Quarterly Economic Wrap

June 2023

Summary

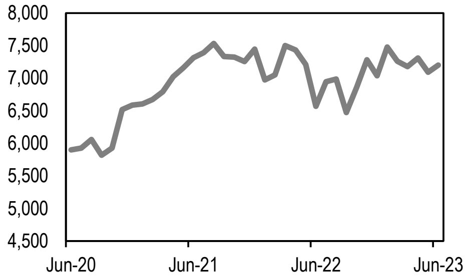
Economic

- Global GDP growth in 2023 is projected to be 2.7% according to the OECD, the lowest annual rate since the global financial crisis, with the exception of the 2020 pandemic period. A modest improvement to 2.9% is forecast for 2024.
- Annual OECD GDP growth is projected to be below trend in both 2023 and 2024, although it is expected to gradually pick up through 2024, as inflation moderates, and real incomes strengthen.
- A combination of high inflation and modest wage increases led to falling real wages in 2022. Many governments rolled out extensive support to cushion the effects of high energy and food prices on households. Over the course of 2023, real wages are projected to stop declining in most OECD countries.

Markets

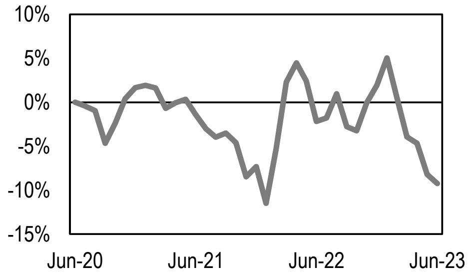
- Share market performance was positive for the June quarter. The S&P 500 posted a solid return of 8.30%, while the Australian S&P 200 rose by a lacklustre 0.36% on a price basis.
- Global shares ex-Australia produced a great return of 7.6% on an unhedged basis and 7.1% on a hedged basis.
- In Australia, Equal Weight and Growth were the best performing styles for the quarter. Globally, Growth and Quality were standout performers from a style perspective, driven primarily by I.T. stocks that focus on Artificial Intelligence.
- Within Fixed income markets, both Australian government bonds and credit lost ground this quarter. The main Australian fixed interest index, the Bloomberg AusBond Composite 0+ Years Index was down 2.9%, while the Bloomberg AusBond Credit 0+ Years Index fell 1.1%.
- Global High Yield bonds, as measured by the Bloomberg Barclays Global High Yield Total Return Index Hedged into AUD gained 1.6% for the quarter.

1. S&P/ASX 200 Price Index



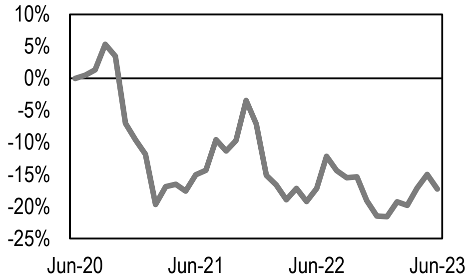
Source: FactSet, Insignia Financial

2. ASX200 vs All-World, US$ terms



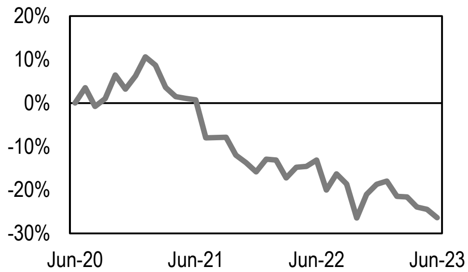
Source: FactSet, Insignia Financial

3. Australia – Growth vs Value stocks



Source: FactSet, Insignia Financial

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



Source: FactSet, Insignia Financial

Sector and stock returns – June 2023

ASX/S&P 200 Sectors (GICS)				
	Monthly	**% Δ**	**Quarterly**	**% Δ**
▲	Consumer Discretionary	1.81	Consumer Discretionary	-1.87
▲	Consumer Staples	2.87	Consumer Staples	-0.13
▲	Energy	1.85	Energy	3.56
▲	Financials ex Property	1.78	Financials ex Property	0.27
▲	Financials	3.14	Financials	1.46
▼	Health Care	-6.64	Health Care	-3.18
▼	Industrials	-0.56	Industrials	3.05
▲	IT	3.50	IT	21.03
▲	Materials	4.75	Materials	-2.57
▼	Property Trusts	-1.64	Property Trusts	1.76
▼	Telecommunications	-0.99	Telecommunications	1.40
▲	Utilities	1.81	Utilities	4.35

Source: FactSet, Insignia Financial

Best and Worst S&P/ASX 200 Performers			
Top five stocks		**Bottom five stocks**	
Monthly			
Paladin Energy Ltd	+33.9	Lake Resources N.L.	-43.4
Magellan Financial Group Ltd	+20.3	Bega Cheese Limited	-20.8
Whitehaven Coal Limited	+18.6	BrainChip Holdings Ltd.	-19.8
Collins Foods Limited	+17.0	Imugene Ltd	-17.3
AUB Group Limited	+16.3	Johns Lyng Group Ltd	-16.2
Quarterly			
Megaport Ltd.	+75.2	Syrah Resources Limited	-50.7
Telix Pharmaceuticals Ltd.	+62.6	Lake Resources N.L.	-32.6
Life360, Inc. Shs CDIs	+53.8	Perseus Mining Limited	-30.7
HMC Capital Limited	+40.9	Imugene Ltd	-30.0
Allkem Limited	+34.8	Elders Limited	-23.8

