FINANCIAL MARKET CONDITIONS
September 2022

Local Government Finance Authority

Central banks around the world continued aggressive monetary tightening throughout September. Consistent with the tightening of monetary policy and threat to economic growth, further downgrades to the economic outlook have occurred, with the OECD downgrading its 2023 global growth forecast, most notably in the UK, the US and the Eurozone. The war in Ukraine continues to intensify with Russian President Putin calling for partial mobilisation and conscription for statutory military service, illustrating there is no end in sight.

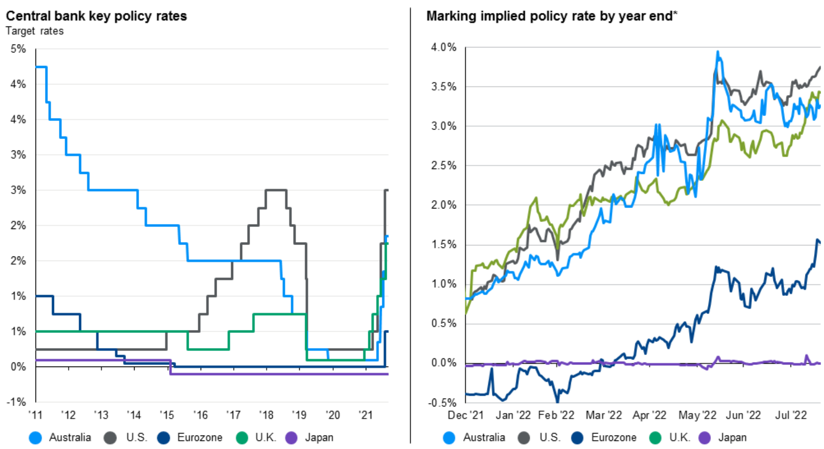
Equities globally witnessed significant volatility over the month of September. US equities fell to its lowest level since December 2020. The majority of movements were fueled by investor expectations on further interest rate hikes by central banks. Share markets were also spooked by rising recession fears, with US shares down 25% from their January high. In Australia shares were down over 7%.

In China, whilst manufacturing data witnessed a rebound, ongoing virus-related risks still impacted services, further influencing any economic rebound. More stimulus is expected from the Chinese government with continued restrictions weighting on activity. China is one of the few countries seeing inflation run below target, falling to 2.5%. The Chinese Yuan has depreciated to a 14 year low against the USD. The World Bank reduced its forecast for growth in China, from 5% to 2.8%, putting China’s growth behind the rest of the Asia-Pacific region for the first time in more than 30 years.

In the US, the Federal Reserve delivered a third successive 0.75% rate hike in September with a further 1.25% expected for the remainder of the calendar year. Whilst economic data has been mixed, US inflation once again printed higher than expected, up by 8.3% over the year. The Fed is concerned by persistent strong labour data, with inflation primarily driven by higher wages. There is some evidence of weakness, such as housing data, manufacturing data pointing to subdued production and expected continued weak GDP data for Q3. The job openings report (JOLTS) showed a large downside surprise, the biggest monthly fall since April 2020, with job openings-to-unemployed ratio falling, the first meaningful sign of some cracks in the US labour market.

In the UK, The Bank of England (BoE) hiked rates by a further 0.50% in September. Despite predictions of a recession, labour market data has been resilient, with the unemployment rate dropping to 3.6% and weekly earnings raising by 5.2%. The news that prompted significant movements in markets however was the UK Governments “Growth Plan” announcement. The biggest tax reduction since 1972 in addition to large-scale fiscal support for households to combat high energy prices witnessed significant financial market turmoil. Possible UK sovereign rating downgrading have markets concerned, and further rate hike increases have been priced in as high as 1.50% in November to a peak of 6% by May 2023. The GBP dropped to an all-time low against the US Dollar in September as a result.

In Europe, Eurozone inflation reached double digits in September printing at 10.1% over the year as the impact of the war in Ukraine and COVID related bottlenecks are proving to last longer than expected. The European Central Bank (ECB) delivered a 0.75% rate hike in September, markets are expecting another 0.75% hike at the end of October.



Source: J.P. Morgan Asset Management; (Left) Bank of Japan, European Central Bank, FactSet, Reserve Bank of Australia, U.S. Federal Reserve; (Right) Bloomberg L.P. *Expectations are derived from the World Interest Rate Probability (WIRP) estimated forward rates. Past performance is not a reliable indicator of current and future results.
Guide to the Markets – Australia. Data as of 31 August 2022.

J.P.Morgan ASSET MANAGEMENT

Following the 0.50% rate hike in September, the Reserve Bank of Australia (RBA) raised the official cash rate by 0.25% in October. The cash rate has witnessed the fastest policy tightening since 1994. RBA Governor Philip Lowe's Statement highlighted that the cash rate has been increased substantially in a short period, and whilst interest rates are expected to be increased further, the size and timing will be data dependent, especially on the outlook for inflation and the labour market. The Australian labour market remains tight, with the unemployment rate at 3.5%, around the lowest rate in 50 years. Some data are yet to illustrate the impact of the RBA's aggressive tightening cycle, as seen with labour data, retail sales and business conditions surveys. Consumer sentiment whilst slightly higher in August, remains near historic lows. Housing finance approves have seen further declines as the initial impact to house prices, already falling by 4% from recent highs. Markets continue to expect further rate increases to a peak of 3.00%-3.50% by March 2023. The AUD had the most volatile month since April 2020 due to increased market risk aversion and USD strength.