Monthly Economic Wrap

July 2023

Summary

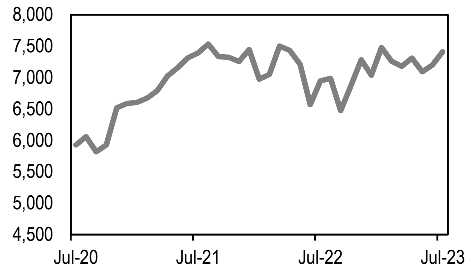
Economic

- According to the International Monetary Fund, global growth is projected to fall from an estimated 3.5% in 2022 to 3.0% in both 2023 and 2024.
- While the forecast for 2023 is modestly higher than predicted in the April 2023 World Economic Outlook, it remains weak by historical standards. The rise in central bank policy rates to fight inflation continues to weigh on economic activity.
- Global headline inflation is expected to fall from 8.7% in 2022 to 6.8% in 2023 and 5.2% in 2024.
- Underlying core inflation is projected to decline more gradually, and forecasts for inflation in 2024 have been revised upward.

Markets

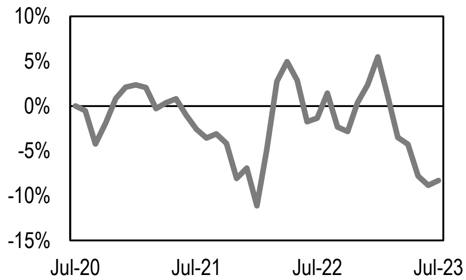
- Share market performance was positive for the month of July. The S&P 500 posted a solid return of 3.1%, while the Australian S&P 200 rose by a similar, but slightly lower amount of 2.9% on a price basis.
- Global shares ex-Australia produced a favourable return of 2.1% on an unhedged basis and 3.1% on a hedged basis.
- In Australia, Value and Value-Weighted were the best performing styles for the month. Globally, Small Caps and Value-Weighted were the best performers from a style perspective. Energy stocks advanced on expectations of tighter supply and positive growth data. Certain media and technology giants made strong gains, as did a number of banking stocks.
- Within Fixed income markets, Australian government bonds and credit both gained ground this month. The main Australian fixed interest index, the Bloomberg AusBond Composite 0+ Years Index was up 0.5%, while the Bloomberg AusBond Credit 0+ Years Index gained 0.8%.
- Global High Yield bonds, as measured by the Bloomberg Barclays Global High Yield Total Return Index Hedged into AUD gained 1.7% for the month.

1. S&P/ASX 200 Price Index



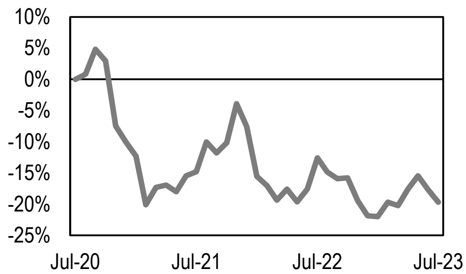
Source: FactSet, Insignia Financial

2. ASX200 vs All-World, US$ terms



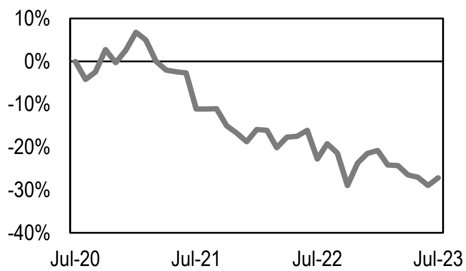
Source: FactSet, Insignia Financial

3. Australia – Growth vs Value stocks



Source: FactSet, Insignia Financial

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



Sector and stock returns – July 2023

ASX/S&P 200 Sectors (GICS)				
	Monthly	**% ∆**	**Quarterly**	**% ∆**
▲	Consumer Discretionary	3.38	Consumer Discretionary	-1.27
▼	Consumer Staples	-1.14	Consumer Staples	-2.99
▲	Energy	8.84	Energy	11.06
▲	Financials ex Property	2.82	Financials ex Property	1.45
▲	Financials	4.86	Financials	2.96
▼	Health Care	-1.54	Health Care	-8.03
▲	Industrials	2.37	Industrials	1.03
▲	IT	4.45	IT	20.60
▲	Materials	1.39	Materials	1.44
▲	Property Trusts	3.83	Property Trusts	0.34
▲	Telecommunications	2.73	Telecommunications	0.52
▲	Utilities	4.00	Utilities	7.06

Source: FactSet, Insignia Financial

Best and Worst S&P/ASX 200 Performers			
Top five stocks (%)		**Bottom five stocks (%)**	
Monthly			
Megaport Ltd.	+41.3	Core Lithium Ltd	-28.9
Flight Centre Travel Group Limited	+22.7	Lake Resources N.L.	-25.0
Costa Group Holdings Ltd.	+21.7	Syrah Resources Limited	-22.7
Block, Inc. Shs CDIs	+21.4	Sayona Mining Ltd.	-17.1
Virgin Money UK PLC Shs CD	+20.7	Healius Limited	-9.7
Quarterly			
Megaport Ltd.	+81.2	Lake Resources N.L.	-46.4
Life360, Inc. Shs CDIs	+52.2	Syrah Resources Limited	-39.4
AGL Energy Limited	+46.9	Core Lithium Ltd	-34.7
Costa Group Holdings Ltd.	+32.9	Silver Lake Resources Limited	-29.9
HMC Capital Limited	+32.1	Link Administration Holdings Ltd.	-27.8

