Quarterly Economic Wrap

September 2022

Summary

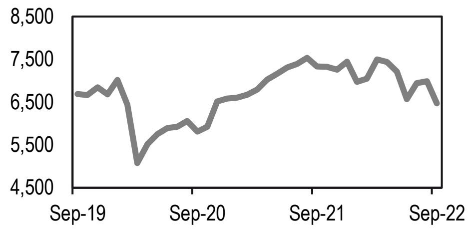
Economic

- The Fed continues to raise rates and the hawkish rhetoric is unchanged, with no indication that the Fed will pivot anytime soon. Interestingly, post the end of the quarter, the RBA only raised rates by 0.25% in October, which came as a mild surprise to the market.
- Inflation remains elevated, although we are starting to see some signs that inflation may be on the way down. Having said that, Europe, including the U.K. still seems to be struggling with inflation, in particular energy prices, so inflation remains at or near record highs. In the U.S., headline inflation came in a little lower than expected in the August print, but core inflation was higher.
- Unemployment rates remain very low across the developed world and are inconsistent with a recession scenario just at the moment. The US unemployment rate fell to 3.5% in September 2022, matching July's 29-month low and remaining below market expectations of 3.7%. This is a clear sign that overall labour market conditions in the U.S. remain tight.

Markets

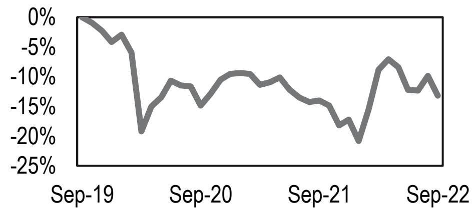
- The S&P 500 lost over 5%, while the Australian S&P 200 lost a relatively small 1.4% for the quarter. Low volatility stocks were the worst performers for the quarter, while Growth and Equal-weight were the best performing styles. This was consistent across both the Australian and global markets. From an Australian GICS sector perspective, Healthcare was the best performing sector, followed closely by Information Technology and Energy. The worst performing sectors were Utilities and Property Trusts, which was no surprise given they are some of the most interest rate sensitive sectors.
- Fixed income markets struggled during the September quarter. While Australian Fixed Interest produced positive returns for investors in July, this was more than offset by August and September's poor performance. Bond yields continued to rise, driven by both inflation and interest rate expectations.

1. S&P/ASX 200 Price Index



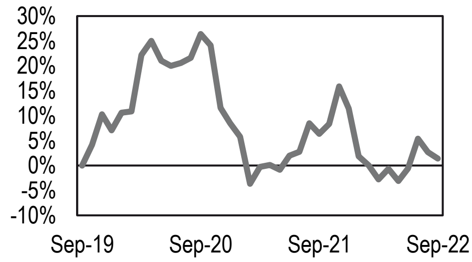
Source: Bloomberg, IOOF, 4 October 2022

2. ASX200 vs All-World, US$ terms



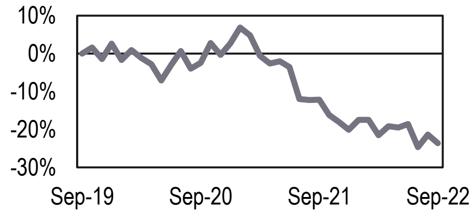
Source: Bloomberg, IOOF, 4 October 2022

3. Australia – Growth vs Value stocks



Source: Bloomberg, IOOF, 4 October 2022

4. Emerging markets vs Developed Markets, (AU$)



Sources: Bloomberg, MSCI, S&P, IOOF, 4 October 2022

Sector and stock returns – September 2022

ASX/S&P 200 Sectors (GICS)				
	Monthly	**% ∆**	**Quarterly**	**% ∆**
▼	Consumer Discretionary	-9.22	Consumer Discretionary	-1.96
▼	Consumer Staples	-5.81	Consumer Staples	-4.33
▼	Energy	-6.74	Energy	2.29
▼	Financials ex Property	-6.63	Financials ex Property	0.66
▼	Financials	-6.63	Financials	0.66
▼	Health Care	-5.05	Health Care	2.64
▼	Industrials	-10.40	Industrials	-6.34
▼	IT	-10.67	IT	2.53
▼	Materials	-5.87	Materials	-2.85
▼	Property Trusts	-13.75	Property Trusts	-7.53
▼	Telecommunications	-6.59	Telecommunications	-0.87
▼	Utilities	-14.87	Utilities	-13.62

Source: Bloomberg, IOOF

Best and Worst S&P/ASX 200 Performers			
Top five stocks		**Bottom five stocks**	
Monthly			
New Hope Corp Ltd	+28.4%	Link Administration Holdings	-33.5%
Pilbara Minerals Ltd	+24.9%	Imugene Ltd	-30.8%
Whitehaven Coal Ltd	+13.2%	Novonix Ltd	-27.3%
Megaport Ltd	+7.3%	Telix Pharmaceuticals Ltd	-23.7%
Coronado Global Resource-Cdi	+6.7%	Lake Resources Nl	-23.5%
Quarterly			
Pilbara Minerals Ltd	+99.1%	Link Administration Holdings	-24.5%
Whitehaven Coal Ltd	+86.2%	Domino's Pizza Enterprises	-24.2%
New Hope Corp Ltd	+81.8%	Adbri Ltd	-24.0%
Sayona Mining Ltd	+56.7%	Novonix Ltd	-22.8%
Lovisa Holdings Ltd	+54.0%	IRESS Ltd	-22.5%

Source: Bloomberg, IOOF

Share Markets, Returns

Australian Indices	30 Sep 2022 Price	1M return (%)	30 Jun 2022 Price	3M return (%)
▼ S&P/ASX 200	6474	-7.34	6568	-1.43
▼ All Ordinaries	6679	-7.58	6746	-1.01
▼ Small Ordinaries	2616	-11.79	2654	-1.45
US Indices				
▼ S&P 500	3586	-9.34	3785	-5.28
▼ Dow Jones	28726	-8.84	30775	-6.66
▼ Nasdaq	10576	-10.50	11029	-4.11
Asia Pacific Indices				
▼ Hang Seng	17223	-13.69	21860	-21.21
▼ Nikkei 225	25937	-7.67	26393	-1.73
UK & Europe Indices				
▼ FTSE 100	6894	-5.36	7169	-3.84
▼ CAC40	5762	-5.92	5923	-2.71
▼ DAX Index	12114	-5.61	12784	-5.24

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

Equities continued to be influenced by US risk on/risk off sentiment in Q3. The S&P 500 rallied through July and the 1st half of August as investors factored in that peak inflation may have occurred, and that the Fed may moderate its supersized rate increases. Equity markets pivoted downward even before the Fed re-affirmed its restrictive stance in August, especially if economic data suggested it remained prudent to do so. Then the August Core CPI figure came in higher than expected.

