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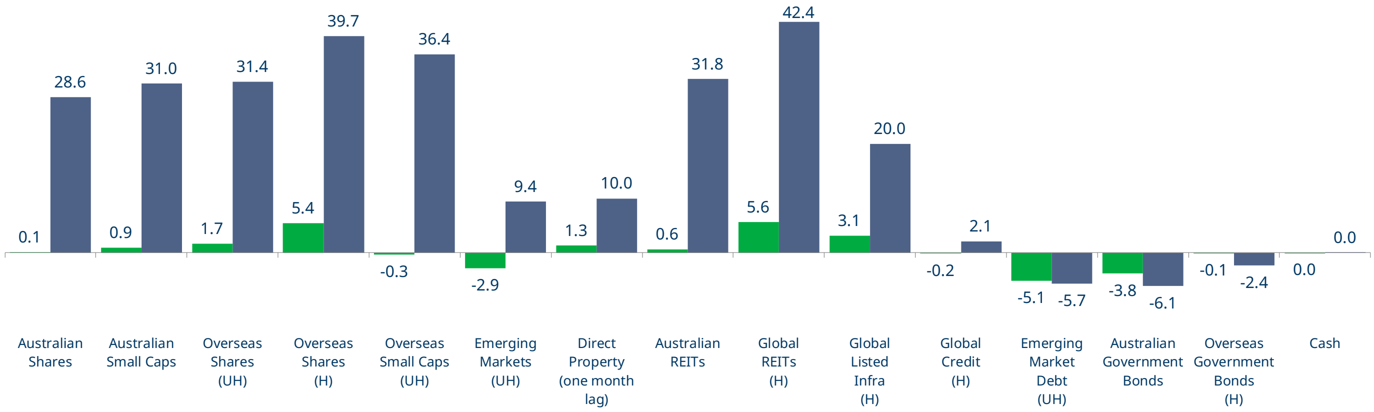
October 2021

Australian monthly market review

Selected market indicators commentary

Asset class returns as at 31 October 2021



Data source: Refinitive Datastream; MSCI. Data provided 'as is'.
Details on chart constituents can be found at the end of the commentary.

Global equity markets regained momentum over October, recovering from the prior month's weak performance. The global economic situation remains the same with high inflation and supply chain constraints causing concern as central banks begin to tighten policies. However, investors remained optimistic on the back of the strong earnings season.

Over October, Hedged Developed Market Overseas Shares posted strong positive returns of 5.4% with many equity indices reaching new highs. Earnings growth continues to provide support to fundamentals as we saw equity market volatility decline significantly over the month and a return to risk-on sentiment. With a majority of companies having beaten analyst expectations, investors now expect a strong fourth quarter.

Chinese markets finally rebounded over the period as concerns over the Chinese property sector stabilised. However, this was not enough to offset the weaker performance across the rest of Asia and Brazil, hence the region lagged for the month with Unhedged Emerging Markets returning -2.9%.

Fixed income markets were volatile over the month as markets continued to price in a faster pace of monetary policy tightening. Domestically, the third quarter CPI figures were higher than the RBA's and broad market expectations, triggering a domestic bond sell-off and Australian 10-year government bond yields rising considerably. Consequently, Australian Government Bonds returned -3.8% over the month.

Returns for Australian Shares were muted over October, with the S&P/ASX 300 returning 0.1% and considerably underperforming Hedged Developed Market Overseas Shares. All other domestic indices provided similar returns except for the S&P/ASX Small Ordinaries, which was the best performer, returning 0.9%. IT (2.4%) was the leading sector over the period, driven by a small growth rally towards the end of the month, evidenced by the relative performance of Xero (7.5%) and Afterpay (1.5%). The worst performing sector was Industrials (-3.2%), which is heavily weighted towards travel names such as Qantas (-5.7%) and Sealink Travel (-17.6%).

