Endorphin Wealth

Global Markets Review

October 2023

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Source: Bloomberg LP, Oreana Portfolio Advisory Service

Monthly Markets Commentary

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Central banks have shifted commentary to a 'wait and see' narrative. The Federal Reserve, Reserve Bank of Australia, Bank of England and Bank of Japan all left rates unchanged in September. The European Central Bank delivered a 0.25% rate hike in September but President Lagarde hinted that it could be the last hike in the cycle. The Fed reiterated its higher for longer stance, indicating there may be one more hike this year and projecting only two potential rate cuts next year. The People's Bank of China cut the Reserve Requirement Ratio by 0.25% which was well received by markets that had been screaming for further stimulus.

Markets have started to accept the 'higher rates for longer' narrative, rattling both bond and equity markets. US equities suffered the worst month of the year so far, with the S&P 500 falling 4.9% in September. Australian stocks did marginally better with a 3.5% drop over the month. Chinese and Hong Kong stocks fell 2.0% and 3.1% respectively. Longer dated bond yields jumped to new cycle highs. The US 10 year soared 0.46% over the month. Better-than-expected data, increased US Treasury issuance, and the higher-for-longer narrative have pushed rates to highs not seen for over a decade.

Another US government impasse weighed on market sentiment, narrowly avoiding another partial shutdown with a bipartisan agreement signed at the end of the month. Core PCE - the Fed's preferred inflation measure - rose only 0.1% in August, and 3.9% over the 12 months, lower than forecasted.

US employment data in the US came in well above expectations with 336k jobs added compared with expectations of 170k – the highest addition since January. But under that blowout headline level, the unemployment rate held steady at 3.8% and wage growth nudged slightly lower.

The resurgence in oil prices poses a significant risk to global inflation and the economic outlook. Oil surged 9.7% over the month to its highest level since Q1 this year. That may signal increased physical demand for oil and would coincide with economic data, particularly out of China, coming in stronger than expected.

Table 1: Rates and Commodities

Interest rates (%)	Close	1 month	1 year	YTD
RBA cash	4.10	0.00	1.75	1.00
3-year Aus bond yield	4.08	0.34	0.56	0.58
10-year aus bond yield	4.49	0.46	0.60	0.44
Fed Funds rate	5.50	0.00	2.25	1.00
2-year US Treasury yield	5.04	0.18	0.76	0.62
10-year US Treasury yield	4.57	0.46	0.74	0.70
ECB rate	4.00	0.25	3.25	2.00
2-year German Bund yield	3.20	0.22	1.44	0.44
10-year German Bund yield	2.84	0.37	0.73	0.27
US IG Credit spread	1.35	0.02	-0.45	-0.12
US HY Credit spread	4.22	0.12	-1.80	-0.80
Commodities	**Close**	**1 month**	**1 year**	**YTD**
Brent Oil (USD/bbl)	95	9.7%	8.4%	10.9%
Gold (USD/oz)	1849	-4.7%	11.3%	1.3%

Table 2: Equities and Currencies

Equities	Close	1 month	1 year	YTD
S&P/ASX200 (Australia)	7049	-3.5%	8.9%	0.1%
S&P500 (US)	4288	-4.9%	19.6%	11.7%
FTSE 100 (UK)	7608	2.3%	10.4%	2.1%
DJ Stoxx 600 (Europe)	450	-1.7%	16.1%	6.0%
Nikkei 225 (Japan)	31858	-2.3%	22.8%	22.1%
CSI 300 (China)	3690	-2.0%	-3.0%	-4.7%
Hang Seng (HK)	17810	-3.1%	3.4%	-10.0%
MSCI World	2853	-4.4%	20.0%	9.6%
Currencies	**Close**	**1 month**	**1 year**	**YTD**
AUD/USD	0.6435	-0.8%	0.5%	-5.5%
EUR/USD	1.0573	-2.5%	7.9%	-1.2%
USD/JPY	149.3700	2.6%	3.2%	13.9%
GBP/USD	1.2199	-3.7%	9.2%	1.0%
USD/RMB	7.2980	0.5%	2.6%	5.8%
USD Index	106.1740	2.5%	-5.3%	2.6%

Source: Bloomberg LP, Oreana Portfolio Advisory Service

Monthly Markets Movement

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Chart 1. US and Australia equity markets

Chart 2. Global bond yields (%)

