Monthly Economic Wrap

July 2022

Summary

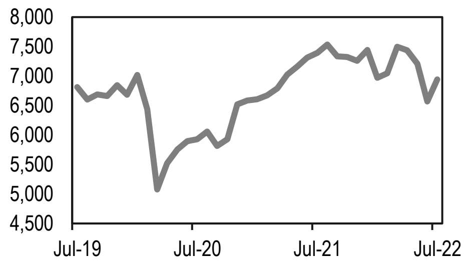
Economic

- The economic narrative has remained broadly unchanged from last month. That is, as financial conditions continue to tighten, due primarily to central banks' hiking cycles to tame inflation, the risks of an economic contraction increase. One of the key growth indicators, PMIs have moved into contractionary territory this month for many developed economies. Furthermore, the US recorded two successive quarters of negative growth, which is the definition of a technical recession.
- With no signs that inflation has peaked in many developed economies, there has been no meaningful change in central bank rhetoric to a pause or pivot to their hiking.
- Interestingly, in this environment, unemployment rates in many economies remain at historical lows. As with all markets, demand and supply factors are critical. Reduced labour supply has been a factor. In the US, it has been a net withdrawal of labour ("great resignation"), whilst in Australia supply has been constrained due to reduced immigration post the pandemic. However, with unemployment a lagging indicator, it is expected to rise as growth slows.

Markets

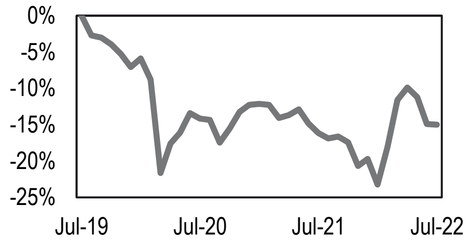
- Whilst the expectation of an economic contraction is generally negative for equities, many stock markets recorded a resurgence in July. In the US, one of the more plausible explanations has been that whilst the current earnings season continues to be weaker than normal, many companies' actual EPS have been higher than estimates.
- In fixed income markets, we have witnessed a 'bear flattening" in many yield curves. That is, whilst the short end remains elevated, the long end has contracted on the anticipation of declining economic growth. Unexpectedly, several credit spreads have also contracted. This has resulted in gains across most fixed income markets.

1. S&P/ASX 200 Price Index



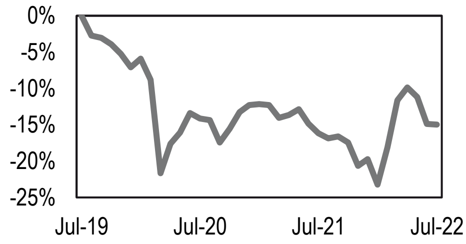
Source: Bloomberg, IOOF

2. ASX200 vs All-World, US$ terms



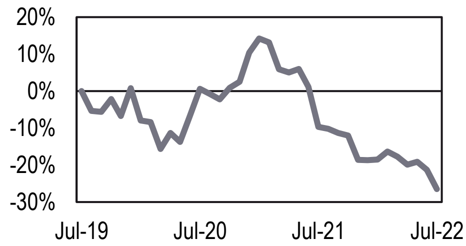
Source: Bloomberg, IOOF

3. Australia – Growth vs Value stocks



Source: Bloomberg, IOOF

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



Sector and stock returns – July 2022

ASX/S&P 200 Sectors (GICS)				
	Monthly	% Δ	Quarterly	% Δ
▲	Consumer Discretionary	8.22	Consumer Discretionary	-5.09
▲	Consumer Staples	4.34	Consumer Staples	-2.42
▲	Energy	2.12	Energy	1.13
▲	Financials ex Property	9.28	Financials ex Property	-7.06
▲	Financials	9.28	Financials	-7.06
▲	Health Care	7.69	Health Care	3.16
▲	Industrials	3.54	Industrials	-2.10
▲	IT	15.23	IT	-6.40
▼	Materials	-0.67	Materials	-12.98
▲	Property Trusts	11.93	Property Trusts	-9.70
▲	Telecommunications	4.82	Telecommunications	-5.48
▲	Utilities	3.13	Utilities	-5.10

Source: Bloomberg, IOOF

Best and Worst S&P/ASX 200 Performers			
Top five stocks		Bottom five stocks	
Monthly			
Zip Co Ltd	158.0	Coronado Global Resource-Cdi	-14.8
Megaport Ltd	77.8	EML Payments Ltd	-14.6
Telix Pharmaceuticals Ltd	63.1	Champion Iron Ltd	-10.9
Life360 Inc-Cdi	58.8	Graincorp Ltd-A	-10.4
St Barbara Ltd	50.0	Elders Ltd	-10.4
Quarterly			
Telix Pharmaceuticals Ltd	60.3	Lake Resources Nl	-58.9
Whitehaven Coal Ltd	26.2	Novonix Ltd	-45.9
New Hope Corp Ltd	25.1	Coronado Global Resource-Cdi	-39.0
Resmed Inc-Cdi	17.4	Evolution Mining Ltd	-34.8
Nanosonics Ltd	17.2	Champion Iron Ltd	-34.4

Source: Bloomberg, IOOF

Share Markets, Returns

	Australian Indices	31 Jul 2022 Price	1M return (%)	30 Apr 2022 Price	3M return (%)
▲	S&P/ASX 200	6945	5.74	7435	-6.59
▲	All Ordinaries	7174	6.33	7725	-7.13
▲	Small Ordinaries	2957	11.41	3299	-10.36
US Indices					
▲	S&P 500	4130	9.11	4132	-0.04
▲	Dow Jones	32845	6.73	32977	-0.40
▲	Nasdaq	12391	12.35	12335	0.45
Asia Pacific Indices					
▲	Hang Seng	20157	-7.79	21089	-4.42
▼	Nikkei 225	27802	5.34	26848	3.55
UK & Europe Indices					
▲	FTSE 100	7423	3.54	7545	-1.61
▲	CAC40	6449	8.87	6534	-1.31
▲	DAX Index	13484	5.48	14098	-4.35

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

After a particularly poor June quarter, global equity markets generally had a significant bounce during July, except for the Hong Kong market (Hang Seng) that lost 7.79%. The S&P 500 was up 9.11% for the month turning around what had been a downward trend since the start of the year. Given US equities make up the majority of the global market, depending on the index used, this drove returns on global equity funds.

