ALTITUDE WEALTH MANAGEMENT Financial Advisers

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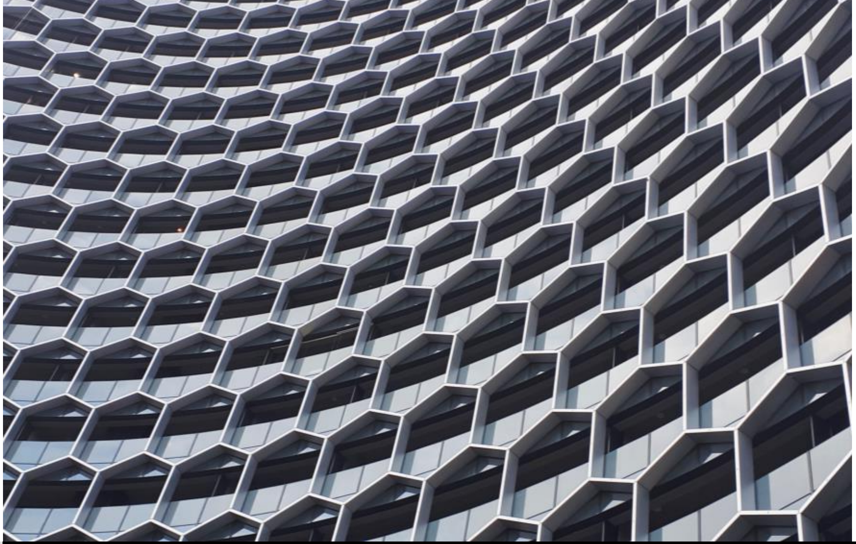
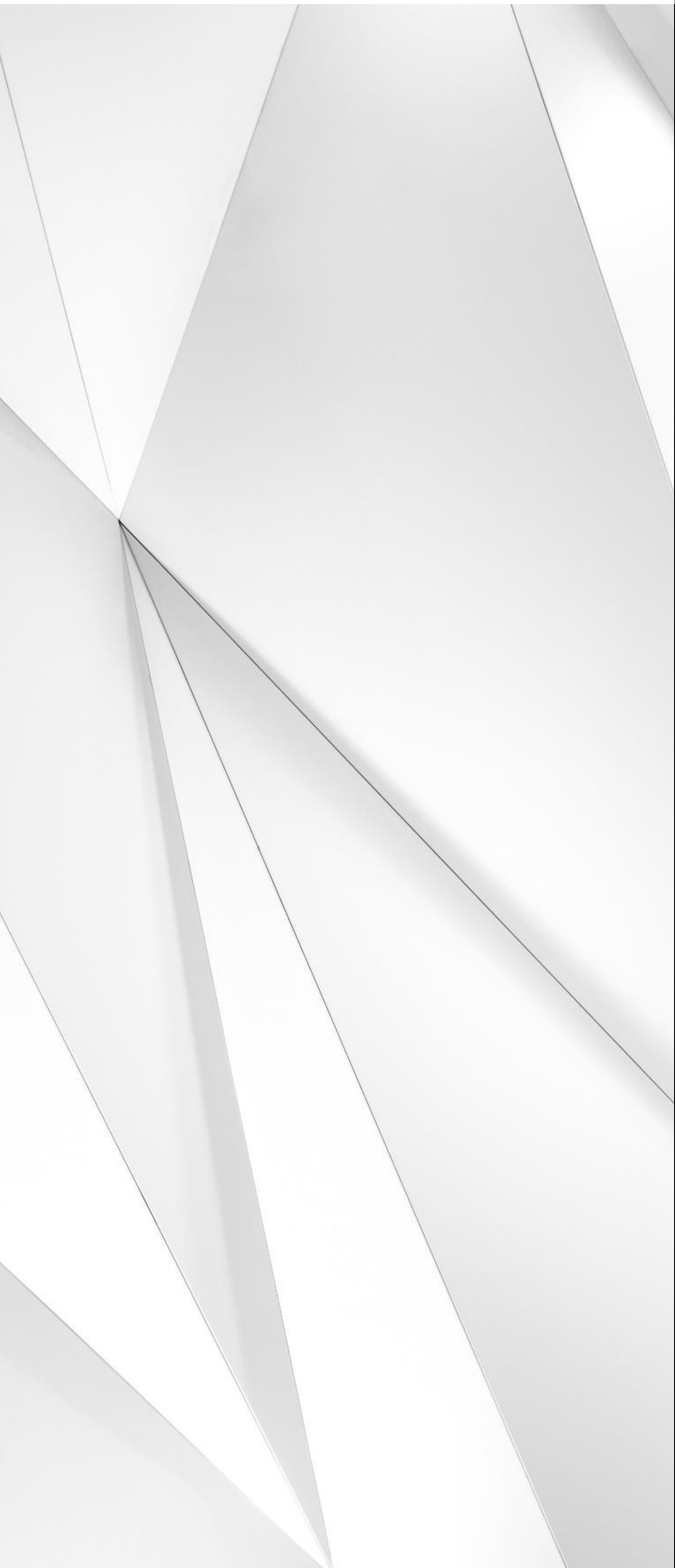