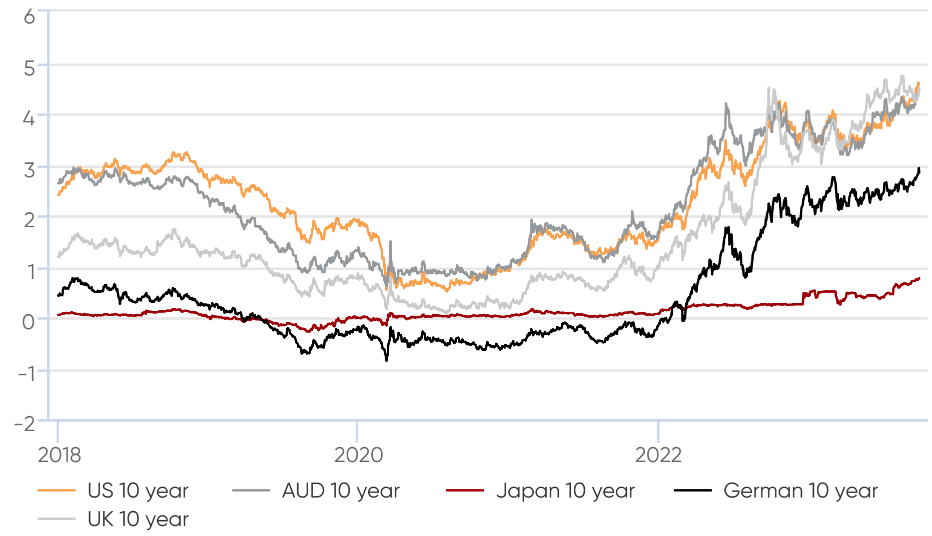


Chart 3. US and Australian dollar

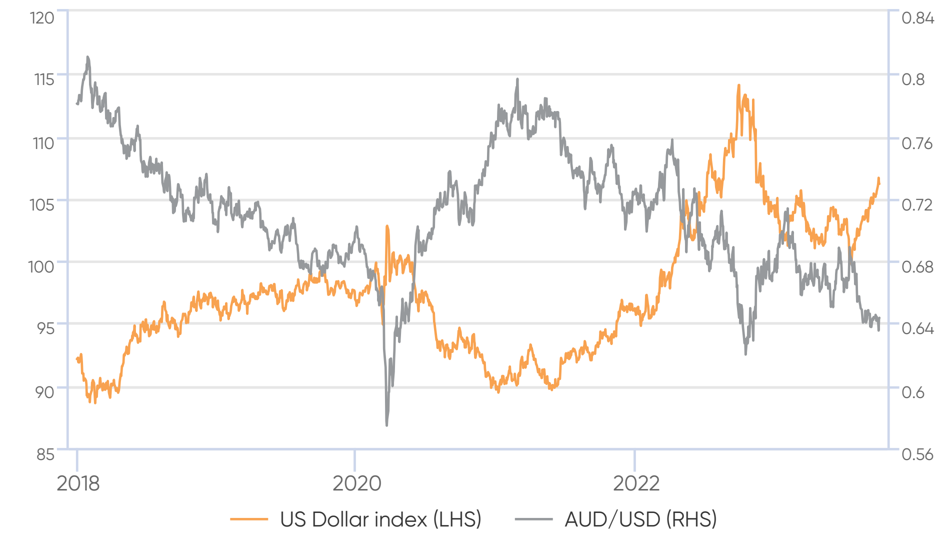
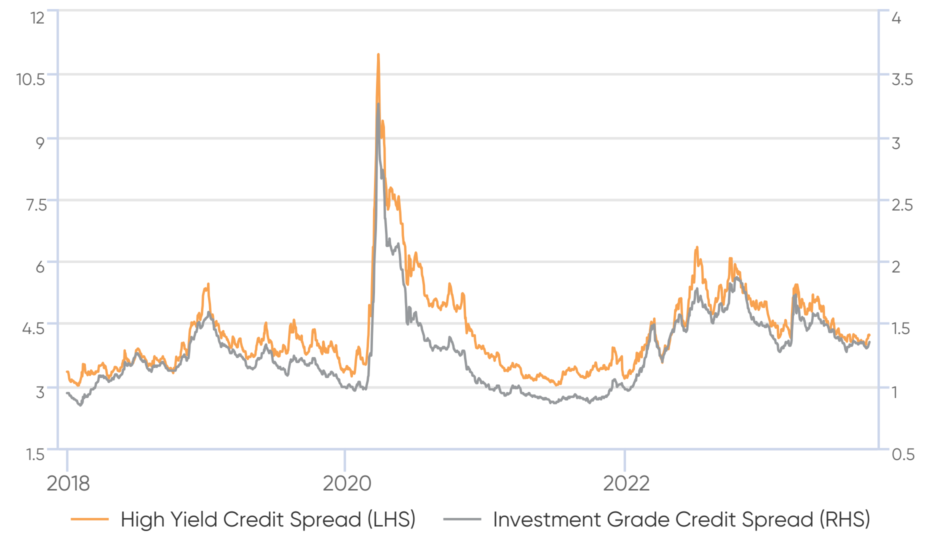


