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2023 March Market Wrap

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The first quarter in markets was one for the record books. At the start of the year, investors unexpectedly scrambled back into the speculative stocks that were hammered in 2022 when the Federal Reserve started raising interest rates. The period ended with a mad dash out of the banking system that few could have foreseen just weeks earlier. Two of the biggest winners of the period? Technology shares and money-market funds. Both emerged as havens following the abrupt collapse of Silicon Valley Bank.

Tech stocks initially soared on hopes that the Fed is nearing the end of its interest-rate campaign and continued climbing during March's bank stock selloff. The sector took a beating last year because higher rates dim the appeal of growth companies that have the potential for generating windfall profits many years in the future. Nvidia Corp., Facebook parent Meta Platforms Inc. and Tesla Inc. all surged more than 68% in the first three months of the year to lead the market's advance. The tech-focused Nasdaq Composite Index rose 17%, outperforming the Dow Jones Industrial Average—which is largely populated by old-economy stocks—by the widest margin since 2001.

Investors began the year feeling largely upbeat. Inflation appeared to be subsiding, and many bet that would lead the Federal Reserve to switch quickly from raising interest rates to cutting them. Then economic data started coming in hot. Stocks and bond prices slid, hit by worries that the Fed would likely have to keep rates higher for longer.

The biggest shock of the quarter came in March, when Silicon Valley Bank and Signature Bank collapsed. Bank stocks tumbled. Credit Suisse Group AG came to the brink of failure, forcing rival bank UBS Group AG UBS; to arrange a hasty takeover. The biggest U.S. banks scrambled to shore up First Republic Bank to stop growing panic from taking down more lenders.

In the face of significant uncertainty, markets proved to be more buoyant than many investors thought possible. A widely anticipated recession has failed to materialize, at least so far. The labour market has remained robust, even with a pickup in layoffs in the technology sector in recent months. And inflation, while still high, has continued to ease. Data showed consumer prices rose 6% from a year earlier in February, the smallest annual gain since September 2021.

Recent projections show Fed officials expect the federal-funds rate to rise to at least 5.1% from its current range of 4.75% to 5%. That suggests the Fed could push through one more quarter-point interest-rate increase and then hold rates at that level for the remainder of the year. Yet Wall Street has once again grown more confident that the Fed will begin cutting rates as soon as the second half. Derivatives markets show traders expect the federal-funds rate to peak at around 4.9% in May, then fall to about 4.4% by the end of the year, according to FactSet.

Look Forward, Key Issues

- US Federal Reserve one or two more hikes 25bpt to 50bpts.



- RBA one more hike, then on hold
- Key market disconnect, on the cash rate path - Market looking for cuts in the cash rate Q4 or Q1 2024
- Reserve Banks equity market put is over, need to reset thinking about normal cash rates, interest rates are not high! Quantitative Tightening being discounted - Liquidity is being removed.
- Rise of Government intervention
 - Australia
 - Lack of details
 - Direct intervention (Gas)
 - Safeguard Mechanism
 - National Reconstruction Fund
 - Decarbonisation driving different policy approaches.

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

Summary of Major share indices

Index	1 Month	52 Weeks	YTD
DJIA	-0.35%	-4.43%	+0.38%
Nasdaq	+4.56%	-14.30%	+16.77%
S&P 500	+1.57%	-9.60%	+7.03%
Russel 2000	-6.52%	-13.80%	+2.34%
Europe 600 Index	-1.38%	+7.76%	-0.11%
UK FTSE 100 Index	-3.97%	+1.24%	+2.42%
Hong Kong Hang Seng	-0.81%	-7.44%	+3.13%
Japan Nikkei 225	+0.41%	+7.46%	+1.36%
China Shanghai Composite	-1.67%	-0.30%	+5.94%
India S&P BSE Sensex	+0.14%	-3.04%	+0.72%
ASX 200 (Australia)	-0.16%	+0.10%	+3.46%

Australian Dollar

	Close	52-week Range
AUD	0.6775%	0.6170-0.7662%

Government Bonds

	Close	52-week Range
US 3 Month Bill	4.755%	0.507-7.747%
US 10 Years Note	3.471%	2.374 – 4.325%
US 30 Years Bond	3.921%	2.061 – 4.424%
Australia 10 years	3.309%	2.771-4.256%

Source: Wall Street Journal.