Source: FactSet, Insignia Financial

Share Markets, Returns

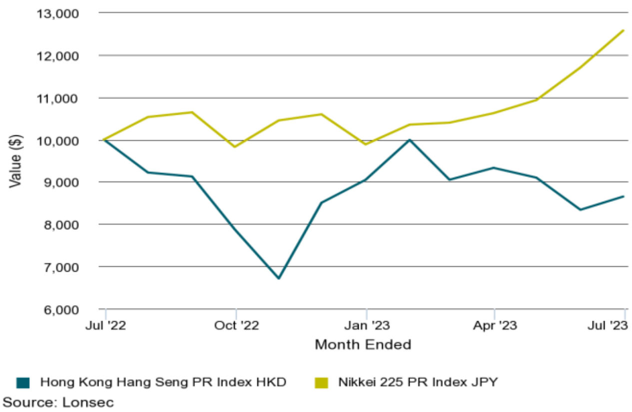
Australian Indices		30 Jun 2023 Price	1M return (%)	31 Mar 2023 Price	3M return (%)
▲	S&P/ASX 200	7203	1.58	7178	0.36
▲	All Ordinaries	7402	1.76	7373	0.38
▼	Small Ordinaries	2794	-0.25	2823	-1.02
US Indices					
▲	S&P 500	4450	6.47	4109	8.30
▲	Dow Jones	34408	4.56	33274	3.41
▲	Nasdaq	13788	6.59	12222	12.81
Asia Pacific Indices					
▲	Hang Seng	18916	3.74	20400	-7.27
▲	Nikkei 225	33189	7.45	28041	18.36
UK & Europe Indices					
▲	FTSE 100	7532	1.15	7632	-1.31
▲	CAC40	1330	3.12	1290	3.17
▲	DAX Index	16148	3.09	15629	3.32

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

The Asian indices provide an example of the different outcomes from global markets. China's weak economic data and lack of stimulus measures have weighed on the Hong Kong market recovery, especially since January (5mths to June: -13.40%). While Japan's Nikkei has been outstanding, delivering +21.45% over the same period. A mix of solid economic data, a weak currency, and retaining their ultra-low interest rates have provided a tailwind for Japanese equities. Even Warren Buffett has made positive comments, with Berkshire Hathaway adding to its Japanese holdings.

Hang Seng vs Nikkei 225: 1 Year to 30 June 2023



Source: irate.lonsec.com.au/quant. Accessed 13/07/2023

Returns to 30 June 2023	1-mth	3-mth	6-mth	1-yr
MSCI World Index	5.7%	7.3%	15.5%	18.9%
Value	5.7%	3.6%	4.5%	11.4%
Value-Weighted	5.9%	5.9%	11.0%	16.7%
Momentum	6.0%	4.9%	3.5%	10.3%
Growth	5.8%	10.8%	27.3%	26.2%
Quality	5.3%	9.9%	21.4%	23.9%
Low volatility	3.0%	2.5%	4.7%	7.4%
Equal weight	5.1%	4.3%	10.4%	14.6%
Small caps	6.0%	4.2%	8.6%	13.7%

Source: FactSet, Insignia Financial, MSCI

Global equity markets were buoyed by the Federal Reserve's decision to pause their rate hiking cycle and take time to observe the influences of the increases they have already made. Artificial Intelligence (AI) continued to make headlines and provide an improved the outlook for the future. All sub-styles of the MSCI World Indices were positive. Interestingly, Growth, Value, and Momentum all did well after Growth led the way over the past 6 months.

Australian equity markets

The Australian market, as measured by the S&P/ASX 200 Index rose 1.6% for June, while the slightly larger market cap MSCI index was slightly stronger (2.2%).

Returns to 30 June 2023	1-mth	3-mth	6-mth	1-yr
MSCI Australian Index	2.2%	0.9%	5.1%	15.0%
Value	3.7%	-0.3%	3.3%	17.5%
Value-Weighted	3.2%	0.7%	4.3%	16.4%
Momentum	3.9%	2.3%	4.3%	14.3%
Growth	0.8%	2.4%	7.1%	12.7%
Quality	2.2%	-0.1%	8.9%	18.6%
Low volatility	1.8%	1.4%	7.7%	13.5%
Equal weight	1.7%	2.9%	10.2%	17.8%
Small caps	0.3%	1.7%	1.6%	12.7%

Source: FactSet, Insignia Financial, MSCI

The Australian stock exchange lacks the size of exposure to the Information Technology & AI sectors when compared to the international index, and as a result, the Growth sub-category lagged the broader market.

