



Economic Update

June 2023

THAT'S
A PLUS.



Greg Clerk

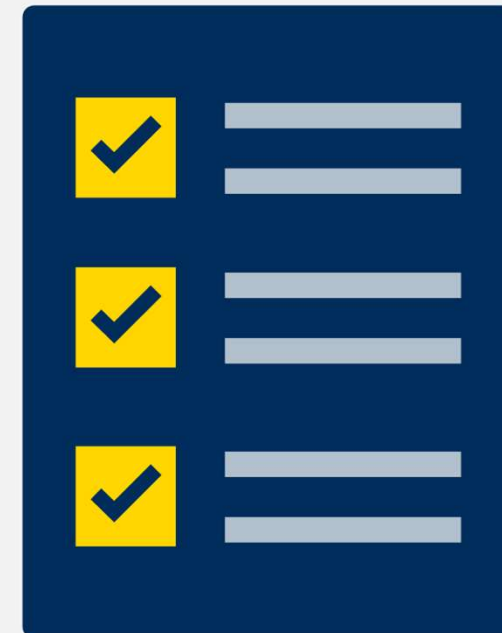
Hostplus Deputy Chief
Investment Officer





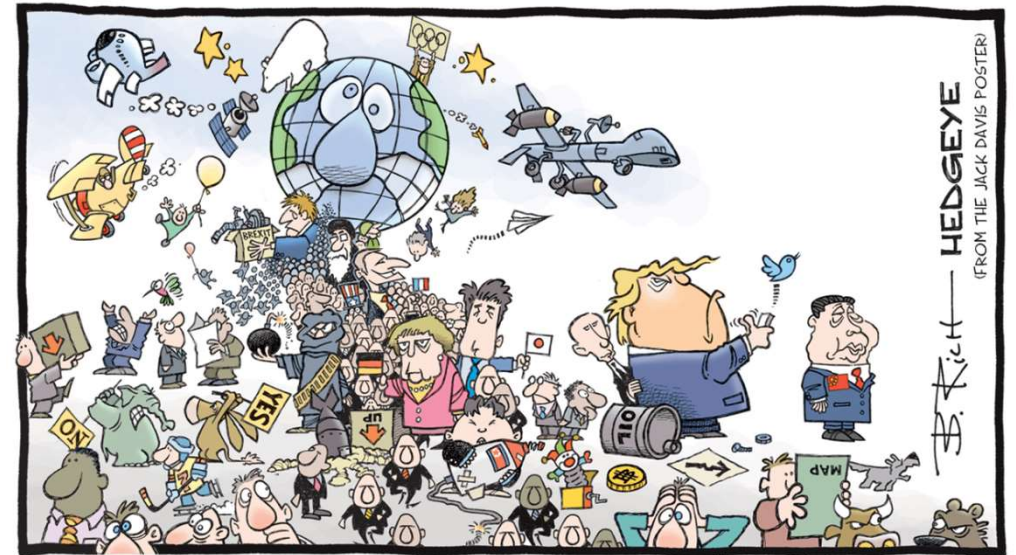
What we'll cover today

- Global Economy/Geopolitics
- Inflation
- Global Policy responses
- Domestic Policy responses
- Wrap up





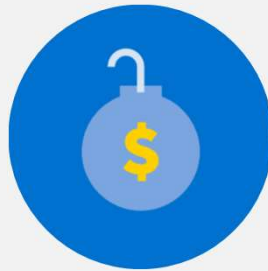
Geopolitics





Geopolitics

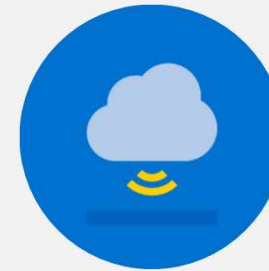
Increasing...



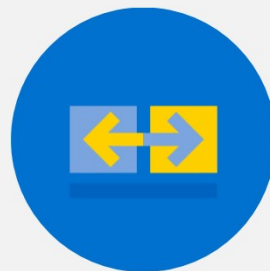
Regional Land Conflicts



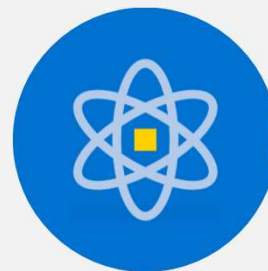
Climate



Cyber



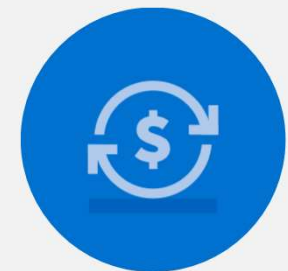
Trade



Energy



Food



Moving away from
Globally Complex
Supply Chains

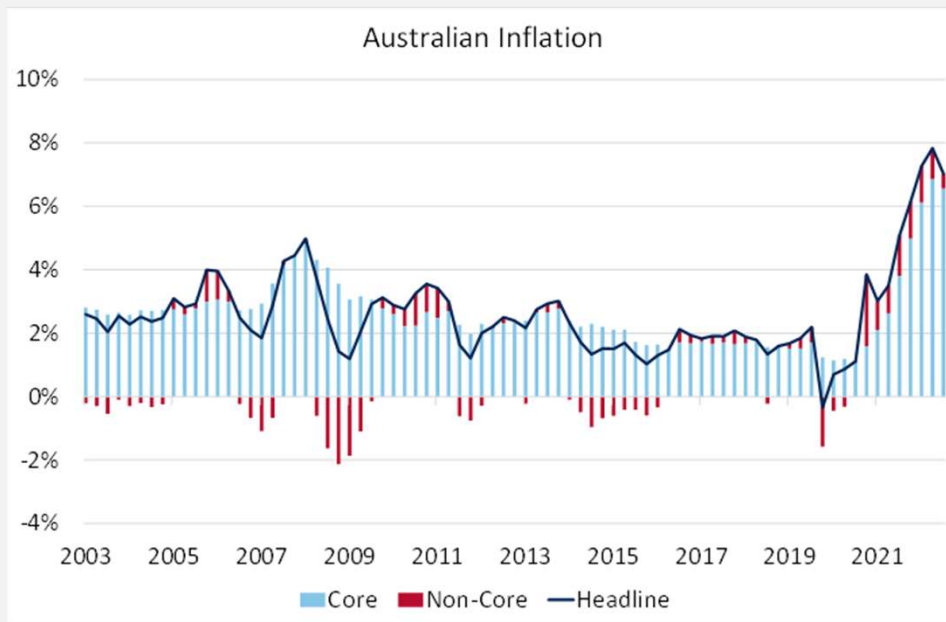


Inflation

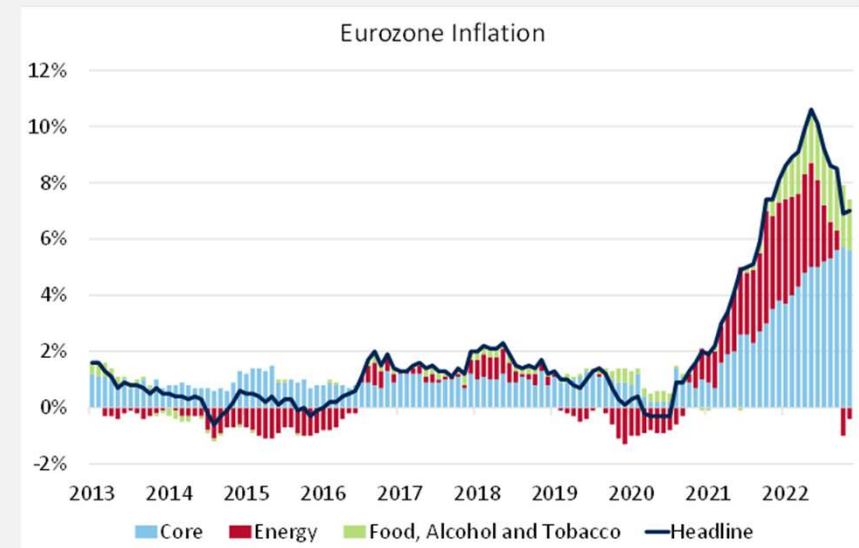
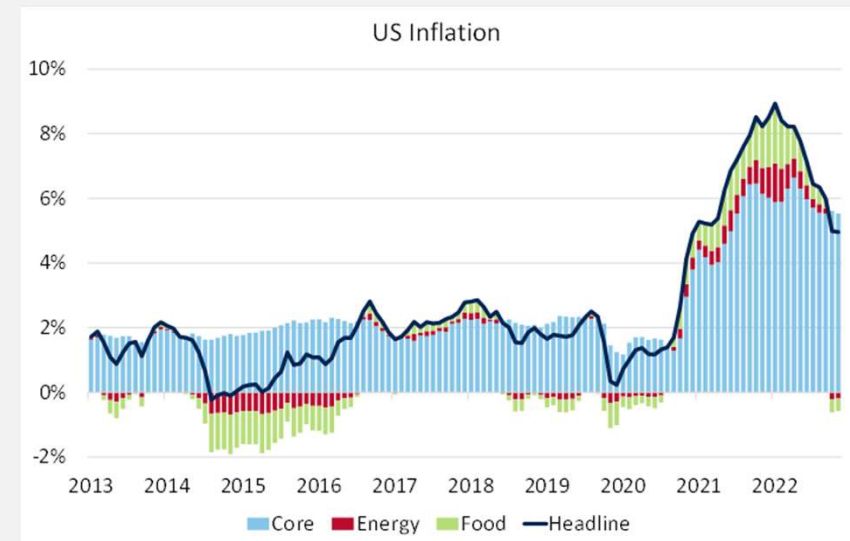




Inflation



A global scourge.





