Antipodean Private Pty Ltd
100 Harris Street
Pyrmont NSW 2009
Phone: 1300 101 250
Mobile: 0438 893 571
Email: michael@antipodeanadvisory.com

2022 May Market Wrap   Thursday 2 June 2022

May was a very busy month for Australia with the Reserve Banks first rate hike, New Government, Inflation and the re-adjustment of asset valuations in Australia and around the world.

The RBA lifted rates to 0.35% through May, Statement highlights:

- The RBA noted it was time to start normalising monetary policy amid stronger than expected inflation through the March quarter, and evidence of stronger wages growth;
- The RBA business liaison program points to larger wage increases across many private-sector firms trying to retain and attract talent;
- The RBA now expects the unemployment rate to bottom out at 3.5% in 2023, lower than the 3.75% forecast in February;
- The RBA expects underlying inflation to get back to its target range by mid-2024, assuming further interest rate rises.

Markets are expecting a 0.40% increase at this months Reserve Bank Meeting. The normalisation of money supply, interest rates is all aimed at cooling demand to control inflation.

GDP growth slowed in Q1 (0.8%Q) but by a bit less than expected with Omicron and weather disruptions clearly evident. Details look to support above-trend growth near term (and consequently RBA hikes), but headwinds are growing with expectation of slowing of Growth into 2023.

National house prices fell in May for the first time since Sep-20, with sharp deceleration across all categories. Further RBA rate hikes will increase servicing costs and tighten credit availability, putting more downward pressure on prices – market expectations range from a 10% to 15% decline over the next 18 months.

Labour secured a majority government with 77 out of 151 seats allowing it to govern in its own right. This will be a major transition for Labor having been out of power for over ten years. The incoming Government faces a number of economic and fiscal challenges, with cost-of-living pressures top of mind.

Proposed fiscal spending looks to place extra pressure on the interest rates and Australia's credit rating. The Biden Governments fiscal spending in the US pour fuel on the fire.

Wage claims/outcomes and the inflexible wage system will be truly tested in coming months, current claims of 10% to 15% increases are the canary in the coal mine. If successful the Reserve Bank & Government could have a major issue, this being the potential start of the wage, price spiral.

The US Federal Reserve minutes provided great highlights of what is to come.

Fed minutes showed "all participants concurred that the US economy was very strong, the labour market was extremely tight, and inflation was very high". With risks of more inflation "skewed to the upside", "participants agreed that the Committee should expeditiously move the stance of monetary policy toward a neutral posture". They also noted policy may need to move beyond

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neutral to a "restrictive" stance. "Most" participants judged 50bp rate hikes would be appropriate at the next couple of meetings. However, "a number" said data had begun to indicate inflation "may no longer be worsening".

Atlanta Fed president Raphael Bostik said he supported an expeditious return of monetary policy to a more "neutral" stance to bring down inflation. But policymakers must "proceed carefully in tightening policy", being mindful of the uncertain effects of the pandemic, the war in Ukraine and supply constraints on the economic outlook.

Policymakers were unsure how quickly higher borrowing costs would bite demand, said Kansas City Fed president Esther George.

St Louis Fed president James Bullard — who has been the leading hawk — called for the Fed to frontload rates and get them to 3.5% by year-end. This would enable them to ease in 2023 and 2024 if inflation is under control. He didn't see a recession, but did see some businesses getting "punched in the face" as consumers substituted basic necessities for luxuries.

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

Summary of Major share indices

Index	1 Month	52 Weeks	YTD
DJIA	-0.22%	-4.46%	-9.21%
Nasdaq	-3.63%	-12.13%	-22.78%
S&P 500	-0.56%	-1.71%	-13.30%
Russel 2000	-1.0%	-17.85%	-16.98%
Europe 600 Index	-0.64%	-1.50%	-9.11%
UK FTSE 100 Index	+0.61%	+7.45%	+3.02%
Hong Kong Hang Seng	+1.48%	-27.33%	-8.47%
Japan Nikkei 225	+1.72%	-5.33%	-5.25%
China Shanghai Composite	+4.57%	-12.09%	-12.46%
India S&P BSE Sensex	-2.47%	+6.99%	-4.61%
ASX 200 (Australia)	-2.60%	+0.96%	-1.27%

Australian Dollar

	Close	52-week Range
AUD	0.7163%	0.6967-0.7776%

Government Bonds

	Close	52-week Range
US 3 Month Bill	1.144%	0.003-1.154%
US 10 Years Note	2.925%	1.132 – 3.208%
US 30 Years Bond	3.070%	1.665 – 3.309%
Australia 10 years	3.499%	1.069-3.582%

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Source: Wall Street Journal.