Frontier Advisors

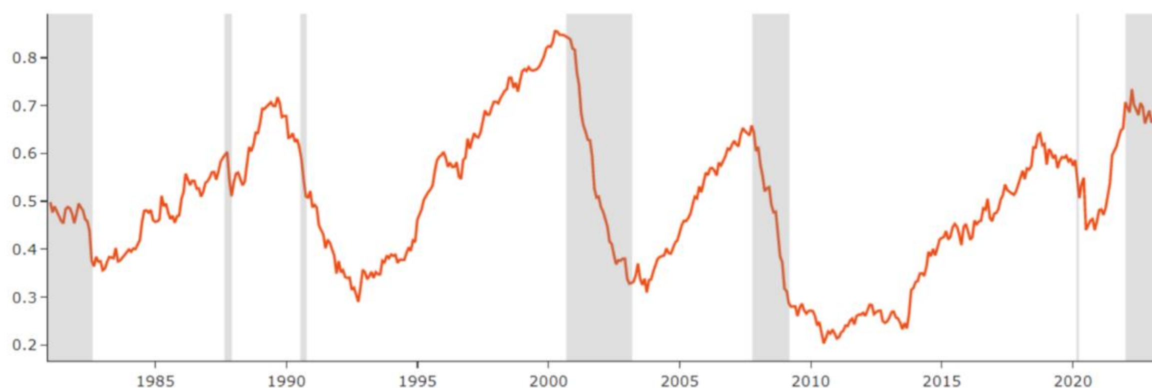
Global market developments and investment portfolio implications

June 2023

Market risk is at its highest point in almost two decades, according to the Frontier market risk index, as central banks continue their battle to tame high inflation.

“Overall, our view is to be underweight risky assets because of this risk environment we’re in right now,” KC Low, Senior Consultant, Frontier Advisors said as part of a panel discussion on global market developments and investment portfolio implications.

Frontier market risk index



Source: Frontier Advisors

Low said the US labour market was now set to feel the impact of the Fed’s rate rises given a typical 12-month lag after a rate hiking cycle begins. Historically, equity markets also tend to bottom when the US ISM PMI troughs and the unemployment rate begins rising.

Australia to avoid recession

Adelaide Timbrell, Senior Economist, ANZ Research said consumer discretionary spending was decreasing across the board but Australia would avoid a technical recession (GDP declining for two consecutive quarters).

“What stops us from calling a technical recession is we've got huge amounts of population growth and we also have some other protective factors.”

However, if the RBA continues to hike interest rates beyond 4.35% (one more rate rise), the narrow path to avoid recession becomes increasingly more difficult.

While official rates have increased at a record pace over the past year, residential property prices surprised with a third consecutive monthly rise to May according to CoreLogic data.

“There’s enough resilience in the household sector that inflation is going to continue to be a problem,” she said.

Allison Hill, State Chief Investment Officer, QIC, also said Australia would avoid a recession, although the US was likely to post a shallow recession and Europe was already in a technical recession.

“We've just had official interest rate rises of about 500 points in a very, very quick period of time,” she said. “That causes stress through economies in different parts of the market. We've seen a little bit of

that with the regional banking market in the US, but I suspect there will be other pockets of stress which will emerge as well."

Investment opportunities

Hill pointed to investment opportunities in the debt sector given spreads have moved out, the energy transition as government support for renewables continues to increase, and artificial intelligence.

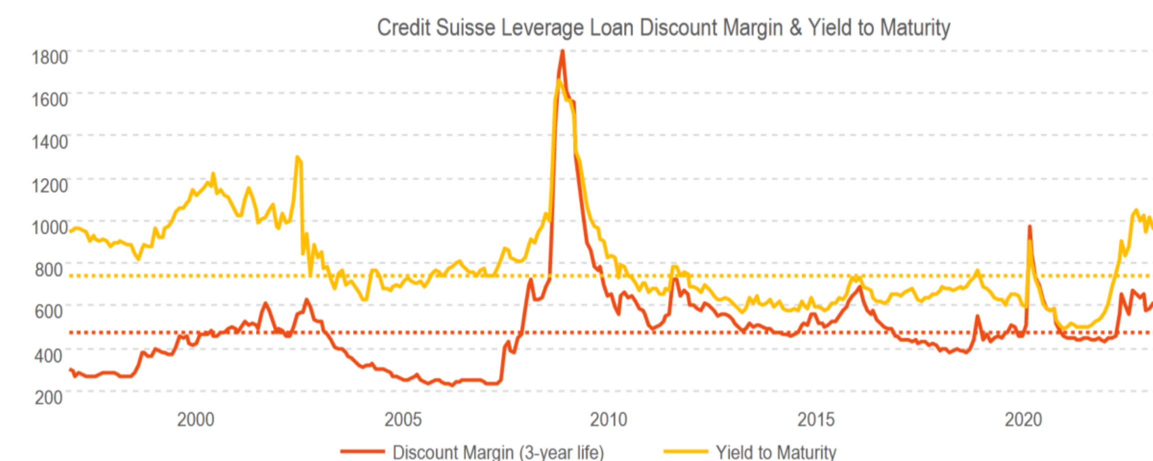
"You could argue that perhaps that thematic isn't fully priced yet. Maybe there is further to go when you compare that to say, the 2000 period."

Low said bonds have become more attractive as yields have increased but there was a risk that inflation could remain significantly elevated.

"It's not quite at that stage where we're saying we want to be overweight bonds, but we're definitely adding back into it given where bond yields have increased to."

He highlighted bank loans as an attractive opportunity based on a current yield to maturity of about 10%.

Loan yields at around 10%



Source: Refinitiv Datastream

While the US equity market had performed strongly since mid-March, the rally was largely driven by just a few major stocks – a situation that had previously occurred in 2000 before the tech bubble and 2020 following the COVID-19 pandemic. Low said the current rally had more in common with the unsustainable 2000 period.

"In 2020 we had rate cuts and a lot of stimulus. This time around, we're not expecting stimulus to come through and interest rates are still increasing."