Source: FactSet, Insignia Financial

Share Markets, Returns

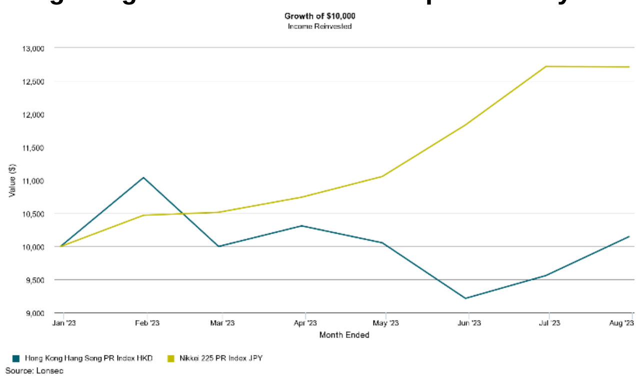
	Australian Indices	31 Jul 2023 Price	1M return (%)	30 Apr 2023 Price	3M return (%)
▲	S&P/ASX 200	7410	2.88	7309	1.38
▲	All Ordinaries	7622	2.98	7501	1.62
▲	Small Ordinaries	2893	3.51	2898	-0.19
	US Indices				
▲	S&P 500	4589	3.11	4169	10.06
▲	Dow Jones	35560	3.35	34098	4.29
▲	Nasdaq	14346	4.05	12227	17.33
	Asia Pacific Indices				
▲	Hang Seng	20079	6.15	19895	0.93
▼	Nikkei 225	33172	-0.05	28856	14.96
	UK & Europe Indices				
▲	FTSE 100	7699	2.23	7871	-2.17
▲	CAC40	1359	2.13	1289	5.45
▲	DAX Index	16447	1.85	15922	3.29

Sources: FactSet, MSCI, FTSE, S&P, Insignia Financial
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

July provided robust equity markets across the world (in local currencies); however, the two Asian indices provide a good example of the different outcomes being experienced in different locations. Hong Kong's equity market bounced on optimism that there will be some stimulus forthcoming, as Chinese economic data continues to reflect a sluggish recovery, while Japan's Nikkei consolidated over July after a great start to the year. Japan has had lower inflation than the rest of the developed market, a weak currency, and retained their ultra-low interest rates.

Hang Seng vs Nikkei 225: CYTD up to 31 July 2023



Source: irate.lonsec.com.au/quant. Accessed 15/08/2023

Returns to 31 July 2023	1-mth	3-mth	6-mth	1-yr
MSCI World Index	2.9%	8.7%	11.6%	13.3%
Value	3.4%	5.2%	3.8%	10.1%
Value-Weighted	3.7%	7.5%	7.8%	14.5%
Momentum	1.8%	3.7%	4.9%	7.7%
Growth	2.5%	11.9%	19.5%	15.9%
Quality	2.8%	10.8%	17.9%	17.4%
Low volatility	0.8%	0.6%	4.1%	4.6%
Equal weight	3.5%	6.5%	6.6%	11.1%
Small caps	4.0%	8.0%	4.5%	8.9%

Source: FactSet, Insignia Financial, MSCI

Strength of the global equity returns broadened across styles and market caps. MSCI World Small caps have benefited from their under-valued prices relative to their larger counterparts and bounced nicely in July. This broadening of market participants is viewed positively, as it reduces the risks associated with a market driven by a few large cap leaders. For example the "magnificent seven" stocks; Apple, Microsoft, Alphabet, Amazon, Nvidia, Tesla, and Meta Platforms together drove 73% of the market gains in the first half of 2023.

July also saw the MSCI World Value sub-category play a little catch-up to Growth, but we can still see the AI enthusiasm in the Growth and Quality 3-month performance.

Australian equity markets

The Australian market, as measured by the S&P/ASX 200 Index rose 2.9% in July, while the slightly larger market cap MSCI index was slightly softer (2.7%).

Returns to 31 July 2023	1-mth	3-mth	6-mth	1-yr
MSCI Australia Index	2.7%	2.1%	1.3%	12.5%
Value	4.0%	3.8%	0.8%	20.0%
Value-Weighted	3.8%	3.2%	1.7%	15.0%
Momentum	0.6%	2.0%	-1.0%	9.8%
Growth	1.5%	0.6%	2.1%	5.9%
Quality	2.0%	1.3%	3.3%	15.6%
Low volatility	1.9%	0.6%	4.0%	9.9%
Equal weight	3.1%	2.9%	6.4%	14.2%
Small caps	3.7%	2.3%	-0.5%	6.7%

Source: FactSet, Insignia Financial, MSCI

The MSCI Australia Index sub-categories also saw a rebound in Value and Small Caps in July. However, Australia lacks the technology/AI presence in our market relative to the global equity markets and our Growth sub-category lagged over the last three months relative to MSCI World.

