CITY OF PARRAMATTA

Monthly Investment Report

February 2023

IMPERIUM MARKETS

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Summary

Market Update Summary

Risk markets were generally sold off in February after several stronger-than-expected reports on the US economy (particularly employment) changed the outlook on the peak of the interest rate cycle.

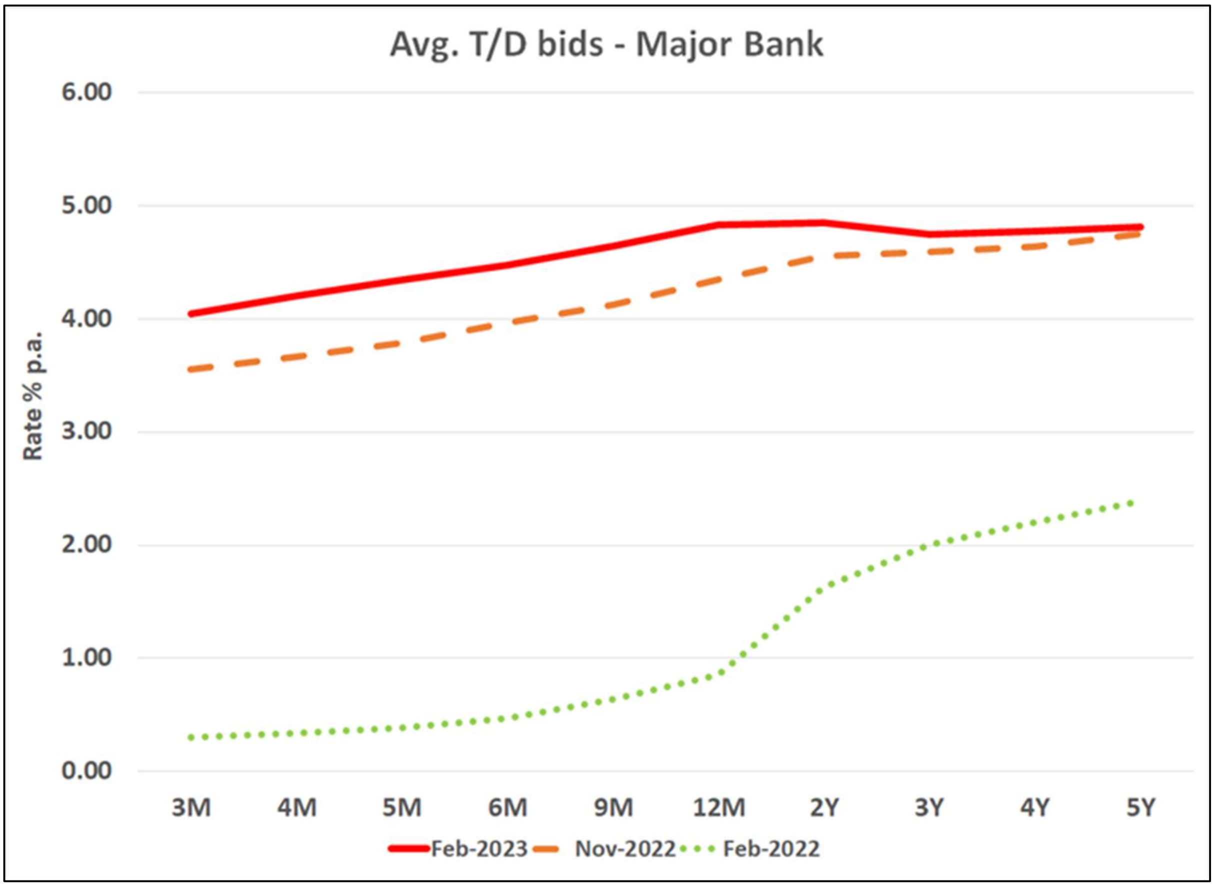
Domestically, the RBA continues to signal that it expects to increase interest rates, with at least two or three more 25bp hikes over the months ahead, likely locking in a March rate hike, and then possibly another in April and/or May. Thereafter, noting the lags in monetary policy, a pause around the end of Q2-Q3 is likely whilst the RBA monitors the economic data. Interestingly, RBA Governor Lowe commented that "*if inflation expectations stay well anchored, the supply-side problems get fixed up, wage growth and wage setting doesn't move up too fast and we can come back on that narrow path. So that is a plausible scenario: that rates rise and then start coming down next year. But a few things are going to have to go right for that to happen. It's possible, but there are other scenarios as well*".

Term Deposits

Term Deposits (fixed and floating) account for around 70% of the total investment portfolio at month-end. Council's term deposit portfolio was yielding 2.33% p.a. at month-end, with a weighted average duration of around 324 days or ~11 months. We note the following:

- The highest deposit rate from any rated ADI in the market is now ~5.15% p.a. for 5 years;
- The highest deposit rates amongst the "AA-" rated ADIs (major banks) is now yielding between 4.90%-5.00% p.a. (depending on terms between 12m – 5 years);
- The highest deposit rates amongst the "A" rated ADIs was yielding between 4.95%-5.15% p.a. (depending on terms between 12m – 5 years);
- The highest deposit rates amongst the "BBB" rated ADIs was yielding between 4.95%-5.15% p.a. (depending on terms between 12m – 5 years).

Despite more rate rises on the horizon, given an upward sloping deposit curve, maintaining a slightly longer average duration position on deposits will continue to outperform shorter durations. The deposit market has largely already factored in the current rate hike cycle, reflected by the flattening of the curve over the past few months, particularly at the long end of the curve (+2yrs). Interestingly, some 2-5 year deposit rates continue to be offered slightly below or close to the same level as the 12 month rate from a number of ADIs, as the market factors in the potential for a recession and official rates to subsequently fall in coming years:



Source: Imperium Markets

'New' investments above 4¾% p.a. is currently available if Council can continue to place the majority of its surplus funds for terms of 12 months to 2 years. *With recessionary fears being priced in coming years, investors may take an 'insurance policy' against future rate cuts by investing across 3-5 year fixed deposits and locking in rates above or close to 5% p.a. (small allocation only).*

Senior FRNs

Council's senior floating rate notes (FRNs) make up around 7% of the total investment portfolio at month-end. The market valuation of Council's FRNs collectively rose around **+0.22% (actual)** in February 2023 (**or +$77,641 in dollar terms**).

Summary	31 Jan 2023	28 Feb 2023	Net Flow ($)	Monthly Change %
Face Value	$33,250,000	$35,400,000	$2,150,000	+6.69%
Market Value	$33,302,905	$35,530,546	+$77,641	+0.22%

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 +$137,600** *(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 **$39,045 in dollar terms or +0.39% (actual)** for the month:

Summary	31 Jan 2023	28 Feb 2023	Net Flow ($)	Monthly Change %
Face Value	$7,900,000	$10,050,000	$2,150,000	+27.74%
Market Value	$7,890,215	$10,079,260	+$39,045	+0.39%

At month-end, Council's "BBB" rated FRNs are now marked at an **unrealised capital gain of ~$29,364**.

Senior Bonds

Since September 2020, Council has an outstanding $29m placed 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 1.09% p.a., with a current weighted average duration of 2.57 years.

We believe these investments were sensible given the unprecedented low rate environment and the RBA's forward guidance at the time of investment (no rate rises "*until at least 2024*"). 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 ~5½% of Council's total investment portfolio. **The Fund returned -0.84% (actual) during February**. Domestic and international shares fell as the US Fed indicated they were not done with their rate hike cycle as the economy continues to grow against their expectations, resulting in inflation to remain elevated.

Summary	31 Jan 2023	28 Feb 2023	Investment ($)	Net Return ($)	Net Return (%)
Market Value	$29,276,760	$29,031,816	$0	-$244,944	-0.84%

Central banks continue to be key players in the outcomes for asset markets and while many are signalling a likely slowing in the size of their rate hikes none are calling their job as complete, that is, further hikes can be expected.

The core macroeconomic outlook for 2023 remains recession, where demand destruction is expected to take over as the key driver as economies transition away from stagflation. The policy environment is restrictive but not in the extreme. Further supply recovery and a downturn in demand will guarantee a lower inflation environment but while markets speculate about a pivot to rate cuts they are ignoring the messaging from central banks that they see persistent inflation as the greater risk (versus growth). This sets the stage for volatility spikes through the months ahead as the gap between policy maker guidance and market expectations is wide.

