

## Sentiment



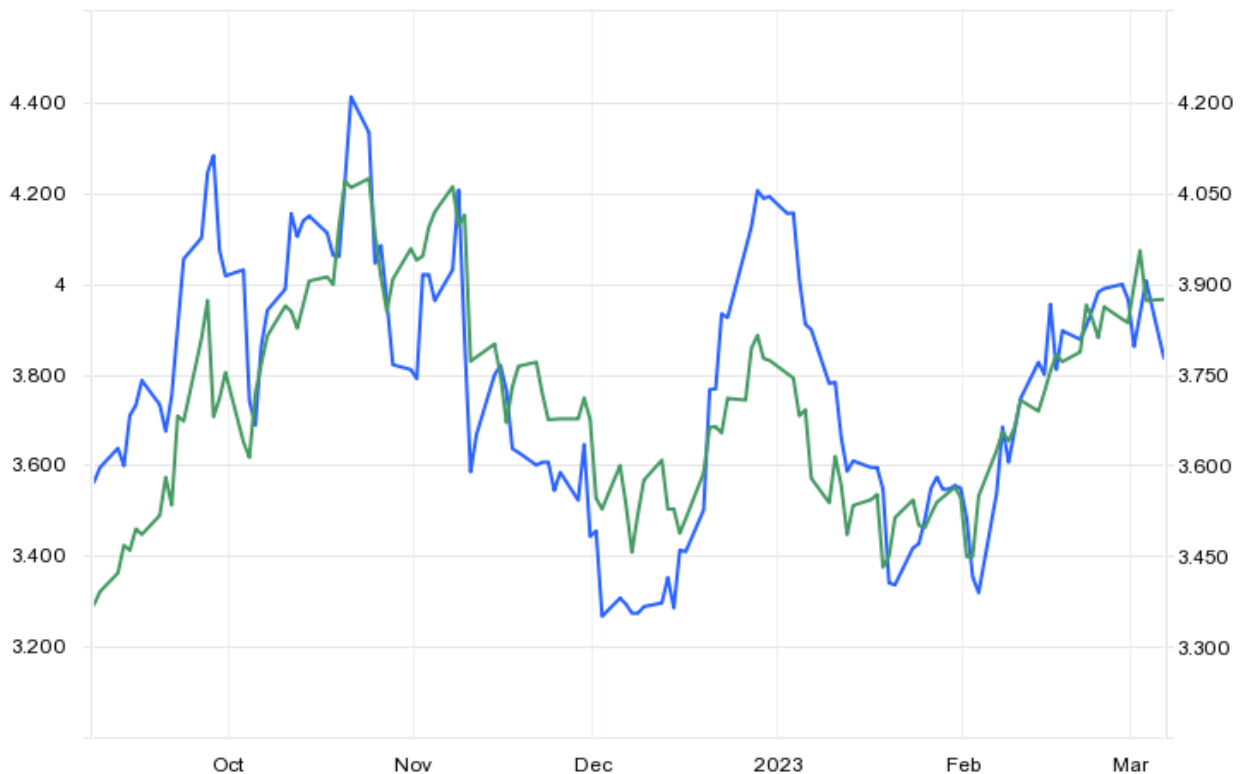
*Inflation is, by all admissions, a medium-term problem. However, sentiment has driven quite wild swings around single data points.*

*Investors have desperately chased THE pivot point.*

*Much of the delusion replicates the "transitory" interpretations of the last 18 months. Some commodities (notably oil) retraced but it is falling core inflation that will matter.*

Bond yields have swung wildly, but **without any conclusive breaks** – higher front-end rates have just translated to **curve inversion rather than higher yield curves**. USA has led global moves – **waiting for Australian data will be too late.**

Australia 10Y | US 10Y



source: tradingeconomics.com

Rates peaked in October as speculation accelerated about a change in US Federal Reserve rhetoric in November. "They won't hike 100bp" seemed like tenuous grounds for celebration, but investors expected the Fed to declare victory. The November announcement that inflation fell to "just" 7.8% just accelerated the rally.

That turned with the December Fed meeting. Instead of the promised pivot, they revised up their dot plot guidance – "higher for longer" and "job not finished" were the key messages.

**Another false start came with a couple of months of softer (or even negative) headline inflation published around year end.** This triggered another strong rally. The Fed was again forced to hose down expectations, and inflation data in 2023 has again been very poor to date:



**We have come the full circle, with “terminal rates” for this cycle expected to be around where they were in October’s panic:**

- ▶▶ Around **4%** for Australia’s RBA (which is rightly afraid that the variable rate culture makes Australia unique rate-sensitive)
- ▶▶ Approaching **5½%** for the US Fed
- ▶▶ Japan attempting to use unlimited central bank firepower to dissent from global norms

One place sentiment has been rock solid is the breakeven inflation expectation over 10 years. Effectively, it predicts a year of high numbers and then the rest of the decade to be a utopia of central bank success:



**If this consensus breaks, then a much greater medium term problem is created.**

## Leading Markets

Stocks and bonds slumped in unison, as inflation optimism was crushed by more poor data, leading to more hawkish central bank guidance. The US Dow Jones, S&P500 and NASDAQ fell -3.9%, -2.4% and -1.0%. MSCI World ex-AUS fell -1.6% in local terms.

