



Baharian Wealth Management

The Financial Market's Handbook

3Q 2022 as at 30 September 2022

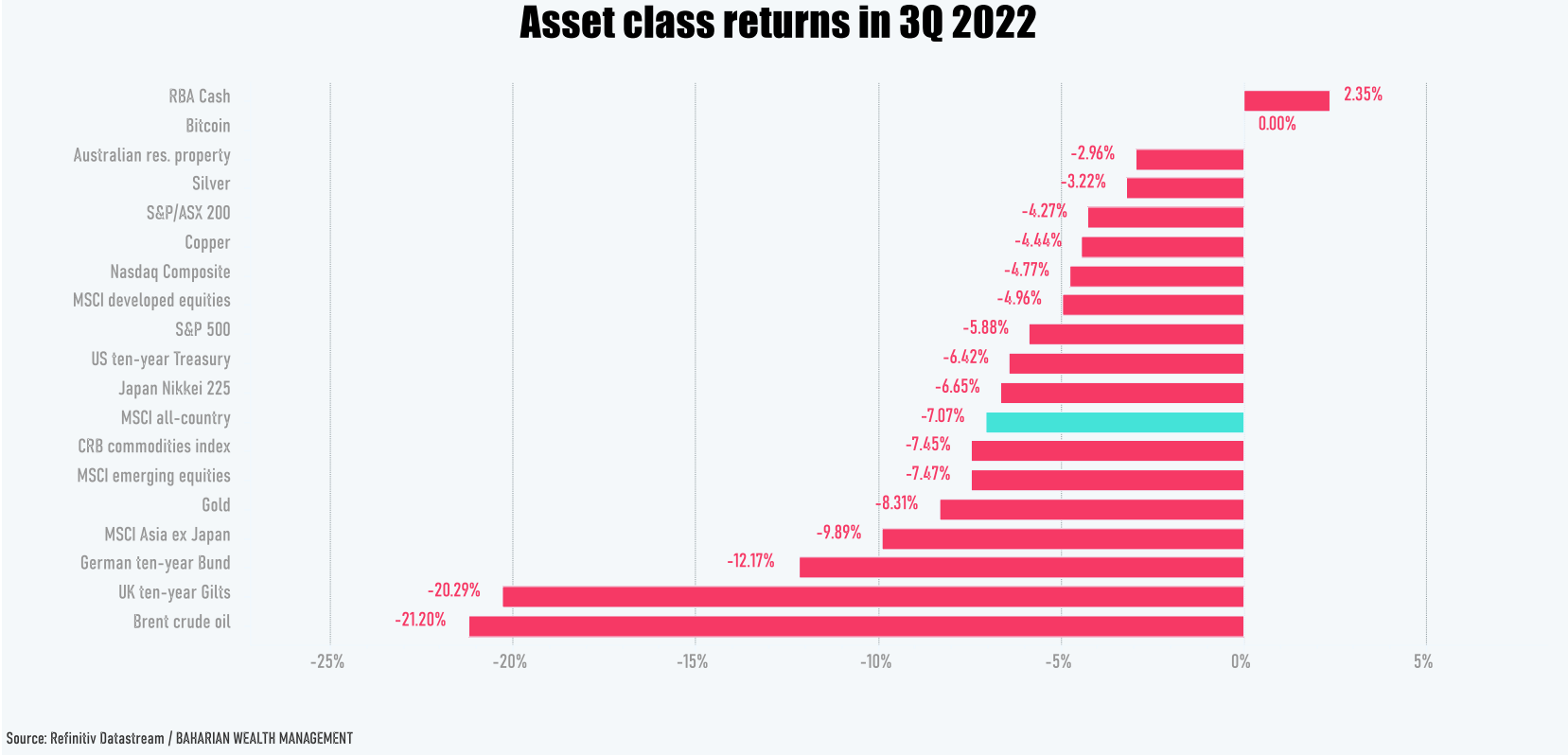
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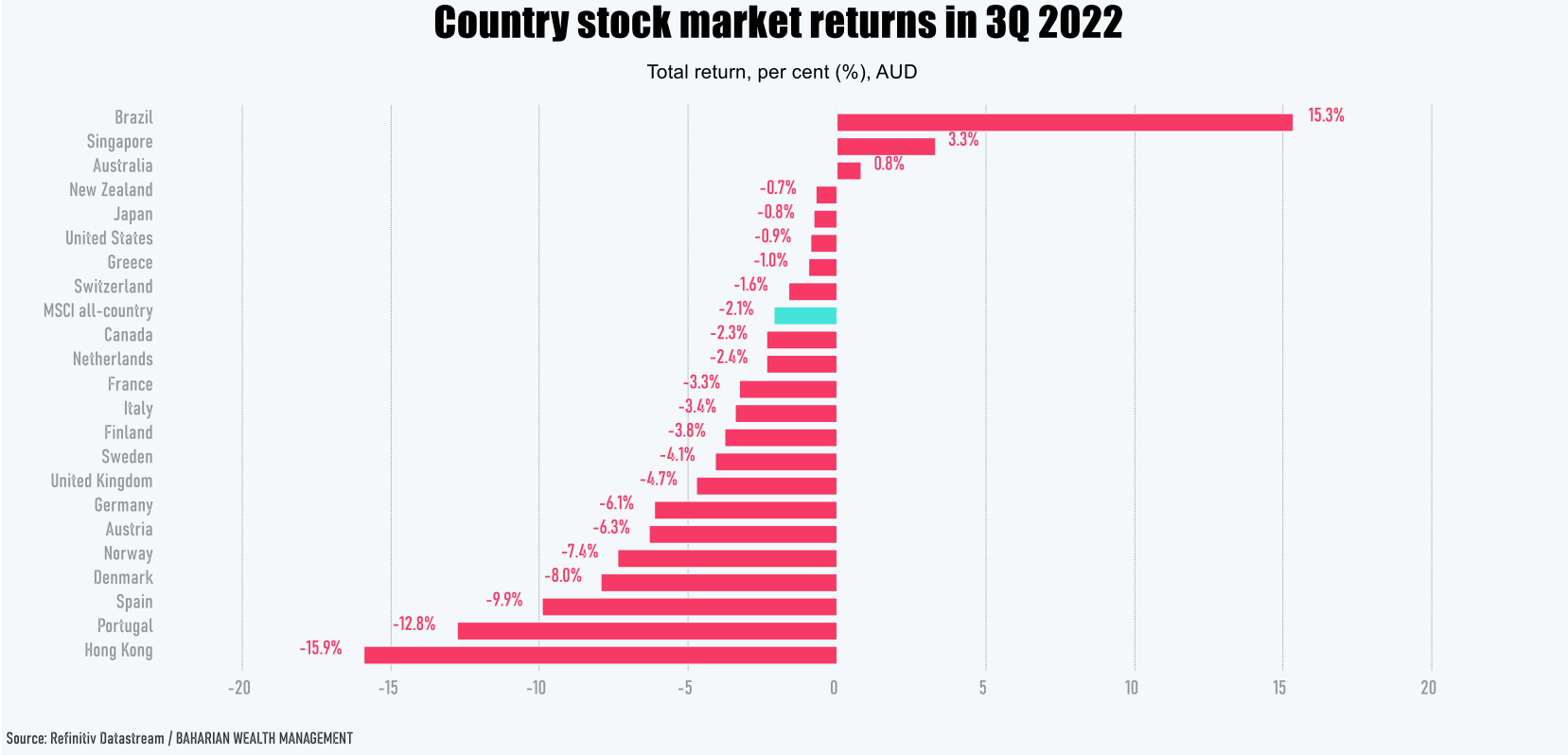
3Q 2022 in review.

Global scoreboard

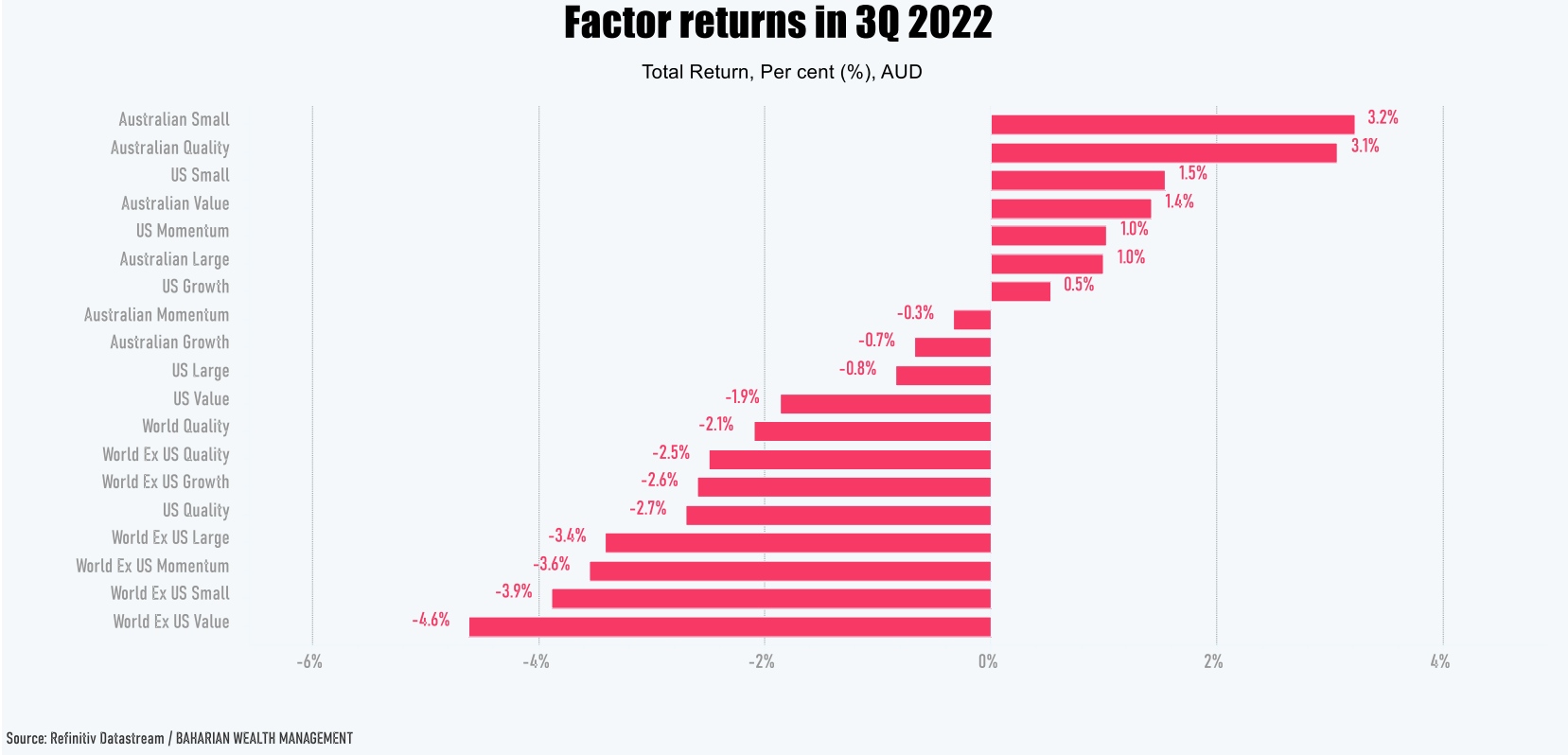
The global scoreboard: *Asset class performance*



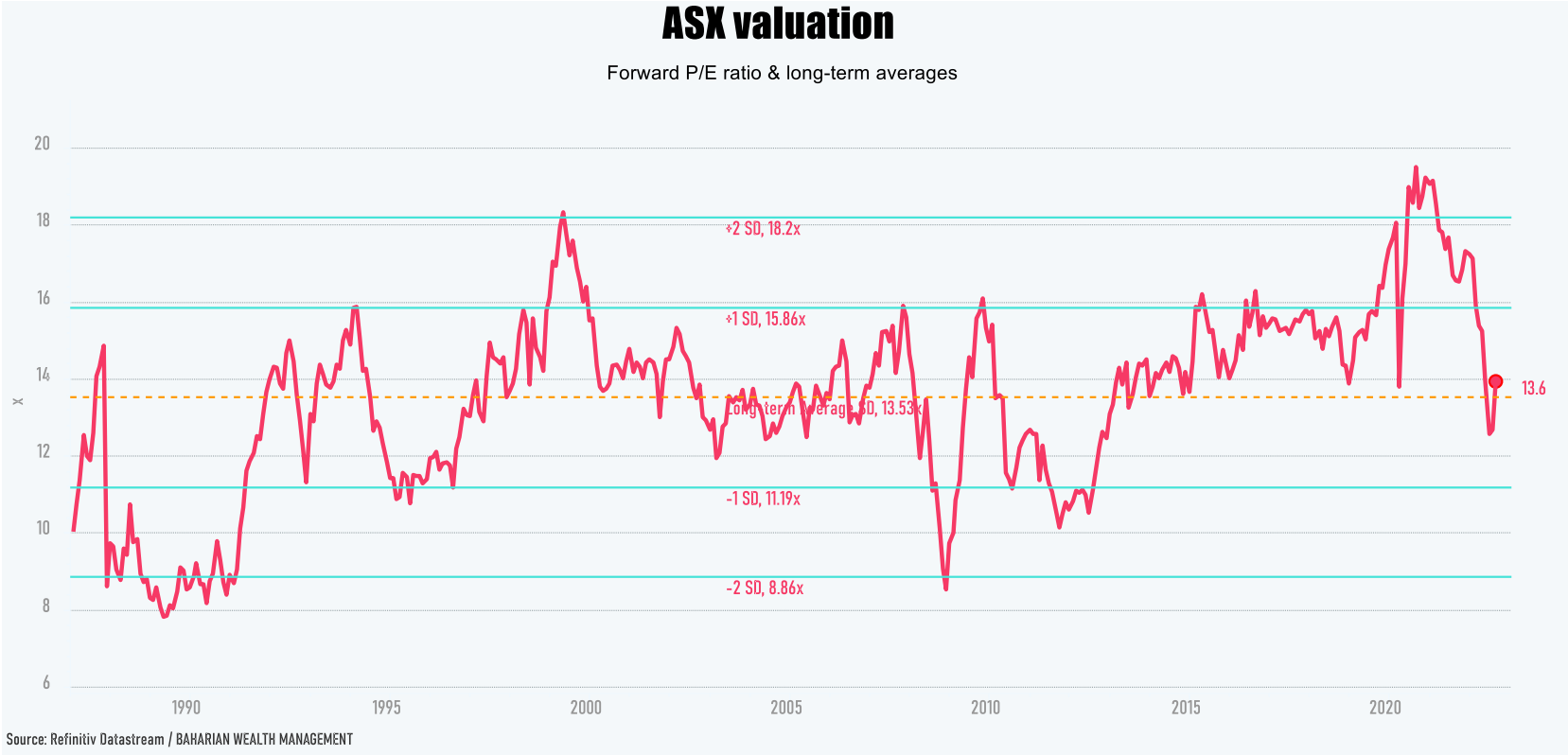
The global scoreboard: *Select country performance*



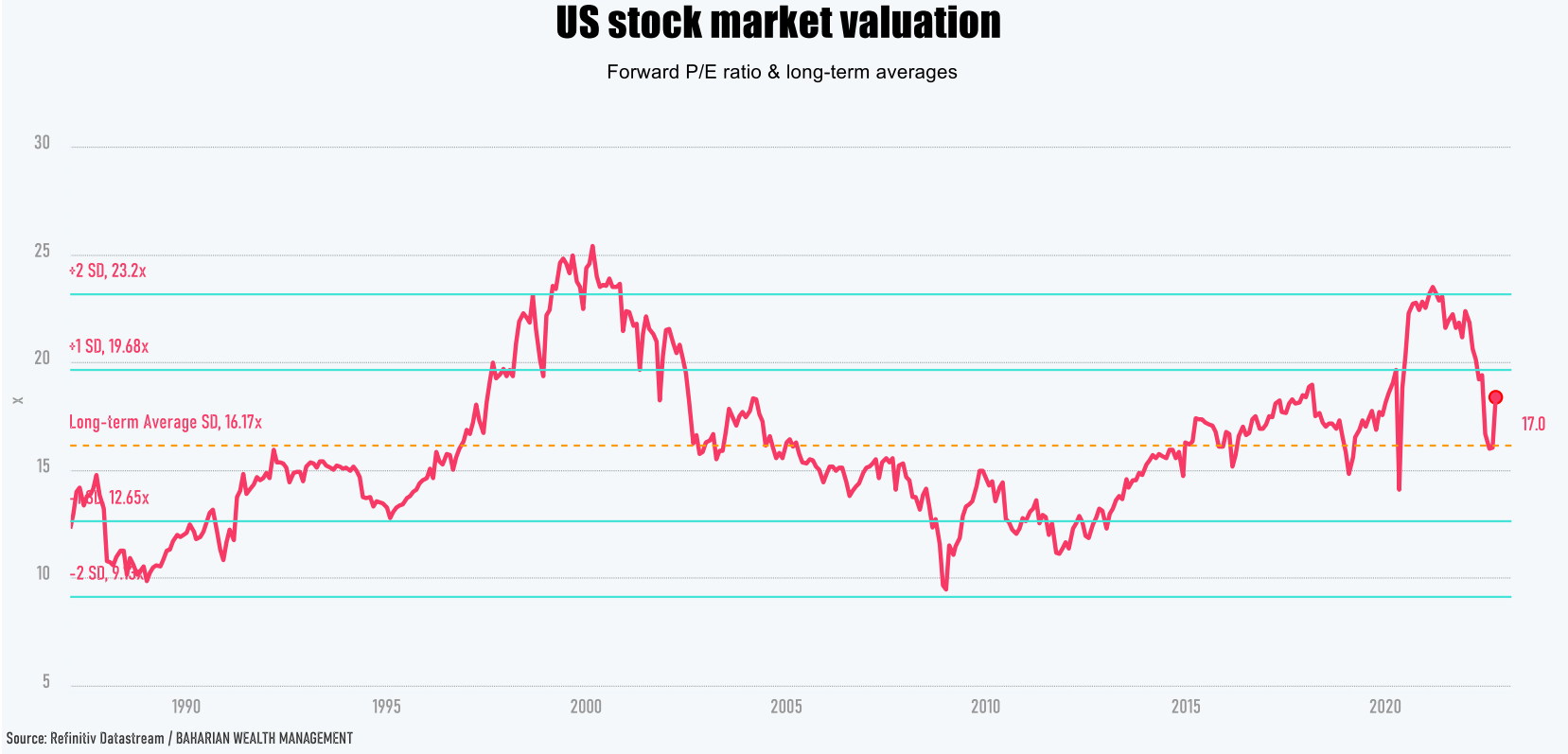
The global scoreboard: *Factor performance*



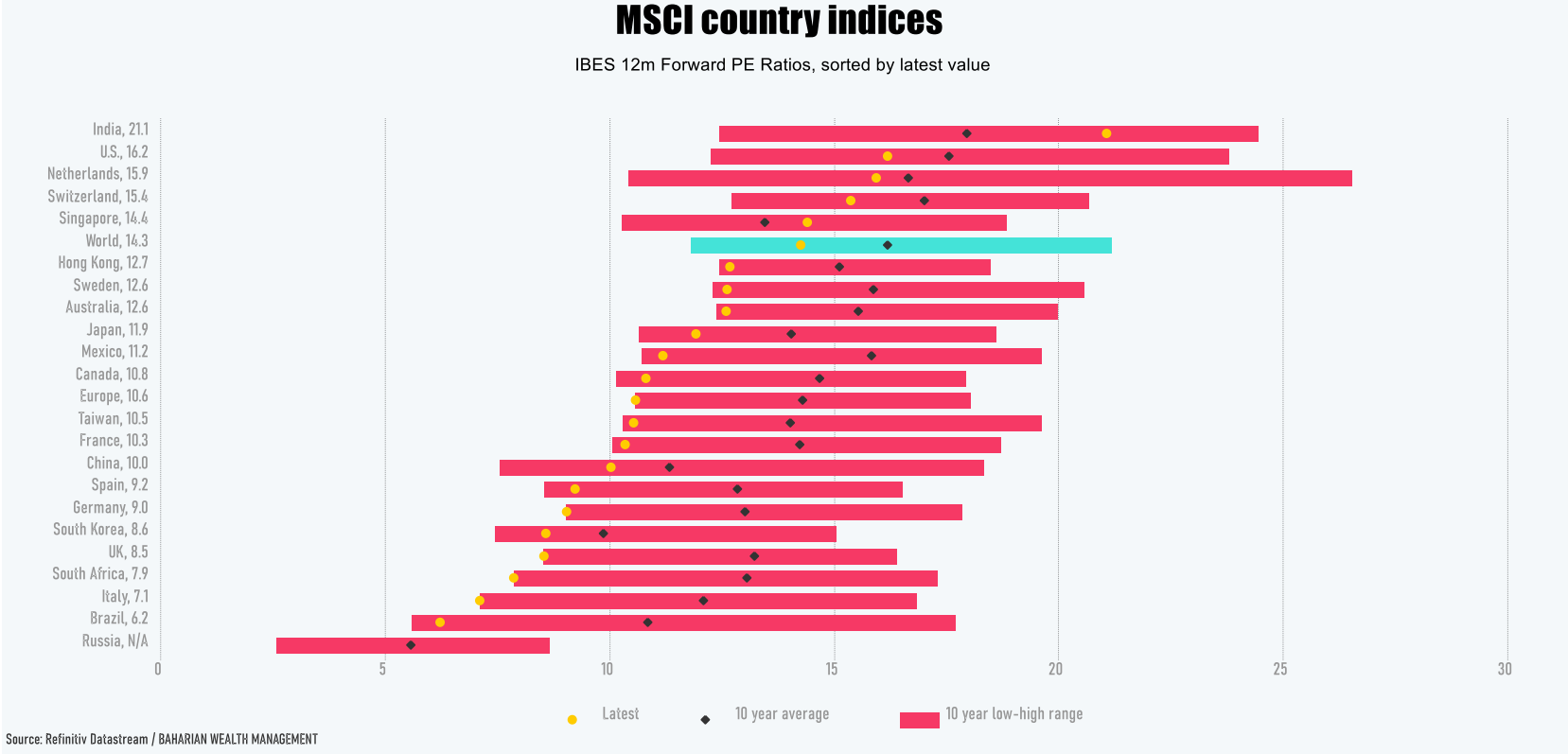
The global scoreboard: *Australian stock market valuation*



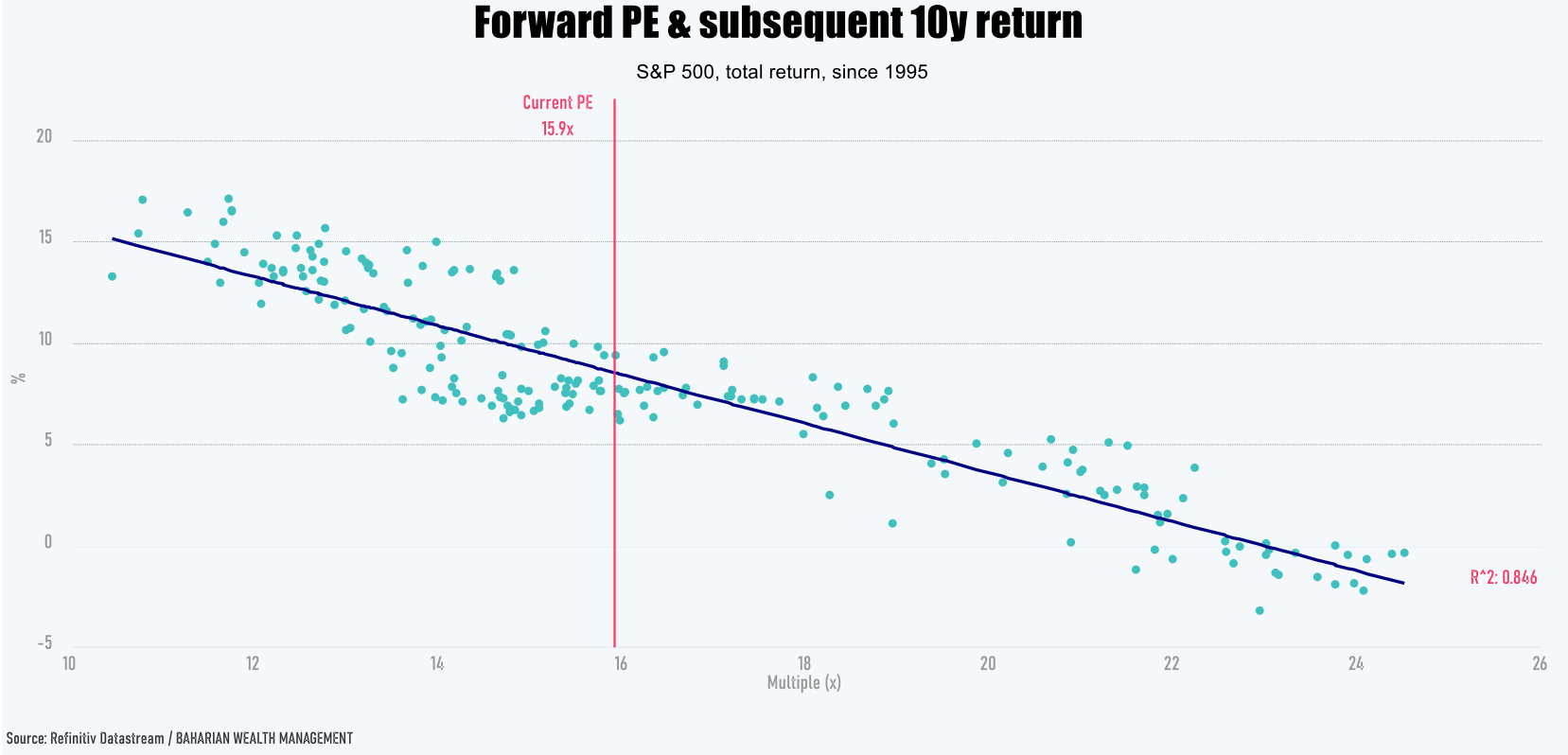
The global scoreboard: *US stock market valuation*



The global scoreboard: *World stock market valuation*



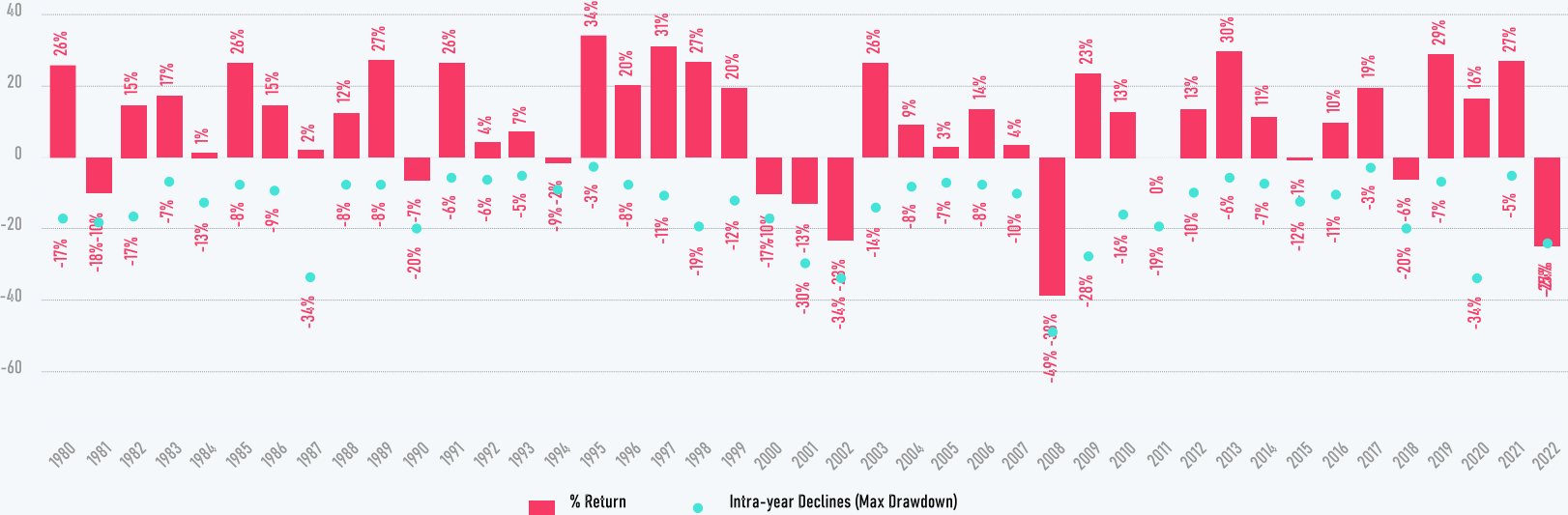
The global scoreboard: *Valuations & subsequent returns*



The global scoreboard: *Stock market calendar & intra-year returns*

Intra-year declines (max drawdown) vs calendar year returns

S&P 500, price only



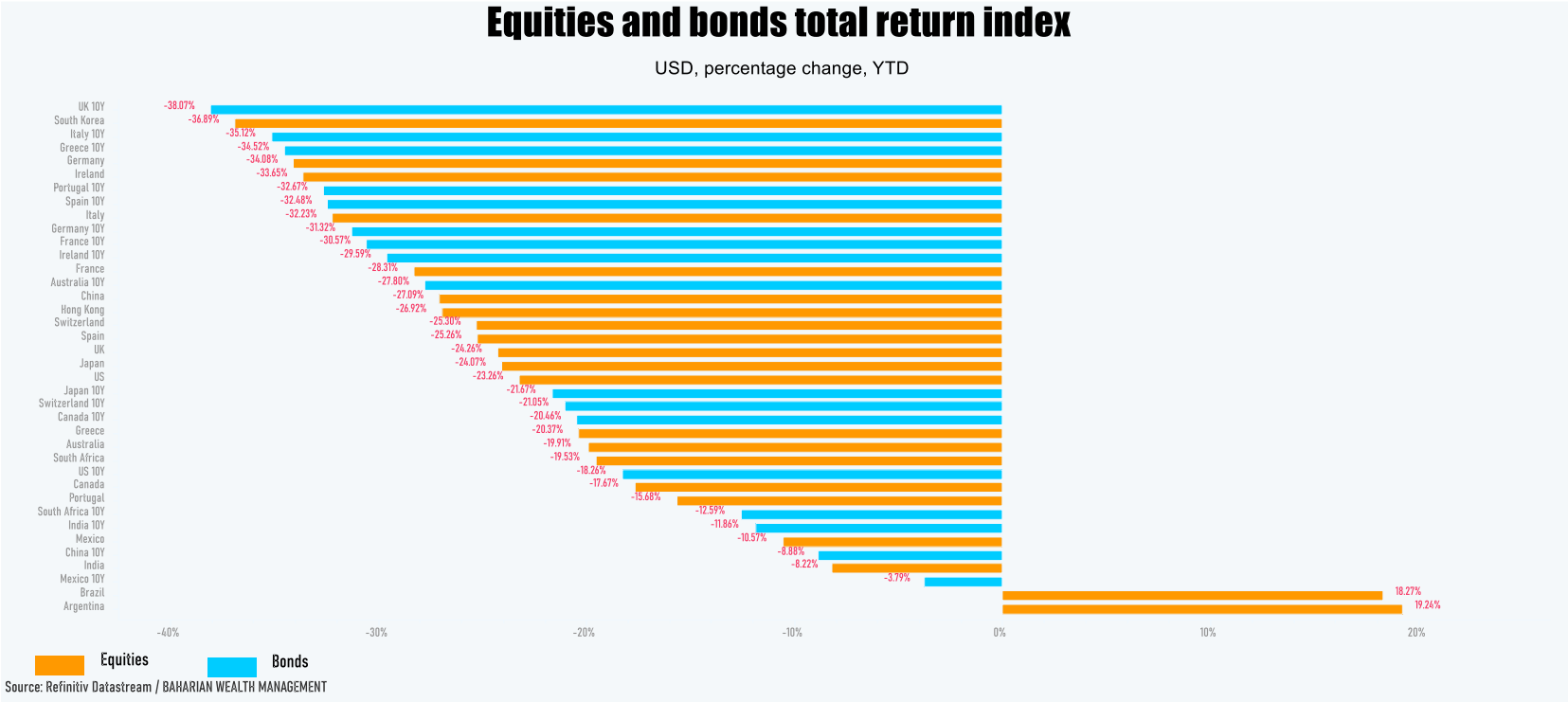
Source: Refinitiv Datastream / BAHARIAN WEALTH MANAGEMENT

Global markets.

Hot topics

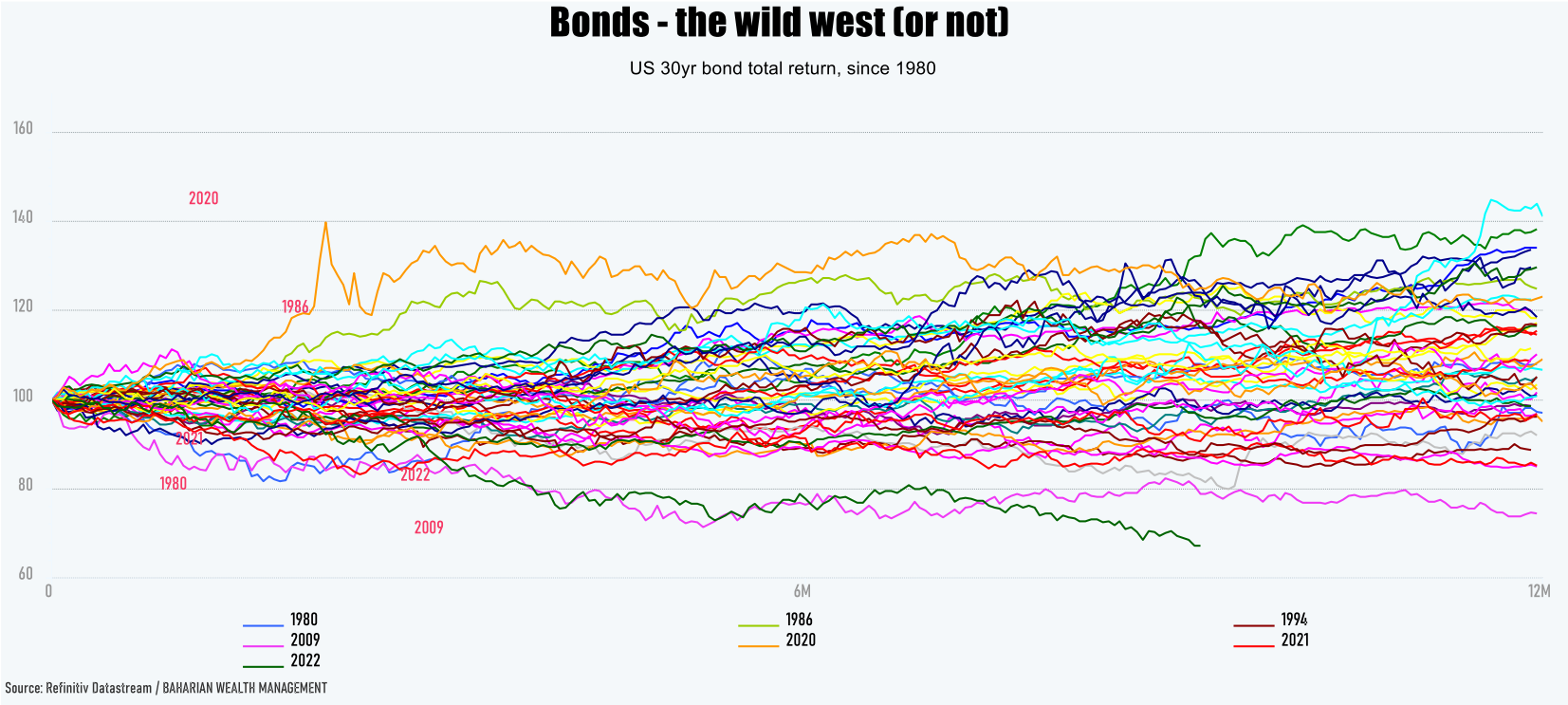
Global markets. *Hot topics*

3 year fixed rate loans jumped in 2021/2022 to levels not seen since 2012.



