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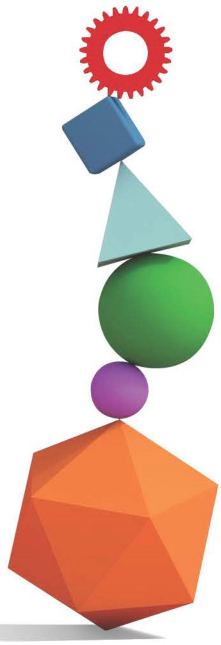
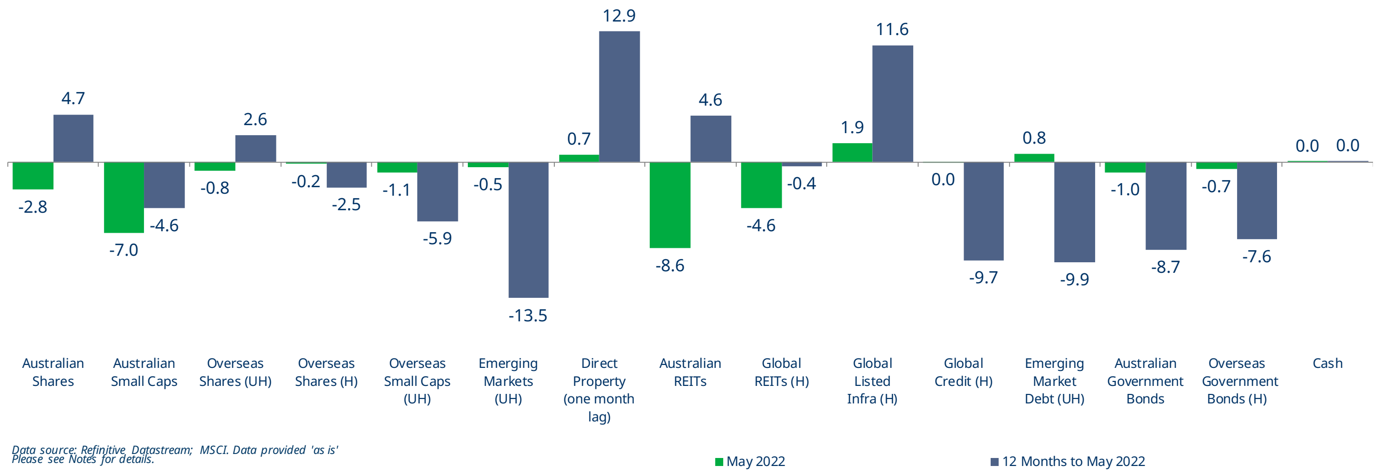


May 2022

Australian monthly market review

Selected market indicators commentary

Asset class returns as at 31 May 2022



After the April sell-off, volatility remained high though developed equity markets stabilized during the second half of May and finished the month relatively flat. While the adverse backdrop of persistent high inflation, tighter monetary conditions and a slowing economy remained, there were no major downside surprises during the month. Commodities and energy were once again the best performing asset classes. Geopolitics was less disruptive for markets this month, in the absence of major events and surprises. The conflict in Ukraine dragged on, now more confined to the east of the country.

Over May, Hedged Developed Markets Overseas Shares returned -0.2%, ending the month roughly where they started. The S&P 500 briefly entered bear market territory on an intra-day basis before rebounding.

Earnings had been the silver lining for equities so far and remain solid with the number of S&P 500 companies beating estimates and still in line with the five year average, but at a below average margin. Duration heavy growth stocks continued to sell off, underperforming value significantly. US equities underperformed most overseas markets, given their higher exposure to growth stocks. Unhedged Emerging Market shares turned around towards the end of the month returning -0.5%, driven by a rally in China amid optimism that COVID restrictions are easing. Brazil did well due to its commodity exposure. This was enough to offset poor performance for Taiwan and India, with negative returns of almost 6% for the latter driven by soaring inflation.

Hedged Overseas Government Bonds returned -0.7% over the month. Major developed bond yields declined slightly for the US, but rose by roughly 20bps for the UK and Eurozone. Central banks maintained hawkish rhetoric and continued to raise rates, but their actions were in line with expectations and therefore did not lead to a major yield reaction. Australian Government Bonds returned -1.0%.