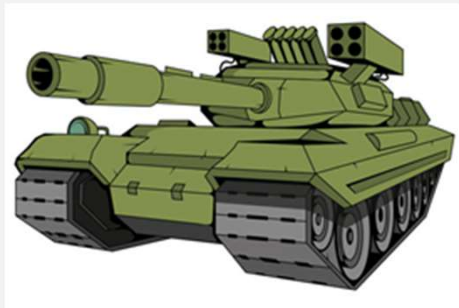
Why?



Because of Government and Central Banks' actions.



Why?



Russia Share of Global Commodity Production and Exports

	% Production	% Exports
Oil	11.4%	10.0%
Nat Gas	17.3%	19.1%
Copper	4.2%	2.0%
Zinc	1.5%	1.3%
Nickel	4.3%	4.2%
Aluminum	5.8%	2.0%
Wheat	9.7%	16.9%
Corn	1.3%	2.2%

Ukraine Share of Global Commodity Production and Exports

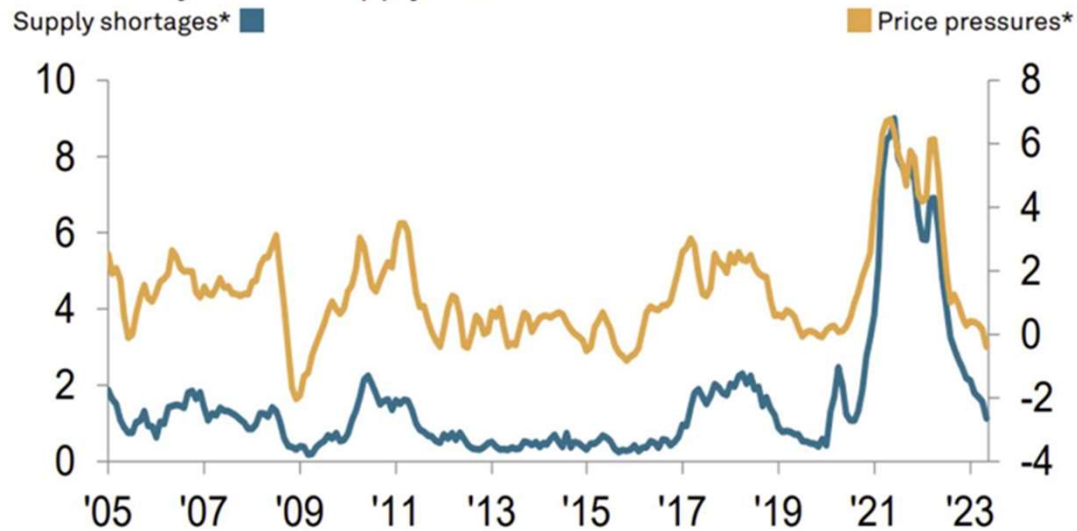
	% Production	% Exports
Wheat	4.3%	11.6%
Corn	3.5%	16.4%

Because of Supply shocks (war and Covid in China).



Supply side responses

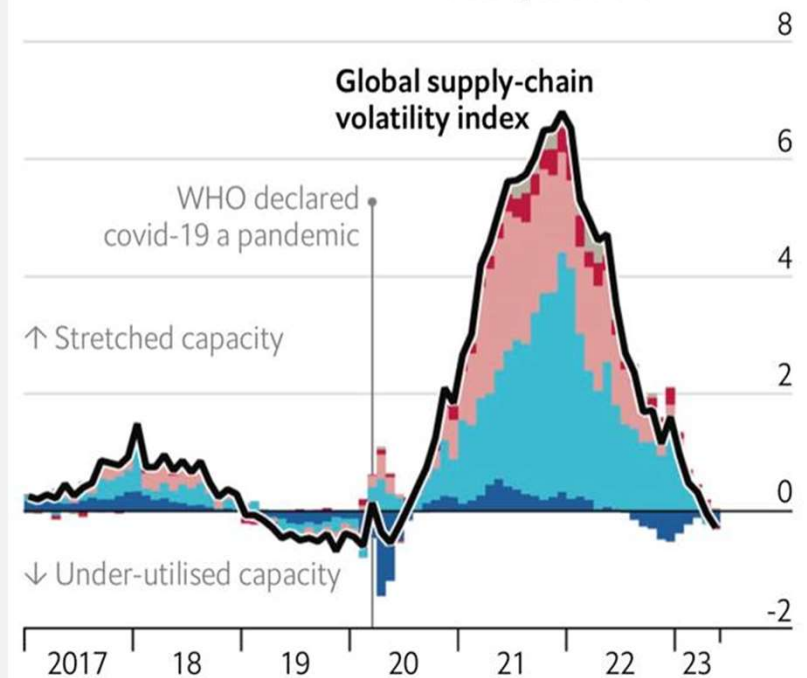
Commodity Price & Supply Pressures: All Items



A bit short

Global supply-chain stress, composite index

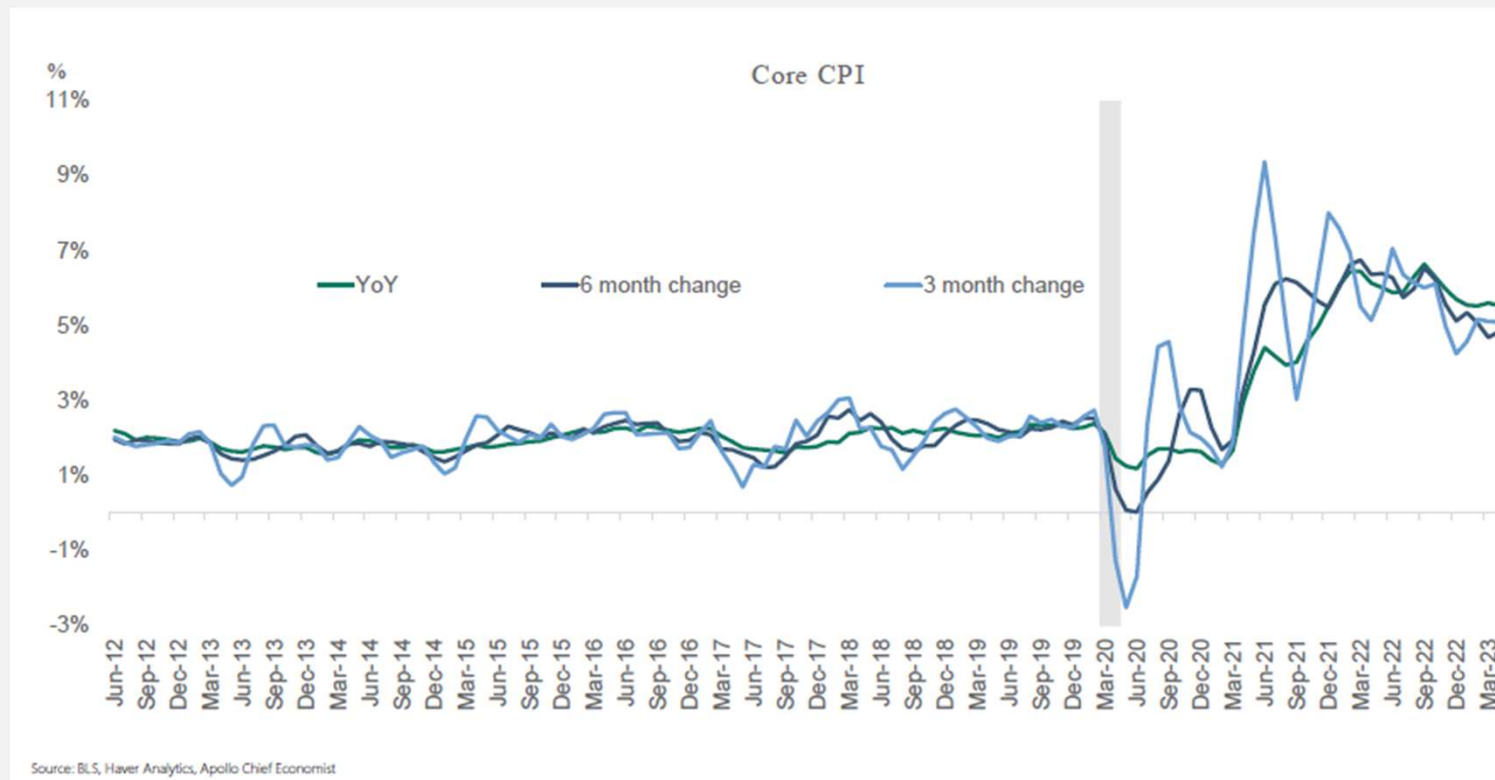
- Demand
- Short supply
- Stockpiling due to supply or price concerns
- Staff shortages
- Transport costs



But there's still a lot of cash that can be (and is being) spent.



