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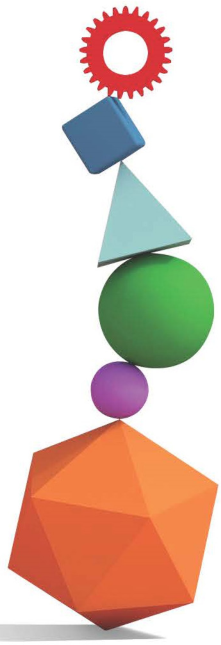
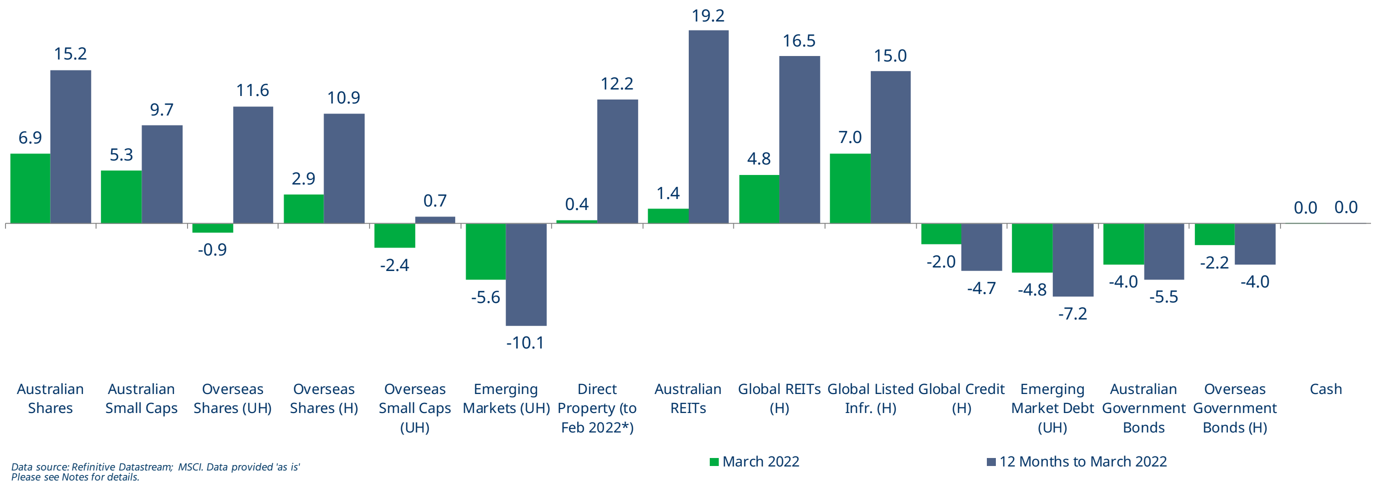


March 2022

Australian monthly market review

Selected market indicators commentary

Asset class returns as at 31 March 2022



Global equity markets recovered in mid-March as sentiment improved somewhat. Central bank tightening and rising yields continued to negatively impact bond markets. Commodities continued to soar as markets priced in tighter supply due to the Russia – Ukraine conflict and Russian sanctions. The primary market drivers over the month were the unfolding conflict in Ukraine and central banks accelerating tightening schedules as inflation remained at multi-decade highs.

Over March, Hedged Developed Markets Overseas Shares returned 2.9% with the US being a significant outperformer over the month. Market sentiment improved despite central banks shifting to a more hawkish tone on inflation, as investors saw this as a sign that central bankers remain committed to tempering inflation.

Stabilising oil prices started to give Western consumers a break for now. Unhedged Emerging Market Shares underperformed over March (-5.6%), dragged down by the Chinese market, as the country battles new lockdowns and fears over sanctions towards Chinese companies trading with Russia. Strong returns within commodity driven Latin America and India were not enough to offset this.

Hedged Overseas Government Bonds returned -2.2% over the month as nominal yields rallied. Australian 10-year government bond yields, increased by 72bps to 2.84%. The Bloomberg Ausbond Treasury index returned -4.0% over the month. Rising inflation expectations and falling credit spreads mitigated the impact of rising nominal yields for these asset classes to a degree.

