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2022 July Market Wrap

Monday 1 August 2022

“Back in Black” Australia’s S&P 200 gained 5.75% in July, rebounding after steep losses in the first half of 2022. Bond yield appear to have found a ceiling with yield dropping, pricing in the potential of a recession, based on the risk central banks over tightening to control inflation. International markets also had a good month posting some welcome positive return. The Australian dollar has also held its ground and increased a little which will be welcome relief for the Reserve Bank.

The menu of unknowns has largely remained intact for quite some time, a broader lack of progress around these overhangs has certainly made it challenging for investors to have conviction in this market. Yet given the recent rebound in stocks over the past month (SPX increased over 9% and MSCI World Index over 7%), could a broader fear of the unknown be finally giving way to some investors gaining confidence in valuations finding a floor?

The Federal Reserve 75bp hike was in line with broader expectations, Powell’s continued commitment to being data dependent and reference to the Fed reaching the neutral rate (“we’re at 2.25 to 2.5 and that’s right in the range of what we think is neutral”) gave investors hope of him leaning more dovish than previously expected. While the contraction in yields across the UST curve reflecting this optimism may be viewed as bullish for equity valuations in the near term, it’s difficult to ignore how deeply inverted the curve has become and the signal it may be sending. Fed swaps are now pricing in the first rate cut / pause coming in February 2023, which is a timeline that has been pushed further up as of late within these expectations.

A rational examination of what has happened during the last six months is to view the drop as an adjustment in valuation levels in response to the normalisation of interest rates. Investors are willing to pay less for the future cash flows generated by businesses and not willing to pay much of anything for speculative assets that have never, and may never, generate cash flows. While painful, this valuation driven drop in markets was needed to get us back to normal.

The US GDP data confirmed that they are in a technical recession (with two consecutive quarters of real GDP contracting), yet MS Chief US Economist Ellen Zentner points out this is not an economic recession given that private final domestic demand remained positive in the first half of the year.

The Reserve Bank of Australia will hike rates on Tuesday by the expected 50 bps. Continuing the theme of going hard early.

Looking forward the consumer will be the key, retail spending has held up well despite higher inflation. We get good data this week on these outcomes, with home prices continuing to fall, Wednesday consumer spending and Friday RBA updates its economic forecasts. This will provide key insight for the economy and rates into the second half of the year.

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



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Summary of Major share indices

Index	1 Month	52 Weeks	YTD
DJIA	+5.62%	-5.98%	-9.61%
Nasdaq	+11.35%	-15.55%	-20.80%
S&P 500	+7.97%	-6.03%	-13.34%
Russel 2000	+9.11%	-15.32%	-16.04%
Europe 600 Index	+7.65%	-5.08%	-10.15%
UK FTSE 100 Index	+3.55%	+5.56%	+0.53%
Hong Kong Hang Seng	-7.79%	-22.36%	-13.85%
Japan Nikkei 225	+7.19%	+1.90%	-3.44%
China Shanghai Composite	-3.97%	-4.24%	-10.62%
India S&P BSE Sensex	+8.81%	+9.48%	-1.17%
ASX 200 (Australia)	+5.75%	-2.17%	-4.75%

Australian Dollar

	Close	52-week Range
AUD	0.6972%	0.6829-0.7662%

Government Bonds

	Close	52-week Range
US 3 Month Bill	2.376%	0.020-2.535%
US 10 Years Note	2.651%	1.132 – 3.501%
US 30 Years Bond	3.009%	1.665 – 3.495%
Australia 10 years	3.069%	1.069-4.256%

Source: Wall Street Journal.