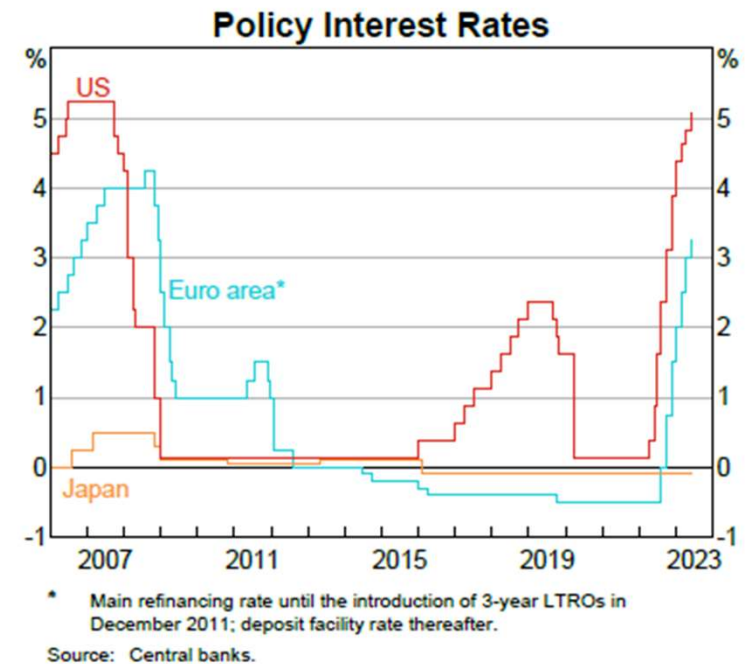
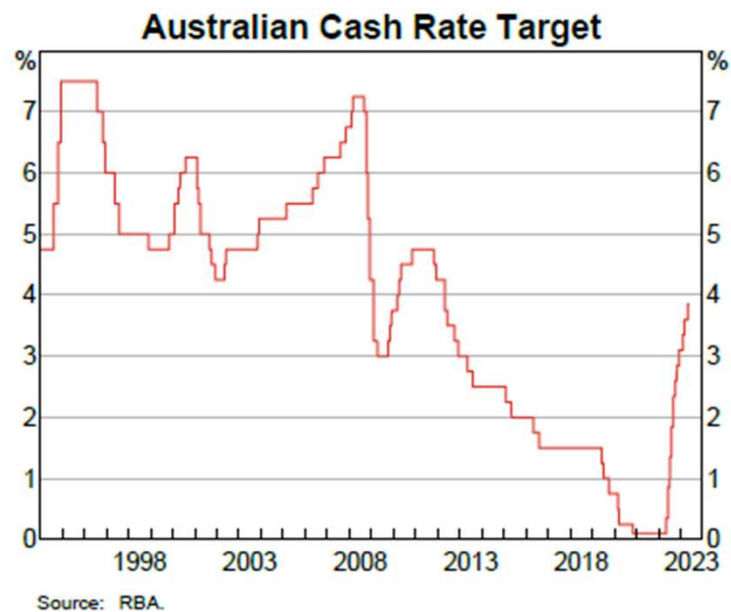
So inflation remains sticky



Central Banks (blunt force that you are), are our last hope.



Central Banks are on the case ...



The big question: how they done enough, or too much?



Policy responses - US vs. Australia





US vs. Australia

Australia:

- Mostly floating rate
- Max. 5 years fixed rate
- Default doesn't mean forgiveness



US:

- Mostly fixed rate
- Max. 30 years fixed rate
- Default means forgiveness

This has huge implications for how interest rate changes are transmitted.

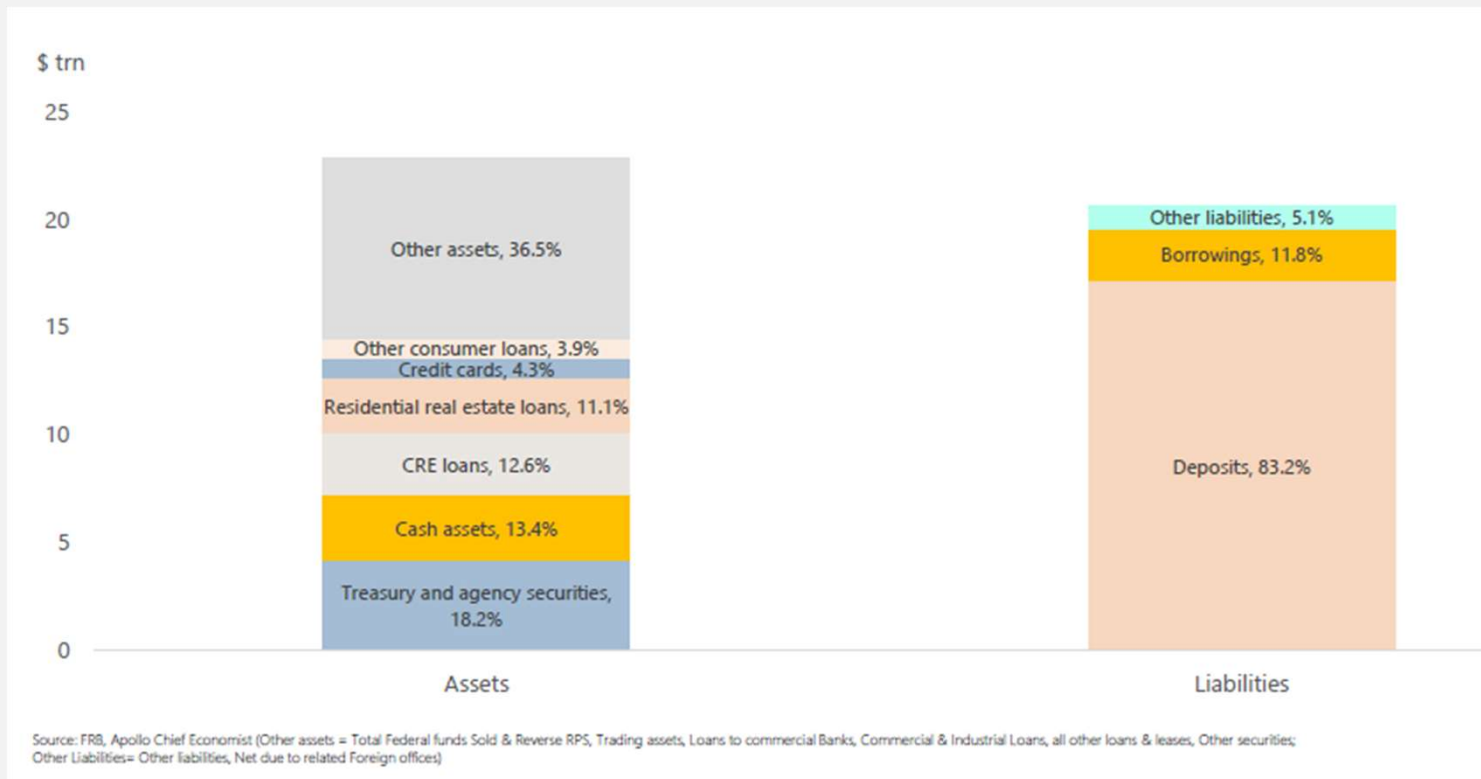


US Monetary policy





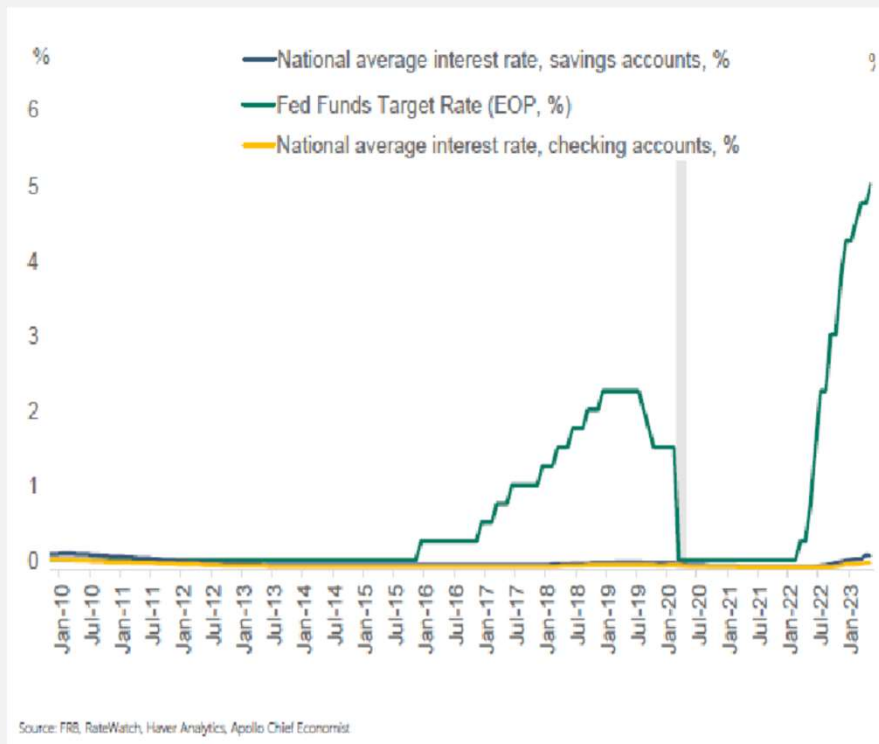
In US it's the banks on the hook ...