Chart 4. Global credit spreads (bps)



Source: Bloomberg LP, Oreana Portfolio Advisory Service

USA

Chart 1. Economic activity has somewhat stagnated in the US

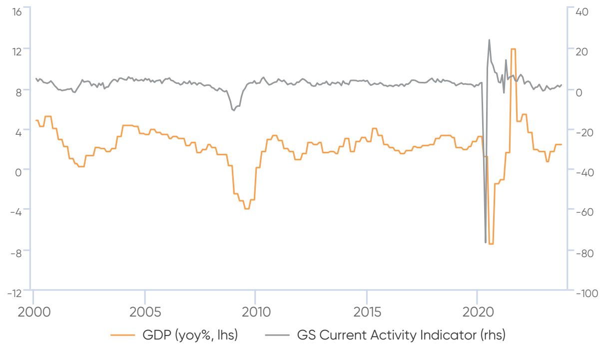
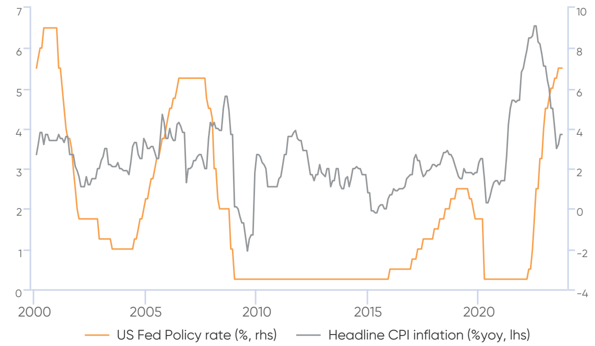


Chart 2. Inflation has collapsed in the US in recent months



Key Economic Statistics	Latest	3 months	6 months	1 year
Labour Market				
Unemployment rate (%)	3.80	3.60	3.50	3.50
Change in Nonfarm Payroll	227.00	105.00	217.00	350.00
Households				
Consumer Confidence	108.70	110.10	104.00	107.80
Retail sales (%yoy)	2.50	1.50	2.20	9.40
Housing				
Case-Shiller House Prices (%yoy)	0.13	-1.22	-1.03	10.53
Existing Home Sales (%yoy)	-15.30	-18.91	-22.14	-24.03
Business				
NFIB Small Business Optimism	91.30	91.00	90.10	92.10
Manufacturing PMI	47.60	46.00	46.30	51.00

Commentary

•US employment data in the US came in well above expectations with 336k jobs added compared with expectations of 170k – the highest addition since January. But under that blowout headline level, the unemployment rate held steady at 3.8% and wage growth dipped lower.

•Manufacturing PMI jumped up again from 47.6 to 49.0. That marks a significant improvement since the low of 46.0 in June, but remains in below-trend growth territory.

•The US government narrowly avoided another partial shutdown with a bipartisan agreement to raise the debt ceiling passed again in the 11th hour. But that subsequently resulted in the Republican Speaker of the House of Representatives being ousted by his own party for striking that deal.

•Core PCE - the Fed's preferred inflation measure - rose only 0.1% in August, and 3.9% over the 12 months, lower than forecasted.

•Headline CPI was higher than expected in September. Headline CPI was 3.7% on a year-on-year basis, the same annualised rate as the previous month. But on a monthly basis, inflation decelerated from 0.6% to 0.4%. Core inflation - stripping out energy and food prices - remained steady at 0.3% but edged lower on an annualised basis from 4.3% to 4.1%.

•Producer prices nudged lower on a month-on-month basis from 0.7% to 0.5%. That pushed the annualized rate slightly higher from 2.0% to 2.2%.

Our near-term outlook

•Credit conditions will continue to tighten as rates remain elevated and regional banks retrench their credit availiabity. This will weigh on growth.

•The risk of tighter credit conditions has increased the risk that the US enters a recession at some point over the coming 12 months.