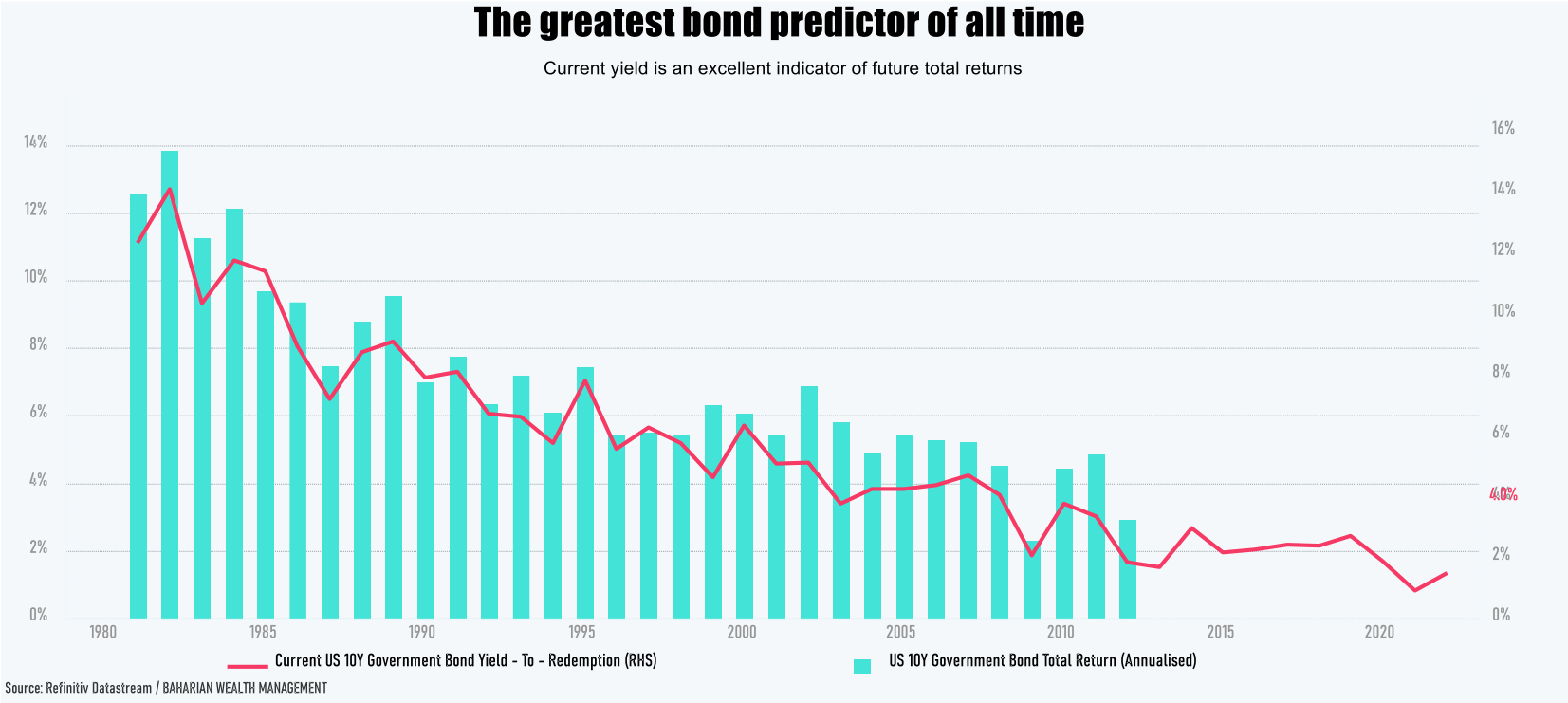
Global markets. *Hot topics*

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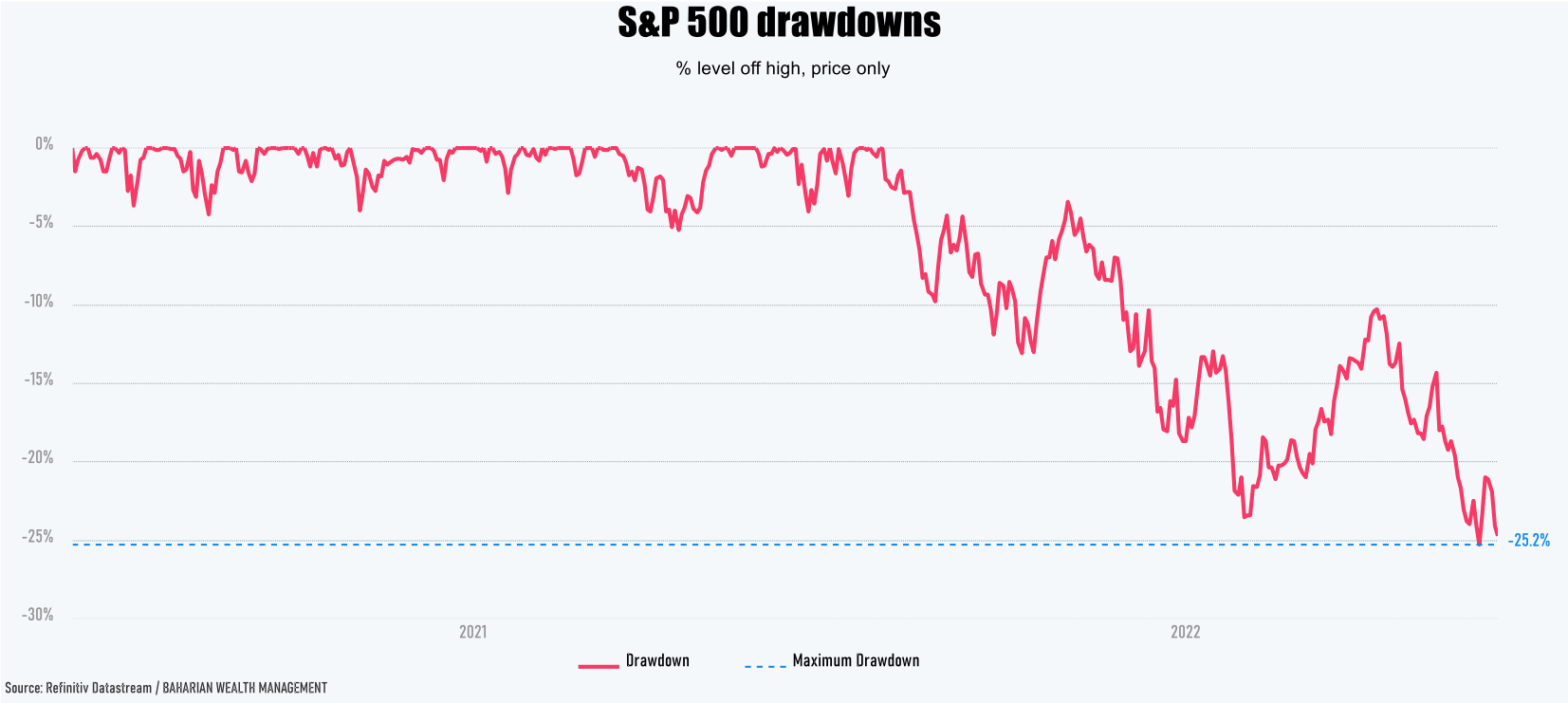
Global markets. *Hot topics*

10 year bonds are telling you you can expect about 4% pa for the next 10 years in bonds.



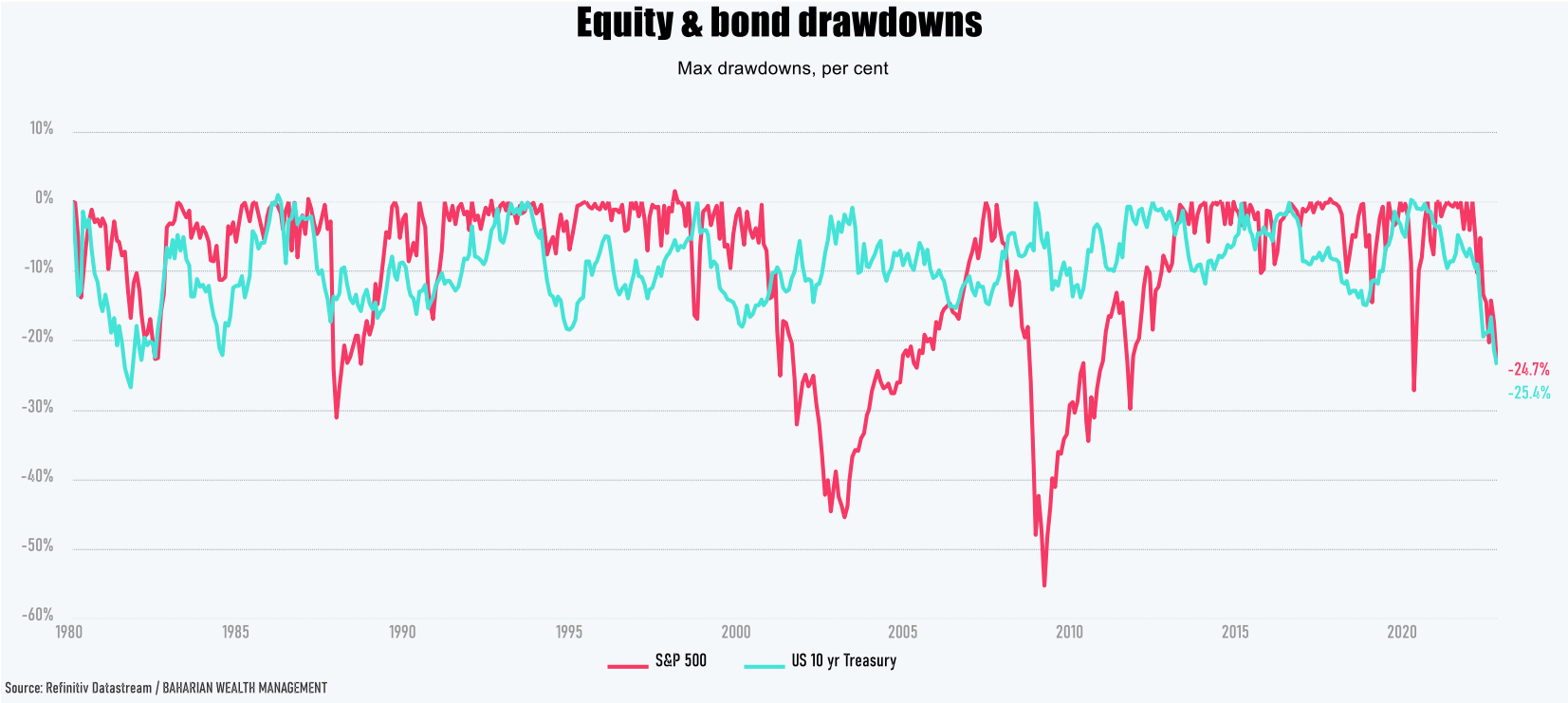
Global markets. *Hot topics*

2022 ranks as one of the worst starts to the calendar year.



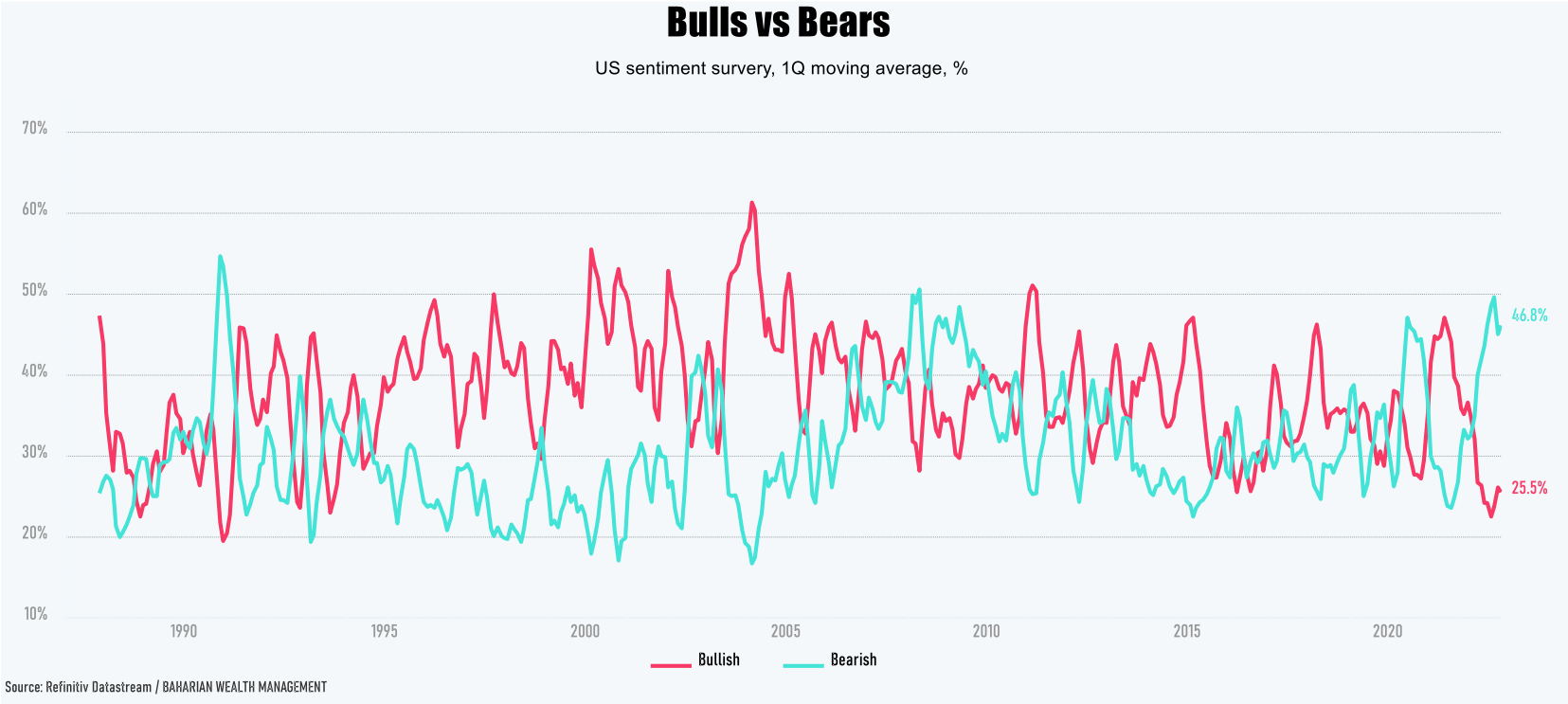
Global markets. *Hot topics*

3 year fixed rate loans jumped in 2021/2022 to levels not seen since 2012.



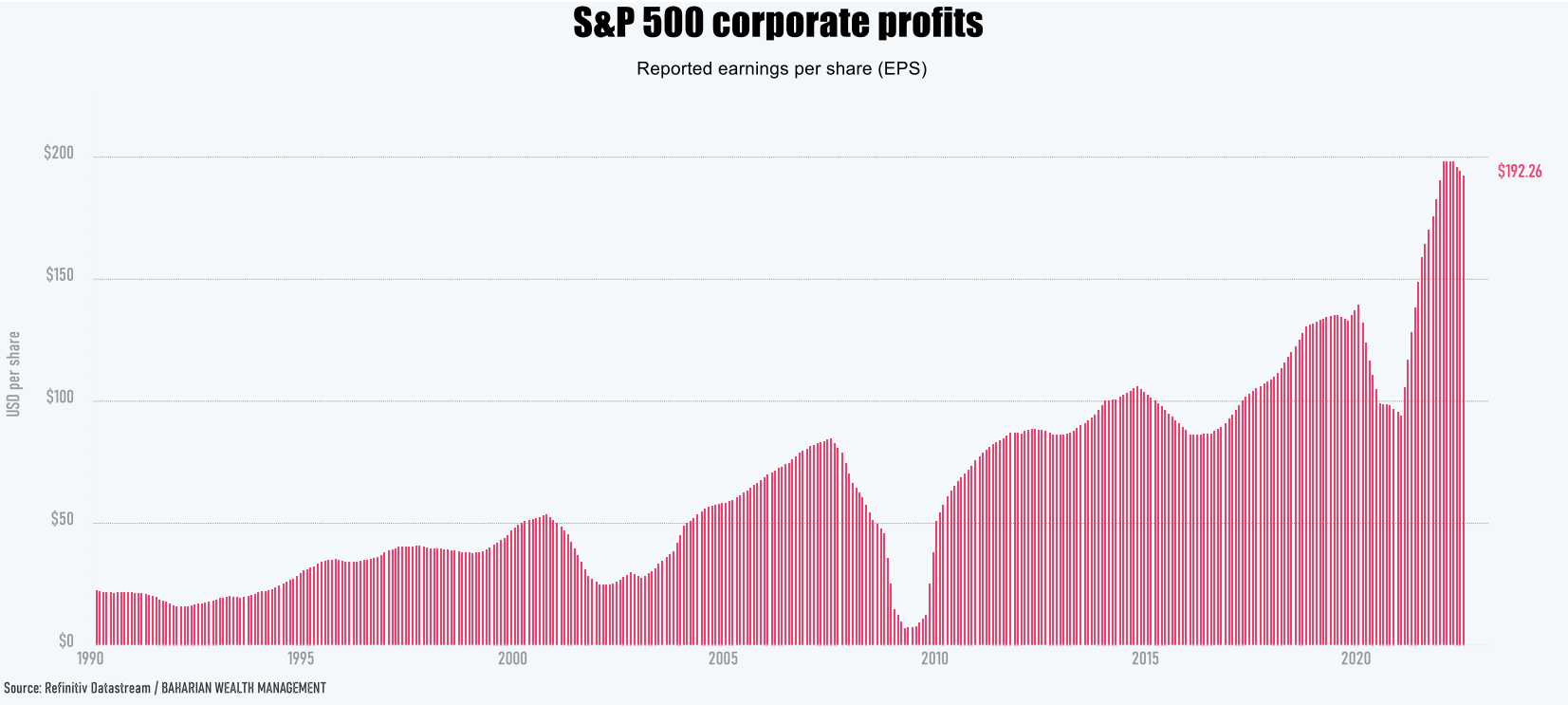
Global markets. *Hot topics*

Bearish sentiment is as bad as it was during the GFC and worse than it was during COVID-19.



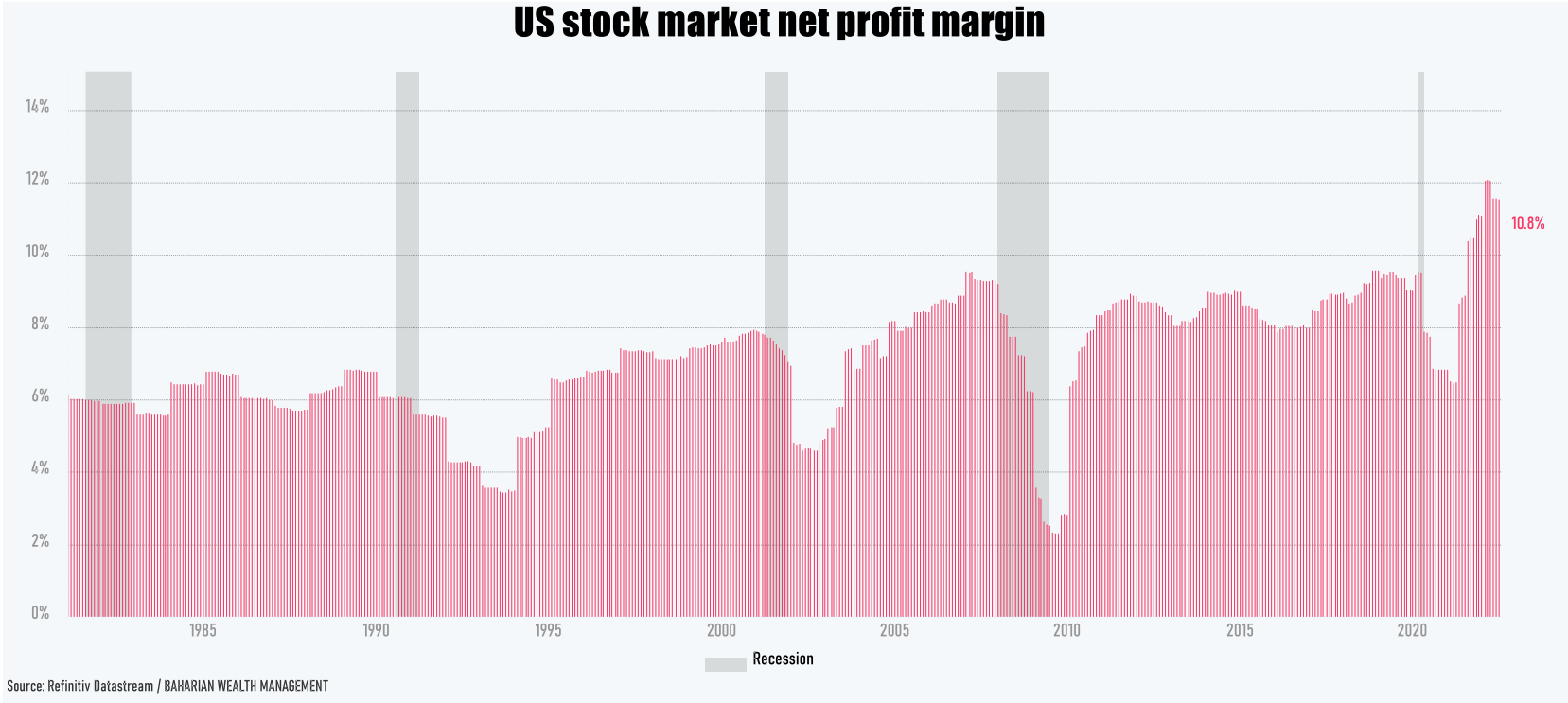
Global markets. *Hot topics*

US corporate profits at record levels, however seem to be coming off the top.



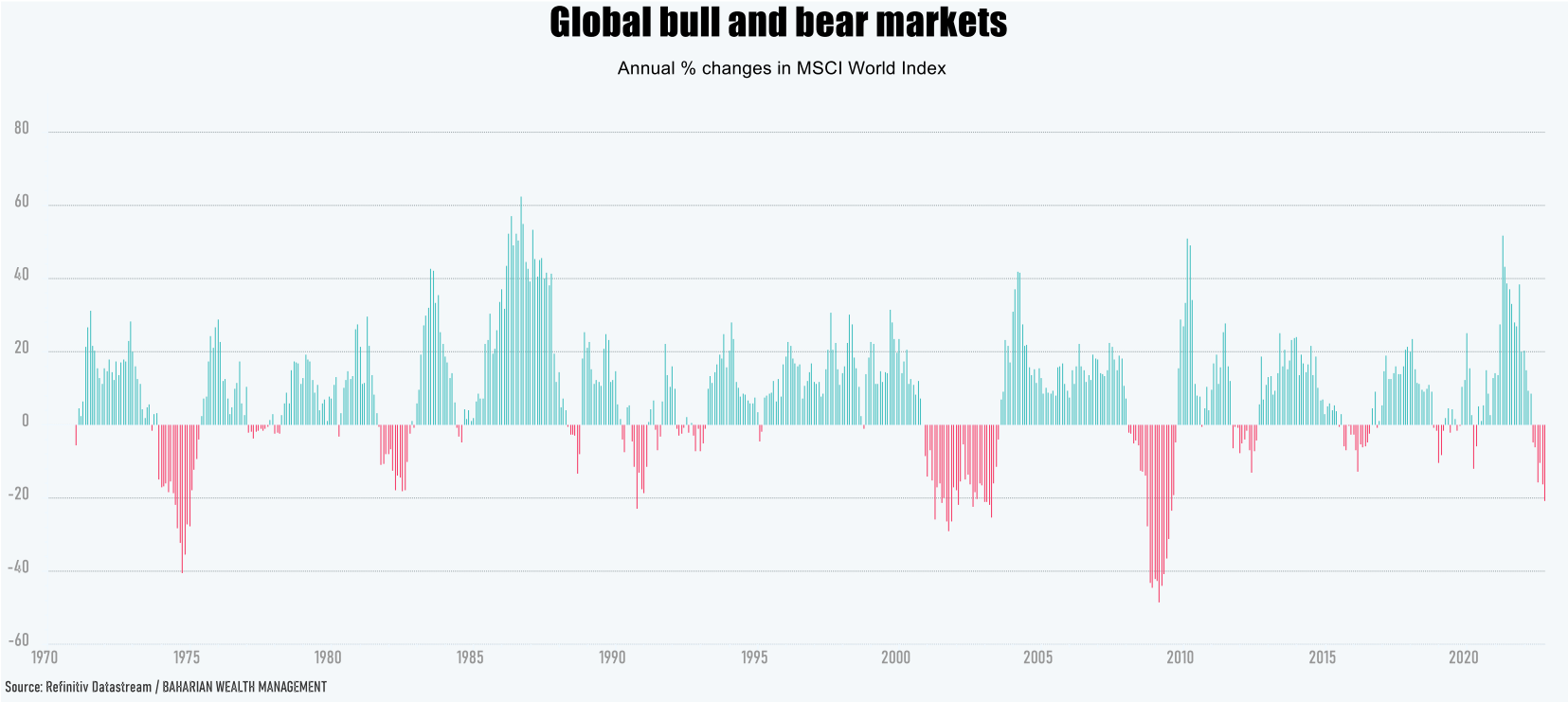
Global markets. *Hot topics*

US corporate profit margins have peaked and seem to be coming off the top.



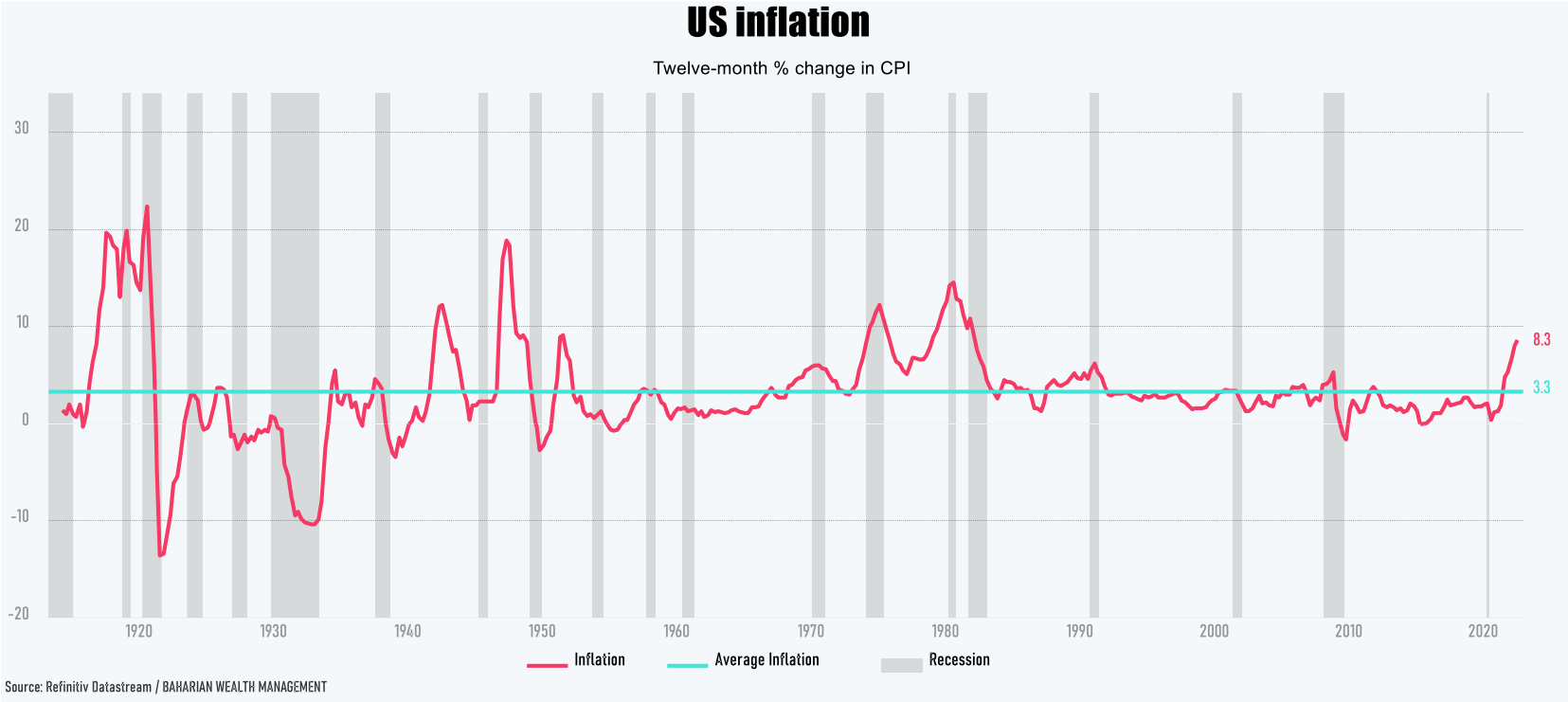
Global markets. *Hot topics*

A long-term perspective on global bull and bear markets.



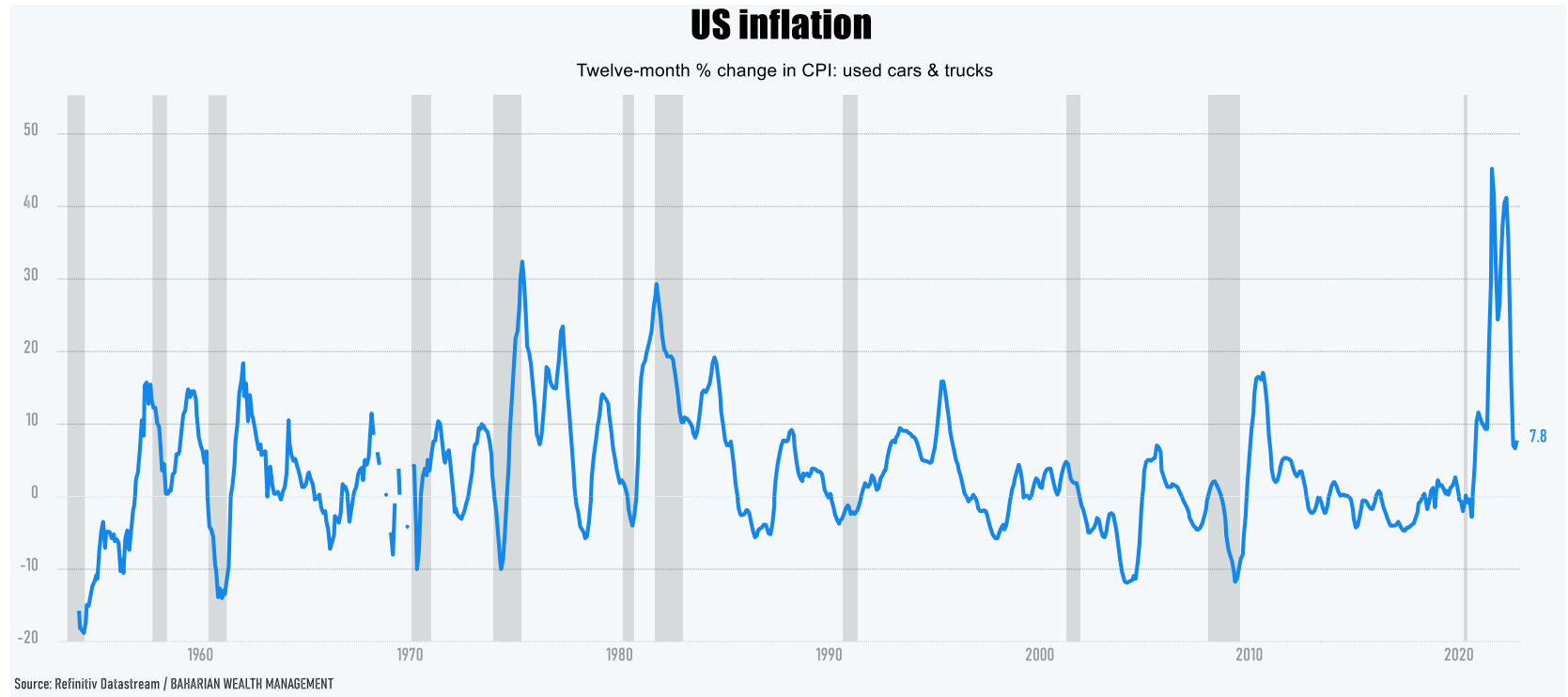
Global markets. *Hot topics*

Inflation is still out of control.



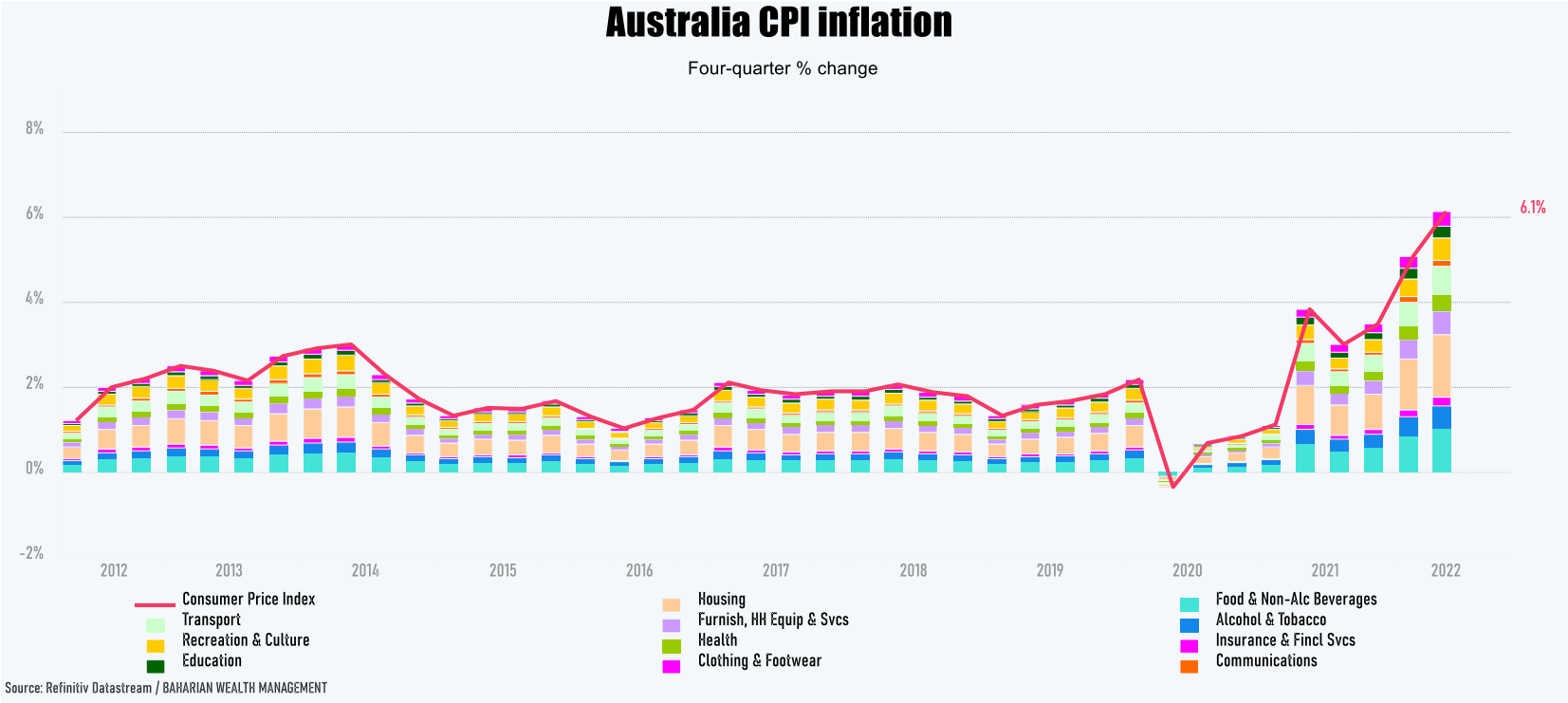
Global markets. *Hot topics*

A huge fall in used cars and trucks.