Source: S&P 500, Insignia Financial Research, accessed 1/09/22.

Returns to 30 September 2022	1-mth	3-mth	6-mth	1-yr
MSCI World Index	-3.3%	0.3%	-8.2%	-9.7%
Value	-2.4%	-0.3%	-4.4%	-2.0%
Value-Weighted	-3.2%	-0.4%	-5.6%	-4.7%
Momentum	-1.2%	1.3%	-10.0%	-13.7%
Growth	-4.2%	2.1%	-12.8%	-18.0%
Quality	-3.1%	-0.2%	-10.0%	-12.7%
Low volatility	-1.6%	-0.7%	-3.5%	-2.6%
Equal weight	-7.2%	1.9%	-10.1%	-6.8%
Small caps	-4.3%	1.8%	-8.5%	-15.9%

Source: Bloomberg, IOOF, MSCI

The higher-than-expected US August Core CPI on 13 September removed any expectation that the Fed could begin to ease their rate increases, instead expectations for interest rates moved higher, the expected peak Fed Funds rate increased from 4 to 4.5% early 2023 and the expected timeframe the rate would remain high lengthened as it became clearer that the Fed would not "prematurely" ease and allow inflation to get away from them.

Global equity markets felt the change in expectations with major bourses erasing a week's worth of gains in a single day. This sentiment continued and markets declined throughout September. The UK Mini budget was not well received by the markets punishing the pound and the FTSE towards the month end.

Global Equities had one shining factor, the strong US$, which helped mitigate some of the global equity market declines from an Australian investor perspective.

Australian equity markets

The Australian market, as measured by the S&P/ASX 200 Index was down 7.3% for the month.

Returns to 30 September 2022	1-mth	3-mth	6-mth	1-yr
MSCI Australia Index	-5.7%	-0.2%	-10.8%	-6.0%
Value	-4.0%	-0.1%	-11.5%	-1.7%
Value-Weighted	-5.3%	0.2%	-11.3%	-2.9%
Momentum	-6.6%	-1.1%	-13.0%	-9.9%
Growth	-4.1%	2.2%	-12.7%	-17.9%
Quality	-3.2%	-1.4%	-10.9%	-13.6%
Low volatility	-6.5%	-2.4%	-11.4%	-8.1%
Equal weight	-7.2%	1.9%	-10.1%	-6.8%
Small caps	-11.2%	-0.5%	-20.8%	-22.6%

Source: Bloomberg, IOOF, MSCI

Australian equities held up a little better than the US markets in the recent pull back (in local currency terms), but the Australian market also didn't rally as strongly from the mid-June lows either.

Fixed Income

	Fixed Income	30 Sep 2022 yield	1M mvt (bps)	30 Jun 2022 yield	3M mvt (bps)
▲	Australian Cash rate	2.35	0.50	0.85	1.50
▲	10-year Bond Yield	3.89	0.29	3.66	0.23
▲	3-year Bond Yield	3.52	0.32	3.12	0.40
▲	90 Day Bank Accepted Bills SFE-Day	3.06	0.59	1.85	1.22
▲	US 10-year Bond Yield	3.83	0.64	3.01	0.82
▲	US 3-year Bond Yield	4.29	0.77	3.01	1.28
▲	US Investment Grade spread	2.24	0.17	2.13	0.11
▲	US High Yield spread	5.85	0.63	5.91	-0.06

Source: Bloomberg, IOOF

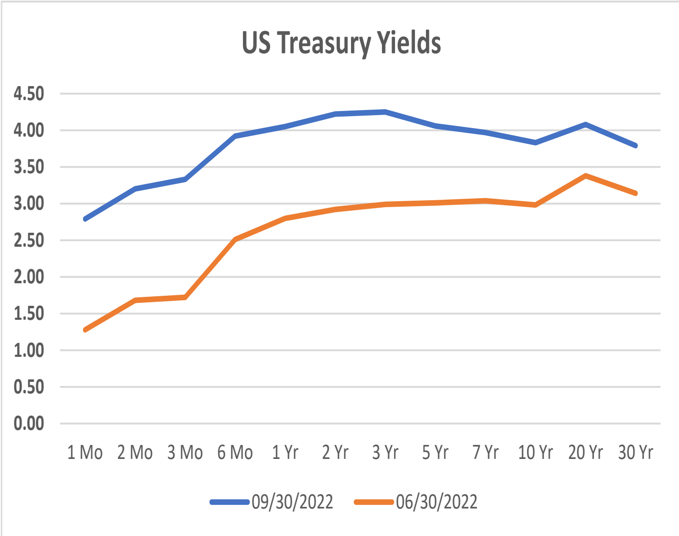
Australian bond market

Australian Fixed Interest funds in general had a poor quarter, with the main Australian Fixed Interest index, the Bloomberg AusBond Composite 0+ Years Index losing 0.6%. Australian yields, rose across the curve, with the short end factoring in expected interest rate rises and increasing by around 0.7%, while the long end of the curve rose by a more sedate 0.23%. So, while Australian Fixed Interest had a good month in July, this was more than offset by August and September's poor performance.

