



ARRIVE

WEALTH MANAGEMENT

INVESTMENT AND ECONOMIC SNAPSHOT

APRIL 2022

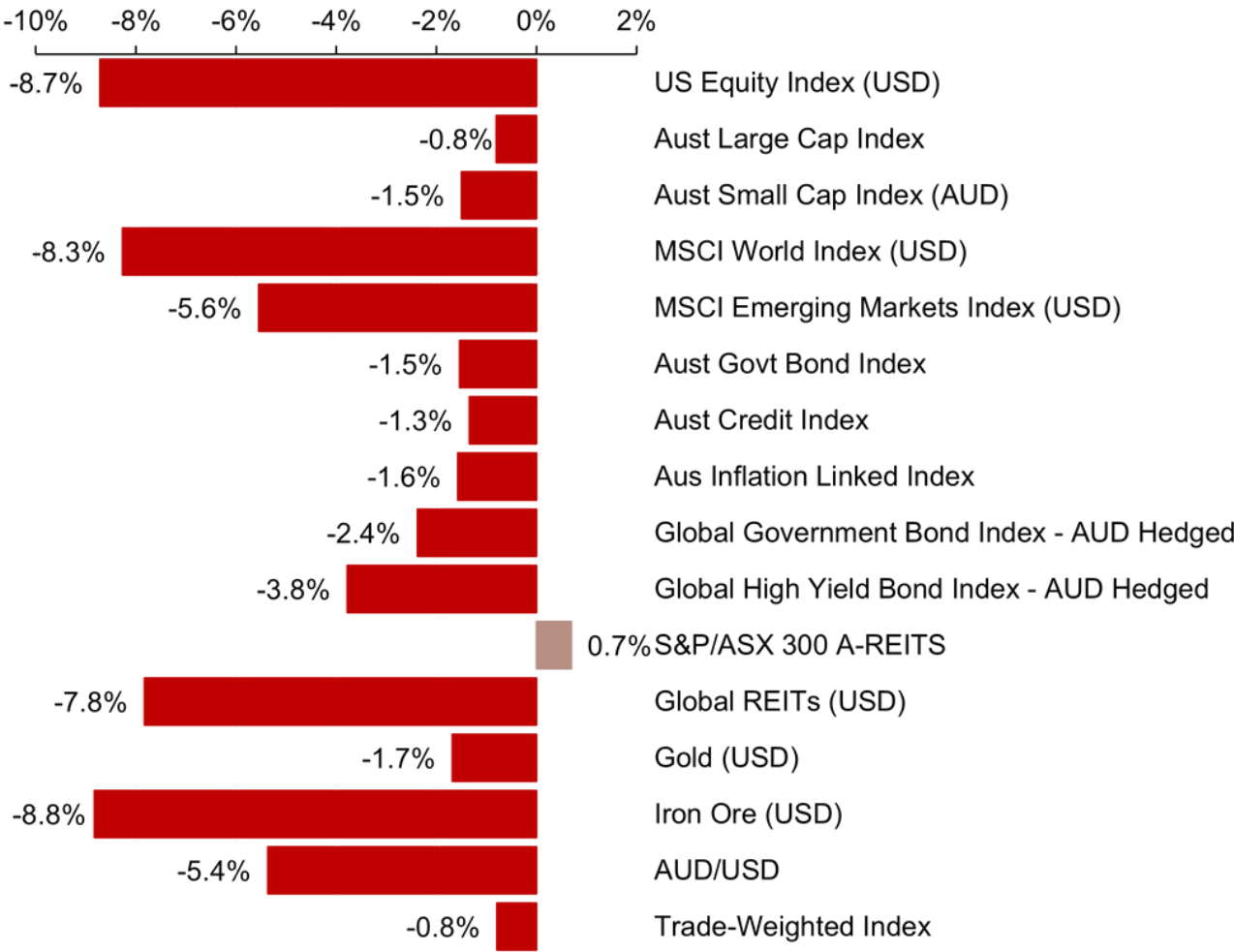


HIGHLIGHTS

- Australia's headline inflation rate surged from 3.5% to a 10-year high of 5.1%.
- In the face of overwhelming evidence that inflation is not only accelerating but wage growth is also finally picking up pace, the Reserve Bank belatedly increased the cash rate by 25 basis points to 35 basis points, the first increase in more than a decade.
- Global financial markets fell heavily in the face of increasingly aggressive central bank moves, widespread inflation, higher bond yields, the ongoing war in Ukraine and a slowing China. The S&P500 dropped -9% in April. Australia performed well in comparison dropping just -0.8% thanks to our market's high exposure to sectors such as materials, financials and energy which have responded favourably of late to rising commodity prices and expected rate hikes.



SELECTED MARKET RETURNS APRIL 2022



Sources: Thomson Reuters, Bloomberg. Equity returns are total return.

APRIL KEY DEVELOPMENTS



The spotlight returned to Australia this month with news that Australian headline inflation had risen by 5.1% in the March quarter, the highest reading since the introduction of the GST back in 2000! This result was driven by higher construction costs and fuel prices, coupled with strengthening global demand. However, measures of inflation that exclude volatile items such as food and energy, also surged, suggesting that inflation has become more widespread throughout the economy.