Australia

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Chart 1. Australia's economic recovery has persisted since reopening

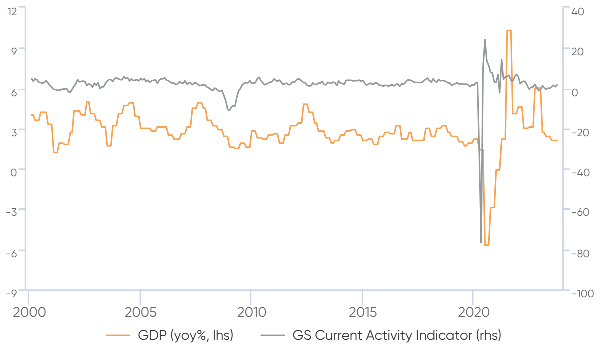
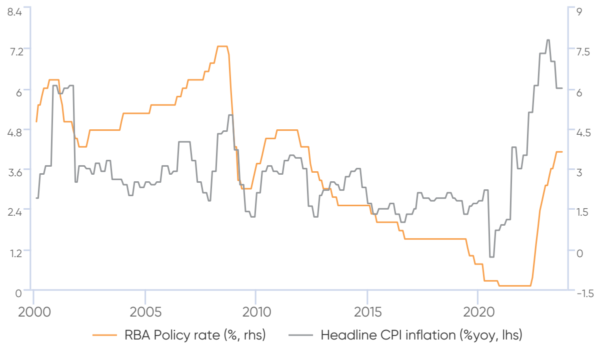


Chart 2. The RBA paused its rate hike cycle with inflation remaining at elevated levels



Key Economic Statistics	Latest	3 months	6 months	1 year
Labour Market				
Unemployment rate (%)	3.70	3.50	3.50	3.60
Employed persons (%yoy)	2.81	2.97	3.70	6.48
Households				
Westpac Consumer Confidence	80.99	79.15	78.47	84.45
Retail sales (%yoy)	1.50	2.30	5.40	17.80
Housing				
Australian CoreLogic median city values (%yoy)	-0.17	-4.86	-8.67	-0.76
Building approvals (%yoy)	-22.90	-18.00	-13.80	-10.60
Business				
NAB Business Confidence	1.70	-0.90	-1.10	4.10
AIG Performance of Manufacturing Index	44.70	44.70	44.70	50.20

Commentary

•Australia's inflation reaccelerated to 5.2% YoY in August, remained well above the RBA 's inflation target.

•Annual house price growth was positive. House prices have increased recently but the RBA's rate hikes are rapidly slowing activity - building approvals remained fewer than a year ago.

•The unemployment rate remained at 3.7% in July, still at near historically low levels. The participation rate edged higher to a historically high level.

•Annual retail sales growth further decelerated to 1.5% in August with inflationary pressures weighing on household consumption. The manufacturing sector remained subdued. Business confidence and consumer confidence deteriorated in September.

•The RBA paused its rate hike cycle for the fifth time and left rates at 4.10% in September. The RBA has hiked the cash rate 11 times since May 2022. The committee emphasized the uncertainties around theoutlooks and persistent services price inflation pressure. They believe the medim-term inflation expectations have been in line with the target. They allowed themselves time to assess the economy's resilience to existing hikes and moved to a more data dependent path.

Our near-term outlook

•Australia's economy is at risk of a recession over the coming 12 months. We expect economic data to begin to deteriorate in early-2024.

•The RBA is near the end of its rate hike cycle - the rate is already at restrictive levels. But further hikes in the near-term seem possible as the RBA focuses on bringing inflation back to target.

Europe

Chart 1. European growth slowed as high costs weighed on manufacturing sectors

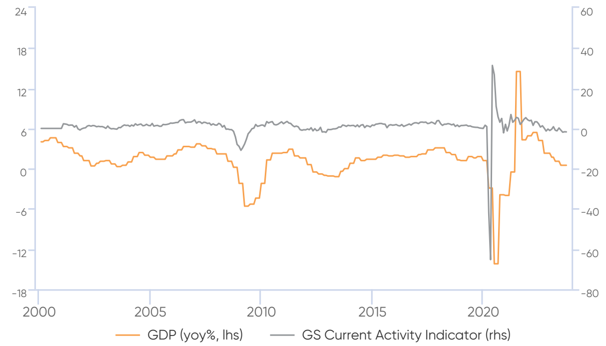
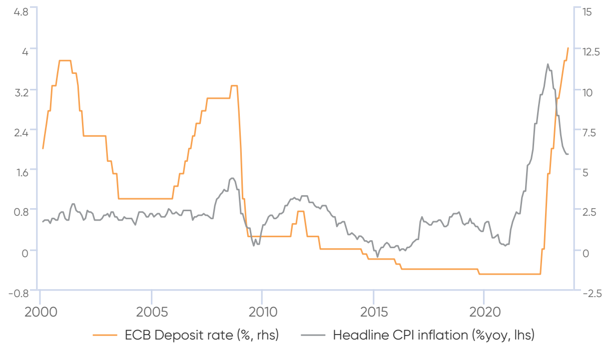


