Quarterly Economic Wrap

December 2022

Summary

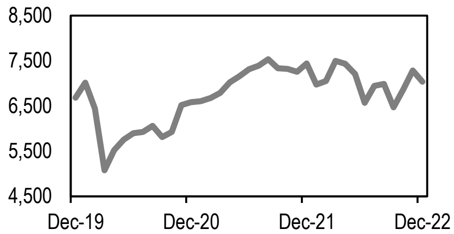
Economic

- In their latest annual report, the World Bank, which lends money to poorer countries for development projects, said it had slashed its forecast for global growth this year by nearly half, to just 1.7%, from its previous projection of 3%. If that forecast proves accurate, it would be the third-weakest annual expansion in three decades, behind only the deep recessions that resulted from the 2008 global financial crisis and the coronavirus pandemic in 2020.
- Continuing a key theme, most forward-looking economic indicators point to a major economic downturn in the developed world during 2023. Having said that, unemployment still remains completely inconsistent with a recession scenario. Australian, U.S. and European unemployment figures are still at or near record lows.

Markets

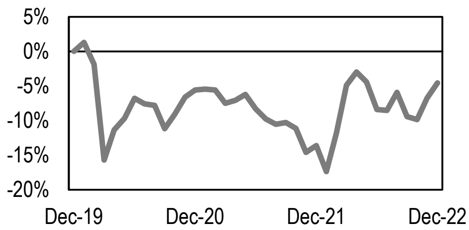
- The S&P 500 had a solid December quarter, even though December was a poor month for equities. The S&P 500 rose by 7.08%, while the Australian S&P 200 rose by an impressive 8.72%. In Australia, Value and Value-Weighted were the best performing styles for the quarter, while globally, Equal Weight and Value were the best performers. Growth was the worst performing style, both domestically and globally.
- Within Fixed income markets, while government bonds generally produced small positive returns for the quarter, corporate bonds performed well, with high yield returning a very pleasing 6.0% and investment grade returning a solid 2.7%.
- As most global economic indicators remain negative for 2023, credit is likely to come under greater pressure. As far as composite Australian bond funds go, now that the average yield to maturity is around 3.7% versus below 1.5% a year earlier, these are more attractive than a year ago, especially since the RBA has reduced its rate of interest rate increases and any further expected rises are basically already factored into bond markets.

1. S&P/ASX 200 Price Index



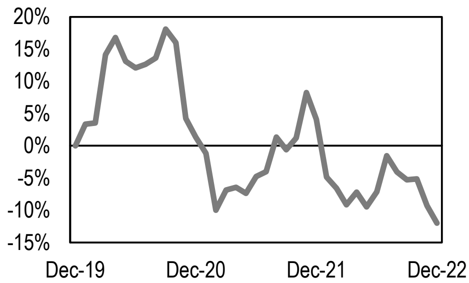
Source: Bloomberg, IOOF

2. ASX200 vs All-World, US$ terms



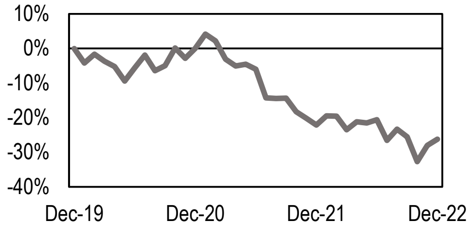
Source: Bloomberg, IOOF

3. Australia – Growth vs Value stocks



Source: Bloomberg, IOOF

4. Emerging markets vs Developed Markets, (In USD)



Sources: Bloomberg, MSCI, S&P, IOOF

Sector and stock returns – December 2022

ASX/S&P 200 Sectors (GICS)				
	Monthly	**% ∆**	**Quarterly**	**% ∆**
▼	Consumer Discretionary	-7.04	Consumer Discretionary	3.92
▼	Consumer Staples	-1.87	Consumer Staples	1.65
▼	Energy	-4.08	Energy	7.61
▼	Financials ex Property	-3.48	Financials ex Property	9.49
▼	Financials	-3.48	Financials	9.49
▼	Health Care	-4.44	Health Care	1.83
▼	Industrials	-5.51	Industrials	6.49
▼	IT	-5.49	IT	2.46
▼	Materials	-0.91	Materials	15.04
▼	Property Trusts	-5.61	Property Trusts	9.74
▼	Telecommunications	-2.60	Telecommunications	4.39
▼	Utilities	-2.17	Utilities	26.77

Source: Bloomberg, IOOF

Best and Worst S&P/ASX 200 Performers			
Top five stocks		**Bottom five stocks**	
Monthly			
St Barbara Ltd	28.1%	Star Entertainment Grp Ltd	-34.7%
Chalice Mining Ltd	18.6%	Novonix Ltd	-34.4%
Champion Iron Ltd	14.9%	Liontown Resources Ltd	-31.8%
A2 Milk Co Ltd	11.0%	Downer Edi Ltd	-28.2%
Bega Cheese Ltd	10.9%	Core Lithium Ltd	-24.4%
Quarterly			
Chalice Mining Ltd	60.3%	Star Entertainment Grp Ltd/T	-31.4%
Virgin Money UK Plc - Cdi	56.9%	Magellan Financial Group Ltd	-20.6%
Telix Pharmaceuticals Ltd	53.7%	Sayona Mining Ltd	-19.1%
Capricorn Metals Ltd	53.3%	Megaport Ltd	-19.0%
Champion Iron Ltd	51.3%	Allkem Ltd	-18.8%

Source: Bloomberg, IOOF

Share Markets, Returns

Australian Indices		31 Dec 2022 Price	1M return (%)	30 Sep 2022 Price	3M return (%)
▼	S&P/ASX 200	7039	-3.37	6474	8.72
▼	All Ordinaries	7222	-3.46	6679	8.13
▼	Small Ordinaries	2798	-3.98	2616	6.98
US Indices					
▼	S&P 500	3840	-5.90	3586	7.08
▼	Dow Jones	33147	-4.17	28726	15.39
▼	Nasdaq	10466	-8.73	10576	-1.03
Asia Pacific Indices					
▲	Hang Seng	19781	6.37	17223	14.86
▼	Nikkei 225	26095	-6.70	25937	0.61
UK & Europe Indices					
▼	FTSE 100	7452	-1.60	6894	8.09
▼	CAC40	6474	-3.93	5762	12.35
▼	DAX Index	13924	-3.29	12114	14.93

Sources: Bloomberg, MSCI, FTSE, S&P, IOOF
Note: return is reported on a price basis and in local currency terms e.g., S&P500 performance is in US dollars and excluding dividends

Global equity markets

Global equity markets gave up ground in December, as the two-month rally in bond yields reversed course following a relatively hawkish December FOMC meeting, and a surprise change to Japanese monetary policy. The sell-off in the month was not enough to offset what was a very strong December quarter performance from global equities, built on the belief that inflation had peaked and that the end of the monetary policy tightening cycle was in sight.