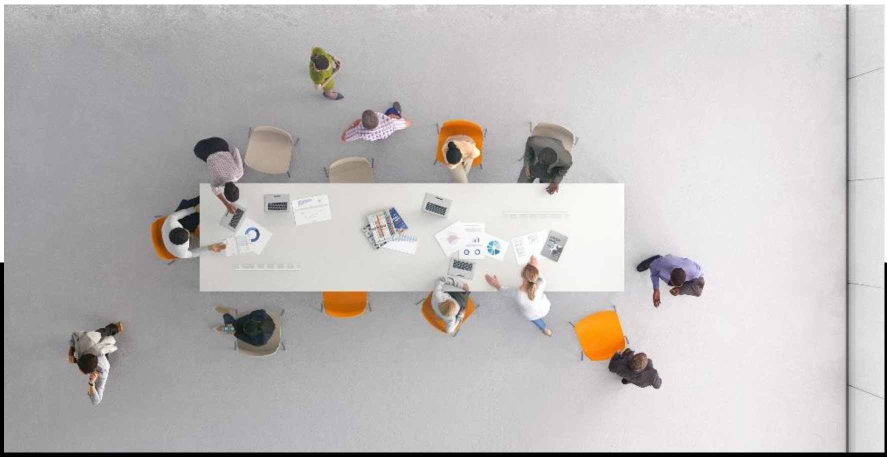


Investment & Economic Snapshot

October 2023

Smarter Investment Solutions

Highlights

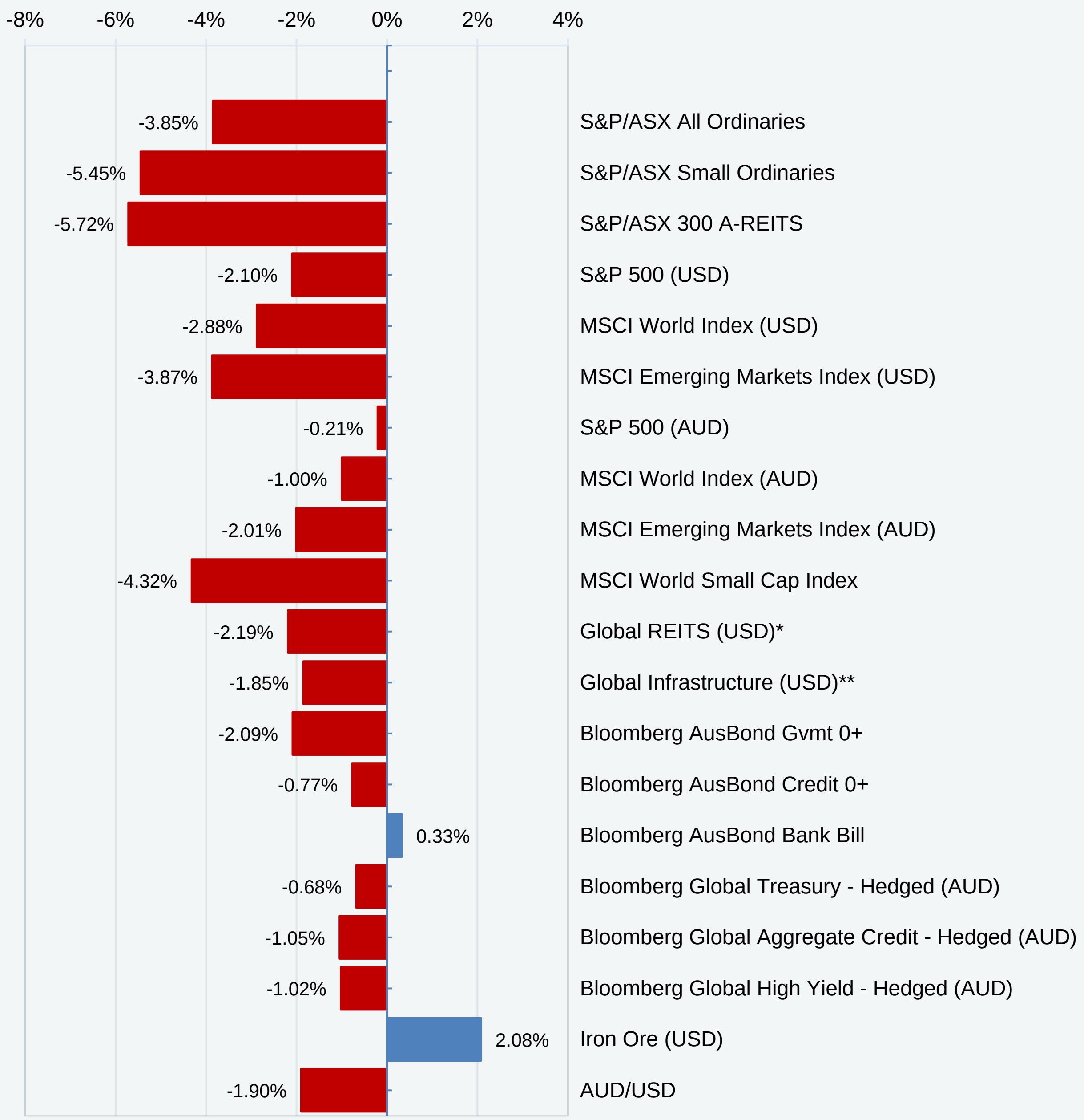


- In October, financial markets faced significant challenges, as rising bond yields had a negative impact on both stocks and bonds.

- Despite concerns about potential disruptions in oil supply due to the Israeli-Hamas conflict, oil prices fell during the month. On the other hand, increased geopolitical risks drove up the price of gold. The US dollar also