Monthly View as at 30 April 2023

Overview

Global financial markets enjoyed relative calm in April, buoyed by fading concerns over the US banking system, inflation data surprising on the weaker side, and growing evidence central banks are close to ending interest rate increases.

Fears over the failure of two US banks in March were pushed into the background over April on better-than-expected US corporate earnings and data highlighting the issues with the failed banks is largely contained. A degree of uncertainty remains in relation to the smaller banks in the US. Although this will likely cause periods of market volatility, it is not currently seen as a systemic issue.

Globally, inflation is beginning to decline, and has surprised to the downside in several countries, including across Europe, Canada, and Australia. Nevertheless, although inflation has likely peaked in most countries, it remains too high for comfort and well above central banks' targets. Most developed country central bank's target an inflation rate of around 2.0%.

New Zealand's inflation data also came in lower than anticipated. For the first quarter of 2023, New Zealand's CPI rose 1.2%, versus market expectations of 1.5% and the Reserve Bank of New Zealand's (RBNZ) forecast of 1.8%. The annual inflation rate was 6.7% versus expectations of 6.9% which indicates higher interest rates are having the desired impact. Non-tradable goods inflation remains elevated, however, and this will be of concern for the RBNZ.

The likely peaking in inflation, weak economic data, and after a period of rapidly rising interest rates, many central banks are nearing the end of continuing to increase interest rates. In a developing trend, the Bank of Canada, the Bank of Korea and Singapore's Monetary Authority all left interest rates unchanged in April.

At its most recent meeting, the US Federal Reserve (the Fed) raised the cash rate 25-basis points to 5.25%, the highest level since 2007 citing that the Fed "remain highly attentive to inflation risks". As expected, the Fed signalled it will likely pause raising interest rates and will closely watch data to assess what further actions should be undertaken. Although this has provided positive sentiment for markets, cuts in interest rates by central banks appears some time away.

Globally, economic activity has slowed due to higher interest rates and the rising costs of living. In the US, the economy is estimated to have grown at a 1.1% annualised rate over the first quarter of 2023. The European economy grew just 0.1% for the first quarter of this year, after contracting -0.1% over the fourth quarter of 2022. Economic activity has been better than expected in Europe given the dramatic decline in energy costs in the last six-months and a warmer than anticipated winter. Surprisingly, Europe appears to have avoided recession.

Global Shares

Global share markets moved higher over April. Solid returns were experienced around the world on the back of better-than-expected economic data and corporate earnings. Of the US economies that had reported earnings at the end of April, 80% had beaten expectations. In Europe, 70% of companies beat estimates.

Amongst the US companies, Microsoft, Google-owner Alphabet, and Facebook-parent Meta all delivered strong results, helping to support recent gains in these company's share prices. Other key themes coming from the US earnings announcement is the resilience of the US consumer spending, a balanced assessment of recession risks by corporates, and the ability of some companies to pass on higher prices.

Over the month, the US S&P 500 Index retuned 1.6%, similar returns were experienced across Europe, and the Japanese Nikkei 225 climbed 2.9%. The better-than-expected inflation outcomes and likely ending of central banks hiking interest provided support for global bond markets. In April global bond markets returned 0.5%.

As a result, a diversified portfolio of fixed income and equities ended the first month of the new quarter in positive territory.

Australian Share Market

The Australian share market rose 1.8% in April and has returned 5.4% so far this year.

A firmer global backdrop benefited the Australian share market. Assisting market sentiment was China's stronger than expected economic rebound over the March quarter. The Chinese economy grew 4.5% from a year ago, benefiting from the relaxation of the zero Covid-19 policy earlier in the year as consumers went on a spending spree. Chinese retail sales jumped 10.6% from a year earlier. Despite this, resource and material stocks underperformed with commodity prices drifting lower. The iron ore price fell 16% in April.

The fading of US banking sector fears benefited the Australian banking stocks (e.g. ANZ rose 6.5%, Macquarie Bank 4.0%), which outperformed.

Domestic economic data was also generally positive, inflation lower than expected, the Reserve Bank of Australia left interest rates unchanged, and measures of Australian business conditions surprised to the upside.

New Zealand Share Market

For April the New Zealand share market rose 1.1% and has risen 4.8% since the beginning of the year. Over the month the local market largely took its direction from global markets. ANZ and Westpac outperformed as concerns over the US banking sector subsided during the month. Specific company news flow was muted over the month, Sky TV (+4.8%), Fisher and Paykel Healthcare (+3.9%) and Infratil (+3.8%) being amongst the top performing.

On the domestic front the share market weathered the surprise announcement by the RBNZ to increase the Official Cash Rate (OCR) by 50-basis points to 5.25%. The bank's commentary focused on the strength of the domestic labour market and ongoing near-term inflation pressures. They concluded that interest rates are required to be higher to rein in inflation. One further interest rate hike is anticipated after which the RBNZ will likely pause in undertaking further hikes.

Domestic interest rates moved lower over the month. The 5-year government bond yield fell 21-basis points to 4.04%. As a result, the New Zealand fixed income market returned 1.0% in April.

Summary

Developments over April have provided a more constructive environment for global financial markets. The decline in inflation and a growing number of central banks signalling a likely end to interest rate hikes is positive for both fixed income and share markets. Nevertheless, the risks remain finely balanced.

The outlook for inflation continues to remain key. Although inflation is forecast to decline over 2023 it is expected to remain too high for central banks to commence interest rate reductions any time soon. The path of falling inflation is uncertain and will likely be a source of volatility in the months ahead.

At the same time, the environment is balanced for share markets with inflation pressures easing, central banks ending interest rate hikes, and better than anticipated economic data. Conversely, economic activity remains weak, and risks of US recession continue to grow.

Focusing on your long-term goals while acknowledging that in the short-term, returns may be volatile, should reward investors.

Indices for Key Markets

As at 30 April 2023	1 Month	3 Months	1 Year	3 Years p.a.	5 Years p.a.
S&P/NZX 50 Index	1.1%	0.7%	2%	5.2%	8.2%
S&P/ASX 200 Accumulation Index (AUD)	1.8%	-0.8%	2.8%	14%	8.3%
MSCI ACWI Index (Local Currency)	1.4%	1.8%	2.4%	12.5%	8.0%
MSCI ACWI Index (NZD)	2.7%	6.0%	6.6%	11.8%	9.9%
S&P/NZX 90 Day bank bill Total Return	0.4%	1.1%	3.5%	1.4%	1.6%