Australian shares posted positive performance over March, with the S&P/ASX300 returning 6.9%. The S&P/ASX Mid 50 Accumulation Index (7.1%) and the S&P/ASX Small Ordinaries (5.3%). The best performing sectors were IT (11.8%) and Energy (10.1%). Financials performed strongly, with Commonwealth Bank of Australia (13.2%) and NAB (12.1%) the key contributors. BHP and Fortescue were the key drivers for Materials, returning (11.9%) and (15.4%) respectively. All sectors had a positive return over the month, however, Real Estate (1.7%) and Healthcare (2.5%) were the worst performing sectors.

Significant Developments

- During its April 2022 meeting, the Reserve Bank of Australia (RBA) decided to maintain the current target cash rate at 0.10% per annum and the interest rate on exchange settlement balances at zero. Inflation has increased in many parts of the world. Supply-side problems, Russia's invasion of Ukraine and strong demand as economies recover from the pandemic are all contributing to the upward pressure on prices. In response, bond yields have risen and expectations of future policy interest rates have increased. The Australian economy remains resilient and spending is picking up. Household and business balance sheets are in good shape, business investment is underway and there is a large amount of construction work in the pipeline. Macroeconomic policy settings also remain supportive of growth and national income is being boosted by higher commodity prices. At the same time, rising prices are putting pressure on household budgets and the floods are causing hardship for many communities. Unemployment rate fell further to 4% in February. The RBA's central forecast is for the unemployment rate to fall to below 4% this year and to remain below 4% next year. Wages growth has picked up, with further pickups gradually expected. Inflation has increased in Australia in underlying terms at 2.6% and in headline terms at 3.5%. Higher prices for petrol and other commodities will result in a further lift in inflation over coming quarters. The main sources of uncertainty relate to the speed of resolution of the various supply-side issues, developments in global energy markets and the evolution of overall labour costs. Financial conditions in Australia continue to be highly accommodative. Interest rates remain at a very low level, although fixed mortgage rates for new loans have risen recently. The Australian dollar exchange rate has appreciated due to the higher commodity prices. Housing prices have risen strongly. The board will not increase the cash rate until actual evidence that inflation is sustainably within the 2-3% target range. Inflation has picked up and a further increase is expected, but growth in labour costs has been below rates that are likely to be consistent with inflation being sustainably at target.
- Australian seasonally adjusted employment increased by 77,400 in February, above expectations for an increase of 37,000 and above the prior month's increase of 12,900. Unemployment decreased to 4.0% for February, below expectations of 4.1%. The participation rate increased to 66.4%, above expectations of 66.3%. Part time jobs decreased by 44,500 and full time jobs increased by 121,900.
- Australian building approvals increased by 43.5% month-on-month to February, compared to the decrease of 27.1% (revised) for February.
- The Institute for Supply Management (ISM) Manufacturing Index recorded 57.1 in March, below consensus for 59.0 and below the 58.6 recorded in February. Of the 15 manufacturing industries, Apparel, Leather & Allied Products and Furniture & Related Products were the two industries that reported the highest growth. The two industries that reported a contraction over the March period were Wood Products and Petroleum & Coal Products. The ISM Services Index recorded 58.3 in March, below consensus for 58.5 and above the 56.5 recorded in February. Of the 17 services industries, the top performers were Educational Services; Arts, Entertainment & Recreation. The only industry reporting contraction in March was Agriculture, Forestry, Fishing & Hunting.
- US Non-Farm Payrolls increased by 431,000 in March, below the 750,000 increase (revised) recorded for February. The unemployment rate decreased to 3.6% over March, below expectations of 3.7%.
- US GDP third estimate for Q4 2021 is 6.9% quarter on quarter (QoQ) annualised, which was below expectations of 7.0%
- The Caixin Manufacturing PMI in China recorded 48.1.4 in March, below expectations of 49.9, as manufacturing performance was dampened by latest COVID-19 wave in March.

- The preliminary estimate of the European Core CPI recorded 3.0% over the year to March, below expectations of 3.1%.
- The Eurozone composite PMI increased to 54.9 in March, above expectations for 54.5.
- The Final estimate recorded for Q3 2021 Eurozone seasonally adjusted GDP is 0.3% QoQ and 4.6% YoY.