Higher than expected inflation and evidence of wage growth certainly caught the attention of the RBA, who responded by lifting the official cash rate by 0.25% to 0.35%. This was the first increase in the cash rate in more than a decade. Note, it was only a couple of months ago that the RBA forecast that underlying inflation would reach 2.75%. What a difference a few months can make! The RBA now forecasts that headline inflation is likely to peak at around 6% later this year before moderating to a level of 3% by mid-2024 as higher interest rates take effect and demand begins to stabilise. Furthermore, the RBA reiterated that they were committed to doing everything possible to ensure that inflation in Australia returns to their target 2-3% over time and that this will 'require a

further lift in interest rates over the period ahead'. The RBA Governor then went further by remarking that a future cash rate of 2.5% was "not unreasonable" but "will be determined by how events unfold."

Not to be outdone, the US Federal Reserve, faced with the highest inflation readings since the 1980s, delivered the biggest interest rate increase since 2000 and signalled it would keep hiking rates by 0.5% over the next couple of months to combat its growing inflation and cost of living problem, which currently stands at 8.5%. Interestingly, US Federal Reserve Chairman, Jerome Powell, stated that the Fed was prepared to move the policy (cash) rate above the neutral rate (considered to be around 2.5%) if conditions warranted it but didn't view this as a risk for the year ahead, given they expected inflation to fall back during this time, potentially removing the need for the Fed to tighten more aggressively than the market currently expects will be the case.

While inflation and interest rates took centre stage this month, global financial markets almost stole the show, posting extremely poor numbers.



Other than the US dollar, all major global financial assets pulled back sharply on fears that the risk of global stagflation (slow economic growth coinciding with stubbornly high inflation) is starting to rise.

The S&P500 endured the most of the market's concerns, plummeting almost -9%. The key driver of the decline was a more hawkish Fed, which pushed up real yields and pressured equity valuations. The Information Technology sector was hit particularly hard.

In contrast, Australian equities declined just -0.8% in April thanks to its high exposure to resources and lower exposure to tech stocks compared to the US market. The fall in Australian shares was led by sharp falls in IT, and health stocks. Utilities was the best sector in April (+9.3%) as investors sought more defensive sectors. The next best performers were also defensives, including Transport (+5.4%), Insurance (+5.2%) and Retail Staples (+4.6%). Technology was the worst performer (-10.4%) as it still has the highest valuations and is impacted most by the rise in real yields.

This month, fixed income markets once again underperformed. Short term bond yields continued to rise, as investors priced in more hawkish central bank commentary. While the Australian yield curve flattened modestly in April, the US yield curve steepened.

After a sharp rally in February and early March which pushed the price of gold above \$2,000/oz in early March, the gold price (in USD) weakened in April. Gold has enjoyed staunch support from investors looking to hedge against rising inflation and uncertainty borne out of the war in Ukraine. However, a stronger US dollar and rising real yields have been weighing down on its performance over the past month.

Fortunately for those with an unhedged exposure to gold, the depreciating AUD has resulted in far better returns upon conversion.

The price of iron ore also took a tumble this month, falling almost -9%, reflecting a marked fall in steel production in China.

The Australian dollar, always seemingly vulnerable to lower commodity prices, finished the month lower at \$0.71.

MAJOR MARKET INDICATORS

	30-Apr-22	31-Mar-22	28-Feb-22	Qtr change	1 year change
Interest Rates (at close of period)					
Aus 90 day Bank Bills	0.41%	0.17%	0.07%	+34.0	+37.0
Aus 10yr Bond	3.01%	2.50%	2.11%	+113.0	+136.0
US 90 day T Bill	0.83%	0.51%	0.37%	+59.0	+82.0
US 10 yr Bond	2.89%	2.33%	1.84%	+110.3	+125.4
Currency (against the AUD)					
US Dollar	0.711	0.751	0.726	0.87%	-8.00%
British Pound	0.571	0.570	0.538	9.26%	2.35%
Euro	0.678	0.670	0.644	7.98%	5.69%
Japanese Yen	91.68	91.21	83.55	12.65%	8.87%
Trade-Weighted Index	63.10	63.60	60.60	6.41%	-2.02%
Equity Markets					
Australian All Ordinaries	-0.8%	6.9%	1.7%	7.9%	10.2%
MSCI Australia Value (AUD)	-0.3%	7.7%	3.9%	11.7%	15.3%
MSCI Australia Growth (AUD)	0.7%	5.7%	0.9%	7.3%	7.9%
S&P 500 (USD)	-8.7%	3.7%	-3.0%	-8.2%	0.2%
MSCI US Value (USD)	-4.9%	2.9%	-1.8%	-3.9%	4.1%
MSCI US Growth (USD)	-13.6%	4.2%	-4.1%	-13.6%	-8.1%
MSCI World (USD)	-8.3%	2.8%	-2.5%	-8.0%	-3.1%
Nikkei (YEN)	-3.5%	5.8%	-1.7%	0.3%	-5.0%
CSI 300 (CNY)	-4.8%	-7.8%	0.4%	-11.9%	-20.2%
FTSE 100 (GBP)	0.8%	1.4%	0.3%	2.5%	12.3%
DAX (EUR)	-2.2%	-0.3%	-6.5%	-8.9%	-6.9%
Euro 100 (EUR)	-1.4%	0.2%	-3.7%	-4.8%	3.9%
MSCI Emerging Markets (USD)	-5.5%	-2.2%	-3.0%	-10.4%	-18.1%
Commodities					
Iron Ore (USD)	-8.8%	13.6%	-5.7%	-2.4%	-23.3%
Crude Oil WTI US\$/BBL	4.4%	4.8%	8.6%	18.8%	64.7%
Gold Bullion \$/t oz	-1.7%	2.0%	6.0%	6.2%	7.8%

Source: Quilla, Thomson Reuters Datastream

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