Emerging Markets dived -6.5% in \$US, dominated by China's double-digit correction. Frontier Markets fell -2.5%.

US 10-year bonds slumped to 3.91% (+43bp wider), with the 2-10 inversion widening to a 4-decade high -89bp in anticipation of recession. High yield paradoxically firmed to 422bp spread (+8bp).

## Other Highlights

Global COVID19 deaths fell to 700/day for the first time since March 2020 with 680m reported cases also growing at the slowest rate since 1H20.

US Q4 GDP was revised to +2.7% (-0.2%), comparable to Q3's +3.2% p.a.

Unemployment eased to 3.4% (-0.1%) in January as Non-farm Payrolls jumped to +517k vs a revised +260k. Participation rose to 62.4% (+0.1%). Youth unemployment fell to 8% (-0.2%).

Headline inflation eased to 6.4% YoY (-0.1%) as a +0.5% month disappointed. Core CPI eased to 5.6% (-0.1%) showing far less progress than forecast. Retail sales jumped +3%.

Eurozone prices eased -0.6% in January taking YoY inflation to 8.6%. Core CPI rose to 5.3% (+0.1%) despite a mild winter helping the energy crisis.

Chinese GDP was flat in Q4, but accelerated in Q1 after the reopening COVID19 wave passed. Inflation rose to 2.1% (+0.3%) YoY as priced jumped +0.8% in January.

German Q4 GDP was revised to -0.4% with Italy also slightly negative. UK's was flat, with unemployment steady at 3.7%. UK inflation eased to 10.1% (-0.4%) on a -0.6% month.

The Bank of Japan's 10yr bond cap of ½% held uneasily, typically at or slightly above it. Q4 saw a modest +0.2% GDP.

## Domestic

The February RBA meeting saw another +25bp decision, citing higher than expected December inflation.

Bond yields soared on offshore leads. 2-year bond yields closed 3.67% (+49bp), 5-year at 3.68% (+41bp) and 10-year at 3.87% (+31bp) on poor domestic and global inflation data and central bank policies.

COVID19 deaths reached a post-omicron low of 13/day. 72% (+4%) of over 16's have now received a booster.

The ASX200 fell -2.5%, with the Small Ordinaries -3.7%.

CoreLogic reported flat prices nationally from property in February with Sydney marginally up. Sydney houses lead YoY falls with -14.7%, in what remains an east coast selloff so far.

The volatile monthly CPI data series eased to 7.4% YoY vs 8.4% in December.

Unemployment rose to 3.7%, with employment down -11k; participation slipped to 66.5% (-0.1%). Underemployment rose to 6.1% (+0.1%). Hours worked slumped -2.1%.

December's trade surplus eased to \$12.2bn (-9%). After three solid months, the Q4 current account improved from near-breakeven to +14.1bn on higher commodity exports.

Retail sales rebounded +1.9% in January to be +7.5% YoY (slightly below CPI).

A strong +\$14bn Q4 operating balance suggests a far smaller Federal deficit than forecast at Budget time.

Construction work eased -0.4% but building approvals rose +18.5% in December.

Wage rates grew +3.4%, with the private sector slightly ahead at +3.8%.

## Commodities and Currency

WTI fell to \$US77.05 (-2.7%). Gold slumped to \$US1826 (-5.3%). Iron ore eased to \$US124/t (-3.7%).

Base metals lost, with Nickel -18.3%, Copper -2.6%, Tin -14.1%, Zinc -10.8%, and Aluminium -9.2%.

\$A slumped to 67.28 US (-4.6%).

**KEY FINANCIAL MARKET DATA – AS AT 28<sup>TH</sup> FEBRUARY 2023 (UNLESS SPECIFIED)****Interest Rate Markets**

Index Performance	1 month	3 months	6 months	1 year	2 year	3 year	5 year
					p.a.	p.a.	p.a.
Bloomberg AusBond Bank	0.24%	0.76%	1.40%	1.76%	0.89%	0.66%	1.05%

Key Rates	Feb-23	Jan-23	Dec-22
Australian Cash Rate	3.35%	3.10%	3.10%
90 day BBSW	3.56%	3.37%	3.26%
3 Yr Commonwealth Bonds	3.57%	3.14%	3.51%
10 Yr Commonwealth Bonds	3.87%	3.56%	4.04%
CDX North American 5 Yr CDS	76bp	71bp	79bp
iTraxx Europe 5 Yr CDS	80bp	79bp	85bp
iTraxx Australia 5 Yr CDS	87bp	82bp	88bp
US Fed Funds Rate	4.50-4.75%	4.25-4.50%	4.25-4.50%
US 10 Yr Bond Rate	3.91%	3.48%	3.88%