Hang Seng Index: 31 Dec 2021 – 30 Dec 2022

Source: tradingview.com, accessed 10/01/2023

Chinese equity markets have experienced a strong change in sentiment with a market bottom seemingly having formed shortly following the announcement of Xi Jinping's extended leadership. The Hang Seng Index slid to 13-year lows as it slumped to 14,687 on 31 October.

The market recovered partly on valuation grounds, followed by a U-turn by the Chinese government moving away from zero-COVID curbs towards reopening. Despite rising COVID cases, the Hong Kong market was supported by China's supportive stance towards the property market and easing conditions to allow a pathway to getting partially completed construction finalised.

Returns to 31 December 2022	1-mth	3-mth	6-mth	1-yr
MSCI World Index	-5.4%	4.1%	4.4%	-12.2%
Value	-4.0%	8.2%	7.9%	-0.2%
Value-Weighted	-4.4%	7.2%	6.8%	-2.7%
Momentum	-4.0%	6.5%	7.9%	-12.3%
Growth	-7.6%	-1.3%	0.8%	-24.5%
Quality	-5.9%	3.9%	3.7%	-17.0%
Low volatility	-3.0%	5.1%	4.3%	-3.9%
Equal weight	-3.0%	9.6%	11.7%	-0.9%
Small caps	-5.0%	4.4%	6.3%	-13.3%

Source: Bloomberg, IOOF, MSCI

Growth companies continue to be the laggard, both globally and in Australia, at the December month and 2022-year level.

Australian equity markets

The Australian market, as measured by the S&P/ASX 200 Index was down -3.37%, slightly worse than the MSCI Australia Index.

Returns to 31 December 2022	1-mth	3-mth	6-mth	1-yr
MSCI Australia Index	-3.2%	9.7%	9.5%	1.7%
Value	-1.8%	13.9%	13.8%	12.5%
Value-Weighted	-2.3%	11.4%	11.6%	6.8%
Momentum	-4.3%	10.9%	9.6%	-2.6%
Growth	-7.6%	-1.3%	0.8%	-24.6%
Quality	-5.7%	4.5%	3.0%	-17.8%
Low volatility	-2.5%	7.9%	5.4%	-4.4%
Equal weight	-3.0%	9.6%	11.7%	-0.9%
Small caps	-3.7%	7.5%	7.0%	-18.4%

Source: Bloomberg, IOOF, MSCI

Australian equities outperformed global markets in December, down only -3.2%. For the quarter, the MSCI Australian Index rose +9.7%, outperforming global equities, however, the best news is over the year where Australian equities protected capital, up +1.7% significantly outperforming global equities in AUD terms (-12.5%) and hedged terms (down -17.7%).

Low share price volatility and Value Australian companies outperformed the broader market over the month. Value Australian companies were the only cohort to outperform the broader market over the year.

Interestingly there has been a decoupling between growth and quality companies, especially over Q4 2022. This could be viewed as a positive signal for active equity management, as investment managers focus on quality of earnings and now that some are trading at better valuations successful identification of these companies could generate robust alpha.

Fixed Income

	Fixed Income	31 Dec 2022 Price	1M return (%)	30 Sep 2022 Price	3M return (%)
▲	Australian Cash rate	3.10	0.25	2.35	0.75
▲	10-year Bond Yield	4.05	0.52	3.89	0.17
▲	3-year Bond Yield	3.50	0.34	3.52	-0.02
▲	90 Day Bank Accepted Bills SFE-Day	3.26	0.22	3.06	0.20
▲	US 10-year Bond Yield	3.87	0.27	3.83	0.05
▲	US 3-year Bond Yield	4.22	0.18	4.29	-0.06
▼	US Investment Grade spread	1.86	-0.07	2.24	-0.38
▲	US High Yield spread	5.09	0.08	5.85	-0.76

Source: Bloomberg, IOOF

Australian bond market

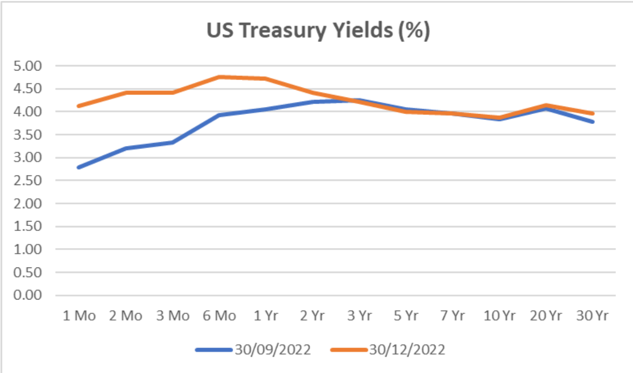
After what had been a very poor year for Australian Fixed Interest funds in general, returns during the fourth quarter of 2022 were a small positive. The main Australian Fixed Interest index, the Bloomberg AusBond Composite 0+ Years Index gained 0.4%. Australian yields were mixed over the quarter, with the short end of the curve rising by a mere 2 basis points. At the long end of the curve, the 10-year yield rose by 17 basis points. Interestingly, when yields were much lower at the start of the year, these movements in yields would have likely resulted in a negative return for the quarter. Now yields are higher, coupon income can again offset some of the smaller moves in bond yields, which is something we haven't seen for a number of years.

Australian corporate bonds had a reasonably good quarter, with the Bloomberg AusBond Credit 0+ Years Index gaining 1.1%. This was despite December being a relatively poor month.

US bond market

Over the quarter, US Government bond yields were mixed, but movements were relatively small. Similar to the Australian market, December was not a good month for global government bonds, but the performance over October and November offset the negative returns during December.

