Monthly Economic Wrap

October 2022

Summary

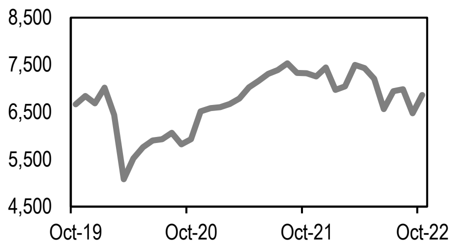
Economic

- Central banks continue to drive interest rates higher, as inflation remains stubbornly high. While the RBA has eased up a little by raising rates by only 0.25% for each of the last two months, the U.S. Federal Reserve is still powering ahead and raised rates by another 0.75% in early November.
- Inflation remains elevated, but the annual headline inflation rate in the US slowed for the third month running to 8.2%. On the contrary, US core inflation continues to rise. In the European Union, the annual inflation rate has now well and truly cracked double digits with September's figure reported at 10.9%.
- While most forward-looking economic indicators point to a major economic downturn in the developed world, unemployment remains completely inconsistent with a recession scenario. All three of Australian, the US and European unemployment figures are at or near record lows.

Markets

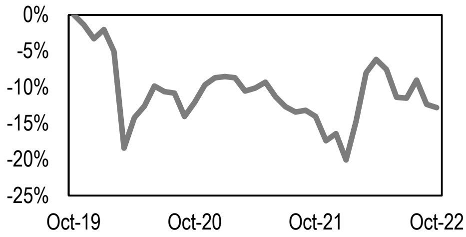
- The S&P 500 had a stellar October, gaining around 8%, while the Australian S&P 200 also rose by an impressive 6%. In Australia, Quality and Value-Weighted were the best performing styles for the month, while globally, Momentum and Value were the best performers.
- Within Fixed income markets, Australian bonds and high yield performed well for the month, with high yield returning a very respectable 2.2%. As global economic indicators turn more negative, this is likely to mean credit could come under greater pressure. As far as Australian bond funds go, now that the average yield to maturity is around 4% versus around 1.5 – 2% at the start of the year, these are becoming somewhat more attractive, especially since the RBA has only raised rates by 0.25% for each of the last two months.

1. S&P/ASX 200 Price Index



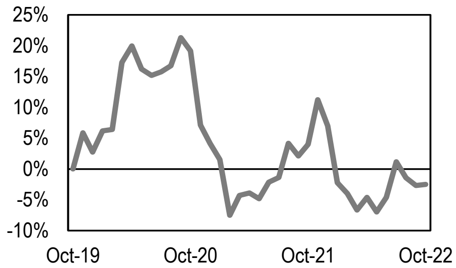
Source: Bloomberg, IOOF

2. ASX200 vs All-World, US$ terms



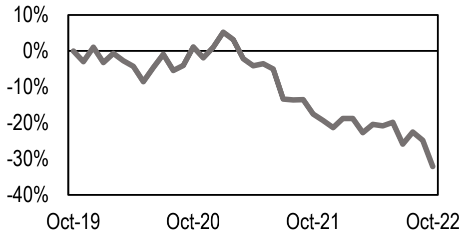
Source: Bloomberg, IOOF

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 – October 2022

ASX/S&P 200 Sectors (GICS)				
	Monthly	**% ∆**	**Quarterly**	**% ∆**
▲	Consumer Discretionary	8.79	Consumer Discretionary	-1.44
▼	Consumer Staples	-0.19	Consumer Staples	-8.48
▲	Energy	9.34	Energy	9.53
▲	Financials ex Property	12.16	Financials ex Property	3.32
▲	Financials	12.16	Financials	3.32
▲	Health Care	0.56	Health Care	-4.14
▲	Industrials	6.51	Industrials	-3.65
▲	IT	5.39	IT	-6.23
▼	Materials	-0.11	Materials	-2.31
▲	Property Trusts	9.91	Property Trusts	-9.19
▲	Telecommunications	4.95	Telecommunications	-0.75
▲	Utilities	7.22	Utilities	-10.18

Source: Bloomberg, IOOF

Best and Worst S&P/ASX 200 Performers			
Top five stocks		**Bottom five stocks**	
Monthly			
Novonix Ltd	52.3%	St Barbara Ltd	-31.1%
Telix Pharmaceuticals Ltd	46.5%	Brainchip Holdings Ltd	-25.9%
Liontown Resources Ltd	26.5%	Megaport Ltd	-21.8%
Core Lithium Ltd	25.3%	Medibank Private Ltd	-19.0%
Domino's Pizza Enterprises	23.7%	Adbri Ltd	-14.4%
Quarterly			
Pilbara Minerals Ltd	83.8%	Brainchip Holdings Ltd	-40.6%
Whitehaven Coal Ltd	45.4%	Adbri Ltd	-37.7%
Liontown Resources Ltd	42.8%	Megaport Ltd	-37.2%
IGO Ltd	38.5%	Nickel Industries Ltd	-32.7%
Lovisa Holdings Ltd	37.1%	Ramelius Resources Ltd	-31.9%