Australian Small Caps have been as unloved as Global Small caps, and currently there are a lot of good smaller companies at attractive valuations.

Fixed Income

Fixed Income		31 Jul 2023 Yield	1M mvt (bps)	30 Apr 2023 Yield	3M mvt (bps)
	Australian Cash rate	4.10	--	3.60	0.50
▲	10-year Bond Yield	4.05	0.03	3.34	0.71
▼	3-year Bond Yield	3.89	-0.15	3.01	0.88
▼	90 Day Bank Accepted Bills SFE-Day	4.54	-0.26	3.82	0.72
▲	US 10-year Bond Yield	3.95	0.14	3.45	0.51
▲	US 3-year Bond Yield	4.52	0.03	3.78	0.74
▼	US Investment Grade spread	1.39	-0.12	1.67	-0.28
▼	US High Yield spread	3.67	-0.23	4.52	-0.85

Source: FactSet, Insignia Financial

Australian bond market

July was a reasonable month for bonds. The main Australian Fixed Interest index, the Bloomberg AusBond Composite 0+ Years Index gained 0.5% for the month. Australian yields were mixed during the month of July, with the short end (3-year) of the curve falling by 15 basis points. At the long end of the curve, the 10-year yield rose by a relatively small 3 basis points. Both of these moves are small when compared to recent history.

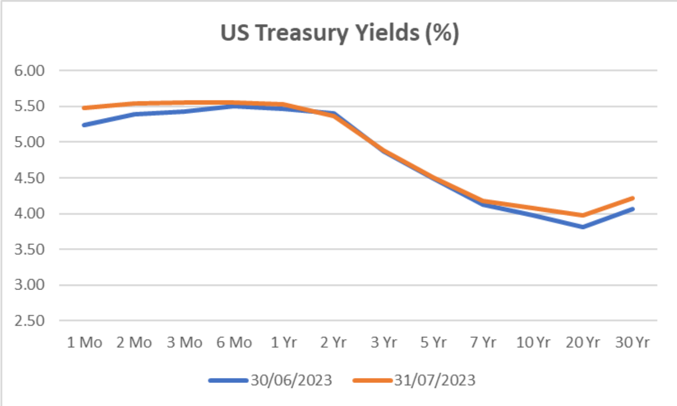
Australian corporate bonds had a solid month, with the Bloomberg AusBond Credit 0+ Years Index gaining 0.8%.

The yield to maturity for the Bloomberg AusBond Composite 0+ Years Index at the end of July was approximately 4.3%, with the index having around 5.1 years duration.

Global bond markets

Over the month of July, U.S. Government bond yields rose for all maturities, except for 2 years. As can be seen in the following chart, the U.S. yield curve rose at both ends of the curve, but was fairly flat between about the 6-month and 7-year part of the curve, with moves at this part of the curve relatively small.

Note that the 2-year / 10-year part of the curve ended July (-129 bps) slightly less inverted than was the case at the end of June (-143bps), but is still clearly indicating that a recession is expected in the near term.



Source: U.S. Department of the Treasury, accessed 08/08/2023

In July, riskier fixed interest assets continued their strong performance, while government bonds underperformed. The lower-than-expected inflation figures from the U.S. raised optimism that the U.S. economy could avoid a more serious downturn. The narrative of a soft landing is gaining traction. Both the U.S. Federal Reserve (Fed) and the European Central Bank (ECB) raised rates by 0.25% in line with expectations, but pledged data dependency in terms of forward guidance.

Overall, this resulted in a positive month for credit, with global High Yield bonds, as measured by the Bloomberg Barclays Global High Yield Total Return Index Hedged into AUD gaining 1.7%. Note the U.S. makes up the large majority of the high yield market globally. U.S. economic data still seems to be surprising to the upside, so a 'soft landing' scenario continues to be the market consensus.

During July, the Bank of Japan (BoJ) introduced some market volatility by adjusting its yield curve control (YCC) policy. While keeping the original target range, it effectively widened the reference band by introducing a 1% cap on the 10-year Japanese government bond yield, leading to Japanese government bonds selling off in response.

Currencies

	Currency	31 Jul 2023 Price	1M return (%)	30 Apr 2023 Price	3M return (%)
▲	$A vs $US	0.67	0.90	0.66	1.63
▼	$A vs GBP	0.52	-0.69	0.53	-0.55
▼	$A vs YEN	95.56	-0.62	90.17	5.98
▲	$A vs EUR	0.61	0.16	0.60	1.87
▼	$A vs $NZ	1.08	-0.33	1.07	1.09
▼	$US vs EUR	0.91	-0.66	0.91	0.29
▼	$US vs CNY	7.14	-1.52	6.91	3.34
▼	$US vs GBP	0.78	-1.49	0.80	-2.07
▼	$US vs JPY	142.27	-1.42	136.31	4.37
▼	$US vs CHF	0.87	-2.68	0.89	-2.65
▼	US Dollar Index	101.86	-1.03	101.66	0.19

Source: Bloomberg, Insignia Financial

The AUD was mixed during July, as expectations of near-term interest rate differentials adjust in the market. Inflation in Australia remains high, with the market expecting some further tightening, however, interest rates are a blunt economic tool, and it is a fine line to walk between too much tightening and not enough. The AUD was weaker against the undervalued British pound and the traditional risk off beneficiary the Japanese Yen.