Over the quarter, as can be seen in the chart below, the U.S. yield curve rose significantly at the short end of the curve, that is 2 years and less, while the middle to long end of the curve was virtually unchanged. Note the 2-year / 10-year part of the curve remains significantly inverted (-53 basis points). This is usually considered to be a leading indicator for a pending recession.



Source: U.S. Department of the Treasury, accessed 11/01/2023

In the U.S., over the quarter, high yield credit spreads tightened by 76 basis points, which was highly favourable for investors. For the quarter, Global High Yield bonds as measured by the Bloomberg Barclays Global High Yield Total Return Index Hedged AUD gained a stellar 6.0%. Note the U.S. makes up the large majority of this market globally. Over the quarter, U.S. investment grade spreads tightened by half of that seen in the high yield market and they returned just under half that of high yield i.e. 2.7%. While the contraction in credit spreads added significantly to performance, currency hedging also boosted the returns due to a significant move upwards in the AUD versus the USD for the quarter. Continuing a theme from last quarter, most U.S. economic indicators show the U.S. is in an economic downturn, and given the significant spread contraction over the quarter, valuations for U.S. and global credit, both investment grade and high yield are somewhat less attractive than they were at the end of the previous quarter.

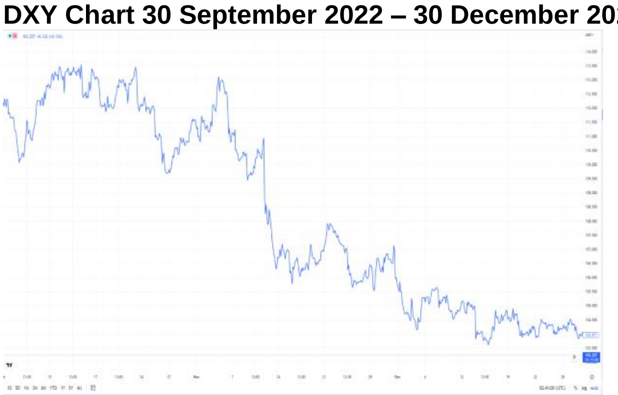
Currencies

	Currencies	31 Dec 2022 Price	1M return (%)	30 Sep 2022 Price	3M return (%)
▲	$A vs $US	68.13	0.37	64.00	6.45
▲	$A vs GBP	56.34	0.08	57.35	-1.76
▼	$A vs YEN	89.37	-4.64	92.65	-3.54
▼	$A vs EUR	63.66	-2.39	65.31	-2.53
▼	$A vs $NZ	107.32	-0.45	114.36	-6.16
▼	$A TWI	61.40	-1.13	61.50	-0.16
▼	$US vs EUR	93.41	-2.79	102.02	-8.44
▼	$US vs CNY	6.90	-2.73	7.12	-3.06
▼	$US vs GBP	82.76	-0.20	89.53	-7.56
▼	$US vs JPY	131.12	-5.03	144.74	-9.41
▼	$US vs CHF	92.45	-2.24	98.70	-6.33
▼	US Dollar Index	103.52	-2.29	112.12	-7.67
▼	JPM EM Curr Idx	49.90	-0.76	48.44	3.02

Source: Bloomberg, Insignia Financial

The US dollar index (DXY) has declined off of its 20-yr highs of 114 in late September. The majority of the declines in the DXY occurred quickly between 4 to 14 November from 112.58 down to 106.66. This decline coincided with a decline in U.S. 10-year Treasury yield of 51 basis points reducing the interest rate differential between the U.S. and its trading partners.

DXY Chart 30 September 2022 – 30 December 2022



Source: tradingview.com, accessed 10/01/2023

The weaker U.S. dollar DXY is reflected in the rebounds in Euro, Pound and Yen. The Yen also benefited from a change to the Bank of Japan's (BOJ) monetary policy. On 20 December 2022, the BOJ said it would allow 10-year yields to fluctuate by +/- 0.50% of its target of zero. Previously the band was +/- 0.25%. The move was felt across markets with the Japanese Topix equity index falling by 1.5% on the day, as the 10-year Japanese government bond yield jumped from 0.26% to 0.47%.

Commodities

	Commodities	31 Dec 2022 Price	1M return (%)	30 Sep 2022 Price	3M return (%)
▼	Aluminium	2350	-4.67	2169	8.33
▲	Copper	381	1.94	339	12.27
▲	Nickel	29901	11.08	21134	41.48
▼	Zinc	2990	-1.77	2960	1.04
▲	Crude Oil - Brent	85.91	0.56	87.96	-2.33
▼	Natural Gas	4.48	-35.43	6.77	-33.86
▲	Metallurgical Coal	283	5.60	273	3.66
▲	Iron Ore	111.28	19.34	98.31	13.19
▲	Gold	1826	3.77	1685	8.39
▲	Silver	24	10.37	19	25.31

Source: Bloomberg, Insignia Financial

Iron Ore was the standout commodity in December. It bottomed on 1 November at US$80 per tonne following the Chinese leadership announcement. The iron ore price rebound has seen sharp jumps followed by cautious consolidation, assisted by China's U-turn on their zero-COVID policy and a commitment to support the struggling property market, combined with concerns of the significant increases in COVID cases.

Iron Ore Price Chart 6 Months to 9 Jan 2023

Source: markets.businessinsider.com/commodities/iron-ore-price, 10/01/2023

Natural Gas fell substantially over the month and quarter, as some potential risks have been repriced. There was a plausible expectation that Russia would close down gas supply to Europe during winter for "maintenance work", but they haven't, and the winter has been more modest than expected reducing demand. There has also been a substitution from gas to traditional wood for heating where possible. On 22 December, Germany opened its floating liquefied natural gas terminal in Wilhelmshaven, taking another step towards reducing reliance on Russian gas.