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 2¾% of Council's total investment portfolio. **The Fund returned +0.03% (actual) in February**, as the market valuation of the fund's assets in global credit securities remained relatively flat during the month.

Summary	31 Jan 2023	28 Feb 2023	Difference ($)	Difference (%)
Market Value	$14,399,934	$14,404,701	+$4,767	+0.03%

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 +4 – 4½% 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 8½% of Council's investment portfolio at month-end. 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 3.50% p.a. at current yields, but likely higher as the RBA increases official rates. Short-dated term deposits will continue to outperform overnight cash accounts in most cases so we recommend keeping cash levels at a bare minimum to meet ongoing liquidity requirements.

Council's Budgeted Income for FY2022-2023

Council's budgeted income for FY2022-2023 has been revised to $13.221m. Based on an average total investment portfolio size of around $500m, that equates to a budgeted yield of around 2.64% for the current financial year.

For the month ending February 2023, the cumulative interest revenue earned was roughly $107k above the revised budgeted income. We exercise caution given the volatility from the TCorp Long-Term Growth Fund during any month.

Month-End	Cumulative Budget	Cumulative Investment Revenue	Difference ($)
Jul 2022	$1,101,748	$1,966,804	$865,056
Aug 2022	$2,203,497	$2,695,126	$491,629
Sep 2022	$3,305,245	$2,607,147	-$698,098
Oct 2022	$4,406,993	$4,706,137	$299,144
Nov 2022	$5,508,742	$6,578,791	$1,070,049
Dec 2022	$6,610,490	$6,767,315	$156,825
Jan 2023	$7,712,238	$8,210,705	$498,467
Feb 2023	$8,813,987	$8,921,298	$107,311
Mar 2023	$9,915,735		
Apr 2023	$11,017,483		
May 2023	$12,119,232		
Jun 2023	$13,220,980		

For 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 as the market factors in a global recession.

Council's Portfolio & Compliance

Asset Allocation

As at the end of February 2023, the portfolio was mainly directed to fixed and floating rate term deposits (70%). The remaining portfolio is directed to FRNs (7%), overnight cash accounts (9%), bonds (6%), and the managed funds with CFS Global Credit Income Fund and NSW T-Corp Long Term Growth Fund (8%, combined).

Senior FRNs remain relatively attractive as spreads have widened over the past year – new issuances should now be considered again on a case by case scenario. In the interim, fixed deposits for 12 months to 3 years appear quite appealing following the spike in medium-to longer-term yields during the rate hike cycle.

With recessionary fears being priced in coming years, investors can choose to allocate some longer-term surplus funds and undertake an insurance policy against any potential future rate cuts by investing across 3-5 year fixed deposits, locking in and targeting yields close to or above 5% p.a.

Term to Maturity

Overall, the portfolio remains well diversified from a maturity perspective with around 18% of assets directed to medium-term assets (2-5 years). All minimum and maximum criteria meet within the Policy guidelines:

Where liquidity permits, we recommend new surplus funds be directed to 1-3 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	$258,678,429	49.63%	20%	100%	$262,544,402
✓	1 – 2 years	$139,571,204	26.78%	0%	70%	$225,284,778
✓	2 – 5 years	$93,941,382	18.02%	0%	50%	$218,792,317
✓	5 – 10 years	$29,031,816	5.57%	0%	25%	$49,151,609
		$521,222,832	**100.00%**			

Counterparty

As at the end of February 2023, 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	$905,214	0.17%	50.00%	$259,706,202
✓	Bendigo Covered	AAA	$4,014,550	0.77%	50.00%	$256,596,866
✓	Suncorp Covered	AAA	$527,339	0.10%	50.00%	$260,084,077
✓	ING Covered	AAA	$1,508,736	0.29%	50.00%	$259,102,680
✓	ANZ	AA-	$4,043,798	0.78%	40.00%	$204,445,335
✓	CBA	AA-	$62,386,626	11.97%	40.00%	$146,102,507
✓	NAB	AA-	$150,925,942	28.96%	40.00%	$57,563,190
✓	Northern Territory	AA-	$32,000,000	6.14%	40.00%	$176,489,133
✓	Westpac	AA-	$37,900,000	7.27%	40.00%	$170,589,133
✓	Citibank NA	A+	$1,000,535	0.19%	25.00%	$129,305,173
✓	Macquarie	A+	$28,798	0.01%	25.00%	$130,276,910
✓	Suncorp	A+	$5,501,783	1.06%	25.00%	$124,803,924
✓	UBS AG	A+	$3,249,002	0.62%	25.00%	$127,056,706
✓	CFS Global CI	A	$14,404,701	2.76%	25.00%	$115,901,007
✓	ICBC	A	$98,551,551	18.91%	25.00%	$31,754,157
✓	ING Bank Aus.	A	$16,000,000	3.07%	25.00%	$114,305,708
✓	Aus. Military Bank	BBB+	$8,000,000	1.53%	15.00%	$70,183,425
✓	Aus. Unity Bank	BBB+	$9,000,000	1.73%	15.00%	$69,183,425
✓	BoQ	BBB+	$18,003,694	3.45%	15.00%	$60,179,731
✓	Bendigo-Adelaide	BBB+	$2,859,667	0.55%	15.00%	$75,323,758
✓	QT Mutual Bank	BBB+	$996,790	0.19%	15.00%	$77,186,635
✓	AMP Bank	BBB	$6,163,180	1.18%	15.00%	$72,020,244
✓	Bank Australia	BBB	$2,710,166	0.52%	15.00%	$75,473,259
✓	CUA	BBB	$2,508,944	0.48%	15.00%	$75,674,481
✓	MyState Bank	BBB	$4,000,000	0.77%	15.00%	$74,183,425
✓	P&N Bank	BBB	$2,500,000	0.48%	15.00%	$75,683,425
✓	Police CU SA	Unrated	$2,500,000	0.48%	1.00%	$2,712,228
✓	TCorpIM LTG	Unrated	$29,031,816	5.57%	10.00%	$23,090,467
			$521,222,832	**100.00%**		

During December 2022, we welcomed Council's decision to adopt a new Investment Policy which not only allows for further diversification, but also reduces concentration risk and provides better opportunities to maximise the overall returns of the portfolio.

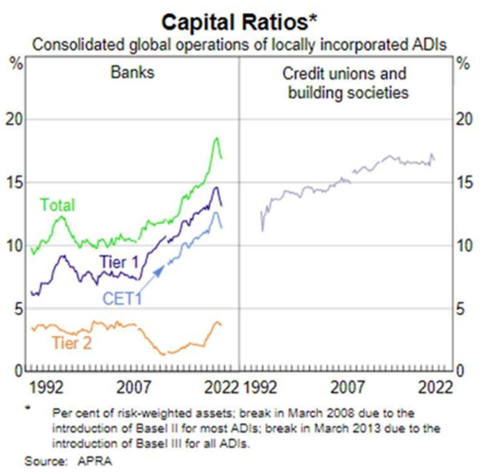
In late June 2022, Standard & Poor's downgraded Suncorp-Metway from AA- to A+ (negative watch). Suncorp recently announced that it is undertaking a strategic review of its banking operations. The downgrade reflects S&P's view that the Suncorp Group's likelihood of support for the bank had "*slightly*" diminished and that it was no longer a core part of the Group. In July 2022, ANZ (AA-) announced it was putting a bid to buy Suncorp's banking division for ~$4bn. Should that takeover be formalised, Suncorp-Metway's (A+) current credit rating is likely to be upgraded to ANZ's (AA-).

We remain supportive of the regional and unrated ADI sector (and have been even throughout the post-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.

Overall, the lower rated ADIs (BBB and unrated) are generally now in a better financial position then they have been historically (see the Capital Ratio figure below). The financial regulator, APRA has recently noted that the Common Equity Tier 1 capital of Australian banks now exceeds a quarter of a trillion dollars. It has increased by $110 billion, or more than 70%, over the past eight years. Over the same time, banks' assets have grown by 44%. Some of the extra capital is supporting growth in the banking system itself but clearly, there has been a strengthening in overall resilience and leverage in the system is lower.

