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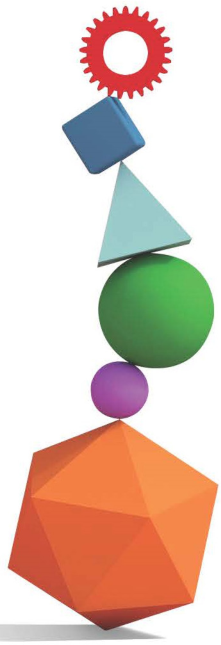
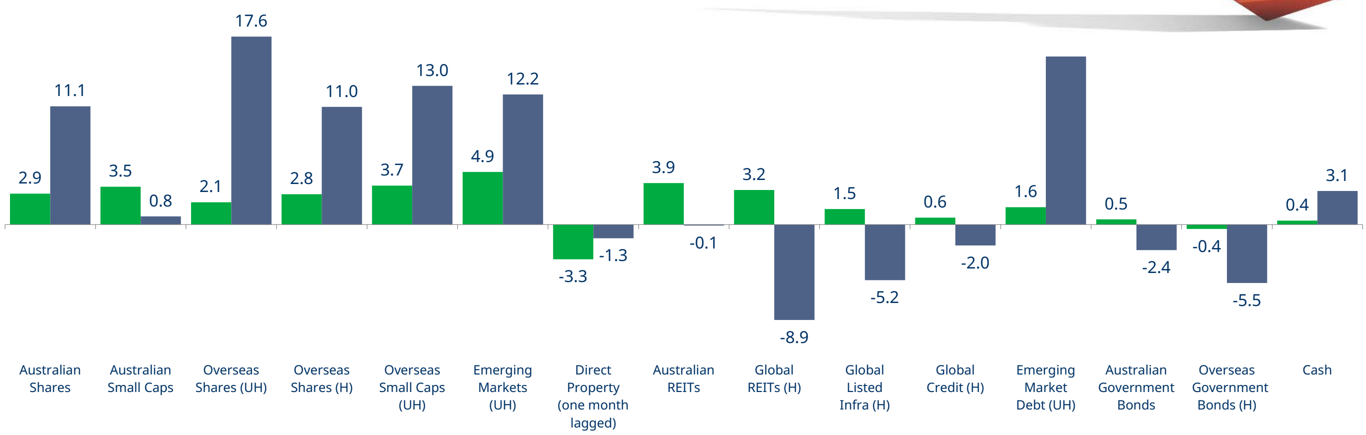


July 2023

Monthly market review

Asset class returns as at 31 July 2023



Data source: Refinitiv Datastream; MSCI. Data provided 'as is'
Please see Notes for details.

Market recap

In July, global equity markets maintained current upward momentum with most regions delivering solid, positive returns. On the other hand, fixed income performance was mixed, although in this "risk on" phase of the cycle, riskier parts of the sector fared better.

A combination of further declines in headline inflation, resilient economic data, particularly from the US, and market expectations that the current interest rate hiking cycle is nearing an end, led to positive investor sentiment throughout the month.

The advanced Q2 2023 US GDP growth figure was reported late month, coming in at 2.4% and surprising market economist estimates of 1.8%. On the flipside, UK and Eurozone growth was close to flat.

Benefitting from the base effects of emerging from its extensive 2022 Covid lockdown, China's GDP growth rate was measured at an annualised 6.3%, though a little below 7.3% expectations. Forward-looking composite purchasing manager indices (PMI) kept falling across the globe in July, with Japan the only region holding steady. PMIs for the services sector continue to outpace manufacturing though are easing towards 50, an important level that is considered the line between expansion and contraction.

Inflation data continued to decline, somewhat aided by the impact of last year's energy price surge rolling off. US headline Consumer Price Index (CPI) fell to 3.0% p.a and is at the lowest level since early 2021.

