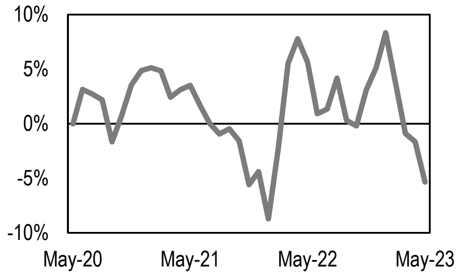
- Share market performance in May was mixed. The S&P 500 rose by 0.25%, while the Australian S&P 200 fell by 2.98%.
- Global shares ex-Australia produced a reasonable return of 1.2%. A key driver of this was a depreciation in the AUD versus the USD over the month, making U.S. shares more valuable to Australian investors.
- In Australia, Small Caps and Growth were the best performing styles for the month, albeit they were negative. Globally, Growth and Quality were the best performing styles and were the only two styles to produce positive returns during May.
- Within Fixed income markets, both Australian government bonds and credit lost ground this month. The main Australian fixed interest index, the Bloomberg AusBond Composite 0+ Years Index was down 1.2%, while the Bloomberg AusBond Credit 0+ Years Index fell 0.5%.
- Global High Yield bonds, as measured by the Bloomberg Barclays Global High Yield Total Return Index Hedged into AUD lost 0.6% for the month of May.

1. S&P/ASX 200 Price Index



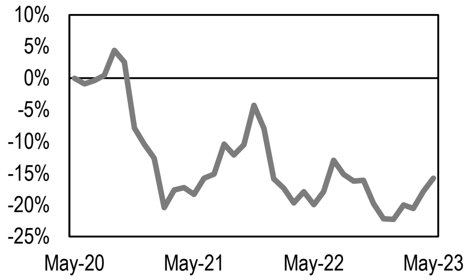
Source: FactSet, Insignia Financial

2. ASX200 vs All-World, US$ terms



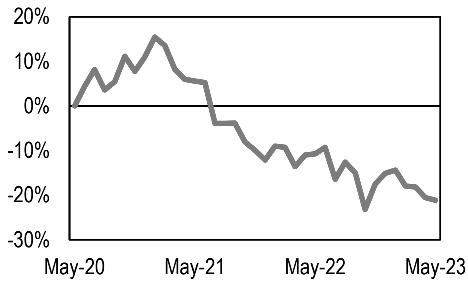
Source: FactSet, Insignia Financial

3. Australia – Growth vs Value stocks



Source: FactSet, Insignia Financial

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



Sector and stock returns – May 2023

ASX/S&P 200 Sectors (GICS)				
	Monthly	% Δ	Quarterly	% Δ
▼	Consumer Discretionary	-6.19	Consumer Discretionary	-2.35
▼	Consumer Staples	-4.61	Consumer Staples	-3.60
▲	Energy	0.19	Energy	-3.24
▼	Financials ex Property	-3.06	Financials ex Property	-2.21
▼	Financials	-4.79	Financials	-6.62
▲	Health Care	0.06	Health Care	3.20
▼	Industrials	-0.76	Industrials	3.20
▲	IT	11.56	IT	16.45
▼	Materials	-4.49	Materials	-3.19
▼	Property Trusts	-1.75	Property Trusts	-3.72
▼	Telecommunications	-1.17	Telecommunications	4.04
▲	Utilities	1.12	Utilities	4.01

Source: FactSet, Insignia Financial

Best and Worst S&P/ASX 200 Performers			
Top five stocks		Bottom five stocks	
Monthly			
Life360, Inc. Shs CDIs	+34.1	Syrah Resources Limited	-26.0
Lake Resources N.L.	+26.2	Lovisa Holdings Ltd.	-22.5
Allkem Limited	+21.2	IDP Education Ltd.	-22.5
Megaport Ltd.	+21.1	Whitehaven Coal Limited	-21.4
Xero Limited	+17.8	Elders Limited	-21.1
Quarterly			
Liontown Resources Limited	+102.9	Syrah Resources Limited	-54.6
Telix Pharmaceuticals Ltd.	+67.6	Polynovo Limited	-39.6
Xero Limited	+41.5	Elders Limited	-31.3
AGL Energy Limited	+36.1	Coronado Global Res. Inc. Shs CDIs	-30.3
Life360, Inc. Shs CDIs	+33.5	IDP Education Ltd.	-24.0

Source: FactSet, Insignia Financial

Share Markets, Returns

Australian Indices		31 May 2023 Price	1M return (%)	28 Feb 2023 Price	3M return (%)
▼	S&P/ASX 200	7091	-2.98	7258	-2.30
▼	All Ordinaries	7274	-3.03	7458	-2.47
▼	Small Ordinaries	2802	-3.33	2864	-2.20
US Indices					
▲	S&P 500	4180	0.25	3970	5.28
▼	Dow Jones	32908	-3.49	32657	0.77
▲	Nasdaq	12935	5.80	11456	12.92
Asia Pacific Indices					
▼	Hang Seng	18234	-8.35	19786	-7.84
▲	Nikkei 225	30888	7.04	27446	12.54
UK & Europe Indices					
▼	FTSE 100	7446	-5.39	7876	-5.46
▲	CAC40	1290	0.13	1282	0.64
▼	DAX Index	15664	-1.62	15365	1.95