Source: Google, accessed 2/08/2022.

Returns to 31 July 2022	1-mth	3-mth	6-mth	1-yr
MSCI World Index	6.4%	0.5%	-8.5%	-4.3%
Value	3.6%	-1.2%	-5.9%	2.1%
Value-Weighted	4.6%	-0.2%	-7.1%	1.5%
Momentum	3.4%	-2.1%	-11.6%	-10.9%
Growth	10.5%	1.3%	-11.4%	-11.5%
Quality	7.5%	0.5%	-9.2%	-7.5%
Low volatility	2.1%	-1.1%	-3.7%	-1.3%
Equal weight	6.9%	-6.1%	1.8%	0.5%
Small caps	8.1%	-0.5%	-7.5%	-9.8%

Source: Bloomberg, IOOF, MSCI

After being the worst performers for several months, growth stocks powered back to be up 10.5% for the month. These were followed by small caps (up 8.1%) and quality stocks (up 7.5%). Pleasingly, even the worst performing sectors for July were all positive, with the lowest performing sectors / styles being low volatility stocks (up 2.1%) and momentum stocks (up 3.4%). Overall, a very solid month for global equity returns.

Australian equity markets

The Australian market, as measured by the S&P/ASX 200 Index was up 5.74% for the month.

Returns to 31 July 2022	1-mth	3-mth	6-mth	1-yr
MSCI Australia Index	5.0%	-5.6%	3.6%	-1.0%
Value	1.9%	-8.4%	2.3%	-0.9%
Value-Weighted	5.1%	-6.7%	4.2%	2.5%
Momentum	4.7%	-8.0%	0.9%	-5.8%
Growth	10.5%	1.5%	-11.6%	-11.5%
Quality	6.9%	0.6%	-9.9%	-7.7%
Low volatility	5.2%	-6.0%	3.2%	-0.5%
Equal weight	6.9%	-6.1%	1.8%	0.5%
Small caps	11.4%	-9.9%	-6.6%	-10.9%

Source: Bloomberg, IOOF, MSCI

After last month, where all of the figures in the above table were negative, it was pleasing to see a very positive month for the Australian equity market. Small caps after being the laggard for the June quarter, bounced hard (up 11.4%). These stocks were followed by growth stocks which were up 10.5% for the month.

Value was the only lagging style this month, but still returned a positive 1.9%.

Overall, equity investors in general, did very well over the month of July.

Fixed Income

	Fixed Income	31 Jul 2022 yield	1M mvt (bps)	30 Apr 2022 yield	3M mvt (bps)
▲	Australian Cash rate	1.35	0.50	0.10	1.25
▼	10-year Bond Yield	3.06	-0.60	3.13	-0.07
▼	3-year Bond Yield	2.66	-0.46	2.71	-0.05
▲	90 Day Bank Accepted Bills SFE-Day	2.15	0.31	0.70	1.45
▼	US 10-year Bond Yield	2.65	-0.36	2.93	-0.28
▼	US 3-year Bond Yield	2.81	-0.20	2.89	-0.08
▼	US Investment Grade spread	2.03	-0.10	1.79	0.24
▼	US High Yield spread	5.08	-0.83	4.05	1.03

Source: Bloomberg, IOOF

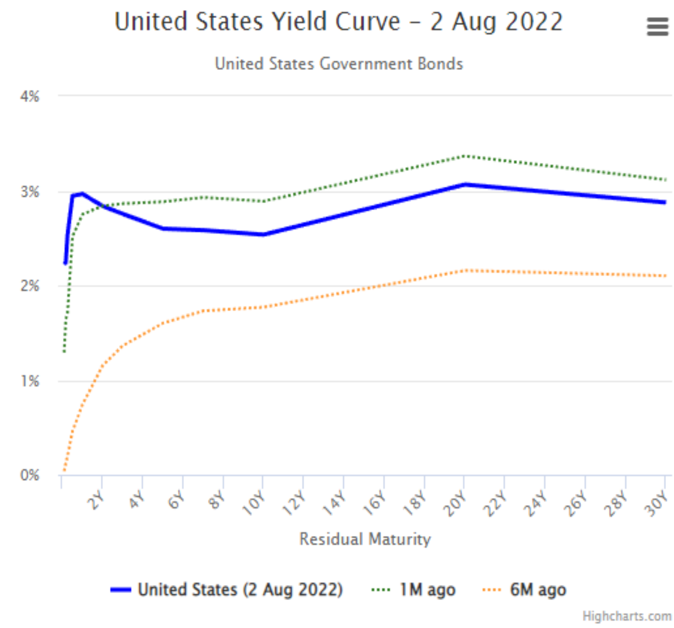
Australian bond market

After a very poor first half of the year, Australian Fixed Interest funds generally had a very good month in July, with the main Australian Fixed Interest index, the Bloomberg AusBond Composite 0+ Years Index returning 3.4%. Australian yields, across the curve, declined markedly, after a six-month period of almost continuous rises. During July, the Australian 10-year bond yield decreased by 0.60%, which is a large move by historical standards and reverses the trend seen so far this year. The Australian 3-year bond yield decreased by 0.46%, which is also large move by historical standards.