The U.S. dollar was sold off early in July, giving back some of its recent strength, as expectations that the US monetary policy may be close to the end of its hiking cycle. Higher inflation levels in Europe, and the UK are supporting further rate hikes in these regions. Relative to history, the USD/DXY remains high especially compared to the Euro and British pound, both weighed down significantly by the ongoing war in Ukraine.

DXY 31 July 2022 – 31 July 2023

Source: Tradingview.com, accessed 15/08/2023

Commodities

	Commodity	31 Jul 2023 Price	1M return (%)	30 Apr 2023 Price	3M return (%)
▲	Aluminium	2196	4.72	2342	-6.26
▲	Copper	8636	5.18	8571	0.75
▲	Nickel	21625	7.45	23770	-9.02
▲	Zinc	2550	7.91	2680	-4.85
▲	Crude Oil - Brent	85.56	14.83	81.32	5.21
▼	Natural Gas	2.63	-5.86	2.41	9.29
▼	Metallurgical Coal	145	-9.14	185	-21.85
▼	Thermal Coal	139	-13.12	187	-25.54
▼	Iron Ore	109.21	-2.98	116.14	-5.97
▲	Gold	1965	2.38	1990	-1.24
▲	Silver	25	8.72	25	-1.26

Source: Bloomberg, Insignia Financial

This month, commodities performance was mixed. Natural Gas gave back some of last month's gains, as milder weather offset the multi-year low price levels. Iron ore lagged, as China has been hesitant to increase regional debt to stimulate their economy, while copper's use in other net carbon zero products has helped support prices at these levels.

The standout in price moves is Oil, with Brent Crude Oil prices rising in the face of other energy commodity declines. OPEC + extended its existing supply cuts of 3.66 million barrels per day (BPD) and in the June meeting Saudi Arabia pledged an additional voluntary oil output reduction of 1 million BPD for the month of July, which could be extended. These cuts have been felt in the oil price during July, despite continued weakness out of China and hesitance for them to stimulate their economy.

Brent Crude Oil Prices August 2022 – July 2023

Source: Macrotrends.net, Accessed 15/08/2023

Australia

Interest rates were kept at 4.1% at the August meeting, as the RBA monitors the impacts of the accumulative increases since May last year. Inflation still remains uncomfortably high. Economic data appears to be robust, but the labour market continues to remain tight (unemployment at 3.5%), and Australia's balance of trade remains strong.

Monetary Policy

The Reserve Bank of Australia kept its cash rate unchanged at 4.1% during its August meeting, extending the rate pause for the second successive month against market consensus of a 0.25% rate hike. While cost pressure in the country is easing, the central bank views inflation at 6% as still being too high and some further monetary tightening may be needed. The RBA also stated that rate adjustments will depend upon how the economy and prices evolve.

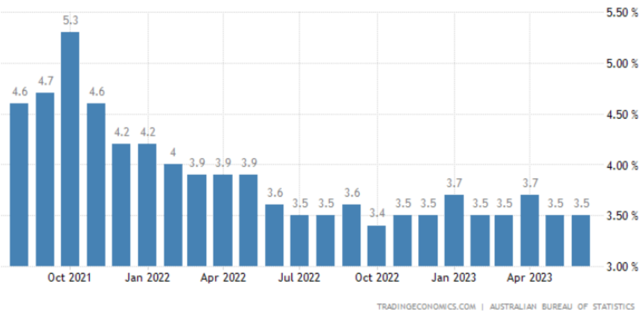
Inflation

Australia's inflation rate dropped to 6.0% p.a. in Q2, down from 7.0% in Q1 and below market forecasts of 6.2%. This was primarily driven by a slowdown in goods inflation (5.8% vs. 7.6% in Q1). Inflation decelerated for food (7.5% vs 8.0%), furniture (6.9% vs. 9.0%), appliances (1.4% vs 4.6%), and clothes (0.3% vs 3.2%), while automotive fuel prices declined (-3.6% vs 1.1%). In contrast, services inflation accelerated to 6.3%, the highest rate since 2001. This surge was driven by higher prices in various service categories, including rents (6.7% vs. 4.9%), restaurant meals (6.5% vs. 7.0%), insurance (14.2% vs. 8.8%) and while growing at a slower pace, holiday travel inflation was still strong at 12.2% (vs 17.1%). The RBA's Trimmed Mean CPI rose by 5.9% p.a., which, while still elevated, was the slowest growth rate in a year.

Labour Market

Australia's seasonally adjusted unemployment rate stood at 3.5% in June 2023, unchanged from a downwardly revised figure in May, remaining close to last October's 50-year lows, below market expectations of 3.6%. The number of unemployed individuals fell by 10.9 thousand to 504.4 thousand, with those seeking full-time jobs declining by 22.1 thousand to 328 thousand, while those looking for part-time jobs increased by 11.3 thousand to 176.4 thousand. Simultaneously, employment increased by 32.6 thousand to 14.05 million, easily surpassing market forecasts of a 15 thousand gain. Full-time employment climbed by 39.3 thousand to 9.87 million, while part-time employment decreased by 6.7 thousand to 4.18 million. The participation rate edged down to 66.8% from May's record high of 66.9%, below the market consensus of 66.9%. Meanwhile, the underemployment rate was unchanged at 6.4%. Additionally, monthly hours in all jobs rose by 6 million, or 0.5% to 1,947 million.

