



Monthly Investment Report

April 2022



IMPERIUM MARKETS

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Summary

Market Update

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

The RBA cut rates to record lows on 3rd November 2020 to 0.10%, consistent with most global central banks resetting their official rates to emergency levels. As global markets transitioned to the recovery phase, supply chain issues has resulted in surging inflationary pressures. Longer-term bond yields have risen significantly in recent months as central banks reverse their easing policy measures (i.e. quantitative easing), whilst also flagging the potential to aggressive hike official interest rates and much quicker than previously anticipated in order to control inflation. **Markets are now bracing an environment where central banks will move from their excessively loose policy measures to a rapid tightening cycle. The RBA moved on 3rd May by lifting rates by 25bp to 0.35%.**

Term Deposits

Term Deposits (fixed and floating) account for around 75% of the total investment portfolio at month-end.

Council's term deposit portfolio was yielding 1.67% p.a. at month-end, with a weighted average duration of around 512 days or ~1.40 years. The current average yield remains very attractive given the dramatic falls in the official cash rate. With an upward sloping deposit curve, investors are rewarded if they can continue to maintain a longer average duration.

As the past decade or so has highlighted (post-GFC era), we have seen too many portfolios overpay for liquidity and generally not insured themselves by diversify their funding across various tenors. Those investors that can maintain a weighted average duration of +12-18 months are likely to yield, on average, up to 1% p.a. higher than those investors who maintain a weighted average duration of less than 6-9 months.

- The highest deposit rate from any rated ADI in the market is now ~4.20% p.a. for 5 years;
- The highest deposit rates amongst the "AA-" rated ADIs (major banks) is now yielding between 2.50%-3.95% p.a. (for terms between 12m-5yrs);
- The highest deposit rates amongst the "A" rated ADIs was yielding between 2.50%-4.20% p.a. (for terms between 12m-5yrs);
- The highest deposit rates amongst the "BBB" and unrated ADIs was yielding between 2.50%-4.00% p.a. (for terms between 12m-5yrs).

With markets factoring in official rate hikes over coming months (3rd May is a live possibility), this has seen a significant shift in longer-term deposit rates. 'New' investments above 2% p.a. now appears likely if Council can place its surplus funds for terms of +9 months.

Senior FRNs

Council's senior floating rate notes (FRNs) make up around 3% of the total investment portfolio at month-end. The market valuation of Council's FRNs collectively rose around **+0.30% (actual)** during April 2022 (or **+\$51,788 in dollar terms**).

Summary	31 Mar 2022	30 Apr 2022	Net Flow (\$)	Monthly Change %
Face Value	\$17,150,000	\$17,150,000	\$0	+0.00%
Market Value	\$17,121,365	\$17,173,153	\$51,788	+0.30%

We highlight that Council's FRNs are senior ranked assets and high in the bank capital structure. We expect that, if held to maturity, the FRNs will pay back its original face value (\$100.00), along with its quarterly coupons throughout the life of the security. That is, we do not expect Council to lose any capital or interest payments from its current holding in its senior FRNs given all banks continue to maintain high capital buffers as required by APRA.

At month-end, Council's FRNs are now marked at an **unrealised capital gain of ~\$30,103** (noting some were purchased at a slight discount to par in the secondary market).

BBB rated senior FRNs

As per all FRNs, we have no issues with Council's investments in "BBB" rated senior FRNs given all counterparties continue to hold robust balance sheets with high levels of capital. On a mark-to-market basis, collectively they rose around **+\$3,779 in dollar terms or +0.07% (actual)** for the month:

Summary	31 Mar 2022	30 Apr 2022	Net Flow (\$)	Monthly Change %
Face Value	\$5,500,000	\$5,500,000	\$0	+0.00%
Market Value	\$5,511,656	\$5,515,434	+\$3,779	+0.07%

At month-end, Council's "BBB" rated FRNs are now marked at an **unrealised capital gain of ~\$15,434**.

Senior Bonds

Since September 2020, Council has collectively invested \$31m in Northern Territory Treasury Corporation (NTTC) fixed bonds rated AA- (same as the domestic major banks), locking in yields between 0.90%-1.40% p.a. The weighted average yield on these investments was 1.07% p.a., with a current weighted average duration of 3.22 years.

We believe these investments were sensible given the unprecedented low rate environment. We reiterate that the NTTC bonds are a 'retail' offering and not 'wholesale' issuances. Given the lack of liquidity and high penalty costs if they were to be sold/redeemed prior to the maturity date, they are considered to be a hold-to-maturity investment and will be marked at par value (\$100.00) throughout the term of investment.

During August 2021, Council purchased \$600k in the ING (AAA) covered fixed bond at a yield of 1.16% p.a., which we thought was an attractive yield given the super-senior and highly ranked asset. This is likely to be held for at least 3-4 years, with a view to reassess depending on the prevailing market conditions. Given it is now trading at a significant discount to par, we recommend buying additional units if available, to average-in at a more attractive yield.

TCorp Long-Term Growth Fund

The NSW TCorp Fund accounts for ~5% of Council's total investment portfolio. **The Fund returned -0.88% (actual) during April.** The biggest detractor to the Fund's performance this month was the exposure to international shares and fixed bonds (valuation fell), as markets continue to be spooked by expectations of a series of aggressive rate hikes by global central banks.

Summary	31 Mar 2022	30 Apr 2022	Investment (\$)	Net Return (\$)	Net Return (%)
Market Value	\$29,240,794	\$28,982,395	\$0	-\$258,395	-0.88%

Government bond markets continued to reprice sharply, with the start of 2022 being the worst first-quarter performance for global government bonds in decades, following by another slump in April. Increasing yields were the key market focus as ongoing geopolitical developments exacerbated pressure on supply changes and prices.

The aggressive signalling from the US Federal Reserve (Fed) was a surprise to equity markets, but not in the context of increased pressures on inflation in recent months. The challenge now is for the Fed to drive inflation back towards target without inflicting too much damage on growth. While inflation is now a problem, for risk assets the path of growth through 2022 should prove critical. This second supply shock has increased the risk of recession in the 12-18 months ahead. How central banks navigate the delivery of tighter monetary policy likely holds the key to whether recession becomes a reality, or we experience a 'soft landing' for the economy.

The Fund should be looked at with a long-term view, with a minimum holding period of +7 years. Given the exposure to the volatile asset of shares, Council should expect to see, on average, a negative month once every 3 months over a long-term holding period.



CFS Global Credit Income

The CFS Global Credit Income Fund accounts for around 2½% of Council's total investment portfolio. **The Fund returned -0.97% (actual) in April**, as the market valuation of the fund's assets in global credit securities fell during the month.

Summary	31 Mar 2022	30 Apr 2022	Difference (\$)	Difference (%)
Market Value	\$14,184,337	\$14,046,127	-\$138,209	-0.97%

The Fund holds a diverse range of securities across the global credit market. It remains very well diversified by issuer in order to mitigate default risk. It invests in nearly 600 corporate bonds from issuers in various countries and industry sectors. Any spread contraction going forward allows credit and asset-backed holdings to enjoy significant capital gains.

With a running yield of around +2½-3% p.a., we recommend Council retains this "grandfathered" Fund given the alternative to invest in cash and deposits (Council's approval list) are yielding comparably lower.

Cash Accounts

Cash accounts make up around 8% of Council's investment portfolio at month. Council's cash accounts are likely to yield up to 0.15% p.a. (at most) above the official cash rate over coming years i.e. yield up to 0.25% p.a. at current yields, at best (although balances up to \$10m can yield up to 0.60% p.a. from the Macquarie Bank 'accelerator' account). There is upside risk should the RBA deliver its first rate rise since 2010.

Council's Budgeted Income for FY2021-2022

Council's budgeted income for FY2021-2022 was revised to \$4.0m. Based on an average total investment portfolio size of around \$500m, that equates to a budgeted yield of around 0.80% for the financial year.

As at the end of April 2022, the cumulative actual interest earned was below the revised budgeted income by around \$447k, largely driven by the significant sell-off in shares since the start of 2022. The first half of the financial year was tracking well but was reversed due to the significant selloff in financial markets (e.g. equities, credit assets), escalated by the war in Ukraine and the aggressive rate hikes undertaken by global central banks. The TCorp Long-Term Growth Fund alone has fallen by \$1.874m in 2022, being the biggest detractor to Council's budgeted income this financial year:

Month-End	Cumulative Budget	Cumulative Interest	Difference (\$)
Jul 2021	\$333,333	\$1,016,808	\$683,475
Aug 2021	\$666,667	\$2,030,123	\$1,363,456
Sep 2021	\$1,000,000	\$1,819,096	\$819,096
Oct 2021	\$1,333,333	\$2,032,410	\$699,077
Nov 2021	\$1,666,667	\$2,832,022	\$1,165,355
Dec 2021	\$2,000,000	\$3,665,308	\$1,665,308
Jan 2022	\$2,333,333	\$3,412,974	\$1,079,641
Feb 2022	\$2,666,667	\$2,615,086	-\$51,581
Mar 2022	\$3,000,000	\$2,810,591	-\$189,409
Apr 2022	\$3,333,333	\$2,885,936	-\$447,397
May 2022	\$3,666,667		
Jun 2022	\$4,000,000		

For the remainder of the current financial year, we remain cautious given that risks remain to the downside, particularly if there is a continued selloff in equities and/or bonds.