Credit spreads tightened over the month, further boosting returns to Fixed Interest investors on top of falling bond yields. July was the best month for Australian Fixed Interest investors since September 1998, but this only partially offsets the losses investors have suffered so far this year, as the Composite Index is still down around 6% since the start of the year.

US bond market

As can be seen in the chart below, over the last month, the yield curve steepened at the very short end. This means the market is expecting the Fed to raise rates even more quickly than previously expected. Over the month, the whole yield curve (except the short end) declined by approximately 20 – 40bps. This generally resulted in a good month for fixed interest investors. Note the inverted 2-year / 10-year part of the curve is generally seen as a precursor to a recession.



Source: http://www.worldgovernmentbonds.com/ (5 July 2022)

In the US, high yield credit spreads tightened by 83 basis points over the month, which was a great result for High Yield investors. This was a surprising result given that several economic indicators in the US are slowing and the US has now entered a technical recession. Having said that, we believe that the current high yield market pricing compensates investors for expected defaults and the tightening appears to be the result of investors re-entering the high yield market, as it is currently perceived as somewhat undervalued.

Currencies

	Currencies	31 Jul 2022 yield	1M mvt (bps)	30 Apr 2022 yield	3M mvt (bps)
▲	$A vs $US	69.85	1.19	70.61	-1.08
▲	$A vs GBP	57.39	1.24	56.16	2.20
▼	$A vs YEN	93.12	-0.62	91.65	1.60
▼	$A vs EUR	68.34	3.77	66.97	2.05
▲	$A vs $NZ	111.09	0.49	109.38	1.56
▼	$A TWI	63.10	2.10	63.10	--
▲	$US vs EUR	97.85	2.58	94.85	3.16
▲	$US vs CNY	6.74	0.67	6.61	2.06
▲	$US vs GBP	82.16	0.06	79.53	3.31
▼	$US vs JPY	133.27	-1.81	129.70	2.75
▼	$US vs CHF	95.24	-0.28	97.18	-2.00
▲	US Dollar Index	105.90	1.16	102.96	2.86
▼	JPM EM Curr. Index	50.42	-2.37	52.06	-3.16

Source: Bloomberg, IOOF

The US dollar index (DXY) ended July near 106, below the 20-year highs of 109.3 touched early in the month, and holding close to two-month lows, as investors try to assess the economic outlook and what the next Fed move will be.

One of the interesting developments, earlier in the month was the strength of the USD against the Euro, with the former reaching a 20 year high, and the latter breaking below parity. The Euro had been dragged down by recessionary fears and a bigger discrepancy between the ECB and the Fed. However, by the end of the month the Euro recovered above parity following the larger than expected 50bps hike from the ECB. Compounding this were reports of Eurozone growth and inflation topping analysts' estimates, strengthening the case for larger and faster ECB interest rate hikes.

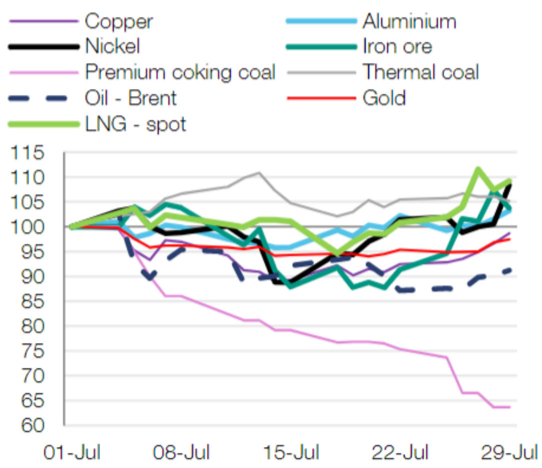
The AUD, which spent most of the month under 70 cents to the USD, finally ended the month above this threshold. Concerns over US growth, following confirmation of a technical recession, and expectations of higher Australian inflation, led to the view the interest rate differential between the two countries would contract.

Commodities

	Commodities	31 Jul 2022 yield	1M mvt (bps)	30 Apr 2022 yield	3M mvt (bps)
▲	Aluminium	2501	2.57	3053	-18.07
▼	Copper	357	-3.68	441	-19.03
▲	Nickel	23589	4.03	31781	-25.78
▲	Zinc	3388	6.86	4101	-17.37
▼	Crude Oil - Brent	110.01	-4.18	109.34	0.61
▲	Natural Gas	8.23	51.71	7.24	13.60
▼	Metallurg. Coal	200	-31.97	525	-61.90
▲	Thermal Coal	859	1.68	812	5.79
▼	Iron Ore	107.22	-17.52	150.77	-28.89
▼	Gold	1782	-2.50	1934	-7.89
▼	Silver	20	-0.76	23	-12.78

Source: Bloomberg, IOOF

Commodity prices were mixed in July. In the first half of the month most commodity prices fell on the back of rising global growth fears and a surging US dollar. In the second half of July, many commodity prices trended higher, with several commodities finishing the month higher. However, as illustrated in the following chart, coking coal prices continued to trend lower. Concerns around steel production outside China, unease of global oversupply, and lower steel futures all contributed to the fall.