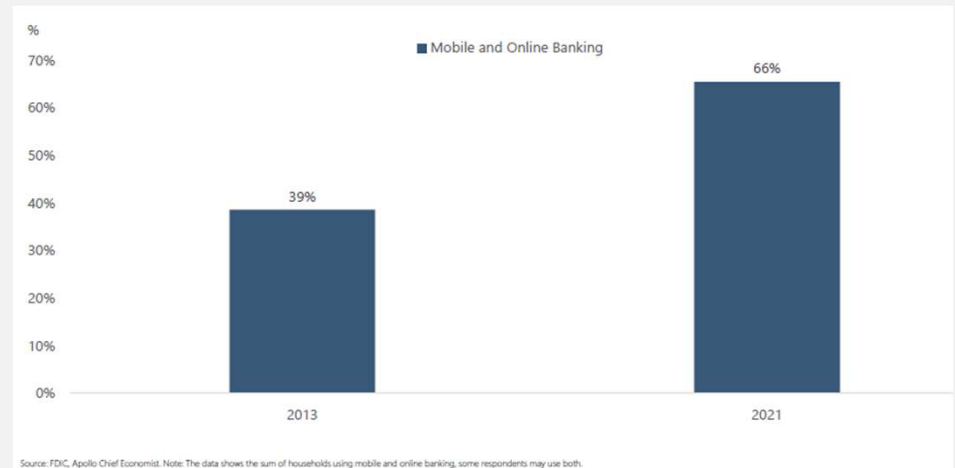
Loans deteriorating ... and deposits exiting?



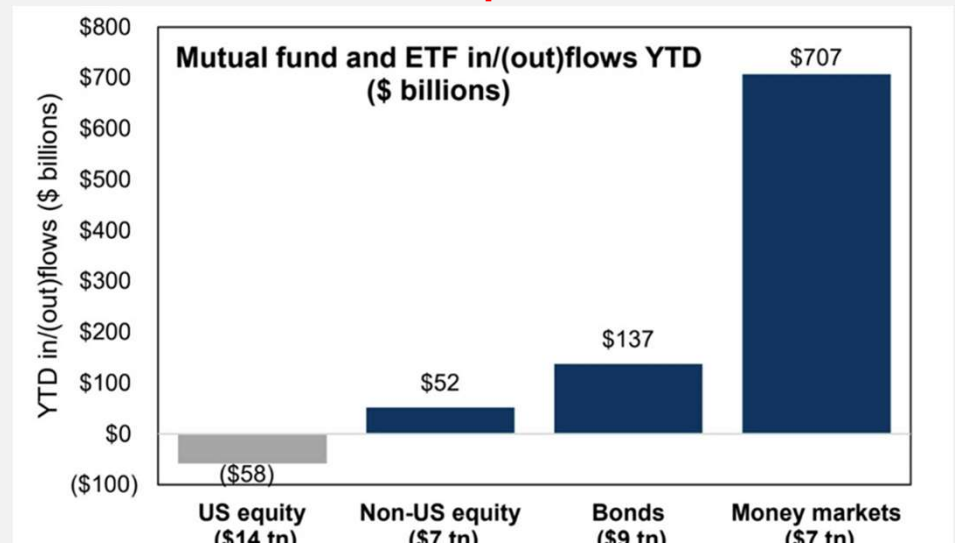
Deposits exiting?



Versus



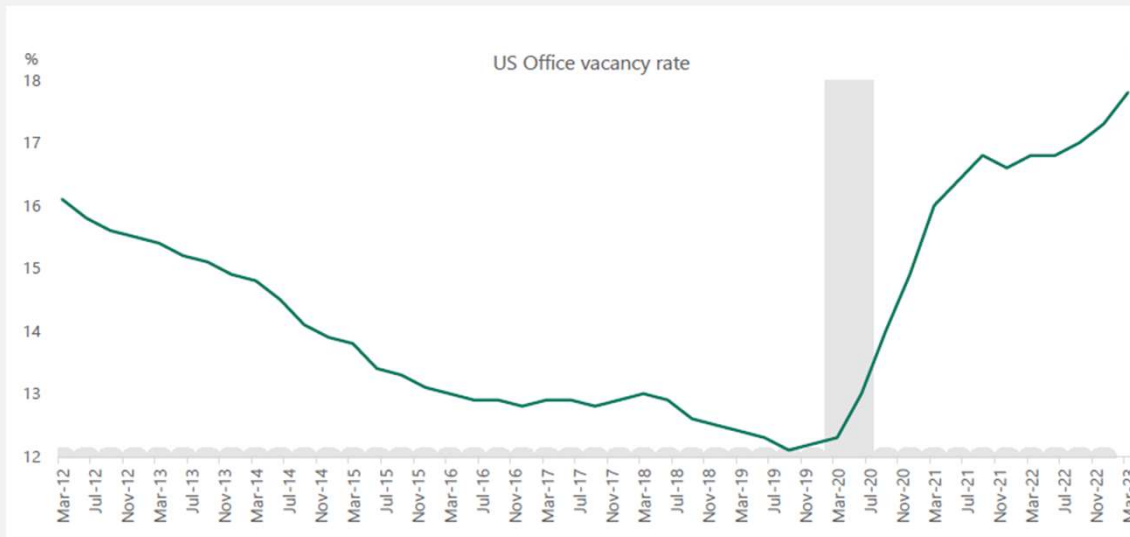
+



Bye, bye deposits



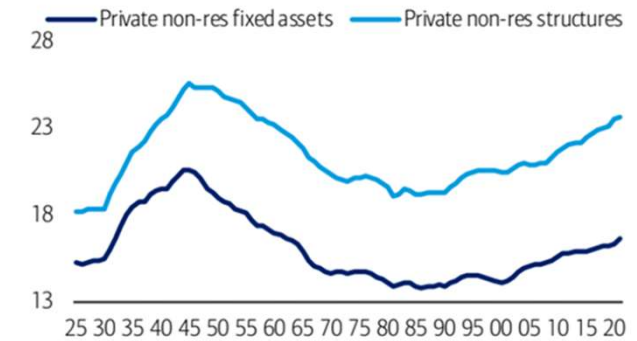
And assets (esp. with WFH)?



Residential & Commercial assets challenged.

Exhibit 16: Stuff is old

Average age of private nonresidential fixed assets and structures (years; 1925-2021)



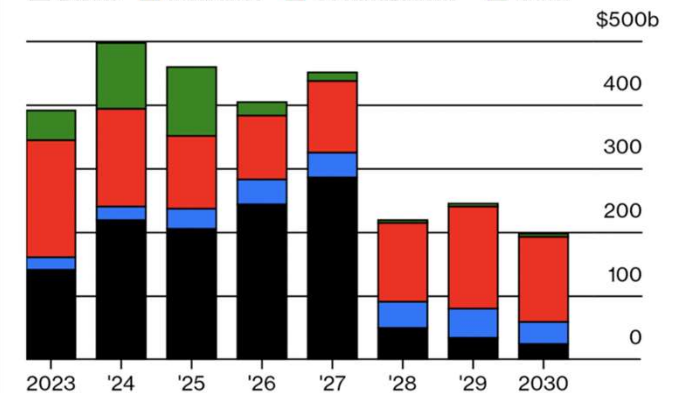
Source: BEA, BofA US Equity & US Quant Strategy

