Crystal Wealth Partners Market Commentary – July 2022

Please find our commentary on investment markets to 31st July 2022.

After a tumultuous first half of the year, where all markets fell outside energy and some commodities, July saw some stabilisation return to sentiment with solid gains across the board. Importantly, the sell-off delivered lower buy prices and higher forward looking returns underpinning improved market returns for the month (apart from oil and some commodities). Nevertheless, markets remain highly volatile as they continue to wrestle higher inflation and potential lower economic growth scenarios.

US Markets

U.S. equities staged a strong comeback in July, driven by Big Technology outperformance and the anticipation of a potential slowing down in the pace of future rate hikes by the US Federal Reserve. This was in spite of another outsized 75-basis-point rate hike from the Federal Reserve and news that the economy contracted by -0.9% in the June quarter. The Nasdaq-100 had its best month since March 2020 (up 12%), while the S&P 500 had its best month since November 2020 (up 9%) with the Dow Jones also lifting in the month (up 6%). Growth stocks sharply outperformed value stocks, as long-duration securities fared well throughout the month on prospects of moderating rate rises.

Inflation data continued its trend of unwelcome surprises with a reported 9.1% annual CPI increase to June, higher than the anticipated 8%. The negative news was shrugged off as US companies reported an average increase in earnings of 7% (72% of companies reported) and investors used the positive news as a buying opportunity. Data released showed the US to be in a “technical recession” (this is two quarters of negative growth) when the June Quarter posted -0.9% GDP after the March Quarter had posted -1.6%. Nevertheless, the National Bureau of Economic Research has not called a recession at this time as many other factors still pointed to economic strength – real household consumption rose 1.1% (annualized) in the June Quarter; household income up more than 10% (year on year) with wages up more than 5% and an unemployment rate at 3.6% in June. Technology stocks were boosted after the U.S. Senate and House approved the CHIPS and Science Act of 2022 that would directly assist U.S. semiconductor production, as well as create manufacturing credits. The Bill authorizes approximately USD 200 billion for science and technology research in the coming years. This legislation now goes before the President for formal approval (who is expected to sign it).

Most credit markets and Government bonds rallied in July with yields tumbling. The US 10-year bond yield fell by 36bps and ended July at 2.65% while the US 30-year Treasury yield fell by 17bps to close the month at 3.01%. Market perception that the US Federal Reserve may go easier on future rate hikes in the months ahead helped ease the recent volatility seen in money markets. The USD dollar hit a fresh 20-year high around the middle of July, but then dropped away to be one of the weaker members of the G10 basket, ahead of only the euro and the British pound.

World Markets

Global financial markets rallied strongly in July with the notable exception of Chinese markets. The improvement in bond, share and credit markets built on the perception that peaking inflation may give central banks cause to reduce the size and pace of future rate hikes, even though big rate hikes were delivered by several central banks in July. In this sense, markets remain forward looking trying to double-guess the pathway for future rate moves.

The euro area's economy expanded by 0.7% in the previous quarter. However, high inflation pushed the European Central Bank (ECB) to deliver its first interest rate hike in over a decade, taking the eurozone away from negative interest rates. The other key issue facing Europe remains gas supplies. After initially restarting gas flows at 35% of 2020/2021 levels, Russia announced a reduction to 20% to enable repairs to a turbine. To shore up domestic supplies, the European Commission requested that countries look to reduce their consumption by 15% and gas prices rose sharply towards month-end in response to renewed fears of gas supply scarcity. The ECB raised its deposit rate by a larger-than-expected 50bps back to 0%, its first hike since 2011. It also unveiled its 'Transmission Protection Instrument' (TPI) designed to prevent peripheral borrowing costs from widening as a result. With positive economic data, despite the ongoing Ukraine crisis, most European indices rose with Germany's Dax Index lifting 5% and France's CAC rising 9%.

In the UK, Prime Minister Boris Johnson resigned after he lost the support of his Parliamentary party. The Conservative leadership race quickly narrowed the field down to two candidates: Rishi Sunak, and Liz Truss. The winner, and next prime minister, will be announced on 5 September. The UK was a solid contributor to the pan-European market gains, partially driven by the British pound's 3% appreciation against the Euro over the course of the month. Inflation continued to hit fresh highs in the UK (9.4%). Despite the politics, inflation and rising interest rates the FTSE 100 rose 4% in July.