Source: The Steel Index, Platts, Metals Bulletin, LME, COMEX, ICE, Bloomberg, CBA estimates

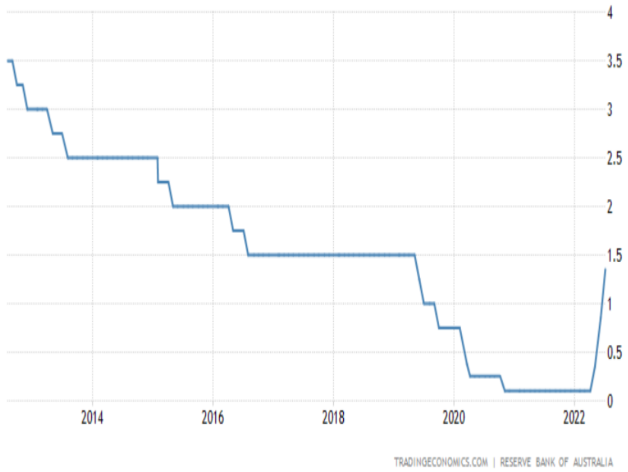
Sourced; CBA, 1 August 2022

Australia

During July, the RBA decided to raise the target cash rate by 0.50% to 1.35%, the third consecutive hike (it has subsequently raised rates again in August to 1.85%). Australia's unemployment rate decreased by 0.4% to 3.5% (the lowest level since August 1974). Headline inflation lifted by 1.8% over the June quarter and by 6.1% year-on-year.

Monetary Policy

Unlike the previous month, the RBA decision to hike by 50 basis points was not unexpected by markets.



Sourced: 1 August 2022

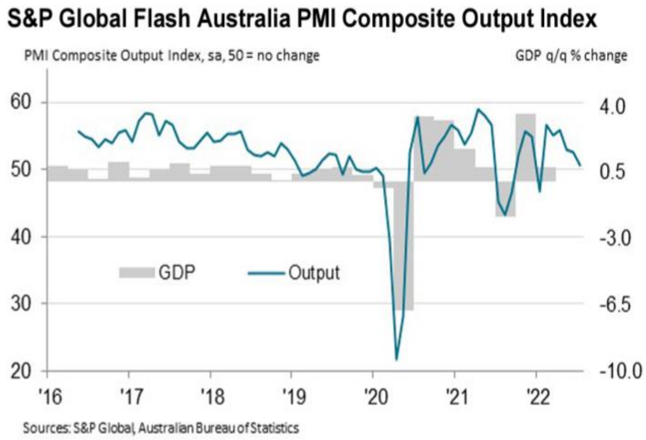
The Bank also did note that they are unlikely to hike rates as aggressively as market forecasts. They believe that medium-term inflation expectations remain well anchored, and that inflation is forecast to peak later this year and then decline back towards the 2–3% range next year.

Labour Market

In addition to the lowest unemployment rate since 1974 recorded in June, Australia's labour underutilisation (that is, unemployment and underemployment combined), fell to its lowest level since 1982. Given Australia's jobs growth has lagged the pre-COVID trend, while labour force participation has increased, the main explanation for Australia's 48-year low unemployment rate is that labour supply has grown much more slowly, thanks to negative immigration over the pandemic period.

Growth

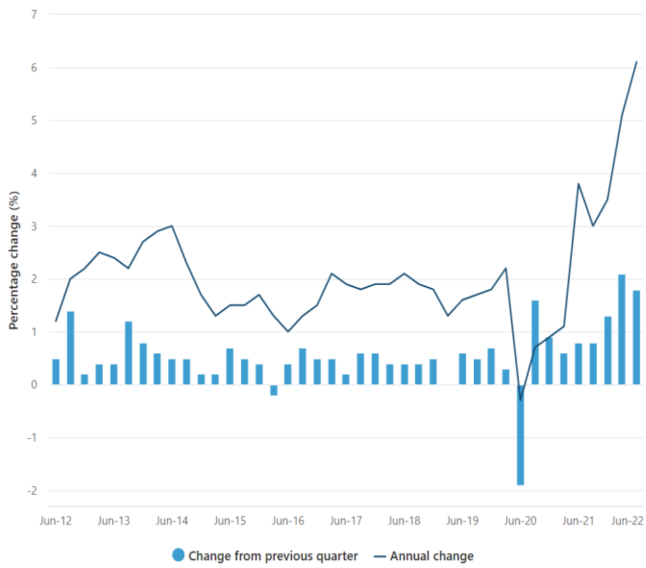
July marked a sixth consecutive month of Australian private sector growth, albeit one that was only mild and the slowest in the current sequence of expansion. This is important given the direction of PMIs is as relevant as their position. Another key feature is that given the services sector is a significantly larger percentage of GDP, when compared to manufacturing, the decline reinforces the view the Australian economy is following the slowdown in other developed economies.



Sourced: 22 July 2022

Inflation

The June quarter increase in headline inflation was the second highest since the introduction of the Goods and Services Tax (GST) in 2000, following on from a 2.1% increase last quarter.



Source: ABS, 28 July 2022

The rise in CPI was broad-based over the June quarter, with 10 of the 11 categories recording rises. Housing costs, which account for just under a quarter of the CPI basket and is the largest component of the CPI, increased 2.5% for the quarter. The cost of materials and labour costs (due to labour shortages) along with higher freight costs have been key contributing factors to the increase. New dwelling costs have increased by 20.3% for the year. Rent inflation also picked up in the quarter, reflecting very low vacancy rates in several capital cities. Food, clothing, and petrol also recorded increases, although the rise in petrol was offset by the temporary reduction in the fuel excise.

