

Where you want to be.



Economic Snapshot

April 2022

Ashley Honeyman, Director
Authorised Representative No. 1003351
Bentleys (Qld) Wealth & Financial Services Pty Ltd

Telephone +61 7 3222 9702 | Mobile+ 61 455 440 577

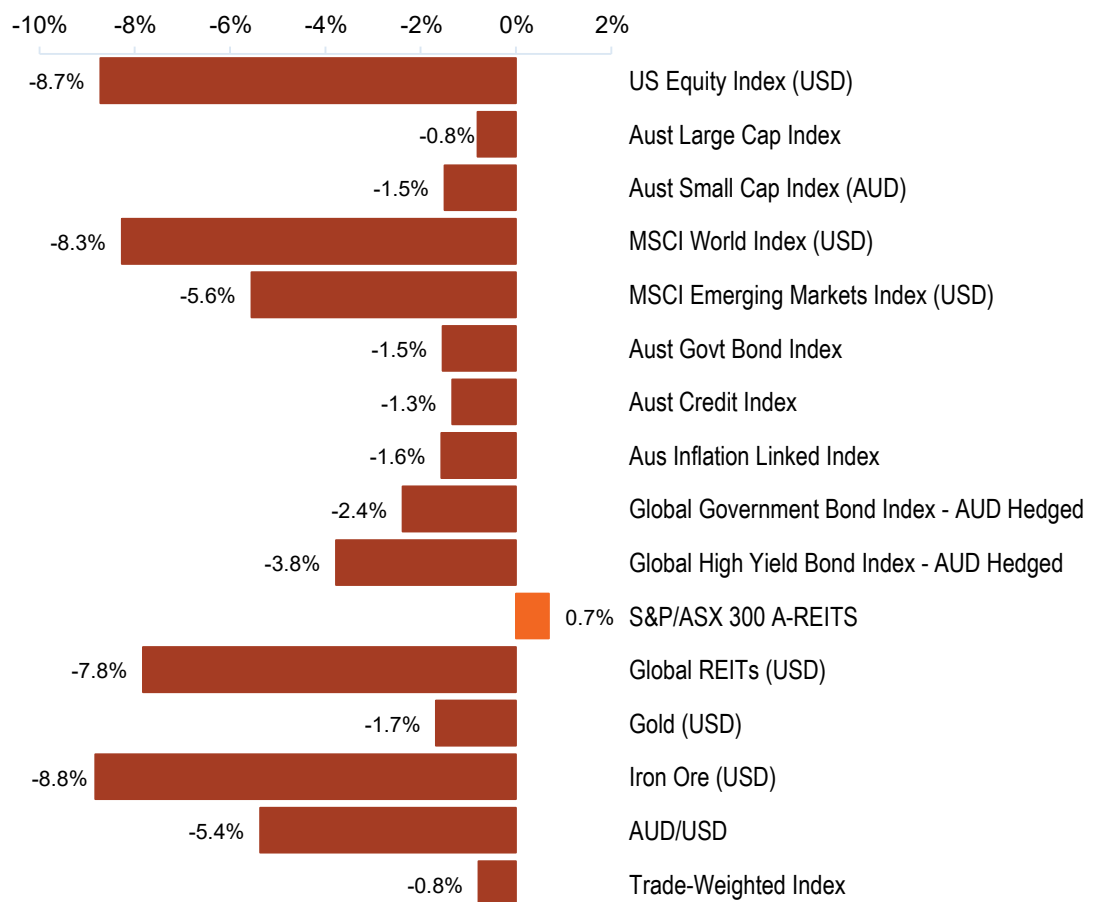
ahoneyman@bris.bentleys.com.au | [bentleys.com.au](https://www.bentleys.com.au)

➤ Advisors ➤ Accountants ➤ Auditors

In summary

- Australia's headline inflation rate surged from 3.5% to a 10-year high of 5.1%.
- In the face of overwhelming evidence that inflation is not only accelerating but wage growth is also finally picking up pace, the Reserve Bank belatedly increased the cash rate by 25 basis points to 35 basis points, the first increase in more than a decade.
- Global financial markets fell heavily in the face of increasingly aggressive central bank moves, widespread inflation, higher bond yields, the ongoing war in Ukraine and a slowing China. The S&P500 dropped -9% in April. Australia performed well in comparison dropping just -0.8% thanks to our market's high exposure to sectors such as materials, financials and energy which have responded favourably of late to rising commodity prices and expected rate hikes.

Selected Market Returns, April 2022



Sources: Thomson Reuters, Bloomberg.