Value benefited from Banks, as investor sentiment was supported by valuation and the continued low levels of distressed loans. Momentum benefited from the continued positive sentiment towards the market generally. Investors believe we are very close to peak interest rates and the continued strength of the developed world labour markets continue to underpin expectations of robust corporate earnings.

Fixed Income

	Fixed Income	30 Jun 2023 Yield	1M mvt (bps)	31 Mar 2023 Yield	3M mvt (bps)
▲	Australian Cash rate	4.10	0.25	3.60	0.50
▲	10-year Bond Yield	4.02	0.42	3.30	0.72
▲	3-year Bond Yield	4.05	0.67	2.91	1.13
▲	90 Day Bank Accepted Bills SFE-Day	4.80	0.57	3.76	1.04
▲	US 10-year Bond Yield	3.81	0.18	3.49	0.32
▲	US 3-year Bond Yield	4.49	0.44	3.83	0.66
▼	US Investment Grade spread	1.51	-0.20	1.74	-0.23
▼	US High Yield spread	3.90	-0.69	4.55	-0.65

Source: FactSet, Insignia Financial

Australian bond market

May and June were a poor month for bonds. The main Australian Fixed Interest index, the Bloomberg AusBond Composite 0+ Years Index fell by 2.9% for the quarter. Australian yields rose dramatically over the quarter, with the short end (3-year) of the curve rising by 113 basis points. At the long end of the curve, the 10-year yield rose by 72 basis points. Both of these moves are considered unusually large by historic standards.

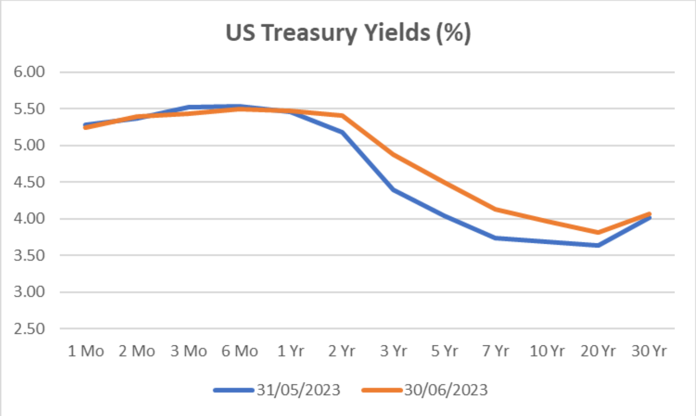
Australian corporate bonds also lost ground over the quarter, with the Bloomberg AusBond Credit 0+ Years Index losing 1.1%.

The yield to maturity for the Bloomberg AusBond Composite 0+ Years Index at the end of June was around 4.3%, with the index having around 5.2 years duration.

Global bond markets

Over the month of June, U.S. Government bond yields rose for maturities of 2 years or greater. As can be seen in the following chart, the U.S. yield curve rose fairly significantly from around the 2-year point to the 20-year point. Treasury yields rose to three-month highs right near the quarter's end on 29 June, after U.S. data solidified the picture of an economy and job market defying predictions of recession a day after the U.S. central bank Chair Jerome Powell reiterated that there is little room yet to let up on monetary tightening.

Note that the 2-year / 10-year part of the curve ended June (-143 bps) slightly less inverted than was the case at the end of May (-149bps), but is still clearly indicating that a recession is expected in the near term.



Source: U.S. Department of the Treasury, accessed 05/07/2023

Corporate balance sheets remained relatively strong, despite some uptick in default rates. Global high yield outperformed global investment grade as immediate recessionary concerns were pared back. This meant that in the U.S., credit spreads tightened during the June quarter, with Investment Grade credit spreads falling by 23 basis points, while High Yield spreads fell by 65 basis points. This resulted in a positive quarter for credit, with global High Yield bonds, as measured by the Bloomberg Barclays Global High Yield Total Return Index Hedged into AUD gaining 1.6% for the quarter. Note the U.S. makes up the large majority of the high yield market globally. U.S. growth surprised to the upside, with a 'soft landing' scenario now being the market consensus.

The ECB continued to hike interest rates and announced in May that they expected to end reinvestments under their Asset Purchase Programme from July 2023.

During the quarter, Germany's 10-year yield increased from 2.31% to 2.39%, while European High Yield outperformed Investment Grade. The story was the same out of the U.K., with High Yield outperforming Investment Grade.

Currencies

	Currency	30 Jun 2023 Price	1M return (%)	31 Mar 2023 Price	3M return (%)
▲	$A vs $US	0.67	2.52	0.67	-0.40
▲	$A vs GBP	0.53	0.85	0.54	-2.81
▲	$A vs YEN	96.16	6.18	88.83	8.25
▲	$A vs EUR	0.61	0.29	0.62	-1.11
▲	$A vs $NZ	1.09	0.52	1.07	1.56
▼	$US vs EUR	0.92	-2.16	0.92	-0.70
▲	$US vs CNY	7.25	2.00	6.87	5.60
▼	$US vs GBP	0.79	-1.63	0.81	-2.41
▲	$US vs JPY	144.32	3.55	132.78	8.69
▼	$US vs CHF	0.90	-1.78	0.92	-2.24
▼	US Dollar Index	102.91	-1.36	102.51	0.40

Source: Bloomberg, Insignia Financial

U.S. dollar strengthened slightly over the quarter. The chart below shows the U.S. Dollar Index relative it its trading partners (DXY Index) for the June quarter.