Australian corporate bonds were relatively flat over the September quarter, with the Bloomberg AusBond Credit 0+ Years Index losing just 0.1%. Note this index has approximately 3.5 years of duration, so the rising yields had a greater impact on performance during the quarter than the coupon income and movements in credit spreads did.

US bond market

Over the quarter, Government bond yields rose at a dramatic rate, meaning bond prices fell, as inflation remained elevated, and the Fed reaffirmed its commitment to reining in price increases. As can be seen in the chart below, over the quarter, the yield curve has risen significantly across the board. This resulted in negative returns for the September quarter for fixed interest investors. Note the 2-year / 10-year part of the curve is inverted (2 year rates are higher than 10 year rates). This is usually considered to be a leading indicator for a pending recession.



Source: U.S. Department of the Treasury, accessed 7 October 2022

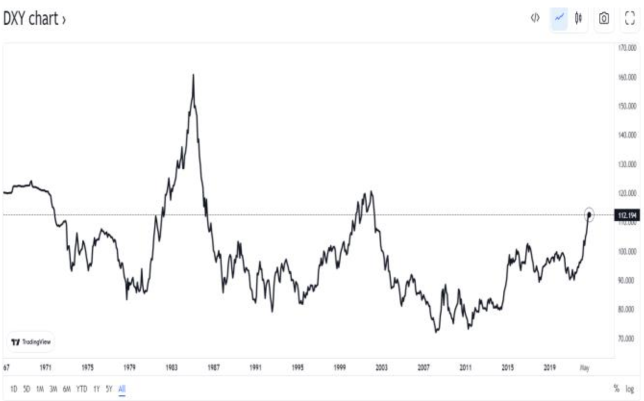
In the U.S., over the quarter, high yield credit spreads tightened by 6 basis points. For the quarter, Global High Yield bonds as measured by the Bloomberg Barclays Global High Yield Total Return Index Hedged AUD lost 1.9%. While the contraction in credit spreads added to performance, both duration and currency hedging detracted from performance and more than offset the small gain from the credit spreads. Fundamentals in the high yield market still look fairly sound, however, given most U.S. economic indicators show the U.S. is in an economic downturn, valuations are therefore less attractive. As previously stated, the quality of the high yield market has improved in recent years and the low interest rate environment led many issuers to extend their debt maturity profile, which has strengthened a significant number of high yield companies.

Currencies

	Currencies	30 Sep 2022 Price	1M return (%)	30 Jun 2022 Price	3M return (%)
▼	$A vs $US	64.00	-6.46	69.03	-7.29
▼	$A vs GBP	57.35	-2.59	56.69	1.16
▼	$A vs YEN	92.65	-2.55	93.70	-1.11
▼	$A vs EUR	65.31	-4.05	65.86	-0.84
▲	$A vs $NZ	114.36	2.28	110.55	3.45
▼	$A TWI	61.50	-2.84	61.80	-0.49
▲	$US vs EUR	102.02	2.56	95.39	6.95
▲	$US vs CNY	7.12	3.27	6.70	6.22
▲	$US vs GBP	89.53	4.06	82.11	9.04
▲	$US vs JPY	144.74	4.16	135.72	6.65
▲	$US vs CHF	98.70	0.97	95.51	3.34
▲	US Dollar (DXY)	112.12	3.14	104.69	7.10
▼	JPM EM Curr	48.44	-3.24	51.64	-6.21

Source: Bloomberg, IOOF

The US dollar index (DXY) ended September at 112 the highest monthly close of the index since April 2002. To put the strength of the US dollar relative it its trading partners into context, the last time the DXY was at these levels, it peaked at 120.04 on 28 January 2002, which was the highest level since February 1986.



Source: tradingview.com 7 October 2022

The USD continues to benefit on the increasing "carry" of higher interest rates and having a "healthier" economy than developed market peers. The USD also benefits from its reserve currency status and the current risk off as the UK and European countries struggle with inflation and economic weakness.

The AUD has been weak against the strong US, but the relative health of our economy and the RBAs proactive increase rate stance has provided solid foundation for our currency despite price weakness in our key exports Coal and Iron.

Commodities

	Commodities	30 Sep 2022 Price	1M return (%)	30 Jun 2022 Price	3M return (%)
▼	Aluminium	2164	-8.57	2450	-11.65
▼	Copper	341	-3.01	372	-8.30
▼	Nickel	21012	-1.66	22718	-7.51
▼	Zinc	3018	-13.81	3151	-4.22
▼	Crude Oil/Brent	87.96	-8.84	114.81	-23.39
▼	Natural Gas	6.77	-25.87	5.42	24.74
▼	Metallurg. Coal	273	-4.21	294	-7.14
▲	Thermal Coal	898	0.11	845	6.34
▼	Iron Ore	98.31	-6.16	130.00	-24.38
▼	Gold	1672	-3.14	1828	-8.51
▲	Silver	19	6.47	21	-7.16

Source: Bloomberg, IOOF

Commodity prices have experienced a poor quarter as stubborn inflation figures and higher interest rates weigh on current and expected global growth. The war in Ukraine and the interruptions to gas supply to Europe helped lift Natural Gas prices and to a lesser degree Thermal Coal.

Oil prices have come under substantial pressure over the quarter despite OPEC Plus reducing production by a nominal 100k barrels per day (bpd) in August. In its August Market Report, OPEC estimated that global crude oil demand would fall by around 300k bpd in both 2022 and 2023. The International Energy Agency (IEA) also noted that sudden demand spikes borne out of easing pandemic restrictions are set to drop in Q4 2022.

Source: dailyfx.com/crude-oil Sourced 7 October.

