



SEPTEMBER QUARTER 2023

Persistent inflation has led central banks in developed countries to implement a series of rate hikes. While headline inflation has eased in some regions, core inflation measures continue to exceed central banks' target rates. There are four main drivers of price increases: declining competition, rising marginal costs, reduced price elasticity of demand, and unexpected demand. Recent supply shocks have been driven by increased competition and reduced marginal costs, while post-pandemic demand shocks stem from fiscal policies and pent-up spending. Protectionist policies and an aging population tied to social security also contribute to inflation, along with higher government spending and global challenges.

CENTRAL BANK ACTIONS



The transition to a higher inflation environment will likely lead to higher real interest rates, causing disruptions in assets like bonds. Higher inflation and interest rates can devalue long-term securities, particularly impacting growth sectors. Entities with significant debt will face challenges as interest rates rise, especially in economies with fixed interest rates. The Federal Reserve has indicated potential recessions in 2023 but also acknowledges economic expansion, creating uncertainty about rate hikes. Investors should be cautious about equity returns and bond yields in a higher-rate environment.

China's economic activity surged upon reopening but has since faced challenges in various sectors, including property and employment. High-level talks between the U.S. and China suggest renewed dialogue, but military tensions and defence deals pose long-term confrontations. The Chinese real estate crisis intensifies as major developers like Evergrande face financial challenges, impacting suppliers and homebuyers, with potential broader economic effects.

Concurrently, Australia's central bank left the cash rate unchanged, noting slowing economic growth influenced by higher interest rates and increased living costs. Inflation is forecasted to decline, but uncertainties exist, including labour demand, global monetary policy changes, and banking sector stability. In addition, the Australian dollar's performance depends on risk sentiment, rate spreads, and commodity prices. The Australian economy remains resilient, but wage increases, a declining Australian dollar, and rising oil prices may lead to unwelcome rate hikes.

The Reserve Bank of New Zealand maintains a restrictive Official Cash Rate to control inflation, while global economic growth, particularly in China, is slowing. Property markets remain stable, but rising debt servicing costs may impact household wealth. Meanwhile, the Bank of Japan retains a negative interest rate policy but hints at potential interest rate hikes as inflation declines.

The United Kingdom sees a slight decrease in inflation, while the Euro area faces supply shocks and inflation above target, leading to tightening monetary policies. Emerging markets offer investment opportunities, driven by demographic shifts and faster tech adoption. Despite capital outflows, attractive valuations and financial metrics make them a potentially mispriced asset class.

The US equity markets have been driven by mega-cap technology stocks. Apple's market value decreased, while Microsoft and Nvidia showed strong performance. Australian large caps sold off, and New Zealand's market was relatively stable. European markets faced challenges, with some countries contributing positively while others detracted. Europe faces a potential recession, while Japan gradually tightens its easing policy. The yen's weakness impacts business confidence, with potential market reactions to unexpected policy changes.

Gold's price has remained in a higher range, influenced by geopolitical tensions and financial market risks. Gold miners may offer investment opportunities, but caution is advised due to ongoing inflation risks and tighter lending standards.

Global markets have seen price drops as central banks consider holding interest rates higher to combat inflation. The outlook remains uncertain, with potential interest rate decreases in 2024 but continued market volatility. On the other hand, emerging markets face uncertainties related to the Federal Reserve, China, and commodity prices. China's economic indicators show potential for recovery, but challenges persist, including the housing sector and COVID's impact on household finances.



RIPPL Investment Commentary

The investment landscape has been influenced by global events and economic trends, including concerns about inflation and interest rates, unexpected post-COVID price surges, and central bank actions. Achieving a 2% inflation target remains challenging, with various factors impacting the outlook.

Deglobalization and decarbonization trends impact corporate strategies, creating a fragmented global economy with higher costs and lower efficiency, challenging central banks' control of inflation.

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