**Equity Markets**

Domestic	1 month	3 months	6 months	1 year	2 year	3 year	5 year
					p.a.	p.a.	p.a.
S&P/ASX 200 TR	-2.45%	0.30%	6.37%	7.16%	8.66%	7.93%	7.90%
S&P/ASX Small Ordinaries TR	-3.70%	-1.21%	-2.01%	-7.97%	-1.69%	4.24%	3.56%
S&P/ASX 200 A-REIT TR	-0.26%	3.43%	3.89%	-6.52%	7.63%	0.66%	6.27%

International	1 month	3 months	6 months	1 year	2 year	3 year	5 year
					p.a.	p.a.	p.a.
US: S&P 500 (\$US)	-2.44%	-2.28%	1.26%	-7.69%	3.65%	12.15%	9.82%
US: NASDAQ (\$US)	-1.01%	0.11%	-2.61%	-15.96%	-6.10%	11.04%	10.50%
MSCI World Acc. (Local Currency)	-1.57%	-0.49%	3.29%	-4.90%	3.58%	10.60%	7.88%
MSCI World Acc. (AUD)	1.98%	-0.63%	5.77%	-0.28%	8.54%	8.27%	10.02%
FTSE 100 (£)	1.76%	4.60%	9.45%	9.60%	14.31%	9.81%	5.66%
MSCI Emerging Markets (\$US)	-6.48%	-0.52%	-2.29%	-15.28%	-13.02%	0.97%	-1.87%

**Fixed Interest Markets**

Bonds	1 month	3 months	6 months	1 year	2 year	3 year	5 year
					p.a.	p.a.	p.a.
Bloomberg Global Agg TR AUD	1.02%	-0.30%	0.67%	-7.03%	-3.09%	-6.55%	1.14%
Bloomberg AusBond Composite	-1.32%	-0.69%	0.39%	-6.37%	-3.76%	-3.44%	0.82%
ICE BofA US High Yield TR USD	-1.29%	1.79%	2.36%	-5.52%	-2.41%	1.14%	2.70%

Data*	Current Period		Previous Period	
<i>Employment Data</i>				
Employment Growth	January	-11,500	December	-14,600
Unemployment Rate	January	3.70%	December	3.50%
Participation Rate	January	66.50%	December	66.60%
<i>Lending Finance</i>				
Housing Finance	January	-5.30%	December	-4.30%
Personal Finance	January	0.50%	December	-2.80%
Business Construction	January	-2.50%	December	99.40%
<i>Other</i>				
Balance on goods and services	January	11,688m	December	12,985m
Retail Sales	January	1.90%	December	-3.90%
Building Approvals	January	-27.60%	December	18.50%

\*All data is seasonally-adjusted.

<b>Median Fund Manager Returns (Morningstar)</b>	<b>1 month</b>	<b>3 month</b>	<b>6 month</b>	<b>1 year</b>	<b>2 year p.a.</b>	<b>3 year p.a.</b>	<b>5 year p.a.</b>
Australian Equity Large Cap	-1.81%	0.45%	5.09%	5.61%	8.22%	7.99%	6.72%
Australian Equity Small Cap	-2.91%	-0.26%	-1.63%	-7.72%	0.09%	6.85%	4.84%
Global Equity Large Cap	1.77%	0.82%	7.70%	0.31%	6.87%	7.29%	8.59%
Global Equity Small Cap	2.31%	3.29%	7.41%	-2.95%	1.50%	6.00%	7.82%
Australian Fixed Income	-1.26%	-0.40%	0.48%	-6.66%	-3.99%	-3.56%	0.64%
Global Fixed Income	-1.88%	-1.05%	-2.54%	-9.54%	-6.23%	-4.19%	-0.20%
Australian Listed Property	-0.39%	3.27%	3.71%	-6.47%	7.06%	0.59%	5.95%
Australian Cash	0.24%	0.76%	1.38%	1.73%	0.88%	0.66%	1.02%
Conservative <sup>1</sup>	-1.07%	0.41%	1.14%	-3.00%	-1.39%	-0.55%	1.20%
Moderate <sup>2</sup>	-0.90%	-0.09%	1.28%	-2.71%	0.26%	0.85%	2.25%
Balanced <sup>3</sup>	-1.01%	-0.25%	2.08%	-2.20%	1.81%	2.73%	3.72%
Growth <sup>4</sup>	-1.02%	-0.07%	2.69%	-1.51%	3.05%	3.98%	4.65%
Aggressive <sup>5</sup>	-1.01%	-0.25%	3.51%	-0.73%	4.72%	5.80%	5.87%

<sup>1</sup> Growth Assets 0% - 20%

<sup>2</sup> Growth Assets 21% - 40%

<sup>3</sup> Growth Assets 41% - 60%

<sup>4</sup> Growth Assets 61% - 80%

<sup>5</sup> Growth Assets 80%+

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