Chart 2. Inflation has surged to levels well above the ECB's target range



Key Economic Statistics	Latest	3 months	6 months	1 year
Labour Market				
Unemployment rate (%)	5.90	5.90	6.00	6.10
Employed persons (%yoy)	233804.50	233804.50	233804.50	233804.50
Households				
Consumer Confidence	-17.10	-17.20	-20.60	-29.80
Retail sales (%yoy)	4.50	6.60	5.60	9.50
Housing				
House prices (%yoy)	-1.10	-1.10	0.80	7.30
Construction growth (%yoy)	2.42	-0.31	-1.11	0.94
Business				
ZEW survey of economic growth	-5.50	-10.00	10.00	-60.70
Manufacturing PMI	43.40	43.40	47.30	48.10

Commentary

•The Russian – Ukraine war continues to be inflationary and weigh on growth in the Europe economy. While inflation has peaked, it remains high relative to history and above the ECB's target.

•The manufacturing and services sector continued shrinking in September. Factory orders recovered and grew 3.9% MoM after the previous month's slump.

•The unemployment rate stayed at 5.9% in August. Business sentiment and consumer confidence deteriorated in September. Elevated inflation and high interest rates have weighed on sentiment and increased uncertainty surrounding the near-term outlook and business activity.

•The ECB continued its rate hike cycle, hiking by 0.25% to 4.50% in the September meeting. The ECB members were more dovish than in recent meetings. Future guidance for rates was less clear, and with the economy weakening and inflation coming down, there is a chance the ECB is done hiking.

•Europe's economy growth was flat at 0.1% QoQ in Q2 2023. Further rate hikes from the ECB risk deepening and prolonging the economic malaise.

Our near-term outlook

•Europe's structural issues and risk of fiscal coordination breaking down could result in a longer period of slow growth.

•The ECB is at the end of its rate hike cycle, but the risk of a deeper recession remains elevated in the medium term.

Source: Bloomberg LP, Oreana Portfolio Advisory Service

Japan

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Chart 1. Japan's economy started to gather momentum

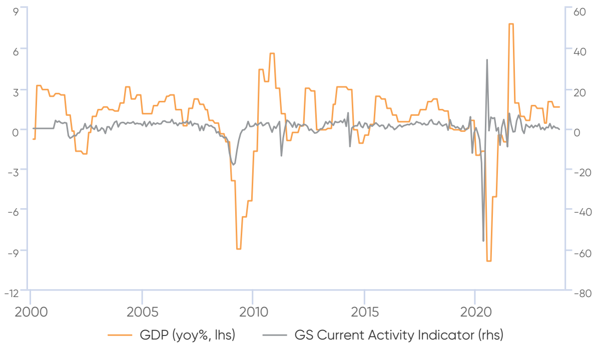
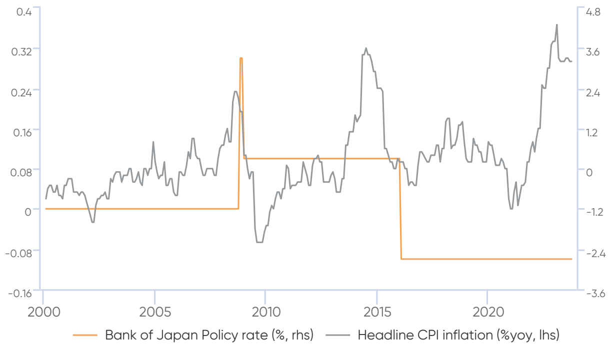


Chart 2. Inflation has increased to be well above the Bank of Japan's target



Key Economic Statistics	Latest	3 months	6 months	1 year
Labour Market				
Unemployment rate (%)	2.70	2.50	2.80	2.60
Average Monthly Cash Earnings (%yoy)	1.10	2.30	1.30	2.20
Households				
Consumer Confidence	35.50	36.40	33.50	31.00
Retail sales (%yoy)	7.00	5.60	6.90	4.80
Housing				
Nationwide land prices (%yoy)	0.60	0.60	0.60	-0.50
Housing starts (%yoy)	-9.40	-4.80	-3.20	1.10
Business				
Tankan manufacturing survey	5.00	5.00	1.00	8.00
Manufacturing PMI	49.60	49.80	49.20	50.80

Commentary

- The Japanese economy continued to improve in Q2 with GDP growth at annualized 4.8%. A weaker yen boosted international trade which was the key driver of growth.
- Retail sales was flat at 0.1% MoM in August, and consumer confidence continued to dive lower in September.
- Industrial production was flat in August. The manufacturing sector slightly contracted in September. Japan's unemployment rate stayed at 2.7% in August.
- CPI inflation stayed at 3.3% YoY in July with price pressures in food and household durable goods as key drivers. A considerable weakening in the yen has also added to inflationary pressures. The Core CPI inflation fell to 3.1%, still at high levels.
- The BOJ introduced some flexibility to its yield curve control and will only intervene when the 10-year government bond yield goes above 1%. Yields continued to spike due speculation the BoJ is close to exiting the negative interest rate regime.
- BoJ Governor Ueda pledged to stick with the ultra-loose monetary policy for now and the ultra-low cash rate is likely to remain for some time.