With the Federal Reserve raising rates in early May, and noting at the time that additional policy firming would likely be required to return inflation back to 2%, the U.S. dollar strengthened.

With the exception of the Bank of Japan, all major central banks kept raising interest rates over the quarter. However, the Fed was the first to pause in June, leaving rates at 5% to 5.25% after more than a year of consecutive rate increases. This led to a slight weakening in the U.S. dollar in June.

Looking at other currencies, the AUD rose significantly against the JPY, as did the USD, likely driven by increasing interest rate differentials.

DXY 31 March 2023 – 30 June 2023

Source: Tradingview.com, accessed 12/07/2023

Commodities

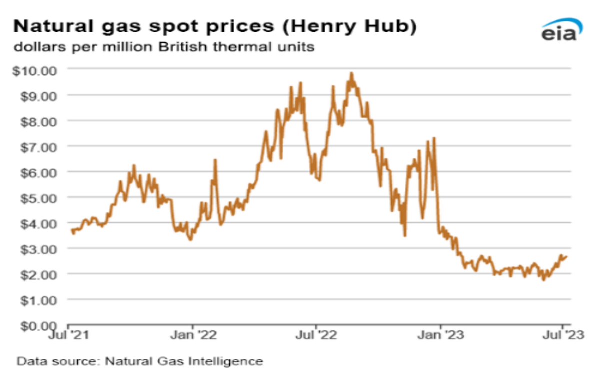
	Commodity	30 Jun 2023 Price	1M return (%)	31 Mar 2023 Price	3M return (%)
▼	Aluminium	2097	-7.03	2337	-10.27
▲	Copper	8210	2.41	8935	-8.11
▼	Nickel	20125	-1.59	23100	-12.88
▲	Zinc	2363	6.06	2907	-18.70
▲	Crude Oil - Brent	74.90	4.06	79.19	-5.42
▲	Natural Gas	2.80	23.48	2.22	26.26
▲	Metallurgical Coal	159	11.13	177	-10.16
▼	Thermal Coal	160	-17.40	207	-22.65
▲	Iron Ore	112.57	7.14	127.06	-11.40
▼	Gold	1919	-2.21	1970	-2.56
▼	Silver	23	-3.15	24	-5.56

Source: Bloomberg, Insignia Financial

This month, commodities performance was mixed, as the market digested the conflicting influences of expected Chinese stimulus and the level of current Chinese economic weakness. The U.S. provided some relief, as the debt ceiling was finalised, but then also provided some concerns as the market is now factoring in higher U.S. peak interest rates.

Natural Gas is the standout for June; however, a longer view helps explain the short-term move (+23%). This year (2023) has been warmer than average in the northern hemisphere and Natural Gas consumption declined to five-year lows. The corresponding sharp price declines can be seen in the chart below. In Q2 of 2023, consumption was up approximately 1.6 billion cubic feet per day (bcf/d) compared to the same period in 2022, supporting short-term prices, despite the consumption being offset by increases in production.

Natural Gas Prices June 2021 – June 2023



Source: US Energy Information Administration (eia.gov). Accessed 13/07/2023

Australia

Interest rates were kept at 4.1% at the July meeting, as the RBA monitors the impacts of the 4% of accumulative increases since May last year. While peak inflation may be behind us, it still remains uncomfortably high. Economic data remains mixed, the labour market continues to remain tight (unemployment at 3.6%), and GDP continues to expand, but at a slower rate (0.2% in Q1 2023).

Monetary Policy

The Reserve Bank of Australia maintained its cash rate at 4.1% during its July meeting, after raising it by 0.25% in June, with a total of 4% since May 2022. The board said it needed more time to assess the impact of past hikes, adding that inflation in the country has passed its peak. That said, inflation in Australia was still too high, at 7.0% in Q1 2023, and would remain so for some time yet. The RBA indicated that some further monetary tightening may be required to ensure inflation returns to the target range in a reasonable timeframe, but it will depend upon how the economy and prices evolve.

Inflation

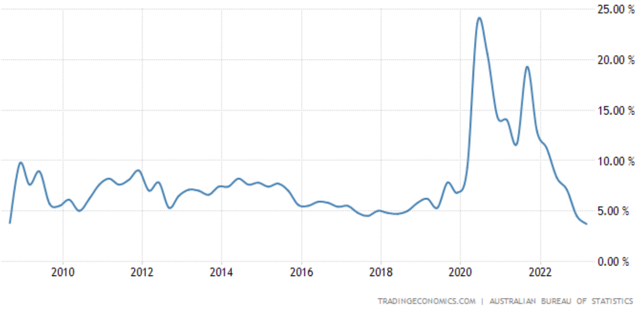
The monthly Consumer Price Index (CPI) indicator in Australia advanced 5.6% in the year to May, slowing from a 6.8% rise in the year to April, and below consensus of 6.1%. The slower rate was mainly due to a softer pace of growth in transport prices (0.8% vs 7.1% in April), as automotive fuel prices fell (-8.0% vs +9.5%). Housing inflation eased slightly (8.4% vs 8.9%) due to new dwellings (8.3% vs 9.2%). Recreation & culture (3.5% vs 6.4%) benefited from holiday travel & accommodation easing (7.3% vs 11.9%). Food & non-alcoholic beverages were steady (7.9%). The monthly CPI indicator, excluding volatile fruit and vegetable items and fuel, declined to 6.4% in May (vs 6.5%).