We believe that deposit investments with the lower rated ADIs should be considered 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 (and international) ADIs continue to carry high levels of capital. There is minimal (if any) probability of any ADI defaulting on their deposits going forward – this was stress tested during the GFC and the pandemic period. **APRA's mandate is to "*protect depositors*" and provide "*financial stability*"**



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	**$321,558,423**	**61.69%**
Australia	$321,558,423	61.69%
Branches of Foreign Bank	**$139,700,553**	**26.80%**
China	$98,551,551	18.91%
Switzerland	$3,249,002	0.62%
United States	$37,900,000	7.27%
Foreign Subsidiary Banks	**$16,527,339**	**3.17%**
Netherlands	$16,527,339	3.17%
Global^	**$43,436,517**	**8.33%**
International	$43,436,517	8.33%
Total	**$521,222,832**	**100.00%**

Source: https://www.apra.gov.au/register-of-authorised-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 62% of Council's total investment portfolio is placed with domestic ADIs, while the remaining 38% 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 28/02/2023 ($521.22m), we can roughly estimate that ~72% of the investments have some form of exposure. This is likely to drift higher given the new Policy limits imposed by NSW Treasury Corporation.

Council's exposure is summarised as follows:

Counterparty	Credit Rating	Funding Fossil Fuel
BoQ Covered	AAA	Yes
Bendigo Covered	AAA	No
Suncorp Covered	AAA	No
ING Covered	AAA	Yes
ANZ	AA-	Yes
CBA	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
Aus Unity Bank	BBB+	No
BOQ	BBB+	Yes
Bendigo-Adelaide	BBB+	No
QT Mutual Bank	BBB+	No
AMP Bank	BBB	Yes
Bank Australia	BBB	No
CUA	BBB	No
MyState Bank	BBB	No
P&N Bank	BBB	No
Police CU SA	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	$373,321,643	72%
No	$147,901,189	28%
	$521,222,832	**100%**

Transition to investments without major exposure to fossil fuels

Council has not made a decision to divest from the current portfolio of investments which have exposure to fossil fuels. To do so would have unfavourable implications to the credit quality, rating and interest income forecasts.

However, where possible, and within the ministerial and policy guidelines, Council will continue to favour newly issued fossil fuel free investment products, providing it does not compromise the risk and return profile.

In time it is Councils intention to move to a more balanced portfolio which has less exposure to fossil fuels, providing it is prudent to do so.

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 (Citi, Macquarie 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 (e.g. most of the senior FRN issues are with the higher rated ADIs);
- Underperformance compared to other Councils which could result in a significant loss of income generated – could be in excess of hundreds of thousands of dollars per annum.

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.

Credit Quality

Following the most recent adopted Policy in February 2023, all aggregate ratings categories are currently within the Policy limits:

Compliant	Credit Rating	Invested ($)	Invested (%)	Max. Limit (%)	Available ($)
✓	AAA Category	$6,955,839	1%	100%	$514,266,993
✓	AA Range or Major Banks	$287,256,366	55%	100%	$233,966,465
✓	A Category	$138,736,370	27%	80%	$278,241,895
✓	BBB Category	$56,742,440	11%	30%	$99,624,409
✓	Unrated ADI Category	$2,500,000	0%	10%	$49,622,283
✓	TCorpIM Funds	$29,031,816	6%	25%	$101,273,892
		$521,222,832	**100.00%**		

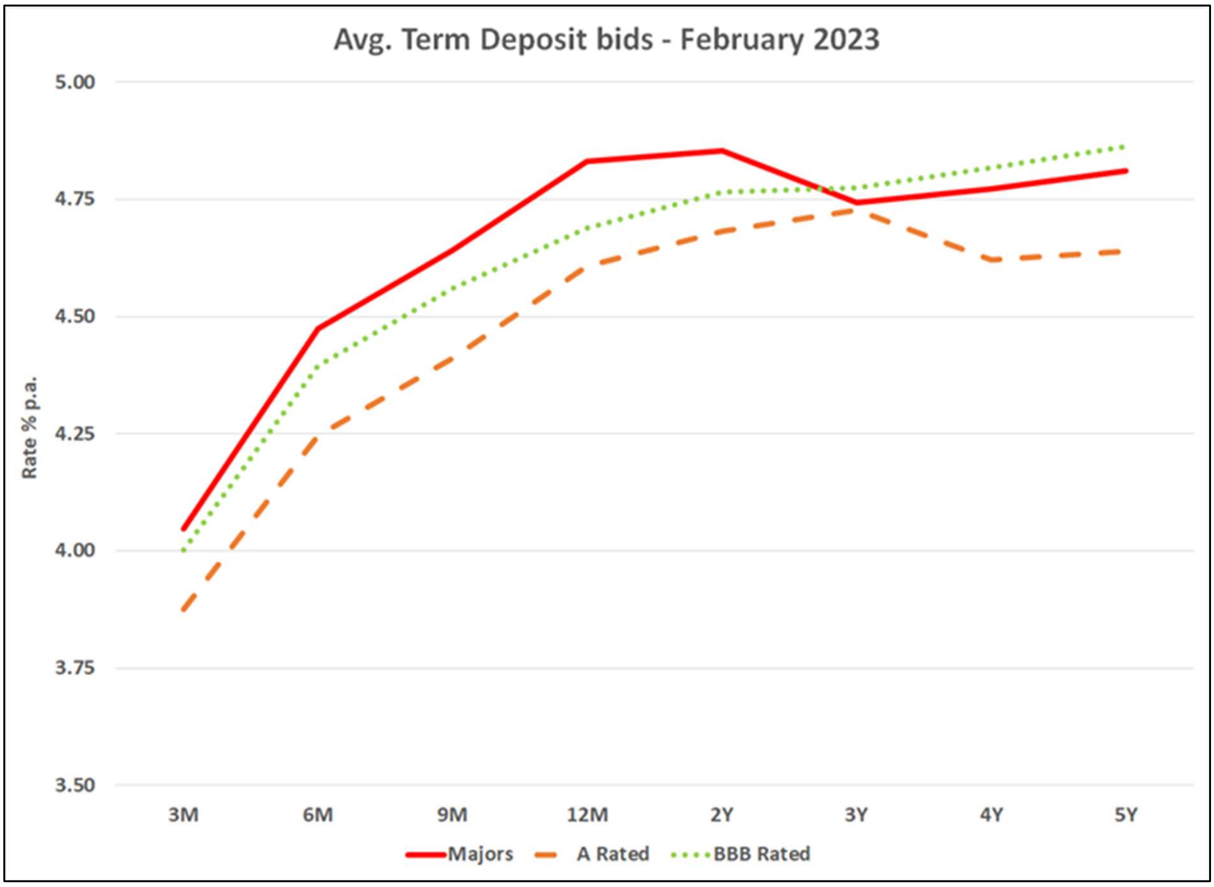
The portfolio remains well diversified across the entire credit spectrum, including some exposure to the unrated ADI sector. There is high capacity to invest in the higher rated ADIs (A or higher), particularly after the downgrades of BoQ and AMP Bank over the past few years, as all have now fallen back into the "BBB" rated category (previously in the "A" rated category).

Pre-pandemic (March 2020), a 'normal' marketplace meant the lower rated ADIs (i.e. BBB category) were offering higher rates on term deposits compared to the higher rated ADIs (i.e. A or AA rated). But due to the cheap funding available provided by the RBA via their Term Funding Facility (TFF) since mid-2020[1], allowing the ADIs to borrow as low as 0.10% p.a. fixed for 3 years, those lower rated ADIs (BBB rated) did not require deposit funding from the wholesale deposit from the likes of Council. Given the higher rated banks had more capacity to lend (as they have a greater pool of mortgage borrowers), they subsequently were offering higher deposit rates. In fact, some of the lower rated banks were not even offering deposit rates at all. As a result, most investors placed a higher proportion of their deposit investments with the higher rated (A or AA) ADIs over the past three years.

In the interim, the 'abnormal' marketplace still largely exists, with the higher rated banks (majors) often paying a higher rate of return over the lower rated institutions across various parts of the curve on any particular day. Over the next few years, with the RBA now removing these cheap borrowing facilities, this should result in some of the lower rated banks (BBB rated) starting to become more competitive as the market starts to 'normalise'. Council should have a larger opportunity to invest a higher proportion of its surplus funds with the lower rated institutions (up to Policy limits), from which the majority are not lending to the Fossil Fuel industry or considered more 'ethical'.