Australian shares underperformed over May, with the ASX300 returning -2.8%. The ASX 50 returned -2.0% meanwhile small caps sold off heavily with the ASX Small Ordinaries returning -7.0%. The best performing sector for the second month in a row was Utilities (-0.2%) followed by Materials (-0.3%). Alternatively, Real Estate (-8.7%) and IT (-8.0%) were the worst performing sectors. BHP (5.4%) was the biggest contributor to the ASX300 over the month, meanwhile Macquarie (-9.9%) was the largest detractor.

Significant Developments

- During its June 2022 meeting, the Reserve Bank of Australia (RBA) decided to increase the current target cash rate by 50 basis points to 0.85% per annum and the interest rate on exchange settlement balances from 0.25% to 0.75%. Inflation in Australia has increased significantly due to global factors such as disruptions to supply chains and the war in Ukraine. Domestic factors such as capacity constraints and the tight labour markets have contributed to the upward pressure on prices. Inflation is expected to increase further, but then decline back towards the 2–3% range next year. Higher prices for electricity and gas mean that, in the near term, inflation is likely to be higher. As the global supply-side problems are resolved and commodity prices stabilise, inflation is expected to moderate. The Australian economy is resilient, growing by 0.8% in the March quarter and 3.3% over the year. 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. Employment has grown significantly and the unemployment rate is 3.9%. One source of uncertainty about the economic outlook is how household spending evolves, given the increasing pressure on Australian households' budgets from higher inflation. Housing prices have declined in some markets over recent months but remain more than 25% higher than prior to the pandemic, supporting household wealth and spending. The Board will also be paying close attention to the global outlook, which remains clouded by the war in Ukraine and its effect on the prices for energy and agricultural commodities. The resilience of the economy and the higher inflation mean that support supplied during the pandemic is no longer needed. The Board expects to take further steps in the months ahead. The size and timing of future interest rate increases will be guided by the incoming data and the Board's assessment of the outlook for inflation and the labour market.
- Australian seasonally adjusted employment increased by 4,000 in April, below expectations for an increase of 30,000 and below the prior month's increase of 17,900. The unemployment rate decreased to 3.9% for April, in line with expectations. The participation rate decreased to 66.3%, below expectations of 66.4%. Part time jobs decreased by 88,400 and full time jobs increased by 92,400.
- Australian building approvals decreased by 2.4% month-on-month to April, compared to the decrease of 19.2% (revised) for March.
- The Institute for Supply Management (ISM) Manufacturing Index recorded 56.1 in May, above consensus for 54.5 and above the 55.4 recorded in April. Of the 17 manufacturing industries, Apparel, Leather & Allied Products and Printing & Related Support Activities were the two industries that reported the highest growth. The only industry that reported a contraction over May was Furniture & Related Products. The ISM Services Index recorded 55.9 in May, below consensus for 56.5 and below the 57.1 recorded in April. Of the 17 services industries, the top performers were Mining and Construction. The only industries that reported a contraction in May was Agriculture, Forestry, Fishing & Hunting, Retail Trade and Information.
- US Non-Farm Payrolls increased by 390,000 in May, below the 436,000 increase (revised) recorded for April. The unemployment rate stayed the same at 3.6% over May, above expectations of 3.5%.
- US GDP second estimate for Q1 2022 is -1.5% quarter on quarter (QoQ) annualised, which was below expectations of -1.3%.

- The Caixin Manufacturing PMI in China recorded 48.1 in May, below expectations of 49, as manufacturing sector conditions deteriorated at a softer pace over the period.
- The preliminary estimate of the European Core CPI recorded 3.8% over the year to May, above expectations of 3.6%.
- The Eurozone composite PMI decreased to 54.8 in May, below expectations for 54.9.
- The final estimate recorded for Q1 2022 Eurozone seasonally adjusted GDP is 0.6% QoQ and 5.4% YoY.

Australian Shares

The Australian share market underperformed its hedged overseas counterpart over the month, as the S&P/ASX300 Index returned -2.8%. The S&P/ASX 50 Accumulation Index was the strongest relative performer, returning -2.0%, while the S&P/ASX Small Ordinaries was the weakest, returning -7.0% over the month.