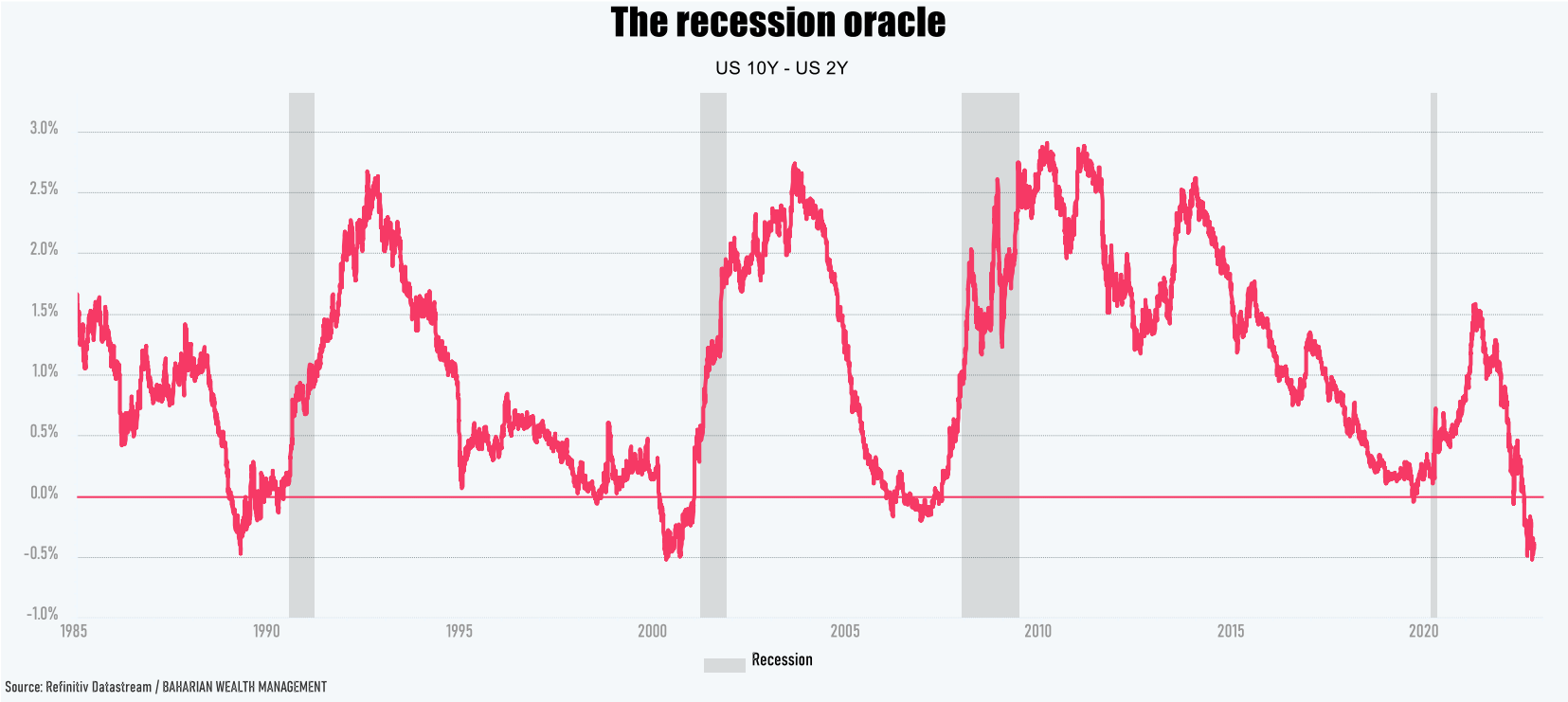
Global markets. *Hot topics*

Contributors to Australian inflation.



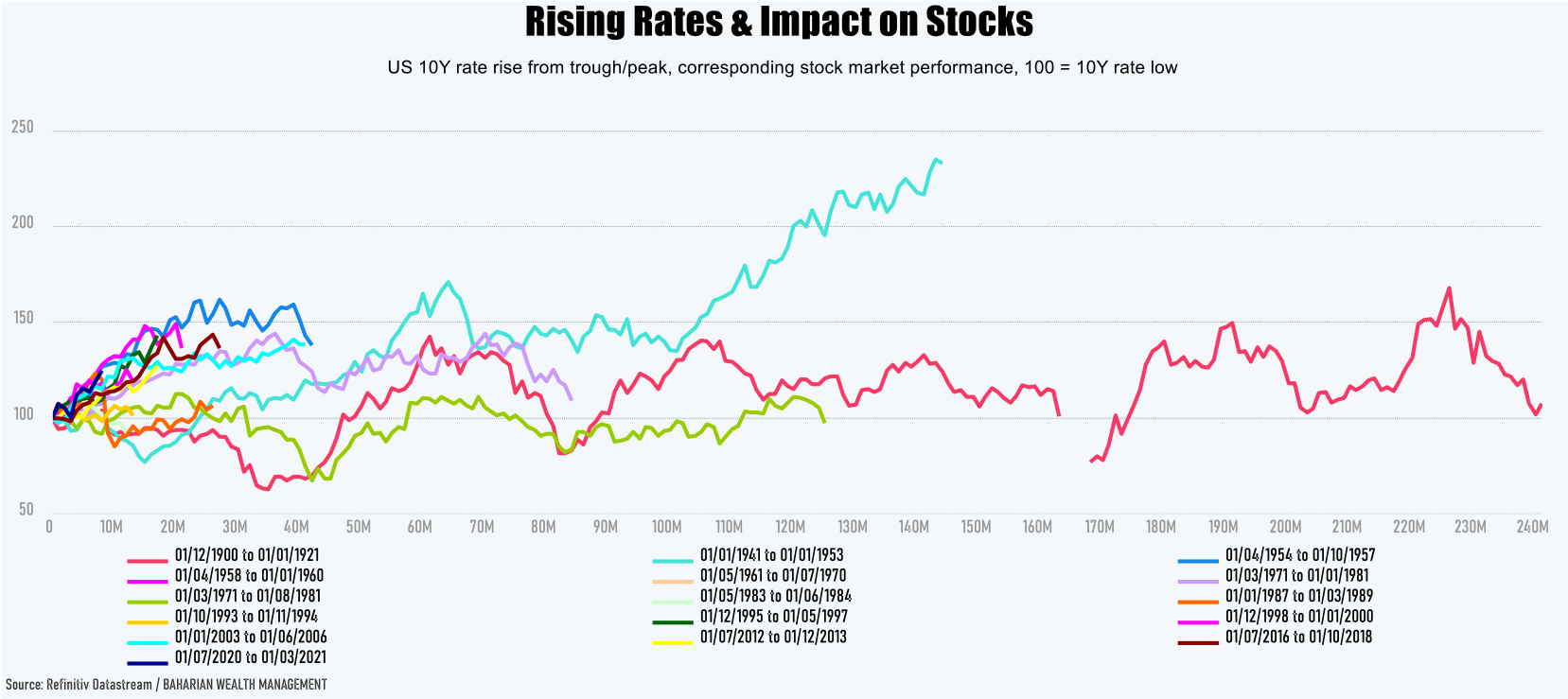
Global markets. *Hot topics*

Is a recession imminent? The yield curve thinks so.



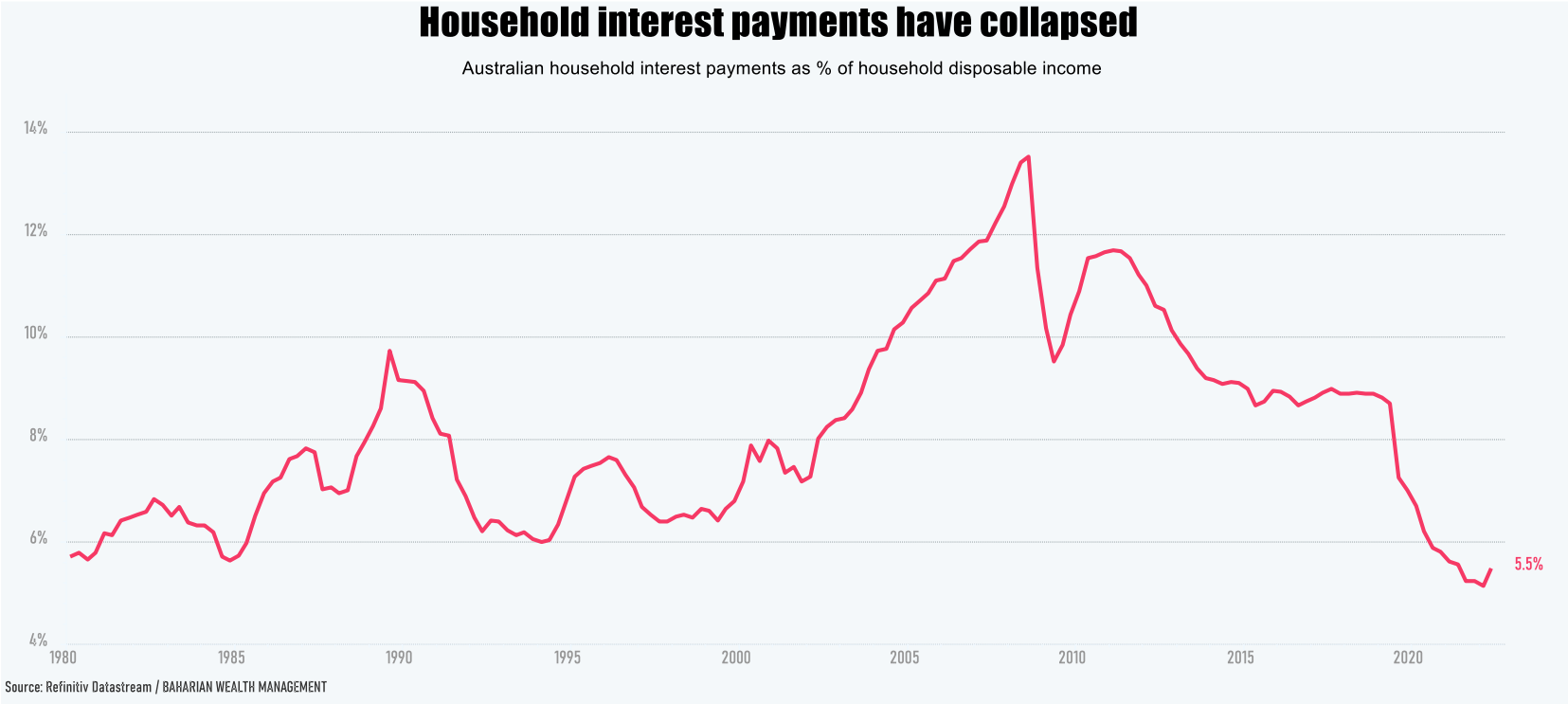
Global markets. *Hot topics*

Interest rate hikes are not as bad for the stock market as the headlines report.



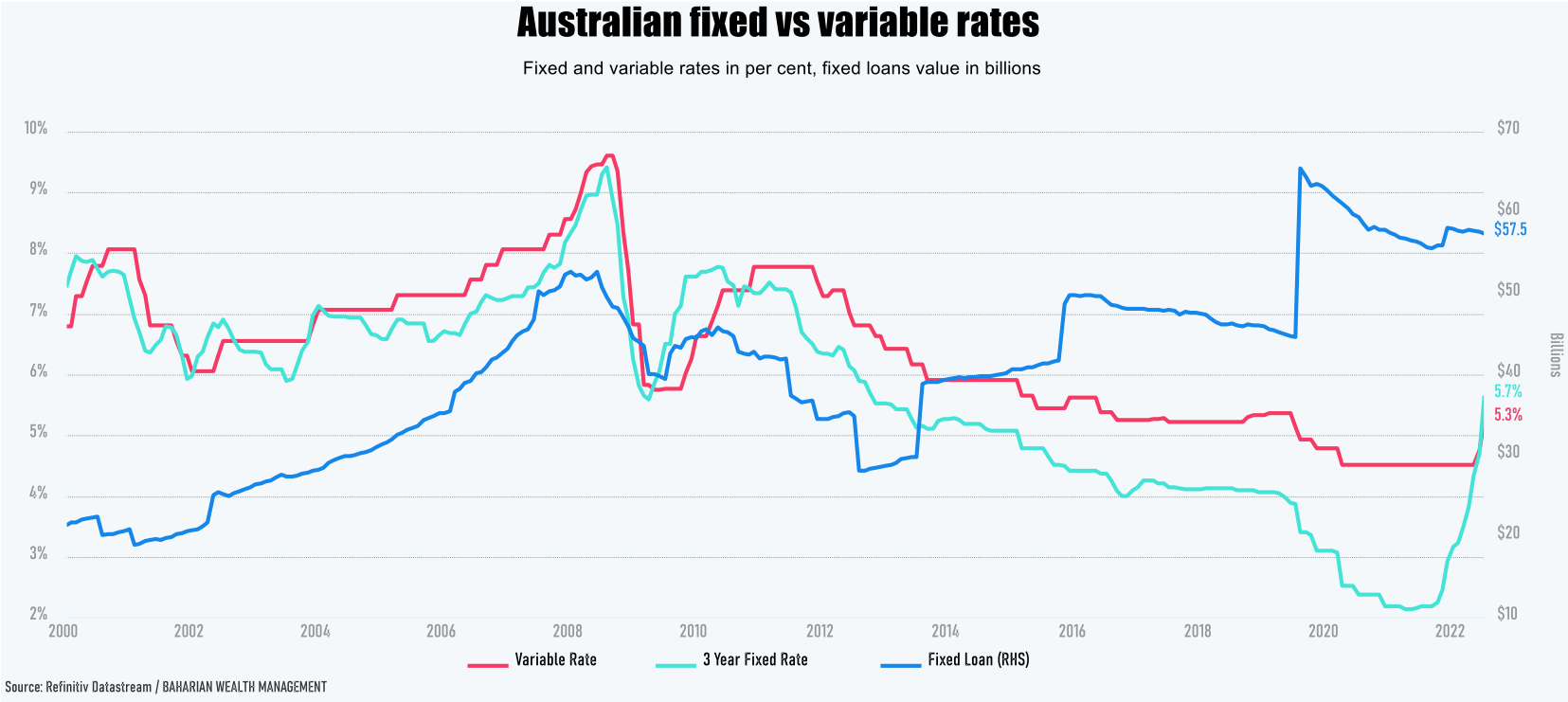
Global markets. *Hot topics*

Borrowers had been paying the lowest rate of interest in almost 50 years – this has now turned.



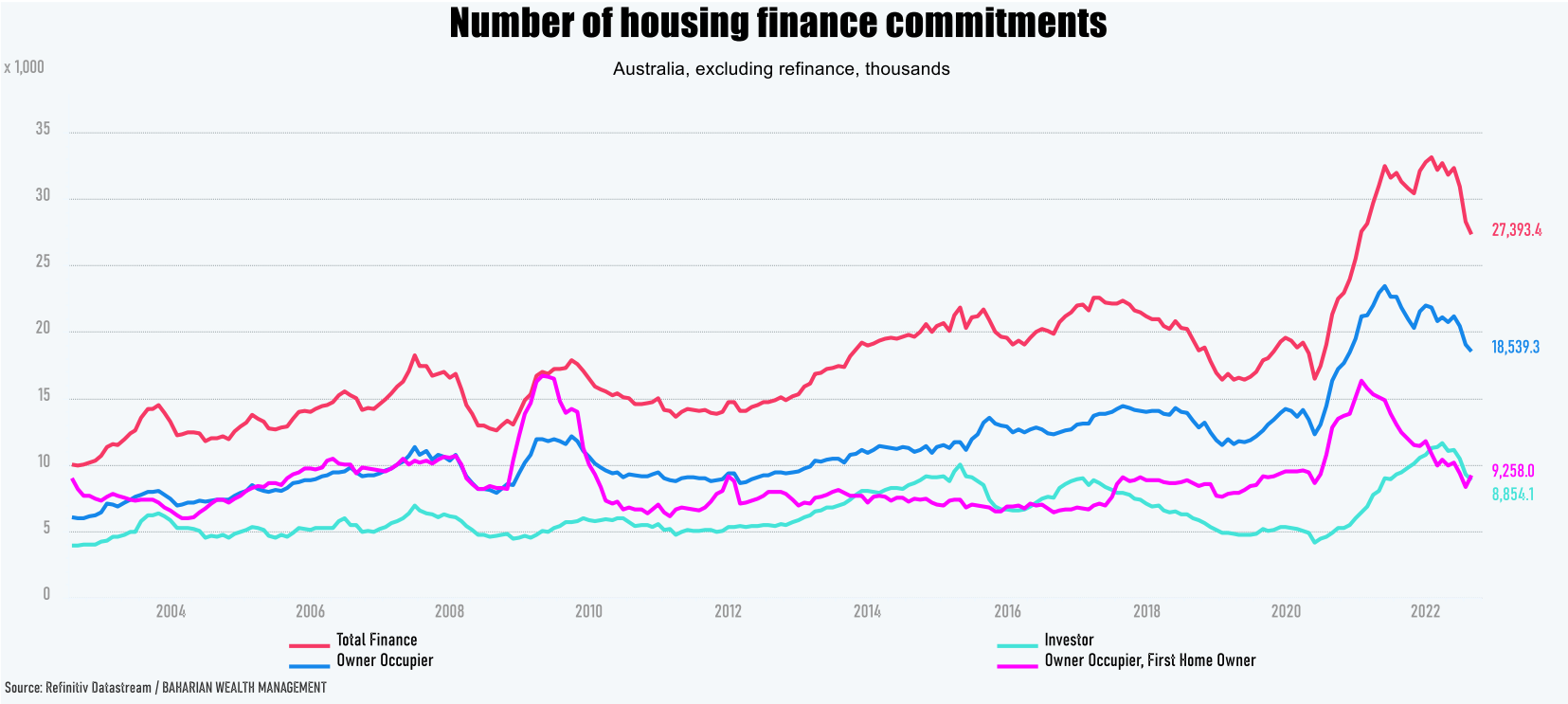
Global markets. *Hot topics*

3 year fixed rate loans jumped in 2021/2022 to levels not seen since 2012.



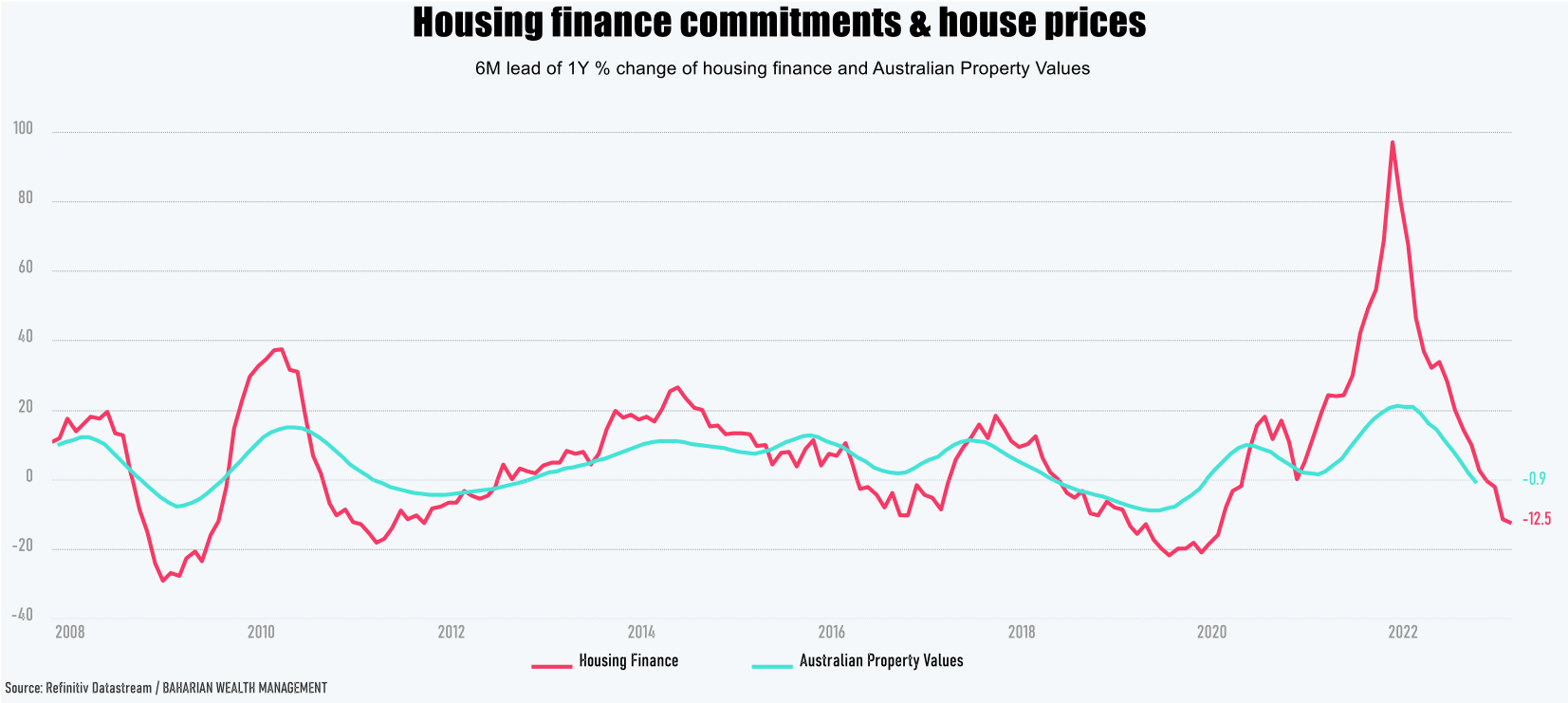
Global markets. *Hot topics*

Owner occupier (FHO) are the only borrowers growing.



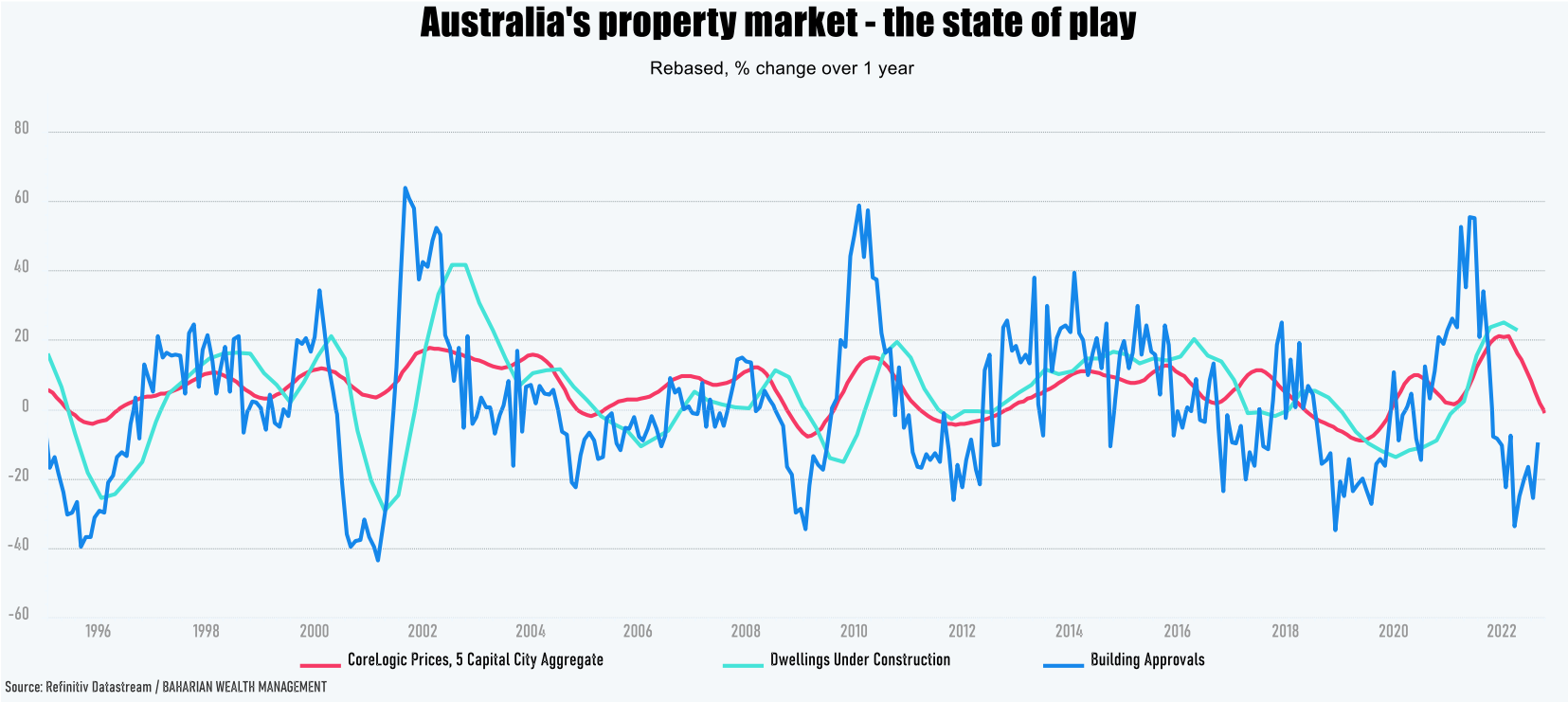
Global markets. *Hot topics*

Lending leads house prices by about 6 months – is a bottom being formed?



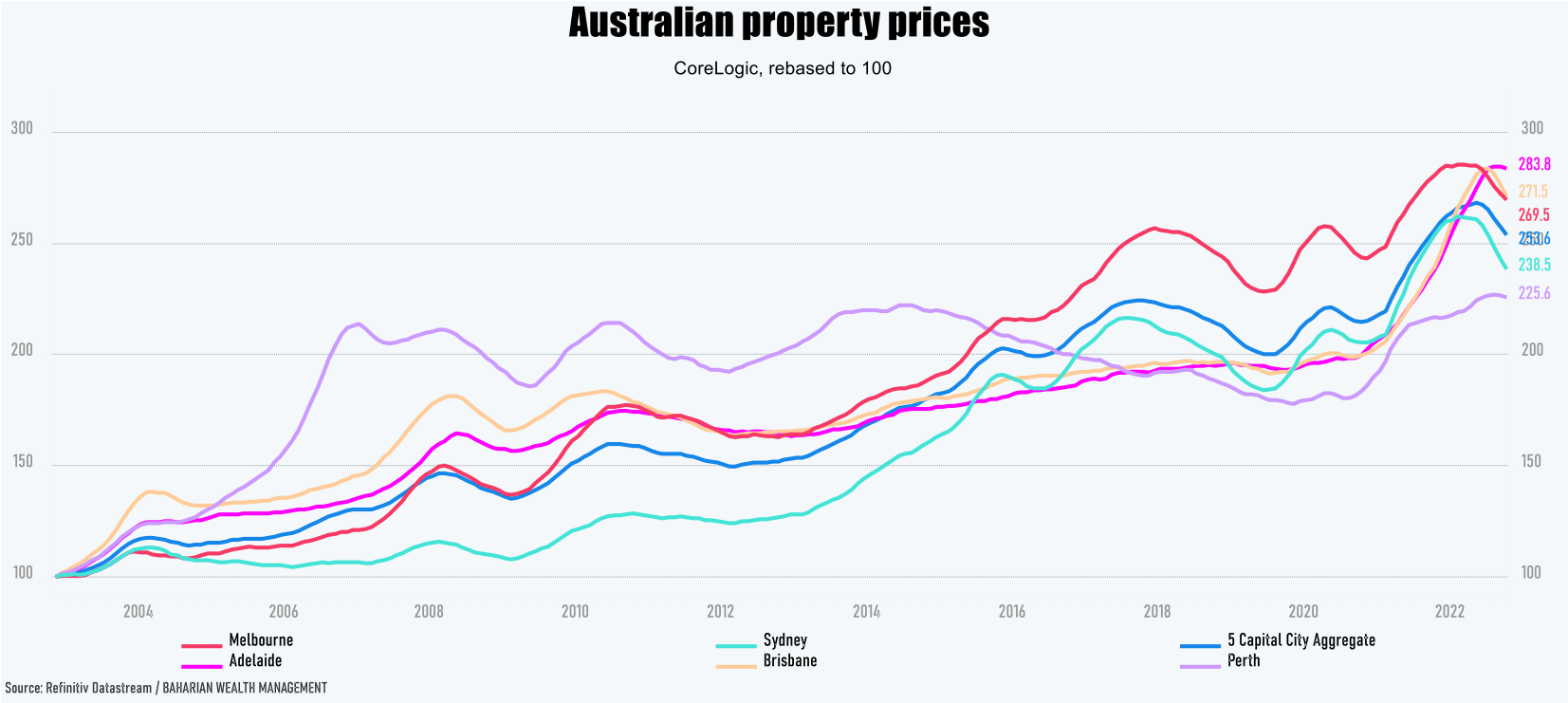
Global markets. *Hot topics*

Building approvals appear to have cemented a bottom.



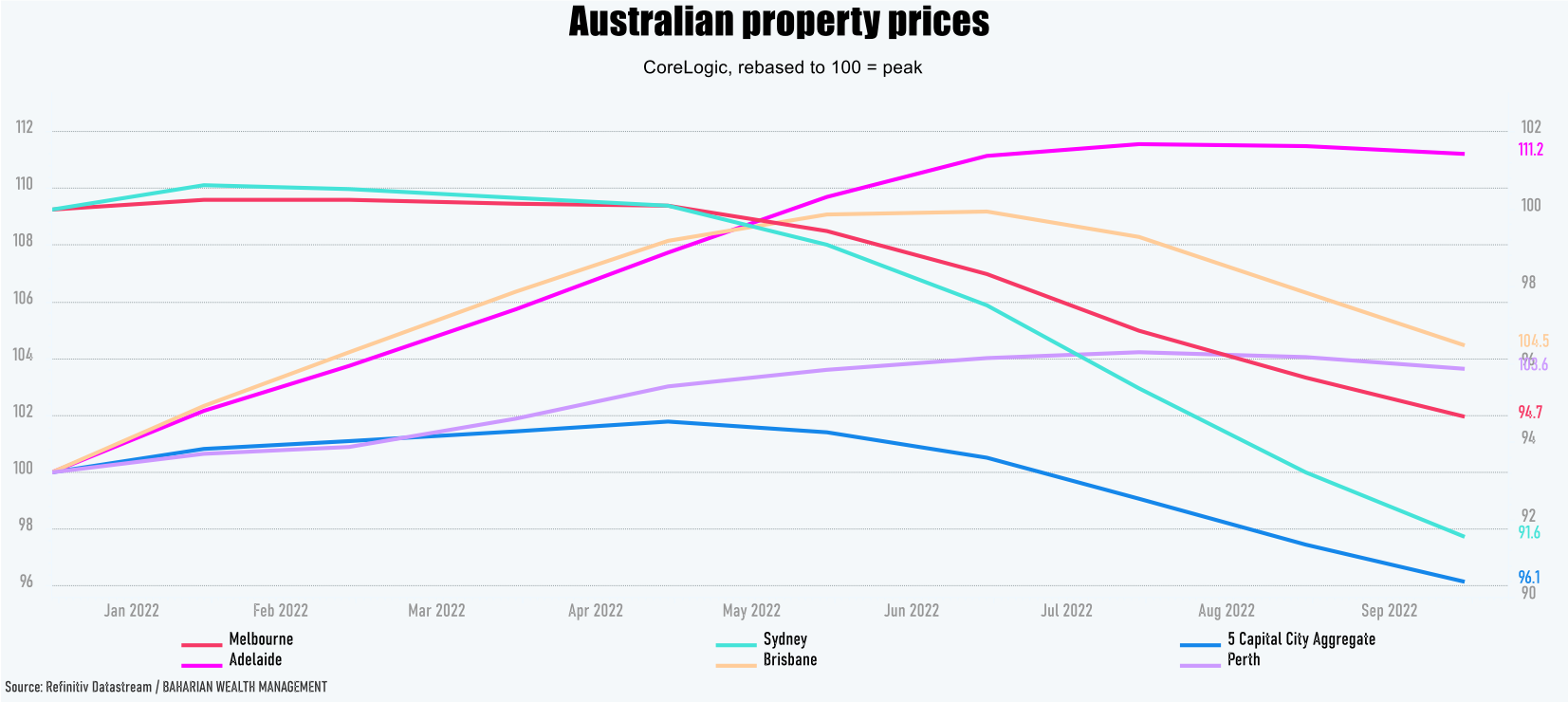
Global markets. *Hot topics*

All markets have turned.



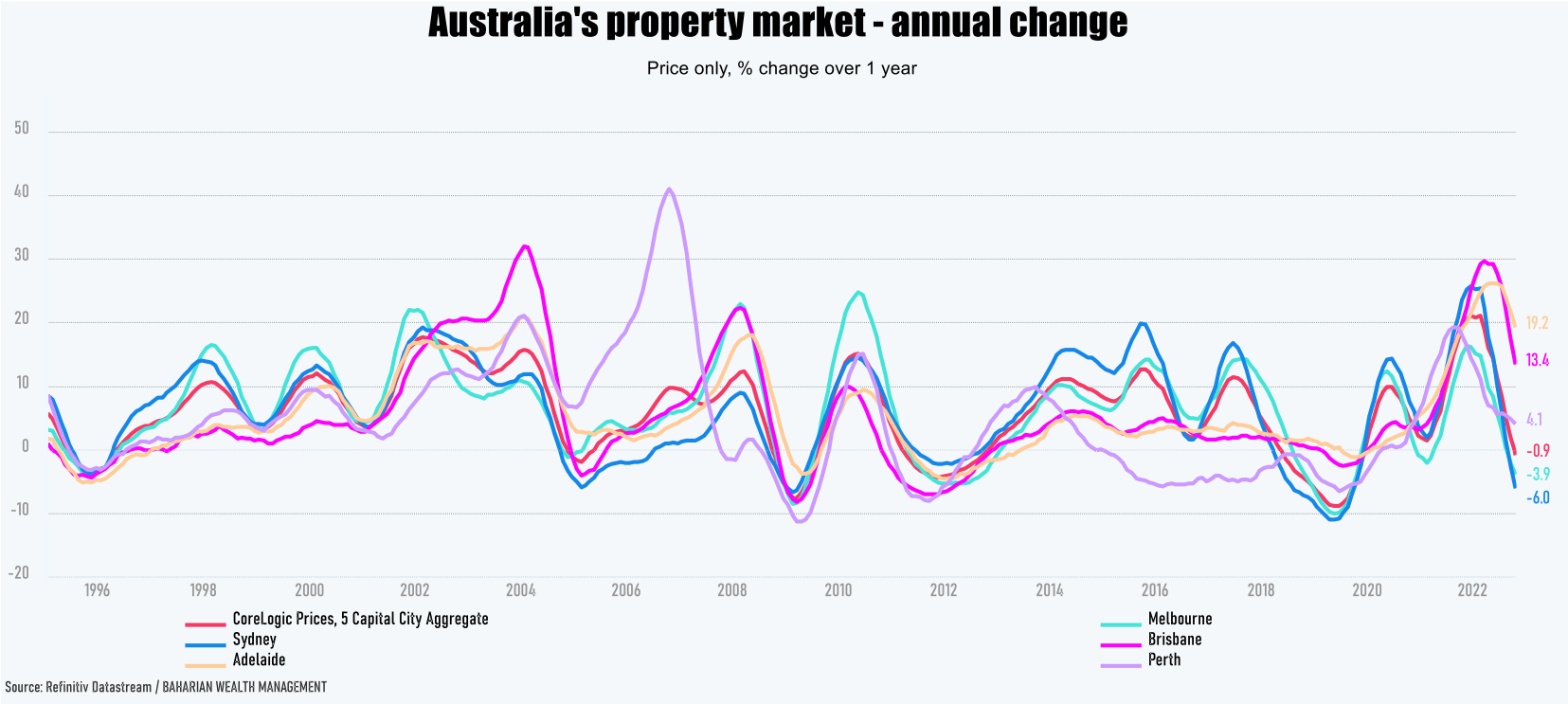
Global markets. *Hot topics*

Melbourne and Sydney bearing most of the brunt in price declines.



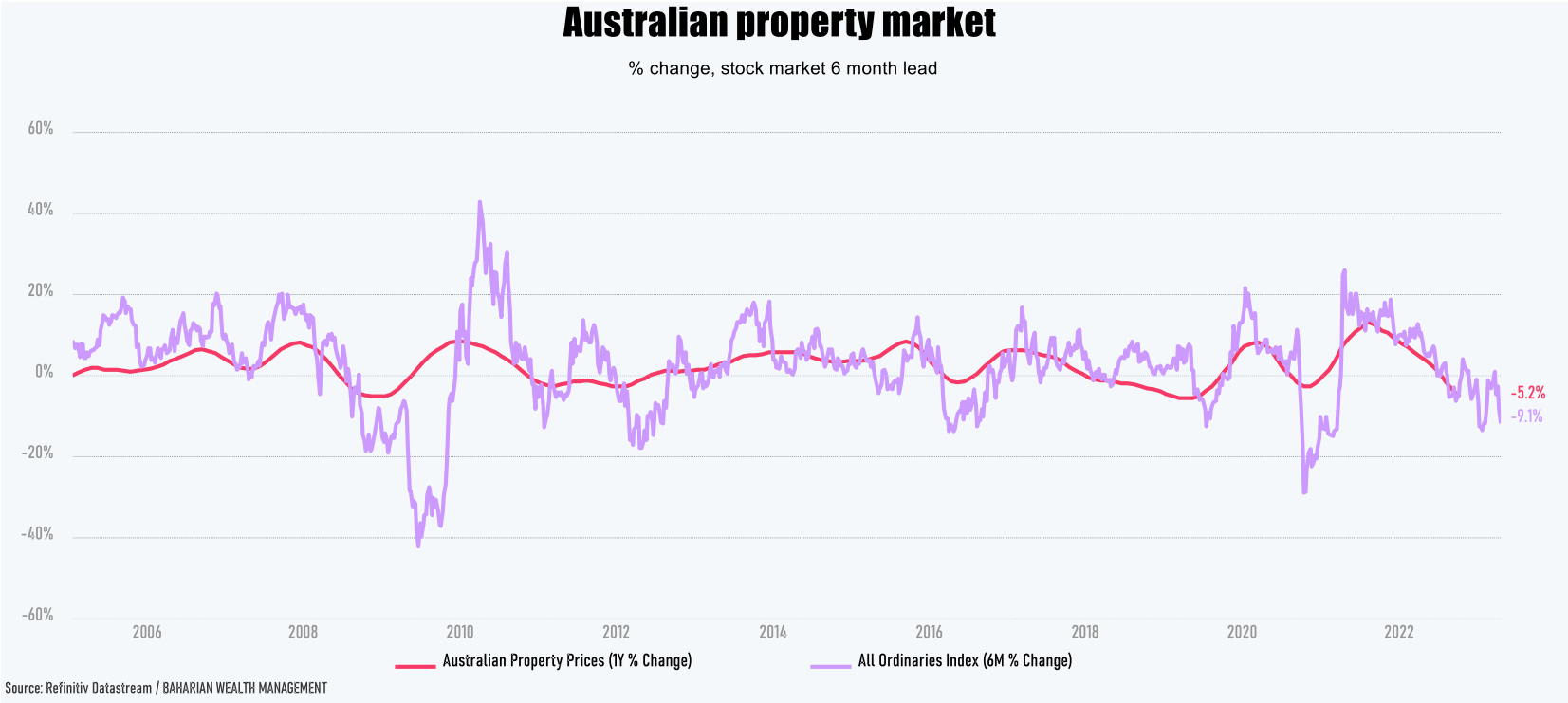
Global markets. *Hot topics*

Sydney leading price declines – maybe a little more to go based on history?