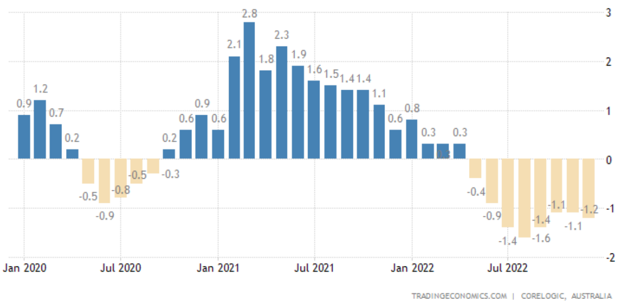
Australia

The trade surplus eased slightly, but remains robust at $12.22bn in October. The labour market remains tight with the unemployment rate at 3.4% and job vacancies and unemployed persons exceedingly tight. The RBA Board increased the cash rate target by 0.25% to 3.1% on 6 December, which is now an accumulated increase of 3% over 8 months.

Monetary Policy

The RBA increased the cash rate target by a widely expected 0.25% to 3.1% on 6 December, which now has lifted rates by 3% over 8 months, taking borrowing cost to levels last seen in November 2012. The committee reiterated that the size and timing of future rate increases will continue to be determined by the incoming data. As can be seen below, the influence of interest rates is clearly being felt in Australian Housing Prices, with Prices retreating in 9 of the last 12 months. The CoreLogic's 5 Capital Cities Aggregate Home Value Index is down -1.2% in December and -7.1% for the year.

Dwelling Prices Monthly Change, 5 years to Dec 2022

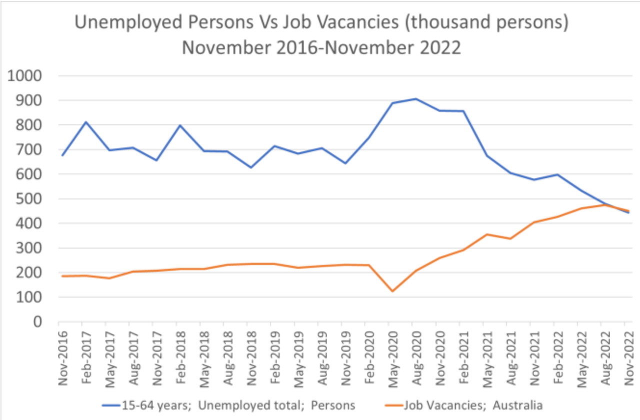


Sourced: tradingeconomics.com, CoreLogic, Accessed 12/01/2023

Labour Market

The Australian labour market remains tight, as the unemployment rate came in at 3.4% in November, matching the previous month and in line with consensus. Unemployed persons declined by 7,400, while employed people rose by 64,000 to a fresh record of 13.77 million. The increase in employment was well above the consensus forecast of 19,000.

The following chart shows the break down between unemployed persons and job vacancies. Unemployed persons have dropped off substantially, while job positions have increased. The RBA is watching these metrics closely in the hope that it doesn't translate into wages pressures.



Sourced: tradingeconomics.com, accessed 10/01/2023

Trade

Australia's trade surplus declined slightly to A$12.22 billion in October from September's strong A$12.44 billion. The trade surplus proved resilient, exceeding consensus forecasts of A$12.1 billion, as a rise in exports of cereal grains and a decline in imports (-0.7%) partially offset the reduced volume in coal & metals. While the trade surplus eased slightly, it must be highlighted that Australia has posted monthly trade windfalls for 4.5 years, buoyed by robust sales of iron ore and natural gas.

Australia's Trade Surplus, 5 years to Oct 2022

Sourced: tradingeconomics.com, accessed 10/01/2023

Inflation

The Australian Bureau of Statistics Monthly CPI indicator provides a shorter-term figure to assess how inflation is progressing throughout each quarter. The CPI Indicator for October was published on 30 November, however, the monthly indicator for November and December and the December quarterly official CPI statistics are to be published in January. The data for October indicated a small decrease to 6.9% p.a. from 7.3% p.a., which was the highest inflation print since 1990.

United States

The Federal Reserve has now raised its target range for the federal funds rate 4.25%-4.5%. Fed Officials have also signalled their intention to lift the rate above 5% in 2023. Inflation remains elevated, but headline inflation is now clearly trending downward.

Growth

The U.S. economy, and the U.S. consumer, have been defying expectations. U.S. consumer spending continued to support GDP growth despite the dual headwinds of rising interest rates and high inflation. Additionally, upward revisions to Q3 2022 GDP data show stronger economic momentum in H2 2022. For these reasons, the Conference Board has upgraded their forecast for Q4 2022 to 1.9% versus 0.7%. However, the Conference Board still expects that the U.S. economy will fall into recession soon. They currently anticipate three quarters of negative GDP growth starting in Q1 2023. However, they believe this downturn will be relatively mild and brief, and growth should rebound in 2024, as inflation ebbs further and the Fed begins to loosen monetary policy.

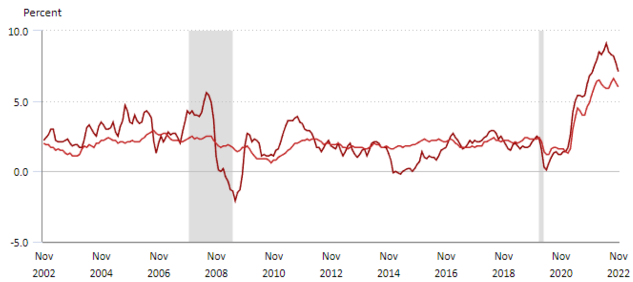
Labour Market

The number of job openings in the United States decreased slightly by 54,000 to 10.5 million in November of 2022, compared with market expectations of 10 million, suggesting the labour market remains strong. Job postings have slowly declined since reaching a peak of 11.9 million in March of 2022. Over the month, the number of job openings fell in finance and insurance (-75,000) and in federal government (-44,000), but increased in professional and business services (+212,000) and in non-durable goods manufacturing (+39,000). Meanwhile, the number of hires was down by 56,000 to 6.1 million, while total separations including quits, layoffs and discharges, and other separations rose by 114,000 to 5.9 million.

