ALTITUDE WEALTH MANAGEMENT
Financial Advisers

QUILLA

Investment & Economic Snapshot

May 2022

Smarter Investment Solutions

May Highlights

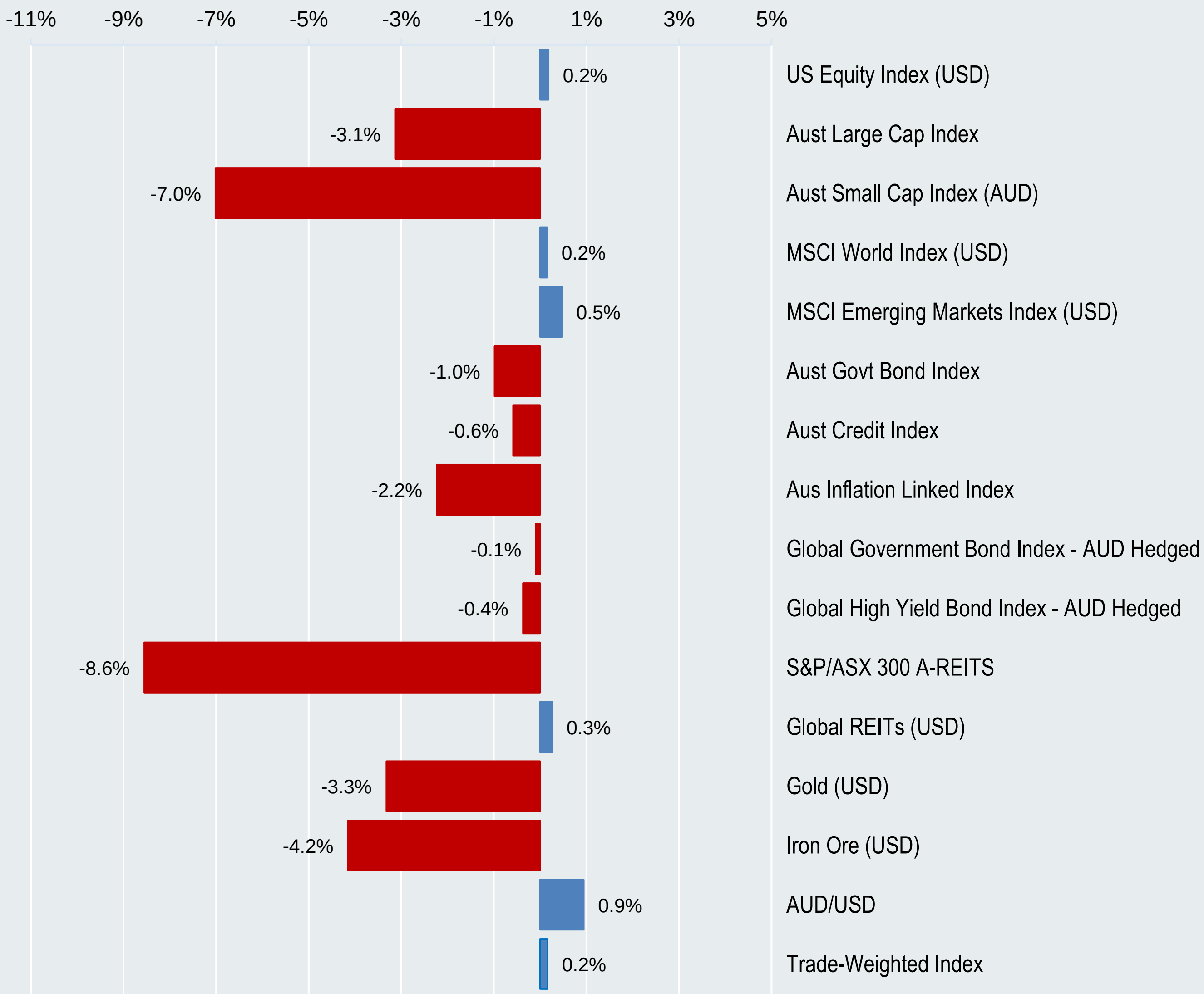
- The performance of global financial markets showed some improvement in May with global equities, US equities, and emerging markets all generating small positive returns.

- The Federal Reserve indicated that after two more 0.5% rate hikes it would be well positioned to assess the impact and need for more policy moves later this year. This was largely welcomed by equity markets which bounced on the news.

- Inflation, whilst still uncomfortably high, is showing tentative signs of moderating in the US.

- Commodity market performance was mixed. The price of oil continued to soar, but industrial metal prices weakened on lower manufacturing activity in China.

Selected Market Returns
May 2022



Sources: Thomson Reuters, Bloomberg. Equity returns are total return.

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Key developments in May

It was an eventful month as financial markets continued to focus on the big challenges of the day including inflation, falling real wages, rising interest rates, cost of living pressures, and fears of slowing global growth.

Financial markets responded to the uncertain economic outlook by posting a mixed and volatile set of results throughout the course of May. After many weeks in decline, the US market reversed its recent downwards trend, ending the month with a small gain on the back of a relief rally that occurred late in the month.

Global equities and emerging markets followed the US's lead, returning into the 'green'. Of particular interest was the solid showing from European and emerging markets. There was also a reversal of fortune from the Chinese share market on the back of early signs that Zero Covid Policy restrictions may soon be relaxed, and that the Chinese economy was showing promise of recovery. News that the Chinese Government announced further tax cut stimulus was also well received by markets.

