October 2023

GPS Wealth

GPS Wealth Monthly Market Update

Higher bond yields have been creating uncertainty for markets

INFORMATION CONTAINED IN THIS REPORT CURRENT AS AT 15 NOVEMBER 2023

As was the case in September, the bond market set the scene for risk assets during the month of October. The S&P/ASX 200 Accumulation Index returned -3.78% in October. Smaller companies underperformed large companies hurt by the industrial sector. Global equities also lost value with the MSCI World decreasing -3.0% over the month driven by rate sensitive cyclical sectors including construction and consumer discretionary and leveraged sectors including banks and real estate companies. The Magnificent Seven (Alphabet, Amazon, Apple, Meta, Microsoft, Nvidia and Tesla) also gave up 8.7% of year-to-date gains and suffered a multiple compression. The US 10-year bond yield increased by 0.31% to 4.9% although it has managed to fall again to 4.64% in early November.

In US economic data, despite the good news of a rebound in US labour productivity, payrolls increased by less than market analysts expected while there were downward revisions to the previous two months of data. The unemployment rate increased to 3.9% from 3.8% (consensus 3.8%) while wages came in at 4.1% year-on-year. Wage growth is down from 4.3% last month and when the pandemic distortions are stripped out, the result is the weakest annual pace of wage gains since before the pandemic. That is good news for inflation. Interestingly, the bad news of a weaker labour market was good news for markets which rebounded in early November. Given that labour market data is one of the last indicators to turn in an economic cycle, the softening in employment and wage growth and the rise in the unemployment rate suggest a further hike in interest rates is unlikely although it is likely too early to bet on an imminent pivot to a policy easing stance and a significant decline in Treasury yields. **Expect yields to be rangebound over the coming months until there is clear evidence of a meaningful breakdown in the jobs market.**

Data on the service sector, the US ISM purchasing managers index, also suggests a further economic slowdown. The question going forward though, is if this slowdown will be a soft landing for the economy – or whether it will mark the beginning of a more meaningful deterioration that evolves into a recession. The consensus is betting on a soft landing at this stage.

In Australia the RBA's Statement on Monetary Policy explained the reasoning behind its decision to lift the cash rate. Simply - underlying inflation has not declined as fast as the RBA expected. The RBA's inflation forecast has been revised higher and most of the risks are to the upside, including domestic services inflation, rising medium–term inflation expectations and weak productivity boosting growth in effective labour costs. Near–term GDP growth is

Emmanuel Calligeris
Chairman of the Investment Committee

now expected to be stronger, with some of the resilience of business investment seen in the first half of 2023 carrying over into the second half.

The Westpac MI leading Index continues to suggest that the Australian economy will experience below trend growth well into 2024. The Index suggests GDP growth will slow to 1.2% over the year to the end of 2023 and hold around that weak pace in early 2024 with an annualised growth rate of 1.1% over the first half of the year. This is well below population growth which will be running at around 2.3% over the year.

> Consumer sentiment remains deeply pessimistic as a result of the RBA's November rate hike has put renewed pressure on family finances and reignited concerns about the rising cost of living and the prospect of further rate rises to come.

In the Eurozone, the economy continues to languish under the pressure of higher interest rates. Interest rate increases to date have put a lid on inflation but have also dampened investment spending as firms face higher interest rate bills. Reuters reported that nearly 45% of all the 1.4 trillion euros owed by European investment-grade companies becomes due in 2024 and 2025. A further 700 billion euros matures in 2026. It will reset at higher rates. Interest payments on companies' outstanding bonds and loans have already risen from 1.1% of nominal GDP in 2021 to 1.6% in 2022. Oxford Economics estimates the figure will reach 2.8% this year and 3.1% in 2024.