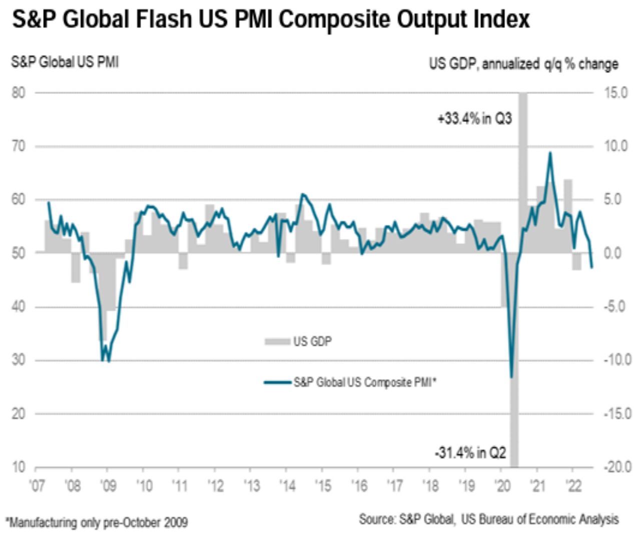
United States

The US is now in a technical recession. Inflation has hit another 40-year high. Headline inflation is now at 9.1%, with core inflation at 5.9%. Both figures were above market expectations.

Growth

In the US real Gross Domestic Product (GDP) decreased at an annual rate of 0.9% in Q2 2022, according to the advance estimate released by the Bureau of Economic Analysis. In the first quarter, real GDP decreased 1.6%, thus the US is in a technical recession. The decrease in real GDP reflected decreases in private inventory investment, residential fixed investment, federal government spending, state and local government spending, imports, and non-residential fixed investment. These were partly offset by increases in exports and personal consumption expenditures (PCE). There is an ongoing debate about whether this is a “real recession” given the strength of the employment market and ongoing wage rises. These will be key areas to monitor in coming months.

According to the S&P Global Flash PMI data for the US for July, the private sector economy has now moved into contractionary territory (less than 50).



Accessed: 2 August 2022

Labour Market

The number of U.S. workers on the job and the total hours worked fell in July, industry data has shown just days before the release of a monthly employment report that is expected to show the labour market cooled after a surprise economic contraction in the second quarter.

Employees worked approximately 12% fewer hours in July than in the previous month, according to an analysis from Homebase, a payroll scheduling and tracking company that tracks data for about 2 million employees working for more than 100,000 small businesses.

The data aligns with expectations for a slowdown in job growth in July when the U.S. Labor department releases its next monthly employment report. Non-farm payrolls likely increased by 250,000 jobs in July, after rising by 372,000 in June, according to a Reuters survey of economists. Private payrolls are forecast to have increased by 223,000 jobs.

Inflation

According to Trading Economics, the annual inflation rate in the US accelerated to 9.1% in June of 2022, the highest since November of 1981, from 8.6% in May and above market forecasts of 8.8%. Energy prices rose 41.6%, the most since April 1980, boosted by gasoline (59.9%, the largest increase since March 1980), fuel oil (98.5%), electricity (13.7%, the largest increase since April 2006), and natural gas (38.4%, the largest increase since October 2005).

Food costs surged 10.4%, the most since February 1981, with food at home jumping 12.2%, the most since April 1979. Prices also increased significantly for shelter (5.6%, the most since February 1991), household furnishings and operations (9.5%), new vehicles (11.4%), used cars and trucks (1.7%), and airline fares (34.1%). Core CPI which excludes food and energy increased 5.9%, slightly below 6% in May, but above forecasts of 5.7%.

Policy

The US Federal Reserve officials raised interest rates by 75 basis points for the second straight month, delivering the most aggressive tightening in more than a generation to curb surging inflation, but in doing so are risking a sharp blow to the economy. Policy makers, facing the hottest price pressures in 40 years, lifted the target range for the federal funds rate to 2.25% to 2.5%. That takes the cumulative June-July increase to 150 basis points, the steepest rise since the price-fighting era of Paul Volcker in the early 1980s.

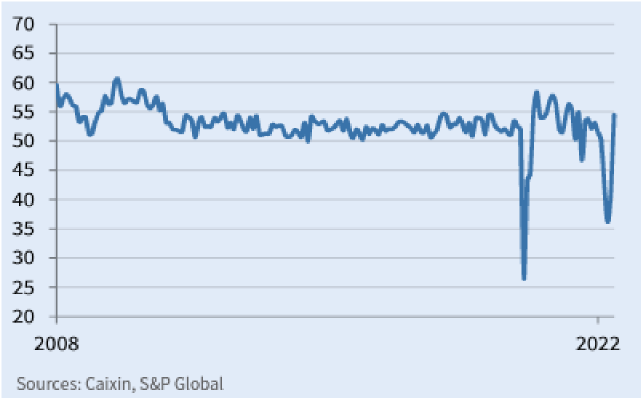
China

In the final weeks of June, Chinese authorities had increasing success in containing COVID outbreaks. This flowed through to July and resulted in a strong rebound and improvement in business conditions. This was illustrated in both the manufacturing and services PMIs, but was also noted in the credit impulse. However, business confidence remains subdue, and therefore we continue to remain cautious for the Chinese growth outlook.

PMI

In July there was a renewed and marked rise in activity across China's service sector. The upturn ended a three month period of falling output, with the rate of expansion the quickest recorded since July 2021. PMI survey respondents frequently mentioned that an improvement in the domestic COVID-19 situation and easing of restrictions had supported the recovery in activity.

