AUGUST 2022

OUR GEMS

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The Heat is On

11 Aug 22 | Written by Lonsec Research ABN 11 151 658 561, AFSL 421445
Insights from the CIO of Lonsec

The heat has been on with central banks around the world trying to keep inflation under control. We have seen three consecutive rate rises by the RBA, the most since 2010. We have observed similar monetary policy tightening action, notably the US where inflation is 8.6%. Central banks are walking a tightrope to manage inflation while trying to avoid a material economic slowdown.

One of the challenges is that many of the inflationary pressures we have observed have been driven by supply side issues caused by the pandemic putting pressure on supply chains. This has been coupled with the war in Ukraine which together have driven up the price of everything; building materials, food and energy costs.

However, there are some signs that the heat may be coming off some areas that are driving inflation. Notably, indicators such as Global Manufacturing PMI supplier delivery times are showing signs of improvement, suggesting goods are beginning to move again. The S&P Global Supply Side Shortages Indicator is easing.

Other signs of the heat coming out of the economy are evident. The most visible and arguably high-profile, given many of us have exposure, is the housing sector. The Australian housing market shows signs of softening. Auction clearance rates are at two-year lows (CoreLogic data). Sydney has recorded the sharpest fall in house prices, by 1.6% in June. We have also seen a string of construction companies go into liquidation, the most recent being Langford Jones Homes in Victoria.

Leona's Story

11 Aug 22 | Recorded by Natalie McHugh

What's my life stage?
I am happily retired. I have been through two lots of cancer and I'm doing well, enjoying spending time with my partner and two little dogs, going camping every now and again. I like living here in Tara.

I enjoy spending time with my little dogs – it helps with my mental health. I like sharing this.
An interesting fact about me is that my partner first introduced me to camping when we first started going out, 25 years ago, after my husband died. We've been to interesting places and we have more planned for this year.
That's probably the best thing that's ever happened to me.

How did I hear about JEM Wealth?
When I lost my husband, I was a little bit lost.
Harold Crane, an insurance specialist, was such a big help. When he retired, he put me on to another financial adviser and that led us to Ben. I've been a client of Ben's ever since. We were even a part of the beginning of JEM Wealth [in 2014].

I like having a Financial Adviser because I don't understand all the nuts and bolts of money - decision-making, stocks, shares...
I don't have to worry about my future anymore. It is in good hands.
I know the right decisions are being made for me at this stage.

Would I recommend JEM Wealth?
Definitely! I've recommended JEM Wealth to most of my family. If my friends came to be in a situation to need their services, I definitely would recommend JEM to them, too.

I don't have to worry about my future, money-wise. I feel more secure knowing that its being handled properly. I would never have found a way to do what is being done for me.

Is there anything more JEM Wealth could do for me?
No, I can't think of anything. That's because I catch up with someone in Brisbane every 6 months and I'm quite happy with the result.
Thank you.

Leona has confirmed that JEM Wealth can publish her story on their newsletter. Everyone at JEM Wealth enjoys talking with you, Leona - thank you for sharing!

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>
> It's in good hands."

Inflation rose 1.8% in June, bringing the annual rate to 5.1%.
The unemployment rate remained at 3.5% in June, well below the expected 3.8%.

Market developments during July

Australian Equities

The Australian share market finished July with the S&P/ASX 200 rebounding sharply by 5.75% and ten out of eleven sectors finishing higher. The Information Technology (+15.23%) and Property (+11.93%) sectors led the rebound for the month. Meanwhile, the only negative finisher for the month was the Materials (-0.67%) sector.

Throughout the month, market participants continued to evaluate worldwide central bank monetary policy and the release of economic data as the broader market enjoyed a 'relief rally'. In particular, sectors with long duration exposure rebounded after months of strong selling pressure in the midst of rising interest rates and inflationary pressures. As a result, the Information Technology and Property sector rallied as investors rotated into previously out of favour sectors with large year-to-date losses. In contrast, the Materials sector was a noteworthy underperformer as worldwide recessionary fears continued to intensify given the continuing geopolitical and macroeconomic uncertainty.