Unlike last month, the Australian share market was one of the global laggards in May, falling -3.1%. At a sector level, materials (+0.1%), industrials (-0.5%), and healthcare / financials (-1.1%) were the outperformers while A-REITs (-8.6%), information technology (-8.7%), consumer staples (-6.6%) and telecoms (-6.5%) all underperformed.

Industrial commodities such as iron ore continued to fall further throughout May. The iron ore price fell -4.2% reflecting lower manufacturing activity in China and soft demand.

In stark contrast, the oil price continued its sustained rally due to supply risks caused by the ongoing Russia and Ukraine conflict. It was up +9.5% for the month and has now risen an astonishing +73% over the past 12 months. Meanwhile, bond market indices retreated as bond yields rose in response to central bank commentary that they would fight fire with fire on the inflation front. Noticeably, the Australian 90 Day Bank Bill rate shot up from 0.41% to 1.00% following the RBA's decision to lift the official cash rate to 0.35% early in the month suggesting that further rate rises of the order of 0.25% are expected.

The big economic news of the month concerned the words and actions of global central banks. The European Central Bank announced that the end of quantitative easing was in prospect for next quarter and the end of negative rates should appear by September. The Federal Reserve also sent a warning shot that it was serious about controlling inflation, which incidentally fell from 5.2% to 4.9%*, by indicating that following successive interest rates hikes of 0.5% it would be in a better position to judge the next steps, but subject to the evolving outlook of the economy. This less than 'hawkish' commentary and the slightly softer inflation reading was interpreted by market pundits as a sign that the Fed may well indeed be patient after all and may hit the pause button on tightening too hard and too fast, especially if inflation levels continue to moderate as they expect.

Whilst the US Federal Reserve may be guilty of being slow to act on inflation and delivering mixed messages, the same cannot be said about New Zealand's central bank. It raised its cash rate by 0.5% to 2% and revised up its forecast for the cash rate to a peak of 3.9%.

Closer to home, GDP rose 0.8% this quarter, following a rise of 3.6% in December, with newly appointed Australian Federal Treasurer, Dr Jim Chalmers, describing the result as "weaker" than the budget forecasts and "a snapshot of the really serious constraints and challenges that we have in our economy." It was not all bad news, however. The national accounts showed that terms of trade rose 5.9%, with exports (+9.6%) boosted by strong demand for mining and agricultural commodities. Household spending rose 1.5% this quarter. Spending on discretionary goods and services increased 4.3%, exceeding pre-pandemic levels for the first time. The reopening of domestic and international borders contributed to rises in transport services (+60.0%), recreation and culture (+4.8%), and hotels, cafes, and restaurants (+5.3%). Purchase of vehicles rose (+13.0%) as supply constraints eased.

Also worthy of note was the household saving ratio metric which measures net savings as a percentage of net income. It declined to 11.4% from 13.4% but remains well above pre-pandemic levels and the long run average of approximately 5%. The healthy savings rate is a comforting sign that the average Australian has an adequate safety buffer in place to lean on against rising prices and rates.

**As measured by the Fed's preferred measure of inflation - the core personal consumption expenditures price index*

Major Market Indicators

	31-May-22	30-Apr-22	31-Mar-22	Qtr change	1 year change
Interest Rates (at close of period)					
Aus 90 day Bank Bills	1.00%	0.41%	0.17%	+93.0	+96.0
Aus 10yr Bond	3.38%	3.01%	2.50%	+127.0	+176.0
US 90 day T Bill	1.13%	0.83%	0.51%	+76.0	+112.0
US 10 yr Bond	2.84%	2.89%	2.33%	+100.5	+125.1
Currency (against the AUD)					
US Dollar	0.717	0.711	0.751	-1.14%	-7.33%
British Pound	0.570	0.571	0.570	5.89%	4.68%
Euro	0.669	0.678	0.670	3.79%	5.57%
Japanese Yen	92.46	91.68	91.21	10.67%	9.03%
Trade-Weighted Index	63.20	63.10	63.60	4.29%	-0.47%
Equity Markets					
Australian All Ordinaries	-3.1%	-0.8%	6.9%	2.7%	4.7%
MSCI Australia Value (AUD)	-1.8%	-0.3%	7.7%	5.6%	9.3%
MSCI Australia Growth (AUD)	-3.5%	0.7%	5.7%	2.7%	1.8%
S&P 500 (USD)	0.2%	-8.7%	3.7%	-5.2%	-0.3%
MSCI US Value (USD)	1.9%	-4.9%	2.9%	-0.3%	3.4%
MSCI US Growth (USD)	-2.7%	-13.6%	4.2%	-12.4%	-9.0%
MSCI World (USD)	0.2%	-8.3%	2.8%	-5.5%	-4.4%
Nikkei (YEN)	1.6%	-3.5%	5.8%	3.7%	-3.6%
CSI 300 (CNY)	2.1%	-4.8%	-7.8%	-10.5%	-21.8%
FTSE 100 (GBP)	1.1%	0.8%	1.4%	3.3%	12.4%
DAX (EUR)	2.1%	-2.2%	-0.3%	-0.5%	-6.7%
Euro 100 (EUR)	0.9%	-1.4%	0.2%	-0.3%	2.3%
MSCI Emerging Markets (USD)	0.5%	-5.5%	-2.2%	-7.2%	-19.6%
Commodities					
Iron Ore (USD)	-4.2%	-8.8%	13.6%	-0.7%	-30.9%
Crude Oil WTI U$/BBL	9.5%	4.4%	4.8%	19.8%	72.9%
Gold Bullion $/t oz	-3.3%	-1.7%	2.0%	-3.1%	-3.2%

Source: Quilla, Thomson Reuters Datastream

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