China General Services Business Activity Index



Source: Caixin, S&P Global, accessed 20 July 2022.

Credit Impulse

The improvement in business conditions also translated into solid credit data. Two explanations for this outcome include: 1. activity growth recovery in June, including investment and "pent-up" property transactions, which contributed to the recovery of credit demand; 2. the strong policy push contributed both to credit demand and credit supply. The record-high government bond issuance mechanically added to overall Total Social Finance (TSF)[1] flows, an acceleration of major infrastructure projects added to credit demand, and PBOC's guidance on maintaining fast credit extensions likely also helped support loan growth.

China Broad Credit (TSF including Bonds)

Source: Macrobusiness, 12 July 2022

[1] TSF is a broad measure of credit & liquidity in the economy. It includes indirect finance via the banking system, and direct financing via stocks & bonds on the capital market

Business Confidence

Whilst output and credit rebounded strongly, concerns over future outbreaks of COVID-19, the impact of prolonged pandemic-containment measures and rising costs weighed on business confidence in China. Notably, optimism regarding the 12-month outlook for business activity fell to its lowest since the initial phase of the pandemic in early 2020. As a result, companies anticipate that staffing levels will stagnate over the next year. At the same time, firms forecast that non-staff costs will rise at a quicker rate than staff costs, but output price inflation is set to ease, leading firms to revise down profitability projections.

Sourced: 18 July 2022.

Europe

The eurozone economy likely contracted in July, according to early PMI indicators. The ECB has now commenced their rate tightening cycle with a 50-basis point hike across all key policy rates. Inflation remains very high at 8.9%.

Growth

The eurozone economy likely contracted in July, according to early PMI survey indicators, with output and new orders both falling for the first times since the COVID-19 lockdowns of early 2021. An accelerating downturn in manufacturing was accompanied by a near-stalling of service sector growth, as the rising cost of living continued to erode the tailwind of pent-up demand from the pandemic. Concerns over the weakening of demand were exacerbated by energy, supply and inflation worries to push business expectations lower, and also cause a steep drop in input buying and a pull-back in hiring.

Accessed: 2 August 2022.

Inflation

Euro zone inflation rose to another record high in July and its peak could still be months away, keeping pressure on the European Central Bank to opt for another big interest rate increase in September. Consumer price growth in the 19 countries sharing the euro currency accelerated to 8.9% in July from 8.6% a month earlier, far above expectations for 8.6% and well clear of the ECB's 2% target, according to data from Eurostat.

Inflation was initially driven by post-pandemic supply bottlenecks, but more recently the fall-out of Russia's war in Ukraine has been the main culprit, as it has pushed up energy, metals and food prices.

While high energy prices remain a major inflationary factor, processed food and services prices have also surged, suggesting that inflation is becoming increasingly broad.

Labour Market

In June 2022, the euro area seasonally-adjusted unemployment rate was 6.6%, stable compared with May 2022 and down from 7.9% in June 2021. The EU unemployment rate was 6.0% in June 2022, also stable compared with May 2022 and down from 7.2% in June 2021. These figures are published by Eurostat, the statistical office of the European Union. Eurostat estimates that 12.931 million men and women in the EU, of whom 10.925 million in the euro area, were unemployed in June 2022. Compared with June 2021, unemployment has decreased by 2.311 million in the EU and by 1.957 million in the euro area.

Policy

In the July policy meeting the European central bank, the ECB, commenced their rate tightening cycle with a 50-basis point hike across all key policy rates. The ECB signalled that further rate hikes were expected as they seek to bring inflation back down to their 2% p.a. target. Whilst the first-rate hike in 11 years was expected, markets were only pricing in a 25-basis point rise.

The ECB also introduced a new tool, the Transmission Protection Instrument (TPI). This tool is intended to stop disorderly moves in government bond markets. In short, the new tool will allow the Bank to buy bonds of countries it believes are experiencing an unwarranted deterioration in financing conditions. The scale of the bond purchases will depend on the severity of the risks involved. The Bank said this policy tool was part of the reason it was able to raise interest rates more than expected because it would ensure the smooth transmission of its policy goals.

Economic Scorecard – July 2022

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)	Negative 0.9% (Technical Recession)	Flat	Below Trend/Recession	0.80% (Above Trend)	Decreasing	Below Trend (1)	0.60% (Above Trend)	Moderating	Below Trend/Recession (1)	1.40% (Below Trend) (2)	Decreasing then increasing later in the year	At Trend
Inflation (Headline CPI)	9.1% (Significantly Above Target)	Moderating	Above Target	6.10% (Above Target)	Increasing next quarter before decreasing later in the year	Above Target	8.6% (Significantly Above Target)	Moderating	Above Target	2.50% Below Target	Stable	Below Target
Interest Rates (Official Cash Rate or Equivalent)	2.25%-2.5%	Increasing/ Contractionary	3.4% - Fed (Stable/Decreasing)	1.35% (5)	Increasing/ Contractionary	2.5% - RBA (Stable /Decreasing)	0.50% (3)	Increasing/ Contractionary	1%-2% - ECB (Stable)	4.45% (4)	Decreasing/ Expansionary	Stable at Lower Level
		AUD/USD										
	Current	**Direction**	**1 Year Forward**									
Currencies (Relative PPP Basis)	0.70 Fair Value Range	Range Bound	Fair Value Range									

(1) dependant on MP tightening cycle, & FP

(2) offical target is 5.5% for 2022 however it appears this target has now been abandoned following speech from Premier, Li Keqiang (dd 20 July)

(3) Main Refinancing Rate

(4) 5 yr LPR

(5) as at 31 July 2

Company news - best and worst performers for July 2022

Zip Co Ltd (+158.0%)

Zip Co (ZIP) rebounded off a historical low as negative consumer sentiment towards BNPL shifted. ZIP announced a mutual agreement to terminate the merger between ZIP and SZL after valuations plummeted from weak headline numbers for both companies. 3Q22 revenue was down -4% to $155m, TTV was down -21% to $2,021m, and transactions on the platform was down -16% to 18.3m. This is despite the string of acquisitions ZIP has made and casting a doubtful outlook as the mature Australian segment led the decline, indicating that other markets may do the same once they mature.