We are slowly seeing this trend emerge, as has been the case in recent months:

[1] The RBA's Term Funding Facility (TFF) allowed the ADI to borrow as low as 0.10% fixed for 3 years: https://www.rba.gov.au/mkt-operations/term-funding-facility/overview.html



Source: Imperium Markets

Performance

Council's performance (actual returns) for the month ending 28 February 2023 is summarised as follows:

Performance (Actual)	1 month	3 months	6 months	FYTD	1 year	2 years	3 years
Official Cash Rate	0.25%	0.77%	1.42%	1.70%	1.81%	0.95%	0.70%
AusBond Bank Bill Index	0.24%	0.76%	1.40%	1.68%	1.76%	0.89%	0.66%
PCC Internal Benchmark*	0.23%	0.93%	1.92%	2.53%	2.36%	1.57%	1.46%
PCC Cash Portfolio	0.27%	0.83%	1.53%	1.84%	2.03%	1.23%	1.06%
PCC T/D Portfolio	0.18%	0.59%	1.15%	1.50%	2.00%	1.63%	1.70%
PCC FRN Portfolio	0.34%	1.06%	1.99%	2.50%	2.95%	2.27%	2.08%
PCC Bond Portfolio	0.09%	0.27%	0.55%	0.74%	1.10%	1.07%	-
PCC Credit Fund	0.03%	1.82%	3.09%	4.85%	1.82%	0.55%	1.10%
PCC TCorp Growth Fund	-0.84%	-0.29%	3.14%	6.39%	-1.13%	3.22%	3.71%
PCC's Total Portfolio	**0.16%**	**0.55%**	**1.30%**	**1.79%**	**1.72%**	**1.43%**	**1.57%**
Outperf. (BBI)	**-0.08%**	**-0.20%**	**-0.10%**	**0.10%**	**-0.04%**	**0.54%**	**0.90%**
Outperf. (Int. Bench.)	**-0.07%**	**-0.38%**	**-0.62%**	**-0.75%**	**-0.64%**	**-0.13%**	**0.11%**

**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: Fund's return itself

For the month of February, the total investment portfolio (including cash) provided a return of +0.16% (actual) or +2.05% p.a. (annualised), underperforming the AusBond Bank Bill Index return of +0.24% (actual) or +3.18% p.a. (annualised), and Council's internal benchmark return of +0.23% (actual) or +3.00% p.a. (annualised). The CFS (+0.03% actual) and TCorp Fund (-0.84% actual) were the main detractors to performance this month.

The longer-term outperformance continues to be anchored by the handful of longer-dated deposits, as well as the FRNs locked in at attractive margins, boosted by the strategic sales implemented over the past few years. This is now reflected in the longer-term returns with the FRN portfolio now slightly ahead of fixed term deposits over 1-3 year time periods.

The annualised returns as of 28 February 2023 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	3.35%	3.18%	2.89%	2.56%	1.81%	0.95%	0.70%
AusBond Bank Bill Index	3.18%	3.11%	2.85%	2.54%	1.76%	0.89%	0.66%
PCC Internal Benchmark*	3.00%	3.84%	3.91%	3.83%	2.36%	1.57%	1.46%
PCC Cash Portfolio	3.60%	3.40%	3.11%	2.77%	2.03%	1.23%	1.06%
PCC T/D Portfolio	2.40%	2.40%	2.34%	2.26%	2.00%	1.63%	1.70%
PCC FRN Portfolio	4.59%	4.36%	4.06%	3.78%	2.95%	2.27%	2.08%
PCC Bond Portfolio	1.12%	1.11%	1.11%	1.11%	1.10%	1.07%	-
PCC Credit Fund	0.43%	7.58%	6.32%	7.37%	1.82%	0.55%	1.10%
PCC TCorp Growth Fund	-10.37%	-1.17%	6.44%	9.76%	-1.13%	3.22%	3.71%
PCC's Total Portfolio	**2.05%**	**2.27%**	**2.65%**	**2.70%**	**1.72%**	**1.43%**	**1.57%**
Outperf. (BBI)	**-1.13%**	**-0.84%**	**-0.20%**	**0.16%**	**-0.04%**	**0.54%**	**0.90%**
Outperf. (Int. Bench.)	**-0.96%**	**-1.57%**	**-1.27%**	**-1.13%**	**-0.64%**	**-0.13%**	**0.11%**

Council's Term Deposit Portfolio & Recommendation

As at the end of February 2023, Council's deposit portfolio was yielding **2.33% p.a.** (up 2bp from the previous month), with a weighted average duration of around 324 days (~11 months).

Over a longer-term cycle, investors are rewarded if they can continue to maintain a slightly longer average duration. In a 'normal' marketplace, yields at the long-end are generally offered at a slight premium over shorter tenors.

At the time of writing, we see value in:

	LT Credit Rating	Term	T/D Rate
ING	A	5 years	5.13% p.a.
ING	A	4 years	5.12% p.a.
ING	A	3 years	5.11% p.a.
ING	A	2 years	5.10% p.a.
CBA	AA-	2 years	5.04% p.a.
BoQ	BBB+	2 years	5.00% p.a.
Westpac	AA-	2 years	5.00% p.a.
NAB	AA-	2 years	5.00% p.a.

The above deposits are suitable for investors looking to maintain diversification and 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):

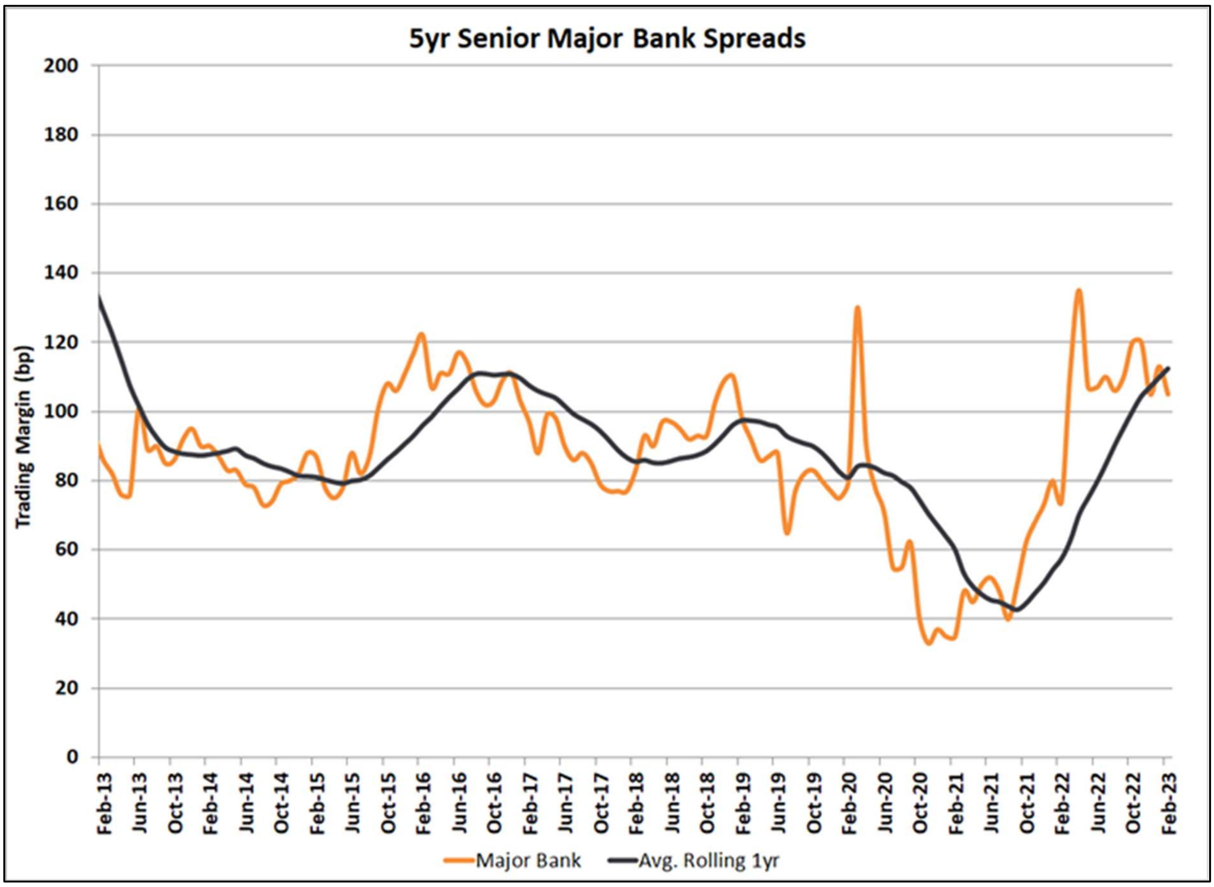
ADI	LT Credit Rating	Term	T/D Rate
CBA	AA-	12 months	5.05% p.a.
NAB	AA-	12 months	5.00% p.a.
Westpac	AA-	12 months	4.98% p.a.
ING	A	12 months	4.98% p.a.
Hume Bank	BBB+	12 months	4.95% p.a.
BoQ	BBB+	12 months	4.90% p.a.
CBA	AA-	6 months	4.70% p.a.
WBC	AA-	6 months	4.64% p.a.
NAB	AA-	6 months	4.60% p.a.
CBA	AA-	3 months	4.31% p.a.