Sources: FactSet, MSCI, FTSE, S&P, Insignia Financial
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 were mixed, especially in Asia. The Hang Seng declined -8.35% in May due to the recent weak Chinese economic data continuing to suggest the post COVID-zero recovery is weaker than expected. On the positive side, the Japanese Nikkei 225 rose 7% during May, continuing the year-to-date rally and reaching levels last seen in 1990. The Nikkei 225 benefited from positive economic data, as both GDP and the Balance of Trade came in better than expected, as positive investor sentiment for AI related companies and strong performance from export companies, (as a weak Yen vs USD -2.25%) helped support companies' earning foreign currency revenues.

Nikkei 225: 30 Dec 2022 –31 May 2023

Source: Tradingview.com, accessed 13/06/2023

Returns to 31 May 2023	1-mth	3-mth	6-mth	1-yr
MSCI World Index	-0.1%	4.1%	3.7%	3.7%
Value	-3.7%	-3.1%	-4.3%	-2.9%
Value-Weighted	-2.1%	-0.7%	0.6%	1.2%
Momentum	-3.9%	-0.8%	-5.8%	-2.4%
Growth	3.2%	11.4%	11.9%	10.3%
Quality	2.4%	11.1%	9.5%	9.3%
Low volatility	-3.1%	2.8%	-1.5%	0.7%
Equal weight	-2.1%	-1.0%	0.9%	0.9%
Small caps	-2.0%	-4.0%	-1.9%	-2.0%

Source: FactSet, Insignia Financial, MSCI

A month notable for U.S. debt ceiling concerns provided a shining light for Artificial intelligence (AI) companies. An outstanding earnings result from Nvidia driven by the processing power of their Superchips and Graphics Processing Units (GPUs), which have been a perfect fit for the enormous data processing for AI. This announcement caused a 24% surge in Nvidia stock price on 25 May, lifting all AI related companies in the quality and growth sub-indices of the MSCI World.

Australian equity markets

The Australian market, as measured by the S&P/ASX 200 Index declined -3.0% for May, while the slightly larger market cap index (MSCI) declined -2.8%.

Returns to 31 May 2023	1-mth	3-mth	6-mth	1-yr
MSCI Australia Index	-2.8%	-1.2%	-0.5%	3.3%
Value	-3.8%	-3.0%	-2.2%	2.7%
Value-Weighted	-3.6%	-2.5%	-1.2%	1.9%
Momentum	-2.4%	-2.4%	-3.9%	0.5%
Growth	-1.7%	0.8%	1.3%	4.0%
Quality	-2.9%	0.6%	3.8%	6.8%
Low volatility	-3.0%	0.8%	3.2%	3.4%
Equal weight	-1.9%	1.5%	4.6%	6.7%
Small caps	-1.6%	-0.5%	-3.0%	-2.0%

Source: FactSet, Insignia Financial, MSCI

The Australian stock exchange lacks the size of exposure to the technology sector when compared to the international index, and as a result, while the Growth sub-category outperformed the broader market, it still declined (-1.7%).

Our larger and more influential sectors, Resources and Banks, were weighed down by weaker commodity prices and the expiry of the RBA's 0.25% term funding facility of $188 billion. The expiry of the RBA's term funding is expected to hurt the Bank's margins, as they will be required to replace the term funding debt with debt sourced in the current market at higher rates.

Fixed Income

Fixed Income		31 May 2023 Yield	1M mvt (bps)	28 Feb 2023 Yield	3M mvt (bps)
▲	Australian Cash rate	3.85	0.25	3.35	0.50
▲	10-year Bond Yield	3.60	0.26	3.86	-0.25
▲	3-year Bond Yield	3.37	0.36	3.59	-0.22
▲	90 Day Bank Accepted Bills SFE-Day	4.23	0.41	3.81	0.42
▲	US 10-year Bond Yield	3.64	0.19	3.92	-0.28
▲	US 3-year Bond Yield	4.05	0.27	4.51	-0.46
▲	US Investment Grade spread	1.71	0.04	1.51	0.19
▲	US High Yield spread	4.59	0.07	4.12	0.47

Source: FactSet, Insignia Financial

Australian bond market

May was a poor month for bonds. The main Australian Fixed Interest index, the Bloomberg AusBond Composite 0+ Years Index fell by 1.2% for the month. Australian yields rose substantially over the month, with the short end (3-year) of the curve rising by 36 basis points. At the long end of the curve, the 10-year yield rose by 26 basis points.