Similarly, CPI data across the UK, Eurozone and Australia, continues to show easing inflationary conditions, albeit at higher levels than the US. CPI has flatlined at near zero in China. Japan was the only major country that recorded a marginal increase in its inflation rate during Q2 2023. Central banks continued to err on the side of caution, increasing rates by 25bps in the US and Eurozone and 50bps in the UK, where inflation remains the highest among major developed economies. Central banks continued to emphasise a data-driven approach to future rate adjustments. In the US, which is furthest ahead in the inflation cycle, markets are now pricing in a greater than 50% chance that the Fed's policy rate has peaked and interest rate cuts maybe forthcoming in 2024.

Over July, Hedged Developed Markets Overseas Shares delivered a 2.8% return. US indices were broadly in line with international developed markets, however, Emerging Markets (unhedged) outperformed with a positive 4.9% return. Value modestly outperformed growth over the period, although when looking on a year-to-date basis, mega-cap tech stocks still dominate returns and has led to increased market concentration within that segment of global markets. In the US, with roughly half of S&P500 companies having reported their Q2 2023 earnings, FactSet currently projects a 7% quarter over quarter (QoQ) earnings decline, which would be the softest quarterly outcome since the height of Covid's impact. That said, to date the majority of companies have reported better than expected earnings results.

Hedged Overseas Government Bonds returned -0.4% over the month, as bond yields across most regions increased in July. Yields on both key long bonds in the US (10-year and 30-year) rose by approximately 15bps over the month. Outside the US, Japan's 10-year yield rose by around 19bps, which is noteworthy following the Bank of Japan's announcement that it will further increase the upper tolerance range for the 10-year yield (now 1.0% vs 0.5% previously). The UK was the only major economy where the 10-year yield fell, albeit modestly.

Australian Shares returned 2.9%, marginally outperforming their overseas counterparts in July. Financials (4.9%) and Energy (8.4%) were the strongest sectors of the market, while Healthcare (-1.5%), and Materials (1.4%) detracted.

Significant Developments

Australian seasonally adjusted employment increased by 32,600 in June, above the +15,000 expectations, though decidedly below the prior month's increase of 75,900. Full time positions were up 39,300, partially offset by a 6,700 drop in part time jobs and led to an unemployment rate decreasing to 3.5%, beating 3.6% expectations. The participation rate was down slightly to 66.8% (expectations were 66.9%).

Australian building approvals recorded a 7.7% decrease during July (month-on-month to June) and compares to a 20.6% increase (revised) for the prior month – underscoring the volatility in these data.

The Institute for Supply Management (ISM) Manufacturing Index (US) recorded 46.4 in July, below consensus for 46.9, however, above June's 46.0 figure. The two segments that reported growth were Petroleum & Coal Products; and Furniture & Related Products. Sixteen sectors recorded contraction in July compared to 11 in June. ISM Services Index came in at 52.7 for July, below both consensus (53.1) and June's 53.9. Four services sub-industries reported contraction in July, an uptick of one from June.

US Non-Farm Payrolls increased by 187,000 in July, marginally below the 209,000 increase recorded in June and well down from May's 339,000 number. Replicating Australia's unemployment data, the US unemployment rate also dropped to 3.5% and beat expectations for a 3.6% figure.

In July, the Q2 2023 advanced estimate for US GDP came in at 2.4% (QoQ, annualised) against a market consensus number of 1.8%.

China's Caixin Manufacturing PMI recorded 49.2 in July, below expectations of 50.1, as manufacturing conditions softened slightly over the month. Chinese Services PMI at 54.1 bucked the global trend and 52.5 expectations, highlighting resilience at the consumer level.

Turning to Europe, the preliminary estimate of European Core CPI was 5.5% (consensus 5.4%) whilst Eurozone composite PMI increased to 48.6 in July (48.9 expectations). Seasonally adjusted GDP growth (first estimate) was 0.3% QoQ and 0.6% YoY.