Source: Bloomberg, IOOF

Share Markets, Returns

	Australian Indices	31 Oct 2022 Price	1M return (%)	31 July 2022 Price	3M return (%)
▲	S&P/ASX 200	6863	6.01	6945	-1.18
▲	All Ordinaries	7055	5.63	7174	-1.66
▲	Small Ordinaries	2781	6.31	2957	-5.96
	US Indices				
▲	S&P 500	3872	7.99	4130	-6.25
▲	Dow Jones	32733	13.95	32845	-0.34
▲	Nasdaq	10988	3.90	12391	-11.32
	Asia Pacific Indices				
▼	Hang Seng	14687	-14.72	20157	-27.14
▲	Nikkei 225	27587	6.36	27802	-0.77
	UK & Europe Indices				
▲	FTSE 100	7095	2.91	7423	-4.43
▲	CAC40	6267	8.75	6449	-2.82
▲	DAX Index	13254	9.41	13484	-1.71

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

The US equity market continued to set the broader risk on risk-off sentiment in equities. The S&P 500 recovered in October, posting a broad gain (7.99% for the month, but still down 18.76% YTD), as earnings came in better than expected. The Dow Jones Index of large US Companies enjoyed a very strong 14% rise.

Not that those earnings were good, but the expectations had been much worse. The earnings announcements delivered a 69% beat rate in October, which is near the two-thirds historical average. Also helping was some slightly poorer economic data, which spurred hopes that the Fed may reduce the size of the rate increases. At the November meeting, Powell did state that the time to reassess the pace of rate hikes "is coming. It may come as soon as the next meeting or the one after that…"

Chinese equity markets had a mixed reaction to the announcement of Xi Jinping's new leadership team as foreign investors feared growth will be sacrificed for ideology-driven policies.

The Hang Seng slid to 13-year lows as it slumped by 6.4% on the 24th of October following the leadership announcement. The poor foreign investor reception to the news helped push the Hang Seng to fall by 14.7% over the month. Chinese companies listed in the US were treated even more harshly, with the Nasdaq Golden Dragon China Index plunging 14.4% on the 24th of October.

Returns to 31 October 2022	1-mth	3-mth	6-mth	1-yr
MSCI World Index	7.8%	1.7%	2.1%	-4.2%
Value	10.3%	6.2%	4.9%	7.6%
Value-Weighted	9.0%	3.8%	3.6%	4.0%
Momentum	10.5%	8.3%	6.0%	-7.6%
Growth	5.1%	-2.9%	-1.6%	-15.9%
Quality	7.0%	-0.6%	-0.2%	-8.9%
Low volatility	6.1%	3.2%	2.1%	4.4%
Equal weight	6.0%	1.1%	-5.1%	-0.9%
Small caps	8.6%	2.3%	1.8%	-8.2%

Source: Bloomberg, IOOF, MSCI

Australian equity markets

The Australian market, as measured by the S&P/ASX 200 Index was up 6.0%% for the month.

Returns to 31 October 2022	1-mth	3-mth	6-mth	1-yr
MSCI Australia Index	5.8%	0.5%	-5.1%	-0.4%
Value	5.7%	3.7%	-5.0%	4.9%
Value-Weighted	6.7%	1.7%	-5.2%	3.8%
Momentum	6.2%	0.2%	-7.8%	-4.6%
Growth	5.1%	-2.8%	-1.4%	-15.9%
Quality	6.9%	-1.4%	-0.8%	-10.2%
Low volatility	4.0%	-3.5%	-9.3%	-3.8%
Equal weight	6.0%	1.1%	-5.1%	-0.9%
Small caps	6.5%	-4.9%	-14.4%	-18.3%

Source: Bloomberg, IOOF, MSCI

Australia experienced a positive breadth in the October rebound. As can be seen in the table above, the returns for the different styles only varied by 2.9%, with the Low Volatility style delivering only a modest rebound. While the MSCI World exhibited a range of 5.4% during October, with Growth investing the biggest laggard.

The difference between Value and Growth investing was also closer than our global counterparts at 0.6% (MSCI World difference 5.2%), as our market has a lower exposure to the technology companies that weighed on the Nasdaq's returns during October.

Fixed Income

Fixed Income	31 Oct 2022 yield	1M mvt (bps)	31 July 2022 yield	3M mvt (bps)
▲ Australian Cash rate	2.60	0.25	1.35	1.25
▼ 10-year Bond Yield	3.76	-0.13	3.06	0.70
▼ 3-year Bond Yield	3.29	-0.23	2.66	0.63
▲ 90 Day Bank Accepted Bills SFE-Day	3.09	0.03	2.15	0.94
▲ US 10-year Bond Yield	4.05	0.22	2.65	1.40
▲ US 3-year Bond Yield	4.44	0.15	2.81	1.63
▼ US Investment Grade spread	2.17	-0.07	2.03	0.14
▼ US High Yield spread	4.98	-0.87	5.08	-0.10