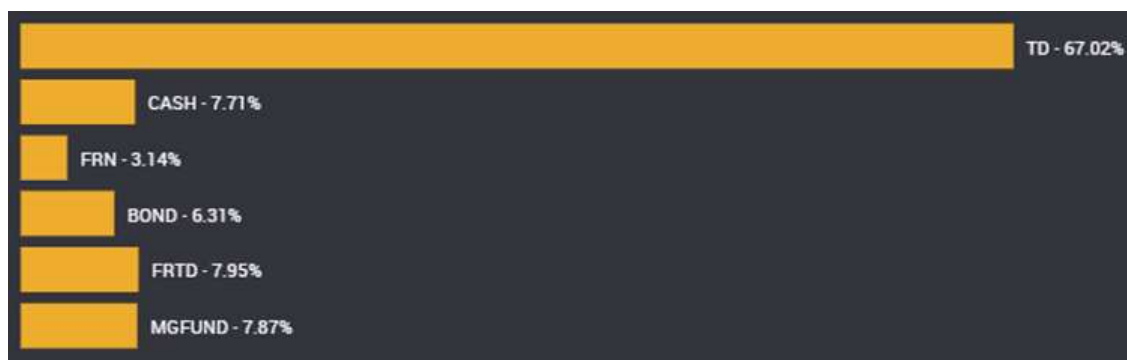
The decision to adopt TCorp's Policy, whereby it has restricted the universe of complying investments and particularly the duration of investments - this has compounded and resulted in the significant drop in income generated over the past 2 years.

Council's Portfolio & Compliance

Asset Allocation

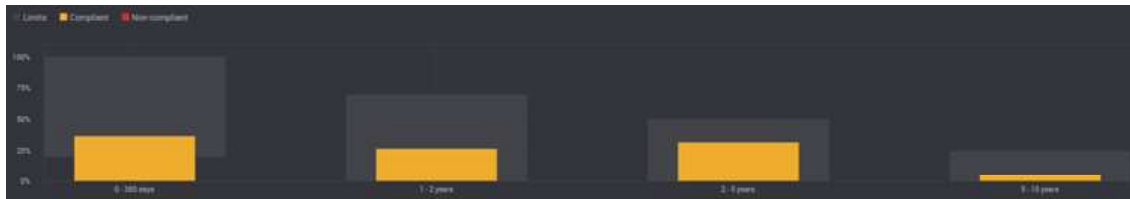
As at the end of April 2022, the portfolio was mainly directed to fixed and floating rate term deposits (75%). The remaining portfolio is directed to FRNs (3%), overnight cash accounts (8%), bonds (6%), and the managed funds with CFS Global Credit Income Fund and NSW T-Corp Long Term Growth Fund (8%, combined).

Senior FRNs are now becoming more attractive as spreads widened again over April – new issuances should now be considered again on a case by case scenario. In the interim, fixed deposits for 12 months to 2 years appear quite appealing following the spike in longer-term rates in recent months.



Term to Maturity

Overall, the portfolio remains well diversified from a maturity perspective with around 31½% of assets directed to medium-term assets (2-5 years). There is still capacity to invest in the medium-term horizon and this is where we believe the most attractive value is along the curve. All minimum and maximum criteria meet within the Policy guidelines:



Where liquidity permits, we recommend new surplus funds be directed to 1-2 year horizons given this is where the most attractive value can be found. We suggest this be allocated to any remaining attractive fixed term deposits (refer to respective sections below).

Compliant	Horizon	Invested (\$)	Invested (%)	Min. Limit (%)	Max. Limit (%)	Available (\$)
✓	0 - 365 days	\$200,206,259	36.60%	20%	100%	\$346,883,901
✓	1 – 2 years	\$144,900,000	26.49%	0%	70%	\$238,063,112
✓	2 – 5 years	\$173,001,506	31.62%	0%	50%	\$100,543,574
✓	5 – 10 years	\$28,982,395	5.30%	0%	25%	\$107,790,145
		\$547,090,160	100.00%			

Counterparty

As at the end of April 2022, Council did not have an overweight position to any single ADI. Overall, the portfolio is well diversified across the entire credit spectrum, including some exposure to the unrated ADIs.

Compliant	Issuer	Rating	Invested (\$)	Invested (%)	Max. Limit (%)	Available (\$)
✓	BoQ Covered	AAA	\$905,714	0.17%	100.00%	\$546,184,446
✓	Suncorp Covered	AAA	\$532,495	0.10%	100.00%	\$546,557,665
✓	ING Covered	AAA	\$708,028	0.13%	100.00%	\$546,382,132
✓	CBA (BankWest)	AA-	\$76,391,473	13.96%	100.00%	\$470,698,686
✓	NAB	AA-	\$124,457,762	22.75%	100.00%	\$422,632,398
✓	Northern Territory	AA-	\$34,000,000	6.21%	100.00%	\$513,090,160
✓	Westpac	AA-	\$2,502,133	0.46%	100.00%	\$544,588,027
✓	Citibank NA	A+	\$79,900,000	14.60%	100.00%	\$467,190,160
✓	Macquarie	A+	\$1,001,157	0.18%	30.00%	\$163,125,891
✓	Suncorp	A+	\$11,021,715	2.01%	30.00%	\$153,105,333
✓	UBS AG	A+	\$3,247,800	0.59%	30.00%	\$160,879,248
✓	CFS Global CI	A	\$14,046,127	2.57%	30.00%	\$150,080,921
✓	ICBC	A	\$87,250,000	15.95%	30.00%	\$76,877,048
✓	ING Bank Aus.	A	\$12,000,000	2.19%	30.00%	\$152,127,048
✓	Aus. Military Bank	BBB+	\$8,000,000	1.46%	10.00%	\$46,709,016
✓	BoQ	BBB+	\$23,003,924	4.20%	10.00%	\$31,705,092
✓	Bendigo-Adelaide	BBB+	\$1,753,715	0.32%	10.00%	\$52,955,301
✓	QT Mutual Bank	BBB+	\$1,000,270	0.18%	10.00%	\$53,708,746
✓	AMP Bank	BBB	\$17,127,926	3.13%	5.00%	\$10,226,582
✓	CUA	BBB	\$1,757,525	0.32%	5.00%	\$25,596,983
✓	MyState Bank	BBB	\$11,000,000	2.01%	5.00%	\$16,354,508
✓	P&N Bank	BBB	\$5,000,000	0.91%	5.00%	\$22,354,508
✓	Judo Bank	BBB-	\$1,000,000	0.18%	0.18%	\$0
✓	Bank of Sydney	Unrated	\$250,000	0.05%	0.05%	\$0
✓	Comm. First CU	Unrated	\$250,000	0.05%	0.05%	\$0
✓	TCorpIM LTG	Unrated	\$28,982,395	5.30%	100.00%	\$518,107,765
			\$547,090,160	100.00%		

In April 2020, NSW Treasury Corporation imposed changes to the counterparty limits on the Investment Policy, with the major changes summarised as follows:

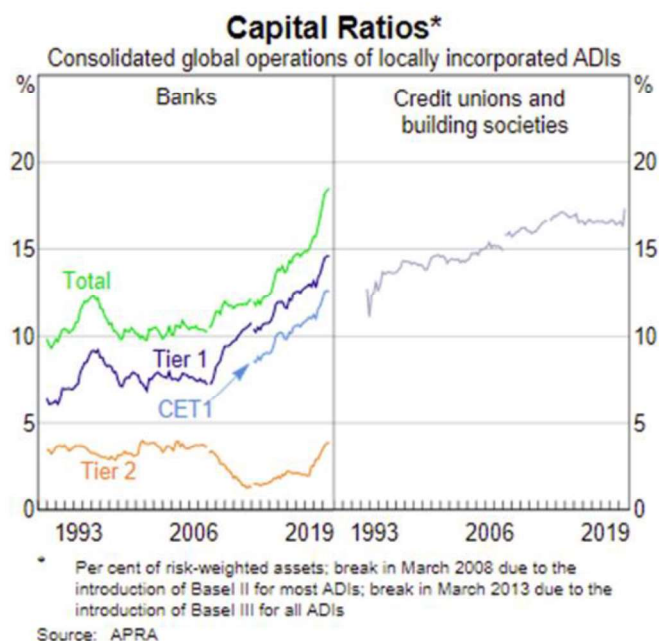
- A+ and A rated term deposits have maximum duration of 3 years;
- BBB+ rated assets have a maximum duration of 3 years;
- Limit of 5% to be placed with any BBB rated ADI with a maximum duration of 12 months;
- Limit of \$1m to be placed with any BBB- rated ADI with a maximum duration of 12 months;
- Limit of \$250k to be placed with any Unrated ADI with a maximum duration of 12 months;

We remain supportive of the regional and unrated ADI sector (and have been even throughout the GFC period). They continue to remain solid, incorporate strong balance sheets, while exhibiting high levels of capital – typically, much higher compared to the higher rated ADIs. Some unrated ADIs have up to 25-40% more capital than the domestic major banks, and well above the Basel III requirements.