If Council does not require high levels of liquidity and can stagger its investments across the longer term horizons (2-5 years), it will be rewarded over coming years if it can roll for an average min. term of 12 months to 2 years (this is where we current value), yielding, on average, up to ¼-½% p.a. higher compared to those investors that entirely invest in short-dated (under 6 months) deposits.

With recessionary fears being priced in coming years, Council can allocate some longer-term surplus funds and undertake an insurance policy by investing across 3-5 year fixed deposits and locking in rates close to or above 5% p.a. This will provide some income protection if central banks decide to cut rates in future years, assuming inflation gets under control.

Senior FRNs Review

Over February, amongst the senior major bank FRNs, physical credit securities tightened by up to 10bp at the long-end of the curve. Nevertheless, major bank senior securities remain fairly attractive again in a rising rate environment (5 year margins above the +105bp level):



Source: IBS Capital

During February, there were other noticeable new primary issuance, mainly from the international banks:

- MUFG, Sydney Branch (A) 3 year senior FRN at +87bp
- Sumitomo, Sydney Branch (A+) 3 year senior FRN at +85bp
- RACQ (BBB+) 3 year senior FRN at +150bp
- DBS, Sydney Branch (AA-) 5 year dual senior security at +75bp
- Bank Australia (BBB) 4 year senior 'sustainable' FRN at +160bp
- Mizuho, Sydney Branch (A) 3 year FRN at +86bp
- HSBC, Sydney Branch (A+) 5 year dual senior security at +105bp

Amongst the "A" and "BBB" rated sector, the securities were marked between 5-10bp tighter at the 3-5 year part of the curve, with movements largely dictated by new issuances.

Credit securities are looking much more attractive given the widening of spreads in 2022. FRNs will continue to play a role in investor's portfolios mainly on the basis of their liquidity and the ability to roll down the curve and gross up returns over ensuing years (in a relatively stable credit environment).

Senior FRNs (ADIs)	28/02/2023	31/01/2023
"AA" rated – 5yrs	+105bp	+113bp
"AA" rated – 3yrs	+75bp	+88bp
"A" rated – 5yrs	+125bp	+130bp
"A" rated – 3yrs	+90bp	+103bp
"BBB" rated – 3yrs	+145bp	+150bp

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 early 2025 for the "AA" rated ADIs (domestic major banks)**;
- On or before early 2024 for the "A" rated ADIs; and
- Within 6-9 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 challenging economic 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 selloff in credit assets in 2022, we now recommend Council holds the majority of its FRN portfolio at this stage. We now recommend switching out of the following FRN at the next best opportunity, most likely into a new attractive primary issuance:

Issuer	Rating	Maturity Date	ISIN	Face Value	Trading Margin	Capital Price ($)	~Unrealised Gain ($)
NAB	AA-	21/01/2025	AU3FN0052510	$2,000,000	+54.5bp	$100.349	$6,978

We will inform Council when there is an opportunity to sell out of any future sub-optimal FRNs and switch into a higher yielding complying asset.

This strategy has worked very well as Council has ultimately boosted the overall returns of the investment portfolio. The previous financial year's sales amounted to $333k – given the turn in the market over the past few years, these sales would not have been undertaken unless Council was actively managing its portfolio prudently.

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
30/09/2020	15/12/2023	$2,000,000	1.00%	0.79	Annually
24/11/2020	16/12/2024	$1,000,000	0.90%	1.80	Annually
16/02/2021	16/06/2025	$1,000,000	0.90%	2.30	Annually
16/02/2021	15/06/2026	$5,000,000	1.00%	3.30	Annually
12/05/2021	17/06/2024	$3,000,000	0.80%	1.30	Annually
12/05/2021	16/06/2025	$3,000,000	1.10%	2.30	Annually
12/05/2021	15/06/2026	$3,000,000	1.30%	3.30	Annually
20/05/2021	16/06/2025	$3,500,000	1.10%	2.30	Annually
09/09/2021	16/12/2024	$2,500,000	0.90%	1.80	Semi-Annually
09/09/2021	15/12/2026	$5,000,000	1.40%	3.80	Semi-Annually
	Totals / Wgt. Avg.	**$29,000,000**	**1.09%**	**2.57 yrs**	

We believe these investments were prudent especially after the rate cut delivered in early November 2020 and its subsequent forward guidance on official interest rates (no rate rises "*until at least 2024*"). 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 over the past 6-12 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%	4.81%	-$68,624

Senior Fixed Bonds – ADIs (Secondary Market)

As global inflationary pressures remain, this has seen a significant lift in longer-term bond yields (valuations fell) as markets have reacted accordingly.

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
AU3CB0255776	ING	AAA	Covered	07/09/2023	0.53	3.00%	4.46%
AU3CB0258465	Westpac	AA-	Senior	16/11/2023	0.72	3.25%	4.39%
AU3CB0265403	Suncorp	A+	Senior	30/07/2024	1.42	1.85%	4.91%
AU3CB0263275	Westpac	AA-	Senior	16/08/2024	1.47	2.25%	4.69%
AU3CB0265718	ING	AAA	Covered	20/08/2024	1.48	1.45%	4.82%
AU3CB0266179	ANZ	AA-	Senior	29/08/2024	1.50	1.55%	4.68%
AU3CB0266377	Bendigo	BBB+	Senior	06/09/2024	1.53	1.70%	4.9%
AU3CB0268027	BoQ	BBB+	Senior	30/10/2024	1.67	2.00%	5.07%
AU3CB0269710	ANZ	AA-	Senior	16/01/2025	1.89	1.65%	4.66%
AU3CB0269892	NAB	AA-	Senior	21/01/2025	1.90	1.65%	4.68%
AU3CB0270387	Macquarie	A+	Senior	12/02/2025	1.96	1.70%	4.91%
AU3CB0287415	Westpac	AA-	Senior	17/03/2025	2.05	2.70%	4.67%
AU3CB0291508	Westpac	AA-	Senior	11/08/2025	2.45	3.90%	4.72%
AU3CB0291672	CBA	AA-	Senior	18/08/2025	2.47	4.20%	4.67%
AU3CB0280030	BoQ	BBB+	Senior	06/05/2026	3.19	1.40%	5.24%
AU3CB0282358	ING	AAA	Covered	19/08/2026	3.48	1.10%	4.92%
AU3CB0284149	BoQ	BBB+	Senior	27/10/2026	3.67	2.10%	5.23%
AU3CB0286037	Westpac	AA-	Senior	25/01/2027	3.91	2.40%	4.91%

CFS Global Credit Income Fund

For the month of February, the CFS Global Credit Income Fund returned +0.03% (actual), outperforming the AusBond Bank Bill Index return of +0.24% (actual), while outperforming the AusBond Credit Index return of -0.62% (actual).

The economic outlook is for earnings pressure as both household and business incomes are under pressure and we therefore expect consumption to fall. The good news is that household and corporate balance sheets are in a good starting position (historically) facing a recession and this suggests that a typical cyclical recession and not a hard landing is the current base case expectation. However, the risk is for a harder landing. If this scenario evolves it is likely to come from central banks playing hard ball on policy by tightening more than expected and holding for longer than expected.