Source: Bloomberg, IOOF

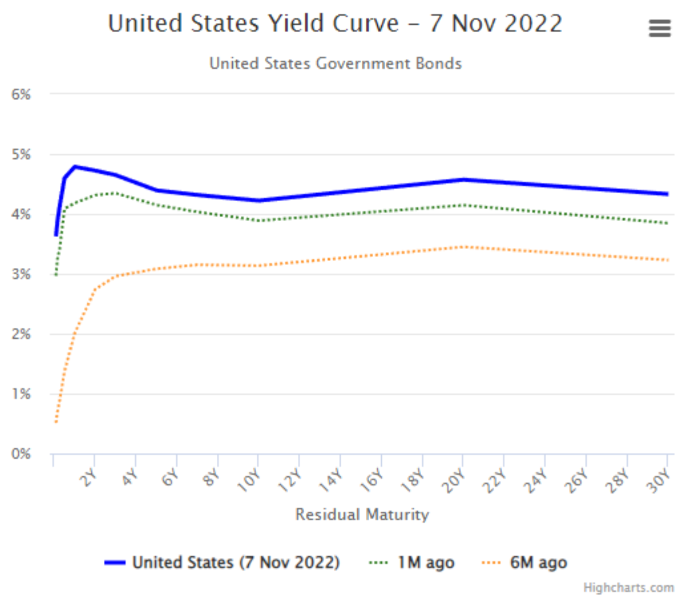
Australian bond market

After having a couple of poor months in a row, Australian Fixed Interest funds in general had a good month in October, with the main Australian Fixed Interest index, the Bloomberg AusBond Composite 0+ Years Index gaining 0.9%. Australian yields fell the curve, which makes existing bonds on issue more attractive relative to newly issued bonds. During October, the Australian 10-year bond yield fell by 0.13%, which in recent times isn't that larger of a move, but still notable. The Australian 3-year bond yield fell by 0.23%, which is also a fairly significant move in one month by historical standards.

Australian corporate bonds also rose in value in October, with the Bloomberg AusBond Credit 0+ Years Index gaining 0.4% for the month. Note this index has approximately 3.5 years of duration, so the falling yields had a greater impact on performance during October than the movements in credit spreads did.

US bond market

U.S. Government bond yields continued to rise during October. As can be seen in the chart below, over the last month, the yield curve has risen across the board. This resulted in negative returns in October for U.S. fixed interest investors. Note the broader Bloomberg Barclays Global Aggregate Total Return Index (Hedged AUD) was fairly flat for the month (-0.1%). Note the 2-year / 10-year part of the curve remains inverted, which is no surprise given the number of U.S. economic indicators continuing to show a U.S. recession is highly likely.



Source: http://www.worldgovernmentbonds.com, accessed 7 November 2022.

In the U.S., high yield credit spreads tightened by 87 basis points over the month, which meant solid gains for investors, with the Bloomberg Barclays Global High Yield Total Return Index (Hedged AUD) up 2.2% for the month. These solid returns in high yield were due to the substantial decline in credit spreads more than offsetting the rising yields. Unfortunately, this was the case with investment grade credit, as investment-grade spreads only tightened by 7 basis points, which was insufficient to offset the rising yields and therefore resulted in investor losses for the month.

Currencies

	Currencies	31 Oct 2022 yield	1M mvt (bps)	31 July 2022 yield	3M mvt (bps)
▼	$A vs $US	63.99	-0.02	69.85	-8.39
▼	$A vs GBP	55.83	-2.65	57.39	-2.72
▲	$A vs YEN	95.16	2.71	93.12	2.20
▼	$A vs EUR	64.74	-0.87	68.34	-5.27
▼	$A vs $NZ	110.05	-3.77	111.09	-0.94
▼	$A TWI	61.30	-0.33	63.10	-2.85
▼	$US vs EUR	101.20	-0.80	97.85	3.42
▲	$US vs CNY	7.31	2.66	6.74	8.31
▼	$US vs GBP	87.19	-2.61	82.16	6.12
▲	$US vs JPY	148.71	2.74	133.27	11.59
▲	$US vs CHF	100.13	1.45	95.24	5.13
▼	US Dollar Index	111.53	-0.53	105.90	5.31
▲	JPM EM Curr Idx	48.76	0.67	50.42	-3.29

Source: Bloomberg, IOOF

The US dollar index (DXY) paused slightly in October consolidating its position after ending September at the highest level since April 2002.

DXY Chart 31 July 2021 – 31 October 2022.

Source: tradingview.com, accessed 10 November 2022

While the DXY, the USD relative to a basket of trading partner currencies was fairly stable, the cross-currency pairs experienced relative moves. The Pound (GBP) rebounded after September's sell-off following the poorly received mini-budget, while the Japanese Yen continues to slide hovering near its weakest levels in 32 years. Despite currency intervention in September to support the Yen, the currency continues to be unloved as the Bank of Japan continues to be reticent to adjust their ultra-low interest rates while their economy remains so fragile.

Commodities

	Commodities	31 Oct 2022 yield	1M mvt (bps)	31 Jul 2022 yield	3M mvt (bps)
▲	Aluminium	2205	2.41	2491	-11.46
▼	Copper	338	-1.10	358	-5.74
▲	Nickel	22035	4.65	23643	-6.80
▼	Zinc	2855	-4.87	3295	-13.34
▲	Crude Oil - Brent	94.83	7.81	110.01	-13.80
▼	Natural Gas	6.36	-6.07	8.23	-22.77
▲	Metallurgical Coal	323	18.32	200	61.50
▼	Iron Ore	92.43	-5.98	107.22	-13.79
▼	Gold	1641	-1.87	1782	-7.92
▲	Silver	19	0.42	20	-6.02

Source: Bloomberg, IOOF

Commodity prices were mixed in October.

After Brent oil fell in September, touching its lowest level since the start of 2022, OPEC Plus decided on 5 October to cut production quotas by 2 million barrels per day starting in November. Washington has criticised the decision, responding with an announcement later in the month that they will release 15 million barrels of oil from the United States' strategic reserve. This drawdown will complete the 180 million barrels that the Biden administration approved in March amid global energy concerns linked to the Russia / Ukraine war.