APRA's Chairman affirmed that the banks had satisfactorily moved towards an '*unquestionably strong*' capital position and that bank's stress testing contingency plans were now far better positioned that was previously the case years ago. ***RBA Governor Lowe has commented that they have not seen any signs of stress in the financial system and that unlike during the GFC, the banks now have cash, are well capitalised and are acting as "shock absorbers" in the current crisis.***

Overall, the lower rated ADIs (BBB and unrated) are generally now in a better financial position than they have been historically (see the Capital Ratio figure below). We believe that deposit investments with the lower rated ADIs should be continued going forward, particularly when they offer 'above market' specials. Not only would it diversify the investment portfolio and reduce credit risk, it would also improve the portfolio's overall returns. The lower rated entities are generally deemed to be the more 'ethical' ADIs compared to the higher rated ADIs.

In the current environment of high regulation and scrutiny, all domestic ADIs continue to carry high levels of capital, particularly amongst the lower ("BBB") and unrated ADIs. There is minimal (if any) probability of any ADI defaulting on their deposits going forward – this was stress tested during the GFC. **APRA's mandate is to "protect depositors" and provide "financial stability".**



We do not understand the covenants imposed by NSW Treasury Corporation and their concerns surrounding the "BBB" and unrated ADIs. The adopted Policy will not only increase concentration risk, but also lead to lower returns on Council's surplus investments over the long-term.

Given Council can only invest in senior-ranking assets with ADIs regulated by APRA, fundamentally, their concerns surrounding Council's investment in "BBB" rated senior ranking assets and deposits with the local credit unions are unsubstantiated. RBA Governor Lowe has on multiple occasions highlighted the strength of all ADIs in the current crisis, saying that all banks are well capitalised (have cash), are acting as "*shock absorbers*" for the broader economy and that there are no signs of stress to the financial system.

While any potential future loans offered by TCorp are likely to be competitive against the traditional method through the major banks, any proposed recommendations led by TCorp needs to be weighed against the opportunity cost i.e. the loss of income throughout the term of which the covenants are imposed on Council. In the long-term, we believe the opportunity cost to Council in the form of lost interest would amount in the millions of dollars, per annum. This loss of income may also have a detrimental effect on the local community in terms of economic activity and employment.

(Other NSW Councils are in fact now getting a cheaper borrowing rate from the major banks compared to TCorp).

Domestic versus International

Noting Council's (internationally) demographic ratepayer base, we summarise where its investments are currently placed:

ADI Category by APRA / Country of Region	Amount Invested	Percentage
Australian Owned ADI	\$399,780,185	73.07%
Australia	\$399,780,185	73.07%
Branches of Foreign Bank	\$91,498,957	16.72%
China	\$87,250,000	15.95%
Switzerland	\$3,247,800	0.59%
United States	\$1,001,157	0.18%
Foreign Subsidiary Banks	\$12,782,495	2.34%
Lebanon	\$250,000	0.05%
Netherlands	\$12,532,495	2.29%
Global [^]	\$43,028,523	7.86%
International	\$43,028,523	7.86%
Total	\$547,090,160	100.00%

Source: <https://www.apra.gov.au/register-of-authorized-deposit-taking-institutions>

[^]Global: The NSW TCorpIM LTGF and CFS Global Credit Income Fund invests in hundreds of underlying securities globally, from which the portfolio composition is likely to change regularly.

Overall, approximately 73% of Council's total investment portfolio is placed with domestic ADIs, while the remaining 27% is placed with international banks and corporate entities.

In response to global financial crisis (GFC), the Financial Stability Board (FSB) came up with a range of financial metrics to ascertain which banks were effectively deemed "*too big to fail*". A list of Globally Systemic Important Banks (G-SIBs) was developed, in which these banks required to hold much higher levels of capital compared to their smaller peers to ensure their financial stability under various stress test scenarios (e.g. another GFC).

We note that Council's exposure to the international banks are generally with such Globally Systemic Important Banks (G-SIBs), including ICBC (China), ING Bank (Netherlands), UBS (Switzerland), Credit Suisse (Switzerland), HSBC (Hong Kong) and Citibank (US).

Overall, we have no concerns with Council's exposure to international banks given they are largely considered to be globally systematic important banks that are '*too big to fail*'.

Fossil Fuel Investments

What is Council's current exposure to institutions that fund fossil fuels?

Using the following link <http://www.marketforces.org.au/banks/compare>, based on the Council's investment portfolio balance as at 30/04/2022 (\$547.09m), we can roughly estimate that ~77% of the investments have some form of exposure. This is likely to drift higher given the new Policy limits imposed by NSW Treasury Corporation.

How would Council modify its Investment Policy to cater for divestment of fossil fuels?

If the major banks were withdrawn from investments, some members of the community may look at that remaining list of ADIs (banks) and say *"Why do we have all our money with those no-name institutions? I've never even heard of them. We don't want to take risks with our money after councils lost \$100's of millions speculating in the GFC"*. It will be difficult to please everyone. We suggest starting the discussion with all Councillors asking *"are you comfortable investing all the money with the lower rated regionals and credit unions?"* If not, then a full divestment campaign will be complicated.

Some ways to potentially 'make changes' to the policy, or at least have a discussion, includes:

- *"Where possible within policy and without compromising the risk and return profile, we favour..."*
- *"We have not yet made a decision to divest because it will have implications on credit quality, ratings and income, but we are actively discussing..."*

What would be implications on our portfolio credit rating?

By adopting a free fossil fuel policy or an active divestment strategy, this would eliminate the major banks rated "AA-" as well as some other "A" rated banks (AMP, Citigroup and ING). Council would be left with a smaller sub-sector of banks to choose to invest with.

What would be risks and implications on Council's portfolio performance?

Some implications include:

- High concentration risk – limiting Council to a selected number of banks;
- Increased credit/counterparty risk;
- May lead to a reduction in performance (most of the senior FRN issues are with the higher rated ADIs) which could result in a significant loss of income generated – could be in excess of hundreds of thousands of dollars per annum;
- Underperformance compared to other Councils.

It may actually be contrary to Council's primary objective to preserve capital as the investment portfolio's risk would increase (all things being equal). Council may not be maximising its returns – this is one of the primary objectives written in the Investment Policy.

Council's exposure is summarised as follows:

Counterparty	Credit Rating	Funding Fossil Fuel
BoQ Covered	AAA	Yes
Suncorp Covered	AAA	No
ING Covered	AAA	Yes
CBA (BankWest)	AA-	Yes
NAB	AA-	Yes
Northern Territory	AA-	Yes
Westpac	AA-	Yes
Citibank NA	A+	Yes
Macquarie	A+	Yes
Suncorp	A+	No
UBS AG	A+	No
CFS Global Credit^^	A	Yes
ICBC	A	No
ING Bank	A	Yes
Aus Military Bank	BBB+	No
BOQ	BBB+	Yes
Bendigo-Adelaide	BBB+	No
QT Mutual Bank	BBB+	No
AMP Bank	BBB	Yes
CUA	BBB	No
MyState Bank	BBB	No
P&N Bank	BBB	No
Judo Bank	BBB-	No
Bank of Sydney	Unrated	No
Comm. First CU	Unrated	No
T-CorpIM LTG Fund^^	Unrated	Yes

^^The underlying exposure in these managed funds includes the domestic major banks.

Source: <https://www.marketforces.org.au/info/compare-bank-table/>

Summary	Amount	Invested %
Yes	\$423,370,689	77%
No	\$123,719,471	23%
	\$547,090,160	100%

Credit Quality

Following the adoption of the Policy in mid-April 2020, in order to adhere to the prohibitive restrictions imposed by NSW TCorp, Council decided to forego extra yield and has subsequently redeemed deposit investments amongst the BBB and Unrated ADI ratings category over the past year (with the exception of government guarantee parcels of \$250k deposits).

All aggregate ratings categories are currently within the Policy limits:

Compliant	Credit Rating	Invested (\$)	Invested (%)	Max. Limit (%)	Available (\$)
✓	AAA Category, TCorp	\$31,128,633	6%	100%	\$515,961,527
✓	AA Range	\$317,251,368	58%	100%	\$229,838,792
✓	A+ or A	\$128,566,799	24%	100%	\$418,523,361
✓	A-	\$0	0%	40%	\$218,836,064
✓	BBB+	\$33,757,909	6%	24%	\$95,483,688
✓	BBB	\$34,885,451	6%	10%	\$19,823,565
✓	BBB- & Unrated ADIs	\$1,500,000	0%	5%	\$25,854,508
		\$547,090,160	100.00%		

The main changes to the Credit Quality limits imposed by NSW Treasury Corporation were as follows:

- BBB+ rated assets: 30% less any BBB rated assets;
- BBB assets: maximum 10% of portfolio;
- Other (BBB- and Unrated ADIs): maximum 5% of portfolio;

With regards to the duration of each ratings category, based on weighted averages, the portfolio is within the Policy limits across all categories:

Compliant	Credit Rating	Invested (\$)	Invested (%)	Wgt. Avg. Duration (Yrs)	Max Term (Yrs)	Wgt. Avg. Yield (%) [^]
✓	AAA, TCorp	\$31,128,633	6%	4.90	n/a	0.09
✓	AA Range	\$317,251,368	58%	1.44	5.00	1.29
✓	A+ or A	\$128,566,799	24%	1.96	5.00	2.14
✓	A-	\$0	0%	0.00	3.00	0.00
✓	BBB+	\$33,757,909	6%	1.13	3.00	1.81
✓	BBB	\$34,885,451	6%	0.52	1.00	1.25
✓	BBB- & Unrated ADIs	\$1,500,000	0%	0.41	1.00	1.68
		\$547,090,160	100.00%	1.68		1.45

[^]Assuming TCorp LTGF is yielding 0.00% and CFS Fund (A rated) is yielding 2.50%.