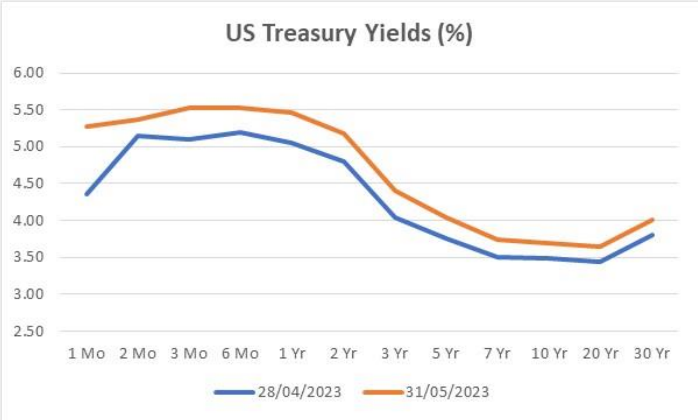
Australian corporate bonds also lost ground over the month, with the Bloomberg AusBond Credit 0+ Years Index losing 0.5%.

The yield to maturity at the end of May was around 4% for Australian Bonds, with the index having around 5.3 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%.

Global bond markets

Over the month of May, U.S. Government bond yields rose across the entire curve. Global bond yields drifted higher as markets reassessed the outlook for the Fed funds rate in response to “sticky” inflation data and hawkish comments from several Fed officials.

As can be seen in the chart, the U.S. yield curve rose fairly consistently across the board, with the very short end of the curve rising further due to investors becoming increasingly concern about the U.S. Debt Ceiling stalemate. Note that on 26 May, the 1-month Treasury yield cracked 6%, but has since fallen back about 85 bps as of 6 June. Note the 2-year / 10-year part of the curve ended May (-149 bps) even more inverted than was the case at the end of April (-131bps). This is clearly indicating that a recession is expected in the near term.



Source: U.S. Department of the Treasury, accessed 07/06/2023

In the U.S., credit spreads widened slightly during May, with Investment Grade credit spreads rising by 4 basis points, while High Yield spreads widened by 7 basis points. This means credit spreads, while fluctuating intra month, have not changed significantly over the last two months. Overall, global High Yield bonds as measured by the Bloomberg Barclays Global High Yield Total Return Index Hedged into AUD lost 0.6% for the month. Note the U.S. makes up the large majority of the high yield market globally.

The performance of global credit markets was mixed over the month, with the U.S. underperforming the European market in both investment grade and high yield. European high yield performed well, with both positive total returns and excess returns over government bonds, while total returns were negative in the U.S. Investment grade bonds are the highest quality bonds as determined by a credit rating agency; high yield bonds are more speculative, with a credit rating below investment grade.

Currencies

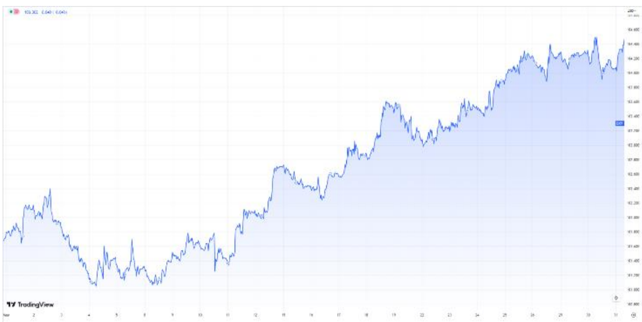
Currency	31 May 2023 Price	1M return (%)	28 Feb 2023 Price	3M return (%)
▼ $A vs $US	0.65	-1.75	0.67	-3.43
▼ $A vs GBP	0.52	-0.71	0.56	-6.69
▲ $A vs YEN	90.56	0.43	91.62	-1.16
▲ $A vs EUR	0.61	1.42	0.64	-4.40
▲ $A vs $NZ	1.08	0.90	1.09	-0.73
▲ $US vs EUR	0.94	3.19	0.95	-1.04
▲ $US vs CNY	7.11	2.89	6.93	2.57
▲ $US vs GBP	0.80	1.06	0.83	-3.39
▲ $US vs JPY	139.37	2.25	136.15	2.37
▲ $US vs CHF	0.91	1.84	0.94	-3.26
▲ US Dollar Index	104.33	2.62	104.87	-0.52

Source: Bloomberg, Insignia Financial

U.S. dollar strength was the highlight for the month. The chart below shows the U.S. Dollar Index relative it its trading partners (DXY Index) for May. As can be seen, the U.S. Dollar enjoyed positive momentum for the majority of the month supported by a number of factors.

The Federal Reserve raised rates early May, but noted that additional policy firming would likely be warranted if the progress of returning inflation to 2% continues to be unacceptably slow. This put extra emphasis economic data. Such as the unemployment rate (came in tighter than expected), the average hourly earnings (higher than expected) and inflation (in line with expectations). None of which supported the view that the Federal Reserve had reached their final rate hiking destination.