benefited from increased demand as a safe haven currency, and due to the stronger economic conditions prevailing in the US.

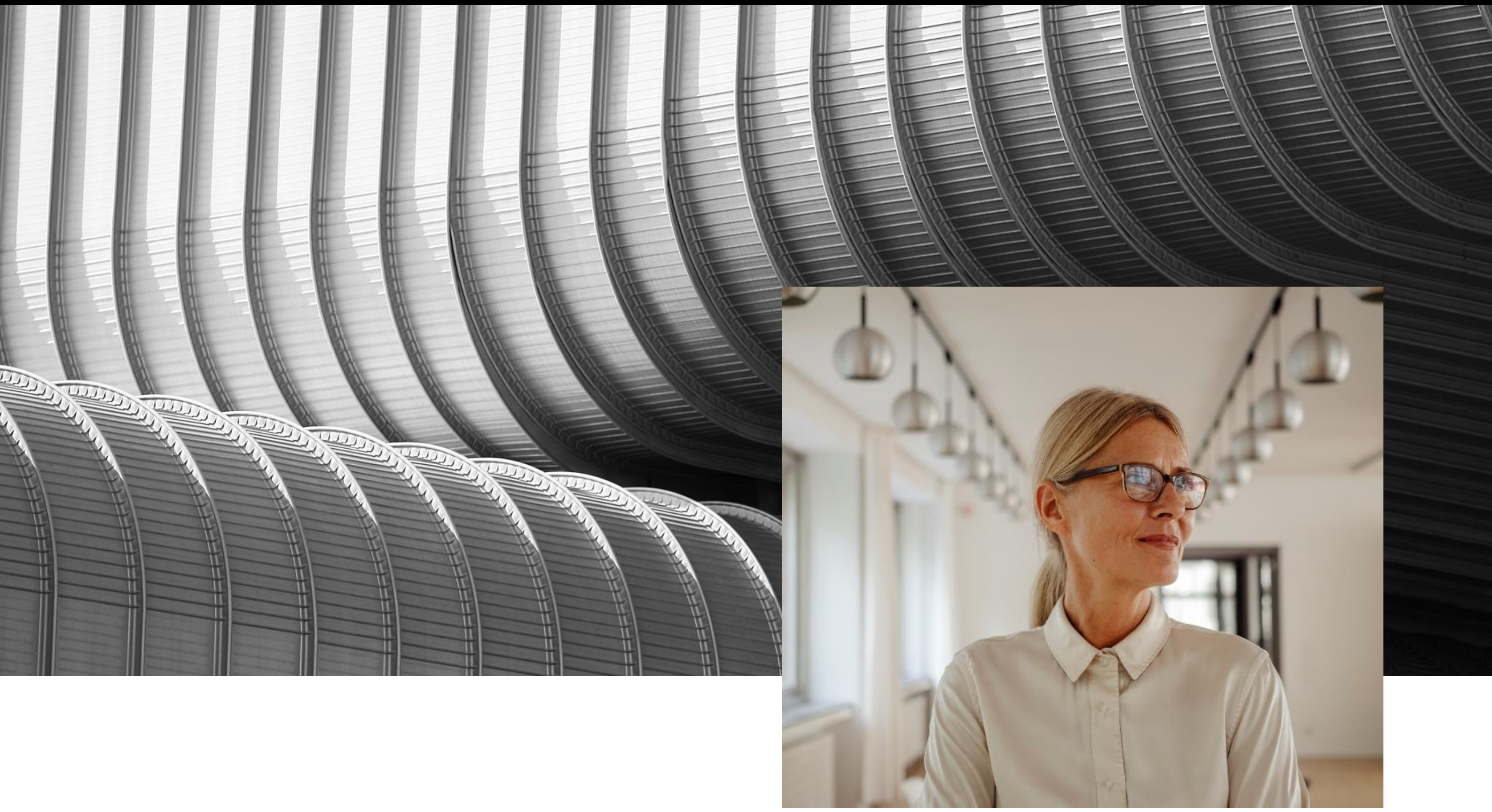
- Australia's economy continued to perform better than expected. However, there is uncertainty about the future path of inflation, driven by factors such as a potential rebound in headline inflation, primarily due to higher oil prices, and a steady increase in prices for core services. Additionally, the robust domestic job market contributes to this uncertainty.