We note the significant pick-up in yield in the “BBB” rated categories and lower rated ADIs compared to the “AA” rated ADIs. All these assets are for the same type of investment (term deposits and senior FRNs) and rank the same in the bank capital structure (senior ranking, extremely low risk assets). The weighted average duration of the “BBB” and lower rated ADIs is also much shorter than the higher rated ADIs.



As mentioned in the Counterparty section, we believe TCorp's Policy increases concentration risk and significantly reduces the Council's overall return over the long-term. If possible, Council should consider reviewing the Policy and potentially find alternative sources for a loan in the future given the substantial opportunity cost in the form of lost revenue (millions of dollars) through interest income.

We have been made aware that a handful of major banks were offering a lower borrowing rate than TCorp over the past few months to other NSW councils.

Performance

Council's performance (actual returns) for the month ending 30 April 2022 is summarised as follows:

Performance (Actual)	1 month	3 months	6 months	FYTD	1 year	2 years	3 years
Official Cash Rate	0.01%	0.02%	0.05%	0.08%	0.10%	0.14%	0.37%
AusBond Bank Bill Index	-0.02%	-0.01%	0.01%	0.01%	0.02%	0.04%	0.40%
PCC Internal Benchmark*	0.00%	-0.20%	-0.01%	0.06%	0.34%	1.01%	1.22%
PCC Cash Portfolio	0.03%	0.09%	0.18%	0.32%	0.41%	0.55%	0.81%
PCC T/D Portfolio	0.11%	0.31%	0.62%	1.04%	1.25%	1.46%	1.84%
PCC FRN Portfolio	0.09%	0.26%	0.79%	1.28%	1.56%	1.59%	1.79%
PCC Bond Portfolio	0.09%	0.27%	0.54%	0.90%	1.07%	-	-
PCC Credit Fund	-0.97%	-1.52%	-2.33%	-2.36%	-1.79%	2.58%	0.67%
PCC TCorp Growth Fund	-0.88%	-4.33%	-3.33%	-2.05%	1.51%	9.20%	5.66%
TCorp Benchmark	-0.93%	-3.29%	-2.54%	-1.49%	2.10%	9.45%	6.13%
PCC's Total Portfolio	0.02%	-0.08%	0.12%	0.42%	0.73%	1.46%	1.69%
Outperf. (BBI)	0.03%	-0.07%	0.11%	0.41%	0.72%	1.41%	1.29%
Outperf. (Int. Bench.)	0.02%	0.13%	0.13%	0.35%	0.39%	0.45%	0.47%

*The Internal Benchmark returns are based on Council's individual benchmarks across the various asset classes it invests within its own portfolio. The following individual benchmark's are used for each asset class that Council invests in:

Cash: RBA Cash Rate

Term Deposits: Deposit benchmark based on Council's weighted average duration using multiple ADIs average monthly rate

FRNs: AusBond Credit FRN Index

CFS Global Credit Income Fund: AusBond Credit Index

NSW TCorpIM Long-Term Growth Fund: NSW TCorpIM Internal Benchmark

For the month of April, the total investment portfolio (including cash) provided a return of +0.02% (actual) or +0.18% p.a. (annualised), outperforming the AusBond Bank Bill Index return of -0.02% (actual) or -0.19% p.a. (annualised), and Council's internal benchmark return of -0.00% (actual) or -0.05% p.a. (annualised). The CFS (-0.97% actual) and TCorp Fund (-0.88% actual) were again the biggest detractors to performance this month.

Over the past 12 months, the total portfolio (including cash) returned +0.73% p.a., outperforming bank bills by 0.72% p.a. and Council's internal benchmark by +0.39% p.a.

The longer-term outperformance continues to be anchored by the handful of longer-dated deposits that were locked-in prior to the RBA's rate cuts, as well as the FRNs locked in at attractive margins, boosted by the strategic sales implemented over the past year. This is now reflected in the longer-term returns with the FRN portfolio now slightly ahead of fixed term deposits over 1-2 year time periods.

The annualised returns as of 30 April 2022 are shown in the following table:

Performance (% p.a.)	1 month	3 months	6 months	FYTD	1 year	2 years	3 years
Official Cash Rate	0.10%	0.10%	0.10%	0.10%	0.10%	0.14%	0.37%
AusBond Bank Bill Index	-0.19%	-0.03%	0.01%	0.01%	0.02%	0.04%	0.40%
PCC Internal Benchmark*	-0.05%	-0.83%	-0.03%	0.08%	0.34%	1.01%	1.22%
PCC Cash Portfolio	0.38%	0.37%	0.36%	0.38%	0.41%	0.55%	0.81%
PCC T/D Portfolio	1.36%	1.26%	1.25%	1.25%	1.25%	1.46%	1.84%
PCC FRN Portfolio	1.08%	1.08%	1.60%	1.54%	1.56%	1.59%	1.79%
PCC Bond Portfolio	1.10%	1.12%	1.10%	1.08%	1.07%	-	-
PCC Credit Fund	-11.23%	-6.09%	-4.65%	-2.83%	-1.79%	2.58%	0.67%
PCC TCorp Growth Fund	-10.24%	-16.59%	-6.60%	-2.45%	1.51%	9.20%	5.66%
TCorp Benchmark	-10.75%	-12.83%	-5.06%	-1.79%	2.10%	9.45%	6.13%
PCC's Total Portfolio	0.18%	-0.31%	0.23%	0.50%	0.73%	1.46%	1.69%
Outperf. (BBI)	0.38%	-0.28%	0.22%	0.49%	0.72%	1.41%	1.29%
Outperf. (Int. Bench.)	0.23%	0.52%	0.26%	0.42%	0.39%	0.45%	0.47%

Council's Term Deposit Portfolio & Recommendation

As at the end of April 2022, Council's deposit portfolio was still yielding an attractive **1.67% p.a.** (up 52bp from the previous month), with a weighted average duration of around 512 days (~1.40 years). The current average yield remains very attractive given the dramatic falls in the official cash rate. With an upward sloping deposit curve, investors are rewarded if they can continue to maintain a longer average duration.

As the past decade or so has highlighted (post-GFC era), we have seen too many portfolios overpay for liquidity and generally not insured themselves by diversify their funding across various tenors. Those investors that can maintain a weighted average duration of +12-18 months are likely to yield, on average, up to 1% p.a. higher than those investors who maintain a weighted average duration of less than 6-9 months.

We are pleased to see that City of Parramatta Council remains amongst the top performing Councils in the state of NSW where deposits are concerned, earning on average, more than \$1,400,000 in additional interest income compared to its peers (as per our February 2022 rankings). We have been pro-active in our advice about protecting interest income and addressing reinvestment risk for many years and encouraged to maintain a long duration position. This is now reflected by the high performance of the investment portfolio. Of the 74 individual deposits Council held, 14 are still yielding higher than 2% p.a. That is, around 19% of outstanding deposits held is earning more than twenty times the prevailing cash rate of 0.10%. This will anchor future returns and will help mitigate the rapid fall in interest income from deposits after the RBA cut rates to all-time lows.

However, with the adoption of the Policy imposed by NSW TCorp in April 2020, we anticipate Council may fall in the deposit rankings going forward due to the restrictions imposed, not only on what counterparties Council can invest with, but also the term of investment. A further fall in interest income and returns may result if Council elects to direct the majority (if not all) of its very low risk assets (term deposits and senior FRNs) to the higher rated domestic banks and exclude foreign ADIs that are also regulated by APRA.



At the time of writing, we see value in:

ADI	LT Credit Rating	Term	T/D Rate
ICBC, Sydney	A	3 years	3.80% p.a.
BoQ/ME Bank	BBB+	3 years	3.75% p.a.
CBA	AA-	3 years	3.68% p.a.
Westpac	AA-	3 years	3.57% p.a.
ING	A	2 years	3.45% p.a.
ICBC, Sydney	A	2 years	3.45% p.a.
CBA	AA-	2 years	3.41% p.a.
BoQ/ME Bank	BBB+	2 years	3.35% p.a.
AMP Bank	BBB	2 years	3.30% p.a.^
Westpac	AA-	2 years	3.29% p.a.
NAB	AA-	2 years	3.20% p.a.