Key Economic Developments

The spotlight returned to Australia this month with news that Australian headline inflation had risen by 5.1% in the March quarter, the highest reading since the introduction of the GST back in 1990! This result was driven by higher construction costs and fuel prices, coupled with strengthening global demand. However, measures of inflation that exclude volatile items such as food and energy, also surged, suggesting that inflation has become more widespread throughout the economy.

Higher than expected inflation and evidence of wage growth certainly caught the attention of the Reserve Bank of Australia (RBA), who responded by lifting the official cash rate by 0.25% to 0.35%. This was the first increase in the cash rate in more than a decade. Note, it was only a couple of months ago that the RBA forecast that underlying inflation would reach 2.75%. What a difference a few months can make! The RBA now forecasts that headline inflation is likely to peak at around 6% later this year before moderating to a level of 3% by mid-2024 as higher interest rates take effect and demand begins to stabilise. Furthermore, the RBA reiterated that they were committed to doing everything possible to ensure that inflation in Australia returns to their target 2-3% over time and that this will 'require a further lift in interest rates over the period ahead'. The RBA Governor then went further by remarking that a future cash rate of 2.5% was "not unreasonable" but "will be determined by how events unfold."

Not to be outdone, the US Federal Reserve, faced with the highest inflation readings since the 1980s, delivered the biggest interest rate increase since 2000 and signalled it would keep hiking rates by 0.5% over the next couple of months to combat their growing inflation and cost of living problem, which currently stands at 8.5%. Interestingly, US Federal Reserve Chairman, Jerome Powell, stated that the Fed was prepared to move the policy (cash) rate above the neutral rate (considered to be around 2.5%) if conditions warranted it but didn't view this as a risk for the year ahead, given they expected inflation to fall back during this time, potentially removing the need for the Fed to tighten more aggressively than the market currently expects will be the case.

While inflation and interest rates took centre stage this month, global financial markets almost stole the show, posting extremely poor numbers. Other than the US dollar, all major global financial assets pulled back sharply on fears that the risk of global stagflation (slow economic growth coinciding with stubbornly high inflation) is starting to rise.

The S&P500 endured the most of the market's concerns, plummeting almost -9%. The key driver of the decline was a more hawkish Fed, which pushed up real yields and pressured equity valuations. The Information Technology sector was hit particularly hard.

In contrast, Australian equities declined just -0.8% in April thanks to its high exposure to resources and lower exposure to tech stocks compared to the US market. The fall in Australian shares was led by sharp falls in IT, and health stocks. Utilities was the best sector in April (+9.3%) as investors sought more defensive sectors. The next best performers were also defensives, including Transport (+5.4%), Insurance (+5.2%) and Retail Staples (+4.6%). Technology was the worst performer (-10.4%) as it still has the highest valuations and is impacted most by the rise in real yields.

This month, fixed income markets once again underperformed. Short term bond yields continued to rise, as investors priced in more hawkish central bank commentary. While the Australian yield curve flattened modestly in April, the US yield curve steepened.

After a sharp rally in February and early March which pushed the price of gold above \$2,000/oz in early March, the gold price (in USD) weakened in April. Gold has enjoyed staunch support from investors looking to hedge against rising inflation and uncertainty borne out of the war in Ukraine. However, a stronger US dollar and rising real yields have been weighing down on its performance over the past month. Fortunately for those with an unhedged exposure to gold, the depreciating AUD has resulted in far better returns upon conversion.

The price of iron ore also took a tumble this month, falling almost -9%, reflecting a marked fall in steel production in China.

The Australian dollar, always seemingly vulnerable to lower commodity prices, finished the month lower at \$0.71.