BofA GLOBAL RESEARCH

Maturing US Commercial Property Loans

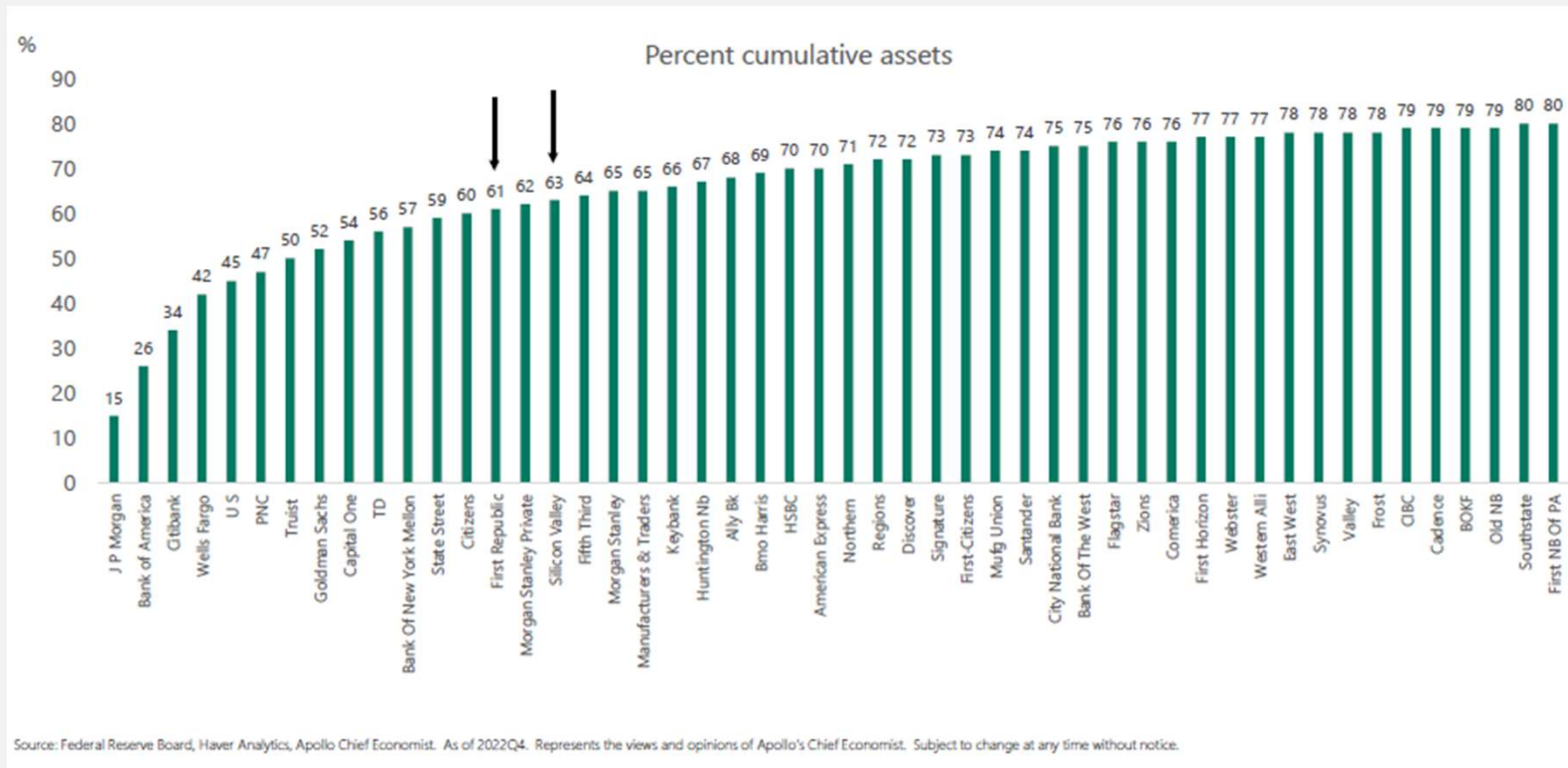
By lender type

■ Banks ■ Insurance ■ Securitizations* ■ Other





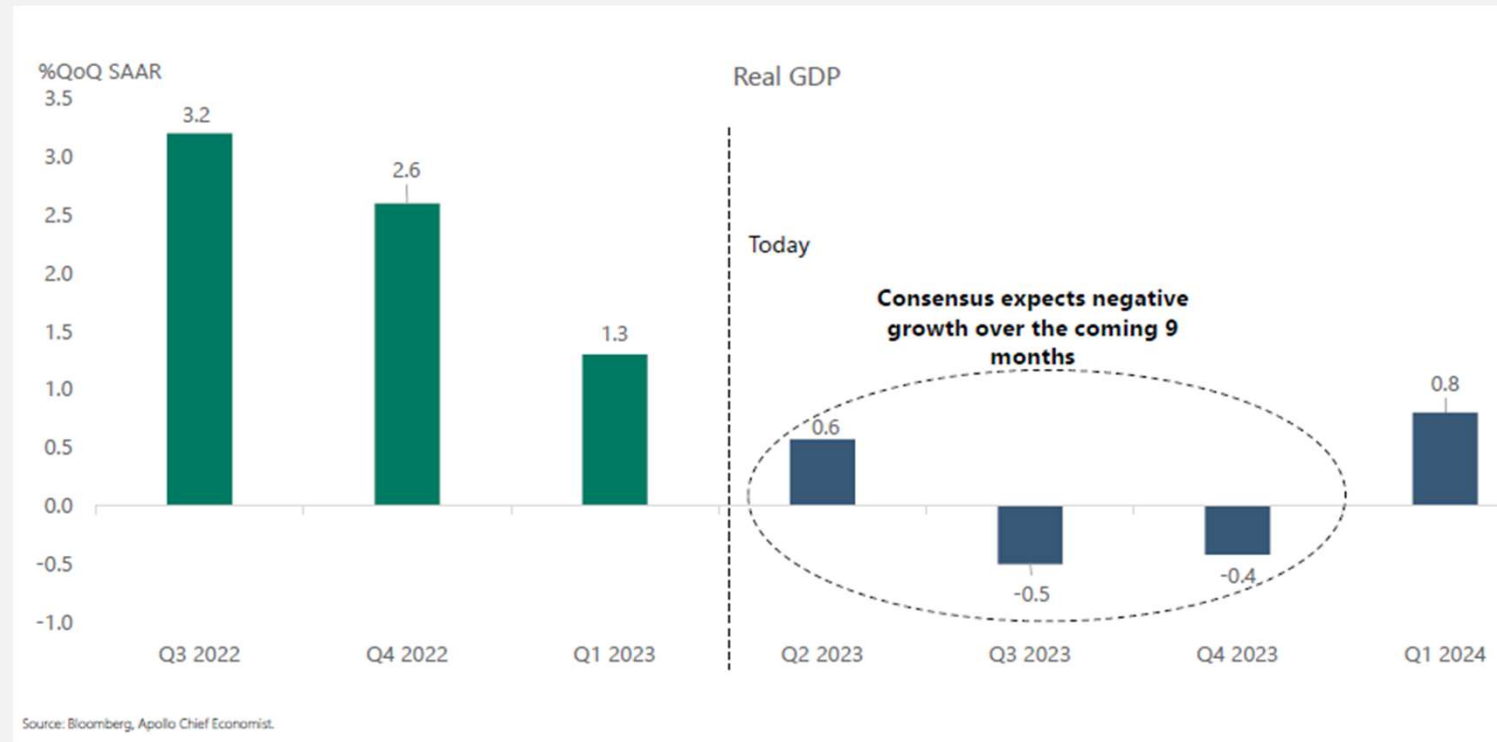
Regional Banks taking the hits



The big banks will only get bigger.