[^] AMP T/Ds – contact us to receive an additional 0.20% p.a. rebated commission on top of the rate shown above

The above deposits are suitable for investors looking to maintain diversification and likely to lock-in a premium compared to purely investing short-term.

For terms under 12 months, we believe the strongest value is currently being offered by the following ADIs (dependent on daily funding requirements):

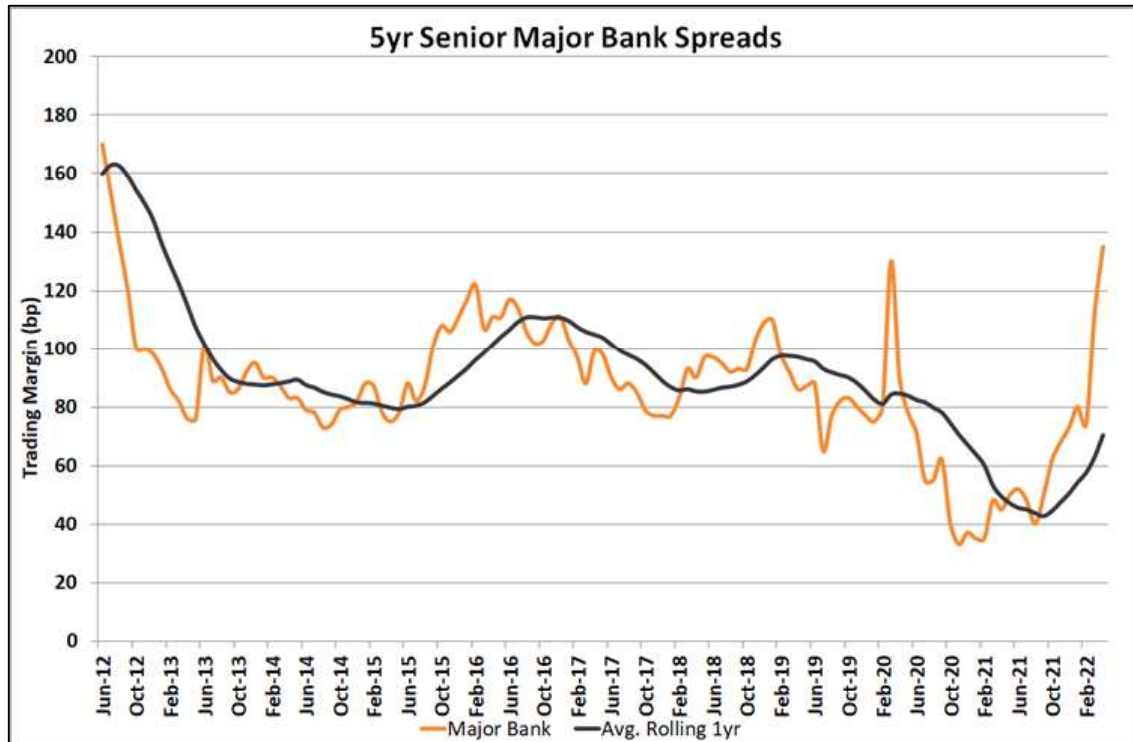
ADI	LT Credit Rating	Term	T/D Rate
CBA	AA-	12 months	2.71% p.a.
AMP Bank	BBB	11-12 months	2.50% p.a.^
BoQ/ME Bank	BBB+	12 months	2.50% p.a.
Westpac	AA-	12 months	2.47% p.a.
ICBC, Sydney	A	12 months	2.47% p.a.
NAB	AA-	12 months	2.40% p.a.
ING	A	12 months	2.38% p.a.
Bendigo-Adelaide	BBB+	12 months	2.35% p.a.
CBA	AA-	9 months	2.34% p.a.

[^] AMP T/Ds – contact us to receive an additional 0.20% p.a. rebated commission on top of the rate shown above

Despite the uplift in outright rates recently, we still believe there is better value in slightly longer-dated terms of 18 months - 2 years. For those investors that do not require high levels of liquidity and can stagger their investments longer-term, they will be rewarded over coming years if they roll for an average term of 18 months - 2 years (this is where we current value), yielding, on average, up to 1% p.a. higher compared to those investors that entirely invest in short-dated deposits.

Senior FRNs Review

Over April, amongst the senior major bank FRNs, physical credit securities widened by up to 30bp at the long-end of the curve. After the major banks (CBA, NAB and WBC) issued new 3 and/or 5 year securities in recent months, a new 5 year senior major bank security would now be issued around the +135bp level, the first time it has broken three figure mark since early 2019 (outside the brief spike in March 2020 due to the original COVID outbreak):



Source: IBS Capital

Amongst the “A” and “BBB” rated sector, the securities widened by up to 35bp at the long-end of the curve. There was ongoing activity in the primary market, highlighted by new issuances from:

- OCBC (AA-): 3 year senior FRN at +70bp
- Bank of Queensland (BBB+): 3½ year senior FRN / fixed bond at +110bp

Credit securities are looking much more attractive given the widening of spreads in recent months. FRNs will play a much larger role in investor’s portfolios as official rates start to rise. They also provide the benefit of being liquid and the ability to roll down the curve and gross up returns over ensuing years (in a relatively stable credit environment).

Senior FRNs (ADIs)	30/04/2022	31/03/2022
"AA" rated – 5yrs	+135bp	+112bp
"AA" rated – 3yrs	+115bp	+84bp
"A" rated – 5yrs	+150bp	+120bp
"A" rated – 3yrs	+125bp	+95bp
"BBB" rated – 3yrs	+140bp	+105bp

Source: IBS Capital

We now generally recommend switches ('benchmark' issues only) into new primary issues, out of the following senior FRNs that are maturing:

- **On or before mid-2024 for the "AA" rated ADIs (domestic major banks);**
- On or before early-mid 2023 for the "A" rated ADIs; and
- Within 6 months for the "BBB" rated ADIs (consider case by case).

Investors holding onto the above senior FRNs ('benchmark' issues only) in their last few years are now generally holding sub-optimal investments and are not maximising returns by foregoing realised capital gains. In the current low interest rate environment, any boost in overall returns should be locked in when it is advantageous to do so, particularly as switch opportunities become available.

Primary (new) FRNs are now looking more appealing and should be considered on a case by case scenario.

Council FRNs – Recommendations for Sale/Switches

Following the recent selloff in credit assets in recent months, we now recommend Council holds its FRN portfolio at this stage. We will inform Council when there is an opportunity to sell out of any sub-optimal FRN and switch into a higher yielding complying asset.

This strategy has worked very well the **previous financial year (2020-2021)**, with Council realising **capital gains over \$1,138,000**, which ultimately boosted the overall returns of the investment portfolio. A summary of the current financial year's sales are as follows:

Issuer	Maturity Date	Month Sold	Face Value	Trading Margin	Capital Price	Realised Capital Gains
ME (BBB+)	18/07/2022	Jul 2021	\$2,000,000	+15.0bp	\$100.813	\$16,260
TMB (BBB)	28/10/2022	Jul 2021	\$1,000,000	+23.0bp	\$100.839	\$8,390
NAB (AA-)	19/06/2024	Aug 2021	\$1,300,000	+18.25bp	\$102.081	\$27,053
ANZ (AA-)	29/08/2024	Aug 2021	\$1,500,000	+19.0bp	\$101.744	\$26,160
UBS (A+)	08/03/2023	Sep 2021	\$3,000,000	+23.0bp	\$100.963	\$28,890
B. Comm (A-)	28/10/2022	Sep 2021	\$1,500,000	+25.0bp	\$100.691	\$10,365
WBC (AA-)	16/08/2024	Sep 2021	\$1,600,000	+29.0bp	\$101.682	\$28,416
B. China (A)	17/10/2022	Oct 2021	\$1,000,00	+29.0bp	\$100.687	\$6,870
Soc. Gen. (A)	17/07/2023	Nov 2021	\$2,750,00	+33.0bp	\$100.992	\$27,280
C. Suisse (A+)	26/05/2023	Nov 2021	\$6,500,00	+32.0bp	\$101.252	\$81,380
B. Aust. (BBB)	2/12/2022	Jan 2022	\$1,000,000	+42.0bp	\$100.431	\$4,310
NPB (BBB)	6/02/2023	Jan 2022	\$400,000	+35.0bp	\$101.121	\$5,088
NPB (BBB)	6/02/2023	Jan 2022	\$1,000,000	+35.0bp	\$101.121	\$12,420
NPB (BBB)	6/02/2023	Jan 2022	\$2,500,000	+35.0bp	\$101.121	\$28,025
HSBC (AA-)	27/09/2024	Jan 2022	\$2,000,000	+40.0bp	\$101.140	\$22,800
Total Realised Capital Gains FY2021-2022						<u>\$333,707</u>

Council's Senior Fixed Bonds

Since September 2020, Council placed parcels in NTTC (AA-) fixed bonds as follows:

Investment Date	Maturity Date	Principal	Rate % p.a. [^]	Remaining Term (Yrs)	Interest Paid
10/09/2020	15/12/2022	\$2,000,000	0.90%	0.63	Annually
30/09/2020	15/12/2023	\$2,000,000	1.00%	1.63	Annually
24/11/2020	16/12/2024	\$1,000,000	0.90%	2.63	Annually
16/02/2021	16/06/2025	\$1,000,000	0.90%	3.13	Annually
16/02/2021	15/06/2026	\$5,000,000	1.00%	4.13	Annually
12/05/2021	17/06/2024	\$3,000,000	0.80%	2.13	Annually
12/05/2021	16/06/2025	\$3,000,000	1.10%	3.13	Annually
12/05/2021	15/06/2026	\$3,000,000	1.30%	4.13	Annually
20/05/2021	16/06/2025	\$3,500,000	1.10%	3.13	Annually
09/09/2021	16/12/2024	\$2,500,000	0.90%	2.63	Semi-Annually
09/09/2021	15/12/2026	\$5,000,000	1.40%	4.63	Semi-Annually
Totals / Wgt. Avg.		\$31,000,000	1.07%	3.22 yrs	

[^]Council has received the full rebated commission of 0.25% (plus GST) on the face value of investment on all these parcels (currently totalling \$48,125).