DXY 28 April 2023 – 31 May 2023



Source: Tradingview.com, accessed 13/06/2023

Commodities

Commodity	31 May 2023 Price	1M return (%)	28 Feb 2023 Price	3M return (%)
▼ Aluminium	2255	-3.71	2300	-1.96
▼ Copper	8017	-6.46	8844	-9.35
▼ Nickel	20450	-13.97	24820	-17.61
▼ Zinc	2228	-16.87	3043	-26.77
▼ Crude Oil - Brent	72.66	-10.65	83.21	-12.68
▼ Natural Gas	2.27	-5.98	2.75	-17.51
▲ Thermal Coal	194	3.77	318	-38.90
▼ Iron Ore	105.07	-9.53	125.75	-16.45
▼ Gold	1963	-1.36	1826	7.51
▼ Silver	24	-6.23	21	12.23

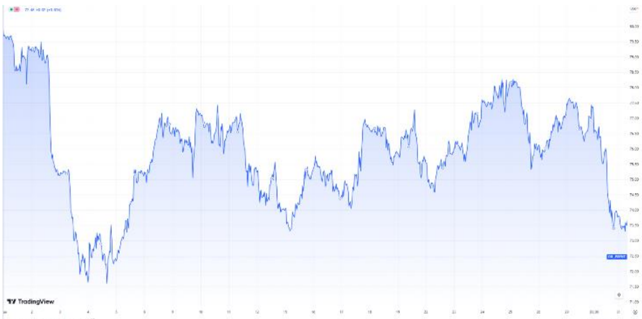
Source: Bloomberg, Insignia Financial

Commodities were generally weak as the U.S. Debt Ceiling discussions heightened temporary "risk-off" concerns. China's economic data continued to show an anaemic recovery post zero-COVID which weighed generally across many commodities. A large concern with China, is how to stimulate the economy without creating excesses in the property sector.

The price of Brent crude oil fell back down to end May at US$72.66, despite OPEC+'s early April announcement to voluntarily curb output by 1.6 million barrels per day until the end of the year.

The price of iron ore continues to be a casualty of the underwhelming Chinese industrial recovery. Prices declined in May partly attributed to weaker than expected growth in construction and China's reticence to re-inflate the excesses and speculation in the property sector.

Brent Oil Prices December 2022 – May 2023



Source: Tradingview.com, accessed 13/06/2023

Australia

The RBA raised interest rates by 0.25% to 4.1% in the first week of June, surprising consensus expectations again. The RBA remains uncomfortable with the current stickiness of prices and the tight labour market. Unemployment data has begun to soften, but is still relatively tight.

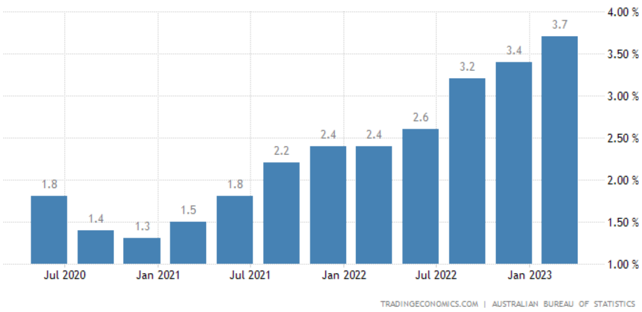
Monetary Policy

The Reserve Bank of Australia unexpectedly raised the cash rate by 0.25% to 4.1% in June, while consensus expected a pause. The RBA also kept the door open for further tightening, as inflation remained persistently high and wage growth picked up. The latest increase brought a total of 4% rate increases since May 2022, pushing borrowing costs to their highest level since April 2012. Policymakers believe the upside risks to the inflation outlook have increased.

Inflation/Price Pressures

The monthly CPI indicator in Australia increased 6.8% in the year to April, accelerating from a 6.3% gain in the year to March, and beating the market consensus of 6.4%. Costs accelerated for transport (7.1% vs 0.8%), mostly automotive fuel (9.5% vs -8.2%), and recreation & culture (6.4% vs 6.1%). Meanwhile, costs eased for housing (8.9.% vs 9.5%). The monthly CPI indicator, excluding volatile fruit and vegetable items and fuel, was down to 6.5% in April from 6.9% in March.

Australia Annual Change in Hourly Rates of Pay



Source: Tradingeconomics.com, ABS. Accessed 07/06/2023

Australia's seasonally adjusted wage price index increased by 3.7% YoY in Q1 2023, following a 3.4% YoY growth in Q4 2022, and slightly above market forecasts of a 3.6% gain. This was the highest reading since Q3 2012, coming in even before the fair work commission on 2 June awarded an increase of 5.75% to 2.4 million people on the minimum wage and 8.6% to 80,000 people not covered by an award.

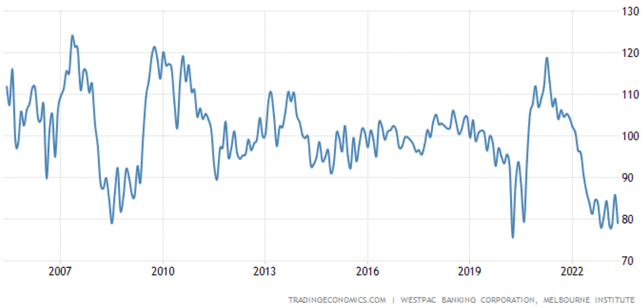
Labour Market

Australia's seasonally adjusted unemployment rate unexpectedly rose to 3.7% in April, increasing slightly from March and above expectations (both at 3.5%). The number of unemployed individuals increased by 18,400 to reach 528,000, while employment declined by 4,300, reaching a total of 13.88 million. This represents the first decrease in employment over the past three months and was well below market forecasts that predicted 25,000 gain in employment.