Metallurgical Coal continues to be impacted by the Russian invasion of Ukraine. As part of sanctions against Russia, the European Union put an embargo on Russian coal supplies from 10 August. This ban also includes the transportation of coal from Russia to anywhere in the world by companies from the EU and the provision of insurance and financial services performed by EU companies, regardless of the origins of the logistics companies.

With the EU embargo impacting approximately 25% of Russian coal supply, influences on other providers of metallurgical coal have exacerbated impacts on prices. Adverse weather conditions in Australia have combined with BHP's Queensland labour strike to push prices higher.

Australia

The Australian Budget was fiscally responsible. The trade surplus easily beat expectations with a strong $12.44bn in September. The unemployment rate remained stable at 3.5%. The RBA Board increased the cash rate target by 0.25% to 2.85% on 1 November, which is now an accumulated increase of 2.75% over 7 months.

Fiscal Policy

The Albanese Labour Budget sought to deliver budget restraint and economic resilience avoiding the market ructions that followed the September UK mini-budget. The budget spending is forecast to only increase by 0.3% p.a. after inflation.

The rise of prices in oil and gas has benefited the budget bottom line. Company tax this year is now expected to be $127.3bn (March forecast $92.2bn). Even with an increase in spending due to inflation lifting the indexation of the aged pension and jobseeker more than was expected, the predicted 2022/23 budget deficit has declined nicely from $77.9bn (3.4% of GDP) to $36.9bn (1.5%).

The Albanese Labor Budget was also a chance to update the government's economic forecasts for the near future. It only expects GDP growth this year of 3.2% and next year of only a very tepid 1.8% and Inflation is now forecast to peak at 7.75% in December 2022. Unemployment is expected to rise to 4.5% through 2023/24 and 2024/25, while wages are only expected to grow by 3.75%. The Government is asking for the Australian people to accept the pain of getting inflation under control: higher mortgage rates, with higher food, and energy prices without asking for higher wages to compensate.

Monetary Policy

The RBA increased the cash rate target by 0.25% to 2.85% on 1 November, which now has lifted rates by 2.75% over 7 months, taking borrowing cost to levels last seen in April 2013. The RBA Board said that it remained resolute in its commitment to bring inflation to target levels and will do what is necessary to achieve that.

Labour Market

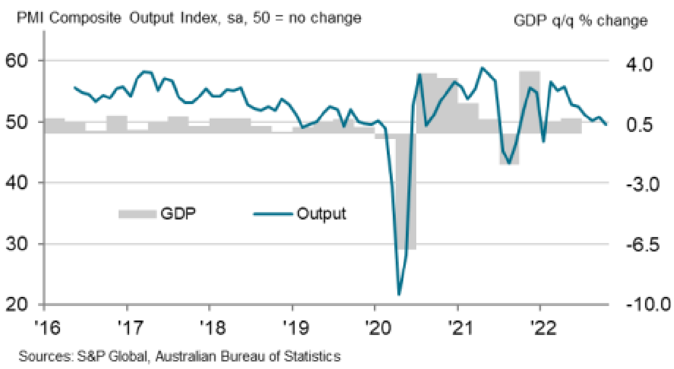
Australia's job market continues to remain tight, as the unemployment rate came in again at 3.5% in September matching the previous month and slightly above consensus of 3.4%. Employment increased slightly to a new record of 13.6m.

Growth

The S&P Global Australia Composite Purchasing Managers Index (PMI) fell to 49.8 in October from 50.9 in September, signalling that the private sector shrank for the first time in nine months. Both demand and output declined in October, while the level of work outstanding simultaneously eased. Despite the fall in new orders, Australian private sector firms continued to hire at a solid rate in October, both to rebuild their workforce capacity and in anticipation of higher future workloads.

Both input costs and output prices continued to climb in the private sector across a range of categories including fuel, wages and raw materials.

S&P Global Flash Australia PMI Composite Output Index



Sourced: S&P Global, accessed 10 November 2022

Inflation

The annual inflation rate in Australia climbed to 7.3% in Q3 from 6.1% in Q2, above market forecasts of 7.0%, and was the highest print since Q2 1990. The figure was boosted by higher prices for new dwelling construction, automotive fuel, and food. Prices of food rose the most since Q4 1983. On a quarterly basis, consumer prices went up 1.8%, the same pace as in Q2, which remained the steepest pace since the introduction of the Goods and Services Tax (1 July 2000), compared to consensus of 1.6%, due to further rises in cost of new dwellings, gas, and furniture. The RBA Trimmed Mean CPI jumped 6.1% the fastest pace since the series began in 2003.

United States

The Federal Reserve has now raised its target range for the federal funds rate 3.75%-4%. It marks a sixth consecutive rate hike and the fourth straight three-quarter point increase. Core inflation remains elevated and increased faster than expectations.

Growth

The Conference Board Leading Economic Index (LEI) for the U.S. decreased by 0.4% in September 2022 to 115.9 (2016=100), after remaining unchanged in August. The LEI is down 2.8% over the six-month period between March and September 2022, a reversal from its 1.4% growth over the previous six months.

