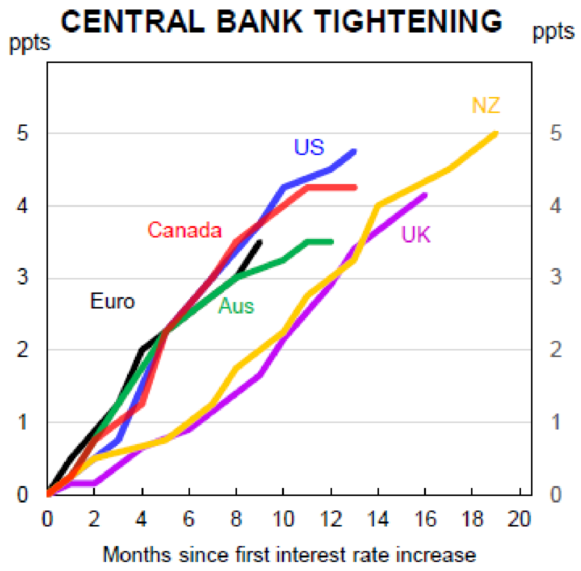
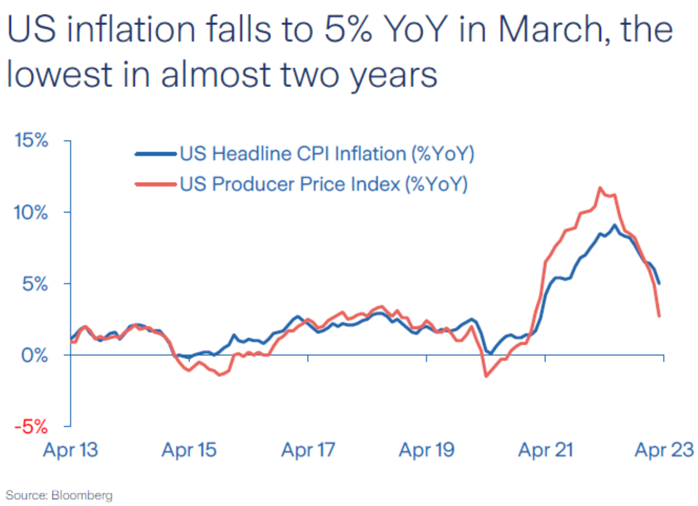
FINANCIAL MARKET CONDITIONS
April 2023

Local Government Finance Authority

Risk sentiment appeared to turn a corner during April, with credit and other risk assets recovering from the mid-March sell off that was driven by concerns around the global banking system. Global equities have switched from gains to losses multiple times throughout the month, ending largely unchanged from March. Central banks continue to be committed to the cause to fight inflation, with many central banks continuing to deliver rate hikes – heading towards peak in their interest rate cycles.



In the United States, another slowdown in inflation was welcomed, falling from 6% to 5% in March, the lowest rate since April 2021. However, data over recent months also suggests a slowing economy. Retail sales fell by 1% in March and consumer and business sentiment remain close to decade lows. US labour data suggests that job openings fell in April and is currently at its lowest level since April 2021. Despite this, the labour market is still extremely tight with the unemployment rate falling back to 3.5%, near 50-year lows. Whilst the US Federal Reserve hiked their reserve rate by a further 0.25% in May, the latest Fed minutes show a mild recession forecast later this year, with markets expecting the Fed to pause very soon and potentially cut rates by year-end.

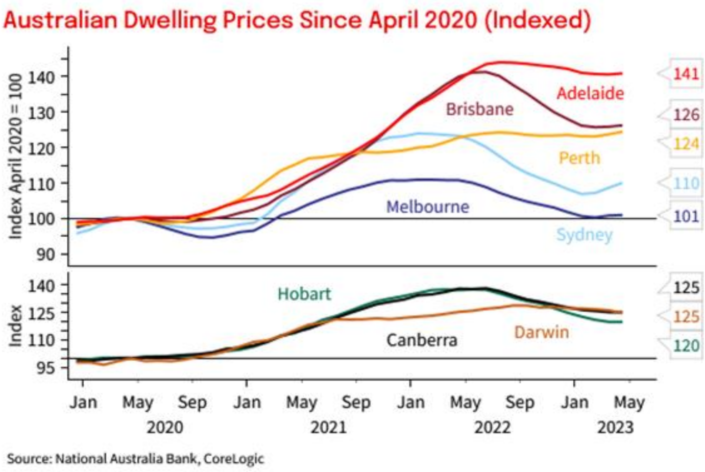


The economic data from the Eurozone also continued to be mixed, however there is clear evidence that recent interest rate hikes by the European Central Bank (ECB) are taking effect with depressed consumer sentiment and falling real wages weighing on spending. In addition, headline inflation has fallen sharply from 8.5% in February to 6.9% in March. However, labour markets remain strong, and after a 0.25% rate hike in May, the ECB is on track to tighten rates further.

In the UK, inflation receded slightly in March, however, remains elevated above 10%. Despite some moderation in the labour market, it is still very tight with the unemployment rate increasing marginally from 3.7% to 3.8%. However, manufacturing activity reports indicate that economic growth is flat lining, potentially heading into recession and consumers and business will start to feel the pressure of higher mortgage rates and fiscal tightening. Markets still expect the BoE will hike rates further in May to in an effort to dampen inflation and the hot labour market, but it is increasingly expected that the Bank of England (BOE) will need to ease rates by the first quarter of 2024.

China's economic recovery is evident with favourable economic data being released in March and April. Corporate credit demand reflects infrastructure investment growth, and government measures to encourage home ownership, with the resulting associated private household loan demand increasing. Export data unexpectedly surged by 15% to an eight-month high in March. Manufacturing data shows that service-related sectors keep improving, with the February data pointing to the largest expansion in activity since November 2020. First quarter 2023 gross domestic product (GDP) grew above expectations by 4.5% over the year, fuelled by the surge in consumer spending.

In Australia, consumer and business sentiment improved in April, largely due to the Reserve Bank of Australia's (RBA) decision to pause at the April meeting. Confidence is now at its highest level since June 2022, although remains 10.4% below April 2022, the month before the RBA Board began raising the cash rate. This positive sentiment has also influenced housing demand, with Australian dwelling prices rising by 0.5% in April.



The RBA surprised markets by hiking rates by 0.25% in May after pausing in April. The RBA meeting minutes from April suggested the RBA still retains a tightening bias, and despite an easing in inflation for first quarter 2023, a sign that inflation has peaked, the RBA announced this was still too high printing at 7.0% year on year. Employment data remains resilient, with the unemployment rate remaining at a multi-decade low of 3.5% in March. Overall, job market tightness persists despite a decline in job vacancies. Of note, the record influx of immigrants, should help ease labour shortages in the near to medium term. The RBA's hike and its shift in language suggests there is very little room for it to tolerate upside inflation surprises and will do what is necessary to keep inflation at bay, even at the expense of a weakening of the economy. In light of this, many major banks are reviewing their forecasts, with a potential further 1-2 rate rises ahead.