Antipodean Advisory

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2022 September Market Wrap — Thursday 3 October 2022

Trends have been friends to many macro investors in 2022. Interest rates – both policy rates and those on government bonds – have been trending higher all year alongside the price of US dollars. Equity prices have trended lower all year. Commodity prices trended higher in 1H22, then began trending lower in 2H22.

Government bond liquidity has trended worse over the year, and culminated in a widespread market breakdown in the UK the past week (see Exhibit 1). With inflation continuing to surprise higher in Europe and the US, central banks have little economic data to encourage a less hawkish approach to setting monetary policy.

In macro markets, any given year usually sees 3 to 4 big trends from which investors could profit. But those trends usually don't last the entire year, don't occur in near perfect unison, and aren't driven by the same set of factors. The market trends in 2022 have broken the mold thus far. What explains these unusually persistent, coordinated trends?
Four factors, we think:

1. Global consumer price inflation
2. Global central bank reactions to inflation
3. The energy crisis and coming winter in Europe
4. The housing downturn and strict Covid management in China

Inflation and its persistence has been a dominant factor in macro markets all year. Incessant upside surprises in both DM and EM measures of consumer price inflation have rattled central bankers and investors alike.

Global central banks have reacted to the higher-than-expected inflation by raising policy rates much more than expected. In the G10, the GDP-weighted policy rate stands at 1.9% through 3Q22.

The energy crisis in Europe (sparked by the war in Ukraine) and weakness in China's economy (exacerbated by a strict Covid management approach) have also been thematic for most of the year. Certainly, these factors have played important roles in driving consumer price inflation higher. They say the trend is your friend. They also say keep your friends close, and your enemies closer. And the enemy of a trend is a reversal. While the four factors above have allowed for strong macro markets trends, they won't last forever. So we need to think about when they may end.
Looking Forward:

- Economists see many Y/Y inflation rates peaking in 4Q22
- Economists see central bank policy rates peaking near the turn of the year
    - don't see a near-term reversal in central bank policy rates, the end of hiking cycles alone would represent quite a change in trend.

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- Uncertainty about the winter in Europe – the weather and its effect on demand for energy, and the impact of energy prices on consumption and production – might climax as we approach January, the coldest month in Europe on average.
- China to muddle through incremental easing for now. But as the year comes to an end, expect policymakers to take important steps that would allow reopening from spring 2023. There are good reasons why Beijing could prepare to move beyond Covid.

Locally expect another 50bpt hike from the RBA, with RBA looking to create a short-term shock to bring expectation and behaviour back to a new normal. The AUD continues to test new lows, property prices continue to grind lower on low volumes as household leverage starts to take effect. Low clearance rates and slower than average spring selling will lead to increased stock levels. Consumer spending will slow due to cost pressures bring supply and demand back into equilibrium. With the key question being how slow does the economy need to be to control inflation.

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

Summary of Major share indices

Index	1 Month	52 Weeks	YTD
DJIA	-8.28%	-16.32%	-20.95%
Nasdaq	-9.07%	-27.40%	-32,40%
S&P 500	-8.63%	-17.71%	-24.77%
Russel 2000	-8.01%	-25.74%	-25.86%
Europe 600 Index	-6.76%	-14.36%	-20.49%
UK FTSE 100 Index	-5.32%	-1.90%	-6.65%
Hong Kong Hang Seng	-11.46%	-29.92%	-26.39%
Japan Nikkei 225	-6.93%	-9.63%	-10.69%
China Shanghai Composite	-5.09%	-15.24%	-16.91%
India S&P BSE Sensex	-2.34%	-2.28%	-1.42%
ASX 200 (Australia)	-5.99%	-11.49%	-13.47%

Australian Dollar

	Close	52-week Range
AUD	0.6423%	0.6364-0.7662%

Government Bonds

	Close	52-week Range
US 3 Month Bill	3.254%	0.020-3.358%
US 10 Years Note	3.801%	1.341 – 4.010%
US 30 Years Bond	3.758%	1.665 – 3.902%
Australia 10 years	3.899%	1.167-4.256%

Source: Wall Street Journal.