Australian Consumer Sentiment

The Westpac Melbourne Institute Consumer Sentiment index in Australia plummeted by a significant 7.9% in May, reaching a reading of 79.0 and far surpassing market expectations of a 1.7% decrease. Sentiment was dragged lower following the surprise rate hike by the RBA in May and a mildly disappointing Budget. All components of the index declined, with perceptions regarding family finances and economic expectations taking a sharper plunge. The gauge for 'finances compared to a year ago' dropped by 10%, while the 'finances, next 12 months' sub-index fell by 10.2%. The 'economy, next 12 months' sub-index also witnessed a significant decrease falling 9.5%.

Australia Annual Change in Hourly Rates of Pay



Source: Tradingeconomics.com, Westpac. Accessed 07/06/2023

Retail Trade

Retail sales in Australia were unchanged at $35.3B in April, below the 0.4% rise in March and below expectations of 0.2% rise. In April, an increase in spending on winter clothing in response to cooler and wetter weather offset less expenditure on discretionary goods in response to cost-of-living pressures and rising interest rates. Sales fell for food retailing (-0.1% vs +0.9%), and in cafes, restaurants, and takeaway food (-0.2% vs 1.5%), while sales grew for clothing & footwear (+1.9% vs -0.7%), and department stores (+1.5% vs -0.3%).

United States

In a reversal of March's figures, job vacancies in the U.S. unexpectedly increased by 358,000, well above expectations. The annual inflation rate in the U.S. fell to 4.9% in April 2023, the lowest since April 2021, and below market forecasts of 5%.

Growth / Economic Activity

The Conference Board Leading Economic Index (LEI) for the U.S. declined 0.6% in April 2023 to 107.5 (2016=100), following a decline of 1.2% in March. The LEI is down 4.4% over the six-month period between October 2022 and April 2023, which is a steeper rate of decline than its 3.8% contraction over the previous six months (April–October 2022).

The LEI for the U.S. declined for the thirteenth consecutive month in April, signalling a worsening economic outlook. Importantly, the LEI continues to warn of an economic downturn this year. The Conference Board forecasts a contraction of economic activity starting in Q2 leading to a mild recession by mid-2023.

Labour Market

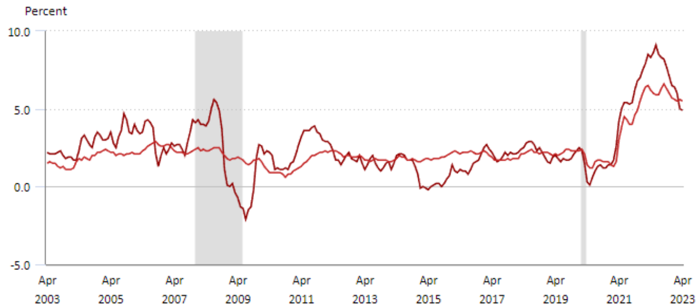
The number of job vacancies in the United States unexpectedly increased by 358,000 to reach 10.1 million in April 2023, surpassing market expectations of 9.375 million. This latest figure represented a rebound from the previous month's near two-year low of 9.745 million and indicated a persistently tight labour market, which could potentially pave the way for additional interest rate hikes by the Federal Reserve. Notably, openings saw significant increases in several industries, including retail trade (209,000); health care and social assistance (185,000); and transportation, warehousing, and utilities (154,000). In terms of regional distribution, job openings rose in the West (236,000), the Midwest (137,000), and the South (20,000), but declined in the Northeast (-34,000).

The unemployment rate in the U.S. increased to 3.7% in May 2023, the highest since October 2022 and above market expectations of 3.5%. Despite this uptick, the jobless rate remained historically low and suggested the labour market remained tight. The number of unemployed people increased by 440,000 to 6.10 million and employment levels declined by 310,000 to 160.72 million.

Inflation

According to Trading Economics, the annual inflation rate in the U.S. fell to 4.9% in April 2023, the lowest since April 2021, and below market forecasts of 5%. Food prices grew at a slower rate (7.7% vs 8.5% in March), while energy costs fell further (-5.1% vs -6.4%) including gasoline (-12.2%) and fuel oil (-20.2%). Also, shelter cost which accounts for over 30% of the total CPI basket, slowed for the first time in two years (8.1% vs 8.2%) and prices for used cars and trucks declined once again (-6.6% vs -11.6%). Compared to the previous month, the CPI rose 0.4%, much higher than 0.1% in March, but matching market expectations. The shelter was the largest contributor to the monthly all-items increase, followed by used cars and trucks and gasoline.

Headline and Core Inflation



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

Interest Rates / Fed Policy

According to Fed Governor and vice chair nominee Philip Jefferson, "Skipping a rate hike at a coming meeting would allow the (Federal Open Market) Committee to see more data before making decisions about the extent of additional policy firming."

Since the Fed's last meeting and with inflation showing little recent improvement towards the Fed's 2% target, markets have been on a seesaw trying to determine if the Fed is going to raise its policy rate in June or not. After Jefferson spoke, investors reset expectations yet again, with prices of futures tied to the Fed's policy rate reflecting a less than one-in-three chance of a June rate hike compared with about a two-in-three probability before his remarks.