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 ~4½% 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-CorpIM Growth Fund

The Growth Fund returned -0.84% (actual) for the month of February. The losses this month were attributed to international shares (the MSCI World ex-Australia Index fell -2.42%) and domestic shares (the S&P ASX 200 Accumulation Index fell -2.45%). Also contributing to the losses was the exposure to fixed bonds (AusBond Composite Bond Index fell -1.32%).

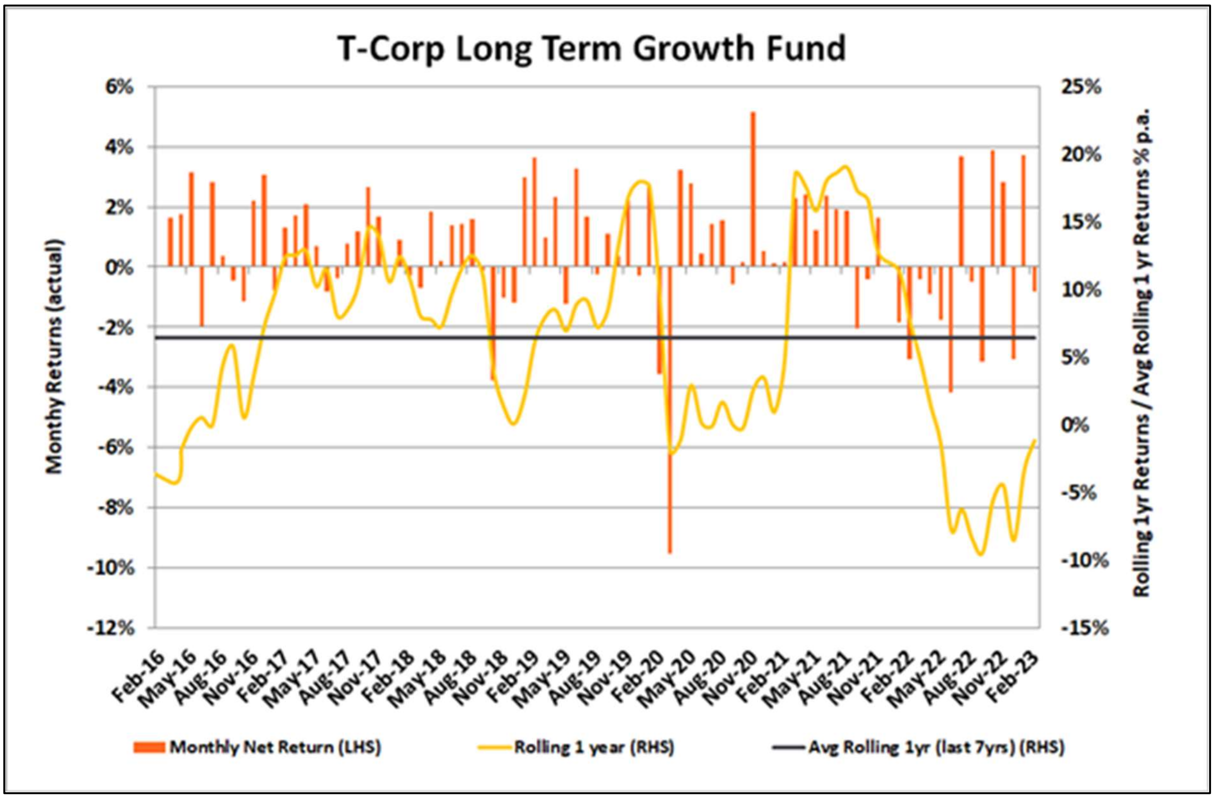
Central banks continue to be key players in the outcomes for asset markets and while many are signalling a likely slowing in the size of their rate hikes none are calling their job as complete, that is, further hikes can be expected.

The core macroeconomic outlook for 2023 remains recession, where demand destruction is expected to take over as the key driver as economies transition away from stagflation. The policy environment is restrictive but not in the extreme. Further supply recovery and a downturn in demand will guarantee a lower inflation environment but while markets speculate about a pivot to rate cuts they are ignoring the messaging from central banks that they see persistent inflation as the greater risk (versus growth). This sets the stage for volatility spikes through the months ahead as the gap between policy maker guidance and market expectations is wide.

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	139 (~1 in 3 months)
Positive Months	265
Total Months	404 (33.67 yrs)
Average Monthly Return	+0.64% (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)


T-Corp Long Term Growth Fund
Monthy Returns (actual)
6%
4%
2%
0%
-2%
-4%
-6%
-8%
-10%
-12%
25%
20%
15%
10%
5%
0%
-5%
-10%
-15%
Rolling 1yr Returns / Avg Rolling 1 yr Returns % p.a.
Feb-16
May-16
Aug-16
Nov-16
Feb-17
May-17
Aug-17
Nov-17
Feb-18
May-18
Aug-18
Nov-18
Feb-19
May-19
Aug-19
Nov-19
Feb-20
May-20
Aug-20
Nov-20
Feb-21
May-21
Aug-21
Nov-21
Feb-22
May-22
Aug-22
Nov-22
Feb-23
Monthly Net Return (LHS)
Rolling 1 year (RHS)
Avg Rolling 1yr (last 7yrs) (RHS)

Economic Commentary

International Market

Risk markets were generally sold off in February after several stronger-than-expected reports on the US economy (particularly employment) changed the outlook on the peak of the interest rate cycle.

Across equity markets, the S&P 500 Index fell -2.61%, while the NASDAQ lost -1.11%. Europe's main indices bucked the trend, with gains led by France's CAC (+2.62%), Germany's DAX (+1.57%) and UK's FTSE (+1.35%).

The US FOMC agreed (unanimously among the voters) to lift rates another 25bp to 4.50%-4.75% range, downshifting hikes further from the two 50bp moves and earlier more aggressive 75bp moves.

US headline payrolls came in at +517k vs. +188k expected, and the unemployment rate fell 0.10% to 3.4% (its lowest in 54 years), versus an expected rise to 3.6%. US Fed Chair Powell noted how the strength in the labour market underscores why the Fed thinks it could take time to bring inflation down. Powell then remarked that "*we think we're going to have to do further [rate] increases, and we think we'll have to hold policy at a restrictive level for some time*".

US CPI came in marginally above consensus. The core and headline came in-line with the median forecast at +0.4% m/m and +0.5% m/m, but they slowed less than expected on a year-ended basis. Headline CPI fell to +6.4% from +6.5%, while the core CPI fell to +5.6% y/y from +5.7%.

Canada's employment rose +150k, where consensus was for just +15k and the unemployment rate remained at 5.0%.

UK Q4 GDP was flat, as expected, following Q3's -0.2% q/q decline, with year-ended growth coming in at +0.4%. That sees the economy avoiding a recession for now. The Bank of England (BoE) hiked rates by 50bp, in line with the consensus forecast to 4%.

The RBNZ raised the OCR by 50bp to 4.75% as widely anticipated and there was only a minor tweak to the projected track, with the peak still assumed to be 5.5% but taking slightly longer to get there.

China's inflation data remained low by global standards and did nothing to warn authorities against keeping policy stimulatory. CPI rose to +2.1% y/y from +1.8%, in line with expectations.

The IMF raised its 2023 world GDP growth forecast to +2.9%, up from +2.7% forecast last October, supported by China's reopening. China is now expected to grow by +5.2% in 2023.

The MSCI World ex-Aus Index fell -2.42% for the month of February:

Index	1m	3m	1yr	3yr	5yr	10yr
S&P 500 Index	-2.61%	-2.70%	-9.23%	+10.35%	+7.91%	+10.12%
MSCI World ex-AUS	-2.42%	-0.25%	-8.98%	+8.29%	+5.19%	+7.04%
S&P ASX 200 Accum. Index	-2.45%	+0.30%	+7.16%	+7.93%	+7.90%	+8.10%

Source: S&P, MSCI

Domestic Market

The RBA raised rates by 25bp to 3.35%, the ninth consecutive increase. The Statement was hawkish with the RBA Board expecting "fu*rther increases in interest rates will be needed over the months ahead"*. Dr Lowe said "*inflation [was] way too high and it needs to come down*" and that the risks at the moment are "*two sided*" with the "*risk we haven't done enough on interest rates*". He added there was a risk the central bank's most rapid tightening cycle in a generation had not done enough to dampen household spending and tame inflation. "*How far we have to go up – I don't know. It's going to depend upon the inflation data, the resilience of spending, the strength of the global economy and what's happening with growth and wages"*.