Inflation

According to Trading Economics, the annual inflation rate in the U.S. slowed for a fifth straight month to 7.1% in November of 2022, the lowest since December 2021, and below forecasts of 7.3%. It follows a reading of 7.7% in October. Energy cost increased 13.1%, below 17.6% in October, due to gasoline (10.1% vs 17.5%), fuel oil (65.7% vs 68.5%), and electricity (13.7% vs 14.1%). A slowdown was also seen in food prices (10.6% vs 10.9%), while prices of used cars and trucks declined by 3.3% (after a 2% rise in October). On the other hand, the cost of shelter increased faster (7.1% vs 6.9%). Compared to the previous month, the CPI edged up only 0.1%, the least in three months, and also lower than forecasts of 0.3%. The shelter was by far the largest contributor rising by 0.6%, and more than offsetting a 1.6% drop in energy cost. Despite the bigger-than-anticipated slowdown, the annual inflation rate is set to remain more than three times the Fed's 2% target, pointing to broad price increases across the economy.

Headline and Core Inflation



Source: U.S. Bureau of Labor Statistics, accessed 11/01/2023

Policy

"Price stability is the bedrock of a healthy economy and provides the public with immeasurable benefits over time. But restoring price stability when inflation is high can require measures that are not popular in the short term, as we raise interest rates to slow the economy," Chairman Powell said in prepared remarks for a panel discussion that took place in Stockholm. Powell's comments focused on central banks' independence and were short of details on the coming interest-rate decisions.

The Federal Reserve raised the Fed funds rate by 50 basis points to 4.25%-4.50% during its last monetary policy meeting of 2022, pushing borrowing costs to the highest level since 2007, and in line with market expectations. Fed Officials have also signalled their intention to lift the rate above 5% in 2023 and keep it there throughout the year.

China

China announced a U-turn on COVID, from zero tolerance to acceptance and a Re-opening Policy. This decision turns the focus on the future positioning of China and its recovery from a floundering economy. China's inflation at 1.8% is low relative to the world, providing the Chinese Government scope to stimulate the economy.

Following ongoing street protests and a build-up of discontent within the vast Communist party hierarchy as the economy floundered, youth unemployment surged and education was disrupted, President Xi Jinping made an abrupt about-face in his "war" against the virus, abandoning the zero-COVID policy. This is considered positive for China and the global economy, but the decision is also expected to also deliver a surge in COVID cases across China in the near term, similar to other countries as they moved to "living with COVID".

Inflation

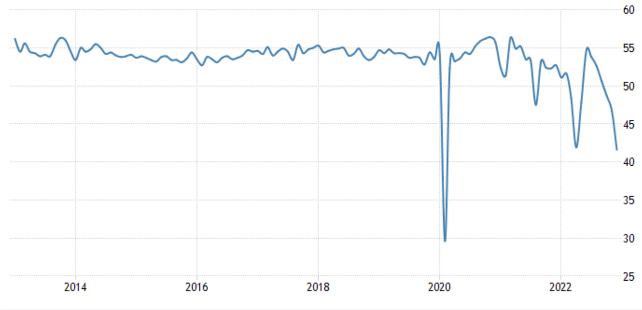
China's annual inflation edged up slightly from November's 8-month low of 1.6% to 1.8% p.a. in December in line with consensus forecasts. The latest result largely reflected a +4.8% rise in food prices, even as domestic demand was sluggish amid a spike in COVID infections. Non-food inflation was unchanged (at 1.1%). Core consumer prices, excluding volatile prices of food and energy, rose 0.7% p.a. in December, after a 0.6% gain in November.

Growth

The NBS Manufacturing PMI declined for a third month to 47.0 in December. The rapid spread of COVID infections following Beijing's abrupt relaxation of pandemic measures hurt production. The latest print also marked the steepest pace of contraction in factory activity since February 2020, with output falling further into contraction territory (44.6), with new orders (43.9), and export sales (44.2) all falling at faster rates.

The NBS Non-Manufacturing PMI declined even more sharply to 41.6 in December from 46.7 a month earlier. This was also the third straight month of contraction in the services sector and the steepest fall since February 2020, which has been attributed to surging COVID cases, after the abrupt easing of China's tough anti-virus policy. New orders decreased for the sixth month running (39.1 vs 42.3 in November), foreign sales shrank the most in seven months (44.5 vs 46.1), and a decline in employment accelerated (42.9 vs 45.5). At the same time, delivery time lengthened sharply (40.4 vs 45.0). On inflation, input costs fell after stabilizing in November (49.2 vs 49.9), while output prices decreased for the ninth consecutive month, with the rate of fall the most in five months (47.5 vs 48.7).

NBS Non-Manufacturing PMI, 10 years to Dec 2022:



Sourced: Tradingeconomics.com, National Bureau of Statistics of China, 13/01/2023

China's trade surplus declined to US$69.84 billion in November from US$85.15 billion in October and below consensus market forecasts of a surplus of US$78.1 billion. Exports slumped 8.7% year-on-year, with November the second straight month of decline, amid weakening overseas demand due to high inflation and supply disruptions, while imports fell at a faster 10.6%, the second straight month of decrease, as domestic demand weakened amid widespread COVID curbs.

Labour Market

China's surveyed urban unemployment increased to 5.7% in November from 5.5% in October. The unemployment rate of the population aged 25-59 increased to 5.0% in November from 4.7% in October, while those aged 16-24 fell to 17.1%, 0.8% lower than the previous month.

Retail Trade

China's retail trade declined by 5.9% year-on-year in November, much faster than the 0.5% fall in October and worse than consensus of -3.7%. This was the second straight month of decrease in retail trade as consumption deteriorated due to the impact of a new wave of COVID infections and ongoing restrictions. Sales shrank for all categories: larger year-on-year moves were in cosmetics (-4.6% vs -3.7% October), clothing (-15.6% vs -7.5%), home appliances (-17.3% vs -14.1%), communications equipment (-17.6% vs -8.9%), and building materials (-10.0% vs -8.7%).

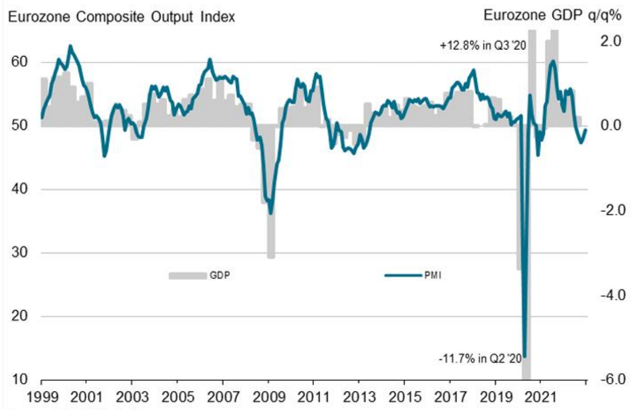
Europe

The European Union annual inflation rate was 10.1% in November 2022. A year earlier, the rate was 4.9%. While the unemployment rate remains at record low levels, Europe appears to be in a recession. To add to the recession woes, the ECB is still forecasting rate hikes, which will slow the economy further.