Unemployment: 2 Years to June 2023



Source: Tradingeconomics.com, ABS. Accessed 14/08/2023

Trade

Australia's trade surplus widened to $11.79 billion in May rising from an 8-month low of $10.45 billion in April and beating market forecasts of $10.5 billion. Exports rose more than imports. Shipments grew by 4.4% from the previous month to $57.77 billion, mainly boosted by increases in non-monetary gold. Total exports to China, the country's largest trading partner, surged 9% from a month earlier, rebounding sharply from a 15.9% plunge in April. Meanwhile, imports advanced by 2.5% to a four-month high of $45.98 billion amid robust domestic demand.

Australia's Balance of Trade: 10 Years to June 2023

Source: Tradingeconomics.com, ABS. Accessed 14/08/2023

United States

The Federal Reserve Chair Jerome Powell has indicated that there is still a significant chance of a rate increase at the September meeting. The annual inflation rate in the U.S. fell to 3.0% in June 2023, the lowest since March 2021, and slightly below market forecasts of 3.1%.

Growth / Economic Activity

The Conference Board Leading Economic Index (LEI) for the U.S. declined by 0.7% in June 2023 to 106.1 (2016=100), following a decline of 0.6% in May. The LEI is down 4.2% over the six-month period between December 2022 and June 2023, a steeper rate of decline than its 3.8% contraction over the previous six months (June to December 2022).

The Conference Board stated the Leading Index has been in decline for fifteen months, the longest streak of consecutive decreases since 2007-08. Taken together, June's data suggests economic activity will continue to decelerate in the months ahead. The Conference Board forecasts that the U.S. economy is likely to be in recession from Q3 2023 to Q1 2024. Elevated prices, tighter monetary policy, harder-to-get credit, and reduced government spending are poised to dampen economic growth further.

Labour Market

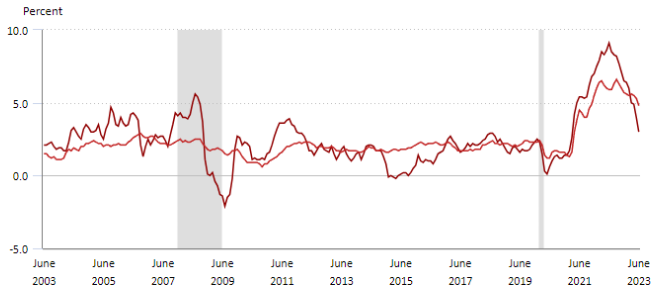
The number of job openings fell by 34,000 from a month earlier to 9.582 million in June 2023, reaching the lowest level since April 2021 and coming in below the market consensus of 9.61 million, suggesting that the labour market may be cooling off. Job openings decreased in transportation, warehousing, and utilities (-78,000), state and local government education (-29,000), and the federal government (-21,000). However, there was an increase in job openings in health care and social assistance (+136,000) and in state and local government, excluding education (+62,000). In terms of regional distribution, job openings declined in the Midwest (-138,000) and the South (-76,000), but rose in the West (107,000) and the Northeast (73,000).

The unemployment rate in the U.S. decreased slightly to 3.6% in June 2023, which is lower than May's seven-month high of 3.7% and in line with market expectations. The jobless rate has fluctuated between 3.4% and 3.7% since March 2022, indicating a consistently tight labour market and allowing the Federal Reserve the flexibility to continue raising interest rates as a means to combat inflation.

Inflation

According to Trading Economics, the annual inflation rate in the U.S. increased to 3.2% in July 2023 from 3% in June, but below forecasts of 3.3%. It marks a halt in the 12 consecutive months of declines, due to base effects. A year earlier, inflation had started to fall from its peak of 9.1%. In July 2023, energy cost fell 12.5%, less than the 16.7% drop in June, with prices declining at a smaller pace for fuel oil (-26.5% vs -36.6%), and gasoline (-19.9% vs -26.5%). On the other hand, electricity prices rose 3%, below 5.4% in June, and inflation slowed for food (4.9% vs 5.7%), shelter (7.7% vs 7.8%) and new vehicles (3.5% vs 4.1%). The cost of medical services was down 1.5% (vs -0.8%) and the prices of used cars and trucks declined 5.6% (vs -5.2%). Meanwhile, core inflation which excludes food and energy eased to 4.7% from 4.8% in June, which was below market expectations of 4.8%.

Headline and Core Inflation



Source: U.S. Bureau of Labor Statistics, accessed 04/08/2023

Interest Rates / Fed Policy

The Federal Reserve again decided to increase interest rates by 0.25% on 26th July, pushing the U.S. rates up to 5.25% - 5.50%, the highest level since 2001. Federal Reserve chair Powell emphasised that the economy still needs to slow down, and the labour market weaken, for inflation to return to the Fed's 2% target. He also said that there would be no rates cuts this year, following 11 rate hikes and one pause in the Fed's last 12 meetings.