In July, all factors finished positively, with Equal Weight (+10.82%) and Momentum (+7.24%) being the strongest performers. Enhanced Value (+7.22%) and Value (+1.13%) were the only positive year-to-date performers. Over the past twelve months, these same factors were the best performers, gaining 10.05% and 6.20% respectively.
Global equities

Global Equities

Worldwide risk assets saw a positive return for the first time since December last year over the month of July, albeit with recession fears evolving into reality in the US. Developed markets steeply increased by 6.4%, with Global small caps outperforming their large cap counterparts producing an 8.0% return by month end. Emerging and Asian markets did not fare as well as their Developed market peers, returning -1.7% and -0.6% respectively.

As economic data continues to indicate a slowing global economy and inflation rises persist, July's respite was primarily driven by markets pricing in potential interest rate cuts by central banks in 2023. Quality and Growth factors were the best performers over the month returning 7.8% and 7.4% respectively, whilst Dividend Yield and Value were the laggards returning 2.2% and 2.1% respectively according to MSCI ACWI Single Factor Indices reported in local currency terms.

Month in Review *Continued*

Property

July experienced a considerable turnaround in performance for both the local A-REIT market and the broader Global real estate equities market with the S&P/ASX 200 A-REIT Index (AUD) and the FTSE EPRA/NAREIT Developed Ex Australia Index (AUD Hedged) advancing 11.9% and 7.7% MoM, respectively.

Globally REITs have been bolstered by a strong second quarter earnings season and investors having largely priced in the effects of the Fed's monetary policy. Australian infrastructure performed well during July, with the S&P/ASX Infrastructure Index TR advancing 1.2% for the month, and 14.4% YTD.

M&A activity during March across the A-Reit Sector saw Charter Hall Retail REIT (ASX: CQR) acquire 18 service stations in New Zealand and further expand their partnership with Ampol Ltd, acquiring 5% interest in an existing Charter Hall partnership which owns 204 Ampol service stations. The combined value of the acquisitions is $101.7mn and will be funded from existing investment capacity.
Additionally, Growth Point Properties (ASX: GOZ) announced they will be acquiring 100% of Fortius Funds Management for a value of $45mn. This transaction adds $1.9bn third party funds to Growthpoint increasing their total assets under management to $7.2bn.

The Australian residential property market experienced a –1.4% change month on month represented by Core Logic's five capital city aggregate. Sydney (-2.2%), Melbourne (-1.5%) and Brisbane (-0.9%) were the worst performers. Adelaide continues to show strength (+0.4%) moving to +24% YoY with Perth (+0.2%) staying relatively neutral.

This report was issued: 11 Aug 2022.

Fixed Income

Building inflation concerns, recession fears and interest rate hikes have dominated and influenced global fixed income markets throughout July. The 10-year global bond yields declined sharply in July due to softening economic data.

A broad relief rally in global bonds reversed some of the YTD underperformance. Australian 2 Year Bonds remained relatively stable, rising by only 7bps, while Australian 10 Year Bonds steadily dropped by 60bps throughout the month. With the decline in bond yields and narrowing of credit spreads, the Bloomberg Ausbond Composite Index gained 3.36% in July.

Globally, the story is much the same as markets increase expectations for future Federal Reserve rate hikes. Inflation in the US has now accelerated to 9.1%, the highest since 1981. Following the 26-27 July meeting, the Federal Reserve increased interest rates by 75bps, bringing the annual rate to 2.25%.

Over the course of July, US 90 Day T- Bills rose by 69bps while US 10 Year Bonds dropped 37bps. July provided some relief to global bonds, with the Bloomberg Barclays Global Aggregate Index (AUD hedged) returning 2.49% during the month. Persistent inflation pressures, supply chain problems and tightening monetary policy will continue affecting local and global fixed income markets for some time.