Major Market Indicators

	30-Apr-22	31-Mar-22	28-Feb-22	Qtr change	1 year change
Interest Rates (at close of period)					
Aus 90 day Bank Bills	0.41%	0.17%	0.07%	+34.0	+37.0
Aus 10yr Bond	3.01%	2.50%	2.11%	+113.0	+136.0
US 90 day T Bill	0.83%	0.51%	0.37%	+59.0	+82.0
US 10 yr Bond	2.89%	2.33%	1.84%	+110.3	+125.4
Currency (against the AUD)					
US Dollar	0.711	0.751	0.726	0.87%	-8.00%
British Pound	0.571	0.570	0.538	9.26%	2.35%
Euro	0.678	0.670	0.644	7.98%	5.69%
Japanese Yen	91.68	91.21	83.55	12.65%	8.87%
Trade-Weighted Index	63.10	63.60	60.60	6.41%	-2.02%
Equity Markets					
Australian All Ordinaries	-0.8%	6.9%	1.7%	7.9%	10.2%
MSCI Australia Value (AUD)	-0.3%	7.7%	3.9%	11.7%	15.3%
MSCI Australia Growth (AUD)	0.7%	5.7%	0.9%	7.3%	7.9%
S&P 500 (USD)	-8.7%	3.7%	-3.0%	-8.2%	0.2%
MSCI US Value (USD)	-4.9%	2.9%	-1.8%	-3.9%	4.1%
MSCI US Growth (USD)	-13.6%	4.2%	-4.1%	-13.6%	-8.1%
MSCI World (USD)	-8.3%	2.8%	-2.5%	-8.0%	-3.1%
Nikkei (YEN)	-3.5%	5.8%	-1.7%	0.3%	-5.0%
CSI 300 (CNY)	-4.8%	-7.8%	0.4%	-11.9%	-20.2%
FTSE 100 (GBP)	0.8%	1.4%	0.3%	2.5%	12.3%
DAX (EUR)	-2.2%	-0.3%	-6.5%	-8.9%	-6.9%
Euro 100 (EUR)	-1.4%	0.2%	-3.7%	-4.8%	3.9%
MSCI Emerging Markets (USD)	-5.5%	-2.2%	-3.0%	-10.4%	-18.1%
Commodities					
Iron Ore (USD)	-8.8%	13.6%	-5.7%	-2.4%	-23.3%
Crude Oil WTI U\$/BBL	4.4%	4.8%	8.6%	18.8%	64.7%
Gold Bullion \$/t oz	-1.7%	2.0%	6.0%	6.2%	7.8%

Source: Quilla, Thomson Reuters Datastream

Bentleys (QLD) Wealth & Financial Services Pty Ltd is a Corporate Authorised Representative (No. 1256068) of Bentleys (QLD) Advisory Pty Ltd ABN 19 057 135 636. Australian Financial Services Licence No. 274444. The information contained in this communication may be confidential. You should only read, disclose, re-transmit, copy, distribute, act in reliance on or commercialise the information if you are authorised to do so. If you are not the intended recipient of this e-mail communication, please immediately notify us by e-mail to riskandcompliance@bris.bentleys.com.au, or reply by e-mail direct to the sender and then destroy any electronic and paper copy of this message. Any views expressed in this communication are those of the individual sender, except where the sender is authorised to state them to be the views of Bentleys (QLD) Wealth & Financial Services Pty Ltd or Bentleys (QLD) Advisory Pty Ltd. Any advice contained in this communication has been prepared without taking into account your objectives, financial situation or needs. Before acting on any advice in this communication, Bentleys (QLD) Wealth & Financial Services Pty Ltd or Bentleys (QLD) Advisory Pty Ltd recommends that you consider whether it is appropriate for your circumstances. If this communication contains reference to any financial products, Bentleys (QLD) Wealth & Financial Services Pty Ltd or Bentleys (QLD) Advisory Pty Ltd recommends you consider the Product Disclosure Statement (PDS) or other disclosure document before making any decisions regarding any products. Bentleys (QLD) Wealth & Financial Services Pty Ltd or Bentleys (QLD) Advisory Pty Ltd does not represent, warrant or guarantee that the integrity of this communication has been maintained nor that the communication is free of errors, virus or interference.



Where you want to be.

As essential advisors
- we provide future thinking,
strategic direction and
practical support.

We welcome the
opportunity to discuss
how we can help you.

A member of Bentleys - a network of independent advisory and accounting firms located throughout Australia, New Zealand and China that trade as Bentleys. All members of the Bentleys Network are affiliated only and are separate legal entities and not in partnership. Liability limited by a scheme approved under Professional Standards Legislation. Bentleys is a member of Allinial Global - an association of independent accounting and consulting firms.

Member of
Allinial
GLOBAL
An association of legally independent firms



Level 9, 123 Albert Street, Brisbane Qld 4000 Australia
Telephone +61 7 3222 9777

bentleys@bris.bentleys.com.au | bentleys.com.au

9 Nicklin Way, Minyama Qld 4575 Australia
Telephone +61 7 5436 0300

info@suncoast.bentleys.com.au | bentleys.com.au

62 Egerton Street, Emerald Qld 4720 Australia
Telephone +61 418 738 755

bentleys@bris.bentleys.com.au | bentleys.com.au

➤ Advisors ➤ Accountants ➤ Auditors