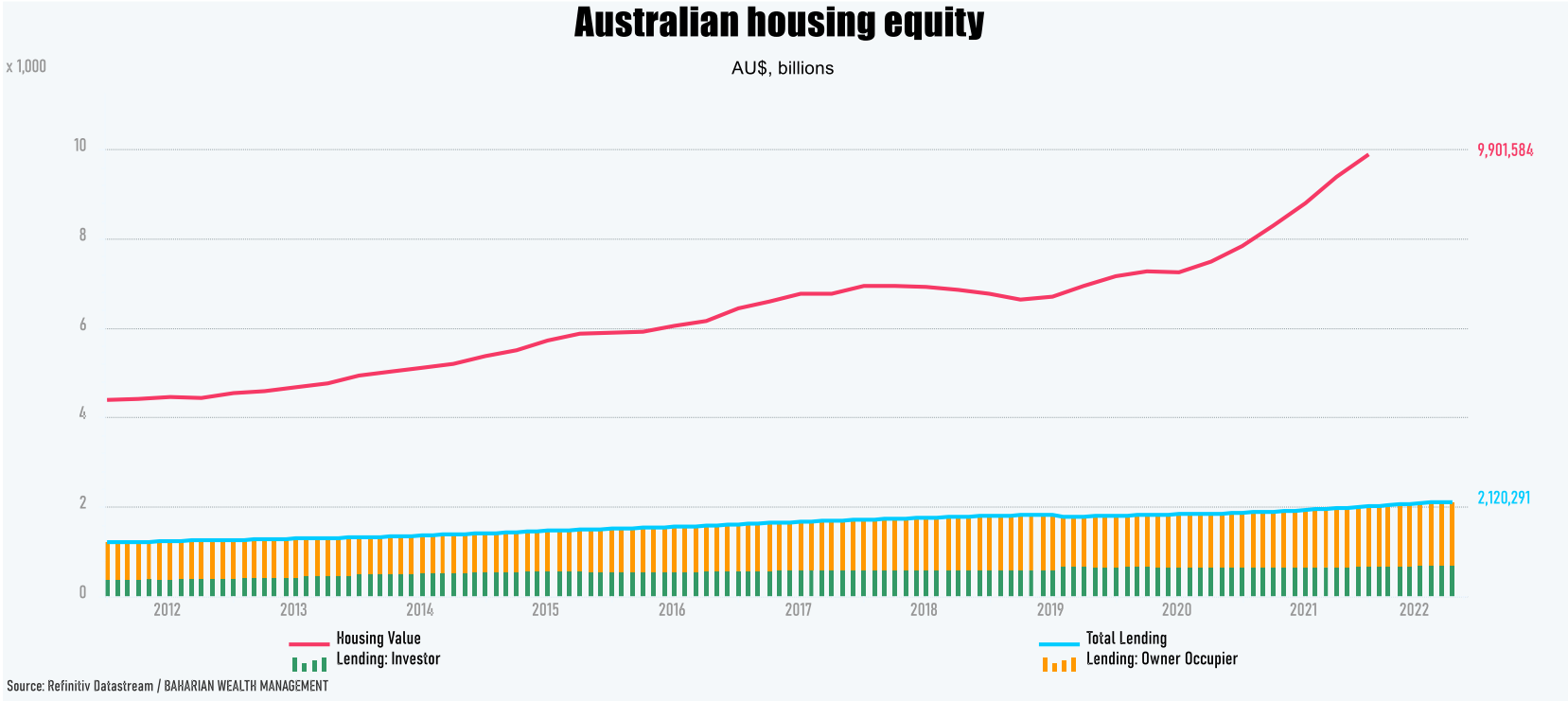
Global markets. *Hot topics*

Property prices don't appear to bottom out anywhere near the stock market levels.



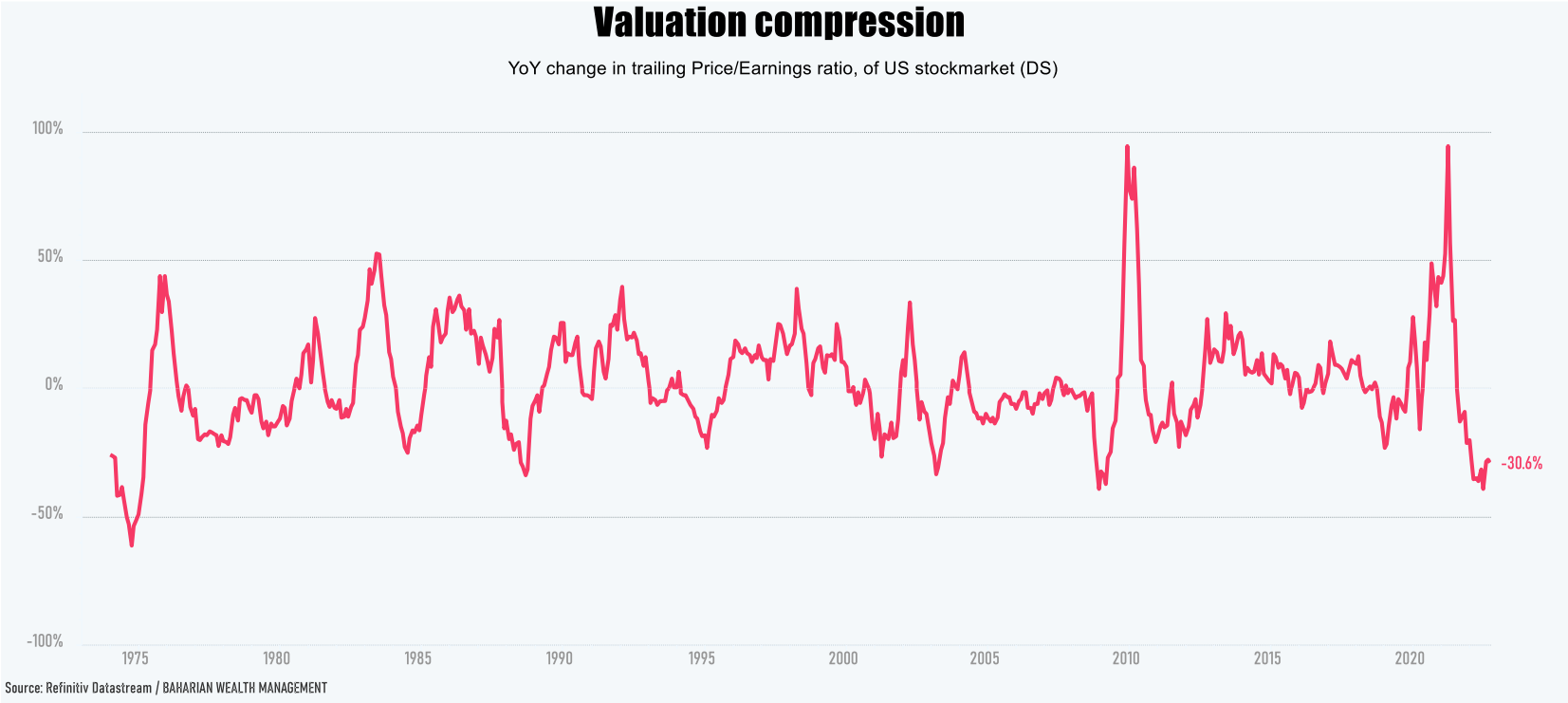
Global markets. *Hot topics*

The other side of the balance sheet is as, if not more important than debt – equity, an enormous gain.



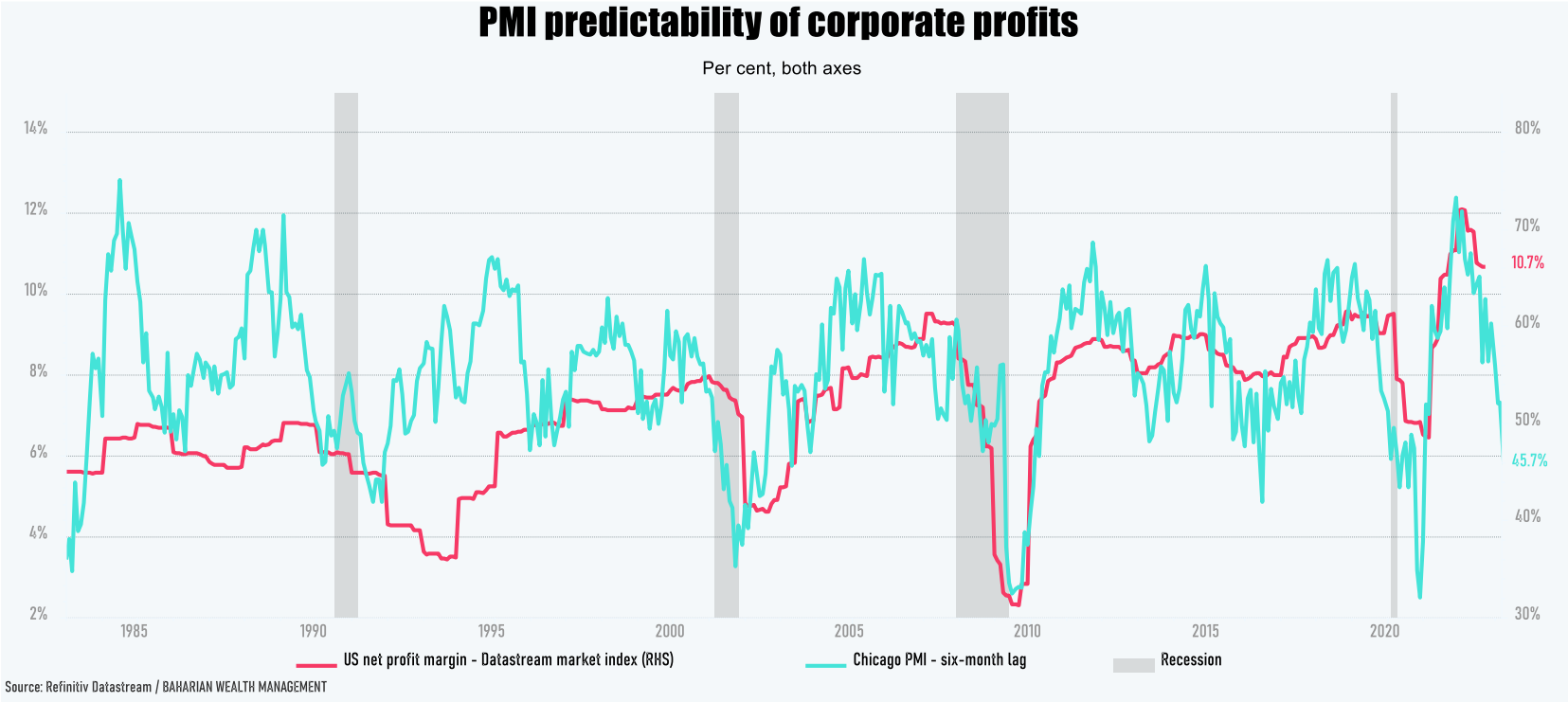
Global markets. *Hot topics*

Valuations have been crushed through 2022, however we might be seeing some green shoots.



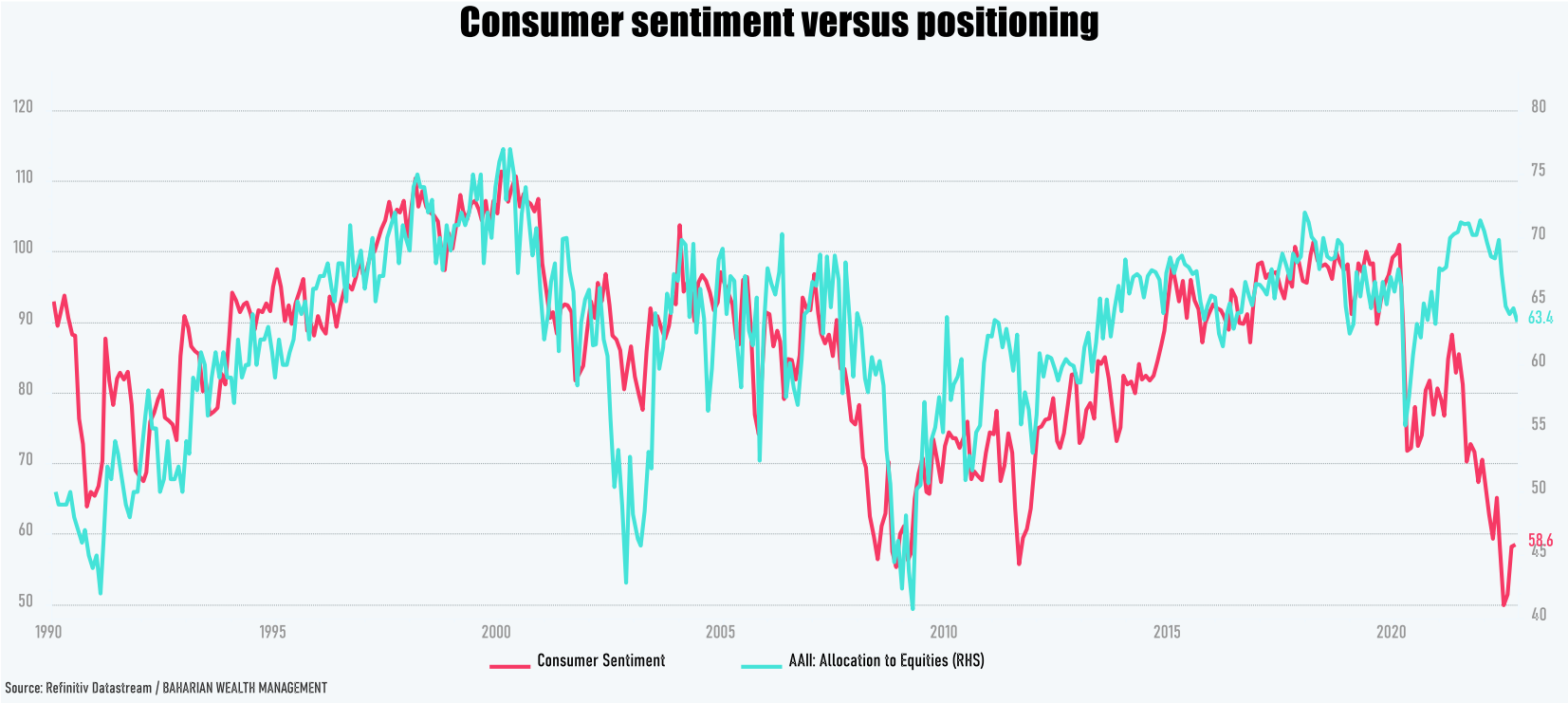
Global markets. *Hot topics*

Global PMI telling us a recession is likely – if correct, we’ll see profits decline in stocks.



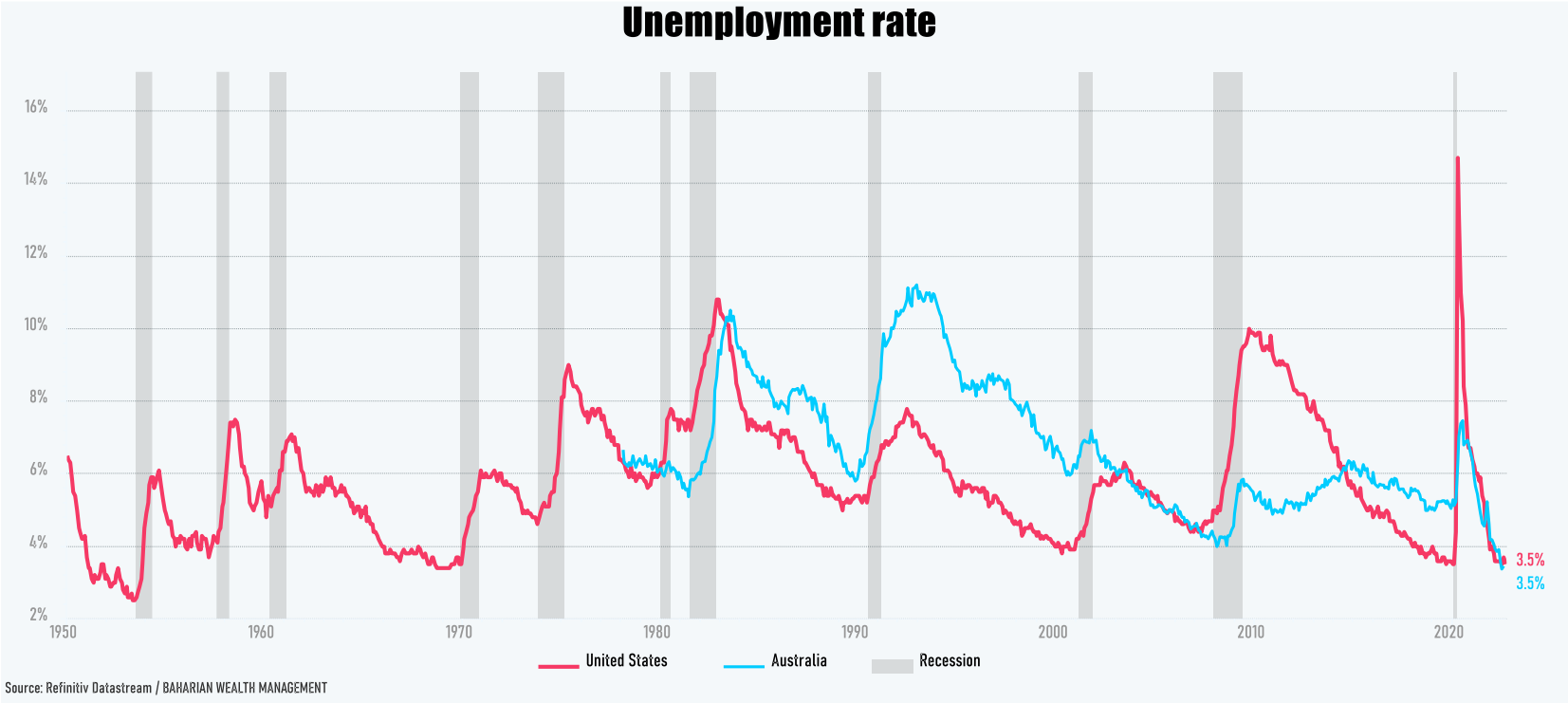
Global markets. *Hot topics*

Watch what consumers do, not what they say.



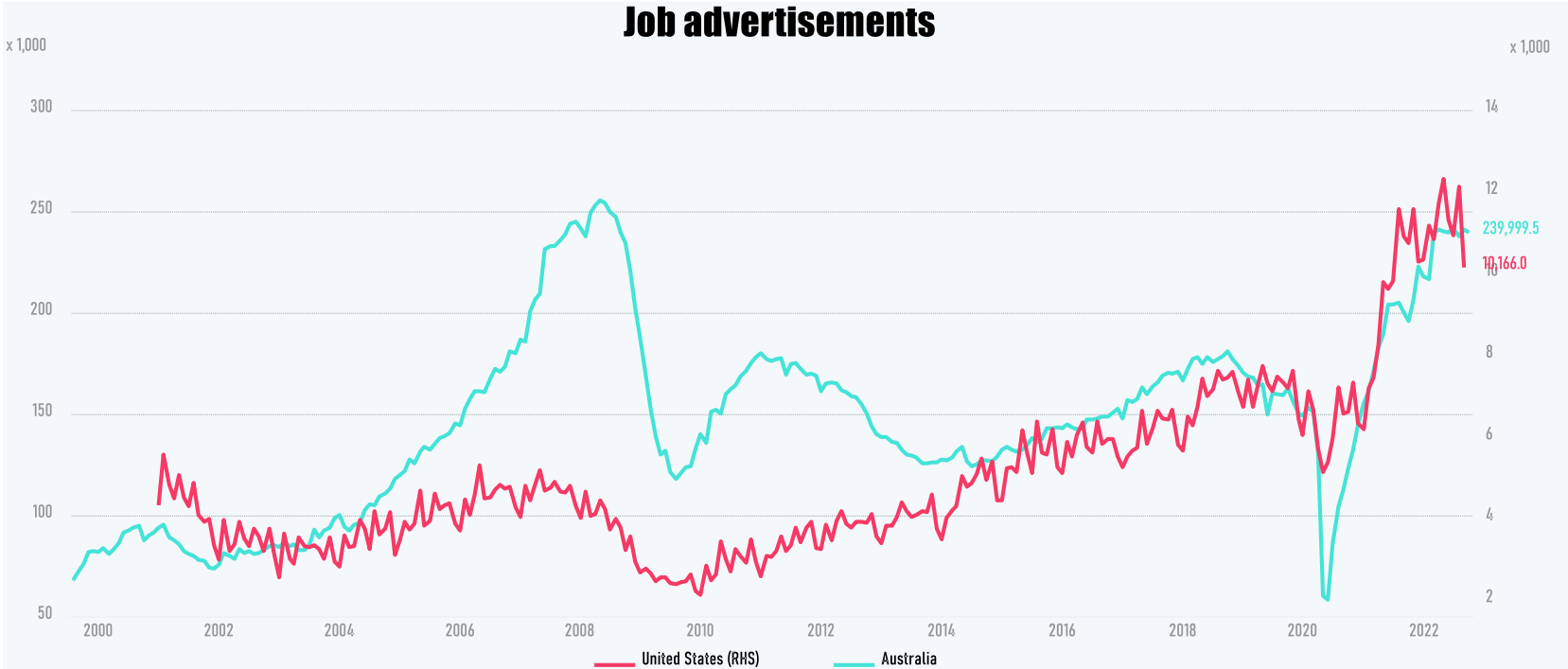
Global markets. *Hot topics*

One of the strongest job markets on record.



Global markets. *Hot topics*

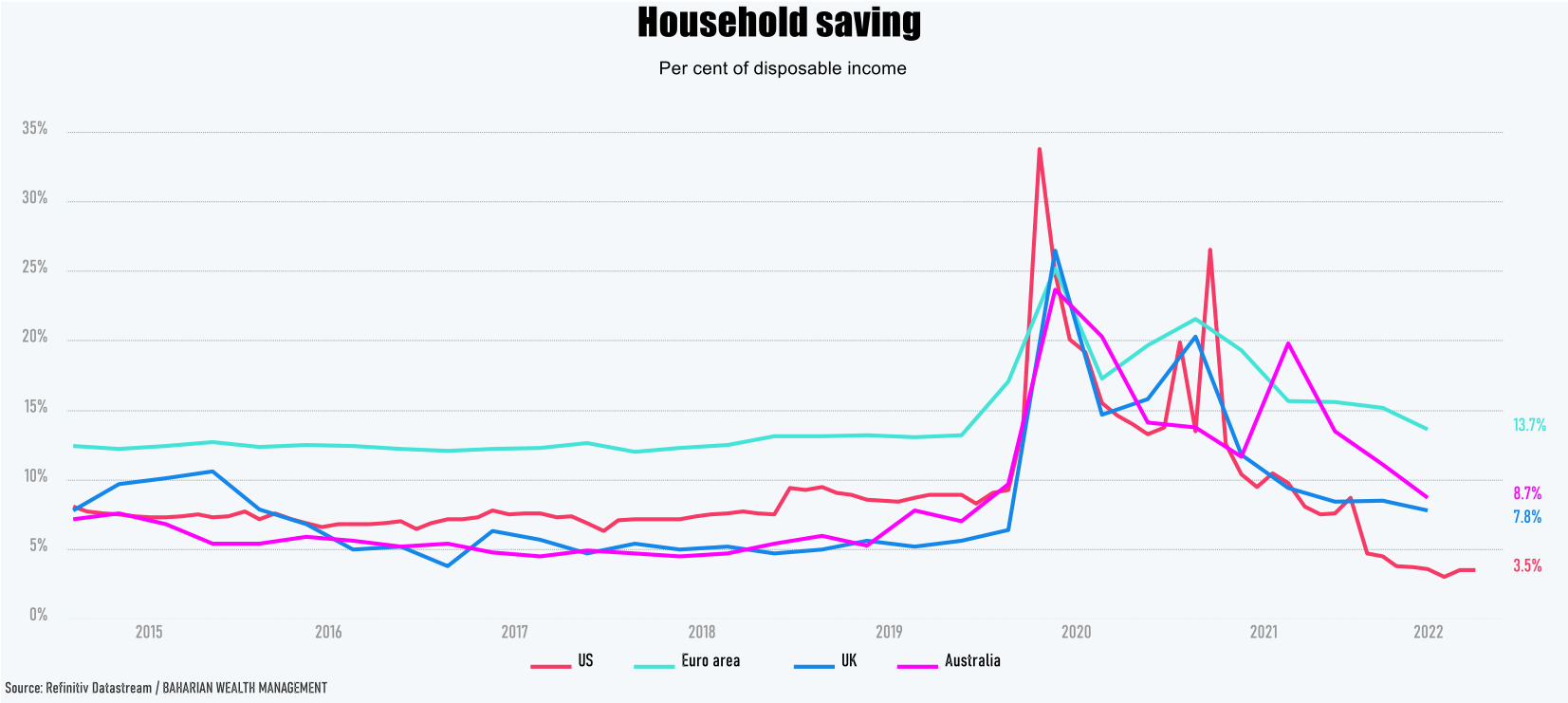
We all know about the labor shortages, just look at these job advertisements. Although US slowing down.



Source: Refinitiv Datastream / BAHARIAN WEALTH MANAGEMENT

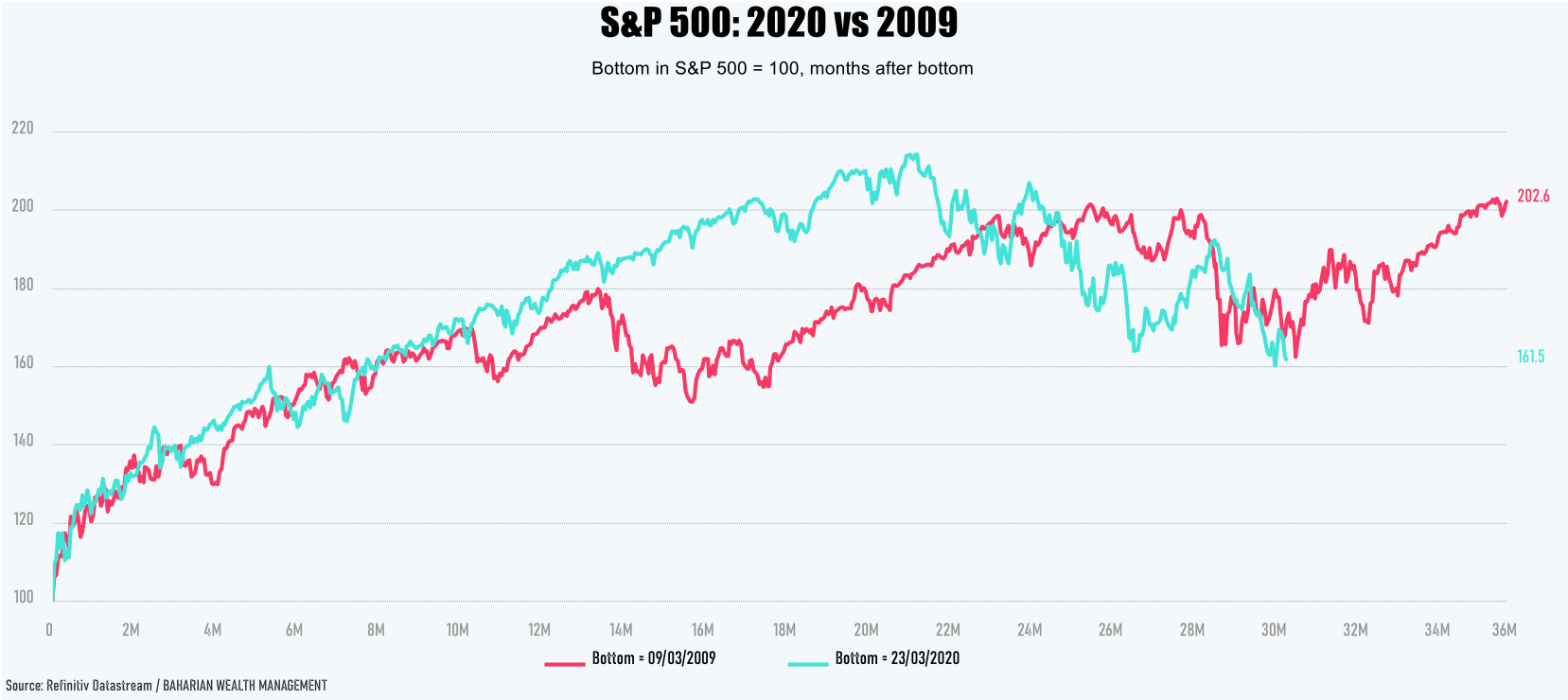
Global markets. *Hot topics*

Household savings starting to fall – US back down to pre pandemic levels.



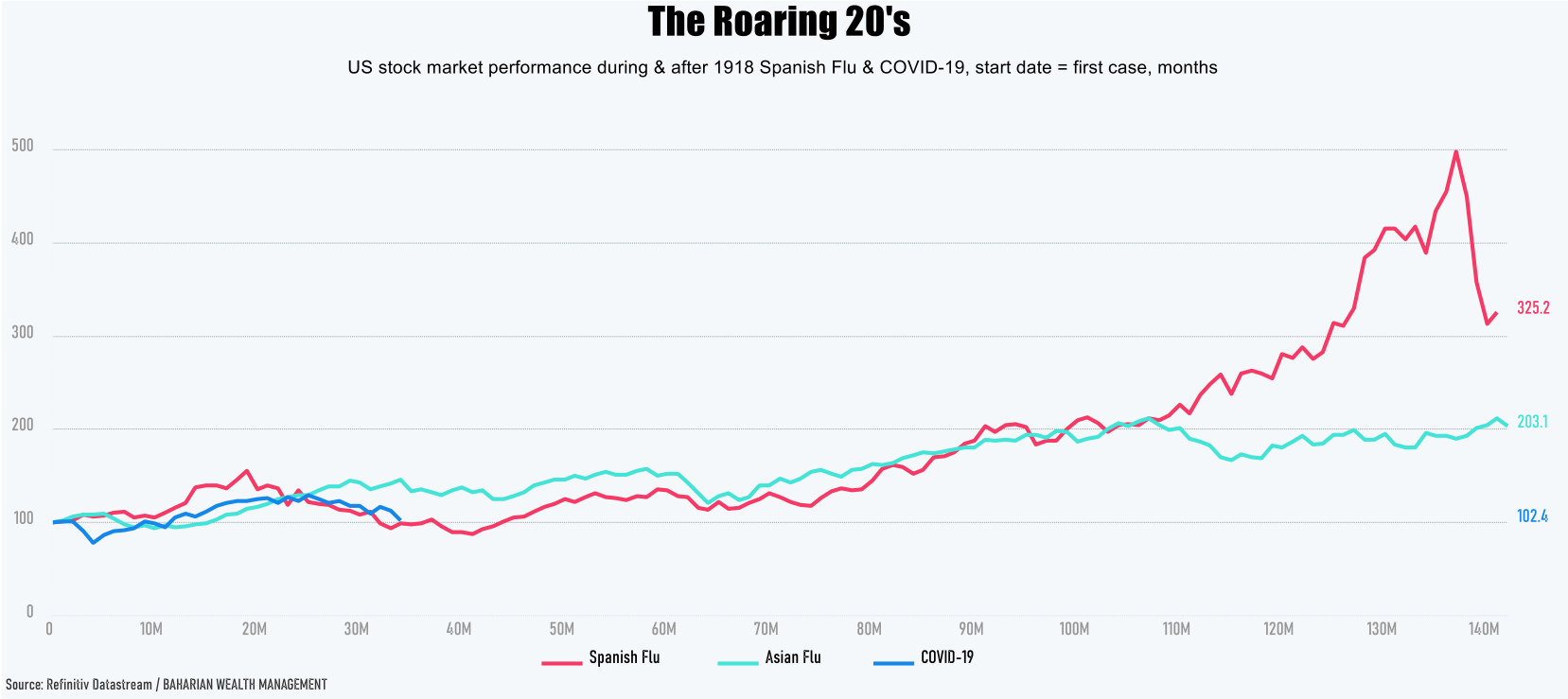
Global markets. *Hot topics*

The post COVID recovery continues to mirror the path of the 2009 recovery.



Global markets. *Hot topics*

We could be on track for a 1920's-like boom.

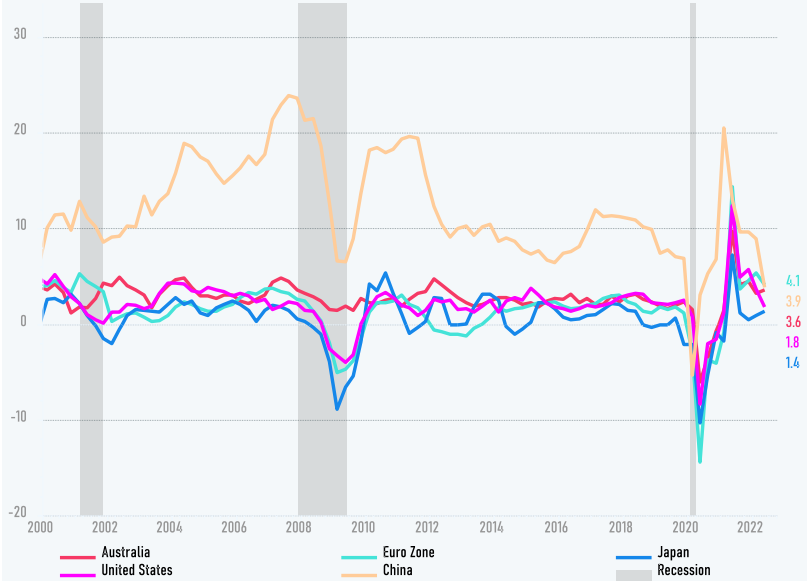


Global economy.

GDP

World GDP growth

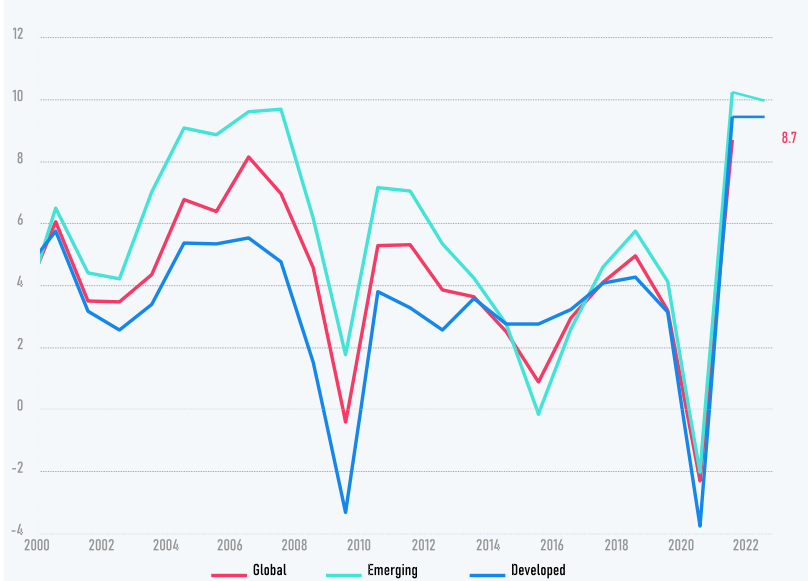
Twelve-month % change



Source: Refinitiv Datastream / BAHARIAN WEALTH MANAGEMENT

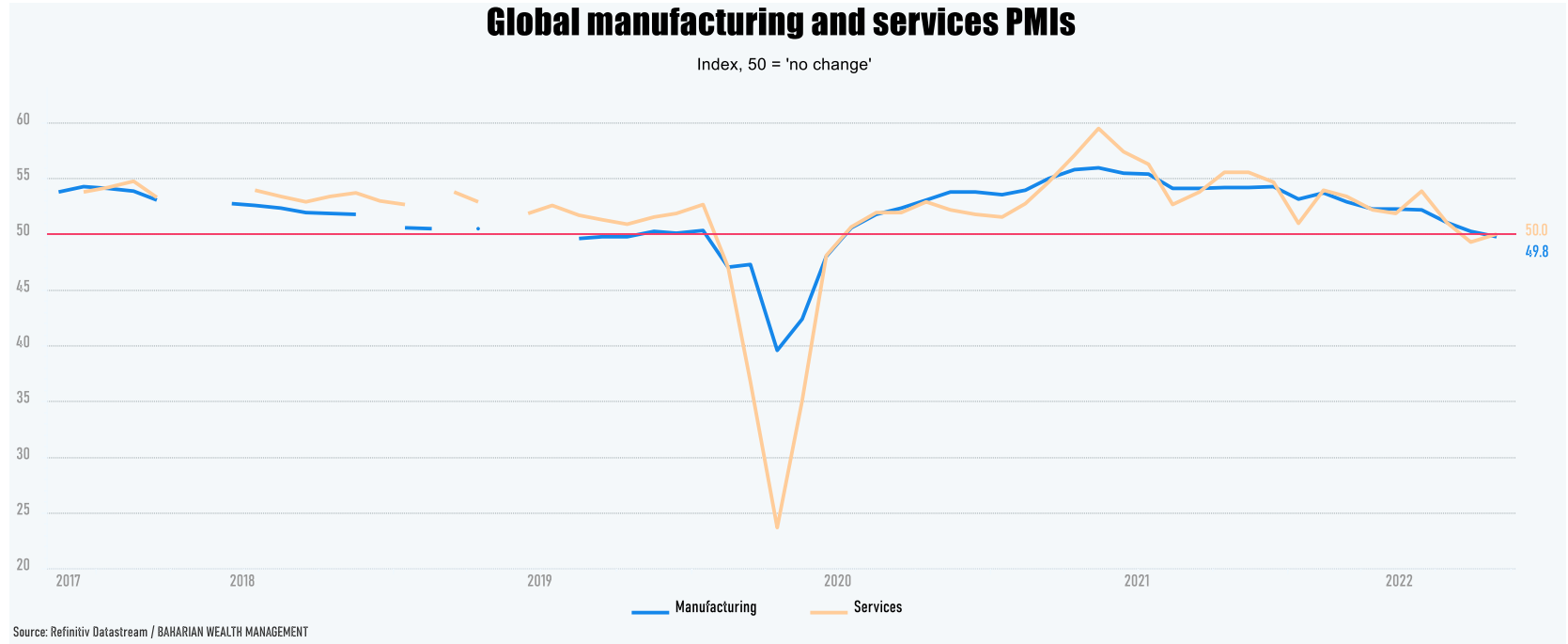
Global GDP per capita, PPP

Annual percentage change, including IMF forecasts



Source: Refinitiv Datastream / BAHARIAN WEALTH MANAGEMENT

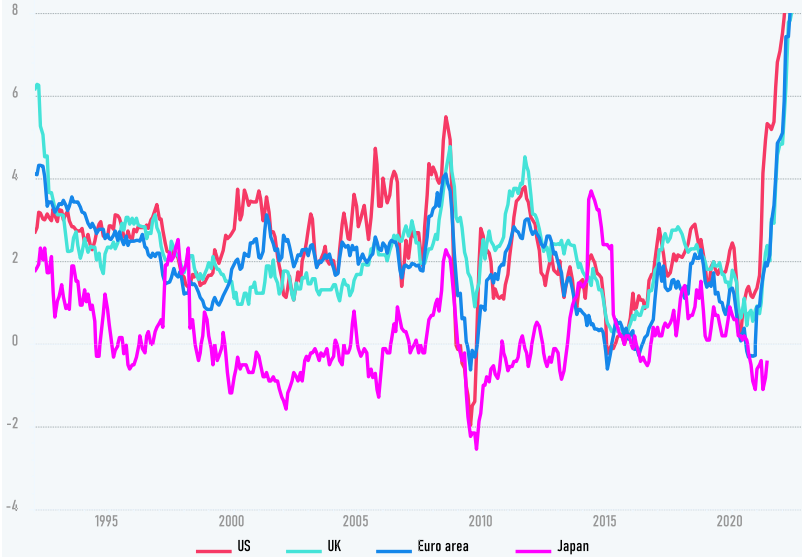
Manufacturing and services



Inflation

Headline inflation

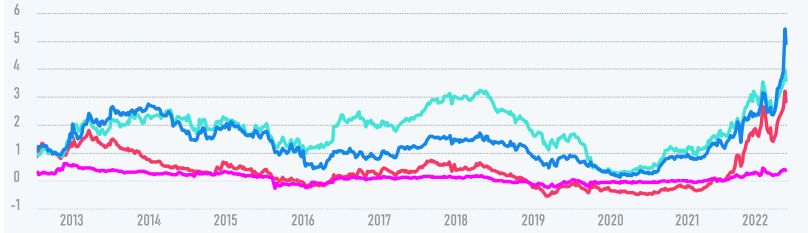
Twelve-month percentage changes



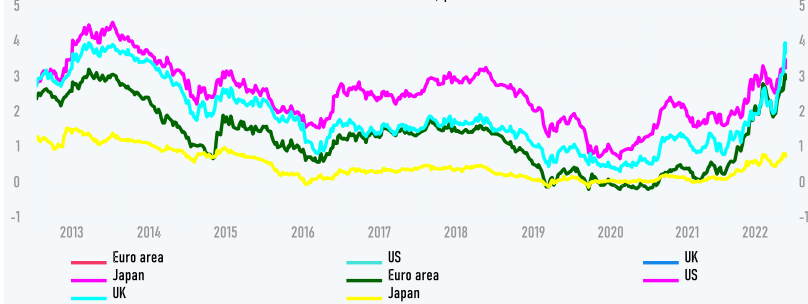
Source: Refinitiv Datastream / BAHARIAN WEALTH MANAGEMENT

Inflation expectations

2Y forward rates, per cent



5Y forward rates, per cent

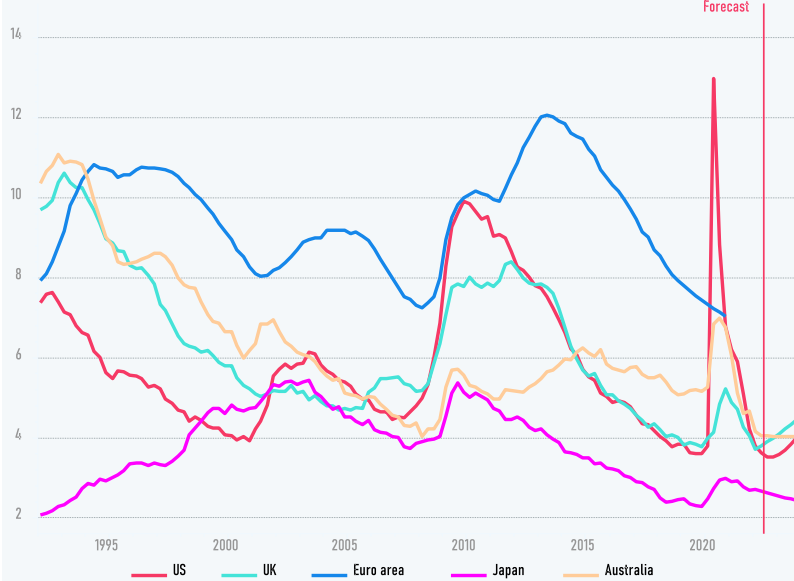


Source: Refinitiv Datastream / BAHARIAN WEALTH MANAGEMENT

Labour market

Unemployment rates

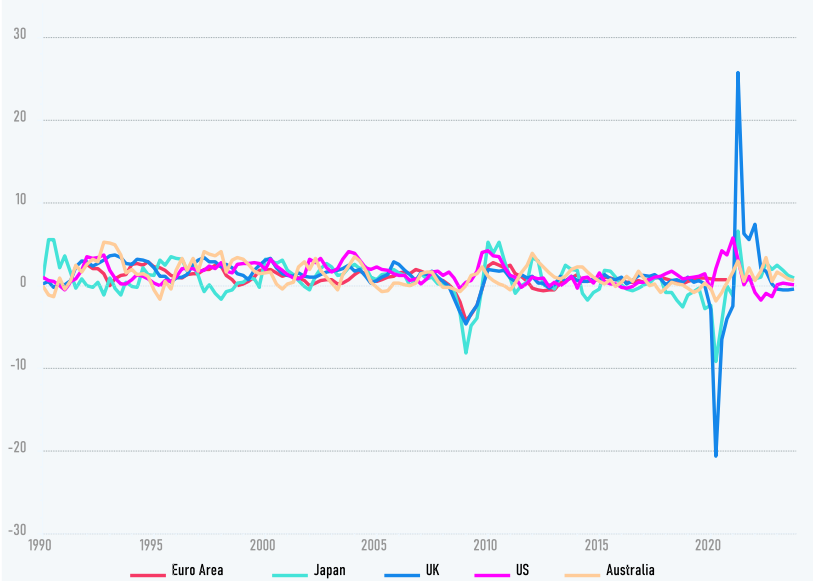
Percentage of labour force, inc. OECD forecast



Source: Refinitiv Datastream / BAHARIAN WEALTH MANAGEMENT

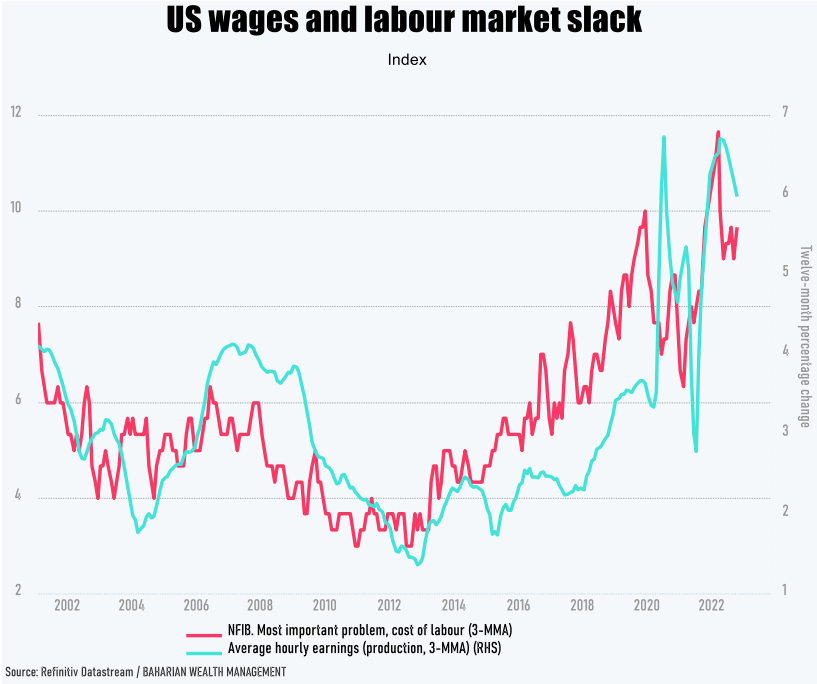
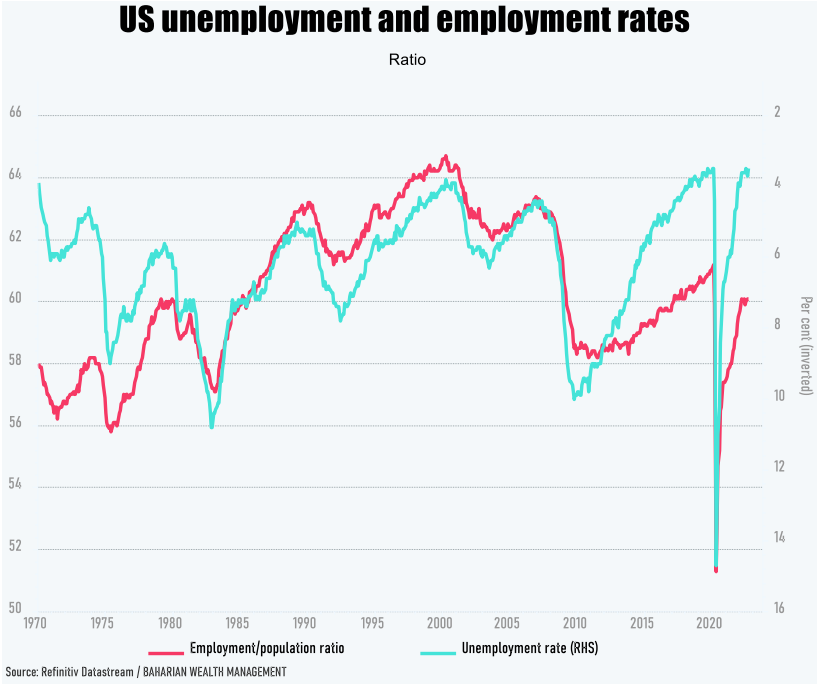
Labour productivity

Twelve-month percentage changes

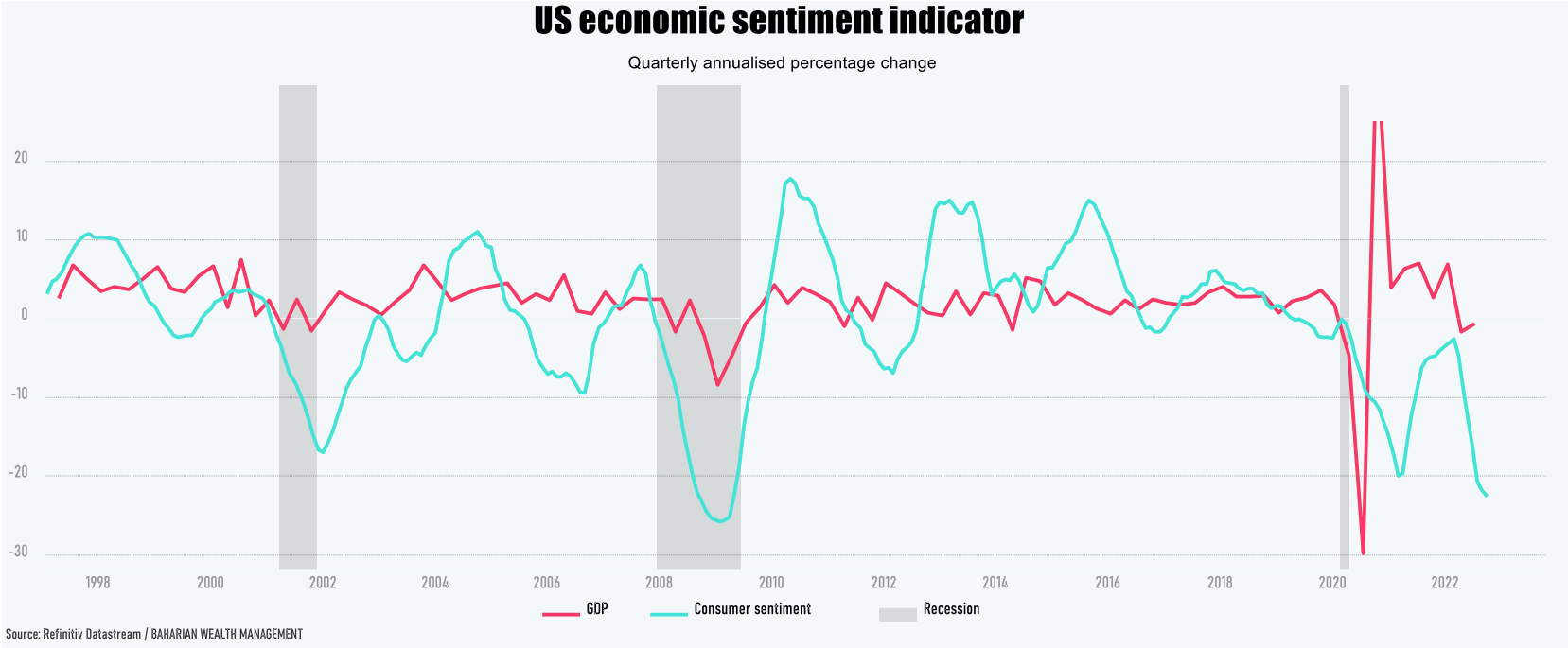


Source: Refinitiv Datastream / BAHARIAN WEALTH MANAGEMENT

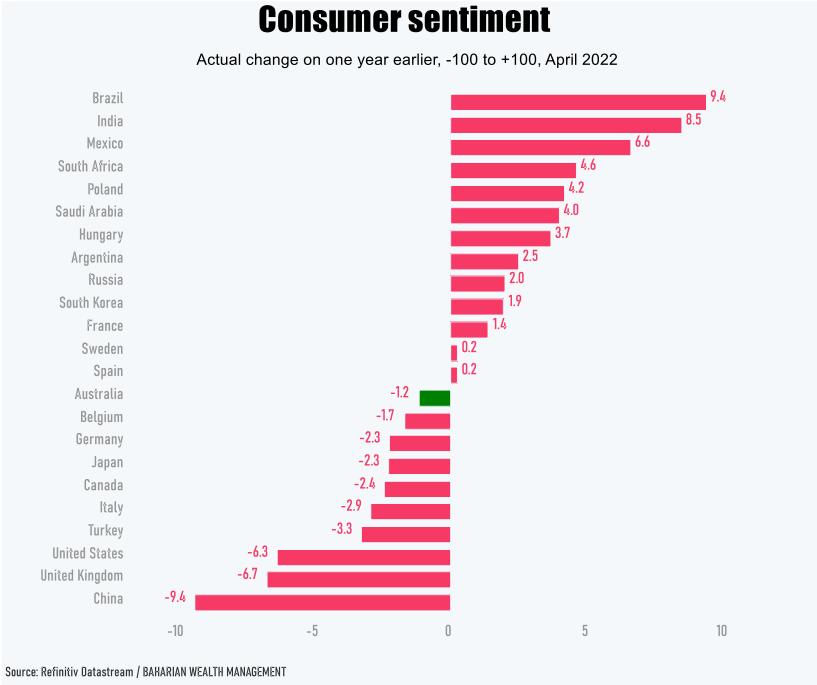
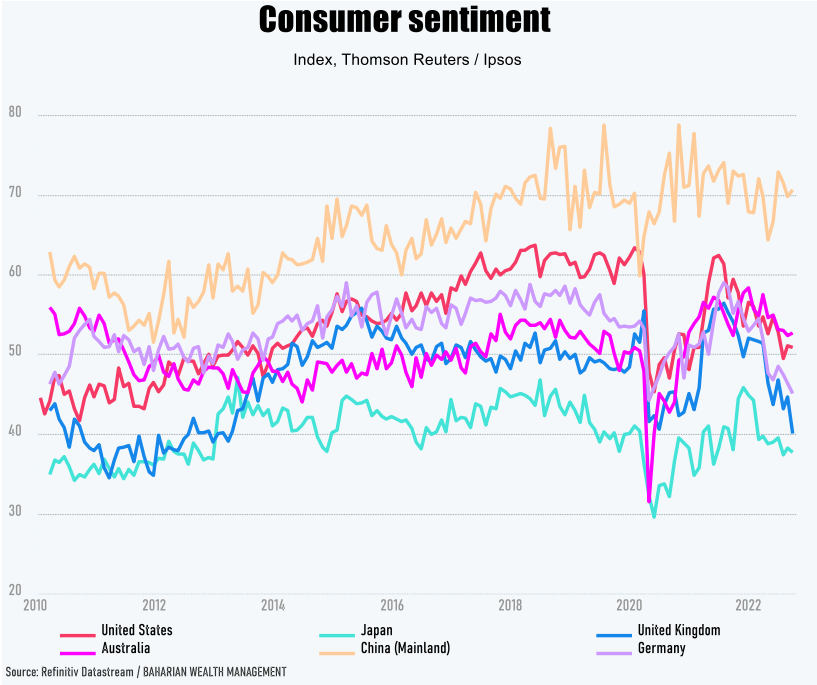
US unemployment & wages



US consumer sentiment



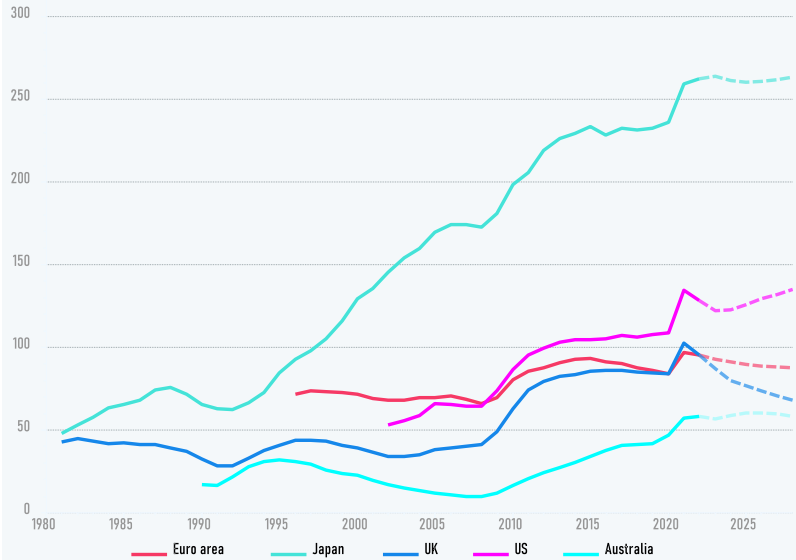
Consumer sentiment/confidence



Federal finances

General government gross debt

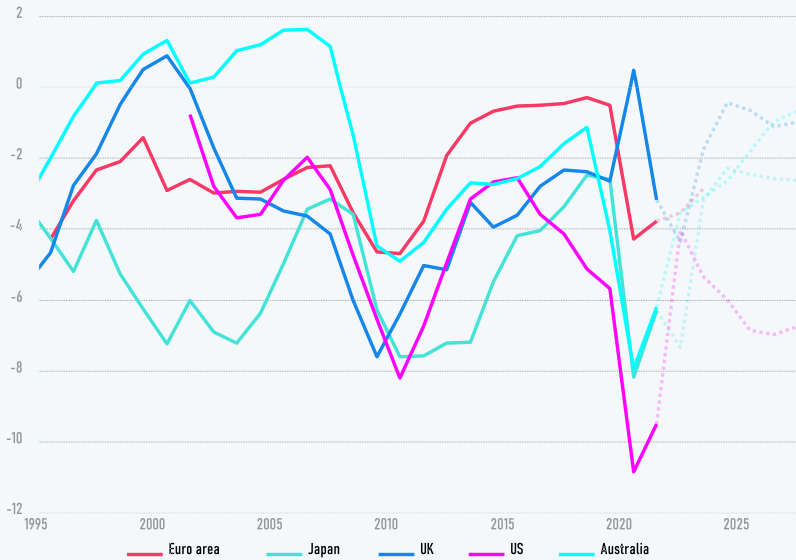
Per cent of GDP, inc. IMF forecasts



Source: Refinitiv Datastream / BAHARIAN WEALTH MANAGEMENT

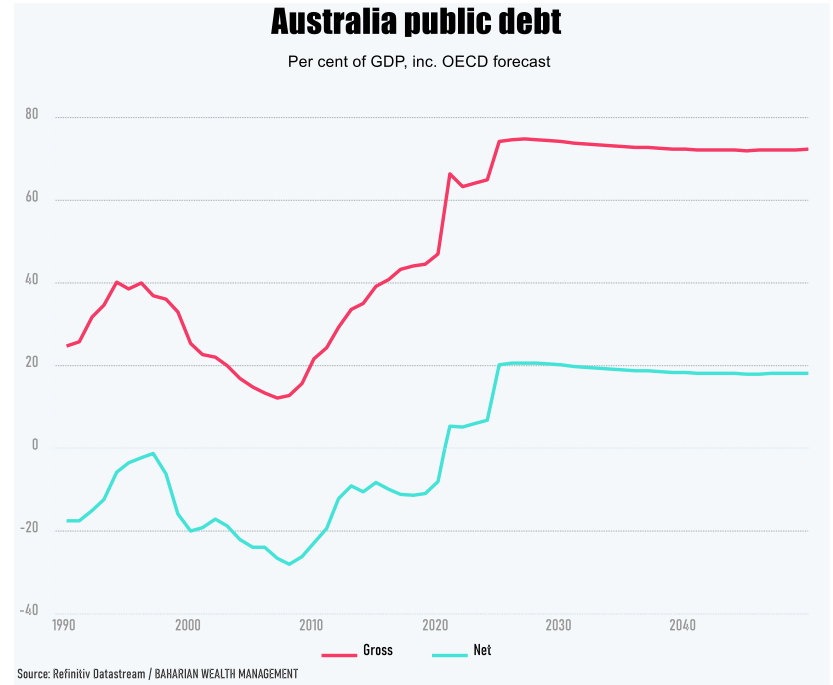
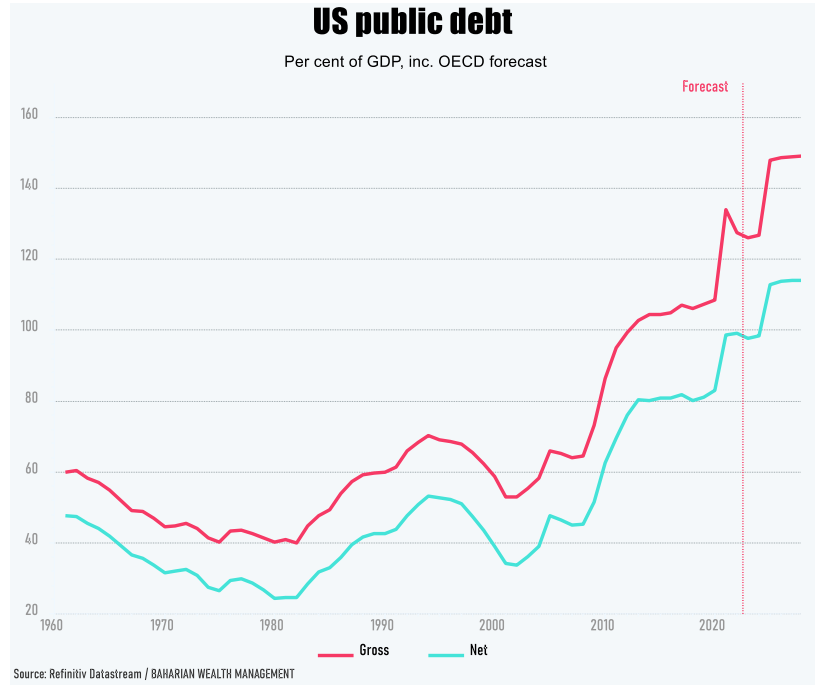
Government structural balances

Per cent of potential GDP (difference between revenues and expenditures)

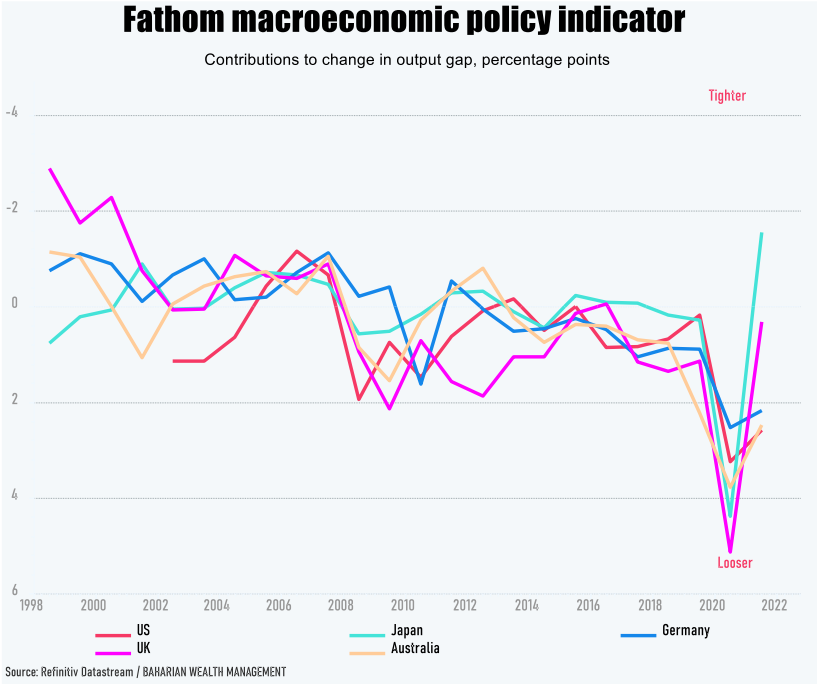
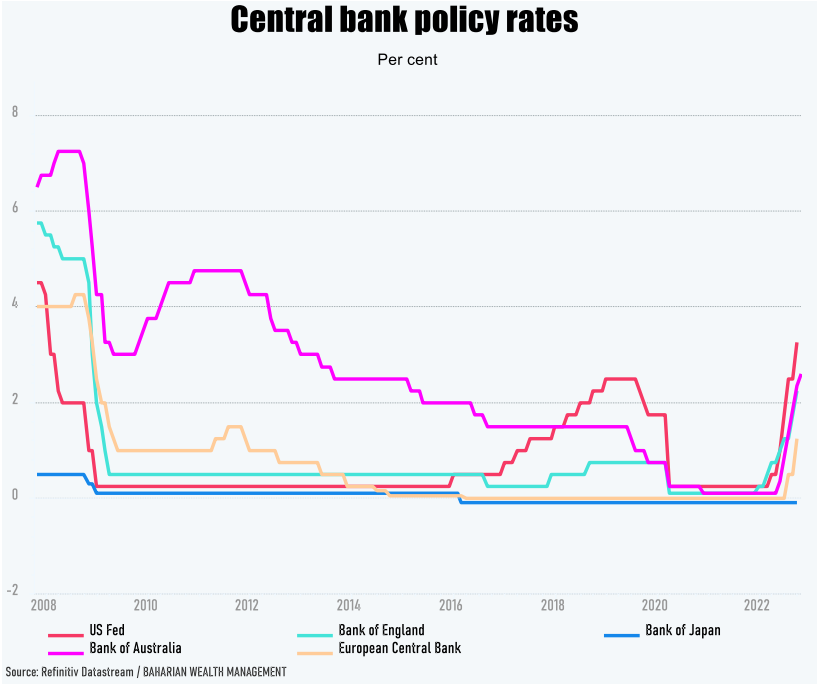


Source: Refinitiv Datastream / BAHARIAN WEALTH MANAGEMENT

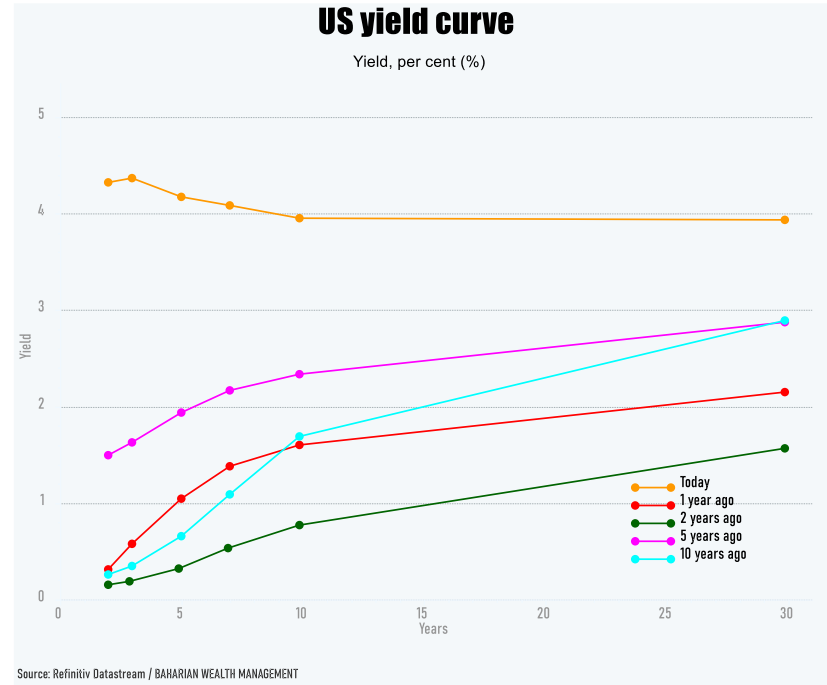
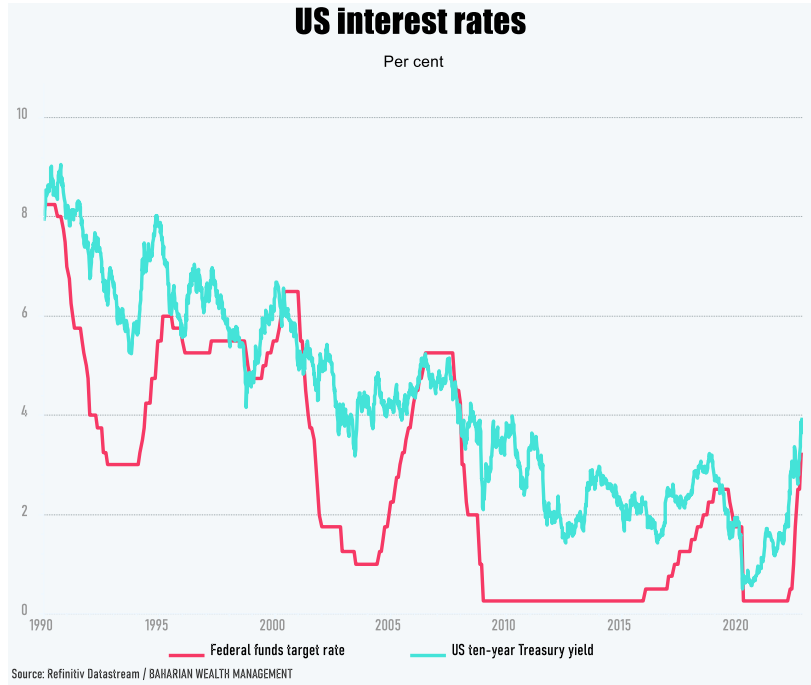
Public debt



Central bank policy rates

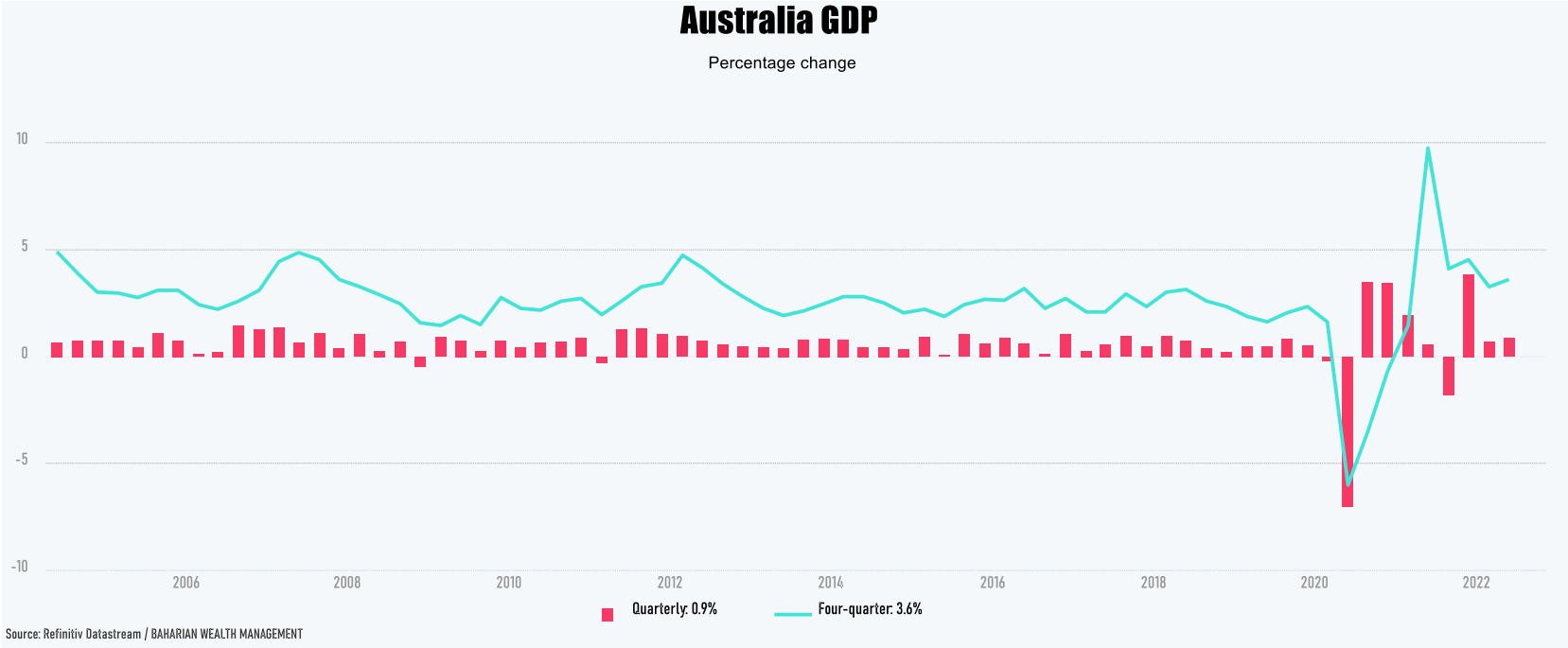


Interest rates & yield curve



Australian economy.

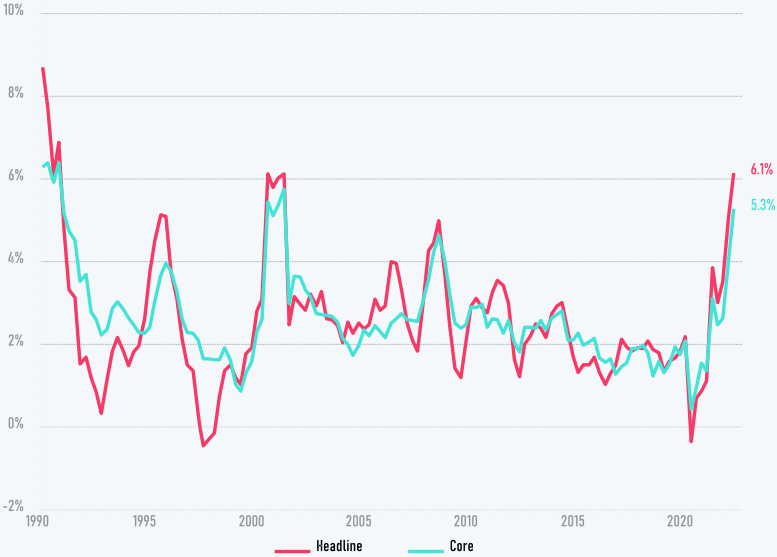
GDP



Inflation

Australia CPI

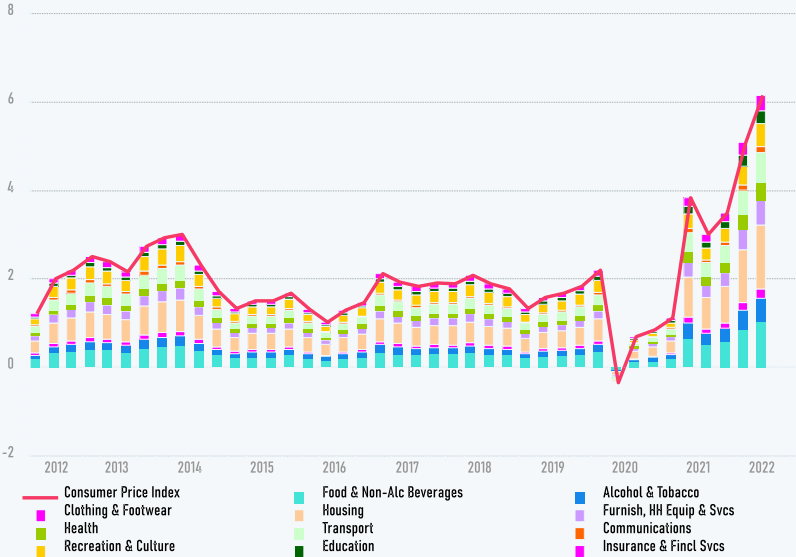
Yearly percentage changes



Source: Refinitiv Datastream / BAHARIAN WEALTH MANAGEMENT

Australia contribution to consumer price inflation

Percentage points

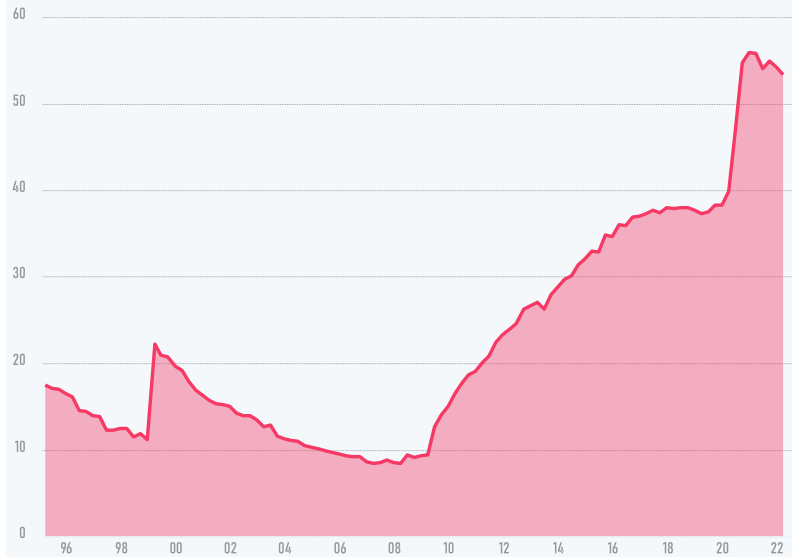


Source: Refinitiv Datastream / BAHARIAN WEALTH MANAGEMENT

Debt

Australia general government gross debt

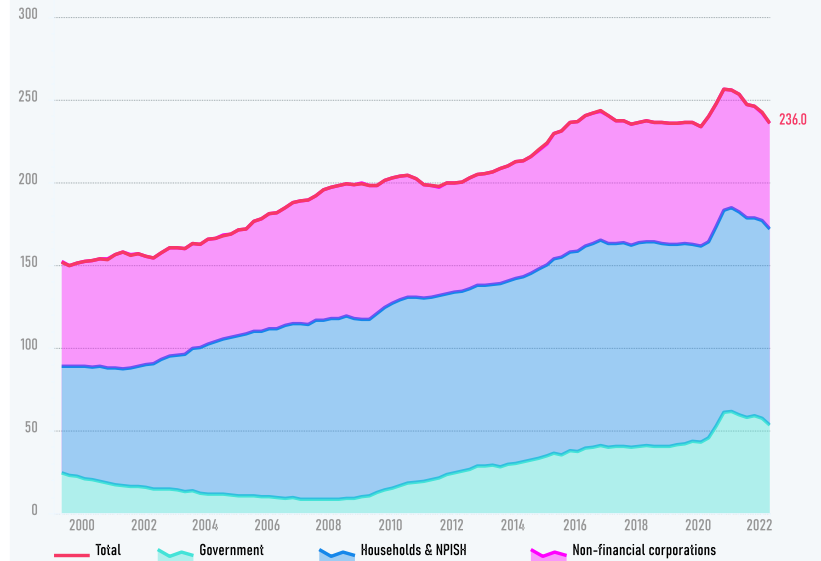
Per cent of GDP



Source: Refinitiv Datastream / BAHARIAN WEALTH MANAGEMENT

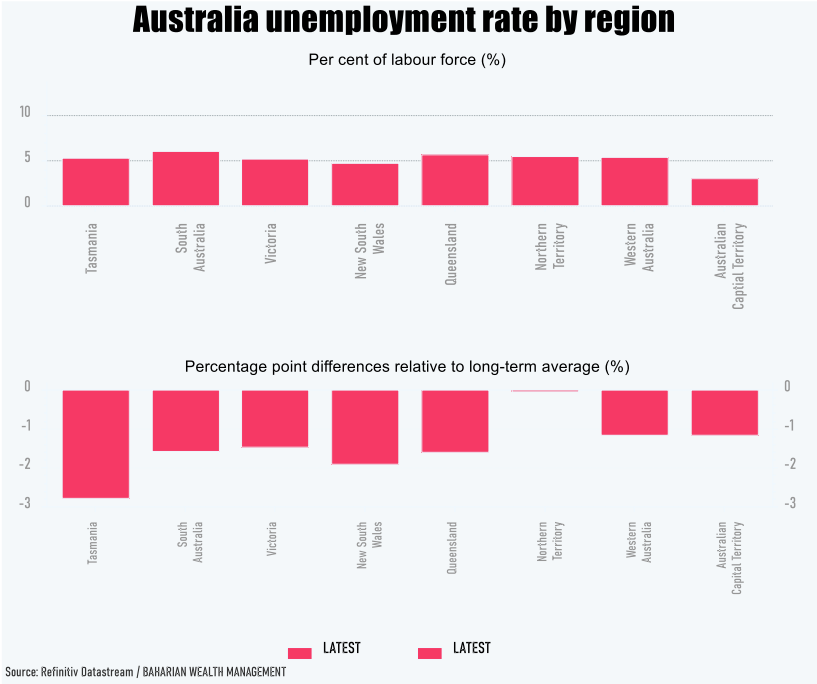
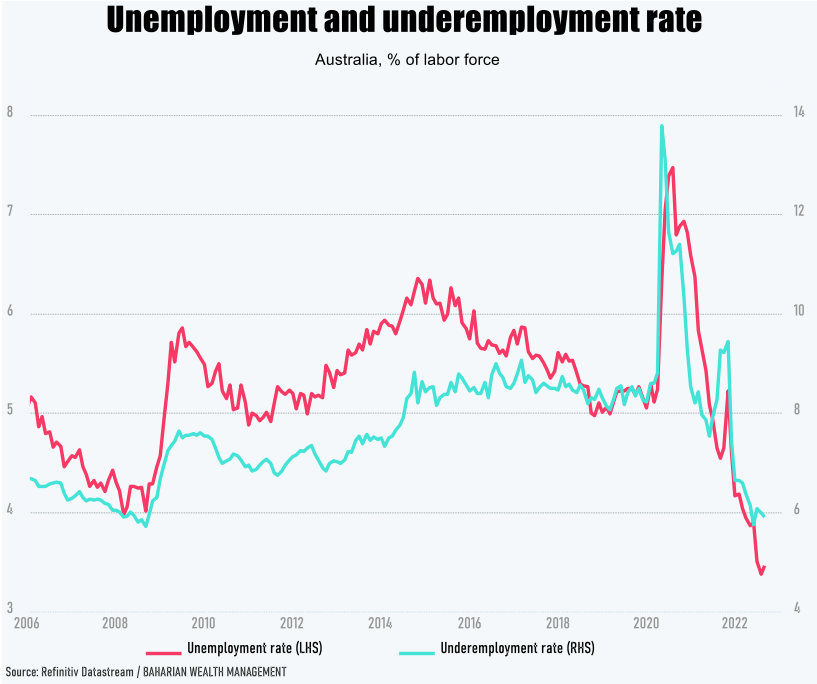
Australia non-financial sector debt

Per cent of GDP



Source: Refinitiv Datastream / BAHARIAN WEALTH MANAGEMENT

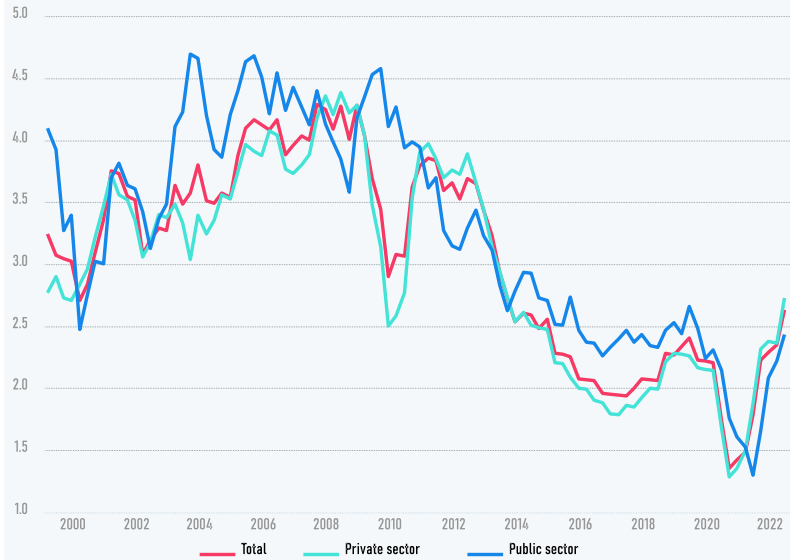
Employment



Wages

Australia hourly wages excluding bonuses

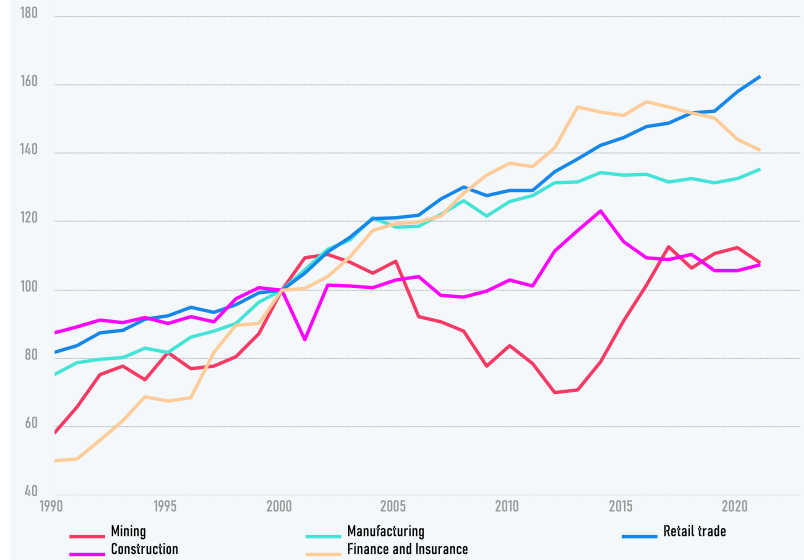
Four-quarter percentage changes



Source: Refinitiv Datastream / BAHARIAN WEALTH MANAGEMENT

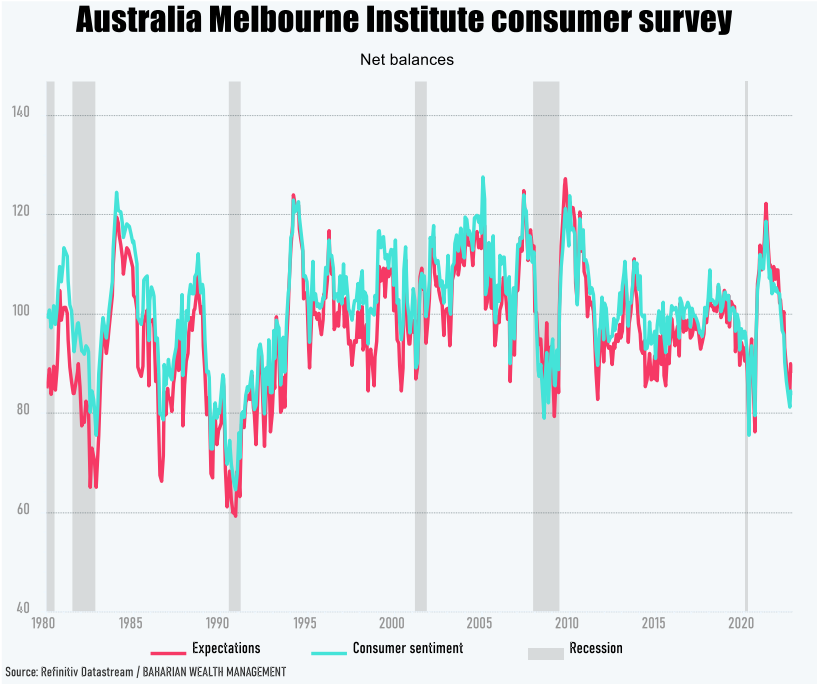
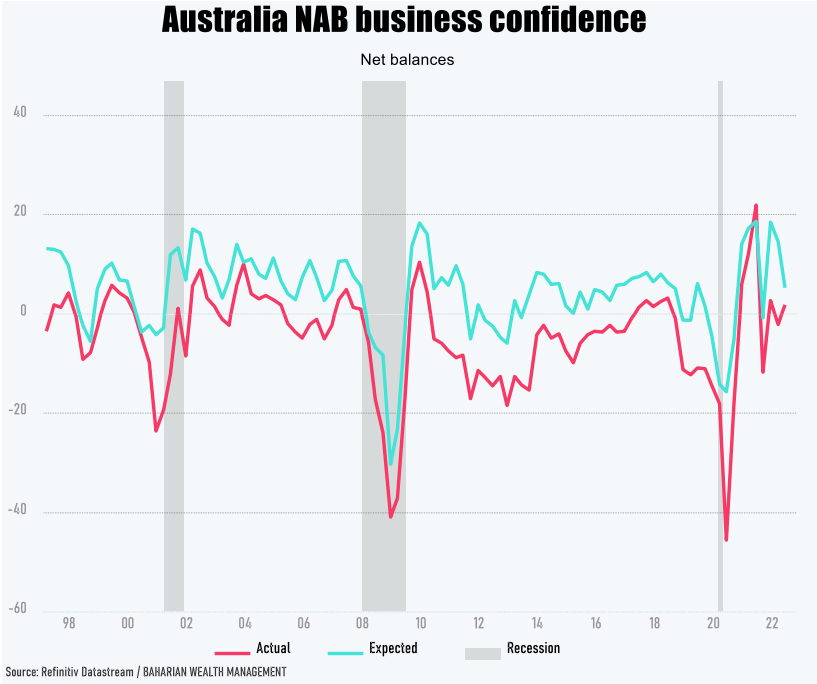
Australia labour productivity by sector

Index, 2000 = 100, hours worked basis

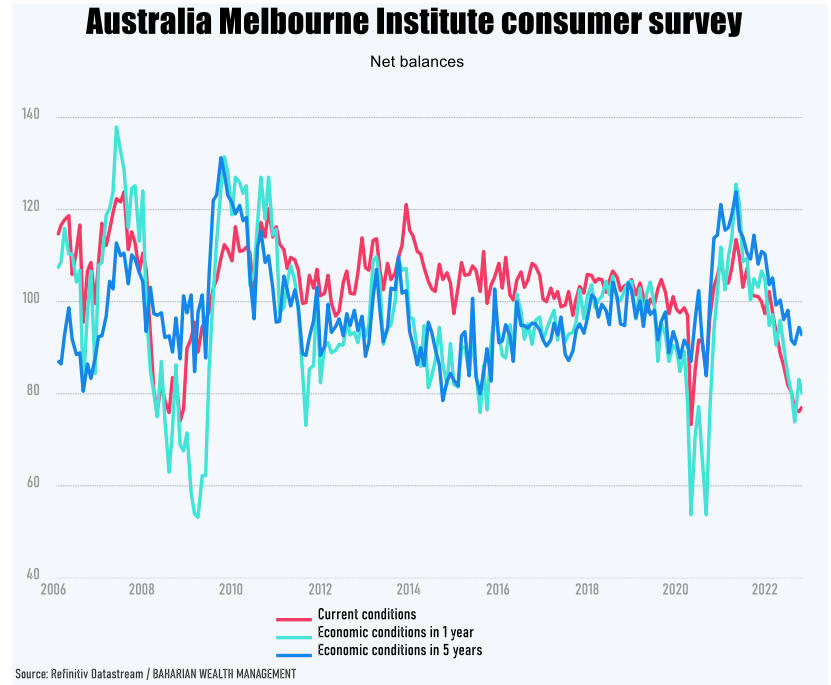
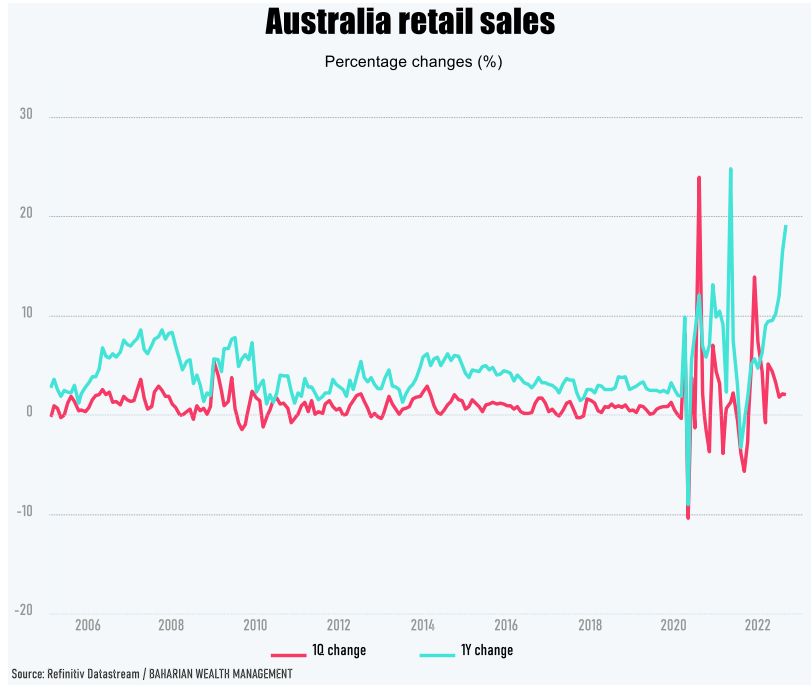


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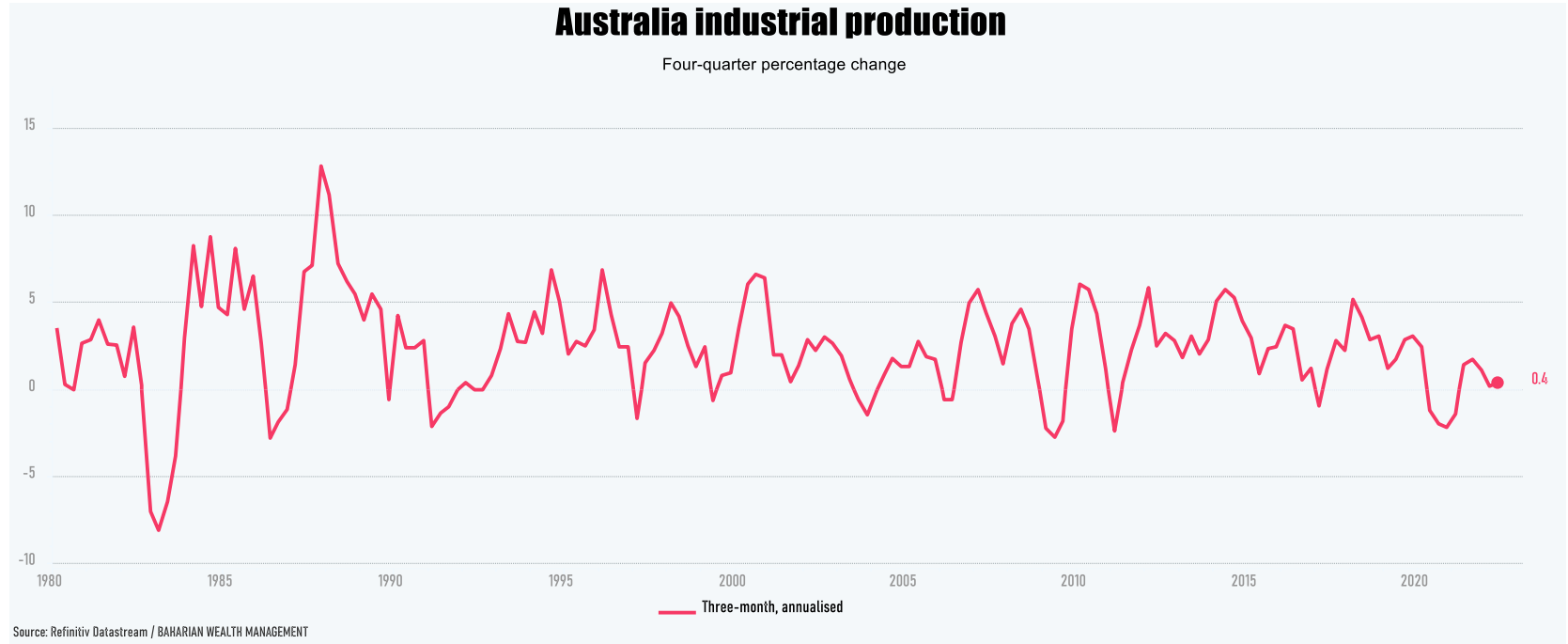
Business & consumer confidence



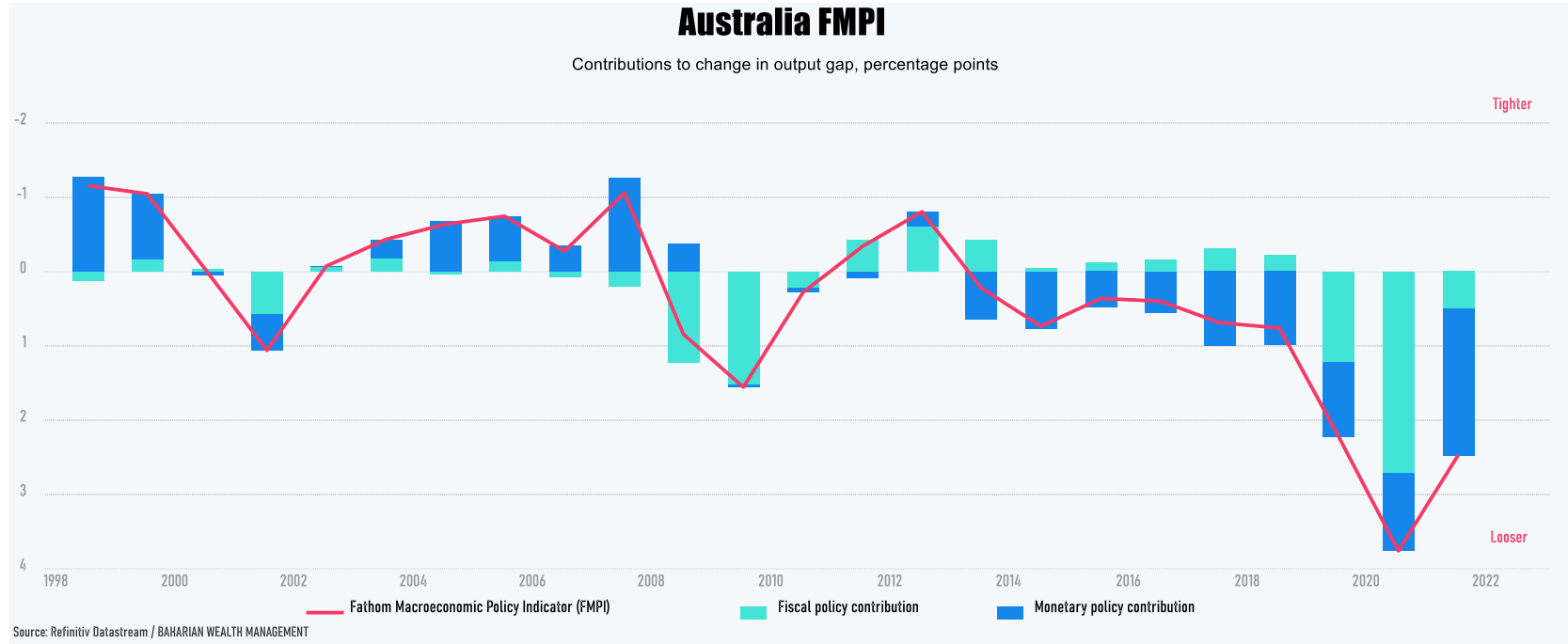
Retail sales



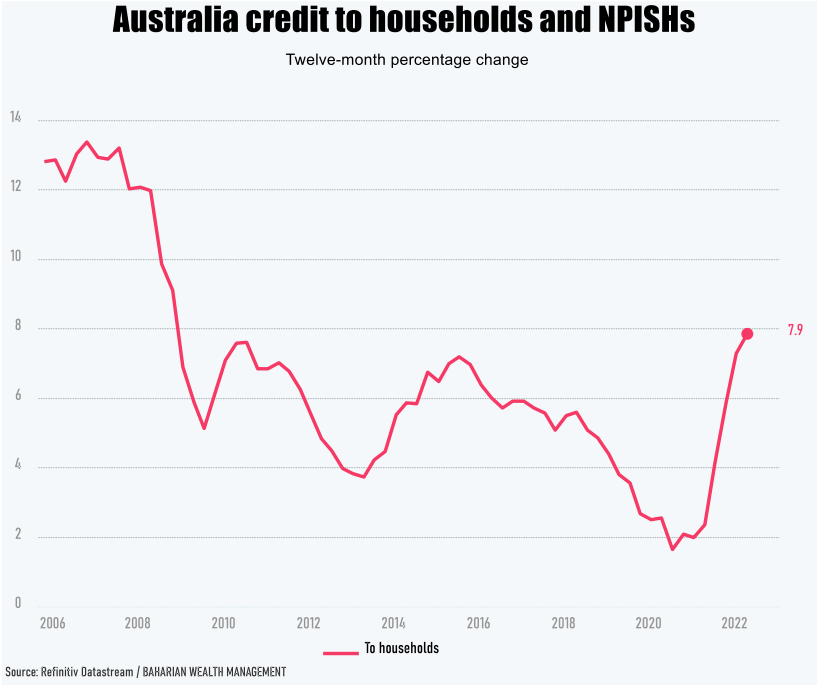
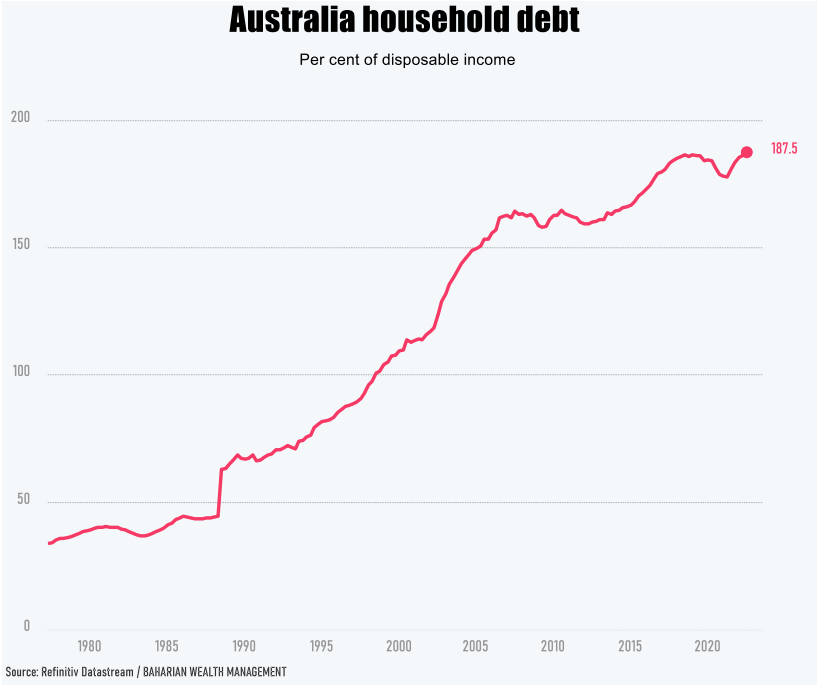
Industrial production



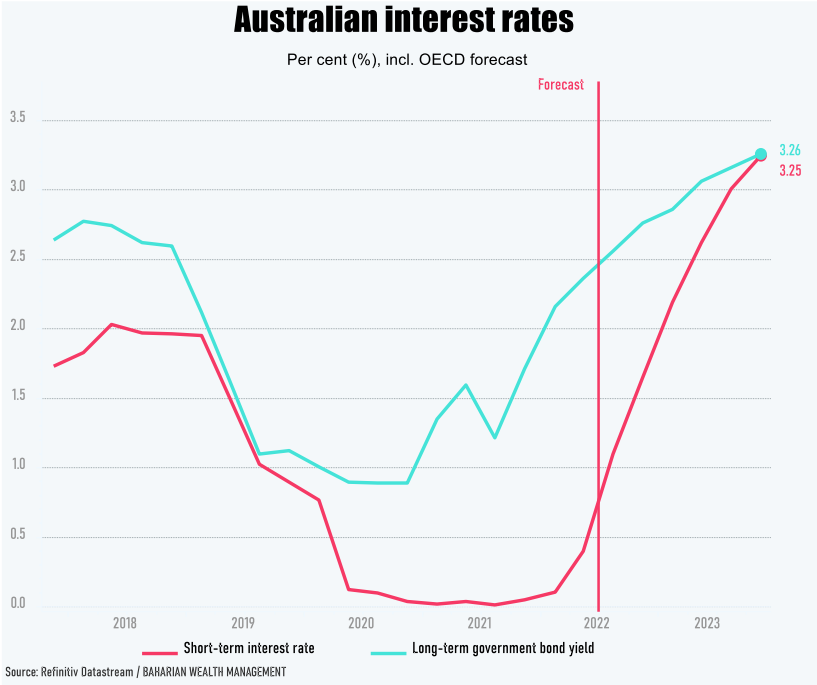
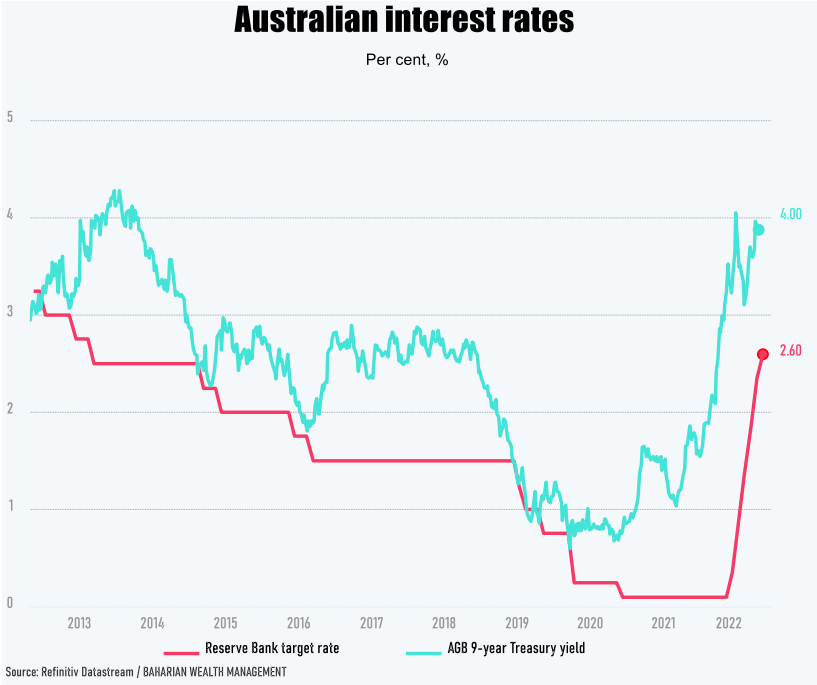
Fathom macro policy indicator



Credit

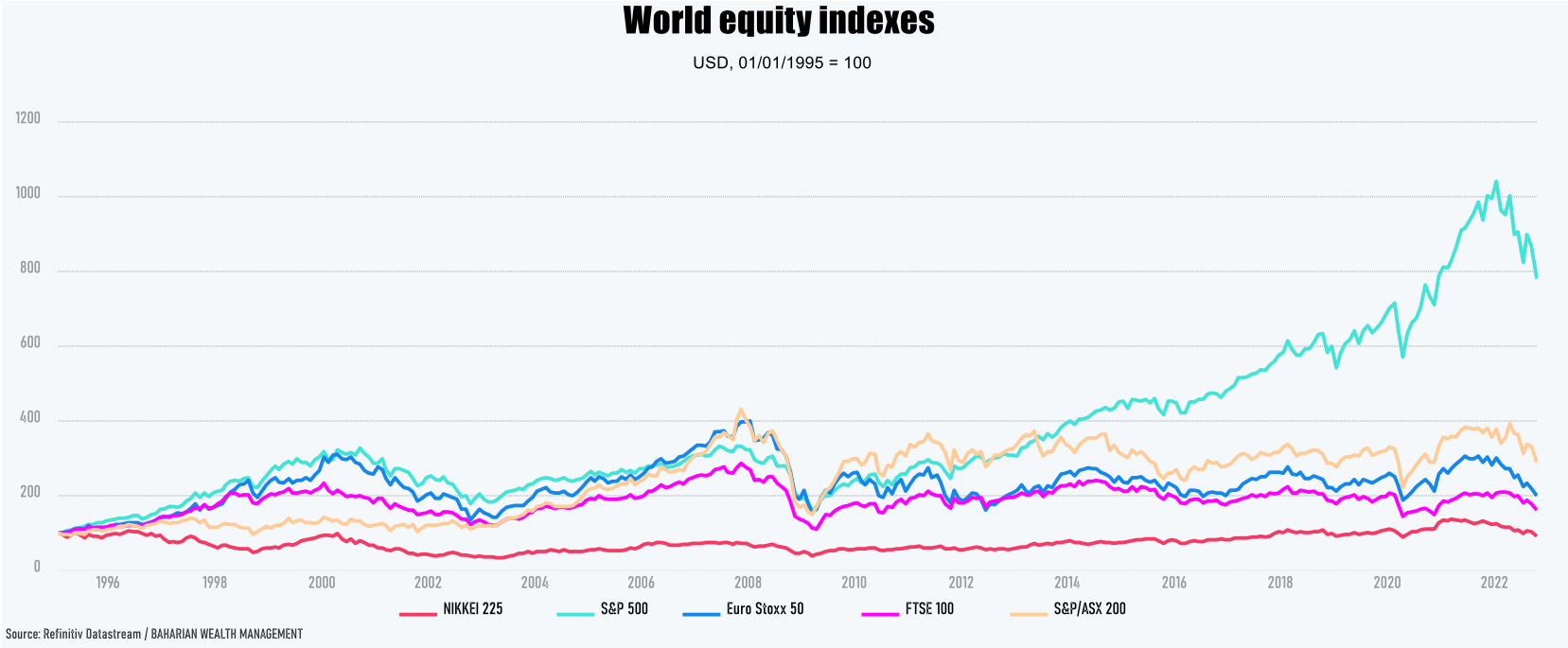


Interest rates

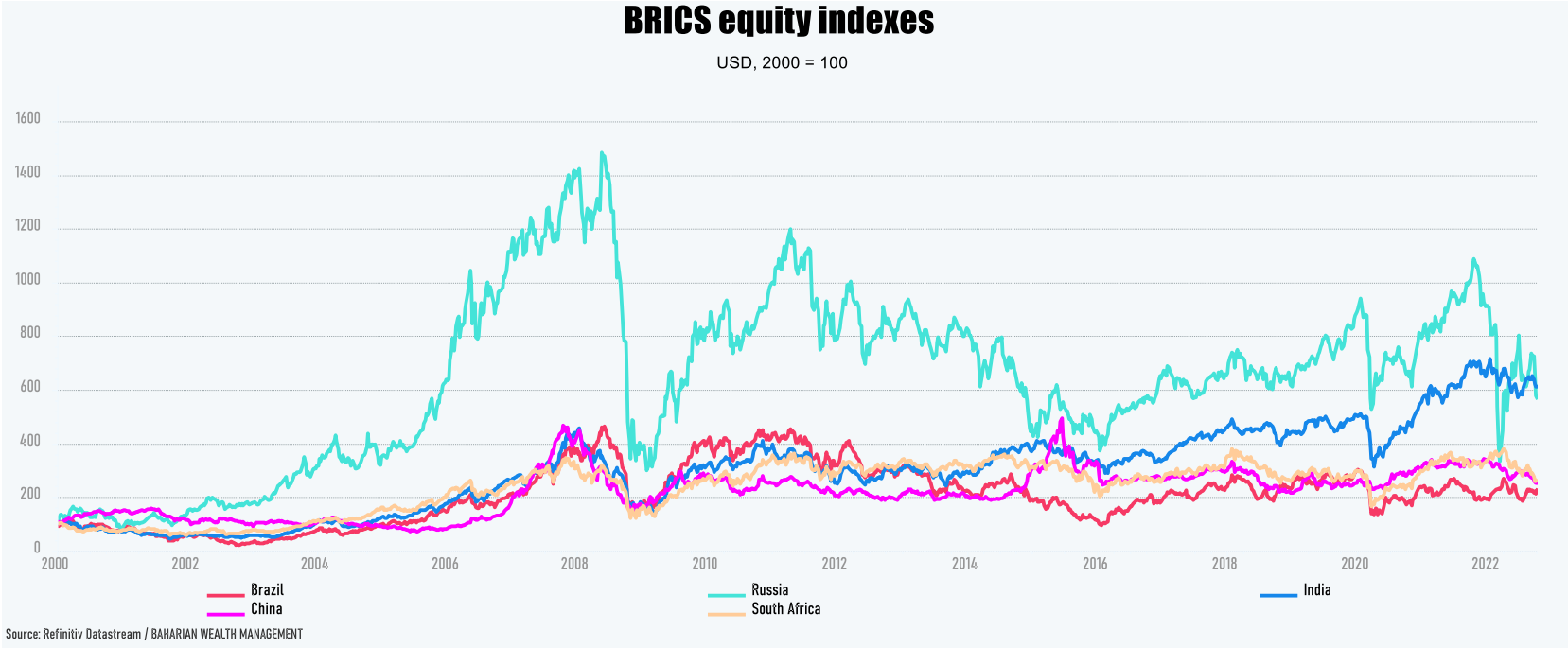


Equity markets.

