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2023 September Market Wrap Tuesday 3 October 2023

September was a tough quarter for market with a board sell off, this is normal for this time of the year. In a historical analysis of global stock market returns, it has been noted that August and September are typically the weakest two months for the MSCI World Index. However, the last 10 weeks of the year tend to see two-thirds of gains in any given calendar year. This historical trend is solid across the globe, with the best quarter for US equities being the December quarter, and other regions also showing strength in December or year-end rallies.

Despite this historical pattern, factors the market is watching.:

1. Bond Yields: Bond yields are at levels not seen for 16 years, the cost of capital is starting to, impacting companies and consumers. To date the effects of higher rates been managed well.
2. Oil Prices: The resent surge in oil prices could contribute to inflation being stickier than expected.
3. China's Debt Issues: China's property sector is facing challenges, with highly indebted developers and lower home sales. With China GDP forecast to be 5%, this is still a great number and helps global growth.
4. Labor Strikes in the US/Australia: Ongoing strikes at legacy carmakers Ford and GM, demanding significant pay raises. Labors new industrial relation laws pose risks to Labor costs, inflation and productivity. Unions are looking to get back in the game with larger % increases with no productivity offset.
5. US Government Shutdown Concerns: While a government shutdown was avoided temporarily, uncertainty remains as the issue is postponed until November 17, creating political turmoil.

The financial markets will watch these factor with great interest, trying to pick when the interest rate cycle changes from hike to cuts. The key being when the cost of capital reduces.

The Reserve Bank of Australia (RBA) is currently facing challenges as it seeks to manage interest rates and bring inflation back into its target range of 2% to 3%. The Australian cash rate is at 4.1%, which is lower than the global benchmark, the US Federal funds rate, at 5.5%.

The RBA has been cautious in its approach to returning inflation to its target range, preferring a gradual strategy compared to the more aggressive rate increases seen in other countries. This cautious approach is influenced by the RBA's timeline to bring inflation down by 2025.

The significant gap between Australian and global interest rates is impacting the Australian dollar, which is weakening. This has contributed to the recent rise in oil prices in the local economy and is hindering the disinflation of global goods prices for Australian consumers.

Governor Michele Bullock, in her role as chair of the policy-setting board, must assert her commitment to bringing inflation back into the target range and emphasize that the current timeline is not subject to dovish revisions.

Recent economic reports suggest that the RBA's December 2023 forecasts are unlikely to be met. It is suggested that an immediate 25-basis-point rate increase would be an effective response to these developments and would establish Governor Bullock's commitment to fighting inflation.

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Maintaining price stability is crucial, especially for low- and middle-income Australians who are facing financial challenges reminiscent of the early 1990s recession. Any deviation from the RBA's commitment to price stability would be detrimental in this context.

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

Summary of Major share indices

Index	1 Month	52 Weeks	YTD
DJIA	-4.03%	+13.37%	+4.75%
Nasdaq	-5.16%	+23.04%	+27.15%
S&P 500	-5.04%	+16.58%	+11.69%
Russel 2000	-8.54%	+2.81%	-0.25%
Europe 600 Index	-2.70%	+14.01%	+4.87%
UK FTSE 100 Index	+0.78%	+8.17%	-0.79%
Hong Kong Hang Seng	-3.11%	+3.41%	-9.17%
Japan Nikkei 225	-3.58%	+21.15%	+21.71%
China Shanghai Composite	-0.30%	+2.28%	+0.69%
India S&P BSE Sensex	+0.67%	+14.63%	+8.20%
ASX 200 (Australia)	-2.48%	+8.93%	+3.71%

Australian Dollar

	Close	52-week Range
AUD	0.6365%	0.6170-0.7364%

Government Bonds

	Close	52-week Range
US 3 Month Bill	5.468%	3.165-7.959%
US 10 Years Note	4.676%	3.261-4.707%
US 30 Years Bond	4.792%	3.259 – 4.821%
Australia 10 years	4.596%	3.160-4.596%

Source: Wall Street Journal.