Has the consumer capitulated? The June 2023 Trust Investor Quarterly Market Update

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In the **June 2023 Perpetual Private Quarterly Market Update** we look at the forces replacing the pandemic and interest rates as key market movers. You can download our full report – or read our concise review below.

Please note: except where otherwise noted or quoted, the views in this article are those of Perpetual Private's investment team.

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June Quarter 2023: What happened?

- Despite sticky inflation, more rate rises and an attritional war in Ukraine, sharemarket investors celebrated in June. Global shares were up nearly 7% for the quarter and 20% for the 2023 financial year.
- The local market had a quiet quarter, rising less than 1%. However, over the past year Australian shares handed investors a 14% return.
- Technology stocks rebounded, with the NASDAQ up 13% for the quarter and over 30% for the year. Enthusiasm for the productivity potential of AI fuelled the tech revival.

- Bond markets were weak with global bonds down 0.30% for the quarter and around 1% for the year. Local fixed income was down nearly 3% for the quarter and up just over 1% for the year.

(Indices referenced: MSCI AC World, S&P/ASX 300, Bloomberg Global Aggregate index, Bloomberg AusBond Composite (0+Y) index. All performance numbers to end June 2023 quarter unless otherwise stated).

"The consumer is always right" Harry Gordon Selfridge

Since the start of 2020, the investment landscape has been painted by big themes: Covid lockdowns, Ukraine, inflation and rising interest rates. Halfway through 2023 that picture is sharpening. The outlook for markets may now depend on decisions in Main Street, not Martin Place.

Until relatively recently, consumers had ignored the ladder-climb of interest rates around the globe and kept spending. That's partly due to pent-up demand – money that wasn't spent when the world was locked down. Much of it is stimulus funds such as Jobkeeper that meant consumers entered the rate tightening cycle laden with cash.

According to Perpetual Private Investment Director, Andrew Garrett, US consumers have approximately $US500 billion in excess savings. That's a big number. But it's down 80% in the past 18 months. "As those stimulus savings burn down, we're watching the consumer carefully," he explains.

"In large, modern economies like the US and Australia, consumer spending is a major element of economic activity," says Andrew. "So falling consumer sentiment shows up in weaker corporate balance sheets, emptier government coffers and, eventually, stock market performance."

The shape of income returns

Of course, consumer sentiment is not the only force that will move markets for the rest of 2023 and beyond. The revolution in Artificial Intelligence symbolised by ChatGPT (the most

rapidly adopted consumer app in history) could reshape productivity and unleash new avenues for economic growth.

For the rest of 2023 and into 2024, markets will be driven by geopolitics, consumer sentiment and technological change. The Perpetual investment team also expect 'idiosyncratic' factors – that is company-specific issues like the skill of management teams - to have more influence.

The good news for income investors is that while the pace of rate rises might slow, the rate hikes already in the system – a full 4% since May last year, should underpin better income returns. Income investors are benefiting both from higher cash rates and higher yields from long term bonds.

As prefigured last quarter, Perpetual is now shifting its fixed income strategy. "The yields now available from bonds are attractive," says Andrew Garrett. "Perhaps as importantly, bonds give us more capital protection in a slowdown or recession than credit securities." Credit defaults are still at very low levels, but the impact of higher rates on company earnings – and therefore corporate credit - means the risk is increasing.

According to Andrew Garrett, income investors could enjoy a further return kicker later in 2023 and into 2024. "Once interest rates peak – and then eventually ease – we're likely to see higher payout ratios from Australian companies and that means more dividend income. In short, income investors might get more income – and a more *stable* income because it's coming from a wider set of sources."

Perpetual Private's Quarterly Investment Update for June 2023 examines changing investment dynamics and the outlook for shares, fixed income, real estate, currency and alternatives.

Download the report

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