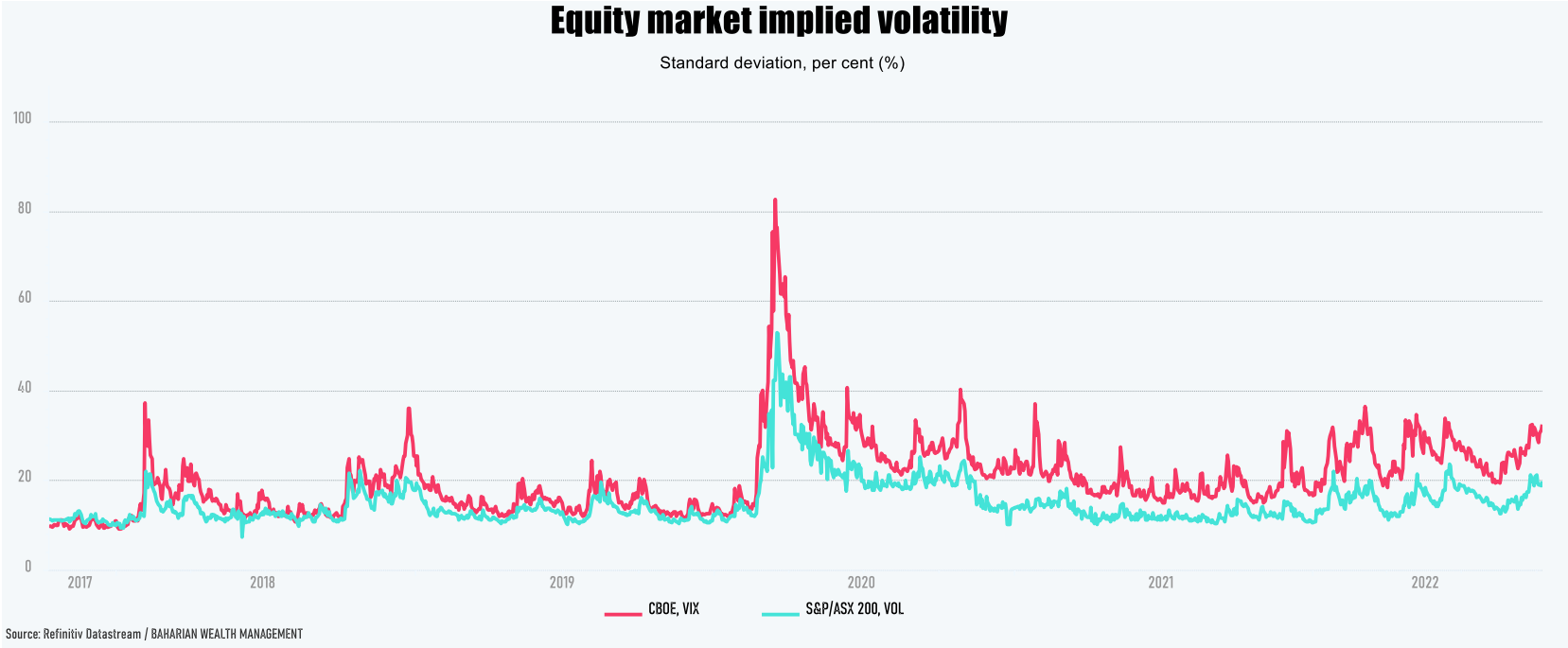
Global equity indexes



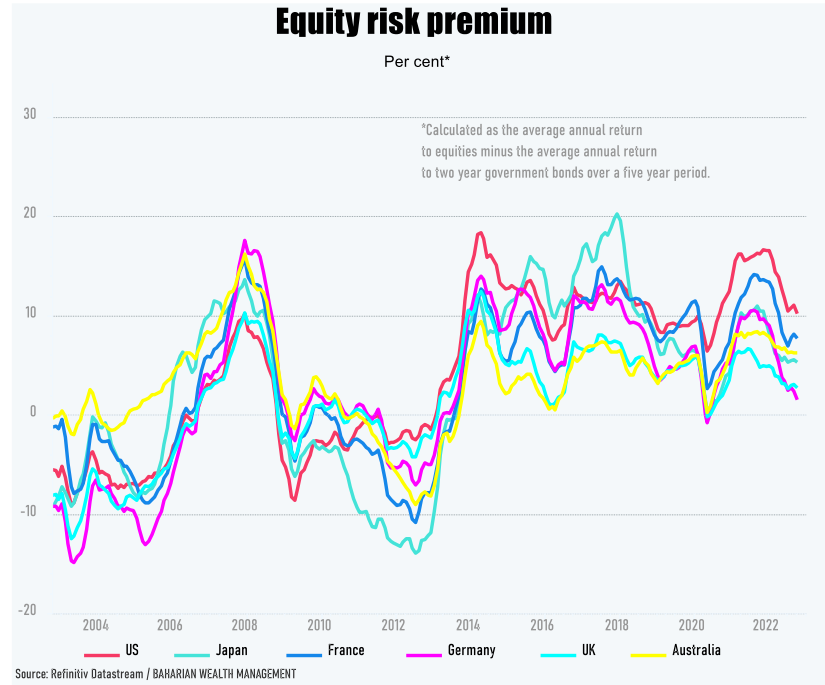
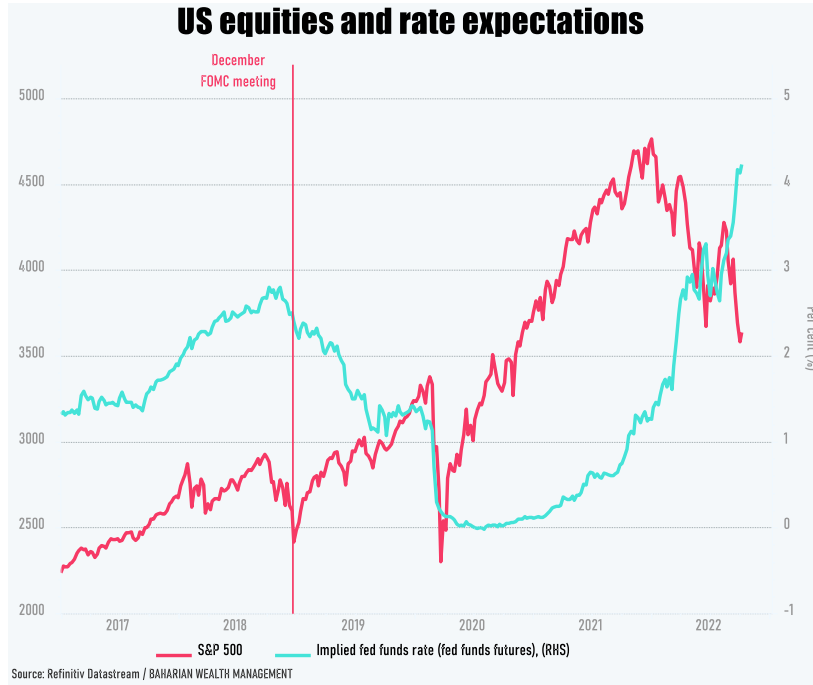
Emerging market indexes



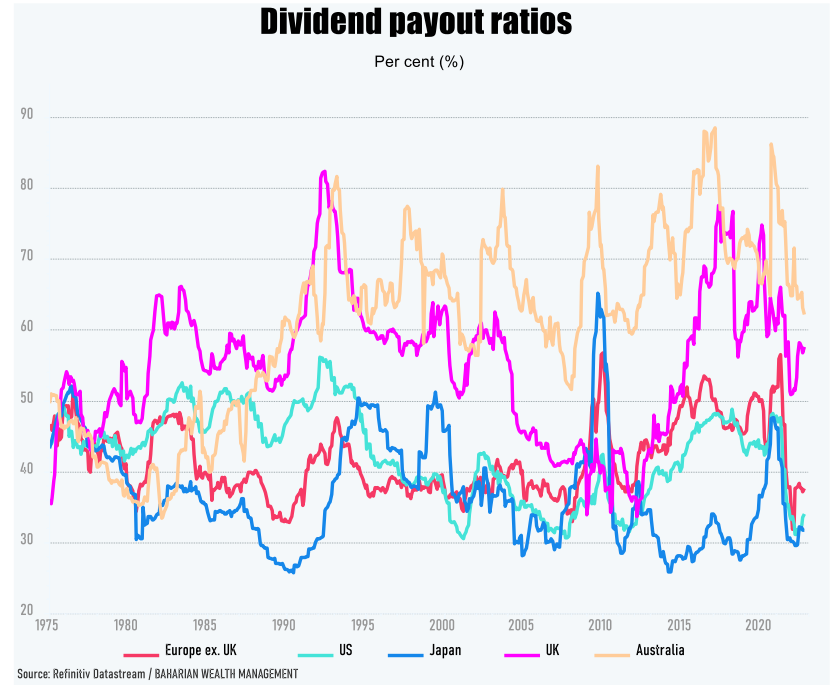
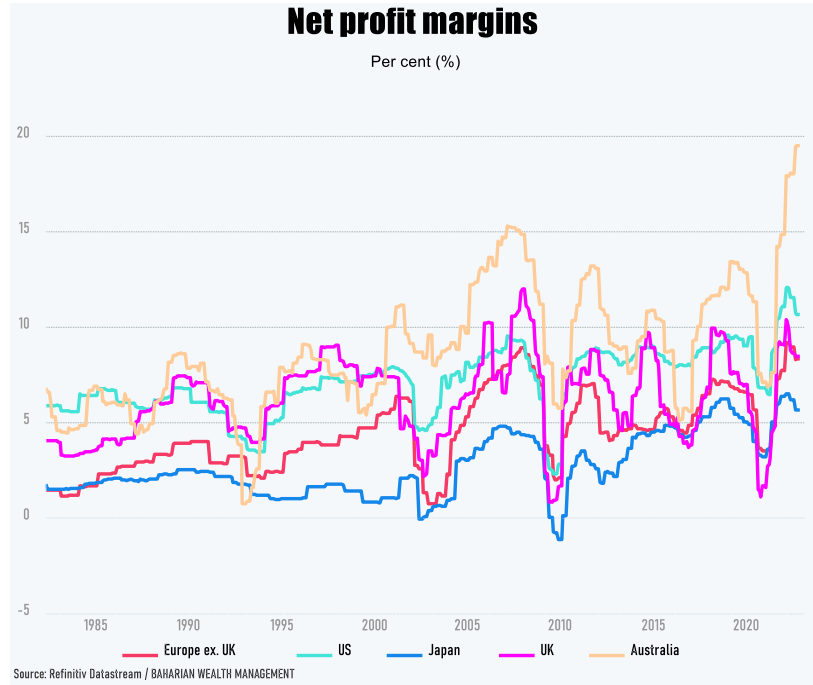
Volatility



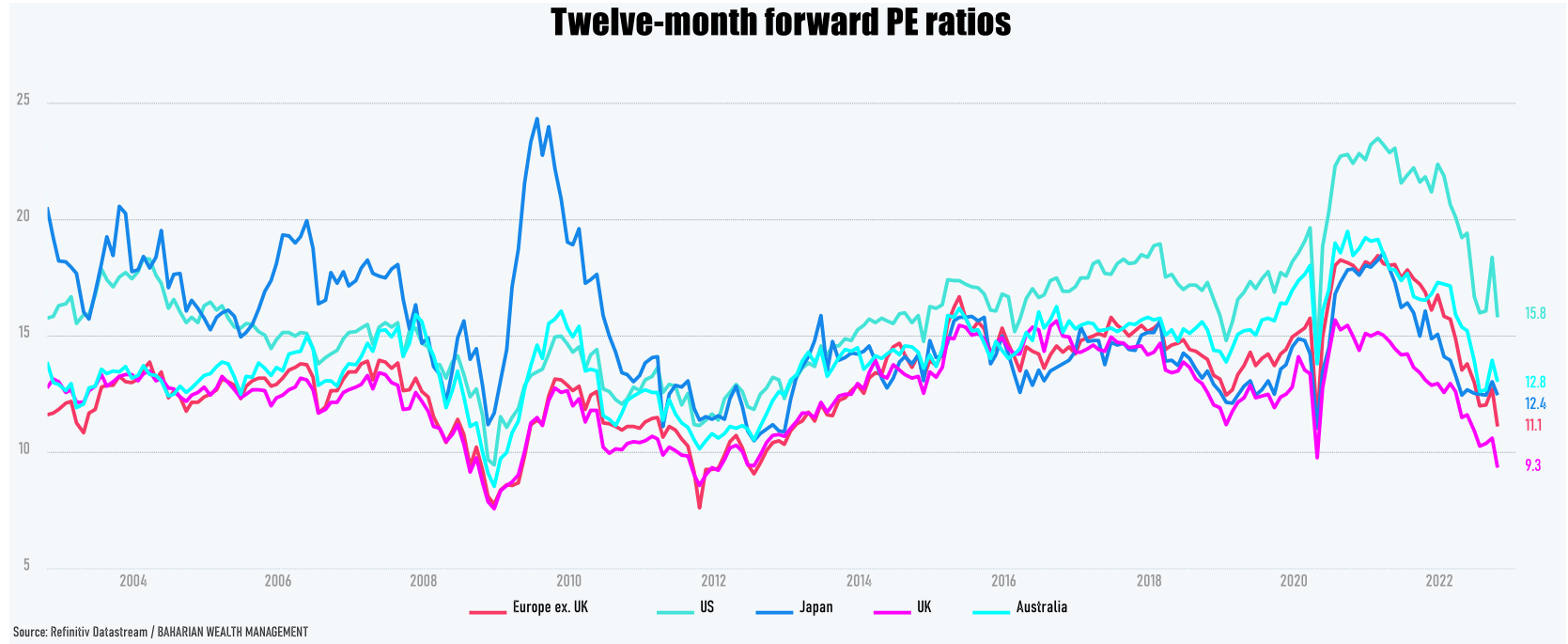
Risk premium



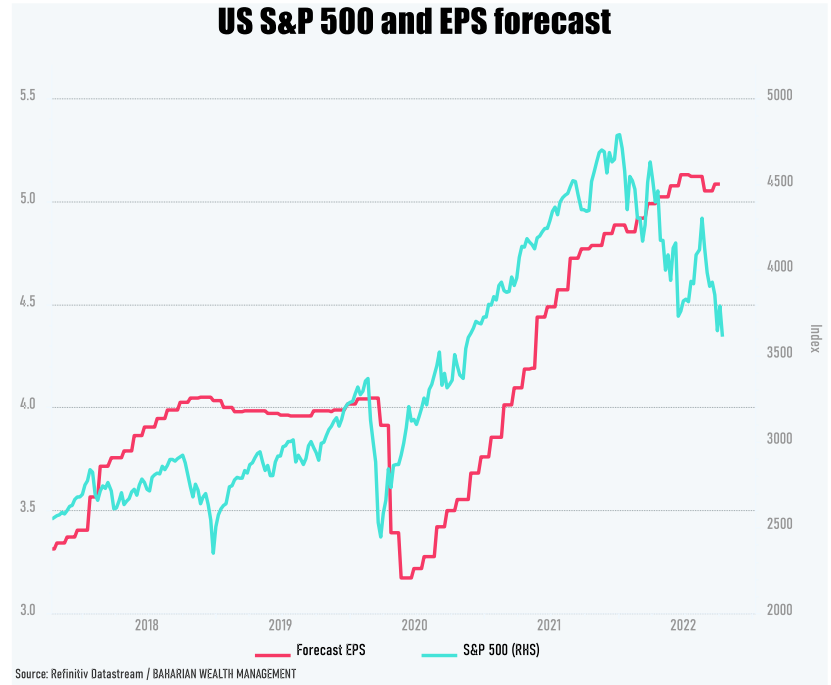
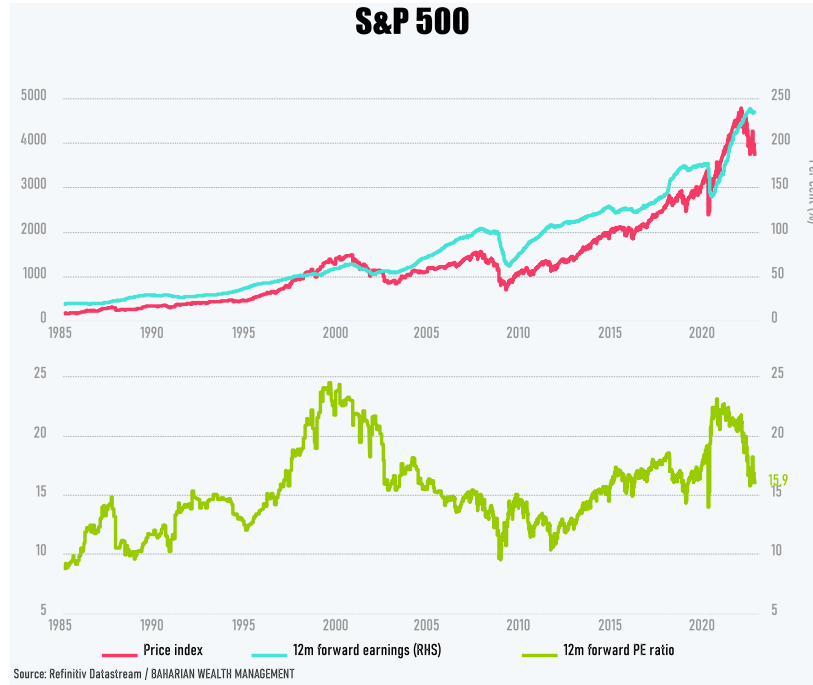
Corporate profits and payouts



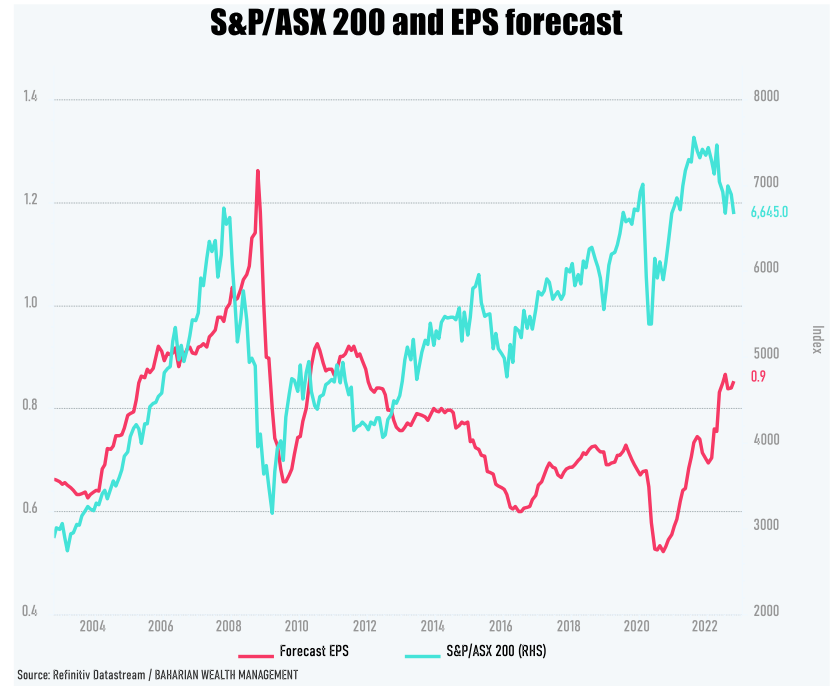
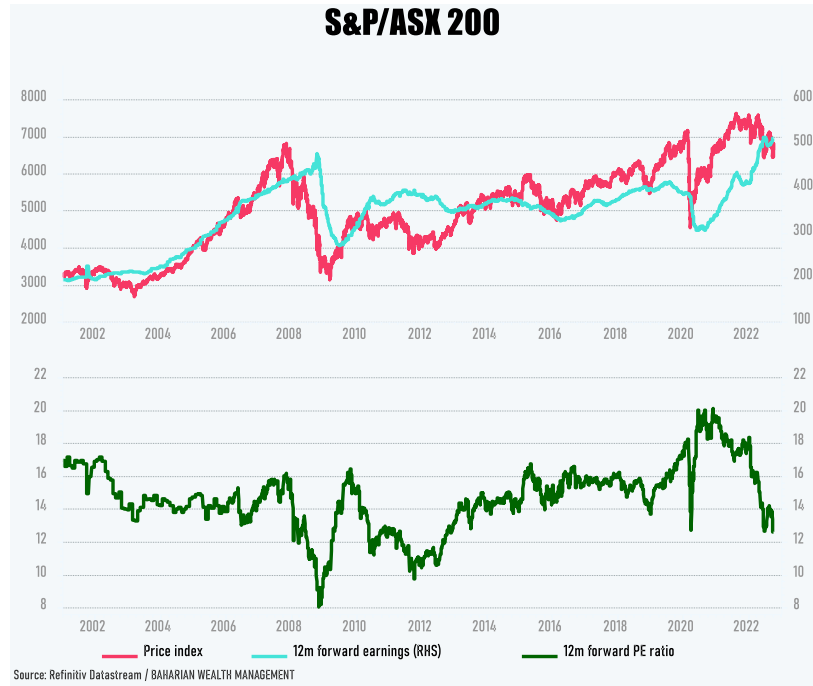
P/E ratios



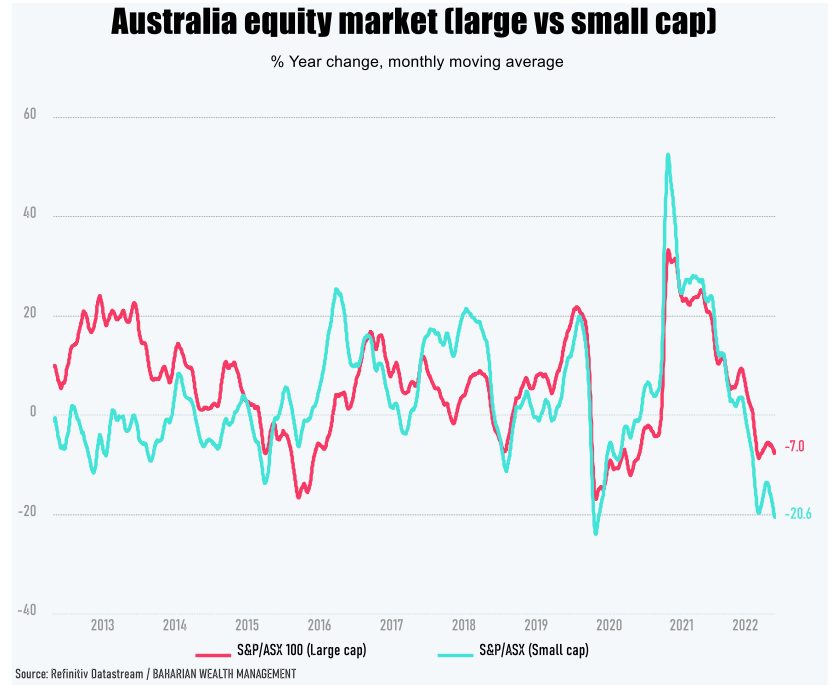
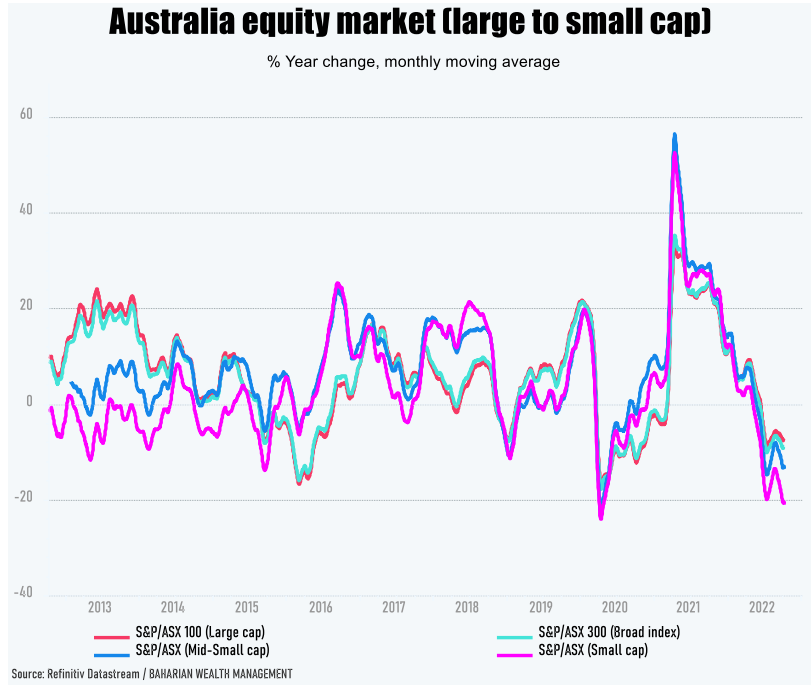
P/E ratios & S&P 500 index returns



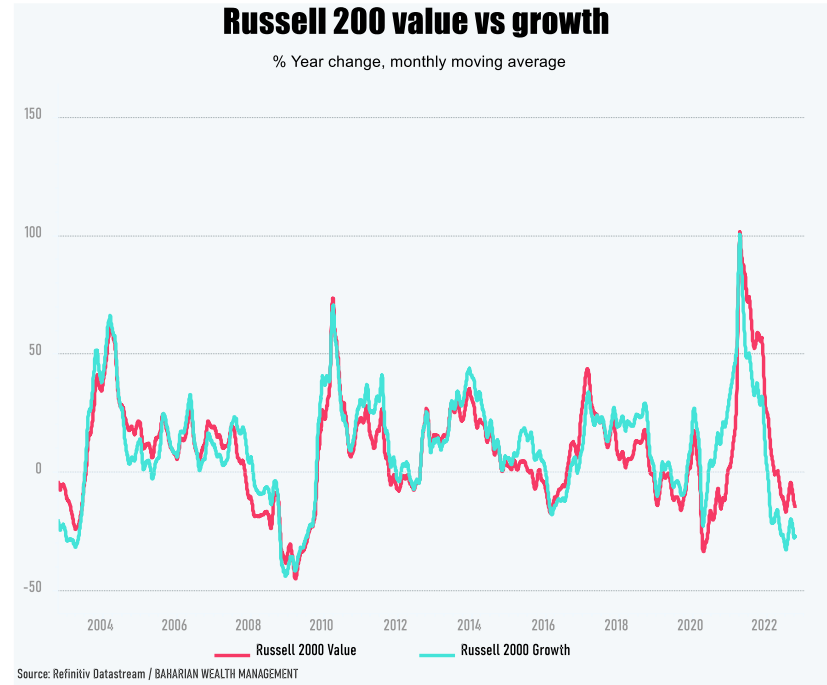
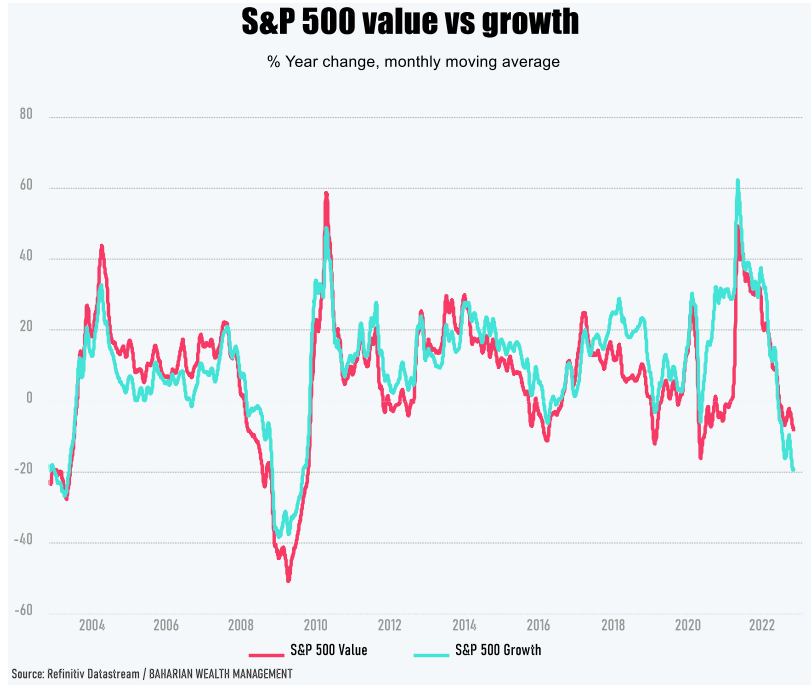
P/E ratios & S&P/ASX 200 index returns



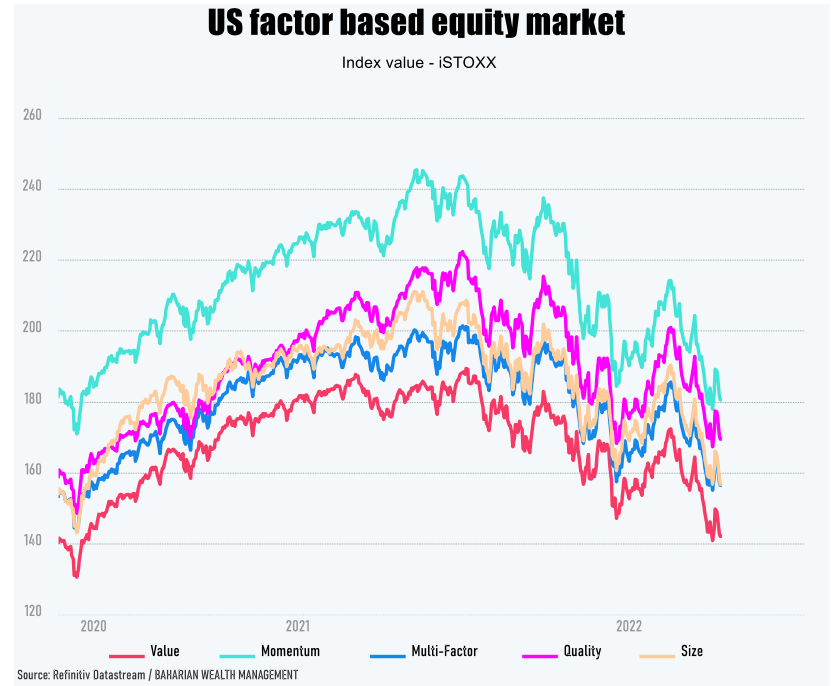
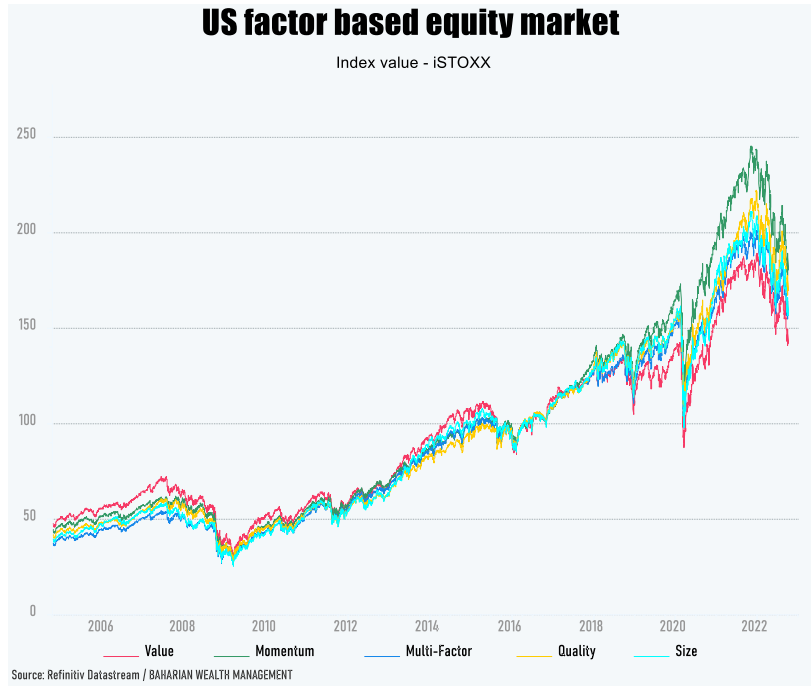
Factors: large versus small



Factors: value versus growth



Factors (other)



Fixed income markets.