The monthly CPI Indicator was first released in September 2022 to provide monthly insights; however, it only represents up-to-date prices for between 62% and 73% of the weight of the CPI basket (depending on the month). The annual changes in the traditional quarterly data also haven't aligned to the annual change in the CPI Indicator, e.g. Annual CPI to March using quarterly data was 7.0%, but was 6.3% using the indicator. December 2022 also did not align (Quarterly: 7.8% p.a. vs Indicator: 8.4% p.a.). This discrepancy combined with the newness of the CPI Indicator reduces some of the benefit if the intra-quarter insights.

Growth GDP

The Australian economy expanded 0.2% QoQ in Q1 2023, below market forecasts of a 0.3% increase, and 0.6% rise in Q4 2022. This was the sixth consecutive period of economic growth, but the softest pace in the sequence. Household consumption rose the least in six quarters (0.2% vs 0.3% in Q4) due to persistent cost pressures and elevated interest rates. The household savings ratio fell to 3.7% from the previous 4.5% and is now the lowest level since Q2 2008. Government spending growth slowed sharply (0.1% vs 0.6%) and the change in net trade detracted as exports (1.1%) increased less than imports (3.2%). Private investment rebounded (+1.4% vs -0.9%), supported by machinery and equipment, while public investment rebounded even more strongly (+3.0% vs -1.2%), due to rises in state and local government investment. For the year, the economy grew by 2.3%, down from 2.7% in Q4.

Household Saving Ratio: Q1 2008 – Q1 2023

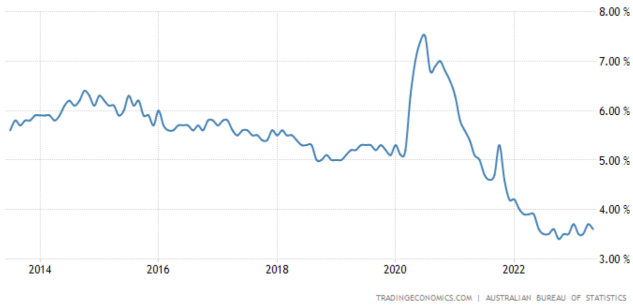


Source: Tradingeconomics.com, ABS. Accessed 06/07/2023

Labour Market

Australia's seasonally adjusted unemployment rate declined to 3.6% in May 2023, below expectations and April's figure of 3.7%. The number of unemployed individuals fell by 16,500 to 515,900. Employment climbed by 75,900 to 14.01 million easily surpassing market forecasts of a 15,000 gain. The participation rate reached 66.9%, exceeding the market consensus of 66.7%.

Unemployment: 10 Years to May 2023



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

United States

The Federal Reserve Chair Jerome Powell has indicated that at least two interest-rate increases are still likely necessary this year. The annual inflation rate in the U.S. fell to 4.0% in May 2023, the lowest since March 2021, and slightly below market forecasts of 4.1%.

Growth / Economic Activity

The Conference Board Leading Economic Index (LEI) for the U.S. declined by 0.7% in May 2023 to 106.7 (2016=100), following a decline of 0.6% in April. The LEI is down 4.3% over the six-month period between November 2022 and May 2023, a steeper rate of decline than its 3.8% contraction over the previous six months from May to November 2022.

The Conference Board stated that the U.S. Leading Economic Index has declined in each of the last fourteen months and continues to point to weaker economic activity ahead. Rising interest rates paired with persistent inflation will continue to further dampen economic activity. The Conference Board has revised their Q2 GDP forecast from negative to slight growth, but projects that the U.S. economy will contract over the Q3 2023 to Q1 2024 period.

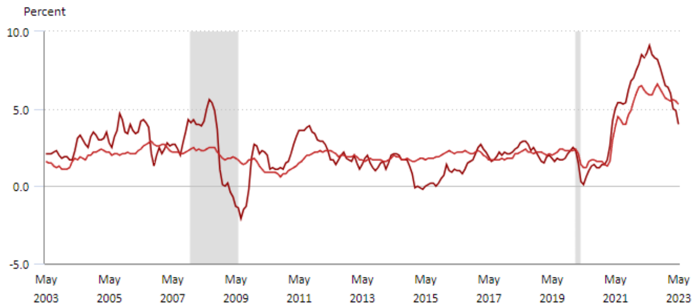
Labour Market

The number of job vacancies in the United States fell by 496,000 from the previous month to 9.824 million in May 2023, slightly below market expectations of 9.935 million. While easing below the 10 million threshold, the openings remained sharply above levels prior to the pandemic, backing evidence of a tight labour market and adding leeway for the Federal Reserve to extend its fight against inflation and continue raising interest rates. The biggest declines were noted in health care and social assistance (-285,000), finance and insurance (-139,000), and other services (-78,000). On the other hand, job openings increased in educational services (+45,000), state and local government education (+37,000), and in the federal government (+24,000). Openings were lower across all regions, namely in the West (-173,000), the Northeast (-156,000), the Midwest (-109,000), and the South (-57,000).

