Antipodean Advisory

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2023 February Market Wrap — Wednesday 1 March 2023

Investment markets came back to earth after a stunning January, Equities market sold off across the board, interest rates drifted higher on signs inflation is more sticky than expected.
Bond yields continue to climb in response. US two-year yields broke to new cycle highs of 4.8% while 10-year yields are at 3.95% – 30 bps off their cycle highs. The same is true in Europe, with German two-year yields at new cycle highs of 3% versus -0.5% this time last year. Australian bonds yields haven't quite broken to new highs. But we suspect it's a matter of time until we test 4%. Higher yields are a headwind to equity markets.

The downside risk comes with sticky inflation forcing the Fed to be tougher, ultimately exacerbating a second-half slowdown or recession. This week's PMI prints in the US (47.8 vs 47.1 cons), UK (49.2 vs 47.5 cons), and Europe (52.3 vs 50.6 cons) all point to the same "conundrum" – the global economy remains far more resilient than most expected. Of course, it's a welcome relief that we aren't on the brink of a global recession… but it is also evident that monetary policy has yet to bite with US core PCE coming in at +4.7% YoY vs 4.3% cons and personal spending rising more than expected at 1.8%.

The RBA minutes provided great insight into the Australian Cash Rate.
"The Board considered two options for its policy decision: a 50 basis point increase; and a 25 basis point increase.

The arguments for a 50 basis point increase stemmed from the concern that there had been a pattern of incoming prices and wages data exceeding expectations, and a risk that high inflation would be persistent. If it did persist, there would be significant costs, including higher interest rates and a larger increase in unemployment later on. Relatedly, members observed that the longer inflation stayed high, the greater the risk of price and wage expectations moving higher.

The arguments for a 25 basis point increase also recognised the need to bring demand and supply in the economy more into balance, but noted that inflation was expected to have reached its peak, that the outlook was for a softening in consumption growth and that there were many uncertainties around the outlook. Members observed that, while underlying inflation had been higher than previously forecast, headline inflation was below earlier expectations. The forecast was for inflation to fall within the target range by the end of the forecast period in mid-2025. Many households were facing tighter budgets and, in aggregate, real incomes were falling. There were plausible scenarios in which consumption growth was weaker than expected and inflation fell faster than forecast, as well as scenarios in which the opposite occurred.

Members acknowledged that there were arguments in favour of both options, but concluded that the case to increase the cash rate by 25 basis points at the present meeting was the stronger one. Members noted the uncertainty around the outlook and that the monthly meetings provided the Board with frequent opportunities to assess how these uncertainties were being resolved and to

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adjust policy if needed. With interest rates already having been adjusted substantially, there was less need to move by 50 basis points at this meeting.

Members noted that the forecasts for output and inflation had been prepared on the technical assumption of the cash rate reaching around 3¾ per cent. Consistent with this, members agreed that further increases in interest rates are likely to be needed over the months ahead to ensure that inflation returns to target and that the current period of high inflation is only temporary.

The Board is seeking to return inflation to the 2–3 per cent target range while keeping the economy on an even keel. The path here is a narrow one and there are risks in both directions. The Board remains resolute in its determination to return inflation to target and will do what is necessary to achieve that outcome."

If you have any questions do not hesitate to contact me.

Summary of Major share indices

Index	1 Month	52 Weeks	YTD
DJIA	-4.23%	-1.92%	-1.92%
Nasdaq	-1.11%	-15.35%	+9.45%
S&P 500	-2.61%	-7.81%	+3.40%
Russel 2000	-1.81%	-5.55%	+7.71%
Europe 600 Index	+1.74%	+4.24%	+8.53%
UK FTSE 100 Index	+1.35%	+7.45%	+5.70%
Hong Kong Hang Seng	-9.41%	-13.07%	+0.02%
Japan Nikkei 225	+0.43%	+2.24%	+5.18%
China Shanghai Composite	+0.74%	-6.00%	+6.16%
India S&P BSE Sensex	-0.99%	+4.83%	-3.09%
ASX 200 (Australia)	-2.45%	+7.16%	+3.63%

Australian Dollar

	Close	52-week Range
AUD	0.6732%	0.6170-0.7662%

Government Bonds

	Close	52-week Range
US 3 Month Bill	4.808%	0.185-4.865%
US 10 Years Note	3.924%	1.678 – 4.325%
US 30 Years Bond	3.921%	2.061 – 4.424%
Australia 10 years	3.913%	1.850-4.256%

Source: Wall Street Journal.