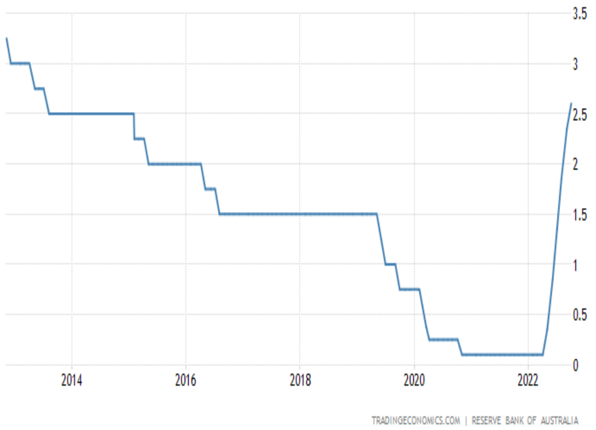
On Wednesday 5 October, Saudi Arabia and Russia, acting leaders of the OPEC Plus energy cartel, agreed to a cut of 2m bpd (2% of global production) despite US and European leaders urging for more oil to ease prices and punish Moscow for its aggression in Ukraine.

Australia

In its October meeting the RBA Board increased the cash rate target by 0.25% to 2.6%. The RBA has now raised rates by 2.5% over 5 months. Australia's labour market remains tight, however the full impact of the recent interest rate increases has yet to fully flow through the economy.

Monetary Policy

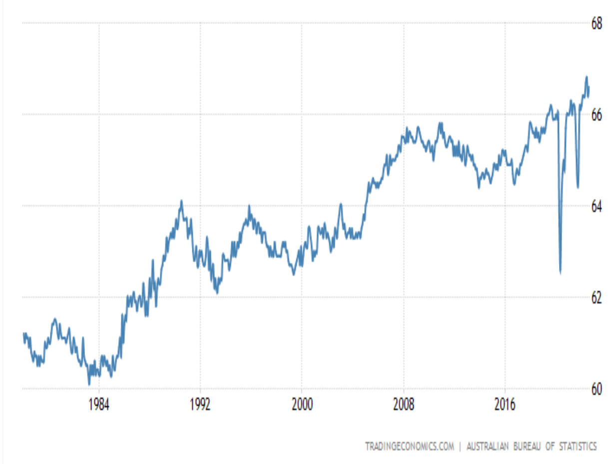
The 0.25% increase on 4 October surprised financial markets where consensus expected 0.5%. RBA Governor Dr Philip Lowe stated "*despite the slowing pace, inflation was still too high, and the board remained "resolute in its determination to return inflation to target and will do what is necessary. Price stability is a prerequisite for a strong economy and a sustained period of full employment.*" Dr Lowe expected inflation to peak at 7.75% and fall back to 2%-3% in late 2024. Since 4 May the RBA has raised rates by 2.5%, a significant figure as it is also the mandated serviceability buffer used for almost 200,000 first home buyers between September 2020 and October 2021.



Australian Interest Rate, Sourced:10 October 2022

Labour Market

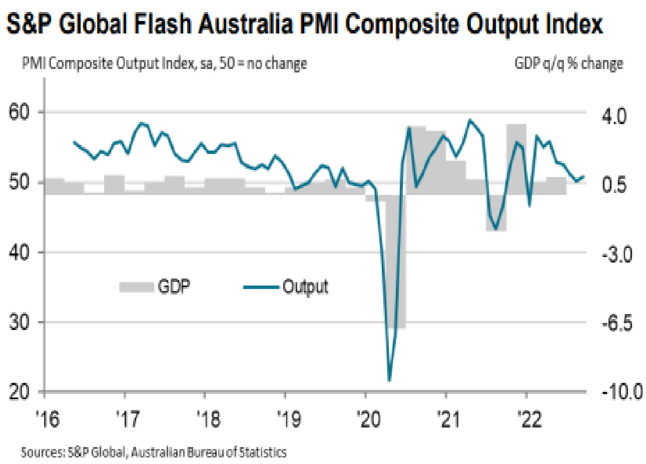
Australia's job market continues to remain tight with the Unemployment Rate at 3.5% in August, edging up slightly from July's record low (3.4%). The Labour force participation rate increased in August to 66.6%. To put the strength of the participation rate into context, the statistic averaged 63.5% from 1978 until 2022, with an all-time high of *66.8% in June this year.*



Australia Labour Force Participation Rate. Sourced: 10 Oct 2022

Growth

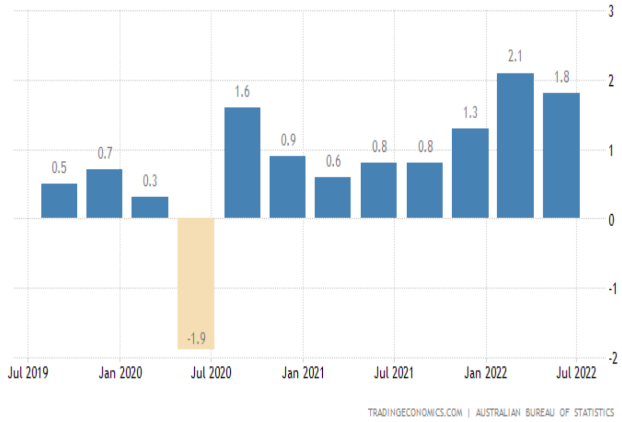
The S&P Global Flash Australia Composite PMI Output Index increased to 50.8 (flash reading) in September up from 50.2 in August (final reading). The rate of expansion, however, remained mild overall with demand conditions subdued, particularly in the service sector (Sept 50.4 v's Aug 50.2). Australia private sector workforces expanded, extending the current sequence of job creation to just over a year. The rate of hiring, however, softened to an eight-month low amid sustained reports of labour shortages.



Sourced: S&P Global, accessed 6 September 2022

Inflation

The official inflation is published monthly and is currently at 20-year highs at 6.1% in Q2, the Q3 statistic is expected on 26 October. Consumer Inflation Expectations reduced again down from 5.9% to 5.4% in August. While Q3 and Q4 inflation figures are still only assumptions, the known Q3 2021 0.8% quarterly figure is rolling off the annual number.



Australia Inflation Rate QoQ, Sourced: 10 October 2022

If the Q3 2022 inflation comes in at 0% the annual figure will be 5.3% which puts the Consumer inflation expectations at the very low side of forecast. The median Bloomberg forecast for Q3 2022 is 1.6% which would bring the annual figure to 7%, which is closer to RBA Governor Dr Lowe's forecast peak inflation in 2023 of 7.75%.