Megaport Ltd (+77.8%)

Megaport (MP1) also rebounded off a 52-week low after strong negative sentiment towards high growth tech stocks reversed. MP1 didn't release any significant announcements over July, however the stock rose sharply after announcing 4Q22 results which showed MP1 had achieved EBITDA profitability for the first time. Global MMR increased +13% QoQ to $10.7m, revenue increased +10% QoQ to $30.6m and number of customers increased 102 t0 2,643.

Telix Pharmaceuticals Ltd (+63.1%)

Telix Pharmaceuticals (TLX) also rebounded off 52-week lows after sharply negative sentiment towards growth stocks reversed. TLX made progress in June after announcing a distribution agreement with Isologic for Illuccix in Canada after making the first commercial doses in the US available. TLX also made progress on their Zircon Kidney Cancer Imaging Study with 252 patients enrolled and the trial entering into Phase III.

Coronado Global Resource-Cdi -14.8%

Coronado Global Resources (CDN) recorded quarterly group revenue up +9% to $1,033m, with Average Mining Costs/Tonne of $85.2, significantly higher than the original guidance of $69-71/tonne due to inflationary and other cost pressures. Total ROM production decreased -18% QoQ to 5.5Mt, however, sales volumes declined only -9.9% to 3.9Mt as CRN drew down on inventories. The outlook is weighed heavily on inflationary cost pressures and the Metallurgical coal price, both of which are suffering some headwinds after an initial spike in demand during the 2021 European winter and Russian-Ukrainian conflict.

EML Payments Ltd -14.6%

EML Payments (EML) suffered a string of setbacks in relation to its Irish subsidiary PFS Card Services after the Central Bank of Ireland declined its licence to issue cards citing insufficient compliance and AML controls. PFS is currently undergoing a remediation process with the CBI, however the outcome is still unclear. EML suffered a further setback in July after long-serving CEO Tom Cregan announced his resignation, with the Board appointing Emma Shand as the new CEO.

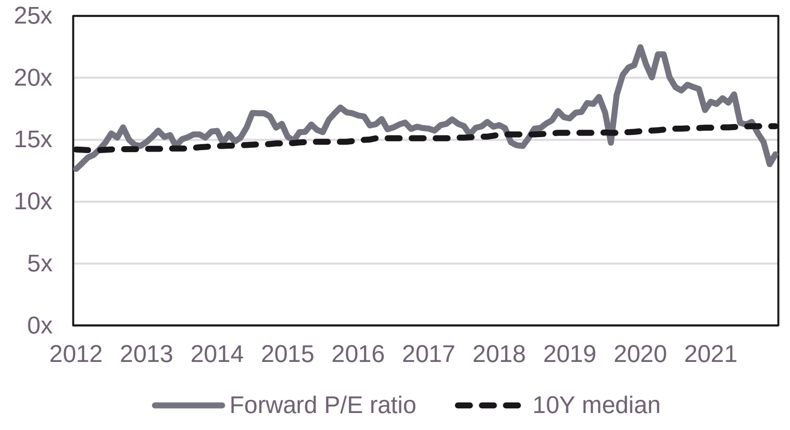
Champion Iron Ltd -10.9%

Champion Iron (CIA) declined on the back of a weaker iron ore price, which was mainly attributable to China's reoccurring COVID-19 lockdowns and the seasonal increase in iron ore supply from major producing hubs. High-grade iron ore premiums remained elevated amid supply disruptions caused by the Russian-Ukrainian conflict but declined from recent record levels due to low steel mill profit margins. Over 1Q23 CIA showed strong production volumes of 2.28Mt and sales volumes of 2.01Mt, however, lower prices saw revenues moderate to $279.3m for the quarter while EBITDA came in at $94.9m as CIA was not exempt from inflationary cost pressures experienced across miners.

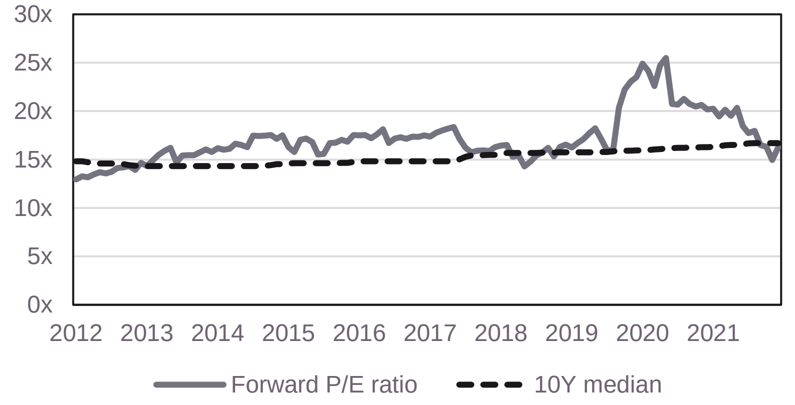
Sources: ASX company announcements, Bloomberg, Factset, Fund manager disclosures, Australian Financial Review, Sydney Morning Herald