"The US LEI fell again in September and its persistent downward trajectory in recent months suggests a recession is increasingly likely before year end," said Ataman Ozyildirim, Senior Director, Economics, at The Conference Board. *"The six-month growth rate of the LEI fell deeper into negative territory in September, and weaknesses among the leading indicators were widespread. Amid high inflation, slowing labour markets, rising interest rates, and tighter credit conditions, The Conference Board forecasts real GDP growth will be 1.5 percent year-over-year in 2022, before slowing further in the first half of next year."*

Labour Market

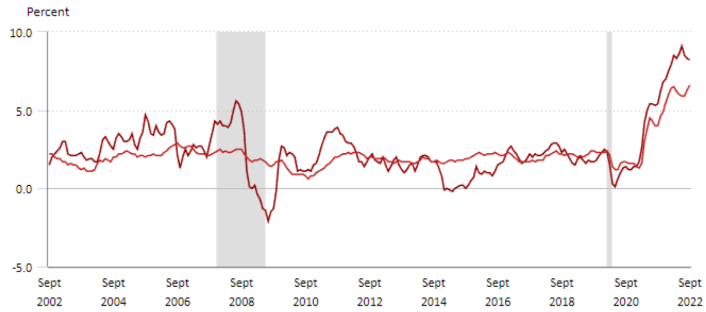
The latest US JOLTS (Job Openings and Labor Turnover Survey) data was much stronger than expected. The number of job vacancies in the United States unexpectedly rose by 437,000 to 10.72 million in September 2022, up from 10.2 million in August and easily beating market expectations of 10.0 million. The level of openings remained close to record highs seen at the end of 2021, which could add to inflationary pressure coming from raising wages to attract and keep staff. Openings were up in several industries with the largest increases being reported in accommodation and food services (+215,000); and health care & social assistance (+115,000).

Inflation

According to Trading Economics, the annual inflation rate in the US slowed for the third month running to 8.2% in September of 2022, the lowest in seven months, compared to 8.3% in August, but above market forecasts of 8.1%. The energy index increased 19.8%, below 23.8% in August, due to gasoline (18.2% vs 25.6%), fuel oil (58.1% vs 68.8%) and electricity (15.5% vs 15.8% which was the highest since 1981). A small slowdown was also seen in the cost of food (11.2% vs 11.4% which was the highest since 1979) and used cars and trucks (7.2% vs 7.8%).

On the other hand, prices for shelter increased faster (6.6% vs 6.2%). Meanwhile, the core rate that excludes volatile food and energy, rose to 6.6%, the highest since August of 1982, and above market expectations of 6.5% in a sign inflationary pressures remain elevated.

Headline and Core Inflation



Source: U.S. Bureau of Labor Statistics, accessed 7/11/2022

Policy

The Federal Reserve raised the target range for the federal funds rate by 0.75% to 3.75%-4% during its early November 2022 meeting. It marks a sixth consecutive rate hike and the fourth straight three-quarter point increase, pushing borrowing costs to a new high since 2008. The decision came in line with market forecasts. Policymakers also said that ongoing increases in the target range will be appropriate and that they will take into account the cumulative tightening of monetary policy, the lags with which monetary policy affects economic activity and inflation, and economic and financial developments, when deciding on the size of further increases.

The message could signal a smaller rate hike in December, but during the press conference, Chair Powell also noted the ultimate level of interest rates will be higher than previously expected. The Fed aims to attain a stance of monetary policy that is sufficiently restrictive to return inflation to 2%, which remains elevated around 40-year high.

China

President Xi was confirmed for a historic third term sparking a temporary market sell down as investors worried China's focus on "common prosperity". Chinese inflation at 2.8% is low relative to the world, but continues to edge higher. The Zero-COVID policy continues to be a challenge for the Economy and China's position in the supply chain.

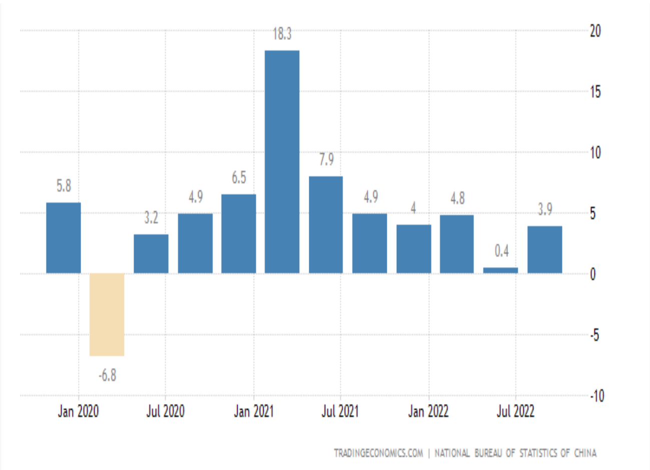
China's biggest city, Shanghai (pop: 24.9m) cleared final restrictions and normal procedures implemented on 7 August, only to see China's Zero-COVID policy lock down the district in Zhengzhou city, which is home to the world's largest iPhone factory, owned and managed by Foxconn. Bank of America has forecast a supply disruption of approximately 6 million phones.

Inflation

China's annual inflation rose to 2.8% p.a. in September in line with market consensus and up from 2.5% in August. While China's inflation remains low relative to current world standards, it was the highest rate since April 2020, mainly due to a sharp jump in the cost of food.

Growth

The Chinese economy advanced 3.9% p.a. in Q3, exceeding market consensus of 3.4% and picking up from 0.4% growth in Q2, boosted by various measures from Beijing to revive activity. For the first nine months of the year, China's GDP grew by 3%. Beijing is no longer mentioning their target growth of 5.5% for 2022, but pledged easier lending and other measures to boost growth.