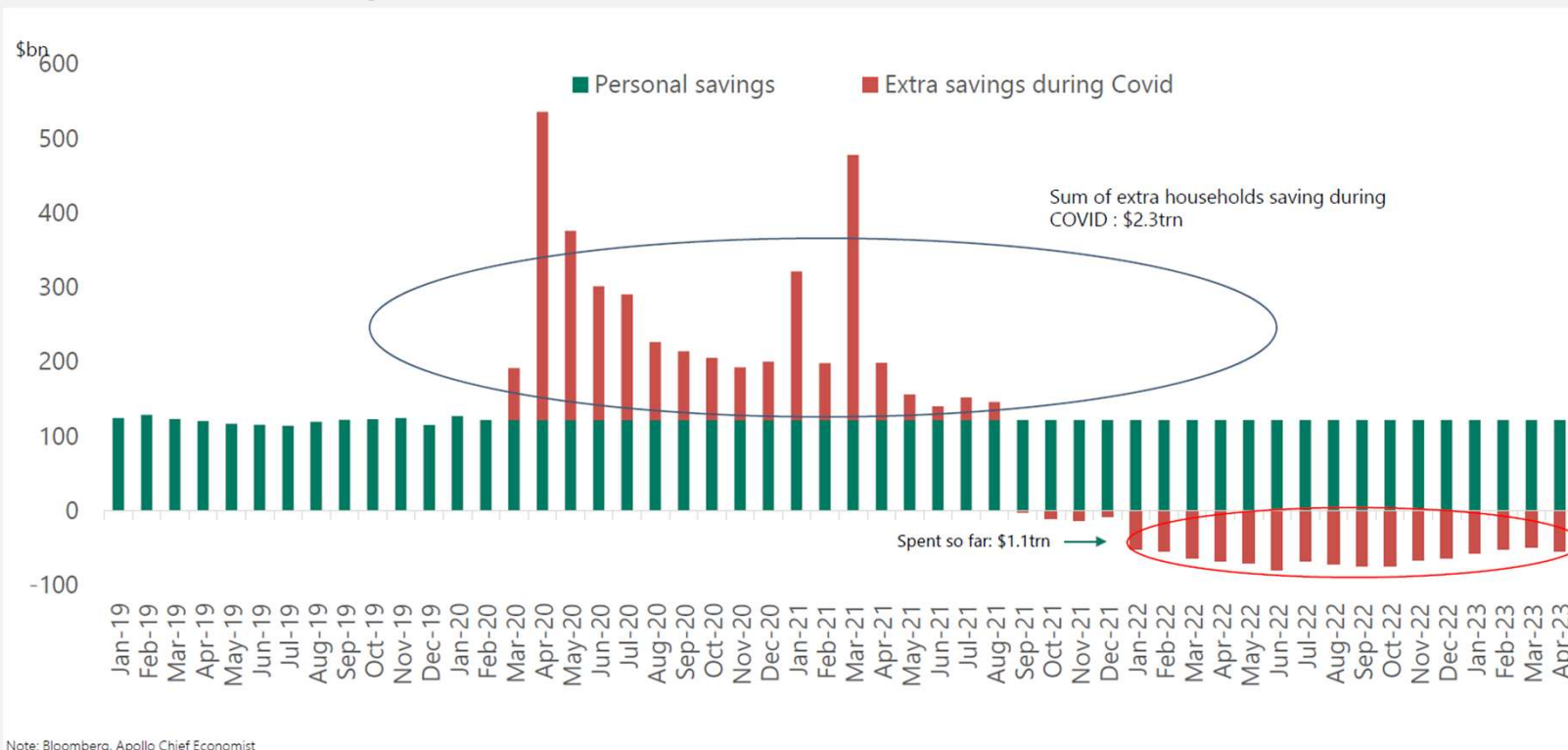
A US recession is largely inevitable



Not going to be “soft” landing, but maybe not too “hard” either.



The challenge for the Fed is the robust consumer



Still U\$1.2T in their kitty to spend ...

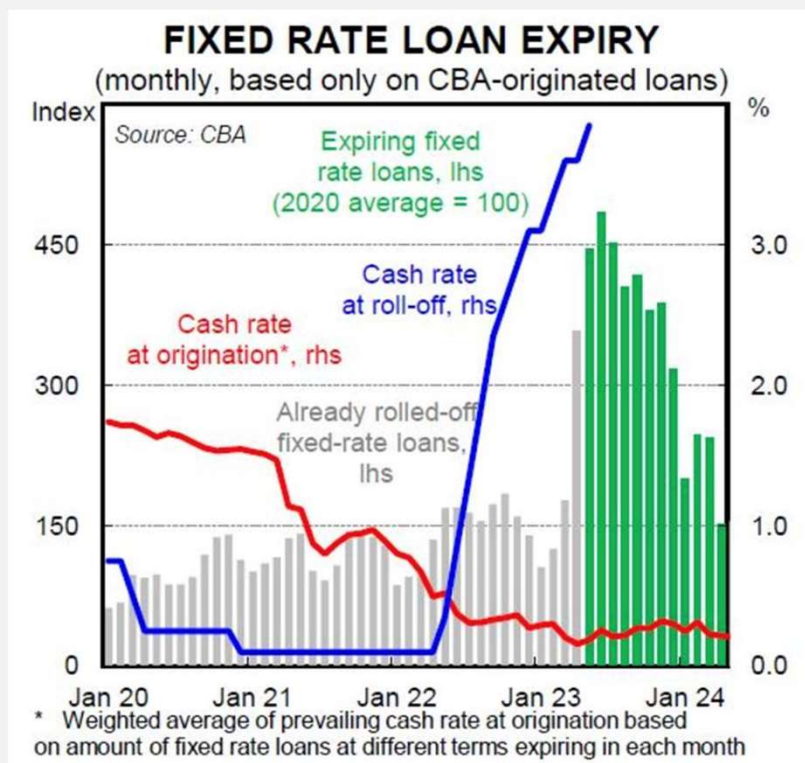


Australian Monetary policy





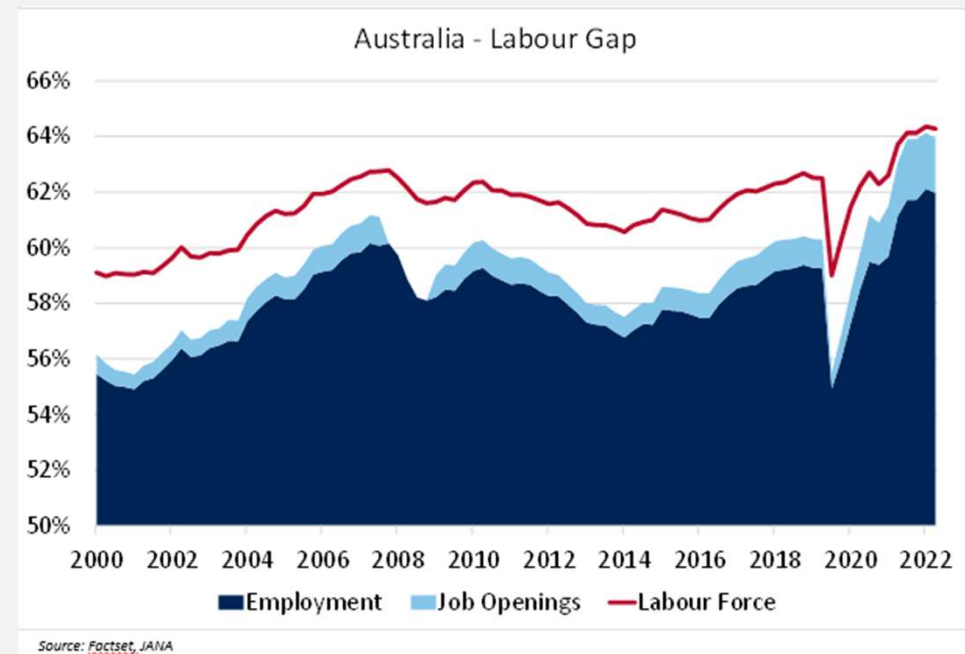
In Australia it's the borrowers/consumers on the hook ...



Fixed rate loans becoming floating rate at higher rates = stress



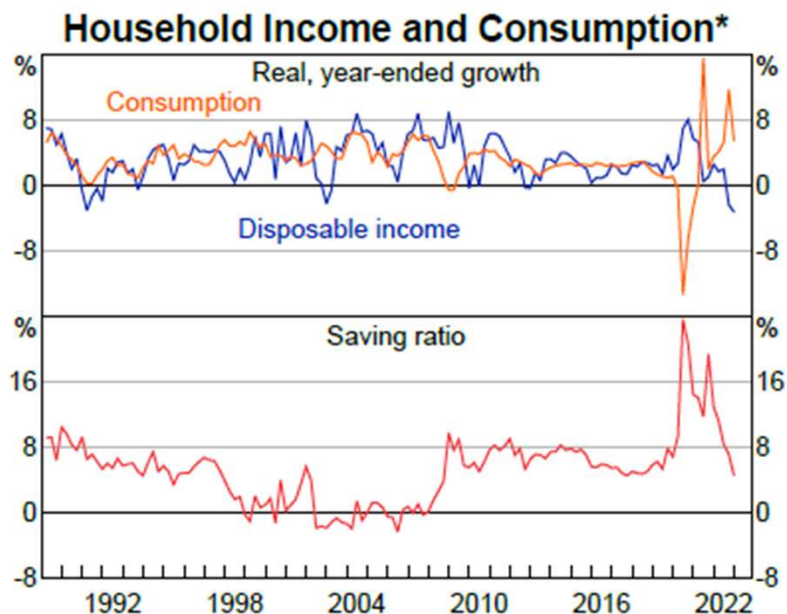
Which is the point of higher rates, unfortunately ...



Wage growth hasn't been the problem. But the RBA doesn't want it to become one.

