Monthly View as at 30 September 2023

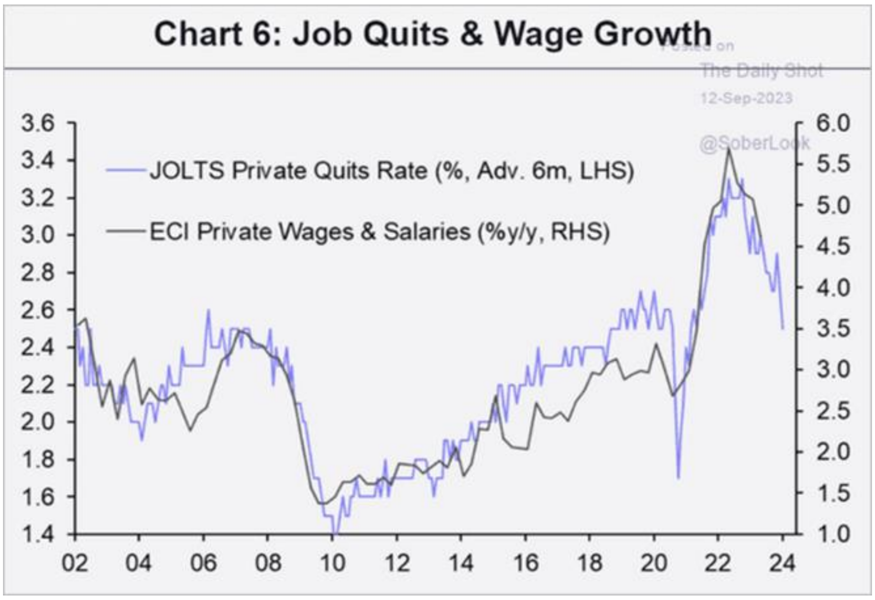
Overview

Global markets fell over September on economic uncertainty. Conflicting economic data is making it difficult to predict the next moves by central banks as they near the end of their interest rate hiking cycles. This is creating uncertainty and increased market volatility.

As the month of September progressed, interest rates moved higher on the rising price of oil, resilient US economic data, and anticipation the US Federal Reserve (the Fed) will maintain interest rates higher for longer. Share markets fell on the prospect of higher interest rates for longer.

With central banks becoming data dependent, so too have market participants. Amongst the key data points for investors in September was the US Consumer Price Index (CPI) report. In summary, US inflation rose but the trend remains downward. US Headline inflation rose 0.6%, which was in line with consensus. Annual inflation rose to 3.7%, up from 3.2% in July, on an increase in gasoline prices. US Core inflation, which excludes food and energy prices, rose 0.3% over the month, which was higher than expected, on rising airfares due to a jump in fuel prices. However, annual core US inflation edged lower to 4.3% from 4.7%.

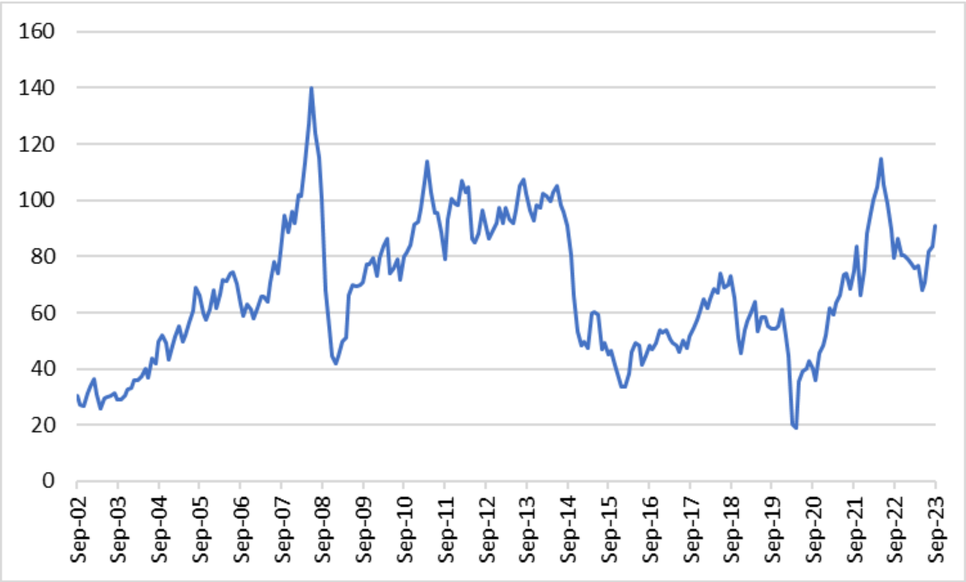
Supporting the inflation outlook has been weakness in the US labour market. Job openings have declined. Although still elevated, job openings per person unemployed is at 1.5, down from the peak of 2.0. Jobs growth is also slowing, and the unemployment rate has risen to 3.8%, its highest level since February 2022. Voluntary job quit rates have also declined, indicating it is harder to find a job with better pay and conditions. Wage growth is also slowing. The quits rate has historically been a leading indicator for the direction of wage growth, as highlighted in the chart below.



The oil price has risen 27% over the last three months and back to levels experienced twelve months ago. Production cuts by Saudi Arabia and Russia are the primary drivers behind the recent rise in the price of oil, and a more resilient US economy has also resulted in higher levels of demand than anticipated.