Exceptions to the strong gains were the Chinese share markets with the Shanghai CSI 300 index down -6.6% and Hong Kong's Hang Seng down by -7.8%. China continued to grapple with the Omicron outbreak and a series of rolling lockdown measures were enacted in various cities. However, investors focussed on China's residential property construction sector where the downturn continues to drive large corporate debt defaults, adding concern about China's banks and rising social unrest. In Japan, The Bank of Japan reiterated the need for continued easing amid downside risks from higher commodity prices, Covid-19, rising US interest rates and the risk of US recession. A stronger Yen, mixed domestic earnings releases, and improved government estimates for Japan's economic growth and inflation were seen as better than expected and the Nikkei Index finished the month up 5%.

Australia

Inflation and interest rates were the key topic of interest for investors during the month. July saw the RBA hiking cash interest rates by 50bp to 1.35%, while inflation was reported at 6.1% for June. The

RBA's aim of the interest rate increases is to slow domestic demand enough to allow supply shortages to catchup without triggering a recession. Bond and credit markets reacted with prices reversing course and posting decent positive returns for the month while yields tumbled. The Australian bonds index (Aus Composite) was up 3.36% as the 10-year bond yield fell by 52bps to 3.05% in July. Over the past month the market's view of how high the RBA may need to lift the cash rate has changed from close to 4% estimate to now closer around 3%. The market is looking for annual inflation to peak below 7% by the end of 2022, while Commonwealth Treasury is looking for inflation to peak at 7.75%

The Australian share market completely reversed direction over July as the data pointed to the economy tackling the inflation issue as interest rates rose, employment remained strong and consumer spending continued to be firm. Australia's S&P/ASX 200 gained 5.75% in July, rebounding strongly after steep losses in the first half of 2022. Small caps outshone the larger companies, as the S&P/ASX Small Ordinaries surged 11.4% and the S&P/ASX Emerging Companies soared 14.3%. All sectors of the S&P/ASX 200 - other than Materials (lower by 1%) - rose for the month with Information Technology and Real Estate the best performers, gaining 15.2% and 12.1%, respectively. Concerns about China's growth contributed to a decline in commodity prices, which drove the underperformance of stocks in the Materials sector. The Australian dollar bounced higher against the USD in July, regaining some of the sharp June losses. At one point in July the AUD was as low as USD$0.6734 but closed the month higher at USD$0.6985, up 1.6%.

Note. On 2nd August, the Reserve Bank raised the cash rate by +0.5% to 1.85%, as expected. Inflation forecasts have been raised to 7.75% this year to just over 4% in 2023, and around 3% in 2024. GDP estimates have been lowered to 3.25% this year, and to 1.75% in both 2023 and 2024.

Other Markets

Prices for iron ore, copper and wheat all declined during July while natural gas leapt more than 50%. Commodity prices have weakened since April due to concerns about global growth and slower demand from China. Energy was mixed, as most petroleum commodities continued to come off their highs from earlier in the year. U.S. crude oil exports hit an all-time high on the back of overseas demand due to the big discount for WTI crude oil which ended the month 6% lower at USD$98 a barrel. Natural gas, on the other hand, spiked higher to levels not seen since 2008 due to extreme temperatures around the globe requiring extra energy to cool buildings coinciding with Russia's continued tightening of energy supplies to the EU. Late in the month, the EU agreed on a plan to ration natural gas use over the winter, just as Russia cut natural gas flows on the major pipeline from Russia to Germany to just 20% of capacity. Gold prices varied little over July with the Spot price closing at USD$1,765.22 oz only $40 lower than the June closing price. Gold appears to be in a somewhat 'holding pattern' with investors awaiting further economic data that could influence the path of Federal Reserve policy tightening and real interest rates.

The following table outlines recent movements in various key indices.

Index*	1 Month	3 Months
US – Dow Jones	6.71%	-0.40%
US – Nasdaq (100)	12.55%	0.72%
US – S&P 500	9.11%	-0.04%
Germany – DAX	5.48%	-4.35%

UK – FTSE 100	3.54%	-1.61%
Shanghai Composite - SSE	-4.28%	6.77%
Hong Kong- Hang Seng	-7.79%	-4.42%
Japan – Nikkei 225	5.34%	3.55%
S&P/ASX 200	5.74%	-6.59%
All Ordinaries Index	6.33%	-7.13%
Gold (USD)	-2.85%	-5.31%
Oil (USD) – WTI	-10.20%	-3.51%
Iron Ore (USD)	1.90%	-18.80%
10 Year Aus Gov't Bonds (yield)	-16.81%	-5.24%
10 Year US Gov't Bonds (yield)	-11.48%	-9.09%
AUD/USD	1.22%	-1.10%

* percentage change in respective local currency unless stated otherwise.

If you have any questions in relation to the above, or require any additional information, please do not hesitate to contact your Adviser to discuss your particular circumstances.