Asset class comments

Australian Shares

The Australian share market outperformed its hedged overseas counterpart over the month as the S&P/ASX300 Index returned 2.9%. The S&P/ASX Mid 50 Index was the strongest relative performer, returning 4.4%, while the S&P/ASX 50 Index was the weakest with a 2.6% return over the month.

The best performing sectors were Financials (4.9%) and Energy (8.4%), while the weakest performing sectors were Healthcare (-1.5%) and Consumer Staples (-1.0%). The largest positive stock contributors to the index return were Woodside Energy, ANZ and NAB with absolute returns of 11.2%, 9.2% and 8.2%, respectively. In contrast, the most significant detractors were CSL, Woolworths and Macquarie with absolute returns of -3.1%, -2.8% and -1.1%, respectively.

Overseas Shares

The broad MSCI World ex-Australia Accumulation Index returned 2.8% in hedged terms and 2.1% unhedged over the month as the Australian Dollar (AUD) depreciated against most major developed market currencies. On a global basis, the best performing sectors were Energy (5.1%) and Communication Services (5.0%), while weakest were Healthcare (0.1%) and Utilities (0.5%). In AUD terms, the MSCI Small Caps Total Return Index was up by 3.7%, while the MSCI Emerging Markets Accumulation Index was up by 4.9% over July.

Looking at individual markets, July saw the S&P500 Composite Index (2.0%), NASDAQ (4.0%) and Dow Jones Industrial Average (3.4%) all higher (in USD terms). In local currency terms, major European share markets were all positive with DAX 30 (Germany) 1.9%, CAC 40 (France) 1.4% and FTSE 100 (UK) 2.3%. In Asia, Hong Kong's Hang Seng (7.2%), Japan's TOPIX (1.5%), India's S&P BSE 500 (3.8%) and China's SSE Composite (2.8%), all increased in local currency terms.

Real Assets

The global listed real assets sector produced positive returns over July with the FTSE EPRA/NAREIT Developed (Global REITs) increasing 3.2% and FTSE Global Core Infrastructure 50/50 Index returning 1.5% (both in AUD hedged terms).

Domestically, the S&P/ASX 300 Industry Group: A-REIT increased by 3.9% over July, whilst the MSCI/Mercer Australia Core Wholesale Monthly PFI NAV Post Fee (Australian Direct Property) returned -3.2% (on a one-month lagged basis).

Fixed Interest

Global bond markets were generally mixed over July with the Barclays Capital Global Aggregate Bond Index (Hedged) returning 0.5% and FTSE World Government Bond (ex-Australia) Index (Hedged) returning -0.4%. Apart from the UK where yields dropped (-8bps to 4.31%), ten-year bond yields moved higher across the major jurisdictions including the US (14bps to 3.95%), Germany (8bps to 2.47%) and Japan (19bps to 0.58%). Two-year bond yields were more mixed with decreases in Germany (-11bps to 3.10%) and the UK (-28bps to 4.98%), an increase in the US (4bps to 4.98%) and unchanged in Japan (0.00%).

Returns for most Australian bondholders were positive over July as 10-year bond yields increased slightly (2bps to 4.05%), but shorter dated bonds dropped with five-year bond yields (-12bps to 3.84%) and two-year bond yields (-15bps to 4.05%) lower.

Currency Markets

The Australian Trade Weighted Index moved lower over July (-0.6 to 61.3). This outcome was a combination of the Australian dollar appreciating against the US Dollar (1.2% to US$0.6725) and the Euro (0.2% to EU€0.6109). However, the currency was flat against the UK pound (GB£0.5230) and depreciated relative to the Japanese Yen (-0.5% to JP¥95.57).

