Ordinary Meeting

Meeting Date: Monday, 22 August, 2022
Location: Council Chambers, City Administrative Building, Bridge Road, Nowra

Attachments (Under Separate Cover)

Index

13. Reports

Monthly Investment Report

July 2022

IMPERIUM MARKETS
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IMPERIUM MARKETS

Impact of COVID-19 to Council's Portfolio

The COVID-19 pandemic has adversely impacted financial markets, which in turn, has also affected Council's investment portfolio. We provide a quick summary in this section.

After global central banks set official interest rates back to emergency levels during the height of the pandemic (2020), financial markets have transitioned to the recovery phase. Ongoing supply chain issues, China's zero-COVID strategy and the war in Ukraine has resulted in surging inflation. Longer-term bond yields have risen significantly in 2022 as central banks reverse their policy measures (i.e. remove quantitative easing), whilst undertaking aggressive interest rate hikes to try and control inflation. Importantly though when interpreting the stance of monetary policy, it is not just about the cash rate, but how broader financial conditions are influencing the economic outlook, **with markets now factoring the possibility of a global recession as early as the second half of 2023**. **The RBA increased the official cash rate by another 50bp to 1.85% in early August 2022 and is looking to move towards their neutral setting of 2½% by calendar year-end**, although the "*timing of future interest rate increases will be guided by the incoming data and the Board's assessment of the outlook for inflation and the labour market*".

Outside of the NSW TCorp Long-Term Growth Fund, which Council only began investing in mid-July 2021, the largest impact to Council's investment portfolio is with regards to its largest exposure being assets held in bank term deposits (fixed and floating), which accounts for around ~58% of Council's total portfolio. Despite official rates rising, given an upward sloping deposit curve, maintaining a slightly longer duration position will continue to outperform averaging shorter durations.

With markets factoring in additional rate hikes over coming months, this has seen a significant shift in longer-term deposit rates, particularly over the past 6 months. The long-end of the deposit curve (+12 months) actually fell over July (compared to June) as the market starts to factor in a global recession: