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2022 January Market Wrap

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January was a poor month for markets with the ASX 200 falling 6%, with similar falls in International markets. The Australia dollar also pushed to the bottom of the 52 weeks range, interest rates also sold off bring higher yields.

This was caused by a US Fed chair Jerome Powell press conference he did not deliver a soothing message and the more hawkish tone of his comments raised market expectations around monetary tightening. The FOMC meeting certainly confirmed the Fed is firmly committed to tapering and appears ready to raise rates at its next meeting in March. With the market pricing in 5 rate hikes for 2022 and Street estimates ranging up to 7 hikes, I still find it quite remarkable how drastically investor perception of the US economic landscape can change in only a matter of months.

This price action reflects a continued shift towards more cautious sentiment, as investors open up to the idea that Fed tightening could come at the same time as a growth slowdown.

The FOMC's meeting potentially serves as a 'clearing event' in confirming the Fed's plans for rate hikes and tightening. Many continue to debate how far the Fed will go in these measures and whether it could trigger a broader growth scare. I remain constructive in viewing these moves as not only needed to reel in inflation but also necessary to reset expectations for what's considered a healthy economy.

The impact of rates on the economy US:

One of the key questions is how quickly rate rises would affect the economy. There is a view that the high degree of leverage means small rate increases will affect the economy quickly.

But as Chair Powell detailed, this cycle is different to the last. Specifically:

- 1) US household leverage is much lower
- 2) Banks are better capitalised and loan growth is picking up
- 3) There is still a lot of surplus liquidity
- 4) Employment and wages are stronger, supporting income growth

Academic analysis suggests that when you net off the negative for borrowers with the positive for savers, the impact of rates is very mild and only kicks in with a lag. The impact on investment intentions is also likely to be minimal. Lower rates did not trigger substantially more investment and higher rates are unlikely to choke it off. There is plenty to underpin a resilient outlook for business investment.

Australia has its own wake-up call on inflation the Melbourne Institute Monthly Inflation Gauge shows prices rose by 0.4 per cent in January, according to the trimmed-mean measure of inflation. The increase is associated with significant price hikes for housing related prices, with the price of new dwellings for owner-occupiers rising by 1.9 per cent in January and housing rents rising by 2.6 per cent. In annual terms, the trimmed mean measure reached **2.9 per cent in January** and is therefore close to the top-end of the Reserve Bank's 2-3 per cent target band.

The RBA meets today for the first-rate decision of the year. The market will watch the commentary for guidance on rates into the future. Elevated inflation is likely to lead to increased pressure on the Reserve Bank to raise interest rates quicker than otherwise anticipated. Moreover,



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since wage bargaining arrangements are often tied to inflation, we may also observe stronger wage growth in 2022 than seen in previous years.”

If you have any questions do not hesitate to contact me.

Summary of Major share indices

Index	1 Month	52 Weeks	YTD
DJIA	-3.97%	+16.28%	-3.32%
Nasdaq	-10.06%	+6.24%	-8.98%
S&P 500	-5.86%	+19.65%	-5.26%
Russel 2000	-10.74%	-4.60%	-9.66%
Europe 600 Index	-4.31%	+16.9%	-3.88%
UK FTSE 100 Index	+1.08%	+15.43%	+1.08%
Hong Kong Hang Seng	+2.27%	-17.62%	+1.73%
Japan Nikkei 225	-6.22%	-3.88%	-6.22%
China Shanghai Composite	-7.65%	-3.49%	-7.65%
India S&P BSE Sensex	-1.98%	+19.37%	-0.41%
ASX 200 (Australia)	-6.35%	+9.44%	-6.35%

Australian Dollar

	Close	52 week Range
AUD	0.7067%	0.6967-0.8008%

Government Bonds

	Close	52 week Range
US 3 Month Bill	0.223%	0.003-0.226%
US 10 Years Note	1.781%	1.073 – 1.900%
US 30 Years Bond	2.111%	1.638 – 2.515%
Australia 10 years	1.681%	0.943-2.118%

Source: Wall Street Journal.