United States

The "dot plot" is still indicating higher rates from the Fed to come. Economic indicators seem to be pointing to a recession, but the Conference Board doesn't believe the U.S. is in a recession due to the labour market remaining very strong.

Growth

The Conference Board forecasts that economic weakness will intensify and spread more broadly throughout the U.S. economy in the second half of 2022. It expects a recession to begin before the end of the year. This outlook is associated with persistent inflation and the increasing hawkishness by the Federal Reserve. The Conference Board forecasts that 2022 Real GDP growth will come in at 1.4% year-on-year and that 2023 growth will slow to 0.3% year-on-year.

While the Conference Board does not believe the U.S. economy is currently in recession, due to strength in a number of sectors and the extremely tight labour market, they expect that a broad downturn in the economy is on the way. Nevertheless, they are upgrading their forecast for Q3 2022 from 0.0% to 0.3%, largely due to an upward revision in the previous quarter's GDP data and several indicators pointing to a slight improvement in the economic momentum at the beginning of the quarter. However, they expect these improvements to be short-lived, as the Fed continues to raise interest rates to curb stubbornly high inflation readings. While consumer spending isn't likely to contract until Q4 2022, it is expected that non-residential investment will buckle under the weight of higher interest rates sooner. Residential investment will continue to contract, as the housing market finds a new equilibrium.

Labour Market

US JOLTS (Job Openings and Labor Turnover Survey) data was much weaker than expected. The number of job openings in the U.S. dropped to 10.1 million in August of 2022, the lowest since June 2021 from a downwardly revised 11.2 million in July and a record level of 11.9 million in March. Figures came below market expectations of 10.775 million, but were still above pre-pandemic levels, suggesting demand for workers remained strong. The largest decreases were in health care and social assistance (-236,000), other services (-183,000), and retail trade (-143,000). Meanwhile, 4.2 million Americans quit their jobs in August, little changed from the prior month, with the so-called quits rate unchanged at 2.7%. Also, the ratio of openings to unemployed persons declined with 1.7 jobs for every unemployed person in August, down from about 2 in July.

Inflation

The annual inflation rate in the U.S. eased for a second straight month to 8.3% in August of 2022, the lowest in 4 months, from 8.5% in July, but above market forecasts of 8.1%. The energy index increased 23.8%, below 32.9% in July. Smaller increases were reported for gasoline costs (25.6% vs 44%) and fuel oil (68.8% vs 75.6%), while inflation sped up for natural gas (33% vs 30.5%) and electricity (15.8%, the most since August 1981). Meanwhile, inflation rose for food (11.4%, the most since May of 1979), shelter (6.2% vs 5.7%), used cars and trucks (7.8% vs 6.6%).

Compared to the previous month, consumer prices were up 0.1%, following a flat reading in July and compared to forecasts of a 0.1% drop. The U.S. CPI index was at 296.17 points in August, compared with 296.28 points in the prior month and market forecasts of 295.53 points.

Policy

Along with the massive rate increases, Fed officials signalled the intention of continuing to hike until the funds level hits a “terminal rate,” or end point, of 4.6% in 2023. That implies a quarter-point rate hike next year, but no decreases. The “dot plot” of individual members’ expectations doesn’t point to rate cuts until 2024. Powell and his colleagues have emphasised in recent weeks that it is unlikely rate cuts will happen next year, as the market had been pricing.

The dot plot showed virtually all members on board with the higher rates in the near term, though there were some variations in subsequent years. Six of the 19 “dots” were in favour of taking rates to a 4.75%-5% range next year, but the central tendency was to 4.6%, which would put rates in the 4.5%-4.75% range. It should be noted that the Fed targets its fund rate in quarter-point ranges.

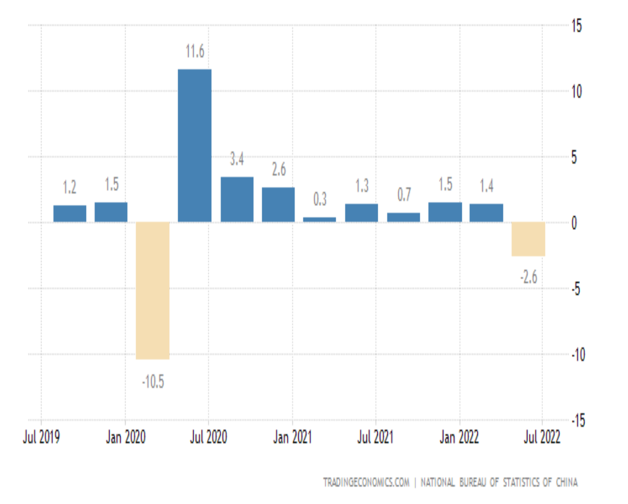
China

The Zero COVID policy continues to be a challenge for the economy, as Chinese medical experts work on a long-term successful vaccine. GPD, Private and Government PMIs are in contraction territory and a low inflationary level of only 2.9% suggest that conditions warrant stimulatory steps.

China’s biggest city, Shanghai *(pop: 24.9m)* remained locked down earlier this quarter. It entered lockdown on 21 March, with final restrictions only cleared and normal procedures implemented on 7 August. China’s Zero tolerance and lockdown approach has had significant negative repercussions economy wide.

GDP

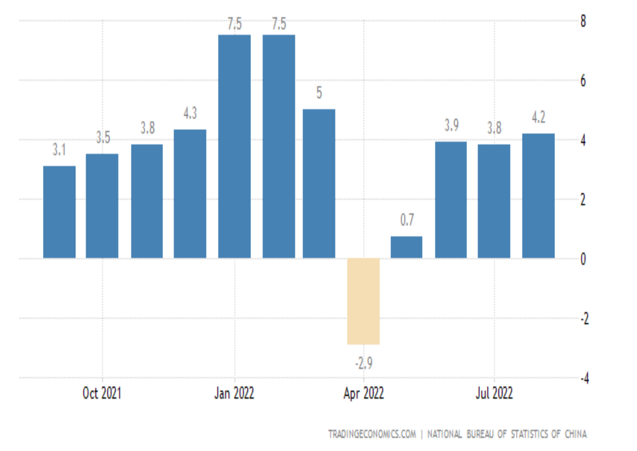
The second quarter GDP figure published at the beginning of July was poor, declining -2.6%, influenced by the COVID lockdowns. As a result, Chinese GDP yoy was only an anaemic +0.4%. Third quarter data is expected on 18 October and consensus forecast for the quarter is +1.3% lifting the yoy GDP slightly to 0.8%.