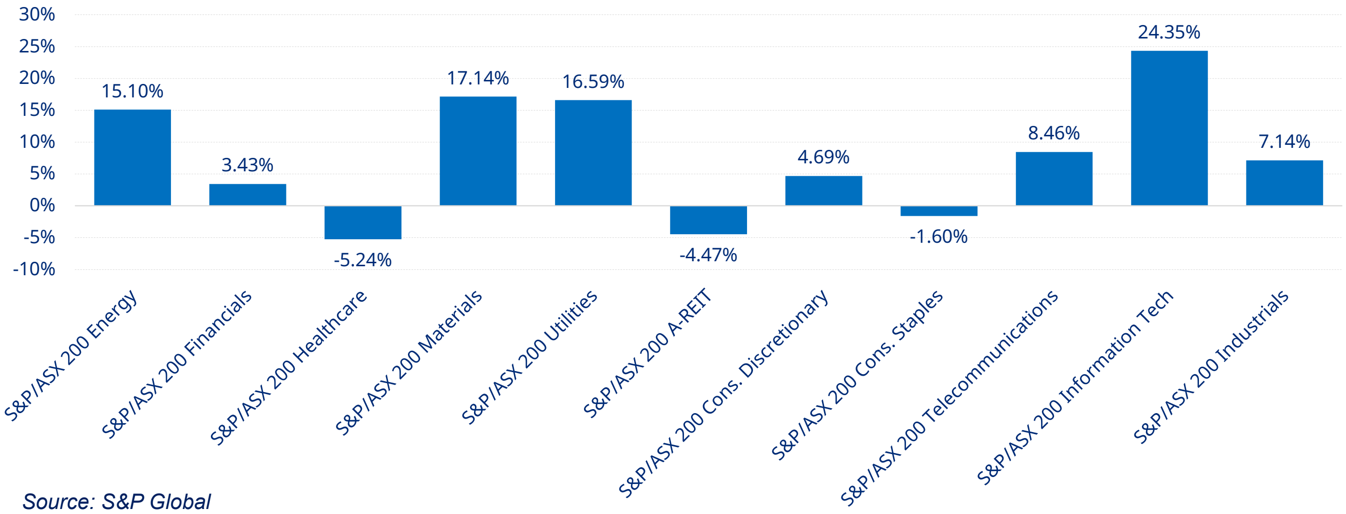
Commodities

The S&P GSCI Commodity Total Return Index increased by 9.4% over the month.

Energy was the best performing component of the index with oil increasing 13.7% to US $85.56 per barrel (Brent Crude). Industrial metals and agriculture also contributed positively to the strong returns in July with copper (7.2%), nickel (7.5%) and zinc (7.9%) all moving higher. Precious metals also exhibited strength with gold prices rising 2.8% over the month (US$1,970.50/oz) and silver up 9.2% (US$24.85/oz).