It should also be noted that Jefferson also said any hold in rates should not be viewed as the end of the tightening cycle, indicating future rises were quite possible.

China

China reported a record-breaking youth jobless rate (16- to 24-year-olds) and almost zero growth in consumer prices. The Composite Purchasing Manager Index (PMI) declined, and the Manufacturing PMI reported a second month of contraction. China's recovery post zero-COVID remains weak, providing room for stimulus.

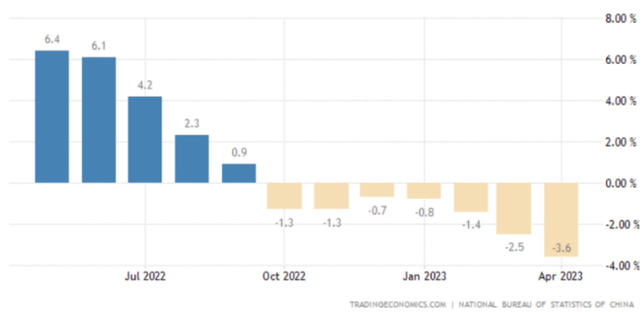
Employment

China's surveyed urban unemployment rate declined to a 16-month low of 5.2% in April from 5.3% in March. The unemployment rate of the population aged 25-59 decreased to 4.2% in April from 4.3% in March, while those aged 16-24 climbed to 20.4% from 19.6%. For 2023, the government has targeted a jobless rate of around 5.5%, with the creation of about 12 million new urban jobs.

Inflation

China's annual inflation rate fell to +0.1% in April from 0.7% in March coming in below market estimates of 0.4%. Food inflation dropped to a 13-month low (0.4% vs 2.4% in March), due to a notable slowdown in prices of pork and a steeper drop in the cost of fresh vegetables. Also, non-food prices continued to ease (0.1% vs 0.3%), owing to further falls in prices of transport (-3.3% vs -1.9%) and housing (-0.3% vs -0.2%). Core consumer prices went up 0.7% YoY, the same pace as in March. On a monthly basis, consumer prices unexpectedly dropped -0.1%, the third straight month of declines, below estimates of a flat reading.

China's Annual Producer Price Change



Source: Tradingeconomics.com, National Bureau of Statistics of China, 07/06/2023

China's producer prices plunged -3.6% YoY in April, faster than the -2.5% drop in March and worse than market forecasts of a -3.2% fall. It was the seventh straight month of producer deflation and the steepest fall since May 2020. Production materials worsened (-4.7% vs -3.4%), due to a faster fall in processing prices (-3.6% vs -2.8%), raw materials (-6.3% vs -4.2%), and extractions (-8.5% vs -4.7%). Consumer goods inflation moderated (0.4% vs 0.9%), while the cost of durable goods shrank by -0.6% (vs -0.2%). On a monthly basis, producer prices were down -0.5%, after showing no growth in March.

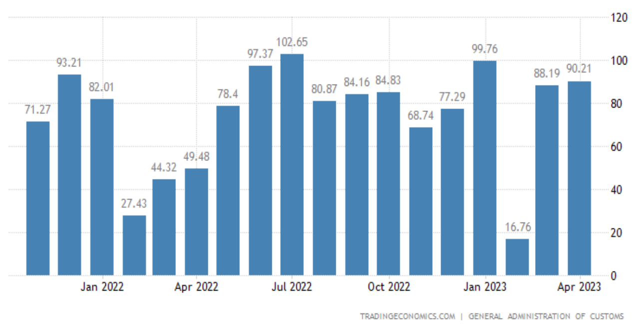
Growth

The NBS Composite PMI Output Index declined to 52.9 in April from 54.4 in the previous month. Factory activity contracted at a steeper pace due to weak global and domestic demand and persistent property weakness. At the same time, the service sector expanded for the fifth successive month, albeit at a slower rate. "China's economic prosperity has receded and the foundation for recovery and development still needs to be consolidated", said NBS senior statistician Zhao Qinghe. Premier Li Qiang recently said that more targeted measures were needed to spur demand across the mainland. In April, China reported a record-breaking youth jobless rate and almost zero growth in consumer prices. Foreign direct investment also fell by 3.3% YoY in the January-April period, while industrial profits dropped by 20.6% during the period.

Trade

China's trade surplus surged to US$90.2B in April from US$49.5B in the same period a year earlier, and easily beat market forecasts of US$71.6B. Exports rose by +8.5% YoY, the second straight month of increase, and above market consensus of an 8% growth, while imports unexpectedly fell by -7.9% amid poor domestic demand and lower commodity prices. Meanwhile, the politically sensitive trade surplus with the United States widened to USD 29.7B in April from USD 27.6B in March.

China's Balance of Trade Surplus



Source: Tradingeconomics.com, General Administration of Customs, China, 07/06/2023

Europe

Unemployment is at a record low of 6.5%. Inflation fell to 6.1% in May, which was below market expectations. GDP grew by 0.3% in the European Union and by 0.1% in the Euro Area in the first quarter of 2023.