The unemployment rate unexpectedly jumped to 3.7% in January (from 3.5% in December), with the participation rate decreasing to 66.5% (66.6%).

The wage price index (WPI) rose +0.8% for the December quarter and +3.3% y/y. This was 0.2% below the consensus of +1.0% q/q and +3.5%, which was also what the RBA had pencilled in. As for headline details, private sector wages rose +0.85% q/q and +3.6% y/y, a slower pace than the +1.2% q/q rise in Q3. Public sector wages rose +0.7% q/q and +2.5% y/y.

Retail sales fell a sharp -3.9% m/m in December (consensus -0.2%), following an upwardly revised November to +1.7% m/m (from +1.4%). The key implication is that we may be starting to see the first signs that monetary tightening is starting to weigh on consumption.

The December trade surplus was $12.2bn (consensus $12.5bn) from an upwardly revised November balance of $13.5bn. Exports fell 1.4% (-0.8bn) with key resource export categories all lower.

Private sector credit growth slowed to +0.3% m/m in December from +0.5% in November (consensus +0.5%). The annual rate slowed to +8.3% y/y, the second consecutive month of deceleration from its recent +9.5% peak in October.

Australian dwelling prices fell -1.0% m/m in January, the ninth consecutive month of decline. House prices nationally are now 8.9% below their peak, but remain 14.6% above pre-pandemic levels.

The Australian dollar lost -4.36%, finishing the month at US67.30 cents (from US70.37 cents the previous month).

Credit Market

The global credit indices widened over February in the 'risk-off' environment. They are now back to their levels in early 2022 (prior to the rate hike cycle from most central banks):

Index	February 2023	January 2023
CDX North American 5yr CDS	75bp	72bp
iTraxx Europe 5yr CDS	80bp	79bp
iTraxx Australia 5yr CDS	87bp	82bp

Source: Markit

Fixed Interest Review

Benchmark Index Returns

Index	February 2023	January 2023
Bloomberg AusBond Bank Bill Index (0+YR)	+0.24%	+0.27%
Bloomberg AusBond Composite Bond Index (0+YR)	-1.32%	+2.76%
Bloomberg AusBond Credit FRN Index (0+YR)	+0.43%	+0.42%
Bloomberg AusBond Credit Index (0+YR)	-0.62%	+2.19%
Bloomberg AusBond Treasury Index (0+YR)	-1.58%	+2.94%
Bloomberg AusBond Inflation Gov't Index (0+YR)	-2.20%	+4.87%

Source: Bloomberg

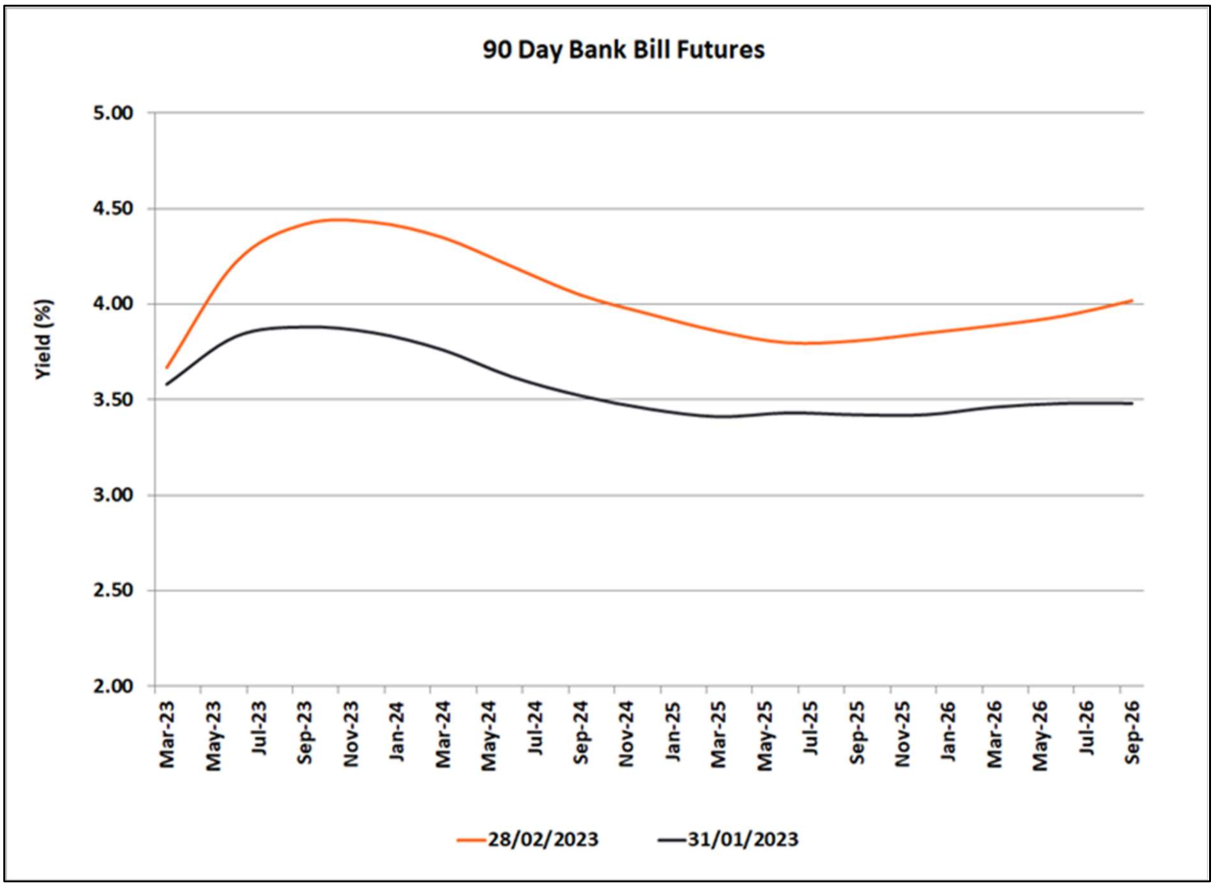
Other Key Rates

Index	February 2023	January 2023
RBA Official Cash Rate	3.35%	3.10%
90 Day (3 month) BBSW Rate	3.56%	3.37%
3yr Australian Government Bonds	3.60%	3.17%
10yr Australian Government Bonds	3.85%	3.55%
US Fed Funds Rate	4.50%-4.75%	4.25%-4.50%
3yr US Treasury Bonds	3.81%	3.90%
10yr US Treasury Bonds	3.92%	3.52%

Source: RBA, AFMA, US Department of Treasury

90 Day Bill Futures

Over February, bill futures rose significantly across the board, with the market reacting to the US Fed Reserve's comments that they are still looking to raise rates over coming months. The markets continue to factor in the possibility of a global recession over the next few years, highlighted by the drop in the futures pricing in early 2024:



Source: ASX

Fixed Interest Outlook

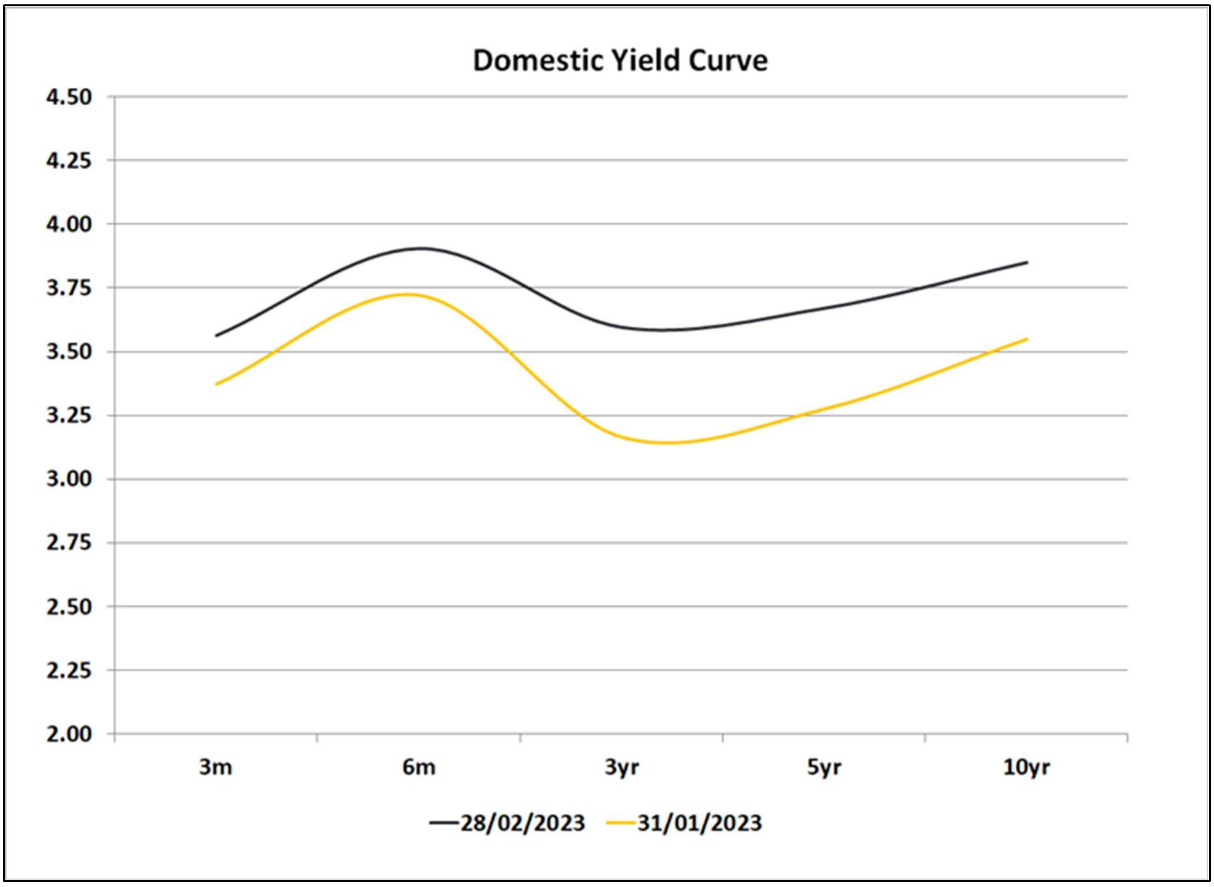
Money markets are now pricing for the US Fed to reach a mid-point of the 5.25%-5.50% target range. Futures markets nevertheless continue to factor in that rates will be coming down within 6 months of the peak being reached. US Fed Chair Powell sounded slightly less hawkish as he noted how the disinflationary process had already begun, however he still suggested that have a long way to go, particularly within the services sector. Powell also noted how the strength in the labour market underscores why the Fed thinks it could take time to bring inflation down to its 2% target.

Domestically, RBA Governor Lowe recently commented "*I don't think we're at the peak yet but how far they need to go, we're still unsure*". He sees monetary policy as restrictive and indicated the RBA Board is still "*trying to navigate a narrow path here*" and "*want to get inflation down*", "*but also preserve the gains*" seen in the labour market. However, that narrow path is highly uncertain with Dr Lowe noting that he doesn't "*know the answer*" to how far unemployment will need to rise.

The latest RBA Minutes revealed they considered moves for both 25bp or 50bp in February. The main arguments for moving by 25bp are that policy has already "*been adjusted substantially*" with considerable "*uncertainty around the outlook*", that there are substantial lags in policy and that "*monthly meetings provided the Board with frequent opportunities to assess how' uncertainties were being resolved*". For the RBA to step back to 50bp hikes, it is likely that the RBA would need to be convinced that wage and inflation expectations had shifted substantially.

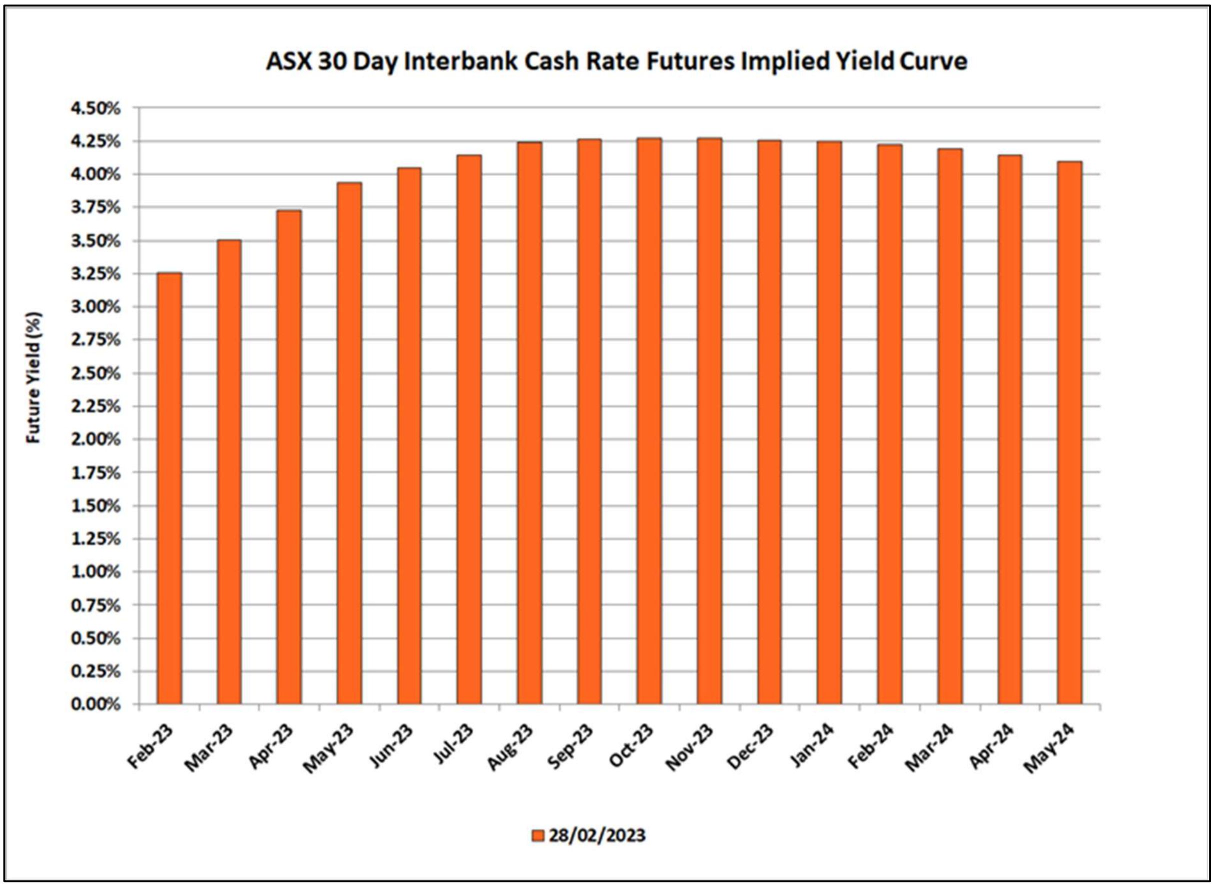
For now, the RBA continues to signal that it expects to increase interest rates, with at least two or three more 25bp hikes over the months ahead, likely locking in a March rate hike, and then possibly another in April and/or May. Thereafter, noting the lags in monetary policy, a pause around the end of Q2-Q3 is likely whilst the RBA monitors the economic data. Markets are currently pricing in up to 4 additional rate rises into mid-2023 (up to 4.25%). Fears of a looming global recession have actually seen rate cuts start to be priced in towards the start of 2024, although this seems unlikely for now.

Over the month, yields rose up to 40bp at the long-end of the curve:



Source: AFMA, ASX, RBA

RBA Governor Lowe commented that "*if inflation expectations stay well anchored, the supply-side problems get fixed up, wage growth and wage setting doesn't move up too fast and we can come back on that narrow path. So that is a plausible scenario: that rates rise and then start coming down next year. But a few things are going to have to go right for that to happen. It's possible, but there are other scenarios as well*".



Source: ASX

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