The best performing sectors were Utilities (-0.1%) and Materials (-0.3%), while the weakest performing sectors were Real Estate (-8.7%) and IT (-8.0%). The largest positive stock contributors to the index return were BHP, CBA and CSL, with absolute returns of 5.3%, 0.5% and -0.5%, respectively. In contrast, the most significant detractors were Macquarie Group, Goodman Group and ANZ with absolute returns of -9.9%, -14.2% and -7.9%, respectively.

Overseas Shares

The broad MSCI World ex Australia Accumulation Index returned -0.8% in unhedged terms and -0.2% in hedged terms over the month as the Australian dollar strengthened against most developed market currencies. In AUD terms, the strongest performing sectors were Energy (12.5%) and Utilities (2.1%), while Consumer Staples (-4.7%) and Real Estate (-4.5%) were the weakest performers. In AUD terms, the MSCI Small Caps Total Return Index was down by 1.1%, while the MSCI Emerging Markets Accumulation Index was down by 0.5% over May.

Over the month, the S&P500 Composite Index (0.2%) and the Dow Jones Industrial Average (0.3%) increased, while the NASDAQ (-2.1%) decreased, all in USD terms. In local currency terms, major European share markets experienced positive returns as the FTSE 100 (UK) (1.1%), the DAX 30 (Germany) (2.1%) and the CAC 40 (France) (0.5%) all increased. In Asia, the Japanese TOPIX (0.8%), the Chinese SSE Composite (4.6%) and the Hong Kong Hang Seng (2.2%) increased, while the Indian S&P BSE 500 (-4.5%) decreased, all in local currency terms.

Real Assets

The Real Assets sector produced mixed returns over May. The Global Real Estate Investment Trusts (REITs) Index decreased by 4.6% over the month and the FTSE Global Core Infrastructure 50/50 Index increased by 1.9% (both in AUD hedged terms). Domestic REITs decreased by 8.6% over May, whilst Australian Direct Property (NAV) returned 0.7% (one month lagged).

Fixed Interest

Global bond markets were negative over May, with the Barclays Capital Global Aggregate Bond Index (Hedged) returning -0.2% and the FTSE World Government Bond (ex-Australia) Index (Hedged) returning -0.7%. Most ten-year bond yields moved higher over the month, increasing in the UK (17bps to 2.07%), Germany (23bps to 1.13%) and Japan (2bps to 0.24%), while decreasing in the US (-4bps to 2.85%). Two-year bond yields were mixed over the month, increasing in Germany (15bps to 0.40%) while decreasing in the US (-15bps to 2.50%), the UK (-3bps to 1.58%) and Japan (-2bps to -0.07%).

Returns for Australian bondholders were largely negative over May, with 10-year bond yields (23bps to 3.35%), five-year bond yields (18bps to 3.08%) and two-year bond yields (23bps to 2.73%) increasing. Of the Bloomberg Ausbond indices, the Bloomberg Ausbond Bank Bill produced the highest monthly return, returning 0.0% whilst the Bloomberg Ausbond Inflation produced the lowest return of -2.2%.

Currency Markets

The AUD Trade Weighted Index increased to 63.2 over May, up by 0.2% from April. The AUD appreciated against the US Dollar (0.9%), the Japanese Yen (0.2%) and the Pound Sterling (0.6%), but depreciated against the Euro (-0.6%).

Commodities

Iron Ore decreased by 2.5%, finishing the month at US$138.5 per metric tonne. The S&P Goldman Sachs Commodity Index Total Return Index increased by 4.1% over the month. Gold prices decreased by 3.3% finishing the month at US$1,845.14 per ounce and the oil price increased by 14.0% to US$122.98 per barrel over May.

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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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- For higher volatility investments, losses on realisation may be high because their value may fall suddenly and substantially.
- Where investments are not domiciled and regulated locally, the nature and extent of investor protection will be different to that available in respect of investments domiciled and regulated locally. In particular, the regulatory regimes in some domiciles are considerably lighter than others, and offer substantially less investor protection. Where an investor is considering whether to make a commitment in respect of an investment which is not domiciled and regulated locally, we recommend that legal advice is sought prior to the commitment being made.

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