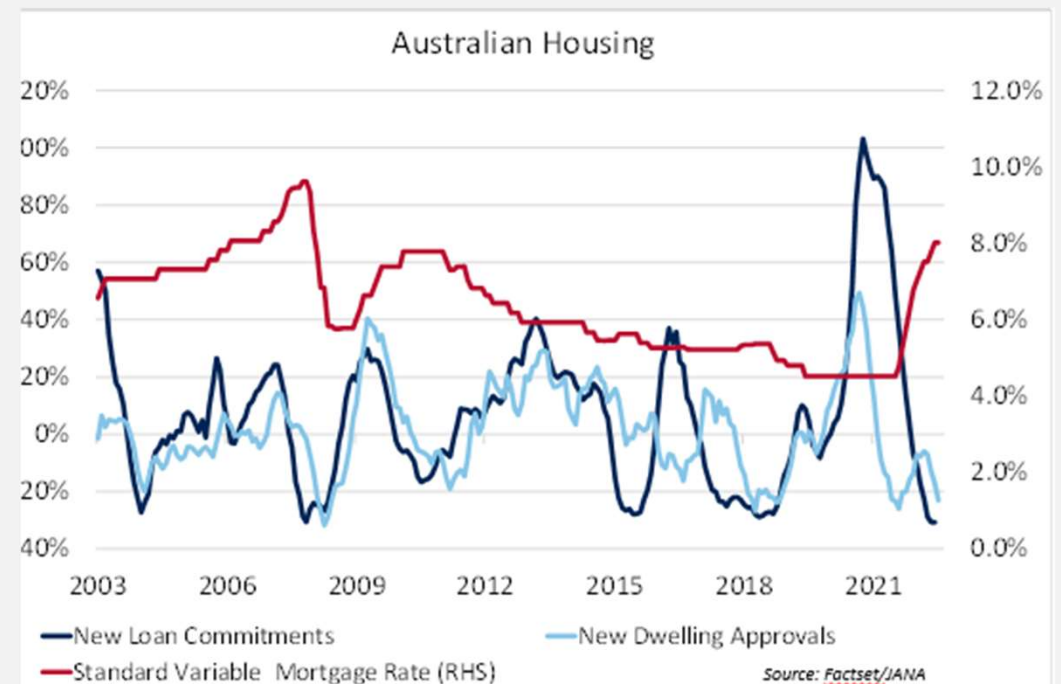


RBA targeting “excess savings” and home wealth too



* Household sector includes unincorporated enterprises; disposable income is after tax and interest payments; saving ratio is net of depreciation.

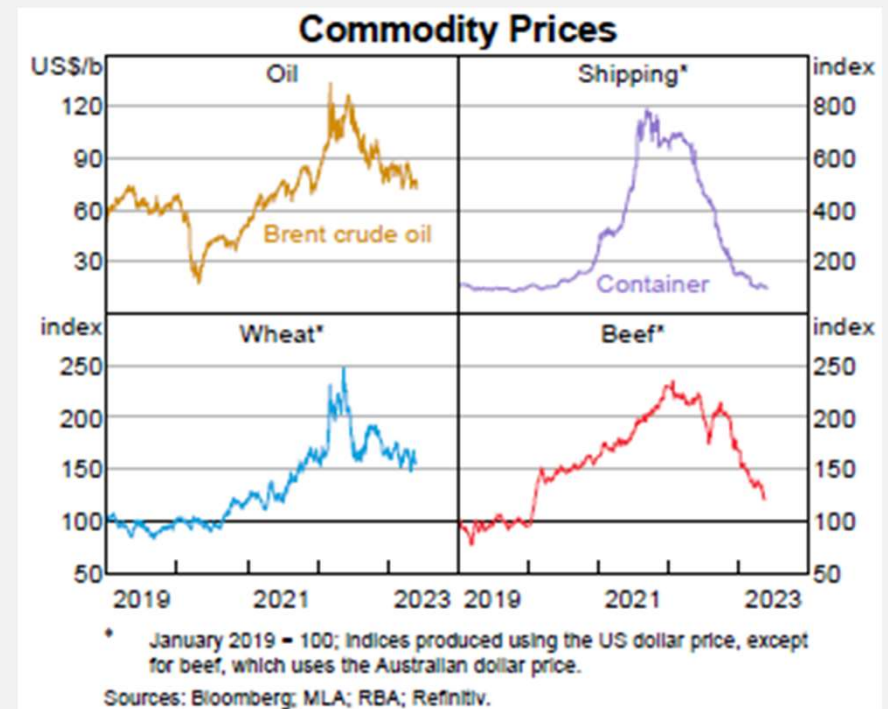
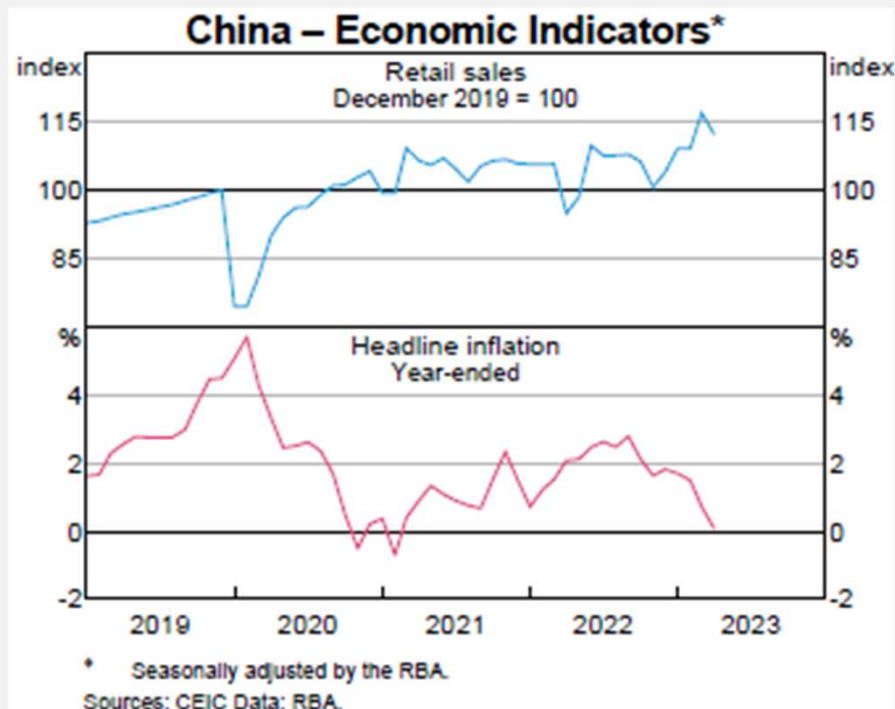
Sources: ABS; RBA.



It's working ... but has the RBA done enough, or too much?



China not rebounding as we'd like ...



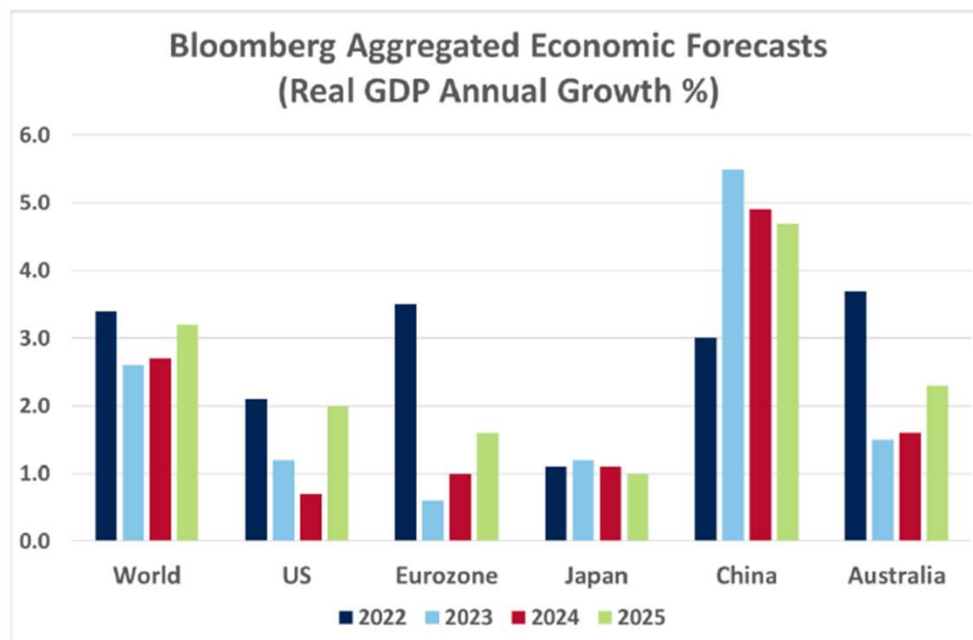
Which is good for inflation, though not for our resources.