Australian Shares

The Australian share market outperformed its hedged overseas counterpart over the month, as the S&P/ASX 300 Index returned 6.9%. The S&P/ASX 50 Accumulation Index was the strongest relative performer, returning 7.1%, while the S&P/ASX Small Ordinaries was the weakest, returning 5.3% over the month.

The best performing sectors were IT (11.8%) and Energy (10.1%), while the weakest performing sectors were Real Estate (1.7%) and Healthcare (2.5%). The largest positive stock contributors to the index return were BHP Group, CBA and NAB with absolute returns of 11.9%, 13.2% and 12.1%, respectively. In contrast, the most significant detractors were CSL, Telstra and James Hardie Industries with absolute returns of 3.3%, 0.3% and -9.0%, respectively.

Overseas Shares

The broad MSCI World ex Australia (NR) Index returned -0.9% in unhedged terms and 2.9% in hedged terms over the month as the Australian dollar strengthened over the month. In AUD terms, the strongest performing sectors were Energy (4.0%) and Utilities (1.6%), while Financials (-3.4%) and Consumer Staples (-3.3%) were the weakest performers. In AUD terms, the MSCI Small Caps (TR) Index was down by 2.4%, while the MSCI Emerging Markets (NR) Index was down by 5.6% over March.

Over the month, the NASDAQ (3.4%), the S&P 500 Composite Index (3.7%) and the Dow Jones Industrial Average (2.5%) increased, all in USD terms. In local currency terms, major European share markets experienced mixed returns as the FTSE 100 (UK) (1.4%) and the CAC 40 (France) (0.1%) increased, while the DAX 30 (Germany) (-0.3%) decreased. In Asia, the Japanese TOPIX (4.3%) and the Indian S&P BSE 500 (4.2%) increased, whilst the Chinese SSE Composite (-6.1%) and the Hong Kong Hang Seng (-2.8%) decreased, all in local currency terms.

Real Assets

The Real Assets sector produced broadly positive returns over March. The Global Real Estate Investment Trusts (REITs) Index increased by 4.8% over the month and the FTSE Global Core Infrastructure 50/50 Index increased by 7.0% (both in AUD hedged terms). Domestic REITs increased by 1.4% over March, whilst Australian Direct Property (NAV) returned 0.4% (one-month lag).

Fixed Interest

Global bond markets were negative over March, with the Barclays Capital Global Aggregate Bond Index (Hedged) returning -2.1% and the FTSE World Government Bond (ex-Australia) Index (Hedged) returning -2.2%. Ten-year bond yields moved higher over the month, increasing in the UK (20bps to 1.59%), the US (48bps to 2.33%), Germany (39bps to 0.51%) and Japan (3bps to 0.21%). Two-year bond yields were mixed over the month, increasing in the UK (31bps to 1.36%), Germany (40bps to 0.19%) and the US (85bps to 2.27%), whilst decreasing in Japan (-1bp to -0.04%).

Returns for Australian bondholders were negative over March, with 10-year bond yields (72bps to 2.84%), five-year bond yields (77bps to 2.60%) and two-year bond yields (68bps to 1.80%) increasing. Of the Bloomberg Ausbond indices, the Bloomberg Ausbond Bank Bill produced the highest monthly return, returning flat whilst the Bloomberg Ausbond Inflation produced the lowest return of -4.2%.

Currency Markets

The AUD Trade Weighted Index increased to 63.6 over March, up by 5.0% from February. The AUD appreciated against the Pound Sterling (5.5%), Euro (4.5%), Japanese Yen (9.1%), and the US Dollar (3.5%).

Commodities

Iron Ore increased by 12.1%, finishing the month at US$153.0 per metric tonne. The S&P GSCI Commodity Total Return Index increased by 5.9% over the month. Gold prices increased by 2.0% finishing the month at US$1,941.15 per ounce and the oil price increased by 6.2% to US$107.46 per barrel over March.

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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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- For higher volatility investments, losses on realisation may be high because their value may fall suddenly and substantially.
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