We believe these investments were prudent given the low rate environment and especially after the rate cut delivered in early November 2020 and its subsequent forward guidance on official interest rates. The NTTC bonds are a 'retail' offering and not 'wholesale' issuances. Given the lack of liquidity and high penalty costs if they were to be sold/redeemed prior to the maturity date, they are considered to be a hold-to-maturity investment and will be marked at par value (\$100.00) throughout the term of investment.

During August 2021, Council also purchased into the following AAA rated covered fixed bond with ING Bank Australia. With yields rising significantly in recent months, Council may consider purchasing additional units in this security in the secondary market at the current yield to 'average-in' a better overall purchase price.

Issuer	Rating	Maturity Date	ISIN	Face Value	Purchase Yield	Current Yield	Unrealised Gain / Loss (\$)
ING	AAA	19/08/2026	AU3CB0282358	\$600,000	1.16%	3.97%	-\$65,759

Senior Fixed Bonds – ADIs (Secondary Market)

As global inflationary pressures have emerged, this has seen a significant lift in longer-term bond yields (valuations fell) as markets have strongly factored in a tightening of global central bank policy measures (i.e. withdrawal of Quantitative Easing and lifting official interest rates).

This has resulted in some opportunities in the secondary market. We currently see value in the following fixed bond lines, with the majority now being marked at a significant discount to par (please note supply in the secondary market may be limited on any day):

ISIN	Issuer	Rating	Capital Structure	Maturity Date	~Remain. Term (yrs)	Fixed Coupon	Indicative Yield
AU3CB0265403	Suncorp	AA-	Senior	30/07/2024	2.26	1.85%	3.73%
AU3CB0265593	Macquarie	A+	Senior	07/08/2024	2.28	1.75%	3.61%
AU3CB0265718	ING	AAA	Covered	20/08/2024	2.32	1.45%	3.50%
AU3CB0266179	ANZ	AA-	Senior	29/08/2024	2.34	1.55%	3.44%
AU3CB0266377	Bendigo	BBB+	Senior	06/09/2024	2.36	1.70%	3.68%
AU3CB0268027	BoQ	BBB+	Senior	30/10/2024	2.51	2.00%	3.85%
AU3CB0269710	ANZ	AA-	Senior	16/01/2025	2.72	1.65%	3.60%
AU3CB0269892	NAB	AA-	Senior	21/01/2025	2.74	1.65%	3.67%
AU3CB0270387	Macquarie	A+	Senior	12/02/2025	2.80	1.70%	3.91%
AU3CB0287415	Westpac	AA-	Senior	17/03/2025	2.89	2.70%	3.52%
AU3CB0280030	BoQ	BBB+	Senior	06/05/2026	4.02	1.40%	4.23%
AU3CB0282358	ING	AAA	Covered	19/08/2026	4.31	1.10%	3.93%
AU3CB0286037	Westpac	AA-	Senior	25/01/2027	4.75	2.40%	4.01%

Senior Bonds - Northern Territory Treasury Corporation (NTTC)

Investors should be aware of the following senior retail bond offering from Northern Territory Treasury Corporation (NTTC) effective 2nd May 2022:

Maturity Date	Rate % p.a. [^]	Interest Paid
15/06/2023	1.10%	Annually
15/06/2024	2.10%	Annually
15/06/2025	2.60%	Annually
15/06/2026	2.80%	Annually
15/06/2027	3.10%	Annually

^{^^}The rates offered in the above table can be reviewed and changed at any time from Treasury. The rate for broker sponsored applications will be dropped by 0.20% p.a. effective 1 October 2020.

Any investor interested in this product should avoid placing through the broker channel and contact Imperium Markets to receive the full commission of 0.25% (plus GST) on the face value of the investment, in the form of an additional rebate. If placed through the brokers, they are likely to keep the 0.25% commission (on the face value of the investment).

Overview	Description
Issuer	Northern Territory Government
Credit Rating	Aa3 (Moody's), which is AA- equivalent (S&P)
Type	Fixed senior (retail) bonds
Program	Territory Bonds Issue 112
Date for applications	01/01/2022 – 31/05/2022
Liquidity	Weekly redemptions available, subject to the prevailing market rate and administration costs ^{^^}

^{^^} Note given this is a retail bond offering (min. parcel size of \$5,000), for wholesale investors, we would not consider this to be a liquid investment (the largest redemptions to date have only been \$200-\$300k).

The product should be viewed as a hold-to-maturity product, noting there are significant penalty costs including admin fees, the prevailing market interest rate, and factors in any associate commissions that were previously paid. Given the longer-term outlook for official interest rates, any investor interested should invest through Imperium Markets to receive an effectively higher rate, once factoring in the rebated commission. *These offers will need to be compared to other complying assets at the time of investment – term deposits are currently a better alternative.*

CFS Global Credit Income Fund

For the month of April, the CFS Global Credit Income Fund returned -0.97% (actual), underperforming the AusBond Bank Bill Index return of -0.02% (actual), while outperforming the AusBond Credit Index return of -1.34% (actual).

Fixed income market performance over April was primarily driven by the significant upward move in bond yields (valuations falling), as central banks signalled a more aggressive response to the rising trend of inflation. Expectations had been that inflation would begin to fall during coming months and quarters. Instead, inflation has risen and there is uncertainty as to how its path will evolve in coming months and quarters. Central banks, aware of the medium term risks to growth but cognisant of the current economy resilience, have been pushed into a more aggressive stance on monetary policy.

Although it has been a relatively volatile environment for credit over the past few years, it has been one of Council's best performing assets over the longer-term. The portfolio continues to accumulate high running-income in excess of the benchmark across all corporate and financial sectors. The Fund holds a diverse range of securities across the global credit market. It remains very well diversified by issuer in order to mitigate default risk. It invests in nearly 600 corporate bonds from issuers in various countries and industry sectors. Any spread contraction going forward allows credit and asset-backed holdings to enjoy significant capital gains.

With a running yield of ~+2½- 3% p.a., we recommend Council to retain this investment given the alternative investments in complying fixed interest products are largely earning below this rate of return.

NSW T-Corplm Growth Fund

The Growth Fund returned -0.88% (actual) for the month of April. The losses this month were led by the selloff in global shares (MSCI World ex-Australia Index fell -8.49%) and fixed bonds (AusBond Composite Bond Index fell -1.49%).

Government bond markets continued to reprice sharply, with the start of 2022 being the worst first quarter performance for global government bonds in decades, following by another slump in April. Increasing yields were the key market focus as ongoing geopolitical developments exacerbated pressure on supply changes and prices.