Powell also said the central bank was closely monitoring the economic data ahead of its next meeting in September and another rate rise was certainly possible.

China

China kept their benchmark interest rates unchanged. Economic data was mixed, GDP improved in Q2, but missed expectations and PMI data continues to point to a sluggish recovery. Unemployment was robust, except for the 16–24-year-olds. Consumer prices are fragile with annual inflation now in negative territory weighed down by 5 of the last 6 months of negative inflation data.

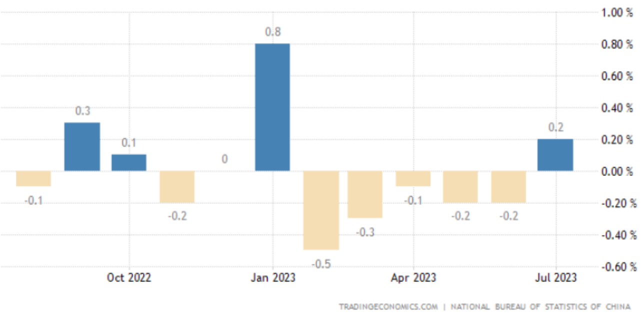
Monetary Policy

The People's Bank of China (PBoC) maintained lending rates at their current levels despite more signs of a stalling economic recovery. The 1-year loan prime rate (LPR at 3.55%), is the medium-term lending facility used for corporate and household loans, while the 5-year rate (at 4.2%), is a reference for mortgages.

Inflation

China's consumer prices dropped by -0.3% year-on-year in July, compared to 0.0% in June and estimates of -0.4%. The cost of food fell -1.7%, the first decline in 15 months helped by a plunge in pork prices. Non-food prices were flat after falling -0.6% in June, with an increase in the pace of costs for clothing (+1.0% vs +0.9% in June), housing (+0.1% vs 0.0%), health (1.2% vs 1.1%), and education (2.4% vs 1.5%). Transport prices continued to decline (-4.7% vs -6.5%). China projects inflation to pick up gradually over the year, however, it can be seen in the chart below, that 5 of the last 6 months have been negative creating headwinds to the year-on-year CPI. Core consumer prices went up 0.8% year-on-year, after a 0.4% gain in June.

China's Inflation Rate (Monthly) 1 Year to July 2023



Source: Tradingeconomics.com, National Bureau of Statistics of China, Accessed 14/08/2023

Employment

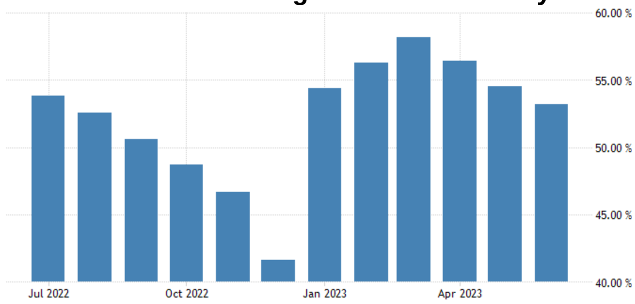
China's urban unemployment rate stood at 5.2% in June, which represents one of the lowest levels recorded in 16 months. The unemployment rate for the population aged 25-59 also remained steady at 4.1% in June, while the rate for those aged 16-24 saw a slight increase, reaching a new record peak of 21.3%. At the same time, the jobless rate in 31 large cities and towns held firm at 5.5% in June.

Growth

The Chinese economy expanded by 6.3% p.a. in Q2 2023, growing faster than the 4.5% recorded in Q1, but falling short of market estimates of 7.3%. The latest figures were distorted by a low base of comparison from last year when Shanghai and other major cities were under strict lockdowns. China had set a GDP growth target of around 5% for this year, following a 3% expansion in 2022. Beijing has been cautious about launching substantial stimulus measures, especially as local government debt has soared.

The NBS Composite PMI Output Index in China was down to 51.1 in July from 52.3 in the previous month. While the figure remains slightly tilted to growth (>50), it points to a sluggish economic recovery. Factory activity contracted for the fourth month in a row, reflecting weak demand at home and abroad and a lingering property downturn, while the service sector expanded the least in seven months.

NBS Non-Manufacturing PMI: 1 Year to May 2023



Source: Tradingeconomics.com, National Bureau of Statistics of China, Accessed 15/08/2023

Trade

China's trade surplus narrowed to US$80.6 billion in July from US$102.7 billion in the same period a year earlier, compared to market forecasts of US$70.6 billion, as exports fell more than imports amid persistently weak demand from home and abroad. Exports plunged 14.5% year-on-year, the third straight month of decline and worse than market consensus of -12.5%, while imports fell by 12.4%. The politically sensitive trade surplus with the US widened to US$30.3 billion in July from US$28.72 billion in June.

Europe

Unemployment remained at its record low of 6.4%, while inflation fell to 5.3% in July, which was the lowest reading since January 2022.

Growth / Economic Activity

The Eurozone economy grew by 0.6% year-on-year in the second quarter of 2023, easing from a 1.1% expansion in the previous period, but slightly surpassing market consensus of 0.5%, a preliminary estimate showed. It was the weakest pace of growth since the 2020-21 period of recession due to a large drop in real incomes and surging interest rates.