Our near-term outlook

- We expect more policy tightening is likely in 2023 and early 2024.
- We expect Japan to struggle to reach escape velocity, and the GDP recovery to remain weak relative to other developed economies.
- Japan's inflation may slow if the yen appreciates with risk-off flows back into the currency - making the BoJ's job harder in the medium-term.

China

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Chart 1. China's economic activity has started to show signs of improvement

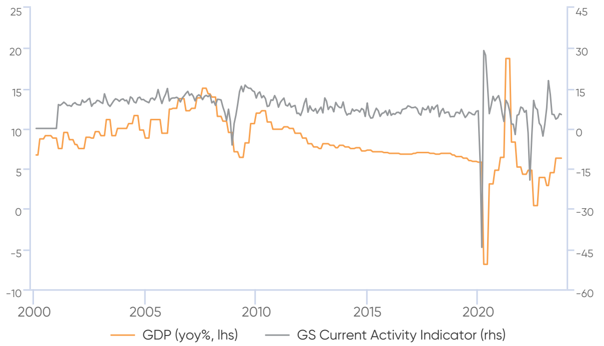
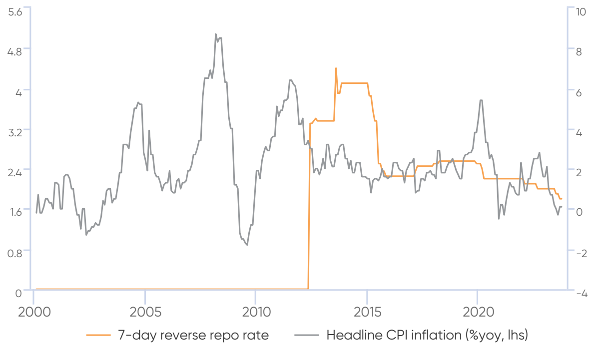


Chart 2. China's inflation rate has remained in a close range around 0 for several months



Key Economic Statistics	Latest	3 months	6 months	1 year
Labour Market				
Unemployment rate (%)	3.96	3.96	3.96	3.96
Households				
Consumer Confidence	86.50	86.40	94.90	87.20
Retail sales (%yoy)	4.60	3.10	10.60	2.50
Housing				
New Home Price (%MoM)	-0.29	-0.06	0.44	-0.28
Business				
NFIB Small Business Optimism	91.30	91.00	90.10	92.10
Caixin China Manufacturing PMI SA	51.00	50.50	50.00	48.10

Commentary

•Early data suggests that tourism numbers and spending during China's Golden week in early October exceeded 2019 levels, in a sign that the economy is recovering from several months of weakness.

•The Caixin Manufacturing PMI nudged lower but remained in expansionary territory in September.

•The PBoC provided further stimulus in reverse repurchase agreements in early October adding over 300bn yuan of liquidity into the market.

•China has so far avoided broad fiscal stimulus measures despite a deepening property crisis and deflationary pressures. There are reports that policymakers have started to shift and are discussing raising the budget deficit for 2023 to help the economy meet its growth target.

•China's CPI returned to 0% year-on-year in September, below expectations of 0.2%. Producer prices were also worse than forecasts at -2.5% year-on-year. That falls in contrast to signals of strengthening demand in the economy.

•China's year-on-year trade improved somewhat in September. Both imports and exports came in at -6.2%, beating expectations of -6.3% and -8.0% respectively.

Our near-term outlook

•We expect further stimulus from China's authorities - although this may be drip fed to protect against knockon impacts from a potential US or global recession.

•We suspect China will achieve its 5% growth target for 2023. China's property sector remains a risk in the nearterm and could be a focus for fiscal support to prevent deeper impacts on growth.

