FINANCIAL MARKET CONDITIONS
November 2023

Local Government Finance Authority

Risk appetite improved in November with stocks recording their best month in more than a year, climbing by 9% and to a 2023 high. Improvement in investment appetite was due to signs of economic moderation and falling inflation levels globally. This underpinned the view that central banks have reached the peak of their tightening cycle, shifting investor appetite back to equities. The S&P 500 Index is now up 21% over the year.

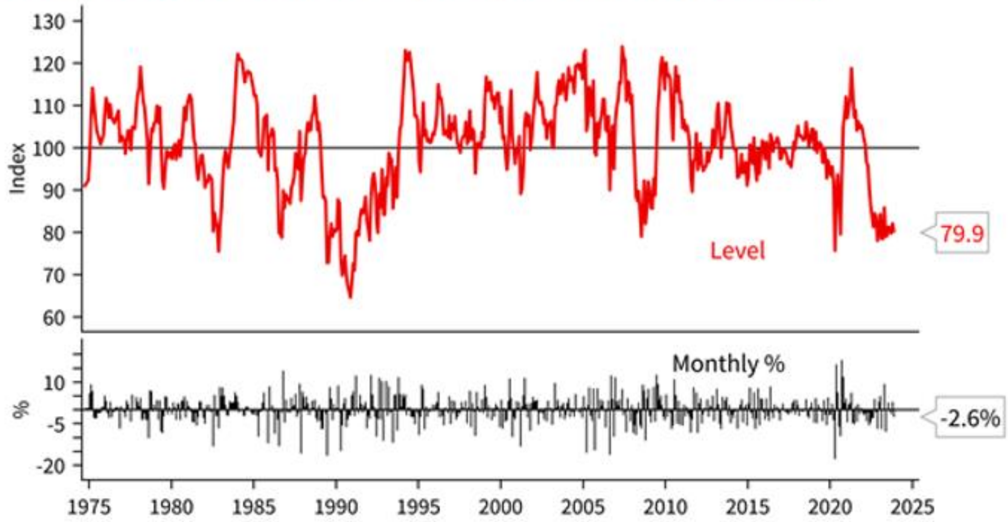
In the United States (US), economic data throughout the month broadly supported a slowing economy, with the University of Michigan Sentiment Survey hitting a six-month low reflecting concerns over economic conditions. Retail spending fell modestly in October, indicating a moderation in consumer spending. US manufacturing data continued to be weak, and inflation pressure eased with a softer than expected inflation result, slowing to 3.2% in October from 3.7% in September. Despite softer-than-expected CPI and retail sales, Q3 GDP expanded to 5.2%, marking the strongest growth since 2021. Signs of a cooling labour market emerged, impacting jobless claims and industrial production, suggesting a delicate balance as the market anticipates potential easing in 2024.

Similarly in the Eurozone, inflation pressure has subsided. Inflation data released for November revealed a slowdown in headline inflation to 2.4% with lower energy prices playing a significant role in the decline. European industrial production and manufacturing activity remain depressed, mainly due to poor data from Germany and France. Despite this, the European Central Bank (ECB), as indicated in the minutes of its last meeting, remains vigilant to potential upside inflation risks. Headline inflation in the United Kingdom (UK) saw a larger-than-expected fall to 4.6%, down from 6.7% in September, marking the lowest rate since October 2021. The decline in services inflation provided the Monetary Policy Committee with potential comfort in holding rates, despite ongoing elevated wage growth.

Recent China macro data showed positive trends, with retail sales rising by 7.6% year-on-year in October, beating expectations. However, the housing market continued to act as a notable drag on overall growth, as property figures for October showed large declines in both prices and sales. The People's Bank of China injected liquidity into the Chinese banking system once again, hinting at the possibility of a new required reserve ratio cut before year-end. While these measures aim to bolster economic stability, it is suggested that additional fiscal stimulus may be necessary to support consumer sentiment and counter deflationary headwinds. Additionally, the meeting between the Chinese and US presidents resulted in agreements on energy transition and climate change, potentially signaling reduced tensions between the two superpowers, which may provide positive implications for global markets.

Australia witnessed mixed economic indicators over the month. Consumer sentiment remained at very low levels, reflecting ongoing cautiousness. Retail sales weakened, recording the softest result since October 2021. However, business conditions remained healthy, and wages experienced their strongest quarterly growth in the 26-year history of the Wage Price Index. Employment continues to be resilient, and data exceeded expectations, keeping the unemployment rate steady at 3.7%. There continues to be resilience in the construction sector with growth in building construction, despite recent softness in building approvals.

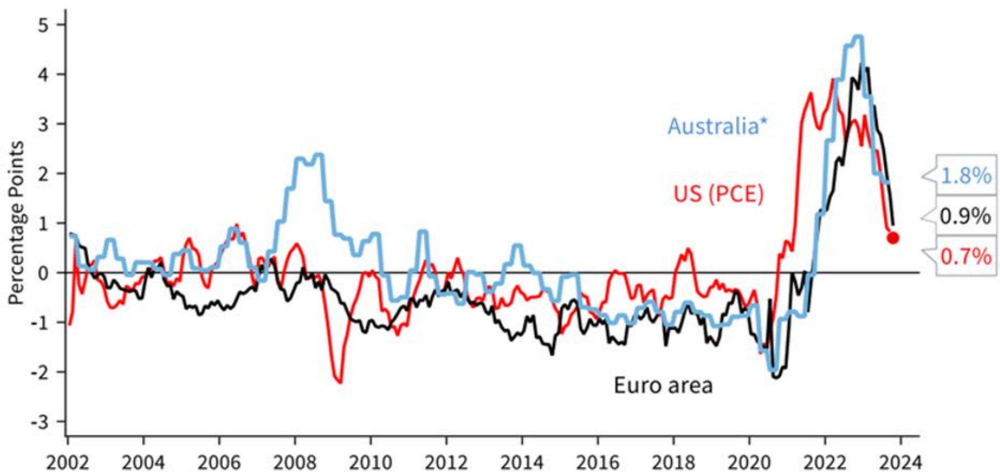
Australian Consumer Confidence (W-MI Measure)



Source: National Australia Bank, Westpac-Melbourne Institute

After the Reserve Bank of Australia's November rate rise to 4.35%, marking the 13th rate rise since May 2022, borrowing costs are now at their highest level since January 2011. The RBA kept rates on hold as universally expected at its December meeting. With the board noting that the trend in global inflation has been favourable, they continued to reiterate a 'tightening bias'. In the lead up to the RBA's February meeting the Board will be assessing whether inflation is declining fast enough to reach the 2-3% target band in 2025. Markets anticipate that the RBA are at or near the top of the cycle, with a chance of a further hike in February 2024 depending on 4th quarter inflation data released in January. Markets anticipate that the RBA will start to cut rates in late 2024 - early 2025.

Global inflation has turned sharply



* Trimmed mean measure

** US dot is a forecast for October based on mapping the CPI to PCE

Source: National Australia Bank, Macrobond