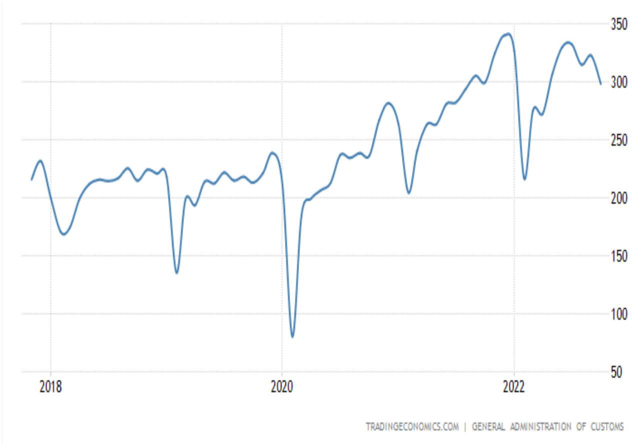


Accessed 8 November 2022

China's industrial production advanced by 6.3% p.a. in September, beating market consensus of 4.5% growth and August's reading of 4.2%. It was the fifth straight month of growth in industrial output and the steepest pace since February, amid a sustained recovery from COVID-19 curbs. Production accelerated for both manufacturing (6.4% vs 3.1% in August) and mining (7.2% vs 5.3%). The positive momentum was broad supporting a rebound in production of both the food processing industry (1.5% vs -2.3%) and textiles (1.6% vs -5.1%).

China's trade surplus widened to US$84.74bn in September from US$67.05bn in the same month a year earlier, and above market forecasts of US$81 billion. Exports increased 5.7% p.a. year-on-year, however, was held back by weakening external demand amid surging prices and higher borrowing costs; while imports were anaemic up only 0.3%, as domestic demand remained sluggish.

China Exports (USD Billions) 5 years to October 2022.



Accessed 9 November 2022

Labour Market

China's surveyed urban unemployment increased to 5.5% in September from a near term low of 5.3% in August and was higher than the market consensus of 5.2% due to the impact of COVID-19 in some cities. The unemployment rate of the population aged 25-59 increased to 4.7% in September from 4.3% in the prior month, while those aged 16-24 fell to 17.9%, 2% lower than the peak in July, and 0.8% lower than in August. For this year, the government has targeted the jobless rate to stay around 5.5%.

Europe

The European Union annual inflation rate was 10.9% in September 2022. A year earlier, the rate was 3.6%. The European Central Bank increased interest rates by 0.75% at the October meeting. Europe is highly likely already in a recession.

Growth

The eurozone economy registered its fourth successive month-on-month contraction in private sector business activity at the start of the fourth quarter. The rate of decline was the sharpest since November 2020, and excluding those months affected by pandemic restrictions, marked the deepest downturn since the first half of 2013. A steeper reduction in manufacturing output was accompanied by an accelerated decline in service sector activity during October. Underpinning downturns across each sector were further slumps in new orders, with uncertainty, high prices and generally weak underlying demand conditions cited by survey respondents. Consequently, backlogs of work across the euro area continued to fall while business confidence was little changed from September, which was the lowest since the initial COVID-19 shock in the first half of 2020.

S&P Global Eurozone Composite PMI Output Index

Source: S&P Global, Eurostat.

Accessed: 7 November 2022.

Inflation

According to Eurostat, the Euro Area annual inflation rate was 9.9% in September 2022, up from 9.1% in August. A year earlier, the rate was 3.4%. The European Union annual inflation was 10.9% in September 2022, up from 10.1% in August. A year earlier, the rate was 3.6%. The lowest annual rates were registered in France (6.2%), Malta (7.4%) and Finland (8.4%). The highest annual rates were recorded in Estonia (24.1%), Lithuania (22.5%) and Latvia (22.0%). Compared with August, annual inflation fell in six Member States, remained stable in one and rose in twenty. In September, the highest contribution to the annual euro area inflation rate came from energy (+4.19%), followed by food, alcohol & tobacco (+2.47%), services (+1.80%) and non-energy industrial goods (+1.47%).

Labour Market

According to Eurostat, the unemployment rate in the Euro Area fell to a record low of 6.6% in September of 2022 from an upwardly revised 6.7% in the prior month, in line with market estimates. It compares with a much higher jobless rate of 7.3% in the corresponding period of 2021, as ample stimulus and growth-oriented policy supported the labour market's recovery from the pandemic. There were 10.988 million unemployed persons in September, 66,000 less than in the previous month. In the meantime, youth unemployment rose by 25,000 to 2.241 million, pushing the rate to 14.6% from 14.4%. Among the largest economies, the unemployment rate fell in France (7.1% vs 7.3% in August) and remained steady in Germany (at 3%) and Italy (at 7.9%).

Policy

The ECB's Governing Council decided to raise the three key ECB interest rates by 0.75% at the October meeting. Accordingly, the interest rates on the main refinancing operations, marginal lending facility, and the deposit facility will be increased to 2.00%, 2.25% and 1.50% respectively, with effect from 2 November 2022.

The Governing Council also expects to raise interest rates further, to ensure the timely return of inflation to its 2% medium-term inflation target. The Governing Council will base the future policy rate path on the evolving outlook for inflation and the economy, following its meeting-by-meeting approach.

According to the ECB, inflation remains far too high and will stay above the target for an extended period. The Governing Council's monetary policy is aimed at reducing support for demand and guarding against the risk of a persistent upward shift in inflation expectations.

