



## 2022 June Market Wrap

Friday 1 July 2022

The Australian share market has posted its worst monthly performance since the start of the pandemic, as investors cut positions amid renewed concerns over rising interest rates and their impact on the global economy. The benchmark S&P/ASX200 index closed down 132.1 points, or 1.97 per cent, at 6,568.1 on Thursday. The index lost more than 8 per cent of its value in June alone, with the fiscal year losses climbing to 10.2 per cent.

The first half of the calendar year saw the ASX 200 drop by close to 13.5% and the S&P 500 clock in with the worst first six months since 1970 with a 21% drop. At times like this we should take a step back and try to be as rational as possible in an environment where many people are overwhelmed with emotion. From a valuation perspective, using the monthly cyclically adjusted price to earnings ratio ("CAPE") we have gone from one of the most overvalued markets in history to about the average level since 2000.

A rational examination of what has happened during the last six months is to view the drop as an adjustment in valuation levels in response to the normalisation of interest rates. Investors are willing to pay less for the future cash flows generated by businesses and not willing to pay much of anything for speculative assets that have never, and may never, generate cash flows. While painful, this valuation driven drop in markets was needed to get us back to normal.

The economic environment we find ourselves in is very challenging for companies. To run a business in an inflationary world with broken supply chains and a shortage of workers is not easy. Even the best run companies in the world are likely struggling with the day-to-day work of running a business – setting inventory levels, sourcing inputs for manufacturing and finding enough people to do the work.

With the inflation genie out of the bottle, the Normalisation of rates has started with the outcome being debated:

- Soft landing
  - Rate hikes work, GDP slows, Inflation comes under control
- Hard Landing
  - Rate hikes are too high/aggressive, stops growth (recession - two quarters of negative growth), inflation comes under control.
- Stagflation
  - Growth is slow and inflation stays high

Market views:

- Bulls
  - Valuations have re-set with so many fireworks already in 2022, there is nothing left to surprise the market at this point.
- Bears
  - Markets are yet to price in the risk to upcoming earnings prints/guides.



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### Summary of Major share indices

Index	1 Month	52 Weeks	YTD
DJIA	-7.44%	-11.14%	-15.31%
Nasdaq	-10.46%	-24.06%	-29.51%
S&P 500	-9.37%	-12.37%	-23.93%
Russel 2000	-10.00%	-26.68%	-16.98%
Europe 600 Index	-7.71%	-10.63%	-16.52%
UK FTSE 100 Index	-4.83%	+0.62%	-2.92%
Hong Kong Hang Seng	+3.69%	-24.17%	-6.57%
Japan Nikkei 225	-5.19%	-8.53%	-8.56%
China Shanghai Composite	+6.36%	-5.30%	-6.63%
India S&P BSE Sensex	-5.01%	+1.34%	-8.99%
ASX 200 (Australia)	-8.77%	-9.70%	-9.93%

### Australian Dollar

	Close	52-week Range
AUD	0.6843%	0.6829-0.7662%

### Government Bonds

	Close	52-week Range
US 3 Month Bill	1.672%	0.020-1.810%
US 10 Years Note	2.945%	1.132 – 3.501%
US 30 Years Bond	3.14%	1.665 – 3.495%
Australia 10 years	3.546%	1.069-4.256%

Source: Wall Street Journal.