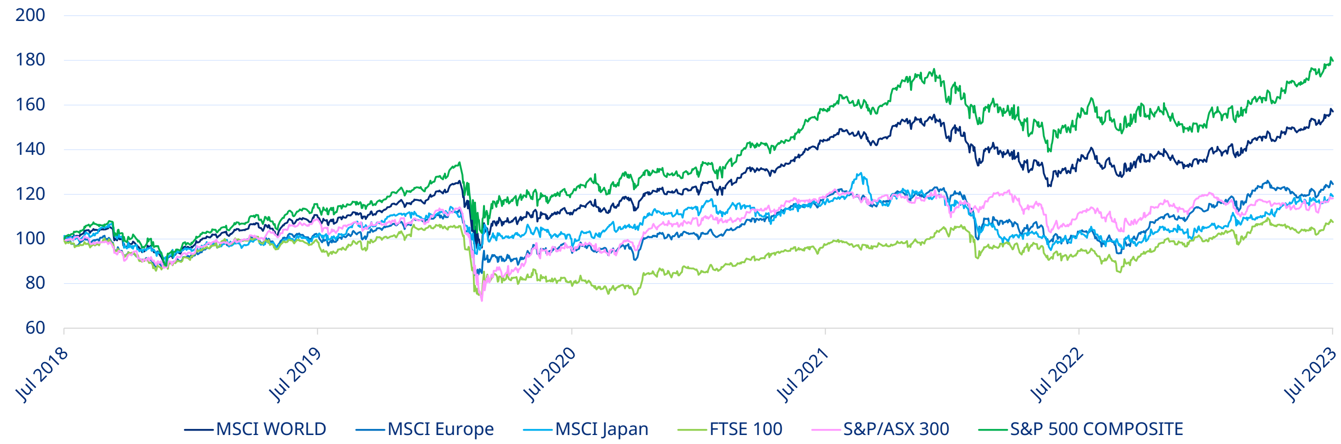
Market charts

ASX Sector Returns - Rolling 12 months



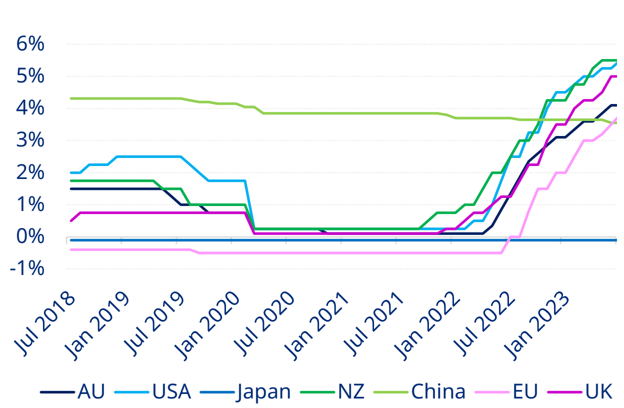
Source: S&P Global

Global Equity Indices - 5 years



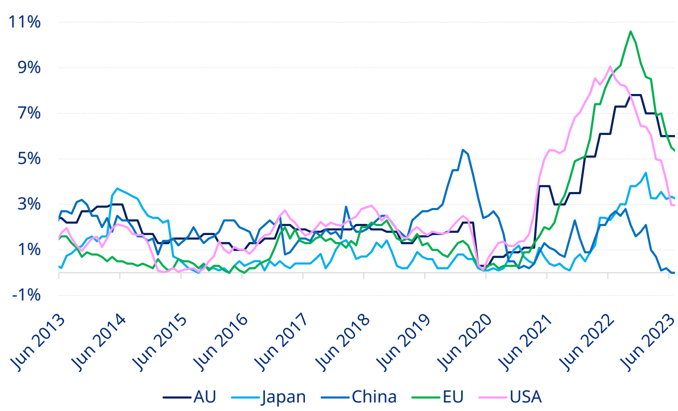
Source: MSCI, Refinitive DataStream (Rebased to 100. All returns denominated in AUD).

Central Bank Policy Rates (5 years)



Source: Bloomberg

Inflation - 10 years



Source: Refinitiv, Australian Bureau of Statistics, Ministry of Internal Affairs & Communication (Japan), National Bureau of Statistics of China, Eurostat, Bureau of Labor Statistics, U.S. Department of Labor