Inflation

According to Trading Economics, the consumer price inflation in the United States declined to 4.0% in May 2023, the lowest since March 2021 and slightly below market expectations of 4.1%, driven by a decline in energy prices. In addition, the core rate, which excludes volatile items such as food and energy, has slowed to 5.3%, the lowest since November 2021, supporting the argument for the Federal Reserve to consider pausing its current cycle of monetary tightening. Energy cost slumped 11.7% (vs -5.1% in April), while food inflation slowed to 6.7% (vs 7.7% in April). There were also smaller price increases for new vehicles (4.7% vs 5.4%), apparel (3.5% vs 3.6%), shelter (8.0% vs 8.1%), and transportation services (10.2% vs 11.0%). The cost of medical services was down 0.1% (vs 0.4% in April). On a monthly basis, consumer prices edged up 0.1% in May, after increasing 0.4% in April.

Headline and Core Inflation



Source: U.S. Bureau of Labor Statistics, accessed 05/07/2023

Interest Rates / Fed Policy

Federal Reserve Chair Jerome Powell has indicated that at least two interest-rate increases are likely necessary this year to bring the inflation rate down to the U.S. central bank's 2% target and that acting at consecutive policy meetings isn't "off the table.".

"A strong majority of committee participants expect that it will be appropriate to raise interest rates two or more times by the end of the year," Powell said on 29 June, referencing the policy-setting Federal Open Market Committee. "Inflation pressures continue to run high, and the process of getting inflation back down to 2% has a long way to go."

China

China trimmed two key lending benchmark rates by -0.1% to help support the economy. Economic growth indicators (PMIs) continue to soften post re-opening, prompting discussions on what stimulus could be appropriate, without re-inflating the extensive leverage in the property sector that the government cracked down on in 2021. Inflation is not a barrier to stimulus, as it continues to remain exceptionally benign.

Monetary Policy

The People's Bank of China (PBoC) trimmed two key lending rates as expected in June, as authorities seek to support the economy. The one-year loan prime rate (LPR), which is the benchmark used for corporate and household loans, was lowered by 0.10% to 3.55%, while the five-year rate, a reference for mortgages, was trimmed by the same margin to 4.2%. The Chinese cabinet met mid-month to discuss other measures to support the economy.

Inflation

China's annual inflation rate edged up to 0.2% in May 2023 from April's 26-month low of 0.1%, but below market estimates of 0.3%. Food inflation picked up slightly (1.0% vs 0.4%) on the back of further rises in the prices of both fruit and cooking oil and a softer fall in cost of fresh vegetables. Meanwhile, non-food inflation was flat (at 0.1%), as further falls in prices of both transport (-3.9% vs -3.3%) and housing (-0.2% vs -0.3%) offset rises in the cost of health (1.1% vs 1.0%) and education (1.7% vs 1.9%). Core consumer prices, excluding the volatile prices of food and energy, went up 0.6% YoY, after a 0.7% gain in April. On a monthly basis, consumer prices dropped by 0.2%, the fourth straight month of a fall.

Employment

China's surveyed urban unemployment rate stood at 5.2% in May 2023, unchanged from April's 16-month low. The unemployment rate of the population aged 25-59 decreased to 4.1% in May from 4.2% in the previous month, while the rate for those aged 16-24 climbed to a record high of 20.8% from 20.4%. Meanwhile, the jobless rate in 31 large cities and towns was unchanged at 5.5% in May. For 2023, the government has targeted a jobless rate of around 5.5%, with the creation of about 12 million new urban jobs.

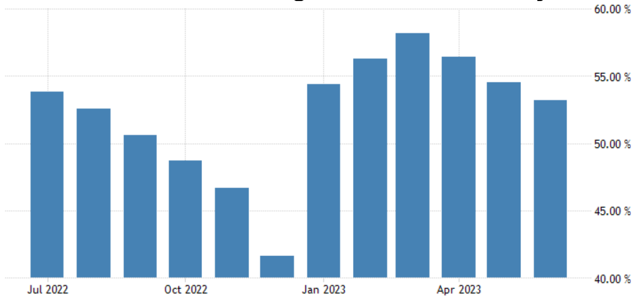
Growth

The NBS Composite PMI Output Index in China dropped to 52.3 in June from 52.9 in May.

The official NBS Manufacturing PMI rose slightly to 49 in June from 48.8 in May, in line with estimates and is the third straight month of contraction in factory activity. The latest figure continues to show that China's post-pandemic recovery is losing steam, with buying activity (48.9 vs 49.0 in May) and export sales (46.4 vs 47.2) extending declines. Input cost dropped for the third month (45.0 vs 40.8), while output charges dropped for the fourth month (43.9 vs 41.6).