Growth / Economic Activity

According to the European Commission, the European economy continues to show resilience in a challenging global context. Lower energy prices, abating supply constraints and a strong labour market supported moderate growth in the first quarter of 2023, dispelling fears of a recession. This better-than-expected start to the year lifts the growth outlook for the European Union economy to 1.0% in 2023 (0.8% in the Winter interim Forecast) and 1.7% in 2024 (1.6% in the winter). Upward revisions for the Euro Area are of a similar magnitude, with GDP growth now expected at 1.1% and 1.6% in 2023 and 2024 respectively.

According to Eurostat's preliminary flash estimate, GDP grew by 0.3% in the EU and by 0.1% in the EA in the first quarter of 2023. Leading indicators suggest continued growth in the second quarter.

The European economy has managed to contain the adverse impact of Russia's war against Ukraine, weathering the energy crisis thanks to a rapid diversification of supply and a sizeable fall in gas consumption. Markedly lower energy prices are working their way through the economy, reducing firms' production costs. Consumers are also seeing their energy bills fall, although private consumption is set to remain subdued, as wage growth lags inflation.

Inflation

The consumer price inflation rate in the Euro Area fell to 6.1% in May 2023, down from 7.0% in the previous month and below market expectations of 6.3%, a preliminary estimate showed. The rate hit its lowest level since February 2022, though it remained significantly higher than the European Central Bank's target of 2.0%. The decrease in inflation was primarily driven by a 1.7% decline in energy prices, following a 2.4% increase in April. Additionally, there was a slowdown in cost pressures for food, alcohol, and tobacco (12.5% vs 13.5%), non-energy industrial goods (5.8% vs 6.2%), and services (5.0% vs 5.2%). Furthermore, the core inflation rate, which excludes energy, food, alcohol, and tobacco, also eased more than anticipated, coming in at 5.3%.

Labour Market

According to Eurostat, the seasonally adjusted unemployment rate in the Euro Area edged down to 6.5% in April 2023, the lowest rate on record and coming in line with market expectations. The latest figure represented a drop from last year's rate of 6.7% and pointed to a tight labour market. The number of unemployed declined by 33,000 from a month earlier to 11.088 million, the lowest level since comparable records began in 1995. The youth unemployment rate, measuring jobseekers under 25 years old, edged down to 13.9% in April from 14% in March. Amongst the largest Euro Area economies, the lowest jobless rate was recorded in Germany (2.9%), while the highest rates were registered in Spain (12.7%), Italy (7.8%) and France (7%).

Policy

The European Central Bank raised its key interest rates by 0.25% during its May meeting, signalling a slowing pace of policy tightening. Nevertheless, borrowing costs have now reached their highest level since July 2008, following seven consecutive rate increases as the ECB strives to combat high inflation despite ongoing recession risks.

The central bank also announced plans to discontinue the reinvestment of cash from maturing bonds purchased under the €3.2 trillion APP from July.

The interest rate on the main refinancing operations, as well as the interest rates on the marginal lending facility and the deposit facility, increased to 3.75%, 4.00%, and 3.25%, respectively. Meanwhile, President Lagarde told a news conference that the ECB had more ground to cover, and it was not pausing the rate-lifting cycle anytime soon.

In a recent speech, Ms Christine Lagarde, President of the European Central Bank, at the hearing of the Committee on Economic and Monetary Affairs of the European Parliament said, “Our future decisions will ensure that the policy rates will be brought to levels sufficiently restrictive to achieve a timely return of inflation to our 2% medium-term target and will be kept at those levels for as long as necessary. We will continue to follow a data-dependent approach to determining the appropriate level and duration of restriction.”