Europe's largest economy, Germany, struggled in the second quarter, recording zero growth after two straight quarters of falling output, as it grappled with high energy costs tied to Russia's war in Ukraine.

The eurozone growth figures for the first quarter were revised from a decline of 0.1%, statistically erasing what had been two straight quarters of contraction, one definition of a recession.

The HCOB Eurozone Composite PMI was revised lower to 48.6 in July 2023 from a preliminary of 48.9, and compared to 49.9 in June, pointing to the biggest contraction in private sector activity since November. Once again, manufacturing represented a considerable drag on the eurozone's economic performance (42.7 vs 43.4), with production volumes declining at a rapid and accelerating rate. Weakness among goods producers was accompanied by a further slowdown in the services sector (50.9 vs 52). Overall, total new work fell the most since October last year. Also, contraction in order books continued to free up capacity, leading backlogs of work to decline once again.

Inflation

The annual inflation rate in the Euro Area slowed for a third consecutive month to 5.3% in July 2023 from 5.5% in June, in line with market forecasts, preliminary estimates showed. It is the lowest reading since January 2022, due to a further drop in energy prices (-6.1% vs -5.6%), and a slowdown in the cost of food, alcohol and tobacco (10.8% vs 11.6%) and non-energy industrial goods (5% vs 5.5%). On the other hand, services inflation continued to march higher to 5.6% from 5.4%. Meanwhile, the core inflation rate, which excludes prices for energy, food, alcohol & tobacco was unchanged at 5.5%, compared to forecasts of 5.4%, and is now higher than the headline rate for the first time since 2021. Compared to June, the CPI in the Euro Area declined 0.1%.

Labour Market

According to Eurostat, the euro area seasonally adjusted unemployment rate was at a record low of 6.4% in June 2023, stable compared with May 2023 and slightly below market forecasts of 6.5%. A year earlier, the jobless rate was higher at 6.7%. The unemployed decreased by 62,000 from a month earlier to 10.814 million. Meanwhile, the youth unemployment rate, measuring jobseekers under 25 years old, dropped to an all-time low of 13.8% in June 2023, down from 14% in the previous month. Amongst the largest Euro Area economies, the lowest jobless rate was recorded in Germany (3%), while the highest rates were registered in Spain (11.7%), Italy (7.4%) and France (7.1%).

Policy

In late July, the ECB increased the interest rates on the main refinancing operations, the marginal lending facility and deposits with the central bank to 4.25%, 4.50% and 3.75% respectively. This means that the ECB has again increased the cost of money in an attempt to control inflation or pursue other monetary policy objectives.

The ECB pointed out that despite the slowdown, inflation was expected to remain at high levels above its target for an extended period. During the tightening cycle that began a year ago, the ECB has raised interest rates by a total of 4.25%. The effects of this tightening are already being felt, but have not yet been fully reflected in the real economy. Tighter financing conditions are dampening credit demand and contributing to a slowdown in inflation.

On the key topic of the meeting, the September projections, Ms Lagarde, President of the European Central Bank, left several options open, stating that the Governing Council was open to either another hike or a pause. She stressed that there would be no cuts and that the future approach would depend heavily on economic data.

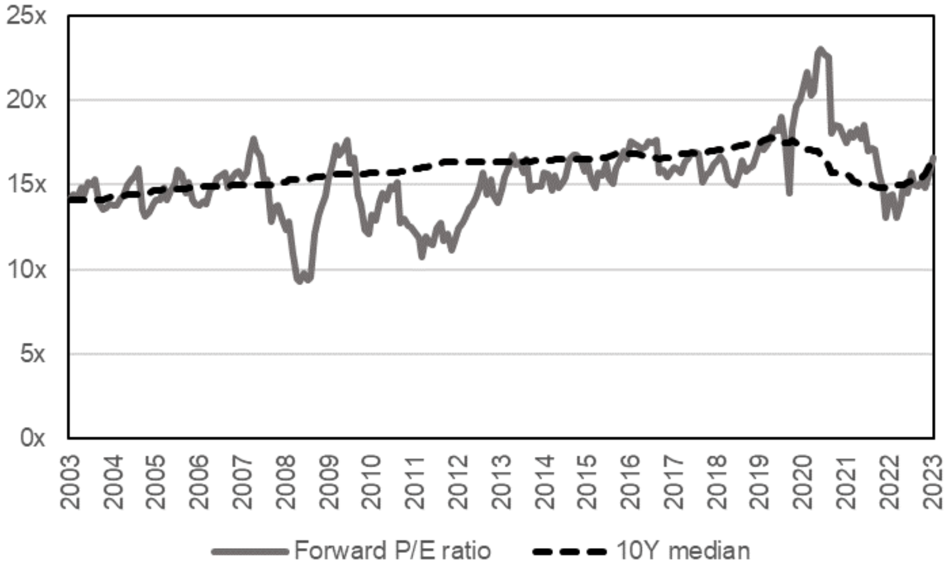
Economic Scorecard – As of 11 August 2023

