October 2022

GPS Wealth

GPS Wealth Monthly Market Update

Inflation cooled by higher rates, so may company earnings.

INFORMATION CONTAINED IN THIS REPORT CURRENT AS AT 11 NOVEMBER 2022

Trying to keep these updates as relevant as possible for our readers has become near impossible with markets swinging from optimism to pessimism by the day. At the time of writing (in early November), Wall Street surged to its best day since April 2020 as markets cheered that US inflation cooled more than expected in October. The market's bullish rejoice relates to the fact that interest rate increases may abate from here. The important point is that interest rates will still rise but less aggressively. Whilst that's not bullish, it is certainly less bearish for investors. Bond prices too increased on the back of the better inflation data.

The increase in stock prices in early November have come on top of the 5.5% increase in the US share market in the month of October and an increase of 6.01% for the Australian share market. In Australia the majority of sectors finished the month higher, save Consumer Staples and Materials which decreased by -0.19% and -0.11% respectively. In October, long term bond yields exhibited some intramonth volatility but generally settled down, with the Australian 10-year bond yield moving from 3.89% to 4.2% at one point during the month before rallying to finish at 3.76%. The decline in bond yields was driven by a slower pace of tightening by the RBA which raised rates by 25 basis points in November after four 0.50% increases as rates are now within the range of longer-term neutral.

Commodity prices had mixed trends with the oil price increasing as OPEC called for a cut in production but the iron ore price falling due to seasonally lower steel demand and higher supply levels. In Australia, the latest labour force data showed employment growth was relatively flat with other labour indicators including hours worked and the unemployment rate (3.5%) largely unchanged. **The slowing jobs growth is consistent with expectations of slowing demand given the pressures from interest rate rises and house price declines.** National house prices have fallen 6% since May and the government made housing a core focus in the recent budget, attempting to increase the housing stock with funding for affordable housing. The latest NAB business survey showed business confidence strengthening further. Business conditions also grew, driven by strong trading conditions and profitability and unemployment improving.

On the Australian stock market, the Financial sector (+12.1%) was the best performing sector, led by Challenger Ltd (+20.0%) and Westpac Banking (+16.8%). The banks continued to find support with both Commonwealth Bank and Westpac increasing by 15.4% and 16.8% respectively. The latest cash rate increases by the Reserve Bank should see some expansion in bank net interest margins (NIM's) going forward. November sees NAB, Westpac and ANZ Bank report profits which should be healthy. Along with the

Emmanuel Calligeris
Chairman of the Investment Committee

recent rate rises, the fixed term mortgages written 2yrs ago in a highly competitive market will soon roll off and that will also help interest margins improve. On the negative side, with subdued lending growth for the foreseeable future, and a very competitive lending market coupled with the possibility of an uplift in bad and doubtful debt provisioning will serve as a headwind to the sector in 2023. In October, the Materials sector (-0.2%) was dragged down by Fortescue Metals Group (-12.6%) and OZ Minerals (-6.3%) whilst Domino's Pizza Enterprises (+23.7%), Challenger Ltd (+20.0%) and Westpac Banking (+16.8%) were amongst the better performing stocks while Medibank Private Ltd (-19.0%) fell due to a breach in its cyber security.

Reporting season in the US confirmed that companies continue to perform reasonably well despite the inflationary pressures on the consumer.

The US banks reported solid results and there has not been any significant deterioration in credit thus far. Employment remains healthy with the unemployment rate slightly higher – recording 3.7% from 3.5% the previous month. The largest disappointments in profits came from the large technology stocks. Amazon, Meta and Alphabet all highlighted weakening revenue trends going forward, combined with cost pressures. It was positive to see that despite weakness out of these mega capitalisation stocks, the index was still able to post strong gains in the US.

In Europe, inflation shows little signs of slowing following preliminary October readings for several countries.

The most notable numbers were from Germany, France, and Italy. Interestingly, Italy registered a 4% month-on-month increase in harmonised CPI, while Germany's year-on-year CPI reached 11.6%, well above expectations of 10.9%. The eurozone composite PMI (an indicator of manufacturing and services activity) fell to 47.1, down from September's 48.1, the lowest reading for almost two years. Manufacturing weakened more than the services sector as steeper energy costs hurt factory activity. This slowing adds further difficulty to the ECB's decision as whether to increase the cash rate by 0.50% or 0.75% at its December meeting.

In China, President Xi Jinping was confirmed in his third term, however the conference also saw the president demonstrate his tight grip on power by announcing a new leadership line-up consisting solely of loyalists. The Chinese share market decreased, with repricing reflecting the reaffirmed message of ideology first at the expense of economic growth. The Chinese economy recovered in the third quarter following a squeeze in the second quarter related to stringent COVID lockdowns in many major cities. The 3.9% y-o-y expansion in GDP was stronger than market expectations however is still the second worst quarter on record since the initial onset of COVID in 2020. The authorities continue to adhere a zero-COVID doctrine which is not helping growth.

The wider equity market has remained relatively robust amid big moves, buoyed by the Federal Reserve pivot narrative.

As interest rate markets settle, the growth story will become a more prominent factor for equities.

While the US third quarter GDP print was strong, weak housing and consumer demand suggest that growth is losing its resilience. With bond yields stabilising, investors have bid the market up, seemingly discounting the earning downgrades that are likely on the horizon.

Returns

31st October 2022

ASSET CLASS RETURNS ARE BASED ON

Australian Cash
RBA Bank accepted Bills 90 Days

Australian Bonds
Bloomberg AusBond Composite 0+ Yr TR AUD

International Bonds Hedged
BarCap Global Aggregate TR Hdg AUD

Australian Listed Property
S&P/ASX 200 A-REIT TR

International Property Hedged
FTSE EPRA/NAREIT Dv REITS TR Hdg AUD

Australian Shares
S&P/ASX 200 TR

International Shares
MSCI World Ex Australia NR AUD

Emerging Market Shares
MSCI EM GR AUD

RETURNS TO THE 31ST OCTOBER 2022

	1 Month	3 Months	6 Months	1 Year	3 Years	5 Years	10 Years
Australian Cash	0.25	0.67	1.06	1.12	0.52	0.99	1.66
Australian Bonds	0.93	-2.98	-2.08	-7.24	-2.97	0.72	2.41
International Bonds Hedged	-0.38	-6.48	-5.91	-12.91	-3.66	-0.34	2.34
Australian Listed Property	9.91	-8.41	-16.09	-14.06	-2.65	4.10	8.15
International Property Hedged	3.92	-13.78	-18.32	-19.84	-5.03	1.64	6.25
Australian Shares	6.04	0.67	-5.41	-2.01	4.82	7.18	8.73
International Shares	7.81	1.68	2.31	-4.33	8.88	10.38	14.50
Emerging Market Shares	-2.57	-6.27	-10.71	-18.98	-2.01	0.49	5.78

GPS Wealth

GPS Wealth Ltd | AFSL 254 544

Level 7, 115 Pitt Street, Sydney NSW 2000
+61 2 8074 8599
info@gpswealth.com.au
www.gpswealth.com.au

Prepared by DWA Managed Accounts Pty Ltd
ABN 89 104 065 250 | AFSL 264 125