Market data - July 2023

Australian shares		1 Month	3 Months	1 Year	3 Years	5 Years
S&P/ASX 300 Accumulation		2.89%	2.03%	11.09%	11.91%	7.46%
S&P/ASX 300 Industrials Accumulation		3.14%	1.85%	6.30%	10.18%	5.98%
S&P/ASX 300 Resources Accumulation		2.25%	2.54%	25.46%	17.09%	12.38%
S&P/ASX 300 Accumulation A-REIT		3.89%	1.91%	-0.10%	9.68%	4.48%
S&P/ASX Small Ords Accumulation		3.54%	0.20%	0.77%	5.89%	3.18%
Global shares		**1 Month**	**3 Months**	**1 Year**	**3 Years**	**5 Years**
MSCI World ex Australia Unhedged in $A		2.09%	6.52%	17.62%	14.03%	11.37%
EPRA/NAREIT Developed Index Hedged A$		3.20%	2.04%	-9.88%	3.77%	-0.11%
STOXX Europe 600 Total Return		2.04%	1.01%	7.54%	9.77%	3.78%
S&P 500 Total Return		3.21%	10.51%	13.02%	13.72%	12.20%
Nikkei 225 Total Return		-0.04%	15.13%	22.03%	17.43%	10.22%
Fixed interest		**1 Month**	**3 Months**	**1 Year**	**3 Years**	**5 Years**
Bloomberg AusBond Bank Bill Index		0.37%	0.97%	3.15%	1.13%	1.20%
Bloomberg AusBond Composite (0+Y)		0.52%	-2.63%	-1.54%	-3.46%	0.58%
Barclays Global Aggregate TR Hedged A$		-0.04%	-0.75%	-3.60%	-3.98%	0.17%
Commodities	**Month End Price**	**1 Month**	**3 Months**	**1 Year**	**3 Years**	**5 Years**
Bloomberg Commodity Index	107.34	5.78%	2.90%	-11.89%	16.05%	4.68%
Generic Brent Crude Oil	85.56	14.23%	7.57%	-22.23%	25.49%	2.88%
Generic WTI Crude Oil	81.80	15.80%	6.54%	-17.06%	26.65%	3.53%
Gold US$/oz	1971.04	2.69%	-0.95%	11.61%	-0.08%	9.96%
Iron Ore	111.11	2.61%	4.34%	6.51%	0.56%	12.79%
Currencies	**Month End Price**	**1 Month**	**3 Months**	**1 Year**	**3 Years**	**5 Years**
AUD/USD	0.6725	0.92%	1.66%	-3.72%	-1.99%	-1.99%
EUR/USD	1.1007	0.90%	-0.11%	7.70%	-2.23%	-1.22%
USD/JPY	142.12	-1.52%	4.27%	6.64%	10.33%	4.92%
GBP/USD	1.2858	1.22%	2.32%	5.64%	-0.58%	-0.41%

Source: Bloomberg

Contact: Mercer

Email: merceradvisersolutions@mercer.com

Chart Constituents

Notes

- *Currency: AUD.*
- *UH: Unhedged.*
- *H: Hedged.*
- *Net Index: Total Return (Net Dividends Reinvested).*
- *Total Return: Total Return Index with Gross Dividends.*
- *Where a lag exists, the performance period start and end dates are shifted accordingly.*

Asset class	Benchmark	Data type
Australian Shares	S&P/ASX 300	Total Return
Australian Small Caps	S&P/ASX Small Ordinaries	Total Return
Overseas Shares (UH)	MSCI World ex Australia	Net Index
Overseas Shares (H)	MSCI World ex Australia 100% Hedged	Net Index
Overseas Small Caps (UH)	MSCI World Small Cap	Total Return
Emerging Markets (UH)	MSCI Emerging Markets	Net Index
Direct Property (one month lag)	MSCI/Mercer Australia Core Wholesale Monthly PFI	NAV Post Fee
Australian REITs	S&P/ASX 300: Industry Group: A-REIT	Total Return
Global REITs (H)	FTSE EPRA/NAREIT Developed Hedged	Total Return
Global Listed Infrastructure (H)	FTSE Global Core Infrastructure 50/50 Hedged	Total Return
Global Credit (H)	Bloomberg Global Credit	Hedged Return
Emerging Market Debt (UH)	JP Morgan GBI EM Global Diversified Composite	Total Return
Australian Government Bonds	Bloomberg AusBond Treasury 0+ year	Total Return
Overseas Government Bonds (H)	FTSE WGBI Non Australia	Hedged Return
Cash	Bloomberg AusBond Bank Bill	Total Return

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- The value of Gilts, bonds, and other fixed income investments including unit trusts can go down as well as up and you may not get back the amount you have invested.
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