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

	USA			Australia			EuroZone			China		
	Current	**Direction**	**1 year forward**	**Current**	**Direction**	**1 year forward**	**Current**	**Direction**	**1 year forward**	**Current**	**Direction**	**1 year forward**
Growth (Latest Qtr Nominal GDP)	0.6% (Below trend)	Moderating	Recession / Below trend	0.2% (Below trend)	Moderating	Recession / Below trend	0.3% (Below trend)	Weakening	Recession / Below trend	0.8% (Below trend)	Slowing slightly	Below trend
Inflation (Headline CPI)	3.2% (Above target)	Falling	Target	6.0% (Significantly Above target)	Moderating	Lower, but still above target	5.3% (Significantly above target)	Moderating	Lower, but still above target	-0.3% (Below target)	Returning to trend	Likely below target
Interest Rates (official cash rate or equivalent)	5.25%-5.50%	Slight increase	5.75% (Stable / decreasing)	4.10%	Flat	4.10% (Stable)	4.25%	Increasing slightly	4.50% (Stable)	3.55%	Marginal decrease	3.45% (Stable)
		AUD/USD										
Currencies (relative PPP basis)	0.647 (PPP 0.692) less than 1 Std Dev	Risk off	Fair value range									

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

Australian Shares Forward P/E – spot vs trailing 10Y median (July-13 to July-23)



Sources: FactSet, MSCI, S&P (July 2023)

Australian Shares based on the S&P/ASX 200 Index.

Performance as of 31 July 2023

					Annualised						
		1-mth	3-mth	6-mth	1-yr	3-yr	5-yr	7-yr	10-yr	15-yr	20-yr
Shares	Australia	2.9%	2.0%	1.2%	11.7%	12.0%	7.5%	8.4%	8.3%	7.2%	9.0%
	Australia - mid cap	4.4%	5.5%	3.1%	12.8%	14.4%	9.4%	10.3%	12.7%	8.3%	10.4%
	Australia - small cap	3.5%	0.2%	-1.5%	0.8%	5.9%	3.2%	5.1%	6.2%	3.1%	6.1%
	Australia - micro cap	4.0%	-0.1%	-3.1%	-2.3%	15.5%	9.9%	8.0%	8.7%	4.1%	-
	World ex Australia	2.1%	6.5%	16.5%	17.6%	14.0%	11.4%	12.5%	12.6%	10.1%	8.2%
	World ex Australia (Hedged)	3.1%	8.2%	10.1%	10.4%	9.9%	7.4%	9.5%	9.6%	8.4%	9.3%
	World - small cap	3.6%	6.3%	8.1%	12.4%	13.1%	7.3%	9.9%	10.9%	10.4%	9.1%
	Emerging Markets	4.9%	6.3%	8.0%	12.2%	3.6%	3.7%	6.9%	6.5%	4.8%	8.0%
Property & Infrastructure	A-REITS	3.8%	2.0%	-0.2%	0.3%	9.2%	4.1%	3.1%	8.1%	5.8%	5.4%
	Global REITs	2.5%	0.1%	0.6%	-5.0%	5.8%	2.5%	2.3%	6.1%	-	-
	Global REITs (hedged)	3.2%	2.0%	-3.5%	-9.9%	3.8%	-0.1%	0.6%	4.2%	4.4%	-
	Global infrastructure	0.8%	-2.3%	4.3%	0.3%	8.6%	7.2%	7.3%	9.5%	-	-
	Global infrastructure (Hedged)	1.4%	-1.6%	-1.3%	-6.0%	5.5%	4.4%	5.2%	7.4%	8.2%	-
Fixed income	Australia Total Market	0.5%	-2.6%	-0.7%	-1.5%	-3.5%	0.6%	0.8%	2.4%	4.1%	4.3%
	Australia government bonds	0.5%	-3.0%	-1.0%	-2.1%	-3.9%	0.4%	0.6%	2.3%	4.0%	4.2%
	Australia corporate bonds	0.8%	-0.8%	0.9%	1.8%	-1.2%	1.7%	2.1%	3.2%	4.9%	4.9%
	Australia floating rate bonds	0.5%	1.2%	2.4%	4.3%	1.7%	2.0%	2.3%	2.6%	3.6%	-
	Global Total Market (Hedged)	0.0%	-0.8%	-0.1%	-3.6%	-4.0%	0.2%	0.4%	2.5%	4.5%	5.1%
	Global government bonds (Hedged)	-0.3%	-0.9%	0.2%	-3.9%	-4.1%	0.0%	0.2%	2.5%	4.4%	-
	Global corporate bonds (Hedged)	0.6%	-0.5%	-0.5%	-2.8%	-4.3%	0.5%	0.8%	2.9%	5.2%	-
	Global high yield bonds (Hedged)	1.7%	3.0%	2.0%	5.1%	0.1%	1.2%	2.7%	4.2%	7.4%	8.0%
Cash	Bloomberg AusBond Bank Bill Index	0.4%	1.0%	1.8%	3.1%	1.1%	1.2%	1.4%	1.7%	2.6%	3.5%

Sources: FactSet, Lonsec

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
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
Cash (AUD)	Bloomberg AusBond Bank Bill Index