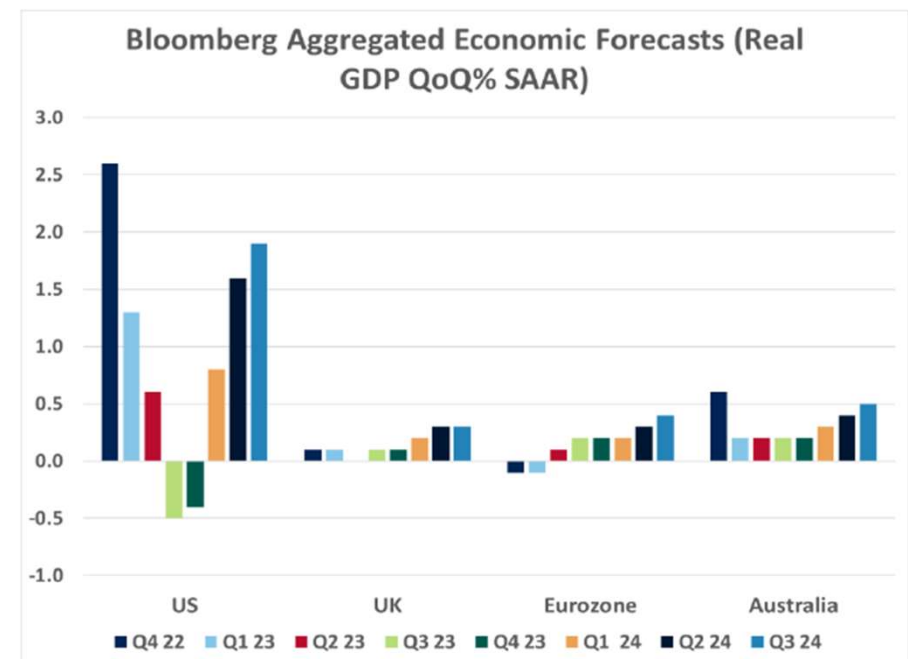
Conclusions



GDP – expect a bumpy 12 months but OK thereafter



Source: JANA / Bloomberg

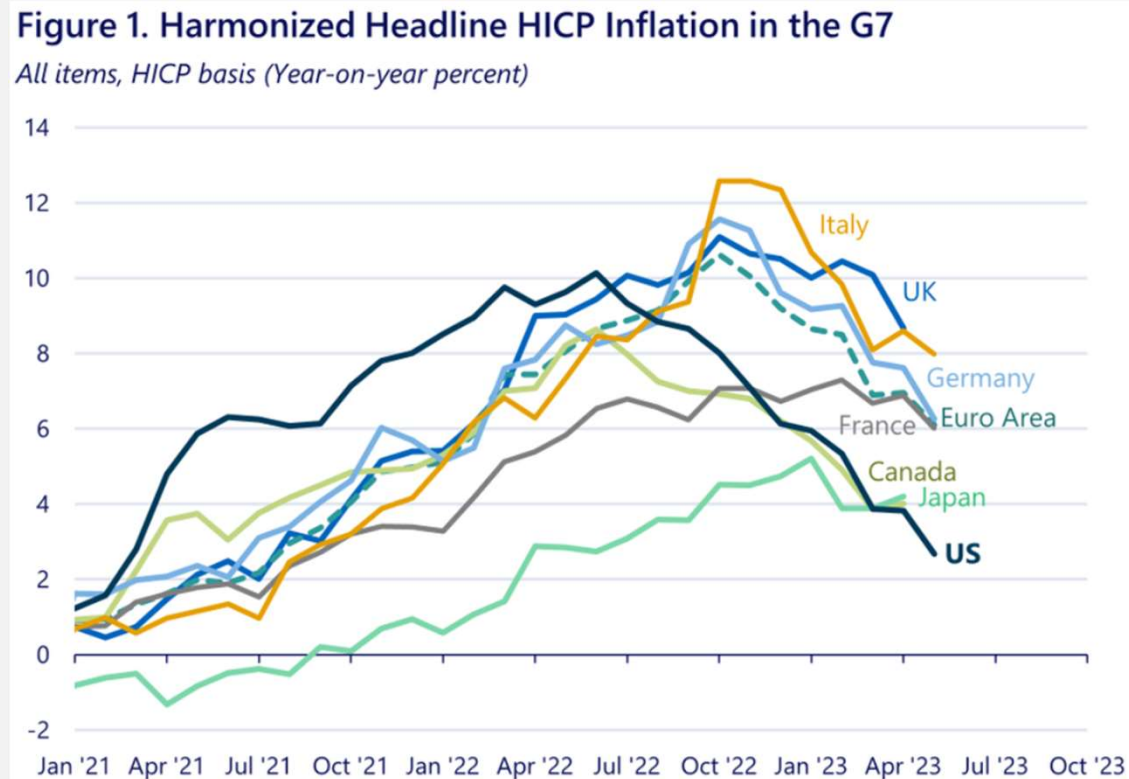


Source: JANA / Bloomberg

Provided Central Banks haven't gone too hard.



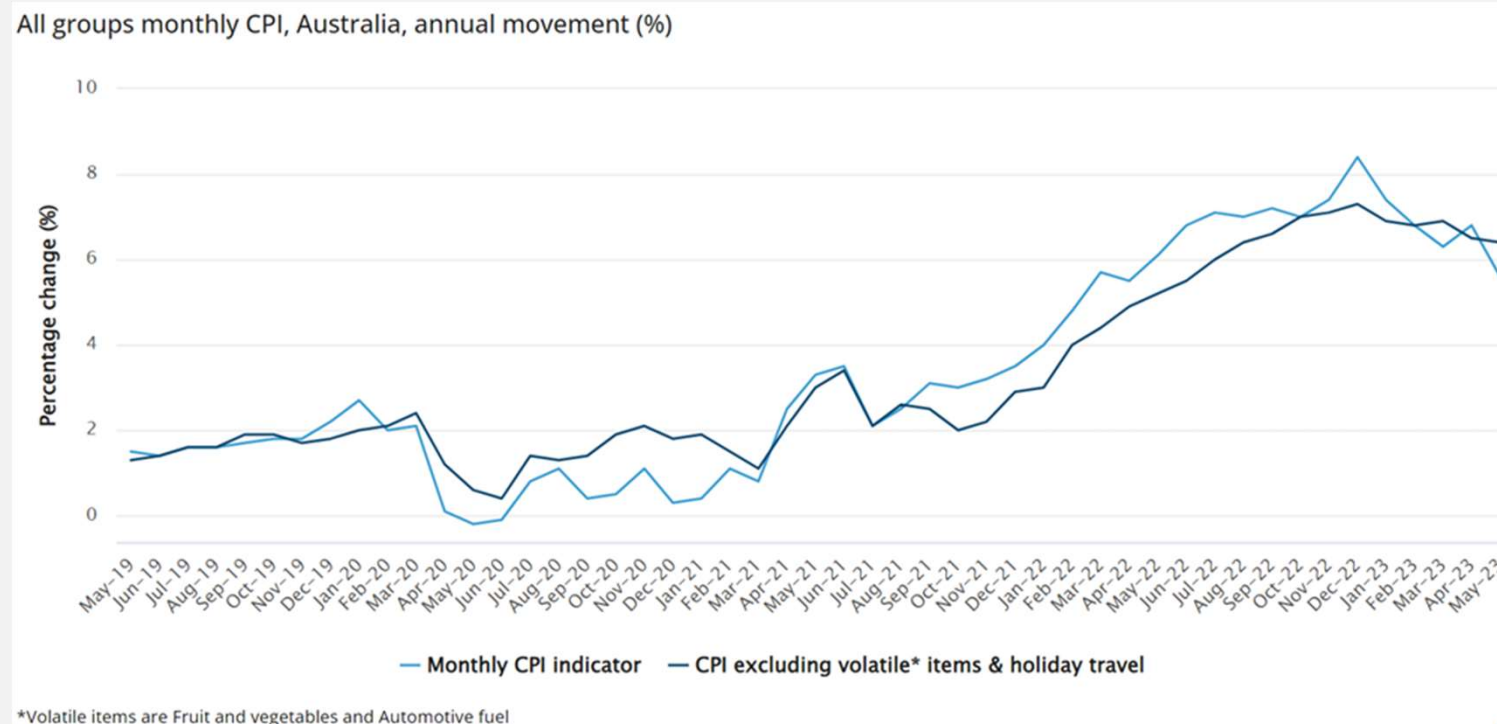
Some positive signs on Inflation



Maybe Central Banks are getting it right ... or maybe it is too soon.



Also in Australia, CPI is moderating



Only +1.9% since Xmas.



Conclusions

- Central banks are trying to lower inflation by reducing consumption, however, economic conditions remain robust, particularly as they relate to the consumer.
- Reducing consumption is closely linked to the health of the labour market.
- US economy continues to be resilient but now slowing and recession-bound.
- Reopening China following COVID was expected to deliver a bounce in global economic activity, the impact to date has been modest at best.
- The Australian economy continues to show resilience. After pausing in April, the RBA has since tightened twice more citing persistently high inflation, wage growth and a modest rebound in house prices – all of which are counter to what the RBA wants to achieve.
- But maybe they've done enough as CPI seems to be reducing ...



Questions.





Hostplus economic update

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Thank you