The unemployment rate in the Eurozone held steady near 6% in September. Beneath the surface, however, some fraying is beginning to appear. While unemployment continues to decline in Italy, Spain, and Greece, it has risen in some manufacturing-intensive economies. In Germany, the unemployment rate increased to 5.8% in October from 5.7% and a low of 5.0% in May 2022 whilst in Sweeden the unemployment rate has climbed to 7.8% from 7.3% at the start of the year. Several high-profile German companies, such as Deutsche Bank and BASF, have announced job cuts. Weaker industrial activity is spilling over to services, the impetus from reopening effects is fading and the impact of higher interest rates is broadening. For example, producer prices – a measure of inflation at the wholesale level, dropped at a record 12.4% year on year pace. This was the fifth successive month of decline. The consumer inflation picture was more muddled, with ECB data showing a drop in market-based inflation expectations, while the ECB's Consumer Expectations Survey reported a rise in median inflation expectations. ECB data was affected by recent lower petrol price. Despite the economic and inflation slowdown interest rates in Europe (like the US) are likely to remain higher for longer. This was reiterated by the Bank of England's Governor Andrew Baily who said that it was "much too early" to be discussing rate cuts.

In China, money and credit data remained weak in October.

> As mentioned last month, fiscal and monetary responses to the sluggish economic growth have been modest but importantly, the economy is reaching a plateau rather than spiralling downwards.

The private sector's marginal propensity to consume – continues to decline, indicating that private sector confidence remains weak. This conclusion is corroborated by other details from the credit release. Short-term loans to the household sector contracted and offset a modest increase in medium- and long-term loans. The latter signals that demand for mortgages is weak amid subdued housing market dynamics. Similarly, short-term loans to the corporate sector contracted while medium and long-term loans slowed. These subdued credit dynamics argue against a sharp recovery in Chinese economic activity.

At the risk of repeating ourselves, the key driver for share markets continues to be the bond market. This will underpin a volatile few months to the end of 2023 as inflation comes down throughout the world but real bond rates (bond yields after inflation) remain elevated particularly in the US.

Returns

31st October 2023

ASSET CLASS RETURNS ARE BASED ON

Australian Cash
RBA Bank accepted Bills 90 Days

Australian Bonds
Bloomberg AusBond Composite 0+ Yr TR AUD

International Bonds Hedged
BarCap Global Aggregate TR Hdg AUD

Australian Listed Property
S&P/ASX 200 A-REIT TR

International Property Hedged
FTSE EPRA/NAREIT Dv REITS TR Hdg AUD

Australian Shares
S&P/ASX 200 TR

International Shares
MSCI World Ex Australia NR AUD

Emerging Market Shares
MSCI EM GR AUD

RETURNS TO THE 31ST OCTOBER 2023

	1 Month	3 Months	6 Months	1 Year	3 Years	5 Years	10 Years
Australian Cash	0.35	1.03	2.07	3.77	1.63	1.36	1.75
Australian Bonds	-1.85	-2.63	-5.20	-1.18	-4.61	-0.13	2.11
International Bonds Hedged	-0.83	-2.92	-3.65	0.07	-4.82	-0.36	1.97
Australian Listed Property	-5.83	-11.97	-10.24	-3.62	2.73	1.90	6.41
International Property Hedged	-4.57	-13.03	-10.86	-8.06	2.52	-0.84	3.95
Australian Shares	-3.78	-7.19	-5.30	2.95	8.88	7.18	6.60
International Shares	-0.98	-3.42	2.87	11.72	11.98	10.80	12.10
Emerging Market Shares	-2.03	-6.52	-0.62	11.90	-0.29	3.91	5.34

GPS Wealth Ltd | AFSL 254 544

Level 7, 115 Pitt Street, Sydney NSW 2000

+61 2 8074 8599

info@gpswealth.com.au

www.gpswealth.com.au

Prepared by DWA Managed Accounts Pty Ltd

ABN 89 104 065 250 | AFSL 264 125

The information contained in this report has been provided as general advice only. The contents have been prepared without taking account of your personal objectives, financial situation or needs. You should, before you make any decision regarding any information, strategies or products mentioned in this report, consult your own financial advisor to consider whether that is appropriate having regard to your own objectives, financial situation and needs. Investment markets past performance are not necessarily indicative of future performance. Whilst DWA Managed Accounts Pty Ltd is of the view the contents of this report are based on information which is believed to be reliable, its accuracy and completeness are not guaranteed and no warranty of accuracy or reliability is given or implied and no responsibility for any loss or damage arising in any way for any representation, act or omission is accepted by DWA Managed Accounts Pty Ltd and its affiliated entities or any officer, agent or employee of DWA Managed Accounts Pty Ltd and its affiliated entities.