China GDP Growth Rate QoQ. Sourced: 10 October 2022

Industrial Production

On the positive side, China's industrial production grew by 4.2% p.a in August, coming in above July’s figure and consensus, both at 3.8%. It was the fourth straight month of growth in industrial output and the steepest pace in the sequence following signs that the recent COVID wave may have peaked.



China Industrial production. Sourced: 10 October 2022

Production accelerated for both manufacturing (3.1% vs 2.7% in July) and utilities (13.6% vs 9.5%). Within manufacturing, output grew faster for automobile and electricity & heat production and supply industries.

Balance of Trade

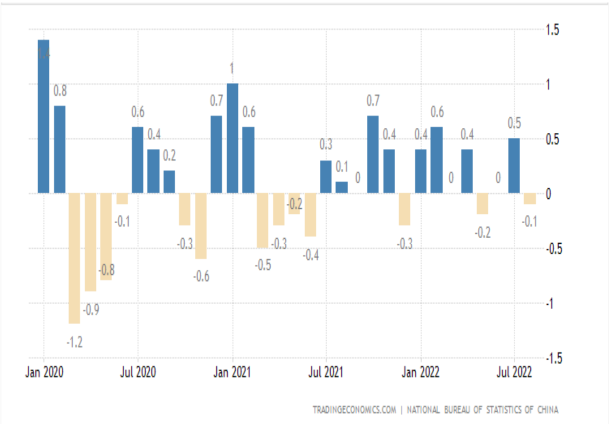
China's trade surplus unexpectedly dropped to a three-month low of US$79.39bn in August below market forecasts of US$92.7bn, due to a softer rise in exports, amid disruption in factory output following COVID curbs and heatwaves. Foreign demand eased as inflation spiked in many countries. Shipments increased 7.1%

yoy, below expectations of 12.8%, while imports were up 0.3%, also softer than forecasts of a 1.1% growth.

China Balance of Trade. Sourced: 10 October 2022

Inflation Rate

The Chinese economy continues to diverge from western economies who are seeking, to varying levels of aggressiveness to raise rates to battle inflationary pressures. China's annual inflation rate unexpectedly fell to 2.5% in August below to 2.7% and below expectations of 2.8%. Cost of food is still high at 6.1% but is down from 6.3% in July. Non-Food increased 1.7%, moderating from 1.9% in July. A slower rate of growth was experienced in transport & communication, housing, household goods & services and clothing.



China Inflation Month on Month, Sourced: 10 October 2022

Europe

The ECB has significantly increased its inflation forecasts. Euro area annual inflation is expected to be reported as 10.0% for September 2022, up from 9.1% in August. Energy supply and pricing remain major concerns.

Growth

The euro-area economy expanded by more than initially estimated in the second quarter, with the revision revealing greater support from consumer and government spending. Output rose 0.8% from the previous three months, stronger than an earlier reading of 0.6%, as gains in consumption expenditure more than offset a drag from trade.

But the Eurozone economic downturn deepened in September, with business activity contracting for a third consecutive month. Although only modest, the rate of decline accelerated to a pace which, barring pandemic lockdowns, was the steepest since 2013. Forward-looking indicators, such as new order inflows, backlogs of work and future output expectations, point to the decline gathering further momentum in the coming months. Worsening performances were seen in both manufacturing and services, with demand falling at steepening rates in each sector as a result of the rising cost of living and growing gloom about future prospects.

Accessed: 5 October 2022

Inflation

Euro area annual inflation is expected to be 10.0% in September 2022, up from 9.1% in August according to a flash estimate from Eurostat, the statistical office of the European Union. Looking at the main components of euro area inflation, energy is expected to have the highest annual rate in September (40.8%, compared with 38.6% in August), followed by food, alcohol & tobacco (11.8%, compared with 10.6% in August), non-energy industrial goods (5.6%, compared with 5.1% in August) and services (4.3%, compared with 3.8% in August).

Labour Market

In August 2022, the euro area seasonally-adjusted unemployment rate was 6.6 %, stable compared with July 2022 and down from 7.5 % in August 2021. The EU unemployment rate was 6.0 % in August 2022, also stable compared with July 2022 and down from 6.8 % in August 2021. In July 2022, the euro area seasonally adjusted unemployment rate was 6.6%, down from 6.7% in June 2022 and from 7.7% in July 2021. The EU unemployment rate was 6.0% in July 2022, down from 6.1% in June 2022 and from 6.9% in July 2021. Eurostat estimates that 12.921 million men and women in the EU, of whom 10.966 million are in the euro area, were unemployed in August 2022. Compared with July 2022, the number of persons unemployed decreased by 52,000 in the EU and by 30,000 in the euro area. Compared with August 2021, unemployment decreased by 1.682 million in the EU and by 1.358 million in the euro area.

Policy

In September, the Governing Council decided to raise the three key ECB interest rates by 75 basis points. According to the ECB, this major step frontloads the transition from the prevailing highly accommodative level of policy rates towards levels that will ensure the timely return of inflation to the ECB's 2% medium-term target. Based on its current assessment, over the next several meetings, the Governing Council expects to raise interest rates further to dampen demand and guard against the risk of a persistent upward shift in inflation expectations. The Governing Council has stated that it will regularly re-evaluate its policy path in light of incoming information and the evolving inflation outlook. The Governing Council's future policy rate decisions will continue to be data-dependent and follow a meeting-by-meeting approach.

