

# Will interest rates stay higher for longer? The September 2023 Trust Investor Quarterly Market Update

By Perpetual Wealth Management

18 October 2023

In the September 2023 Perpetual Private Quarterly Market Update we take a look at how the market is adjusting as monetary policy begins to take hold. You can download our full report – or read our concise review below.

Please note: except where otherwise noted or quoted, the views in this article are those of Perpetual Private’s investment team.

[Download the report](#)

## September Quarter 2023: What happened?

- Having enjoyed an environment of increasing optimism, Australian shares had a challenging quarter. Although momentum carried markets higher in July, they softened through August and September, returning -0.7% over the three months.
- International shares followed an almost identical path to that of their Australian equivalents in the three months to September. An upbeat July, followed by a complete retracement over the following two months, saw international equities lose 0.4% over the quarter.

- As enthusiasm for large tech companies began to wane, the NASDAQ dropped -3.9%. The less technology-focused S&P 500 proved to be mildly more resilient (-3.4%).
- The domestic bond market returned -0.72% during the September 2023 quarter, while international fixed income returned -0.46%. Credit outperformed the general market, especially high yield debt, which returned 3.3% for the period.

(Indices referenced: MSCI AC World, S&P/ASX 300, Bloomberg Global Aggregate index, Bloomberg AusBond Composite (0+Y) index. All performance numbers to end September 2023 quarter unless otherwise stated).

---

**“Spring is the time of year when it is summer in the sun and winter in the shade” Charles Dickens**

---

It has been an eventful eighteen months. After the negativity of 2022, the September 2023 quarter was typified by further swings in sentiment and valuations, as markets and economies continue to adjust to the new monetary landscape. The period started with positive momentum as investors marvelled at the power and potential of artificial intelligence. However, as economies and, more importantly inflation, continue to be resilient, appreciation that interest rates would truly be ‘higher for longer’, lead to a lurch downwards across asset markets.

Perpetual Private Investment Director, Andrew Garrett, says the current volatility is not unusual.

“We expect this to continue for some time, as markets come to terms with the new economic reality. However, we do expect as we enter the new year to progressively get greater clarity of the true path ahead for investment markets,” he says.

We suggested in our June quarter market update that the supply side of the inflation shock may be behind us, but the escalating circumstances in the Middle East may lead to a much larger regional conflict that affects energy prices and pushes inflation higher for longer.

### **The possibility of higher for longer**

All eyes were on fixed income markets throughout the September quarter as consistent central bank messaging was digested by investors.

Going into the quarter, indications were that inflation was likely to slowly return to the target range, and that interest rates would need to remain at elevated levels for an extended period. Despite this, market positioning suggested that a reasonable proportion of participants were expecting interest rate cuts in the foreseeable future.

Based on price action in the market throughout the quarter, we have likely experienced a 'good news is bad news' scenario, where continued economic strength has a negative impact on financial assets. Despite the RBA holding interest rates at 4.1% and the Federal Reserve increasing only once, yields on respective 10-year government bonds increased by 0.5% and 0.8%.

This is partially driven by surprisingly strong economic resilience. Labour markets, in particular, continue to defy expectations. That said, the consensus is that interest rates have peaked – however, it remains unclear if central bank actions to date have been sufficient to curb inflation.

Rising oil prices will make it harder for central bankers to achieve their goal, and there is an increased risk of this if the conflict in the Middle East escalates. Oil prices are historically associated with recessions, and a recession may force central banks to come in and cut rates to support the economy. We consider this a risk to our income outlook.

That said, the market is now beginning to price in 'higher for longer' interest rates.

“For income investors, this is good news because higher interest rates become a baseline for the income generated right across a portfolio. While the full impact of an improved income environment has yet to be seen, the current investment environment is far more conducive now for income production than it has been,” says Garrett.

**Perpetual Private's Quarterly Investment Update for September 2023 covers the changing nature of investment dynamics and looks at the outlook for shares, fixed income, real estate, currency and alternatives.**

[Download the report](#)

**Take your first step - contact us 1800 631 381**

For information on recent market moves and how they affect your investments – contact Perpetual Private on 1800 631 381.

[Submit the form](#)

Perpetual Private advice and services are provided by Perpetual Trustee Company Limited (PTCo) ABN 42 000 001 007, AFSL 236643. This information was prepared by PTCo and Perpetual Investment Management Limited (PIML) ABN 1800 866 535, AFSL 234426 and is used by PTCo. It contains general information only and is not intended to provide you with financial advice or take into account your objectives, financial situation or needs. You should consider, with a financial adviser, whether the information is suitable for your circumstances. To the extent permitted by law, no liability is accepted for any loss or damage as a result of any reliance on this information. The information is believed to be accurate at the time of compilation and is provided in good faith.

PTCo do not warrant the accuracy or completeness of any information contributed by a third party. Any views expressed in this article are opinions of the author at the time of writing and do not constitute a recommendation to act. This information, including any assumptions and conclusions is not intended to be a comprehensive statement of relevant practice or law that is often complex and can change. No company in the Perpetual Group (Perpetual Limited ABN 86 000 431 827 and its subsidiaries) guarantees the performance of any fund or the return of an investor's capital. Past performance is not indicative of future performance.