Economic Scorecard – As of 4 November 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)	+0.6% Adv Est. (Rebound from Tech Rec)	Flat	Recession / Below Trend	0.90% (Above Trend)	Moderating	Below Trend (1) / Recession	0.2% 1st Est (Above Trend)	Moderating	Recession (1) / Below Trend	3.9% (Below Trend) (2)	Rebounding (Zero COVID)	Below / At Trend
Inflation (Headline CPI)	8.2% (Significantly Above Target)	Moderating (Core still increasing)	Above Target	7.3% (Above Target)	Peaking	Above Target	10.7% (Significantly Above Target)	Peaking	Above Target	2.8% (Below Target)	Stable / Returning to Trend	At Target
Interest Rates (Official Cash Rate or Equivalent)	3.75%-4.00%	Increasing/ Contractionary	4.6% Higher With The Fed (Stable / Decreasing)	2.85% (5)	Increasing/ Contractionary	3.85% Trading Economics (Stable)	2.00% (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)	0.64 (PPP 0.694) 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 October 2022

Novonix Ltd +52.3%

Novonix (NVX) is in advanced talks with several customers about securing offtake agreements after the company saw strong demand for its synthetic graphite anode materials. Discussions with the US Department of Energy on a potential US$150m grant would see the construction of a 30,000 tonne-a-year US manufacturing facility if it was successful. The recently passed US Inflation Reduction Act has heightened North American demand for EV materials. NVX will target first production from its new production facility in 2025, but the funding may accelerate the timetable.

Telix Pharmaceuticals Ltd +46.5%

Telix (TLX) produced positive results from its Phase III study of ZIRCON therapy, with results supporting the potential for TLX250-CDx to change 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 the confirmatory trial sensitivity success target of 70%.

Liontown Resources Ltd +26.5%

Liontown Resources (LTR) released positive 3Q22 results that showed all major approvals were received alongside EPCM and Power Supply Contracts awarded – paving the way for full-scale commercial development of an Australian major lithium mine.

St Barbara Ltd -31.1%

St Barbara (SBM) declined on the announcement of a blowout in the cost of production, with AISC coming in at $2,490/oz against realised gold price of $2,486/oz. Labour shortages and inability to access essential mining equipment contributed to the lower-than-expected 63,700 ounces mined, pushing AISC higher.

Brainchip Holdings Ltd -25.9%

Brainchip (BRN) produced a positive 3Q22 result with the commercialisation of its flagship Akidia neuromorphic IP, while adding a seasoned AI semiconductor sales executive to fortify commercial expansion and execution. The company ended the September quarter with US $24.6M in cash compared to US $28.4M the previous quarter. Brainchip reported net operating cash outflows of US $3.8M versus US $2.8M the previous quarter.

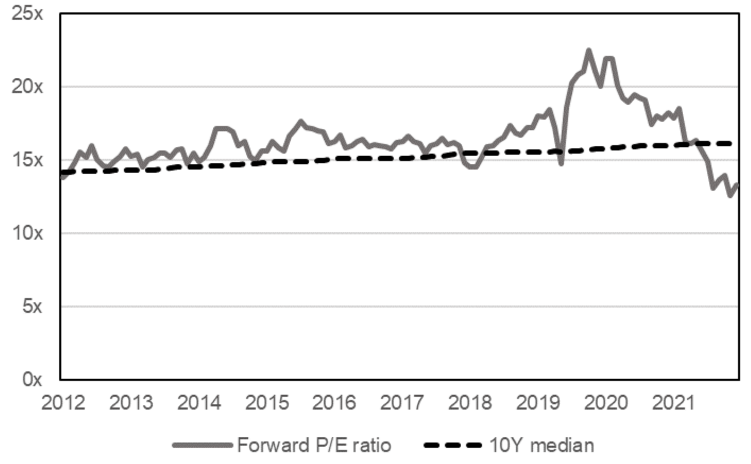
Megaport Ltd -21.8%

Megaport (MP1) produced a positive 1Q23 result with Global MMR increasing +9% QoQ to $11.6m. MP1 further showed continued momentum in its shift away from a direct sales model, with Partner Vantage MMR increasing +54% MoM to $85k. New port growth, however, declined from 553 in 4Q22 to 61 in 1Q23 due to port consolidation upgrades from its largest customers.

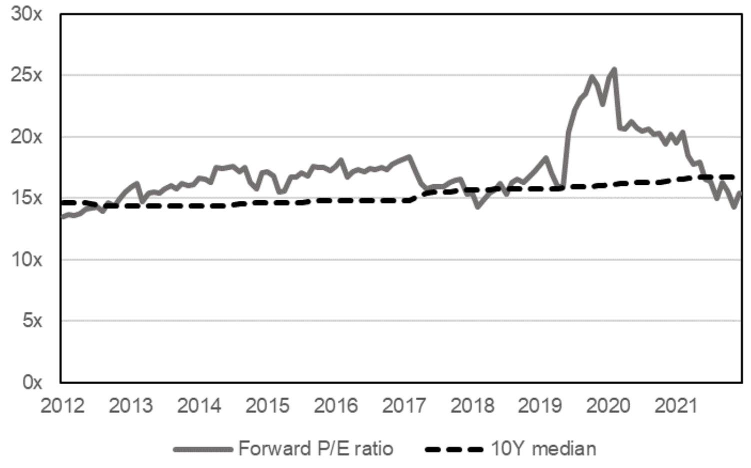
Sources: ASX company announcements, Bloomberg, Factset, Fund manager disclosures, Australian Financial Review, Sydney Morning Herald