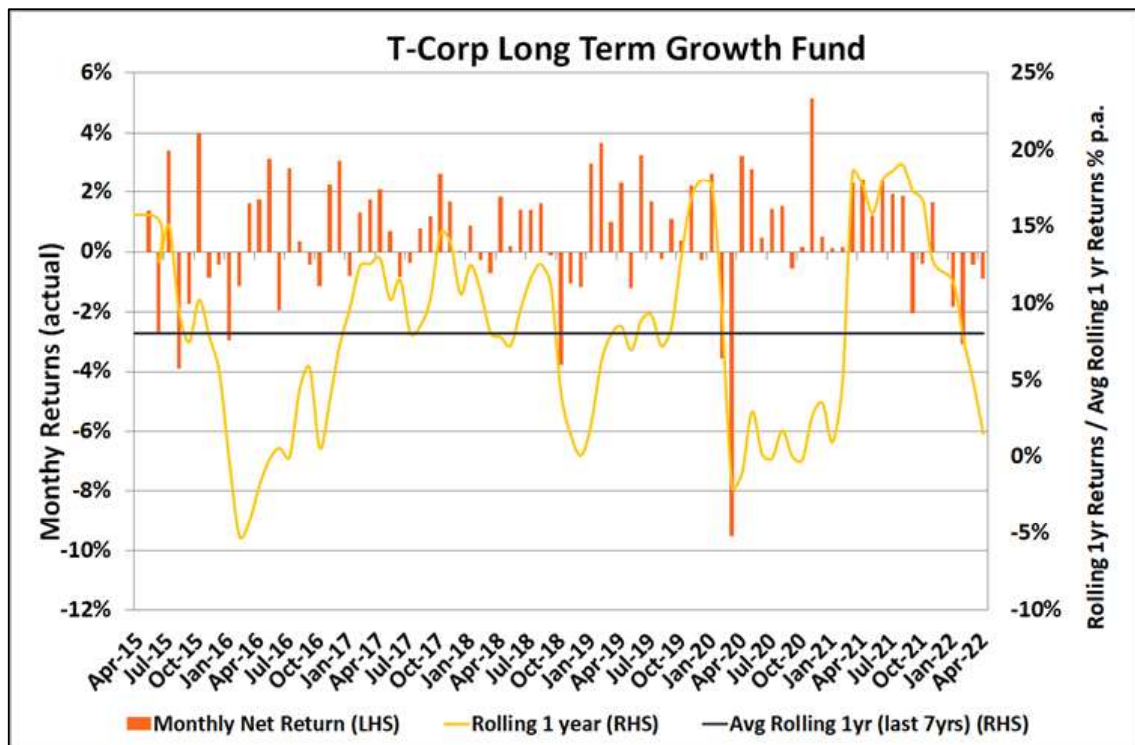
The aggressive signalling from the US Federal Reserve (Fed) was a surprise to equity markets, but not in the context of increased pressures on inflation in recent months. The challenge now is for the Fed to drive inflation back towards target without inflicting too much damage on growth. While inflation is now a problem, for risk assets the path of growth through 2022 should prove critical. This second supply shock has increased the risk of recession in the 12-18 months ahead. How central banks navigate the delivery of tighter monetary policy likely holds the key to whether recession becomes a reality, or we experience a 'soft landing' for the economy.

Overall, we remain cautious on the future performance of the T-Corp Growth Fund given the high volatility associated with a diversified growth fund, which generally allocates a range of 60%-80% in

domestic and international shares. Investors are bracing for central banks to raise official rates more aggressively than previously anticipated to combat inflation driven by supply-chain bottlenecks, a global energy crunch and ongoing geopolitical risks.

The Fund should be looked at with a long-term view, with a minimum holding period of +7 years. Given the exposure to the volatile asset of shares, Council should expect to see, on average, a negative month once every 3 months over a long-term holding period.

Since Inception	T-Corp Long Term Fund
Negative Months	133 (~1 in 3 months)
Positive Months	261
Total Months	394 (32.9 yrs)
Average Monthly Return	+0.66% (actual)
Median Monthly Return	+1.02% (actual)
Lowest 1 year Rolling Return	-21.12% p.a. (Nov 2008)
Highest 1 year Rolling Return	+29.89% p.a. (Jan 1994)



Economic Commentary

International Market

Equity markets sold off again in April, as markets braced for a series of aggressive rate hikes from global central banks to combat the surge in inflation. The ongoing geo-political tensions with the war in Ukraine also provided little refuge in bond markets, as yields continued to soar.

In the US, the S&P 500 Index fell -8.80%, while the NASDAQ plummeted -13.26%. Europe's main indices did not suffer as much, with losses incurred from Germany's DAX (-2.20%) and France's CAC (-1.89%). UK's FTSE bucked the trend and gained +0.38%).

US CPI headline inflation came in at +1.2% m/m for March and +8.5% y/y, against expectations for +1.2% / +8.4% respectively. Gasoline prices, up +18.3% m/m drove much of the increase. The core measure slowed to +0.3% m/m.

US Fed Chair Powell commented that in his view it is appropriate to move a little more quickly and a 50bp hike is a live possibility for the May meeting.

The US unemployment rate fell to 3.6% in March (vs 3.7% expected), just one tenth above the pre-pandemic level. The US labour force participation rose 0.1% to 62.4%.

EU inflation printed at +7.5% y/y from a revised +5.9% y/y in February and well above consensus estimate of +6.7% y/y. ECB minutes revealed "*a large number*" of members saw the case for immediate steps towards policy normalisation helped European yields higher.

UK unemployment fell 0.1% to 3.8%, matching the lows seen in 2019 prior to the pandemic.

The Bank of Canada's 50bp rate hike was fully expected, in addition to which the BoC said it would commence "*quantitative tightening (QT)*", with its bond portfolio expected to shrink around 40% over the next two years.

Canada's CPI rose +6.7% y/y in March from +5.7% y/y in February, against expectations for +6.1% y/y, resulting in the highest reading since January 1991.

New Zealand's Reserve Bank (RBNZ) raised the official cash rate by 50bp to 1.50% in a bid to contain inflationary pressures. Inflation in New Zealand hit a 32-year high, recorded at +6.9% for the year to March 2022.

The MSCI World ex-Aus Index fell -8.49% for the month:

Index	1m	3m	1yr	3yr	5yr	10yr
S&P 500 Index	-8.80%	-8.50%	-1.18%	+11.94%	+11.63%	+11.45%
MSCI World ex-AUS	-8.49%	-8.96%	-4.94%	+8.73%	+8.41%	+8.21%
S&P ASX 200 Accum. Index	-0.85%	+8.24%	+10.16%	+9.42%	+8.81%	+9.90%

Source: S&P, MSCI

Domestic Market

The RBA's April meeting left policy on hold at 0.10% as widely expected, but the post-meeting statement underwent a fairly substantial rewrite, dropping any reference to being "*patient*" and opened the door to react to data flow "*in the coming months*".

The RBA minutes confirmed their pivot, flagging to the market that a rate hike was imminent, declaring "*members also noted that, for some time, the Board had been communicating that it wanted to see evidence that inflation is sustainably within the 2-3% range before increasing interest rates. It had also been communicating that this was likely to require a faster rate of wages growth than had been experienced over previous years*".

Headline CPI came in much stronger than expected, at +5.1% y/y (+4.6% expected) while the preferred trimmed mean core inflation measure was +1.4% higher on the quarter (+3.7% y/y). With the RBA's preferred core inflation measure now well above the top of its 2-3% inflation target range, the market has swiftly moved to bring forward RBA tightening expectations, with 15bp now priced in for the 3rd May meeting. On inflation, the International Monetary Fund (IMF) sees Australia CPI at +3.9% this year, sharply higher than its +2.1% forecast in January.

The trade surplus surprised sharply to the downside, falling \$4.3bn to \$7.5bn in February, well below the consensus for \$11.7bn.

Australia's unemployment rate remain unchanged at 4.0% in March, with the participation rate also remaining unchanged at 66.4%.

Private sector credit growth slowed to +0.4% m/m in March from +0.6% in February, missing forecasts for +0.6% m/m.

Retail deposit data from APRA showed strong deposit growth for households in March, up \$17.7bn. Household deposits are now \$272bn above their pre-pandemic level, a cash pool equivalent to over 20% of annual household consumption.

The Australian dollar fell -4.46%, finishing the month at US71.48 cents (from US74.82 cents the previous month).

Credit Market

The global credit indices widened significantly over the month as the market prepares itself for a series of aggressive rate hikes by global central banks. The indices are back to their levels experienced in mid-2020:

Index	April 2022	March 2022
CDX North American 5yr CDS	81bp	67bp
iTraxx Europe 5yr CDS	89bp	73bp
iTraxx Australia 5yr CDS	97bp	86bp

Source: Markit

Fixed Interest Review

Benchmark Index Returns

Index	April 2022	March 2022
Bloomberg AusBond Bank Bill Index (0+YR)	-0.02%	+0.00%
Bloomberg AusBond Composite Bond Index (0+YR)	-1.49%	-3.75%
Bloomberg AusBond Credit FRN Index (0+YR)	-0.05%	-0.29%
Bloomberg AusBond Credit Index (0+YR)	-1.34%	-3.05%
Bloomberg AusBond Treasury Index (0+YR)	-1.51%	-4.03%
Bloomberg AusBond Inflation Gov't Index (0+YR)	-1.60%	-4.27%