The official NBS Non-Manufacturing PMI for China declined to 53.2 in June from 54.5 in May. While pointing to the 6th month in the expansion range (>50) for services since the end of the Zero-COVID policy, the data has been on a downward trend for the last 3 months. New orders remained weak in May, foreign sales shrank for the second month in a row (49.0 vs 49.7), and employment declined for the fourth straight month and at the fastest rate in 5 months (46.8 vs 48.4). Input cost dropped for the second month (49.0 vs 47.4), and selling prices fell further (47.8 vs 47.6).

NBS Non-Manufacturing PMI: 1 Year to May 2023



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

Trade

China's trade surplus dropped to US$65.81 billion in May from US$78.40 billion in the same period a year earlier and below market forecasts of US$92 billion. Exports fell more than imports, amid persistent weak global demand. Exports shrank by 7.5% YoY to US$283.5 billion, substantially lower than market consensus of a -0.4% fall, while imports decreased by -4.5% on weakening domestic demand. Meanwhile, the politically sensitive trade surplus with the United States narrowed to US$28.1 billion in May from US$29.7 billion in April.

Europe

Unemployment remained at its record low of 6.5%. Inflation fell to 5.5% in June, which was slightly below market expectations of 5.6%. The ECB is now expecting real GDP to only be 0.9% for 2023.

Growth / Economic Activity

Euro area economic activity slightly declined at the turn of the financial year, but has remained relatively resilient to the large negative supply shocks that have been hitting the economy. According to the ECB, the economy is expected to return to growth in the coming quarters, as energy prices moderate, foreign demand strengthens and supply bottlenecks are resolved, allowing firms to continue to work through their significant order backlogs, and as uncertainty, including that related to the recent banking sector stress, continues to recede.

Furthermore, real incomes are set to improve, underpinned by a robust labour market, with unemployment hitting new historical lows. Although the ECB's monetary policy tightening will increasingly feed through to the real economy, the dampening effects from tighter credit supply conditions are expected to be limited. Together with the gradual withdrawal of fiscal support, this will weigh on economic growth in the medium term. Overall, annual average real GDP growth is expected to slow down to 0.9% in 2023 (from 3.5% in 2022), before rebounding to 1.5% in 2024 and 1.6% in 2025.

Inflation

The consumer price inflation rate in the Euro Area decreased to 5.5% in June 2023, down from 6.1% in the previous month and slightly below market expectations of 5.6%, a preliminary estimate showed. The rate hit its lowest level since January 2022, although it remained significantly above the European Central Bank's target of 2.0%. Additionally, the core rate, which excludes volatile items such as food and energy, picked up to 5.4%, remaining close to a recent peak of 5.7% and supporting the view that policymakers are likely to continue raising rates in the upcoming months. Energy prices tumbled 5.6% (vs -1.8% in May), while prices rose at a softer pace for both food, alcohol & tobacco (11.7% vs 12.5%) and non-energy industrial goods (5.5% vs 5.8%). On the other hand, services inflation picked up to 5.4% from 5.0%. On a monthly basis, consumer prices advanced 0.3% in June.

Labour Market

According to Eurostat, the seasonally adjusted unemployment rate in the Euro Area stood at a record low of 6.5% in May 2023, unchanged from the prior month and matching market forecasts. 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 further by 57,000 from a month earlier to 11.014 million, the lowest level since comparable records began in 1995. The youth unemployment rate, measuring jobseekers under 25 years old, remained unchanged at a record low of 13.9% in May, the same level as in the prior month. 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 (7.6%) and France (7%).

Policy

The European Central Bank raised its key interest rates by 0.25% during its June meeting. Accordingly, the interest rate on the main refinancing operations, the interest rates on the marginal lending facility, and the deposit facility will be increased to 4.00%, 4.25% and 3.50% respectively, with effect from 21 June 2023.

Ms Christine Lagarde, President of the European Central Bank, after the most recent rate increases in mid-June, again stated that, "Our future decisions will ensure that the key ECB interest 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. In particular, our interest rate decisions will continue to be based on our assessment of the inflation outlook in light of the incoming economic and financial data, the dynamics of underlying inflation, and the strength of monetary policy transmission."