Source: Bloomberg LP, Oreana Portfolio Advisory Service

Hong Kong

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Chart 1. Hong Kong's economic recovery slowed in Q2

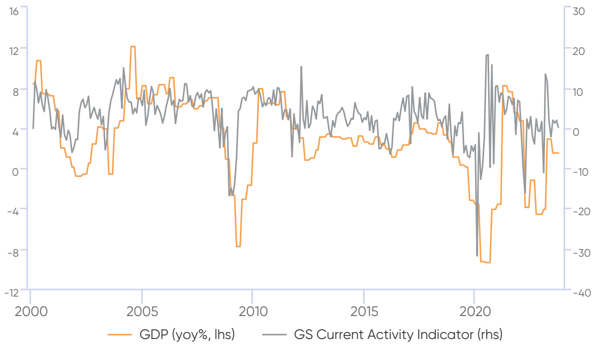
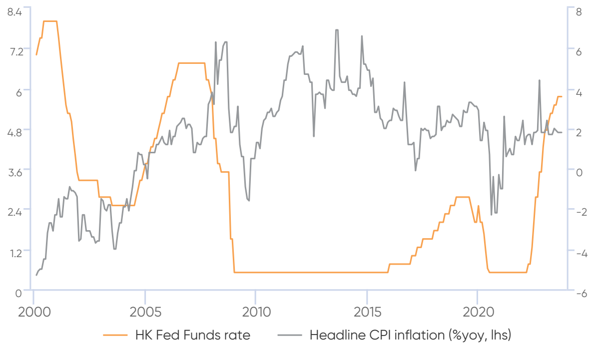


Chart 2. Hong Kong's policy rates have increased in line with the US rate hikes



Key Economic Statistics	Latest	3 months	6 months	1 year
Labour Market				
Unemployment rate (%)	2.80	2.90	3.10	4.00
Real Wage growth	1.40	1.40	1.50	-6.00
Households				
Private Consumer Expenditure	8.20	8.20	13.00	-0.40
Retail sales (%yoy)	13.70	19.50	40.80	0.30
Housing				
HK Private Domestic Prices (%yoy)	-5.32	-8.45	-7.30	-9.05
Home Sales	3247.00	3613.00	6690.00	3875.00
Business				
Business Tendency Survery	15.00	15.00	6.00	6.00
Nikkei/Markit Hong Kong Whole Economy PMI (sa)	49.80	50.30	53.50	48.00

Commentary

•The unemployment rate remained unchanged at 2.8%.

•Retail sales continued to soar compared with low base effects last year. Retail sales increased 13.7% compared with a year earlier, largely attributed to the increase in inbound tourism.

•CPI held at 1.8% in August compared with a year earlier. The largest year-on-year increases in prices were recorded in alcoholic drinks and tobacco (19.6%), clothing and footwear (6.6%), and electricity, gas and water (5.7%).

•In August, exports decreased 3.7% over a year earlier. Imports also decreased by 0.3% for the same period. For the first eight months of 2023, the value of total exports of goods decreased by 13.2% over the same period in 2022 and the value of imports of goods decreased by 11.0%.

Our near-term outlook

•We expect Hong Kong's recovery to continue through 2023. Key sectors including finance, retail and tourism have suffered from political tensions and the pandemic, providing significant potential upside during the recovery.

•The resumption of cross border travel between Hong Kong and mainland China should provide a boost to the economy throughout the year.

•Slowing global growth or recession is a risk to Hong Kong's economy.

Source: Bloomberg LP, Oreana Portfolio Advisory Service

Singapore

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Chart 1. Singapore's economic activity has stagnated in recent months

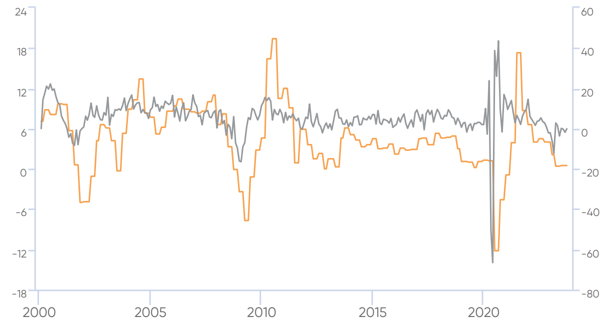
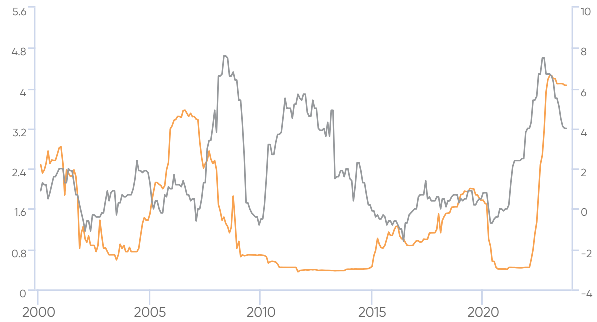