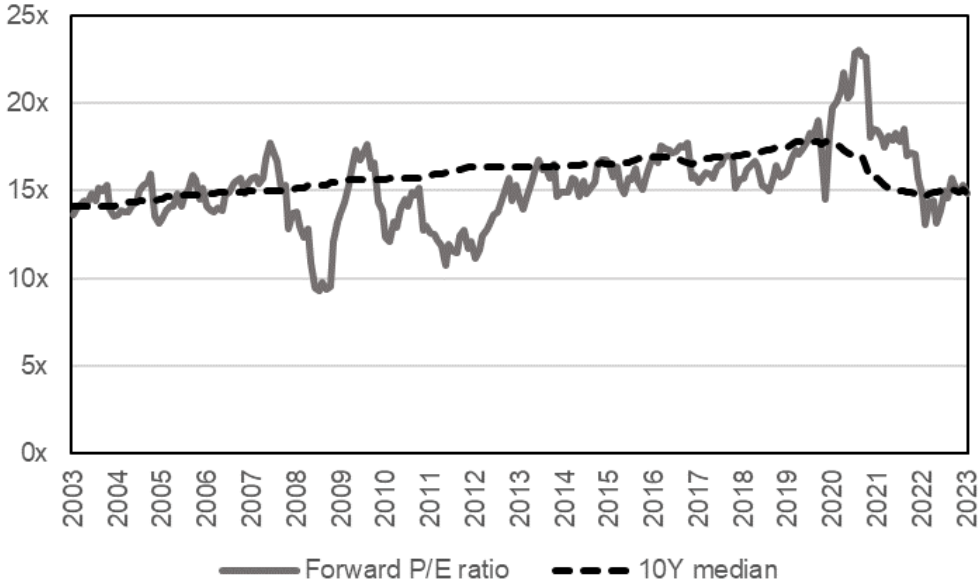
Economic Scorecard – As of 14 June 2023

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)	0.3% (Below trend)	Moderating	Recession / Below trend	0.2% (Below trend)	Moderating	Recession / Below trend	-0.1% (Below trend)	Weakening	Recession / Below trend	2.2% (Above trend)	Rebounding (Zero COVID)	At trend
Inflation (Headline CPI)	4.0% (Above target)	Falling	Lower, but still above target	7.0% (Significantly Above target)	Moderating	Lower, but still above target	6.1% (Significantly above target)	Moderating	Lower, but still above target	0.2% (Below target)	Returning to trend	At target / possibly still below target
Interest Rates (official cash rate or equivalent)	5.00%-5.25%	Flat	5.25% (Stable / decreasing)	4.10%	Increasing, but at a slower rate	4.60% (Stable)	0.0375	Increasing	4.25% (Stable)	3.65%	Marginal decrease	3.45% (Stable)
		AUD/USD										
	Current	**Direction**	**1 year forward**									
Currencies (relative PPP basis)	0.677 (PPP 0.692) 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 (May-13 to May-23)



Sources: FactSet, MSCI, S&P (May 2023)

Australian Shares based on the S&P/ASX 200 Index.

Performance as of 31 May 2023

					Annualised						
		1-mth	3-mth	6-mth	1-yr	3-yr	5-yr	7-yr	10-yr	15-yr	20-yr
Shares	Australia	-2.5%	-0.9%	-0.6%	2.9%	11.4%	7.5%	8.3%	8.1%	6.0%	8.9%
	Australia - mid cap	0.0%	0.9%	-1.3%	4.7%	14.7%	9.0%	10.4%	11.9%	7.1%	10.4%
	Australia - small cap	-3.3%	-1.3%	-2.5%	-5.8%	4.5%	2.5%	5.6%	6.0%	1.7%	6.4%
	Australia - micro cap	-6.3%	-5.1%	-6.1%	-14.8%	16.1%	7.7%	8.9%	8.6%	2.2%	-
	World ex Australia	1.2%	8.4%	7.7%	13.4%	11.9%	11.3%	11.4%	13.1%	9.0%	8.2%
	World ex Australia (Hedged)	-0.2%	4.0%	3.0%	1.5%	10.3%	7.2%	9.4%	9.7%	7.8%	9.4%
	World - small cap	-0.7%	-1.4%	1.2%	6.0%	10.1%	6.4%	8.6%	11.4%	9.2%	9.2%
	Emerging Markets	0.4%	4.4%	3.1%	1.4%	4.4%	2.5%	6.7%	6.0%	3.5%	8.3%
Property & Infrastructure	A-REITS	-1.8%	-3.6%	-0.3%	-3.0%	7.6%	3.9%	3.8%	7.6%	4.3%	5.1%
	Global REITs	-2.5%	-1.9%	-1.3%	-6.2%	4.1%	2.8%	2.5%	6.4%	-	-
	Global REITs (hedged)	-3.8%	-5.7%	-5.6%	-15.7%	2.9%	-0.7%	0.8%	3.5%	3.2%	-
	Global infrastructure	-3.1%	4.0%	-1.4%	0.5%	5.8%	8.3%	7.5%	10.2%	-	-
	Global infrastructure (Hedged)	-4.7%	-0.5%	-5.8%	-9.5%	4.0%	4.6%	5.6%	7.2%	7.5%	-
Fixed income	Australia Total Market	-1.2%	2.1%	1.4%	1.7%	-2.8%	1.0%	1.3%	2.5%	4.4%	4.3%
	Australia government bonds	-1.3%	2.2%	1.2%	1.5%	-3.2%	0.9%	1.2%	2.4%	4.3%	4.3%
	Australia corporate bonds	-0.5%	1.8%	2.7%	3.1%	-0.6%	1.9%	2.3%	3.2%	5.0%	4.9%
	Australia floating rate bonds	0.3%	1.1%	2.3%	3.7%	1.6%	1.9%	2.2%	2.6%	3.6%	-
	Global Total Market (Hedged)	-0.5%	2.0%	0.9%	-2.6%	-3.4%	0.2%	0.8%	2.4%	4.6%	5.0%
	Global government bonds (Hedged)	-0.4%	2.2%	0.7%	-2.5%	-3.7%	0.2%	0.6%	2.5%	4.5%	-
	Global corporate bonds (Hedged)	-1.1%	1.6%	1.3%	-3.1%	-3.2%	0.5%	1.3%	2.7%	5.2%	-
	Global high yield bonds (Hedged)	-0.6%	0.0%	1.8%	-1.9%	0.7%	0.7%	2.7%	3.7%	6.9%	7.9%
Cash	Bloomberg AusBond Bank Bill Index	0.3%	0.9%	1.7%	2.6%	0.9%	1.1%	1.3%	1.7%	2.6%	3.5%

Sources: FactSet, Lonsec

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
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
Cash (AUD)	Bloomberg AusBond Bank Bill Index