Looking ahead, the ECB has significantly revised up their inflation projections and inflation is now expected to average 8.1% in 2022, 5.5% in 2023 and 2.3% in 2024, so while the ECB is saying further decisions will be data dependant, further rate rises remain almost certain.

Economic Scorecard – As of 7 October 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 - 0.6% 2nd Est. (Technical Recession)	Flat	Recession / Below Trend	0.90% (Above Trend)	Moderating	Below Trend (1) / Recession	0.8% 3rd Est (Above Trend)	Moderating	Recession (1) / Below Trend	0.40% (Below Trend) (2)	Flat	Below / At Trend
Inflation (Headline CPI)	8.3% (Significantly Above Target)	Moderating	Above Target	6.1% (Above Target)	Moderating	Above Target	10.0% (Significantly Above Target)	Moderating	Above Target	2.5% (Below Target)	Stable / Returning to Trend	Below Target
Interest Rates (Official Cash Rate or Equivalent)	3.00%-3.25%	Increasing/ Contractionary	4.6% Higher With The Fed (Stable / Decreasing)	2.60% (5)	Increasing/ Contractionary	3.75% Trading Economics (Stable)	1.25% (3)	Increasing/ Contractionary	3.50% Trading Economics (Stable)	3.65% (4)	Decreasing/ Expansionary	Stable At Lower Level
		AUD/USD										
	Current	**Direction**	**1 Year Forward**									
Currencies (Relative PPP Basis)	0.653 (PPP 0.6949) Less Than 1 Stdev	Risk Off	Fair Value Range									

(1) dependant on MP tightening cycle, & FP
(2) official target is 5.5% for 2022
(3) Main Refinancing Rate
(4) 5 yr LPR

Company news - best and worst performers for September 2022

New Hope Corp Ltd +28.4%

New Hope Corp (NHC) rallied on the back of strong coal prices that were being supported by increases in energy prices across the board. FY22 results were positive, with realised prices increasing +178% to $282/t, revenue increasing +143% to $2,558m, and strong operating leverage causing NPAT to increase 1,146% to $983m. Volumes declined, however, by -12% to 8.8Mt due to operational difficulties relating to a tight labour market and the inability to source some key processing equipment.

Pilbara Minerals Ltd +24.9%

Pilbara Metals (PLS) benefitted from a rebound in lithium concentrate prices after a brief slump over 4Q22. Spodumene concentrate produced increased +34.5% to 377,902 dmt, while sales increased 6,767% to $1,189m, and EBITDA turned from -$21.6m to +$532.6m over the same period. FY23 production is forecast to be between 540-580k dmt, while operating cost is expected to decrease to A$635-$700/dmt. Going forward, the P680 project is expected to add 100kt/year (Slated for 4Q23) while P1000 project is expected to increase total production to ~1,000 kt/year in the medium-term future.

Whitehaven Coal Ltd +13.2%

Whitehaven Coal (WHC) experienced a similar benefit from the increase in share price alongside strong energy prices. Despite volumes remaining steady with ROM coal production decreasing slightly from 20.6Mt to 20.0Mt, the benefit mainly flowed through a stronger realised price of US$239/t from US$68/t. FY22 revenue increased by 316% to $4,920m, EBITDA increased +14.9% to $3,060m, and NPAT increased from -$543.9m to $1,952m.

Link Administration Holdings -33.5%

Link Administration Holdings (LNK) experienced a volatile month as the market became increasingly doubtful over whether Dye & Durham's bid for the group would succeed given multiple decreases in bid price and Link's involvement in the 2019 Woodford investment fund (administered by Link UK) that caused the British regulator to fine Link $85m and a condition to set aside $600m. Dye & Durham are expected to pull the bid and have offered another bid on Link's corporate markets and BCM businesses.

Imugene Ltd -30.8%

Imugene (IMU) was negatively impacted by disappointing clinical trials and the issuance of a dilutive capital raise. IMU is currently conducting a Phase 1 MAST study evaluating the safety of novel cancer-killing virus CF33-hNIS (Vaxinia) with the aim of recruiting 100 patients across 10 trial sites in the United States and Australia. The study intends to deliver a low dose to patients with metastatic or advanced solid tumours who have had at least two prior lines of standard care treatment.

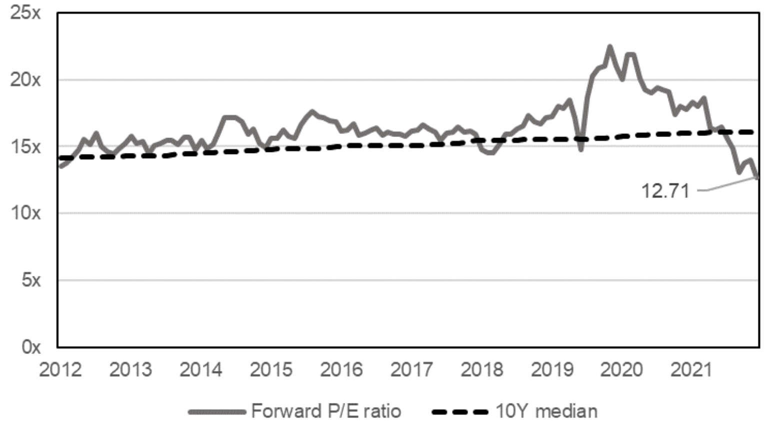
Novonix Ltd -27.3%

Novonix (NVX) continues to be in early stages of its lithium battery development program and is expected to continue R&D over the near future. 4Q22 cash flows showed that net operating cash flow was -$7.9m.