Growth

The eurozone economy remained mired in a downturn at the end of 2022, although there were signs that weakness was dissipating, as private sector business activity shrank only marginally and at the softest pace since last July. Alleviating pressure on the euro area economy was a further marked easing of inflation, leading to a slower fall in order books and another uptick in business confidence. That said, overall business sentiment remained historically subdued, reflecting company concerns regarding the energy market outlook, high inflation and the rising risk of recession. Meanwhile, although price pressures subsided, energy and personnel costs kept the overall rate of input price inflation in hot territory. Meanwhile, the labour market showed resilience again as employment rose for a twenty third successive month.

S&P Global Eurozone Composite PMI Output Index



Source: S&P Global, Eurostat.

Accessed: 11/01/2023

Inflation

According to Eurostat, the Euro Area annual inflation rate was 10.1% in November 2022, down from 10.6% in October. A year earlier, the rate was 4.9%. European Union annual inflation was 11.1% in November 2022, down from 11.5% in October. A year earlier, the rate was 5.2%.

The lowest annual rates were registered in Spain (6.7%), France (7.1%) and Malta (7.2%). The highest annual rates were recorded in Hungary (23.1%), Latvia (21.7%), Estonia and Lithuania (both 21.4%). Compared with October, annual inflation fell in sixteen Member States, remained stable in three and rose in eight.

In November, the highest contribution to the annual Euro Area inflation rate came from energy (+3.82%), followed by food, alcohol & tobacco (+2.84%), services (+1.76%) and non-energy industrial goods (+1.63%).

Labour Market

According to Eurostat, the Euro Area seasonally adjusted unemployment rate stood at 6.5% in November 2022, unchanged from the previous month's all-time low and down from 7.1% in the same month of 2021. The number of unemployed decreased by 2,000 from a month earlier to 10.849 million, the lowest level since comparable records began in 1995. Meanwhile, the youth unemployment rate, measuring jobseekers under 25 years old, edged up to 15.1% in November, from 15.0% in the previous month. Amongst the largest Euro Area economies, the highest jobless rates were recorded in Spain (12.4%), Italy (7.8%) and France (7.0%), while the lowest rates were recorded in the Netherlands (3.6%) and Germany (3.0%).

Policy

At their December meeting, the ECB Governing Council decided to raise the three key ECB interest rates by 0.50% and, based on the substantial upward revision to the inflation outlook, expects to raise them further. In particular, the Governing Council judges that interest rates will still have to rise significantly and at a steady pace to reach levels that are sufficiently restrictive to ensure a timely return of inflation to the 2% medium-term target. Keeping interest rates at restrictive levels will over time reduce inflation by dampening demand and will also guard against the risk of a persistent upward shift in inflation expectations. According to the ECB, the Governing Council's future policy rate decisions will continue to be data-dependent and follow a meeting-by-meeting approach.

Economic Scorecard – As of 16 January 2023

The below summarises the current position of major markets across Growth, Inflation, Interest Rates and Currencies. It also provides Insignia Research's view on the likely direction of these economic indicators over the next 12 months. **Please note that these views are not guarantees, and a range of factors could impact their direction such that the end outcomes are different to our predictions.**

	USA			Australia			EuroZone			China		
	Current	**Direction**	**1 Year Forward**	**Current**	**Direction**	**1 Year Forward**	**Current**	**Direction**	**1 Year Forward**	**Current**	**Direction**	**1 Year Forward**
Growth (Latest Qtr Nominal GDP)	0.7% (Rebound From Tech Rec)	Flat / Moderating	Recession / Below Trend	0.6% (About Trend)	Moderating	Below Trend (1) / Recession	0.2%	Weakening	Recession	3.9% (Rebound) (2)	Rebounding (Zero COVID)	At Trend
Inflation (Headline CPI)	7.1% (Significantly Above target)	Moderating	Above Target	7.3% (Above Target)	Peaking	Above Target	9.2% (Flash) (Significantly Above Target)	Moderating	Above Target	1.8% (Below Target)	Returning to Trend	At Target
Interest Rates (Official Cash Rate or Equivalent)	4.25%-4.50%	Increasing at a Slower Rate/ Contractionary	5.1% Higher With the Fed (Stable / Decreasing)	3.10% (5)	Increasing at a Slower Rate/ Contractionary	3.85% Trading Economics (Stable)	2.50% (3)	Increasing/ Contractionary	3.50% Trading Economics (Stable)	3.65% (4)	Stable/ Expansionary	Stable
		AUD/USD										
	Current	**Direction**	**1 Year Forward**									
Currencies (relative PPP basis)	0.70 (PPP 0.694) Less Than 1 Stdev	Risk Off	Fair Value Range									

Company news - best and worst performers for the December 2022 quarter

Chalice Mining Ltd 60.3%

Chalice Mining (CHN) surged higher after drilling results at its Julimar nickel, copper, and platinum project encountered high-grade mineralisation. The flowsheet development and scoping update showed that initial leaching test work has demonstrated strong potential to recover material quantities of palladium, platinum, and gold from floatation tails, as well as progress on developing a more robust mineral resource estimate, with over 60 step-out drill holes completed in 1Q23.

Virgin Money UK Plc – Cdi 56.9%

Virgin Money UK (VUK) performed strongly over December on the back of a broader rally in Financials, riding on the wave of positive inflation numbers in the UK, which suggests inflation may have peaked. The strong rise in interest rates and potential cap on inflation mean that VUK is in a better position to capture an increase in NIM, positive affecting margins and net income.

Telix Pharmaceuticals Ltd 53.7%

Telix (TLX) produced positive results from its Phase III study of ZIRCON therapy, with results supporting the potential for TLX250-CDx to change the standard of care. The PET/CT imaging agent is used in the characterisation of indeterminate renal masses previously identified on CT or MRI as clear cell renal cell carcinoma. Sensitivity results were >84% in all 3 Phase III readers, which considerably exceeds confirmatory trial sensitivity success target of 70%.

