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Monthly Update on the Investment Environment

April 2022

Prime Super

Market Update

The dominant economic themes over the month continued to be soaring inflationary pressures, central bank policy settings, and the war in Ukraine. While the global economy continued to post positive data overall, the risks associated with these key factors continue to suggest that tail risks remain elevated in the near term.

The IMF released its revised global growth forecasts in April, with the war in Ukraine and subsequent sanctions imposed on Russia cited as the main drivers behind what it described as a 'significant' worsening in the outlook. The zero-COVID stance of the Chinese government and the impact of rising inflation on central bank policy normalisation were also, unsurprisingly, cited as key factors. Global GDP growth for 2022 was cut by 0.8% from its January forecast down to 3.6%, while the outlook for 2023 was reduced 0.2% to 3.6%. The IMF also made significant upward revisions to its inflation forecasts; the expected US inflation print over 2022 was raised from 3.5% in October 2021 to 7.7%, while for the Eurozone it was increased from 1.7% to 5.3%. Tellingly, the combined impact of rising rates in developed economies and the food and energy shortages arising from war in Ukraine were expected to have an outsized impact on emerging economies,.

In Australia, the first quarter inflation print was the major data release over the month. Smashing forecasts at 5.1% year-on-year, it was the highest level since the introduction of the GST over 20 years ago. The trimmed mean, which removes volatile price components, also increased above forecasts, reaching 3.7% per annum – the highest since 2009. The data suggests high inflation is becoming broad-based across most CPI constituents.

The inflation data prompted an abrupt policy change from the Reserve Bank of Australia (RBA) at its May meeting the following Tuesday. Having already signalled a hawkish tilt in the past couple of the months, the RBA decided to hike rates for the first time since 2010, raising the OCR by 0.25% to 0.35%. The central bank also announced the start of a wind-down of its balance sheet following its first ever quantitative easing program during the pandemic, albeit by letting maturing bonds run off over time. The RBA now expects unemployment to fall to a record low of 3.5% by year-end, while inflation is forecast to hit 6.0% per annum at the same time. Markets are now pricing in an OCR of nearly 3.0% by the end of 2022.

In the US, the latest CPI data for March was an annual rate of 8.5% - the highest level in four decades. However, with core inflation falling below consensus (albeit to a very high 6.6% year-on-year), there are indications that price pressures may be abating. As widely expected, ongoing high inflation prompted the Federal Reserve to follow its 0.25% March hike by raising its target rate by 0.50% in early May to a range of 0.75% to 1.00%. It also announced that it would start to allow its maturing bond holdings to roll off from June onwards, with the pace to rise from US$47.5 billion to US$95 billion per month over the next three months. US jobs data remained solid, with the unemployment rate steady at 3.6%, while continuing jobless claims fell to just 1.38 million – the lowest in over 50 years.

While many developed economies recover from the pandemic, China's economy continued to weaken. The impact of new lockdown restrictions in an attempt to eradicate COVID-19 weighed on local confidence as well as abroad, with China's sentiment indicators signalling contraction. The People's Bank of China attempted to counter this with stimulus, cutting its bank reserve requirement ratio by 0.25% in late April and announcing a cut in its foreign exchange reserve requirement ratio by 1.0% effective mid-May.

With the likelihood of a swift end to the war in Ukraine ebbing away, concerns abound regarding its human and economic impact. Inflation in the Eurozone exceeded expectations, rising by an annual 7.5%, while core inflation hit a 20-year high of 3.5%. The Bank of England, meanwhile, continued to tighten monetary policy, raising its cash rate by another 0.25% at its early May meeting. In France, incumbent President Macron won a fresh five-year term, beating the far-right, pro-Russian candidate Marine Le Pen.

The key economic themes over April provided a significant headwind for both risk and defensive asset classes. Developed overseas equities fell 7.4% on a fully-hedged basis in Australian dollars. Growth sectors such as technology were particularly impacted – the tech-heavy US Nasdaq Composite Index fell 13.3% in April – its worst month since 2008. High inflation forecasts and rapid policy tightening saw bonds sell off further, with the US 10 year Treasury yield hitting 3% in early May for the first time since 2018. Global fixed interest assets accordingly posted a weak monthly return of 2.9% on a fully hedged basis, taking its annual return to -7.0%.

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Table 1: Index Returns to 30 April 2022

	MONTH (%)	THREE MONTHS (%)	FYTD (%)	ONE YEAR (%)
Australian Equities				
S&P/ASX 300 Accumulation Index	-0.8	8.2	5.3	10.2
S&P/ASX Small Ordinaries Accumulation Index	-1.5	3.7	-0.4	2.9
International Equities				
MSCI World (ex Australia) Index (hedged A$)	-7.4	-7.4	-4.6	-1.4
MSCI World (ex Australia) Index (unhedged A$)	-3.2	-9.3	-1.2	4.7
MSCI Emerging Markets Index (unhedged A$)	-0.2	-11.2	-15.8	-11.2
Property				
S&P/ASX 200 A-REIT Accumulation Index	0.6	3.3	7.2	15.1
Australian Fixed Interest				
Bloomberg AusBond Composite Index	-1.5	-6.3	-8.3	-7.5
Global Fixed Interest				
FTSE WGBI ex-Aust (hedged A$)	-2.9	-6.1	-7.5	-6.8
Barclay's Global Capital Aggregate Bond Index (hedged A$)	-2.9	-6.2	-7.6	-7.0
Cash				
Bloomberg AusBond Bank Bill Index	0.0	0.0	0.0	0.0
Commodities				
Gold (US$ per ounce)	-1.6	6.5	8.4	8.1
Copper (US$ per metric tonne)	-5.8	2.8	4.2	-0.6
WTI Crude Oil (US$ per barrel)	4.4	18.8	42.5	64.7
RBA Index of Commodity Prices (A$)	0.8	13.5	22.4	39.1

Table 2: Australian Dollar versus Foreign Currencies to 30 April 2022

AUSTRALIAN DOLLAR VERSUS	AS AT 30 APRIL 2022	MONTH (%)	THREE MONTHS (%)	FYTD (%)	ONE YEAR (%)
US Dollar	0.71	-5.4	0.9	-5.3	-8.0
British Pound Sterling	0.57	-0.8	7.8	4.2	1.5
Euro	0.67	-0.2	7.2	6.4	5.0
Japanese Yen	92.07	1.0	13.4	10.5	9.0