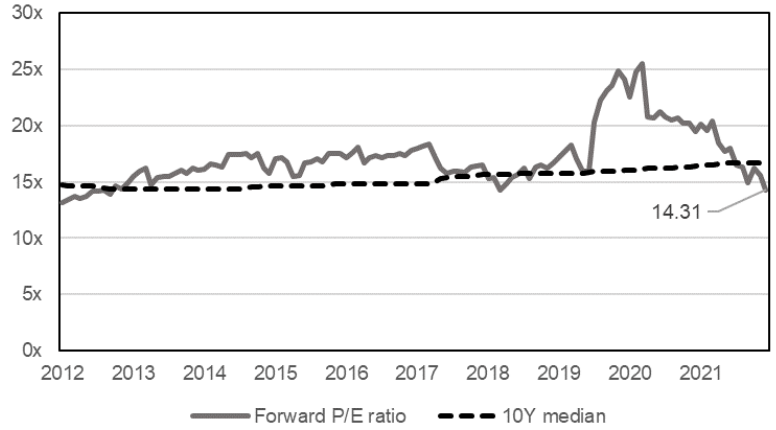
Sources: ASX company announcements, Bloomberg, Factset, Fund manager disclosures, Australian Financial Review, Sydney Morning Herald

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

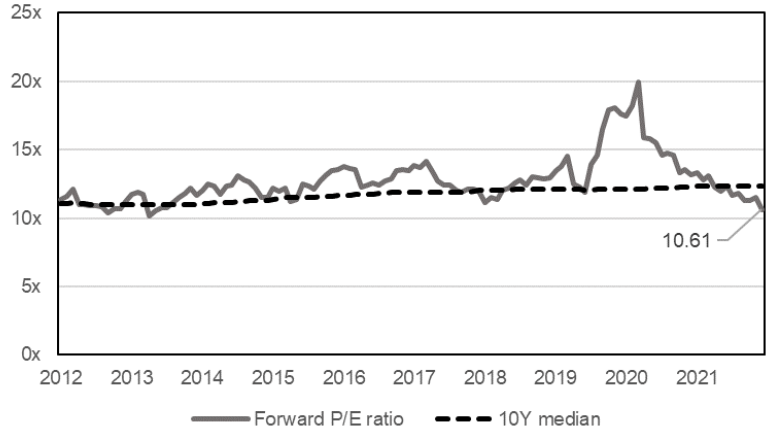
Australian Shares Forward P/E – spot vs trailing 10Y median (September-12 to September-22)



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



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



Sources: Bloomberg, S&P/ASX, MSCI (September 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 30 September 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	-6.2%	0.4%	-11.6%	-7.7%	2.7%	6.8%	8.0%	8.4%	4.3%	8.5%
Australia - mid cap	-7.5%	5.2%	-10.3%	-7.5%	8.3%	9.4%	11.8%	12.4%	5.2%	10.2%
Australia - small cap	-11.2%	-0.5%	-20.8%	-22.6%	-0.8%	4.1%	7.2%	4.6%	0.4%	6.2%
Australia - micro cap	-9.8%	4.8%	-24.6%	-18.2%	10.1%	10.8%	12.1%	5.3%	1.4%	-
World ex Australia	-3.2%	0.3%	-8.1%	-9.8%	6.3%	9.6%	9.3%	13.6%	6.9%	7.1%
World ex Australia (Hedged)	-8.9%	-5.2%	-19.5%	-17.5%	4.0%	5.3%	8.2%	10.0%	6.2%	9.3%
World - small cap	-4.3%	1.8%	-8.5%	-15.9%	4.3%	6.6%	7.7%	12.8%	7.5%	8.6%
Emerging Markets	-5.9%	-5.4%	-8.5%	-19.2%	-0.5%	2.2%	5.2%	6.0%	2.4%	7.8%
A-REITS	-13.6%	-6.7%	-23.2%	-21.5%	-5.3%	2.6%	4.2%	7.7%	0.7%	5.0%
Global REITs	-6.6%	-5.4%	-14.7%	-13.2%	-5.0%	3.2%	2.7%	7.9%	3.1%	-
Global REITs (hedged)	-11.8%	-10.5%	-24.4%	-19.7%	-6.6%	-0.5%	1.8%	4.9%	2.1%	-
Global infrastructure	-5.9%	-2.7%	-1.7%	5.4%	1.5%	7.5%	7.4%	11.7%	6.4%	-
Global infrastructure (Hedged)	-10.9%	-7.6%	-12.7%	-3.4%	-0.1%	3.9%	6.4%	8.6%	7.4%	-
Trend following (USD)	5.6%	3.6%	9.3%	14.2%	7.2%	5.6%	1.9%	3.8%	3.9%	5.1%
Australia Total Market	-1.4%	-0.6%	-4.4%	-11.4%	-3.4%	0.8%	1.2%	2.3%	4.3%	4.4%
Australia government bonds	-1.4%	-0.7%	-4.7%	-11.9%	-3.8%	0.7%	1.1%	2.2%	4.2%	4.4%
Australia corporate bonds	-1.0%	-0.1%	-3.3%	-9.2%	-1.6%	1.5%	2.1%	3.2%	4.8%	4.9%
Australia floating rate bonds	0.1%	0.7%	0.6%	0.3%	1.0%	1.7%	2.1%	2.6%	3.6%	4.2%
Global Total Market (Hedged)	-3.5%	-3.8%	-8.3%	-12.8%	-3.6%	-0.2%	1.1%	2.4%	4.8%	5.2%
Global government bonds (Hedged)	-3.0%	-3.4%	-7.4%	-11.4%	-3.6%	0.0%	1.1%	2.6%	4.7%	5.1%
Global corporate bonds (Hedged)	-4.9%	-4.8%	-11.7%	-17.7%	-4.3%	-0.5%	1.4%	2.6%	5.0%	5.6%
Global high yield bonds (Hedged)	-4.9%	-1.9%	-12.9%	-17.9%	-3.6%	-0.9%	2.7%	3.9%	6.5%	8.9%
Emerging Market bonds (Hedged)	-7.2%	-5.6%	-17.7%	-26.2%	-8.6%	-3.8%	0.3%	1.1%	4.8%	7.7%
Bloomberg AusBond Bank Bill Index	0.1%	0.4%	0.5%	0.5%	0.4%	0.9%	1.2%	1.7%	2.8%	3.5%

Sources: Bloomberg, IOOF calculations

* AUD total returns as at September-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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Research Analyst Disclosures:

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