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

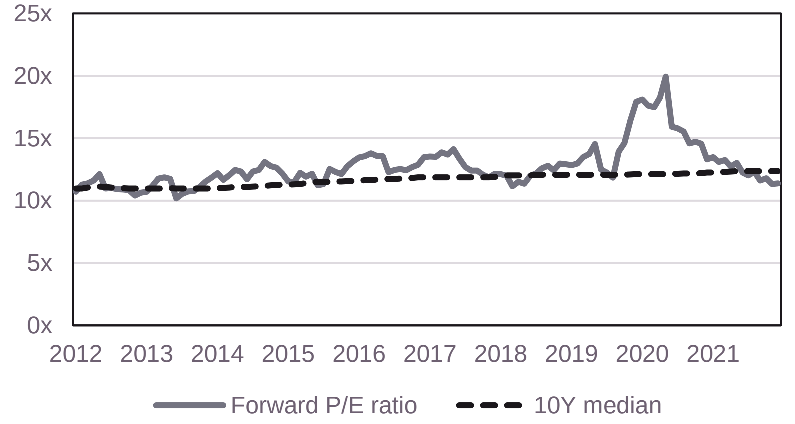
Australian Shares Forward P/E – spot vs trailing 10Y median (July-12 to July-22)



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



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



Sources: Bloomberg, MSCI, S&P (July 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.

Asset class performance to 31 July 2022 (Total returns in AUD)

				Annualised						
Asset class	1-mth	3-mth	6-mth	1-yr	3-yr	5-yr	7-yr	10-yr	15-yr	20-yr
Australia	5.7%	-6.0%	1.7%	-2.2%	4.3%	8.0%	7.1%	9.4%	5.2%	8.7%
Australia - mid cap	9.2%	-5.4%	-0.6%	-0.9%	9.1%	10.4%	11.4%	13.1%	5.9%	10.6%
Australia - small cap	11.4%	-9.9%	-6.6%	-10.9%	2.5%	7.3%	8.1%	6.5%	1.2%	6.8%
Australia - micro cap	14.3%	-14.1%	-10.8%	3.1%	15.2%	14.0%	13.7%	7.0%	2.1%	N/A
World ex Australia	6.4%	0.6%	-8.8%	-4.4%	9.2%	11.9%	9.3%	15.0%	7.4%	6.8%
World ex Australia (Hedged)	8.0%	-1.0%	-8.3%	-7.2%	8.7%	8.7%	8.6%	12.0%	7.4%	9.4%
World - small cap	8.1%	-0.5%	-7.5%	-9.8%	6.6%	9.0%	7.8%	14.3%	7.6%	8.5%
Emerging Markets	-1.7%	-4.7%	-15.4%	-15.8%	0.5%	3.7%	4.6%	7.2%	3.0%	7.5%
A-REITS	11.9%	-8.4%	-5.4%	-2.1%	0.1%	6.8%	6.3%	9.8%	2.6%	6.1%
Global REITs	6.4%	-4.0%	-8.3%	-5.2%	1.0%	6.0%	4.4%	9.5%	4.3%	N/A
Global REITs (hedged)	7.7%	-5.3%	-7.2%	-7.2%	0.8%	3.3%	3.8%	7.0%	3.8%	N/A
Global infrastructure	3.2%	2.4%	4.6%	12.0%	5.2%	9.2%	8.0%	12.7%	6.8%	N/A
Global infrastructure (Hedged)	4.7%	1.1%	4.9%	8.6%	5.3%	6.6%	7.5%	10.1%	8.5%	N/A
Trend following (USD)	-3.2%	-2.4%	9.5%	4.0%	6.2%	3.7%	0.7%	2.9%	3.8%	5.2%
Australia Total Market	3.4%	0.9%	-5.5%	-9.1%	-1.8%	1.5%	1.9%	2.9%	4.6%	4.8%
Australia government bonds	3.6%	1.0%	-5.7%	-9.5%	-2.0%	1.5%	1.9%	2.8%	4.6%	4.7%
Australia corporate bonds	2.4%	0.4%	-4.9%	-7.6%	-0.6%	2.0%	2.6%	3.6%	5.0%	5.2%
Australia floating rate bonds	0.2%	0.2%	-0.1%	-0.2%	0.8%	1.7%	2.1%	2.7%	3.6%	4.2%
Global Total Market (Hedged)	2.5%	0.6%	-5.6%	-8.2%	-1.0%	1.2%	2.1%	3.2%	5.3%	5.7%
Global government bonds (Hedged)	2.1%	0.3%	-5.1%	-7.6%	-1.2%	1.2%	2.1%	3.2%	5.2%	5.6%
Global corporate bonds (Hedged)	3.3%	0.4%	-8.1%	-11.7%	-1.1%	1.2%	2.6%	3.7%	5.7%	6.2%
Global high yield bonds (Hedged)	4.4%	-3.6%	-10.0%	-12.6%	-1.9%	0.6%	3.2%	5.0%	7.2%	9.4%
Emerging Market bonds (Hedged)	3.2%	-3.8%	-16.4%	-20.3%	-5.8%	-1.7%	1.3%	2.4%	5.7%	8.4%
Bloomberg AusBond Bank Bill Index	0.1%	0.2%	0.2%	0.2%	0.3%	0.9%	1.2%	1.7%	2.9%	3.6%

Sources: Bloomberg, IOOF calculations

* AUD total returns as at July-22 assuming reinvestment of dividends unless otherwise specified.

** 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

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