Chart 2. Inflation has trended lower over the last 12 months



Key Economic Statistics	Latest	3 months	6 months	1 year
Labour Market				
Unemployment rate (%)	2.00	1.90	1.80	2.10
Employed persons (%yoy)	2.95	5.24	6.54	7.15
Households				
Consumer Confidence	2.40	2.40	7.20	12.00
Retail sales (%yoy)	4.01	1.05	4.39	11.41
Housing				
House Prices CPI	112.19	111.18	110.47	108.48
Business				
Business Manufacturing Expectations	6.00	6.00	2.00	-20.00
Manufacturing PMI	49.90	49.70	49.90	49.90

Commentary

- A recent report estimated that Singapore's digital economy contributed 17.3% to GDP in 2022 and created more than 200,000 jobs.
- Singapore's PMI nudged higher to 50.1 in September, moving marginally into expansionary territory for the first time in six months.
- Headline inflation nudged lower from 4.1% to 4.0% - the lowest rate since January 2022 - reflecting improvements to supply chains and lower import costs. Core inflation eased to 3.4%.
- Retail sales jumped to 4.0% over the previous year after several months of lacklustre sales growth.
- The unemployment rate held steady at 2.0%. But employment growth has slowed over the year.

Our near-term outlook

- Inflation has sharply fallen this year. But Singapore's economy relies on external demand. Economic growth is at risk in case of a global recession.
- China's slowing economy adds further risks to growth.

Source: Bloomberg LP, Oreana Portfolio Advisory Service

India

Chart 1. India's GDP growth has regained momentum in late 2023

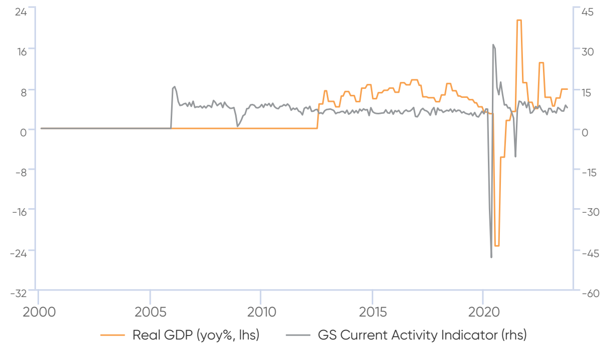
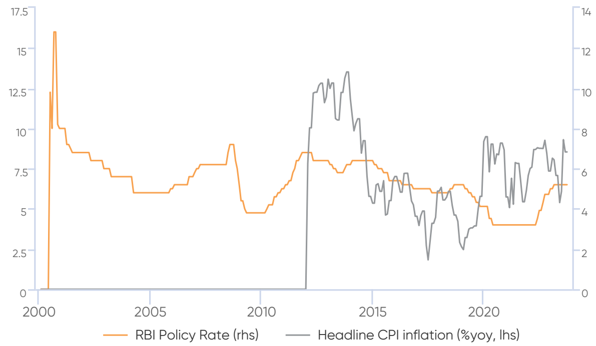


Chart 2. The RBI continued to pause the policy rate hike after 6 increases



Key Economic Statistics	Latest	3 months	6 months	1 year
Labour Market				
Unemployment rate (%)	7.70	7.70	7.80	6.43
Households				
Consumer Confidence	116.60	116.30	115.50	113.00
Retail sales (%yoy)	752.19	752.19	752.19	752.19
Housing				
House prices	176.40	174.40	173.50	169.50
Business				
Manufacturing Index	55.61	55.40	54.64	54.69
Services PMI	60.10	58.50	57.80	54.30

Commentary

•Consumer confidence climbed higher to 122.3 in September. The IMF recently upgraded its forecast for India's GDP growth for 2023-2024 to 6.3%, and the World Bank projected a 6.3% growth. Investments and strong consumption have been supporting economic growth in India.

•Inflation nudged lower to 6.83% YoY in August. Food was the culprit leading to the highest inflation data in more than a year. Adverse weather condition has led to short term price turbulence.

•India continued to buy Russia's oil at discounted prices, reducing some of the inflationary pressure from already elevating commodity prices.

•The unemployment rate went lower to 7.7% in May. The services sector growth remained strong in September. House prices continued to go higher in August.

•The RBI held the repo rate steady at 6.50% in October. Inflation remained above its target of 4%, and is projected to remain above target by the end of this year.

Our near-term outlook

•Commodity prices relating to the production costs is vital to India's near-term recovery. The costs have been volatile with macro events.

•We believe the RBI is at the end of hiking cycle. The services sector and investment growth would be important to India's sustainable growth in the medium term.

Source: Bloomberg LP, Oreana Portfolio Advisory Service

Disclaimer

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