The uncertain outlook for oil and its impact on inflation has pushed interest rates higher. The Fed's recent announcement that they expect to keep interest rates higher for longer than previously foreshadowed has also placed upward pressure on global interest rates. Although the Fed voted to keep the Fed Funds Rate at the 5.25% - 5.50% range at their September meeting, there was split opinion over whether they should raise rates one more time this year, with most voting members leaning toward another increase.

Oil Price



Outside of the US, business conditions remain challenging. The most recent global Purchasing Manufacturing Index (PMI) points to economic reduction across the Euro area. The European Composite Index was 47.1 in September, up marginally from 46.7 in August, but still the fourth consecutive month in contraction territory (a score below 50 indicates falling activity and above 50 expansion).

Chinese data has shown signs of stabilising, both retail sales and industrial production surprised to the upside in August, but economic conditions remain weak. To date, Chinese officials have made a series of incremental changes to policy, including the easing of credit conditions and reducing interest rates. Given the risks to the economy, a more forceful response is likely at some point.

While China has been reducing interest rates most other global central banks are on hold or raising rates. Like the Fed, many central banks are signalling a bias toward raising rates and expect rates to remain higher for longer. In September the European Central Bank (ECB) raised rates, taking their cash rate to 4.0%, and indicated that they may be at an end in raising rates further.

New Zealand

New Zealand's economy grew 0.9% over the second quarter of 2023, a stronger than expected bounce back from two consecutive weak quarters (0.6% was forecasted). Although better than expected, domestic economic activity is sluggish, as highlighted by recent business and consumer confidence surveys, retail sales and credit card spend data. Annual growth of the economy came in at 1.8%. Outside of the COVID impacted quarterly results, this is the weakest performance of the economy since the second quarter of 2011. When viewed against population growth of 2.0%, the economic growth numbers underlie the sluggish nature of the local economy.

The New Zealand sharemarket fell -1.9% in September. The market took its guidance from offshore markets with little local corporate news over the month. A sharp rise in interest rates also provided a headwind for the domestic market.

Sky City fell 15.2% over the month after the Department of Internal Affairs sought a 10-day suspension of its casino licence for alleged breaches of gambling harm minimisation rules. Fonterra was one of the better performing companies over the month, rising 6.9%. The company reported a record profit and second highest dividend, benefiting from the lower cost of milk and Chinese demand for its products.

Australia

The Australian share market fell -2.8% in September and has returned 13.5% over the last year.

Although the Australian market largely took it's leads from offshore markets, domestic factors such as higher interest rates also weighed on the market. The Reserve Bank of Australia held interest rates steady (4.1%) at their last meeting, they maintain a bias toward raising rates again if needed to ensure inflation returns to its 2% – 3% target.

Generally, resource and insurance stocks outperformed, benefiting from higher oil and longer-term interest rates respectively e.g., BHP Group rose 1.5% and QBE Insurance Group returned 4.9%. Property stocks underperformed in a rising interest rate environment, Scentre Group fell -10.5% and Goodman Group -8.2%.

Global

Global share markets fell -3.5% in September. They are up 3.9% and 19.4% over the last six and twelve months respectively. Global share markets declined -2.5% over the September quarter after strong returns over the first six months of 2023.

Rising interest rates, economic uncertainty, and a higher oil price pushed global share markets lower over September. Emerging markets outperformed on the stabilising of Chinese economic data; the Chinese share market fell -2.0% for the month.

A stronger New Zealand dollar detracted from performance in September. Over the month the New Zealand dollar strengthened 0.5% against the US dollar and 3.1% and 4.4% versus the Euro and British Pound respectively. There appeared no obvious fundamental driver of the strength in the dollar, occurring after a few months of weakness.

Summary

Global economic uncertainty has dominated market sentiment recently. Conflicting economic data and a higher price of oil is making it difficult to predict the next moves by central banks as they near the end of their interest rate hiking cycles. This is creating market volatility, particularly within global bond markets.

Fixed income offers an attractive yield with the potential for capital gains as inflation falls further and central banks end interest rate increases.

Key considerations are still the outlook for inflation and labour markets. Further declines in inflation will eventually allow central banks to pause interest rate hikes and in time, commence interest rate reductions. This outcome would be positive for global bond markets and provide support for share markets in an environment of likely softer economic activity in the US and across Europe.

Focusing on your long-term goals while acknowledging that in the short-term, returns may be volatile, should reward investors.

Indices for Key Markets

As at 30 September 2023	1 Month	3 Months	6 Months	1 Year	3 Years p.a.	5 Years p.a.
S&P/NZX 50 Index	-1.9%	-4.8%	-4.5%	3.0%	-0.5%	4.7%
S&P/ASX 200 Accumulation Index (AUD)	-2.8%	-0.8%	0.2%	13.5%	11.0%	6.7%
MSCI ACWI Index (Local Currency)	-3.5%	-2.5%	3.9%	19.4%	8.4%	7.3%
MSCI ACWI Index (NZD)	-5.0%	-1.2%	7.0%	13.4%	10.4%	8.6%
S&P/NZX 90 Day bank bill Total Return	0.5%	1.4%	2.7%	4.9%	2.2%	1.9%

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