Government bonds

Ten-year government bond yields

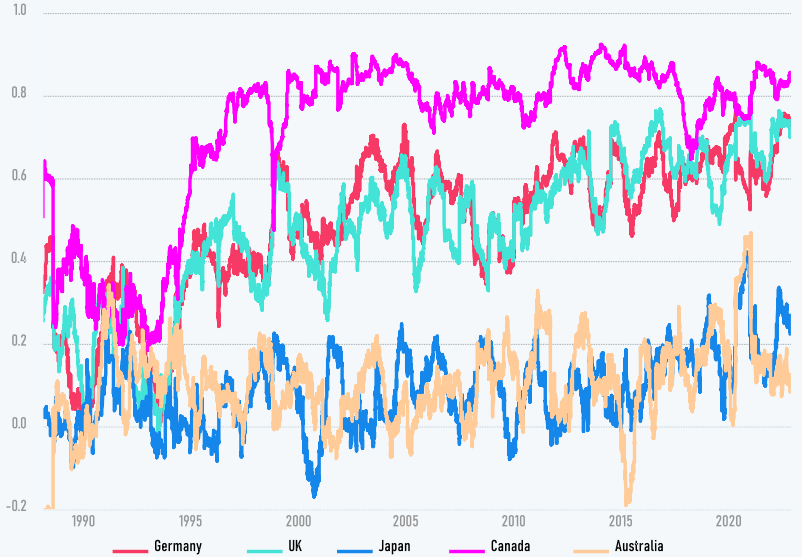
Per cent (%)



Source: Refinitiv Datastream / BAHARIAN WEALTH MANAGEMENT

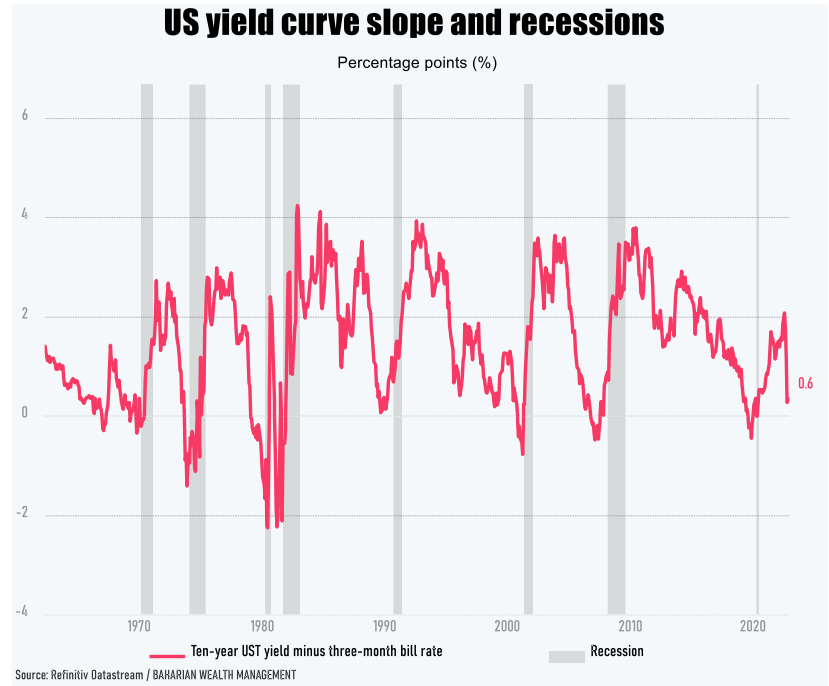
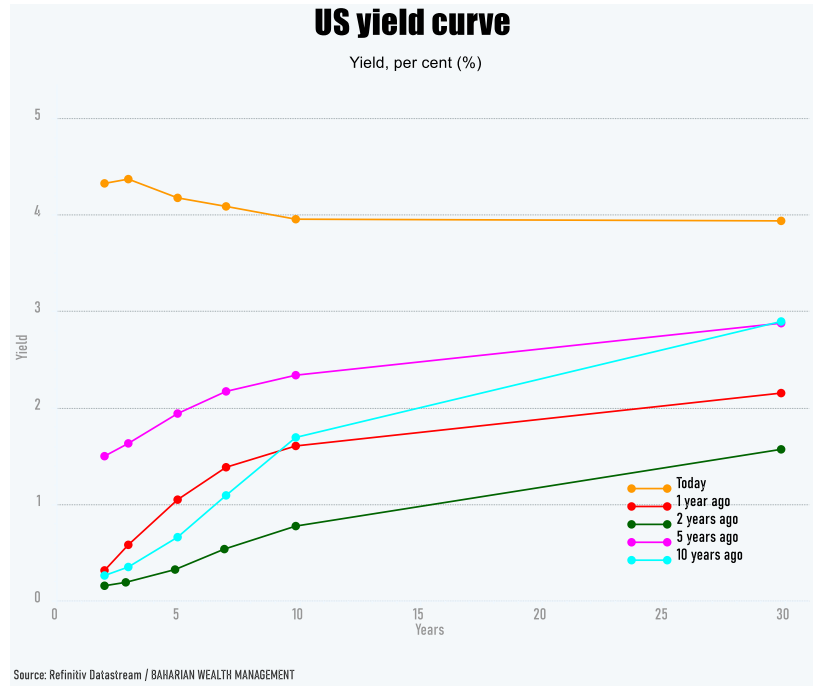
Sovereign yield correlations vs US

Daily change in ten-year yield, six-month rolling correlation

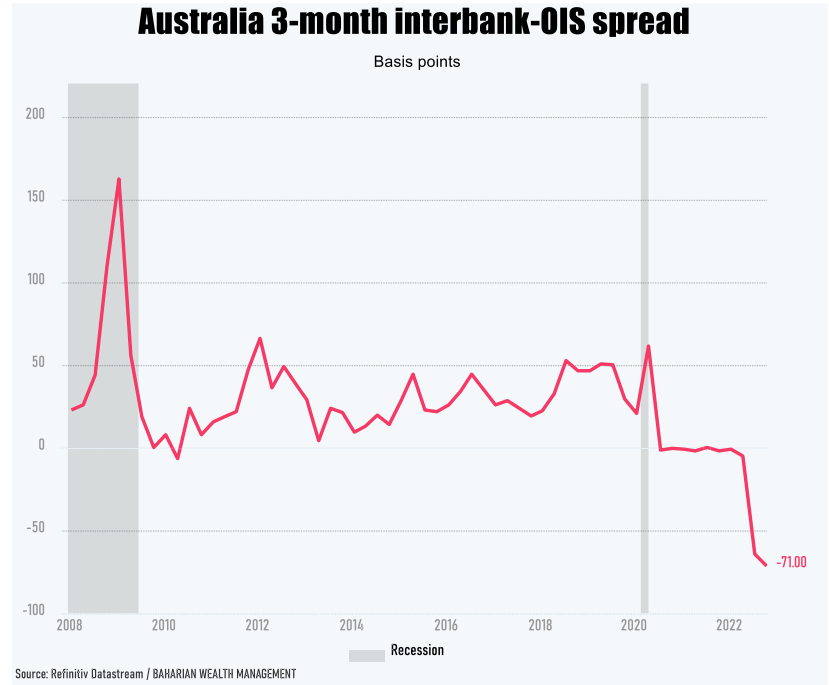
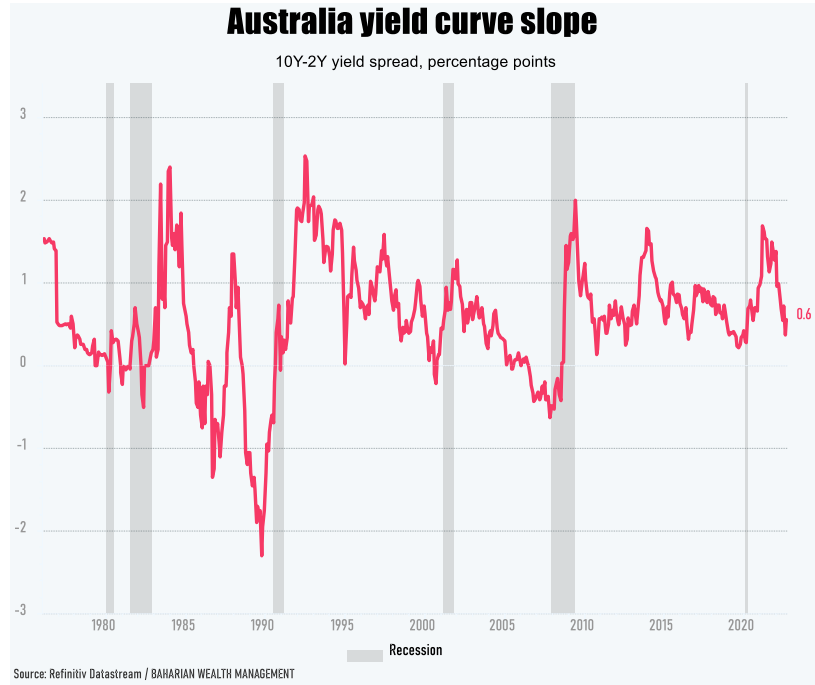


Source: Refinitiv Datastream / BAHARIAN WEALTH MANAGEMENT

Yield curve (US)



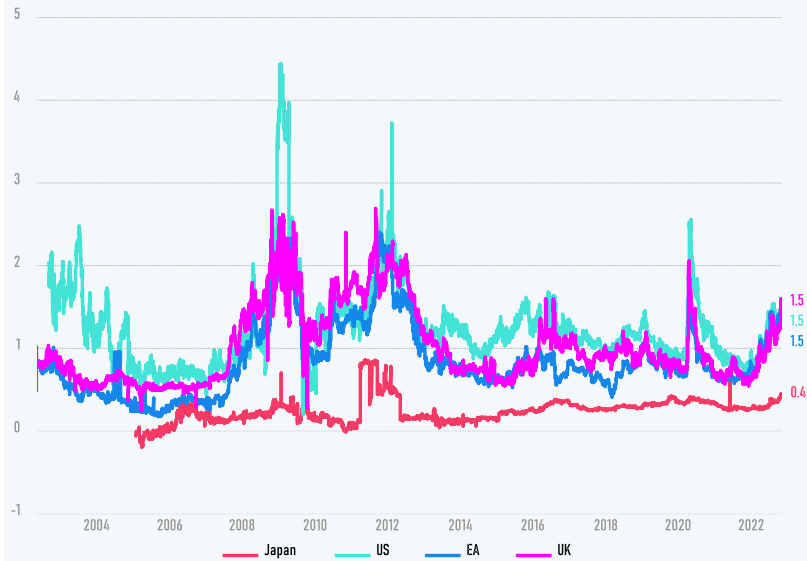
Yield curve (AU) & spread



Bond spreads

AA corporate bond spreads

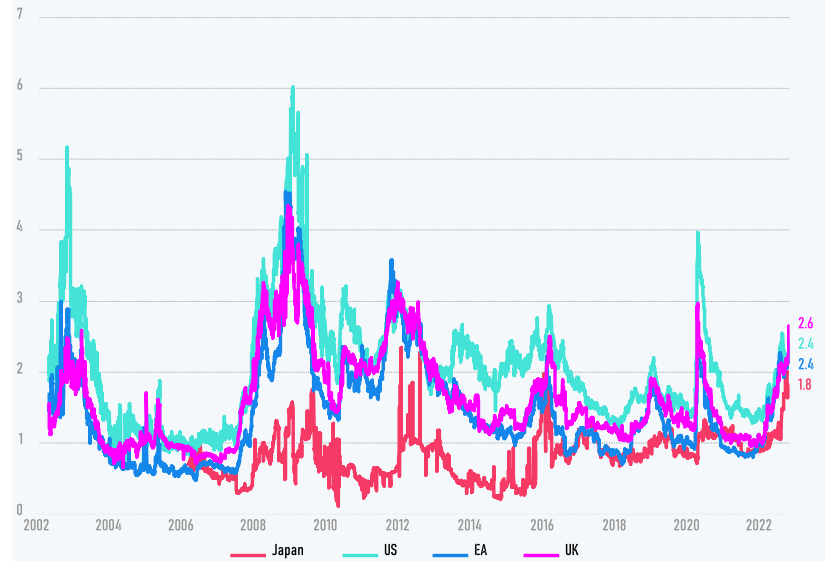
Percentage points over government bonds



Source: Refinitiv Datastream / BAHARIAN WEALTH MANAGEMENT

BBB corporate bond spreads

Percentage points over government bonds



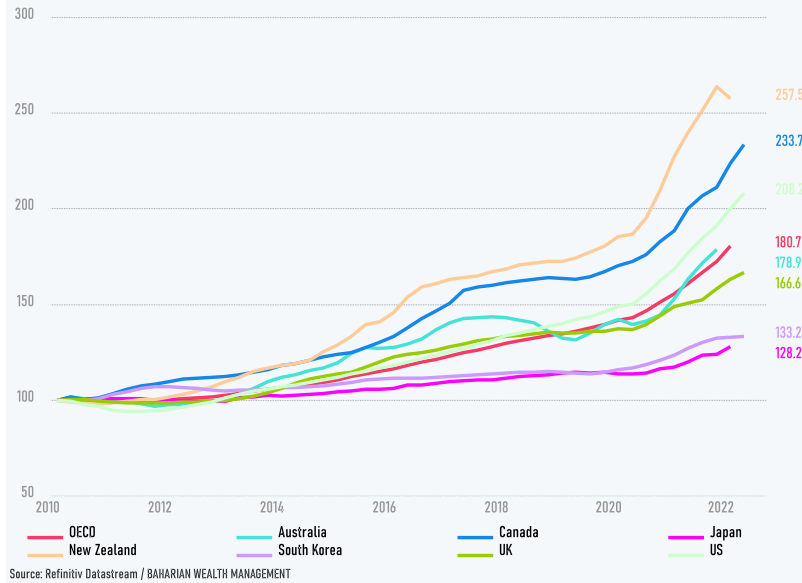
Source: Refinitiv Datastream / BAHARIAN WEALTH MANAGEMENT

Real estate markets.

Price & growth

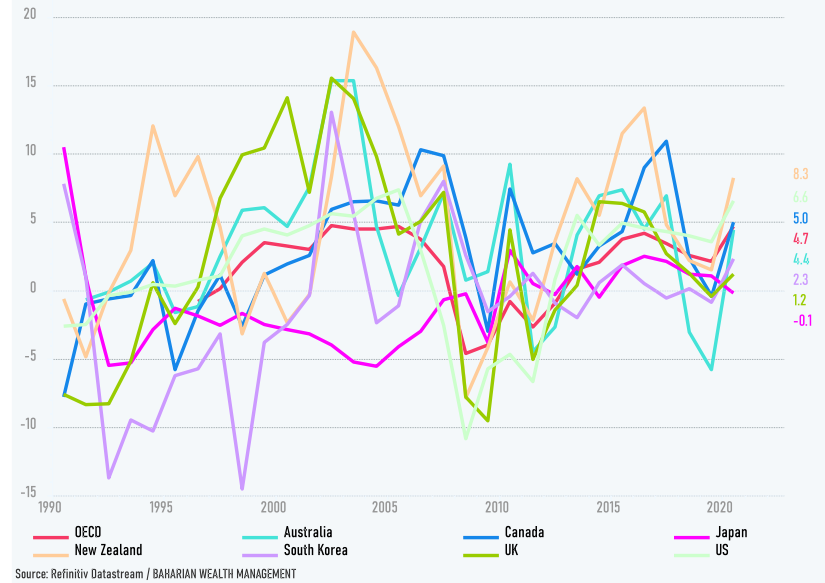
House prices

Index, 2010 = 100



Real house price growth

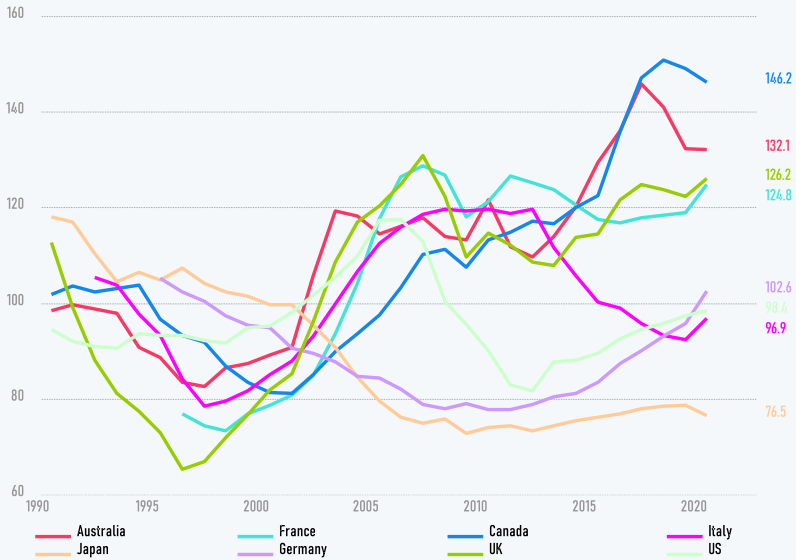
Annual percentage change



Affordability

G7 and Australia house price-to-income ratios

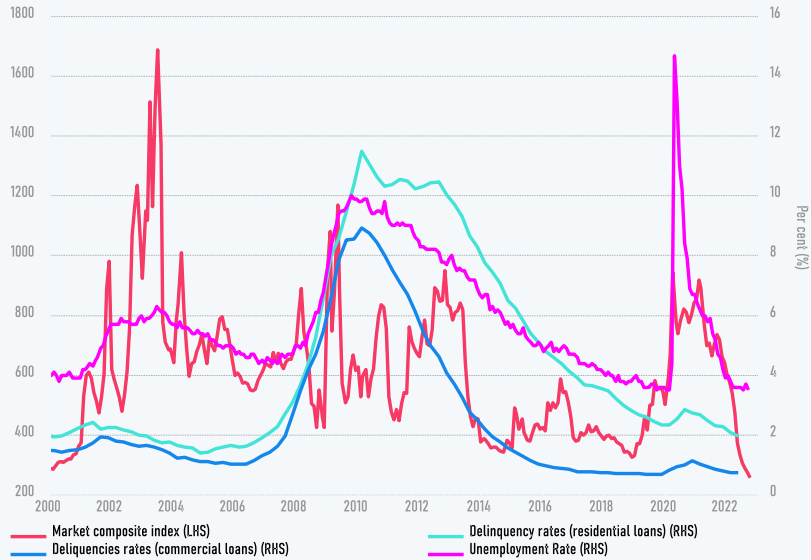
Index, 100 = long term average



Source: Refinitiv Datastream / BAHARIAN WEALTH MANAGEMENT

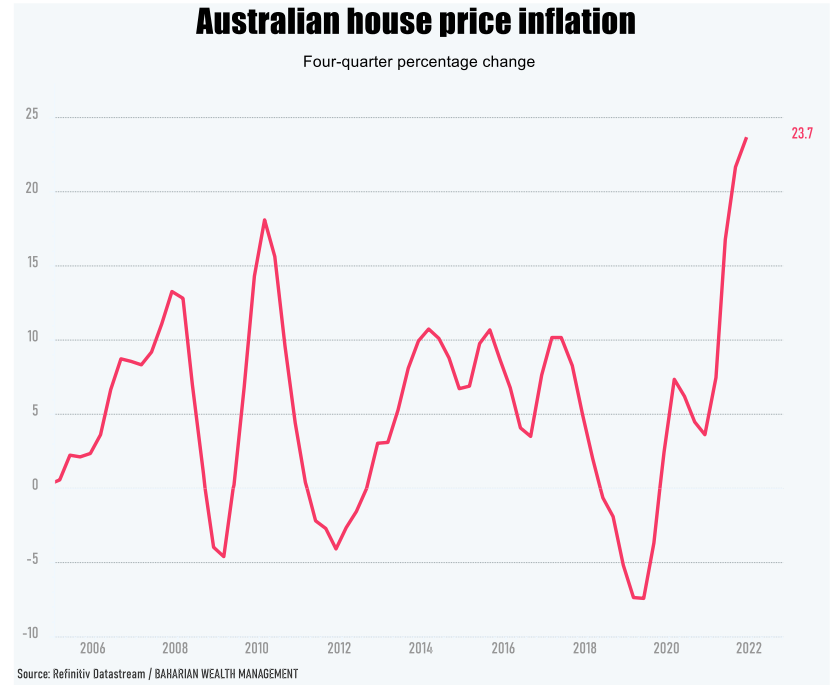
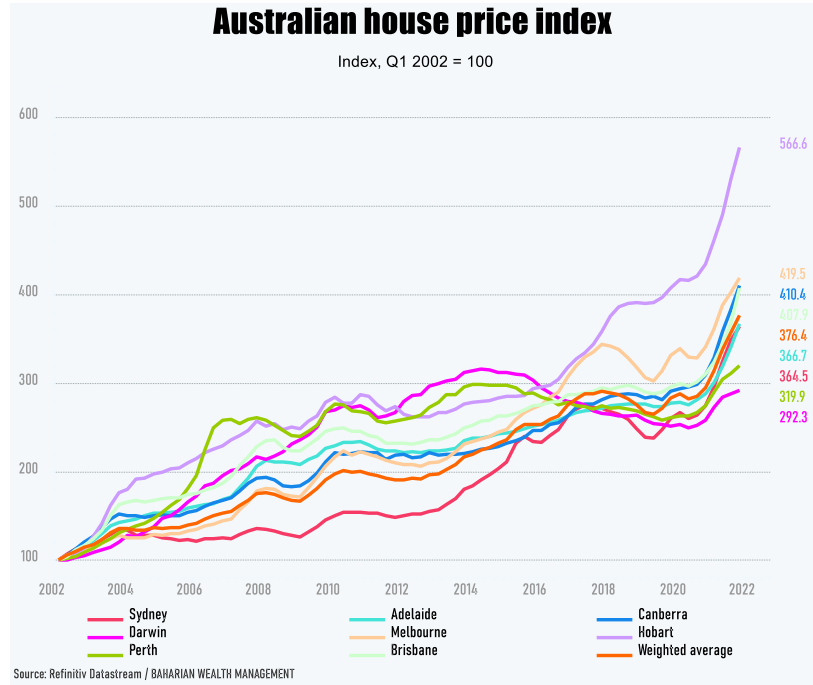
US mortgage applications and delinquencies

Index, four-week moving average - % of outstanding loans



Source: Refinitiv Datastream / BAHARIAN WEALTH MANAGEMENT

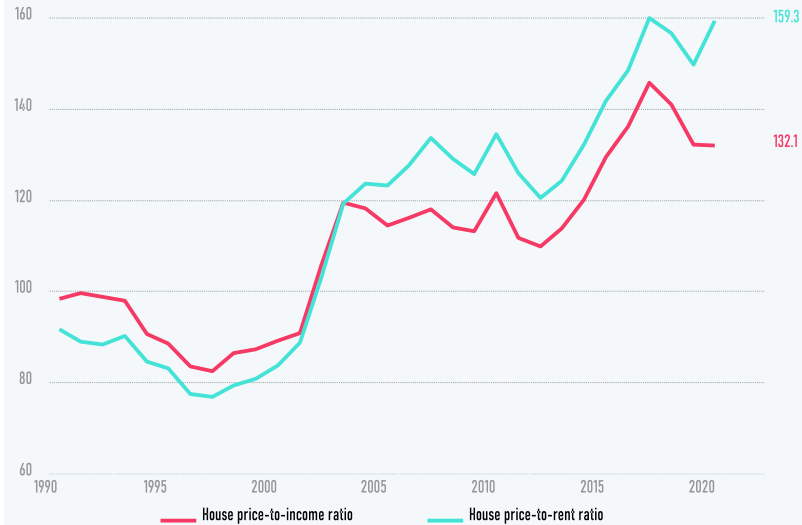
Housing index & inflation



Ratios & approvals

Australian housing market ratios

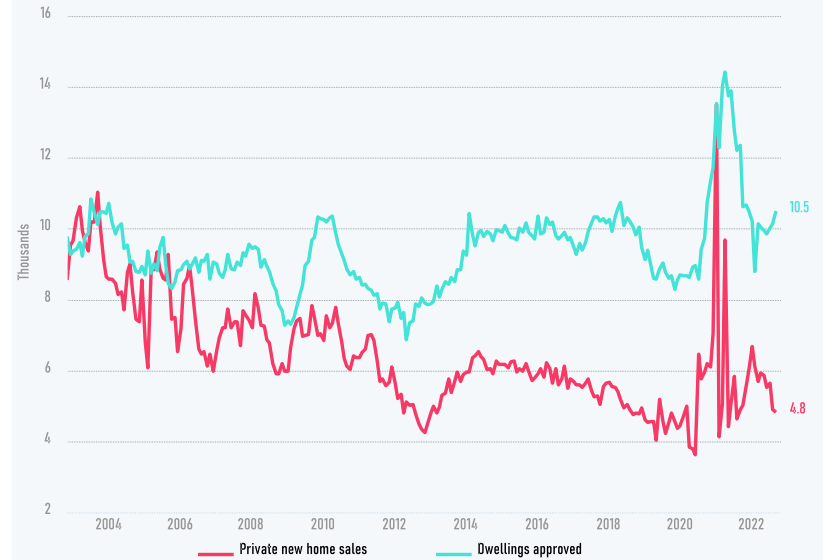
Index, long-term average = 100



Source: Refinitiv Datastream / BAHARIAN WEALTH MANAGEMENT

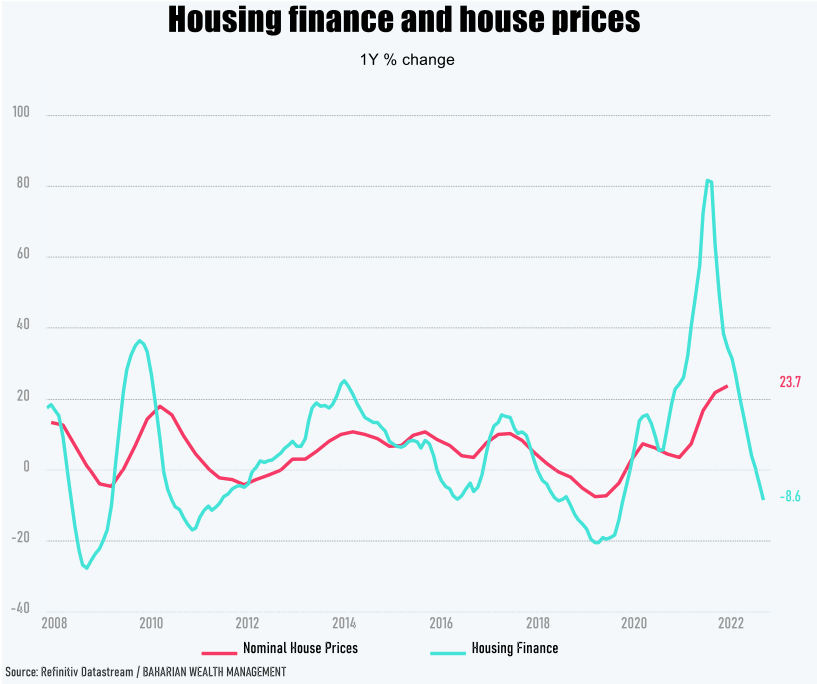
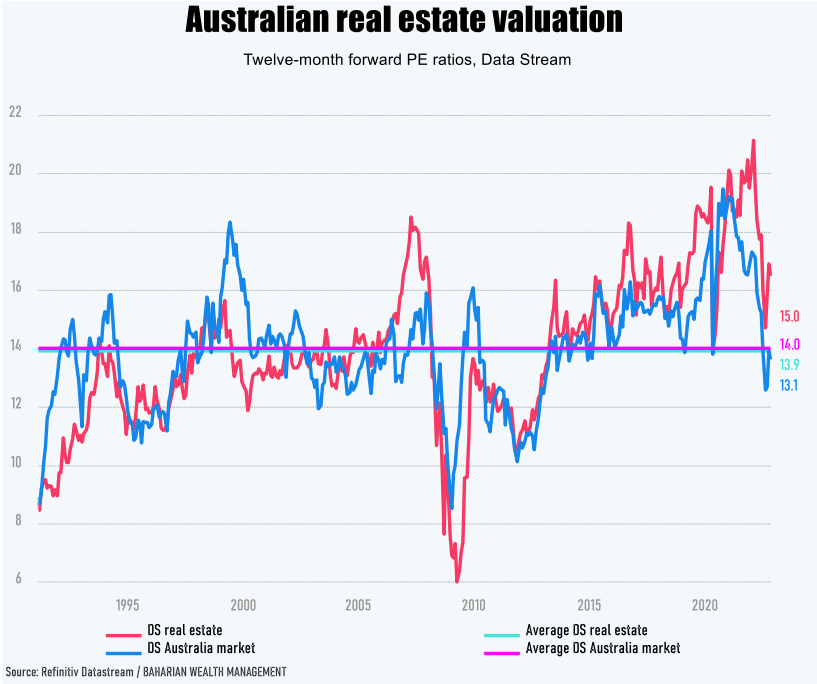
Australian home sales and dwellings approved

Monthly

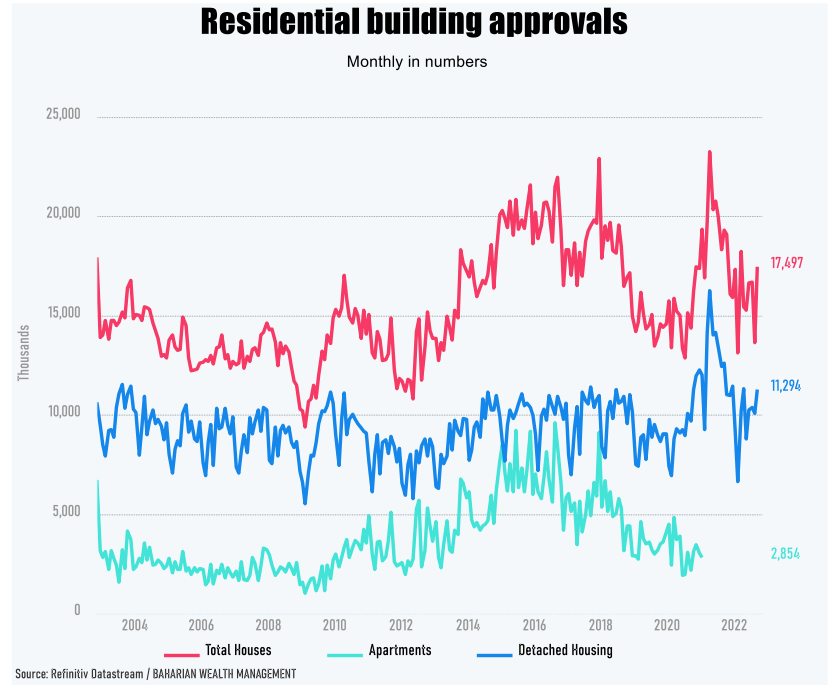
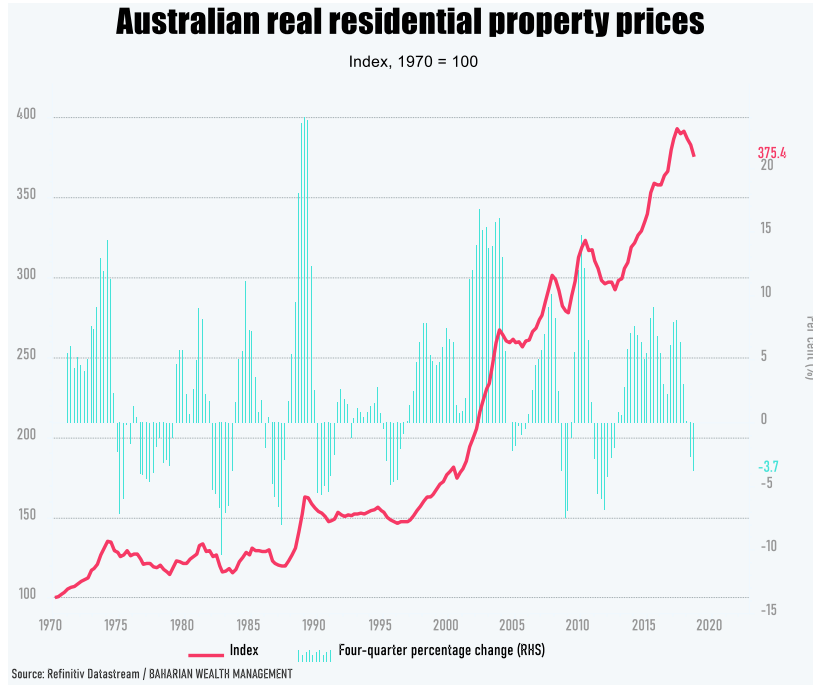


Source: Refinitiv Datastream / BAHARIAN WEALTH MANAGEMENT

Valuation & finance commitments



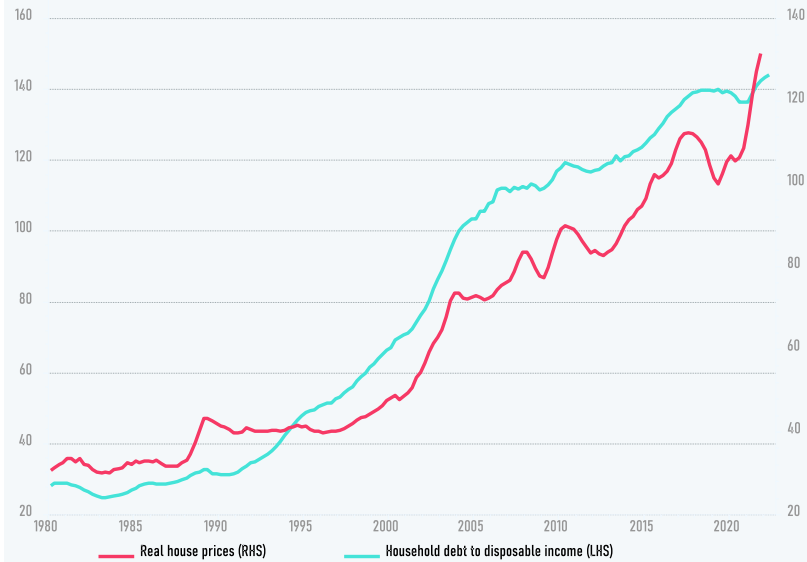
Prices & approvals



Prices & debt

House prices and household debt

House prices and household debt have gone up together



Source: Refinitiv Datastream / BAHARIAN WEALTH MANAGEMENT

Growth in housing related debt

Housing credit at record lows (% yearly change)



Source: Refinitiv Datastream / BAHARIAN WEALTH MANAGEMENT

Important information

Any reference to “DS” relates to the source of information: Data Stream.

Any reference to “Recession” relates to a United States Recession.

Any reference to “Fathom” and its “scenarios” relates to research completed by “Fathom Consulting” – a firm that provides bespoke, independent macro research and advice on the macro economy and financial markets to a number of the world’s leading corporate and financial institutions, governments and policy groups.

Some definitions:

FMPI (Fathom Macroeconomic Policy Indicator)

- Fathom’s Macroeconomic Policy Indicator (FMPI) weights together both fiscal and monetary policy to give an overall measure of the degree of macroeconomic stimulus in any given country.
- A positive score in the chart implies that policy is tight, and a negative score that it is loose. The FMPI is calibrated so that a reading of minus one implies that the stance of macroeconomic policy is sufficiently loose to boost growth in demand by one percentage point relative to growth in supply.

CMI (Fathom China Momentum Indicator)

- CMI 2.0 is based on ten alternative indicators for economic activity; some of those indicators include railway freight, electricity consumption, and the issuance of bank loans.
- Fathom has stated that in CMI 2.0, the calculation of the index avoids measuring construction activity, and instead focuses on shadow measures of economic activity. The consulting group says this allows the index to be “less prone to manipulation than the headline GDP figures.”

Important information (2)

Australia Consumer Survey of Melbourne Institute

- The Consumer Sentiment Index is calculated as the balance of optimism relating to five questions about the general economic outlook. The five questions include people's assessment of: 1. Current family finances compared to a year ago, 2. Family finances over the coming 12 months, 3. Economic conditions in Australia over the coming 12 months, 4. Economic conditions in Australia over the next five years and 5. Whether it is a good or bad time to buy major household items. Each question can be represented by an index that is equal to the per cent of optimists minus per cent of pessimists plus 100. The Consumer Sentiment Index is an average of the five component indexes. The Current Conditions Index is the average of question 1 and 5 above. The Consumer Expectations Index is the average of questions 2, 3 and 4. Westpac Banking Corporation, the University of Melbourne and the Melbourne Institute give no representation, make no warranty, nor take any responsibility as to the accuracy or completeness of any information contained herein and will not be liable in contract, tort, for negligence or otherwise for any loss or damage arising from reliance on any such information. The Westpac - Melbourne Institute Consumer Sentiment Index presents the results of a survey of over 1200 households together with the professional analysis and views of the Melbourne Institute.

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