Monthly Market Update October 2023

Key Events in October 2023

- Markets struggled in October as stronger economic data kept central banks hawkish, adding fuel to the “higher for longer” rhetoric.
- Shocking events in the middle east added to market uncertainty, given the unknown market impact, and implications for energy prices.
- Australia’s quarterly inflation numbers reinforced what the monthly series had been pointing too – stickier inflation. Prices were up +1.2% q/q in the third quarter, driven by rents higher fuel prices and insurance costs. Annual inflation standing at 5.4% and drifting lower.
- Reserve Bank of Australia (RBA) left its cash rate unchanged at 4.10%, for four consecutive policy meetings, but no indication that the RBA has completed its rate-hiking cycle.
- Australia’s job ads were down 3.0% in October, 11.4% lower than in October 2022 – which is expected as businesses tackle elevated inflation and higher costs.
- Equity markets continued their retracement in October as investors reacted negatively to rising bond yields and geopolitical events.
- The US recession that was widely predicted has yet to arrive, with Q3 U.S. GDP rising 4.9% amid strong consumer and government spending. However, these drivers could be short-lived as consumer saving rates decline from 5.2% to 3.8%, while facing tighter lending conditions, and higher interest payments.
- Sovereign bond yields surged throughout the month, as US Treasury yields rose to 5%.
- Still, US inflation is significantly lower than peak 2022 levels, US economic growth has been resilient, and the S&P 500 remains up +10.7% y-t-d as investors anticipate the Fed could begin the aggressively cut interest rates as soon as the first half of 2024.
- October’s euro-zone consumer sentiment report was released, the index indicated euro-zone sentiment had deteriorated for a third consecutive month.

Asset Class Summary

Table 1: Asset Class Returns – Periods to 31 October 2023

31-October-23 Sector	1 Month %	3 Months %	1 Year %	3 Years % pa	5 Years % pa	10 Years % pa
Australian Shares	-3.8	-7.2	3.0	8.9	7.2	6.6
Australian Small Companies	-5.5	-10.5	-5.1	0.5	2.6	4.3
International Shares (Unhedged)	-1.0	-3.3	12.3	12.5	11.4	12.7
International Shares (Hedged)	-2.7	-8.1	8.3	8.3	7.4	8.8
Emerging Markets (Unhedged)	-3.6	-9.7	10.2	-0.7	4.0	4.5
Australian Property Securities (Listed)	-5.8	-12.0	-3.6	2.7	1.9	6.4
Global Property Securities (Hedged)	-4.5	-12.3	-7.7	0.7	-1.9	2.5
Global Listed Infrastructure (Hedged)	-2.6	-10.1	-4.5	6.4	3.2	5.3
Australian Bonds	-1.5	-0.3	1.6	-3.9	0.3	2.3
Global bonds (Hedged)	-0.8	-2.9	0.1	-4.8	-0.4	2.0
Cash	0.3	1.1	3.6	1.4	1.3	1.7
AUD/USD	1.9	6.4	1.0	3.5	2.3	4.1

Past performance is not a reliable indicator of future performance.
Source: S&P ASX 200 Accum Index, S&P ASX Small Ordinaries Accum Index, MSCI World EX Australia, MSCI Emerging Markets AUD, S&P ASX 200 A-REIT Accum Index, FTSE EPRA/NAREIT Developed TR Hdg (AUD), S&P Global Infrastructure Index, Bloomberg AusBond Composite 0+Yr Index, Barclays Global Aggregate TR Hdg AUD, Bloomberg AusBond Bank Bill Index

Australian Markets

The S&P/ASX 200 finished down for the month -3.8% for the month with ten of eleven sectors finishing in the red, while Utilities were the only sector to finish in the green up +1.3%. Small caps again underperformed the broader index with a return of -5.5% for the month, impacted by market volatility and the headwinds of higher interest rates.

Sectors losses were broad based over the month, with Information Technology -7.6%, followed by Health Care -7.2%, Industrials -6.4%, and Listed Property -6.1%. The Real Estate sector experienced a substantial decline of 6.1%, reflecting concerns related to the "higher-for-longer" stance on interest rates and its potential repercussions on property values. Utilities stood out as the lone positive performer in the market, registering a return of 1.7% for the month.

Best performing stocks in October was Silver Lake Resources up +22%, driven by a strong rise in the gold price, followed by Gold Road Resources, Regis Resources, Ramelius Resources and Capricorn Metals. Inghams was not far behind +11% post a trading update, management expecting NPAT to rise by +110% to $71 million. Bega Cheese returned +12% for the month following an upgrade from Bell Potter.

Global Markets

Global markets fell due to the recent conflict in the Middle East and surging oil prices. The S&P 500 was down -2.2% for the month. At their October policy meeting, FOMC members voted to hold rates steady, but FOMC Chair Powell suggested that “the bar would be higher for further rate hikes”.

The Information Technology sector appeared to be adversely affected by the hawkish sentiment which resonated across the US. This trend mirrored the broader sell-off observed in prominent US tech giants like Apple and Nvidia, highlighting the potential impact of interest rates on high-growth tech stocks.

The broader global share market represented by the MSCI World ex Australia Index unhedged returned -1.0% and -2.7% hedged for the month of October, whilst Emerging Markets returned -3.6%.

European equities were also weaker. The EuroStoxx 50 was down -2.6%. In the UK, the FTSE 100 was down -3.8%. The ECB voted to hold rates steady in October possibly on the back of eurozone CPI falling, at 2.9% y-o-y.

Japanese equities were also weaker, with the Nikkei down -3.1%. Other Asian equities followed the global trend, with the MSCI Asia ex-Japan Index down -3.9%.

Outlook

Mixed picture leads to taking a more defensive stance!

As the global economy struggles to bring inflation down, monetary policy around the globe is battered by unforeseen events that suddenly add to the nervousness of markets. All this uncertainty raises the question, when will the stock market hit bottom? Answer: no-one really knows with certainty. Therefore, this clouded picture on growth and inflation points to staying cautious when it comes to riskier assets. While a better growth picture should be supportive of equity markets, it comes with risk. The risk is that monetary policy overshoots, given the lag between raising the interest rate and their uneven impact on inflation, corporate earnings, employment, incomes, and consumption. This could hurt both the real economy and asset prices.

Depending on your investment horizon, and allocation between defensive assets such as cash and term deposits versus equities, investors may consider tilting their share portfolio to high quality stocks (ability to generate, over the long term, free cashflow over the business cycle), whilst also looking to gain some exposure to long term secular growth sectors such as clean energy and EVs. Defensive areas such as financials, and utilities could also outperform should the economic slowdown take hold.

Should interest rates remain at these elevated levels through Q4 it is expected that markets will remain under pressure as discretionary spending continues to deteriorate, while consumer staples should generally ride out the storm, though margins are likely to contract with sales volumes.

Long dated US and AUS senior secure bonds continue to provide safe, reliable coupons – especially given this heightened interest rate environment, and present very promising yields while simultaneously reducing the risk of capital drawdowns.

For those investors seeking growth with a time horizon more than five years and with an increased risk tolerance, Australian and International equities still offer opportunities, and investors have the potential to take advantage of recent market pullbacks and add to their growth exposures.

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