Star Entertainment Grp Ltd -31.4%

Star Entertainment Group (SGR) suffered another setback after the NSW Government announced an increase in the tax rate for poker machines and table games for both Star Entertainment Group and Crown Casinos, with the aim of generating $120m / year over the next 3 years. This comes as a further blow to the group after the NSW Independent Casino Commission revoked its gambling license, on top of cases against SGR from both ASIC and AUSTRAC for various risk management and governance failures. The additional tax puts increased pressure on SGRs financial position, while also increasing earnings uncertainty.

Magellan Financial Group Ltd -20.6%

Magellan Financial Group (MFG) suffered a further deterioration in FUM, with monthly FUM dropping 10% from $50.2bn (November 22) to $45.3m (December 22), with net outflows totalling $2.6bn and the balance through market movements. Embattled Magellan continues to endure negative press after poor performance through an overexposure in Chinese equities (high growth tech stocks) and issues with Hamish Douglas' personal life led to several large clients pulling mandates, causing the stock to tumble.

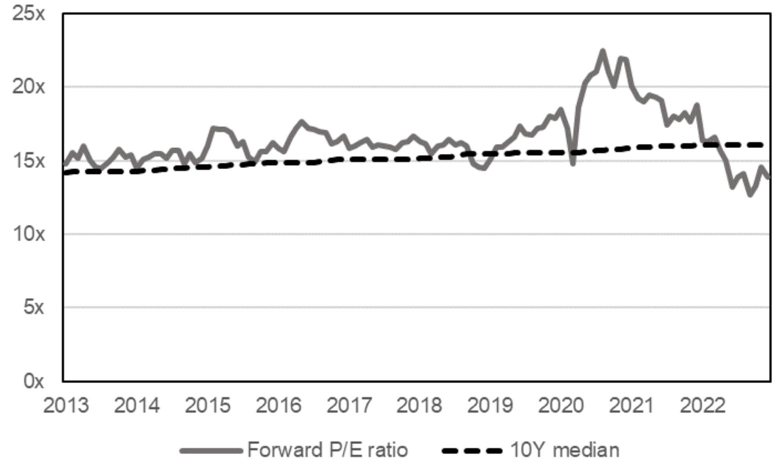
Sayona Mining Ltd -19.1%

Sayona Mining (SYA) announced positive developments in its mining operations, with its North American Lithium (NAL) open pit and spodumene concentrate mine was issued with the last remaining permit required to restart operations at its Quebec site. Commercial shipments of spodumene from NAL could begin as early as 1Q23.

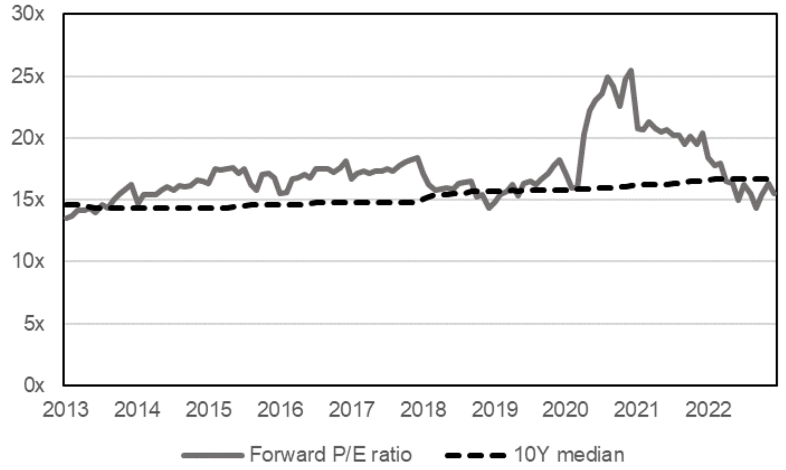
Sources: ASX company announcements, Bloomberg, Factset, Fund manager disclosures, Australian Financial Review, Sydney Morning Herald

Market valuations (Forward P/E vs 10Y median Forward P/E)

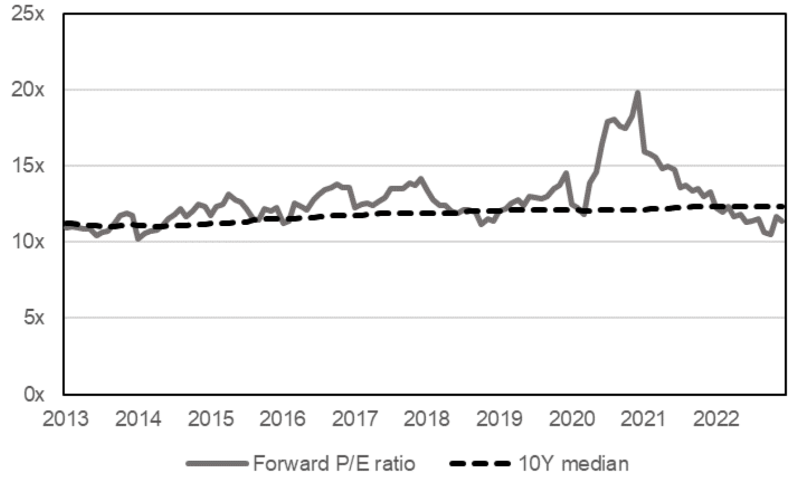
Australian Shares Forward P/E – spot vs trailing 10Y median (December-12 to December-22)



Global Shares Forward P/E – spot vs trailing 10Y median (December-12 to December-22)



Emerging Market Shares Forward P/E – spot vs trailing 10Y median (December-12 to December-22)



Sources: Bloomberg, MSCI, S&P (December 2022)

Indices (top to bottom): Australian Shares: S&P/ASX 200 Index; Global Shares: MSCI World ex Australia Index; Emerging Markets Shares: MSCI Emerging Markets index.

