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2023 July Market Wrap — Monday 3 July 2023

This past week was an extremely busy one for global central banks. However, there was. limited surprise to bond markets as the Fed and ECB raised another 25bps with more hints. they are getting close to the end of their tightening campaigns. More specifically for the Fed, the bond market is currently pricing in no more hikes this year and close to 125bps of cuts next year.

Perhaps the biggest change came from the Bank of Japan where there were split views on whether it would choose to signal the end of Yield Curve Control (YCC). The BOJ did decide to get the ball rolling by indicating they would allow rates to fluctuate in a wider band. Call it a "dovish tightening" at the margin, but it was still an important pivot for the originator of quantitative easing and other policies used over the past several decades to combat deflation.

Our take is that it's an important step for the BOJ to join the fight against inflation if central banks are going to be successful in getting back to their longer-term goal of 2 percent. In other words, it's incrementally hawkish.

The Treasurer Appointed a New Governor of the Reserve Bank of Australia for a seven-year term 18-September 2023. Deputy Reserve Bank governor Michele Bullock will become Australia's first female central bank governor after she was chosen to replace Philip Lowe when his term expires in September. Michele Bullock will become the first woman to ever lead the Reserve Bank in this country.

The current RBA Governor can do Ms Bullock a favour by completing the final rate hike before his term expires. Governor Philip Lowe has been Labor fall guy, placing blame for rates hikes it his feet.

Annual Inflation rate slows to 6.1% in June quarter, below expectations; RBA preferred measure slows from 6.6% to 5.9%; food, non-alcoholic beverage prices main drivers of result. In the early 1990s, high rates of inflation in Australia were reined in by the "recession we had to have" as it became known. Since then, underlying consumer price inflation has averaged around 2.5%, in line with the midpoint of the RBA's…

The New Governor has an interesting start with the current Government price caps and Industrial relation policy all pushing wages and cost higher. This will prolong inflation moving back into the RBA's band, to provide rates relief. Unless they can provide productivity, gains cost will continue to increase our standard of living will continue to fail.

The extra reward for holding stocks instead of bonds has fallen to its lowest level in 20 years, threatening a recent hot streak for major indexes.

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One method for gauging the value of stocks is to compare their earnings yield—calculated by dividing a company's expected earnings over the next year by its stock price—to the yield on government bonds, considered the closest thing to a risk-free return. The difference, sometimes called the equity-risk premium, shows how much investors are being compensated for the additional risk of owning stocks. The gap between the earnings yield of the S&P 500 and the yield on the 10-year U.S. government bond dropped to around 1.1 percentage point last week, its narrowest since 2002.

The risk premiums have gotten much lower before—in the dot-com bubble of the late 1990s. Back then, the gap between the S&P 500's earnings yield and inflation-adjusted, or "real," Treasury yields briefly collapsed entirely, according to some measures.

Looking back at history, analysts say risk premiums revert to average over time—typically because prospects for corporate earnings dim, not because investors get frightened by valuations on their own.

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

Summary of Major share indices

Index	1 Month	52 Weeks	YTD
DJIA	+3.32%	+8.42%	+7.28%
Nasdaq	+3.83%	+15.98%	+37.07%
S&P 500	+2.99%	+11.42%	+19.52%
Russel 2000	+5.61%	+6.36%	+13.74%
Europe 600 Index	+2.25%	+7.75%	+10.94%
UK FTSE 100 Index	+2.29%	+3.86%	+3.32%
Hong Kong Hang Seng	+4.00%	-0.43%	+1.50%
Japan Nikkei 225	-1.72%	+18.50%	+27.12%
China Shanghai Composite	+1.45%	+0.95%	+6.53%
India S&P BSE Sensex	+2.03%	+14.47%	+9.35%
ASX 200 (Australia)	+2.88%	+11.67%	+7.53%

Australian Dollar

	Close	52-week Range
AUD	0.6717%	0.6170-0.7364%

Government Bonds

	Close	52-week Range
US 3 Month Bill	5.421%	1.623-7.959%
US 10 Years Note	3.959%	2.524 – 4.325%
US 30 Years Bond	4.011%	2.857 – 4.424%
Australia 10 years	4.020%	2.959-4.303%

Source: Wall Street Journal.