Selected Market Returns October 2023



Sources: *Refinitiv G-7 Diversified REIT Index, **FTSE Global Core Infrastructure 50/50 Index

Key developments in October



Financial markets.

In October, the ongoing market downturn that has marked the past quarter persisted. Bond markets faced significant challenges as stronger than anticipated US economic data led to an increase in bond yields in the US and several other major economies, including Australia. This sharp rise in yields had adverse effects on stocks and bonds which fell for the third consecutive month.

Surprisingly, despite heightened oil supply risks stemming from the evolving Middle East crisis, oil prices saw a decline in October. This drop suggests that concerns about reduced demand outweighed worries about potential supply disruptions.

Conversely, escalating geopolitical tensions pushed up the price of gold, making it the best-performing asset class for the month. Notably, this latest rally occurred even as real bond yields (government bond yields adjusted for inflation) had been trending higher for the past two weeks. Traditionally, higher real bond yields tend to weigh down on gold prices, making these recent moves a departure from the norm.
The US dollar also saw gains due to increased global demand as a safe haven currency and its stronger economy compared to other regions. It was the only other asset to stay above the falling tide.

Economic developments.

US economy continues to defy widespread predictions.

In contrast to European economies that have slowed in response to rapid interest rate hikes, the US economy continues to defy widespread predictions that it would lapse into a recession later this year. In the most recent third-quarter GDP report, the US displayed robust economic growth, surging from 2.1% in the previous quarter to an annual rate of 4.9%, surpassing the expected 4.5%. Moreover, the latest US job openings report brought a surprising increase in job opportunities, rising from 5.4% to 5.8%. Unemployment remains low but inflation remains elevated and a constant headache for the Fed and other central banks.

It is worth noting that if inflation continues to trend down towards the Fed's 2% target, and economic growth moderates in the upcoming quarter, the Fed is still likely to maintain current interest rates in the range of 5.25-5.5%. However, should economic data present a more resilient picture, one or two more rate hikes remain a possibility to ensure inflation returns to the desired 2% over the long run.

Mixed domestic conditions.

In Australia, although the economy may not feel like it is firing on all cylinders, economic data has consistently outperformed the Reserve Bank of Australia's predictions. Notable examples include second-quarter economic growth, which reached 2.1% versus an expected 1.6% year-on-year, and September unemployment, which stood at 3.56% instead of the expected 3.7%.

Regarding inflation, it has significantly decreased compared to levels from a year ago. Nevertheless, uncertainty looms over its future trajectory, driven by factors like a potential rebound in headline inflation, primarily due to higher oil prices, and the steady rise in prices for core services, coupled with the enduringly strong job market.