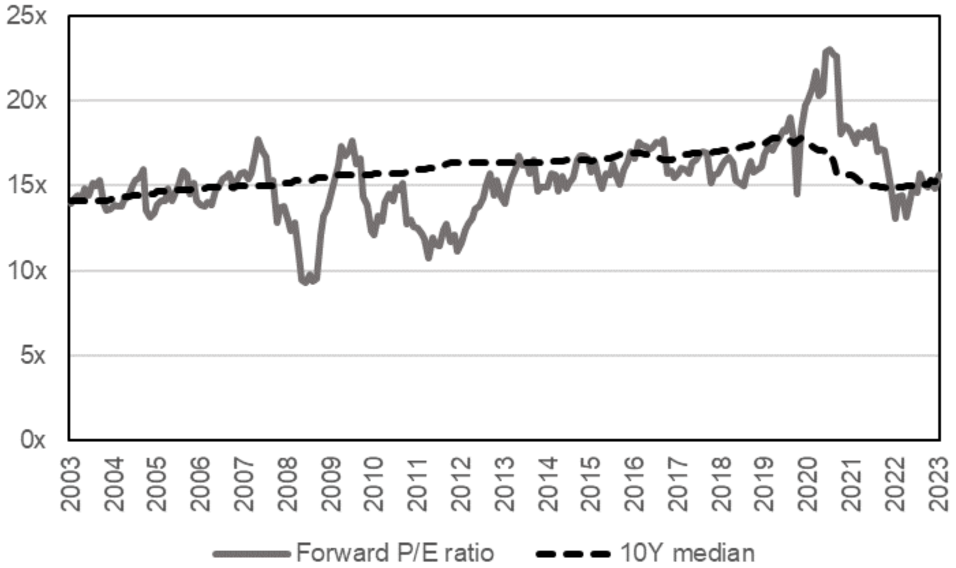
Economic Scorecard – As of 6 July 2023

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)	0.5% (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	5.5% (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%	Slight increase	5.50% (Stable / decreasing)	4.10%	Increasing, but at a slower rate	4.60% (Stable)	4.00%	Increasing	4.50% (Stable)	3.55%	Marginal decrease	3.45% (Stable)
		AUD/USD										
	Current	**Direction**	**1 year forward**									
Currencies (relative PPP basis)	0.667 (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 (June-13 to June-23)



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

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

Performance as of 30 June 2023

					Annualised						
		1-mth	3-mth	6-mth	1-yr	3-yr	5-yr	7-yr	10-yr	15-yr	20-yr
Shares	Australia	1.8%	1.0%	4.5%	14.8%	11.1%	7.2%	8.9%	8.6%	6.7%	9.0%
	Australia - mid cap	1.1%	4.6%	4.6%	18.0%	13.5%	8.8%	10.9%	12.5%	7.7%	10.3%
	Australia - small cap	0.0%	-0.5%	1.3%	8.4%	5.2%	2.3%	5.8%	6.8%	2.5%	6.3%
	Australia - micro cap	2.6%	-2.5%	-0.1%	7.4%	16.6%	8.6%	8.8%	10.0%	3.0%	-
	World ex Australia	3.1%	7.6%	17.5%	22.6%	13.5%	11.5%	12.5%	13.2%	9.9%	8.4%
	World ex Australia (Hedged)	5.6%	7.1%	14.7%	16.6%	11.5%	8.3%	10.4%	10.6%	8.8%	9.6%
	World - small cap	3.3%	3.9%	9.7%	16.7%	11.7%	6.6%	9.8%	11.4%	10.1%	9.3%
	Emerging Markets	0.9%	1.5%	6.9%	5.1%	3.5%	3.1%	6.6%	6.3%	4.3%	8.2%
Property & Infrastructure	A-REITS	0.0%	3.4%	3.9%	8.1%	8.1%	3.5%	3.3%	7.7%	5.1%	5.2%
	Global REITs	0.1%	0.9%	2.9%	-1.4%	4.5%	2.0%	2.4%	6.2%	-	-
	Global REITs (hedged)	2.8%	0.9%	1.0%	-5.9%	3.1%	-0.6%	0.8%	4.0%	4.3%	-
	Global infrastructure	0.0%	0.3%	2.1%	2.7%	7.8%	7.4%	7.2%	9.9%	-	-
	Global infrastructure (Hedged)	1.8%	-0.9%	-1.3%	-3.0%	5.5%	4.5%	5.3%	7.6%	8.1%	-
Fixed income	Australia Total Market	-2.0%	-2.9%	1.5%	1.2%	-3.5%	0.5%	0.8%	2.4%	4.2%	4.2%
	Australia government bonds	-2.1%	-3.3%	1.4%	0.9%	-4.0%	0.4%	0.6%	2.3%	4.1%	4.2%
	Australia corporate bonds	-1.1%	-1.1%	2.3%	3.3%	-1.2%	1.6%	2.1%	3.2%	4.9%	4.8%
	Australia floating rate bonds	0.4%	1.2%	2.3%	4.0%	1.7%	2.0%	2.3%	2.6%	3.6%	-
	Global Total Market (Hedged)	-0.2%	-0.3%	2.1%	-1.2%	-3.6%	0.2%	0.5%	2.5%	4.6%	5.0%
	Global government bonds (Hedged)	-0.2%	-0.3%	2.3%	-1.5%	-3.8%	0.1%	0.3%	2.5%	4.5%	-
	Global corporate bonds (Hedged)	0.0%	-0.4%	2.1%	-0.2%	-3.7%	0.5%	1.0%	3.0%	5.2%	-
	Global high yield bonds (Hedged)	2.0%	1.6%	3.9%	8.0%	0.7%	1.2%	2.8%	4.2%	7.2%	7.9%
Cash	Bloomberg AusBond Bank Bill Index	0.3%	0.9%	1.7%	2.9%	1.0%	1.2%	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