Performance as of 31 December 2022

					Annualised						
		1-mth	3-mth	6-mth	1-yr	3-yr	5-yr	7-yr	10-yr	15-yr	20-yr
Shares	Australia	-3.2%	9.4%	9.8%	-1.1%	5.5%	7.1%	8.4%	8.7%	5.1%	8.9%
	Australia - mid cap	-4.6%	7.2%	12.8%	-6.3%	10.0%	8.5%	11.6%	12.2%	5.7%	10.5%
	Australia - small cap	-3.7%	7.5%	7.0%	-18.4%	1.4%	2.9%	6.6%	5.1%	0.9%	6.6%
	Australia - micro cap	-3.6%	2.6%	7.5%	-22.5%	12.3%	8.2%	11.7%	6.5%	1.5%	-
	World ex Australia	-5.5%	3.9%	4.3%	-12.5%	6.2%	9.3%	9.6%	13.7%	7.3%	7.1%
	World ex Australia (Hedged)	-5.2%	7.2%	1.6%	-18.1%	3.9%	5.6%	8.3%	10.4%	6.9%	9.4%
	World - small cap	-5.0%	4.4%	6.3%	-13.3%	4.0%	6.3%	8.3%	12.9%	8.1%	8.9%
	Emerging Markets	-2.6%	4.0%	-1.6%	-14.3%	-1.5%	1.5%	6.2%	5.8%	2.4%	7.7%
Property & Infrastructure	A-REITS	-4.1%	11.5%	4.0%	-20.5%	-1.5%	3.3%	5.0%	8.1%	2.4%	5.3%
	Global REITs	-4.0%	1.3%	-4.2%	-19.7%	-3.8%	2.7%	2.9%	7.5%	3.9%	-
	Global REITs (hedged)	-3.8%	4.0%	-6.8%	-24.2%	-5.6%	-0.4%	1.7%	4.6%	3.1%	-
	Global infrastructure	-3.4%	3.4%	0.6%	2.0%	2.8%	7.8%	8.5%	11.7%	6.2%	-
	Global infrastructure (Hedged)	-2.8%	6.4%	-1.7%	-4.2%	1.2%	4.8%	7.3%	8.7%	7.6%	-
Growth Alternatives	Trend following (USD)	0.3%	-8.0%	-4.7%	8.9%	6.0%	2.9%	0.8%	3.3%	3.1%	4.6%
Fixed income	Australia Total Market	-2.1%	0.4%	-0.3%	-9.7%	-2.9%	0.5%	1.3%	2.3%	4.3%	4.3%
	Australia government bonds	-2.4%	0.2%	-0.5%	-10.4%	-3.2%	0.4%	1.2%	2.2%	4.2%	4.2%
	Australia corporate bonds	-0.6%	1.1%	1.0%	-6.7%	-1.2%	1.4%	2.3%	3.1%	4.9%	4.9%
	Australia floating rate bonds	0.3%	0.9%	1.6%	1.3%	1.1%	1.7%	2.2%	2.6%	3.6%	4.2%
	Global Total Market (Hedged)	-1.3%	0.6%	-3.2%	-12.3%	-3.2%	-0.2%	1.1%	2.3%	4.6%	5.1%
	Global government bonds (Hedged)	-1.7%	-0.2%	-3.7%	-11.7%	-3.2%	-0.2%	1.0%	2.4%	4.5%	5.0%
	Global corporate bonds (Hedged)	-0.8%	2.7%	-2.3%	-15.4%	-3.6%	-0.3%	1.7%	2.6%	5.1%	5.5%
	Global high yield bonds (Hedged)	-0.1%	6.0%	3.9%	-12.6%	-2.6%	0.1%	3.6%	4.0%	6.9%	8.7%
	Emerging Market bonds (Hedged)	0.1%	7.8%	1.8%	-20.1%	-6.8%	-2.6%	1.1%	1.5%	5.1%	7.5%
Cash	Bloomberg AusBond Bank Bill Index	0.2%	0.7%	1.2%	1.3%	0.5%	1.0%	1.3%	1.7%	2.7%	3.5%

Source: Bloomberg, IOOF

* AUD total returns as at Dec-22 assuming reinvestment of dividends
** Returns reflect index performance excluding any fees; Actual ETF/managed fund performance will vary due to both fees and tracking error.

Appendix – Index sources

Asset class	Index
Australian equities (S&P/ASX 200)	S&P/ASX 200 Accumulation Index
Australian equities - Mid caps	S&P/ASX Accumulation Midcap 50 Index
Australian equities - Small caps	S&P/ASX Accumulation Small Cap Ordinaries Index
Australian equities - Micro caps	S&P/ASX Emerging Companies Total Return Index
International equities	MSCI World ex Australia Net Total Return (in AUD)
International equities (Hedged)	MSCI World ex Australia Hedged AUD Net Total Return Index
International equities - Small caps	MSCI World Small Cap Net Total Return USD Index (in AUD)
Emerging Markets equities	MSCI Emerging Markets EM Net Total Return AUD Index
Australian REITs	S&P/ASX 200 A-REIT Accumulation Index
Global REITs	FTSE EPRA/NAREIT Developed Index Net Total Return (in AUD)
Global REITs (Hedged)	FTSE EPRA/NAREIT Developed Index Net Total Return (Hedged to AUD)
Global Infrastructure	FTSE Global Core Infrastructure 50/50 Net Total Return in AUD
Global Infrastructure (Hedged)	FTSE Global Core Infrastructure 50/50 100% Hedged to AUD Net Tax Index
Trend following	SGI Cross Asset Trend Following Index (USD)
Australian bonds	Bloomberg AusBond Composite 0+ Yr Index
Australian bonds – government	Bloomberg AusBond Govt 0+ Yr Index
Australian bonds – corporate	Bloomberg AusBond Credit 0+ Yr Index
Australian bonds - floating rate	Bloomberg AusBond Credit FRN 0+ Yr Index
Global bonds (Hedged)	Bloomberg Barclays Global Aggregate Total Return Index Value Hedged AUD
Global bonds - government (Hedged)	Bloomberg Barclays Global Aggregate Treasuries Total Return Index Hedged AUD
Global bonds - corporate (Hedged)	Bloomberg Barclays Global Aggregate Corporate Total Return Index Hedged AUD
Global bonds - High Yield (Hedged)	Bloomberg Barclays Global High Yield Total Return Index Hedged AUD
Emerging Market bonds (Hedged)	J.P. Morgan EMBI Global Core Hedged Index Level AUD
Cash (AUD)	Bloomberg AusBond Bank Bill Index