In addition to mixed domestic conditions, escalating geopolitical risks in the Middle East have contributed to recent spikes in market volatility.

China, stimulating growth.

In August, job openings in the United States surpassed expectations, surging to 9.6 million, well above the consensus estimate of 8.8 million. This increase was accompanied by a revision for July, which was adjusted from 8.8 million to 8.9 million job openings. Consequently, the job openings rate climbed from 5.4% to 5.8%, underscoring the continued strength and resilience of the US labour market. This robust labour market performance carries implications for inflationary pressures.

Inflation continues to surprise on the upside.

Shifting our focus to China, the emphasis has moved from controlling inflation to stimulating economic growth. The Chinese government recently announced the issuance of a special government bond worth one trillion yuan, marking the first such issuance in over two decades.

While China faces numerous challenges, especially in its property sector, this infusion of government spending holds the potential to revitalise the country's sluggish economy.

Outlook

We anticipate that bonds will provide reasonable income over the next 12 months, as well as strong diversification qualities, should the global economy approach a recession in 2024. It is noteworthy that a decline in bond yields to about 2-2.5% could yield returns greater than 20% for government bonds if and when central banks pivot to a more supportive framework.

Presently, our position on equities is to be underweight, but we continue to remain open to opportunities that more attractive prices may present. Recent declines of over 10% in various equity markets have increased the attractiveness of equities in the short term, however, we remain vigilant to weakness in global economies, especially as the impact of higher cash rates continues to eat into savings.

It is essential to acknowledge that accurately pinpointing the onset of a recession is a challenging task. However, if history serves as a guide, the possibility of a recession emerging towards the middle of next year appears increasingly plausible and remains our base case.

Given the multitude of risks currently circulating in the financial system, we continue to pursue a defensive investment strategy with a primary focus on protection whilst seeking opportunities to enhance performance when they arise.

Major market indicators

	31-Oct-23	30-Sep-23	31-Aug-23	Qtr change	1 year change
Interest Rates (at close of period)					
Aus 90 day Bank Bills	4.21%	4.13%	4.15%	-9.0	+126.0
Aus 10yr Bond	4.63%	4.21%	4.13%	+60.0	+71.1
US 90 day T Bill	5.33%	5.32%	5.32%	+5.0	+127.0
US 10 yr Bond	4.91%	4.57%	4.10%	+96.0	+83.2
Currency (against the AUD)					
US Dollar	0.633	0.645	0.648	-6.04%	-0.99%
British Pound	0.523	0.528	0.510	0.56%	-5.56%
Euro	0.599	0.611	0.594	-1.25%	-7.07%
Japanese Yen	95.89	96.06	94.34	0.33%	0.61%
Trade-Weighted Index	60.20	61.10	60.60	-1.79%	-1.79%
Equity Markets					
Australian All Ordinaries	-3.9%	-2.8%	-0.7%	-7.3%	2.9%
MSCI Australia Value (AUD)	-2.8%	-1.6%	-0.8%	-5.1%	7.3%
MSCI Australia Growth (AUD)	-4.5%	-3.9%	0.5%	-7.7%	0.1%
S&P 500 (USD)	-2.1%	-4.8%	-1.6%	-8.3%	10.1%
MSCI US Value (USD)	-2.8%	-3.6%	-2.5%	-8.7%	-1.4%
MSCI US Growth (USD)	-1.8%	-5.6%	-1.0%	-8.2%	21.9%
MSCI World (USD)	-2.9%	-4.3%	-2.3%	-9.2%	11.0%
Nikkei (YEN)	-3.1%	-1.6%	-1.6%	-6.3%	14.2%
CSI 300 (CNY)	-3.1%	-2.0%	-6.0%	-10.7%	4.4%
FTSE 100 (GBP)	-3.7%	2.4%	-2.5%	-3.8%	7.2%
DAX (EUR)	-3.7%	-3.5%	-3.0%	-10.0%	11.7%
Euro 100 (EUR)	-2.8%	-2.3%	-3.1%	-8.0%	10.9%
MSCI Emerging Markets (USD)	-3.9%	-2.6%	-6.1%	-12.1%	11.3%
Commodities					
Iron Ore (USD)	2.1%	1.7%	5.8%	9.9%	51.2%
Crude Oil WTI U$/BBL	-10.1%	8.6%	2.2%	-0.2%	-5.7%
Gold Bullion $/t oz	7.5%	-4.4%	-1.3%	1.4%	21.8%

Source: Quilla and Refinitv

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