Source: Bloomberg

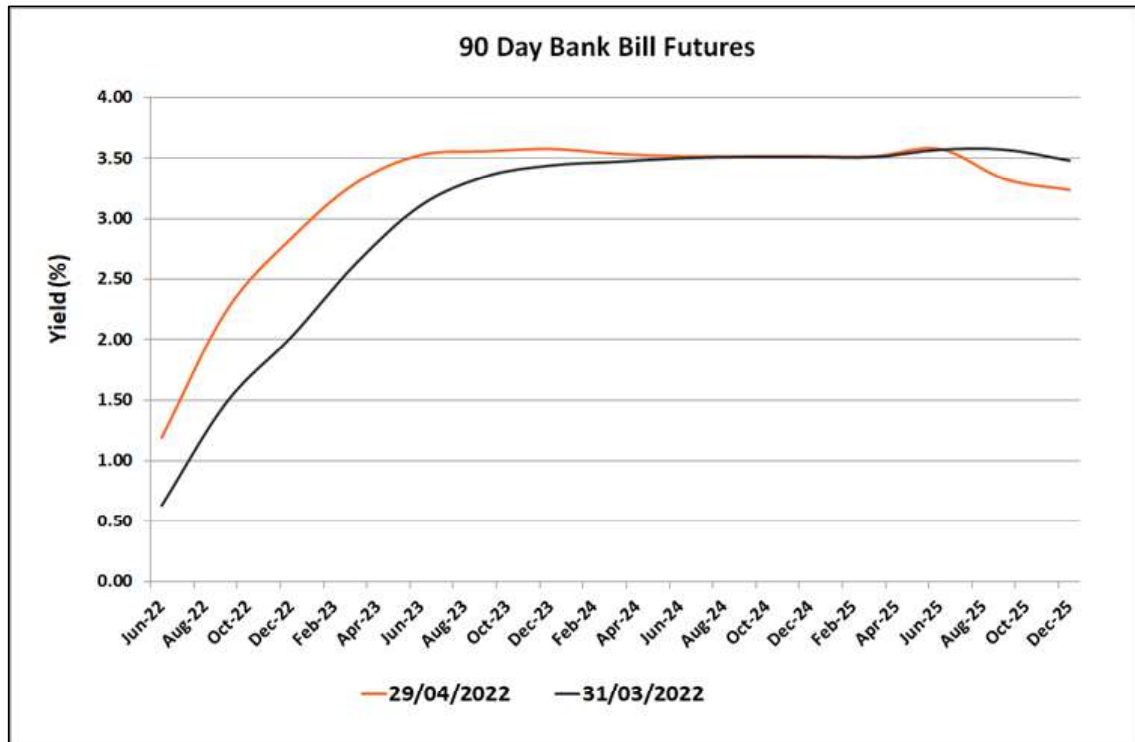
Other Key Rates

Index	April 2022	March 2022
RBA Official Cash Rate	0.10%	0.10%
90 Day (3 month) BBSW Rate	0.71%	0.23%
3yr Australian Government Bonds	2.71%	2.31%
10yr Australian Government Bonds	3.12%	2.84%
US Fed Funds Rate	0.25%-0.50%	0.25%-0.50%
10yr US Treasury Bonds	2.89%	2.32%

Source: RBA, AFMA, US Department of Treasury

90 Day Bill Futures

Over April, bill futures rose sharply at the short-end of the curve as the market prepares itself for the RBA to hike rates for the first time since 2010. A significant rise remains in 2022-2023 as markets anticipate aggressive rate cuts over the next few months as inflationary pressures continue to mount:



Source: ASX

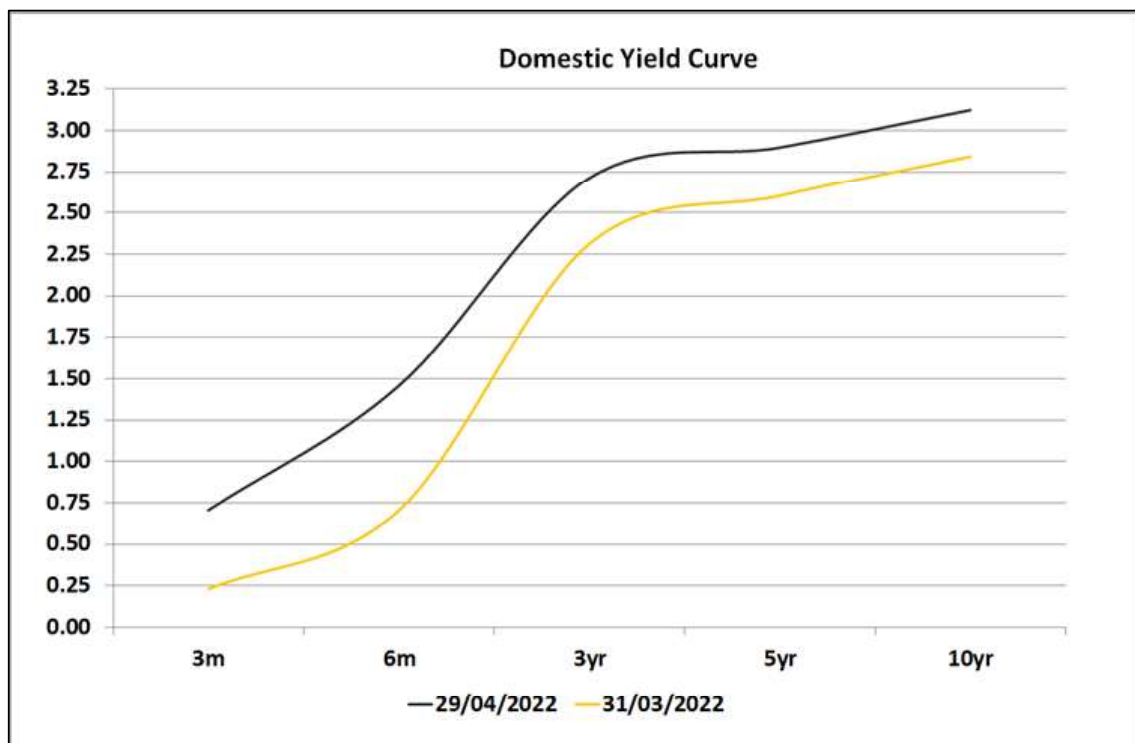
Fixed Interest Outlook

After the US Fed hiked rates in March, the market is factoring in an additional 7½ rate rises this calendar year to stem the surge in inflation. A 50bp rate hike for May has all been but priced into the market.

Domestically, the RBA reference to being patient as it monitors how the various factors affecting inflation in Australia evolve was withdrawn. The RBA has moved from being backward looking to more forward looking with the Board's pandemic policy settings and desire to see actual evidence of inflation sustainably at target no longer written in future tense. With the latest inflationary figures confirming underlying inflation is above the Board's preferred target, a first rate rise in over a decade has been priced into the market for their next meeting on the 3rd May.

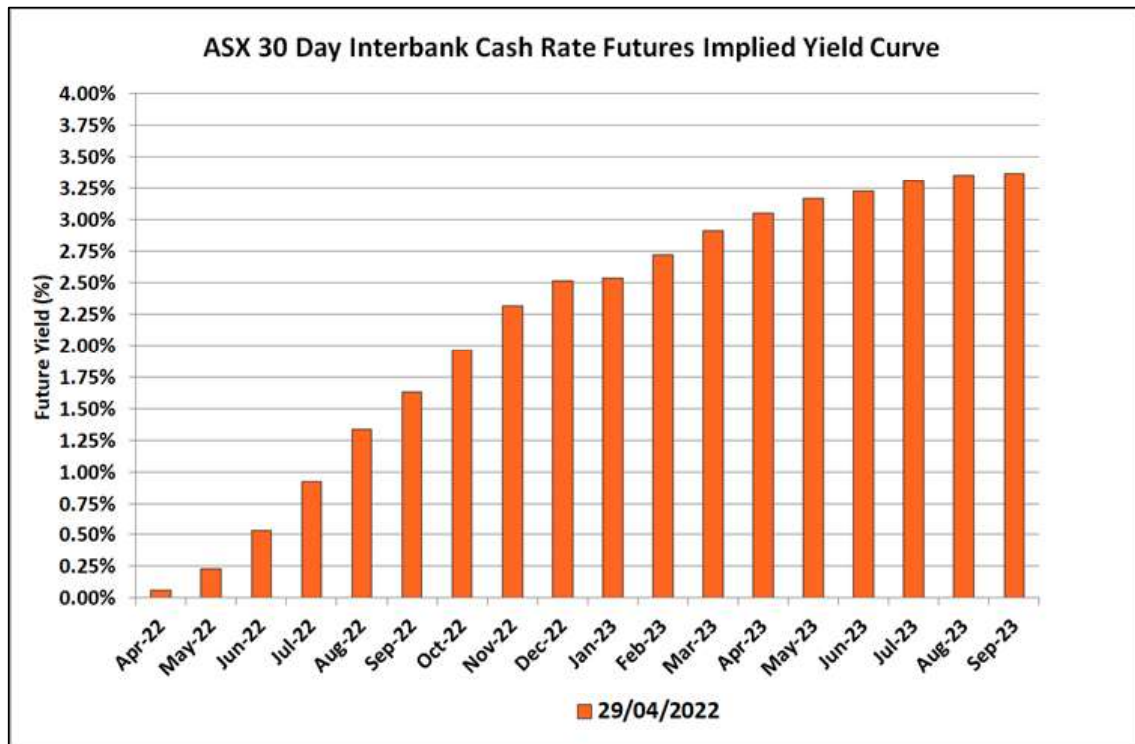
There is currently up to fourteen rate increases currently priced over the next two years in Australia, something that looks fairly excessive over this timeframe, without further upside surprises to the outlook for strong growth, tight labour markets and inflationary settings currently in evidence.

The domestic bond market continues to suggest a prolonged low period of interest rates on a historical basis (longer-term still below 3% environment). Over the month, yields rose around 40bp at the long-end of the curve:



Source: AFMA, ASX, RBA

Following the RBA's admission that an official rate hike was imminent, markets have brought forward their expectations, with a 15bp hike priced in for May 2022, followed by an additional 8 hikes priced by December 2022:



Source: ASX

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