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# MEDIA RELEASE

## Promising signs for markets but inflation still the big unknown

Local and global equity markets – in particular Chinese and Asian equities – are positioned well for 2023, but inflation is the joker in the pack for investors, according to GSFM and its fund manager partners Tribeca Investment Partners, Man GLG and Tanarra Credit Partners.

A more positive inflation picture in the United States (US) may provide a more positive environment for US financial assets, but recession looms as a key risk even if China re-opening helps mitigate that risk somewhat, according to GSFM investment strategist Stephen Miller.

"Locally, the inflation portents aren't so encouraging, and that may result in some headwinds to local market performance for both bonds and equities.

"The RBA and local interest rate markets continue to underestimate inflation momentum and the attendant policy rate implications.

"High frequency data continue to indicate significant domestic inflation momentum as we go into 2023. The unemployment rate remains close to a 50 year low.

"Well-intentioned but potentially flawed changes to the regulatory environment, particularly in relation to the wage-setting framework, run the risk of entrenching higher inflation in Australia compared to elsewhere.

"Against that background, the Reserve Bank of Australia (RBA) should be possessed of an acute inflation anxiety in its approach to policy settings through 2023. The inflation impact will be the wildcard for investors in the year ahead," he says.

Managing director of Tanarra Credit Partners, Graham Lees, agrees there is a high level of economic uncertainty for investors to contend with.

"The global outlook remains challenging with a multitude of economic and market indicators signalling that elevated levels of market volatility are likely to persist. Ongoing geo-political events in the Ukraine add to the uncertainty with implications for energy and food prices, as well as global supply chains.

"Locally, we are yet to see the full impact of rising interest rates, and the flow-on effect this will have on household behaviours and consumer spending. It is also not clear how far interest rates will need to rise to curtail inflation, but we believe Australia is relatively well placed compared to other economies.

"In this environment, private credit investments – particularly those with a senior security ranking and that are floating rate - provide protection against both inflation and rising rates and represent a safe haven investment.

“There is a significant opportunity in Australian private credit and we expect the strong level of deal flow to continue in the current environment.

“Private credit across the Asia-Pacific region has a long growth runway that can be levered over the coming years, given its relative under-penetration against more mature, offshore markets,” Mr Lees says.

Man GLG Asia Opportunities Fund portfolio manager Andrew Swan says the next few months will be important in determining how China is going to emerge from its post COVID-19 era.

"I would say in the next month we'll start to get a sense of whether this is a strong, broad recovery or a narrow, shallow recovery.

"A broad, strong recovery will have implications for the rest of the world, in particular commodity prices. But if it's a narrow, shallow recovery, there probably won't be any impact on the rest of the world, apart from more Chinese tourism into other places.

"There is definitely a surge in demand for travel coming, which makes a lot of sense, given people have been locked into local cities now for a few years. We're seeing very, very strong forward indications on both domestic and international travel.

"We do believe the Chinese economy will recover but we are more in the narrow, shallow recovery camp than the broad, strong recovery camp. If you look at what has built up in terms of household savings, it's all gone into long-term term deposits. Normally if you're making that decision, you're locking your money up, you're not really thinking you're about to spend it anytime soon,” he says.

Tribeca Investment Partners lead portfolio manager, Jun Bei Liu, says we can expect a period of weaker economic and earnings growth before a new upswing can begin.

“On a positive note, Australia is well positioned to ride out an economic slowdown, and while it will not be immune to rising rates and tighter liquidity conditions, it should avoid recession due to the benefit of a much weaker Australian dollar, ongoing strength in the labour market, supportive commodity prices (and volumes) as well as a temporary downturn in consumer spending.

“At a corporate level, we expect to see meaningful cuts to earnings expectations as the combination of rising costs and weaker demand begins to pressure margins.

“In the absence of a deep global or domestic economic slowdown, we think earnings downside should be modest with most corporates well positioned to navigate a short-term decline in demand,” she says.

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