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

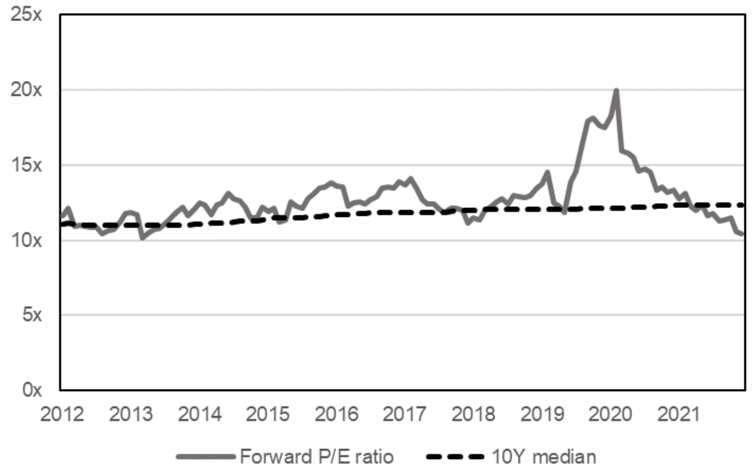
Australian Shares Forward P/E – spot vs trailing 10Y median (October-12 to October-22)



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



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



Sources: Bloomberg, MSCI, S&P (October 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 October 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	6.0%	0.7%	-5.4%	-2.0%	4.8%	7.2%	8.3%	8.7%	4.5%	8.7%
Australia - mid cap	7.1%	3.2%	-2.4%	-1.2%	10.9%	9.6%	11.8%	12.7%	5.5%	10.7%
Australia - small cap	6.5%	-4.9%	-14.4%	-18.3%	1.5%	4.2%	7.1%	5.1%	0.5%	6.6%
Australia - micro cap	2.9%	-5.6%	-18.9%	-19.2%	11.3%	10.5%	11.5%	5.8%	1.3%	-
World ex Australia	7.8%	1.7%	2.3%	-4.3%	8.9%	10.4%	9.5%	14.5%	7.6%	7.3%
World ex Australia (Hedged)	7.2%	-5.8%	-6.8%	-16.1%	5.8%	6.2%	8.1%	10.8%	6.6%	9.3%
World - small cap	8.6%	2.3%	1.8%	-8.2%	7.0%	7.5%	8.4%	13.8%	8.0%	9.1%
Emerging Markets	-2.6%	-6.3%	-10.7%	-19.0%	-2.0%	0.5%	4.0%	5.8%	1.8%	7.5%
A-REITS	9.9%	-8.4%	-16.1%	-14.1%	-2.7%	4.1%	4.9%	8.1%	1.3%	5.4%
Global REITs	3.5%	-8.0%	-11.6%	-11.8%	-4.0%	3.5%	2.7%	8.2%	3.5%	-
Global REITs (hedged)	3.1%	-14.3%	-18.8%	-21.6%	-6.3%	0.1%	1.5%	5.1%	2.2%	-
Global infrastructure	3.9%	-2.0%	0.3%	9.9%	3.3%	7.5%	7.6%	12.0%	6.6%	-
Global infrastructure (Hedged)	3.2%	-8.9%	-7.9%	-3.3%	0.9%	4.0%	6.3%	8.7%	7.3%	-
Trend following (USD)	-4.5%	2.2%	-0.2%	8.2%	7.0%	4.0%	1.7%	3.8%	3.5%	5.0%
Australia Total Market	0.9%	-3.0%	-2.1%	-7.2%	-3.0%	0.7%	1.3%	2.4%	4.3%	4.5%
Australia government bonds	1.0%	-3.2%	-2.2%	-7.5%	-3.3%	0.7%	1.2%	2.3%	4.3%	4.4%
Australia corporate bonds	0.4%	-2.0%	-1.6%	-6.3%	-1.4%	1.4%	2.1%	3.1%	4.9%	4.9%
Australia floating rate bonds	0.2%	0.6%	0.8%	0.5%	1.0%	1.6%	2.1%	2.6%	3.6%	4.2%
Global Total Market (Hedged)	-0.1%	-6.2%	-5.6%	-12.6%	-3.6%	-0.3%	1.0%	2.4%	4.7%	5.2%
Global government bonds (Hedged)	0.1%	-5.4%	-5.1%	-11.1%	-3.4%	0.0%	1.1%	2.5%	4.7%	5.1%
Global corporate bonds (Hedged)	-0.4%	-8.2%	-7.9%	-17.9%	-4.5%	-0.8%	1.2%	2.4%	4.9%	5.6%
Global high yield bonds (Hedged)	2.2%	-4.0%	-7.5%	-15.7%	-3.0%	-0.6%	2.6%	4.0%	6.6%	8.9%
Emerging Market bonds (Hedged)	0.7%	-7.9%	-11.4%	-25.7%	-8.5%	-3.8%	0.0%	1.1%	4.7%	7.4%
Bloomberg AusBond Bank Bill Index	0.2%	0.5%	0.8%	0.8%	0.4%	1.0%	1.2%	1.7%	2.8%	3.5%

Sources: Bloomberg, IOOF calculations
* AUD total returns as at October-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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Approved By – Matt Olsen

Research Analyst Disclosures:

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