Significant Developments

- During its early November 2021 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. The RBA will continue to purchase government securities at the rate of $4bn per week until mid-February 2022. In addition, the RBA will discontinue the target of 0.10% for the April 2024 Australian Government Bond. The decision to discontinue the yield target reflects the improvement in the economy and the earlier-than-expected progress towards the inflation target. The Australian economy is recovering after the interruption caused by the Delta outbreak. As vaccination rates increase even further and restrictions are eased, the economy is expected to bounce back relatively quickly. The central forecast is for GDP growth of 3.0% over 2021 and 5.5% and 2.5% over 2022 and 2023 respectively. The central forecast for the unemployment rate is 4.25% at the end of 2022 and 4.0% at the end of 2023. Inflation has picked up and with the trimmed mean currently at 2.1%. The headline CPI inflation rate is 3.0% and is being affected by higher petrol prices, higher prices for newly constructed homes and the disruptions in global supply chains. Wages growth is expected to pick up gradually as the labour market tightens. Financial conditions in Australia remain highly accommodative, with most lending rates at record lows. Bond yields have increased recently and bond market volatility has also risen significantly. The Board are committed to maintaining highly supportive monetary conditions and will not increase the cash rate until actual inflation is sustainably within the 2-3% target range. For this to occur, the labour market will need to be tight enough to generate wages growth that is materially higher than it is, which will likely take some time. The Board is prepared to be patient, with the central forecast for underlying inflation to see slight growth and for only a gradual increase in wages growth.
- Australian seasonally adjusted employment decreased by 138,000 in September, below expectations for a decrease of 110,000 and below the prior month's decrease of 3,100. The unemployment rate increased to 4.6% for September, below expectations for 4.8%. The participation rate decreased to 64.5%, below expectations of 64.7%. Part time jobs decreased by 164,700 and full time jobs increased by 26,700.
- Australian building approvals decreased by 4.3% month-on-month to September, compared to the decrease of 6.8% for August.
- The Institute for Supply Management (ISM) Manufacturing Index recorded 60.8 in October, above consensus for 60.5 and below the 61.1 recorded in September. Of the 18 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 September period were Wood Products and Nonmetallic Mineral Products. The ISM Services Index recorded 66.7 in October, above consensus for 62.0 and above the 61.9 recorded in September. Of the 17 services industries, the top performers were Retail Trade and Transportation & Warehousing. No industry reported a decrease in October.
- US Non-Farm Payrolls increased by 531,000 in October, above the 312,000 increase (revised) recorded for September. The unemployment rate decreased to 4.6% over October, below expectations of 4.7%.
- US GDP first estimate for Q3 2021 is 2.0% quarter on quarter (QoQ) annualised, below expectations of 2.6%.
- The Caixin Manufacturing PMI in China recorded 50.6 in October, above expectations of 50.0, with Business activity continuing to rise solidly over the period.
- The preliminary estimate of the European Core CPI recorded 2.1% over the year to October, above expectations of 1.9%.
- The Eurozone composite PMI decreased to 54.2 in October, below expectations for 54.3.
- The preliminary estimate recorded for Q3 2021 Eurozone seasonally adjusted GDP is 1.8% QoQ and 3.7% YoY.

Australian Shares

The Australian share market underperformed its hedged overseas counterpart over the month, as the S&P/ASX 300 Index returned 0.1%. The S&P/ASX Small Ordinaries was the strongest relative performer, returning 0.9%, while the S&P/ASX 50 and S&P/ASX 200 were the weakest, returning -0.1% over the month.

The best performing sectors were IT (2.4%) and Healthcare (0.9%), while the weakest performing sectors were Industrials (-3.2%) and Consumer Staples (-2.3%). The largest positive stock contributors to the index return were Macquarie Group, CSL and NAB with absolute returns of 8.9%, 2.5% and 3.4% respectively. In contrast, the most significant detractors were Rio Tinto, BHP Group and Transurban with absolute returns of -9.4%, -1.9% and -4.9%, respectively.

Overseas Shares

The broad MSCI World ex Australia (NR) Index returned 1.7% in unhedged terms and 5.4% in hedged terms over the month. In AUD terms, the strongest performing sectors were Energy (4.1%), and Consumer Discretionary (4.0%), while Communication Services (-2.6%) and Consumer Staples (-0.6%) were the weakest performers. In AUD terms, the MSCI Small Caps (TR) Index was down -0.3% and the MSCI Emerging Markets (NR) Index was also down -2.9%, over October.

Over the month, the NASDAQ (7.3%), S&P 500 Composite Index (7.0%), and the Dow Jones Industrial Average (5.9%) increased, all in USD terms. In local currency terms, major European share markets experienced positive returns as the CAC 40 (France) (4.8%), FTSE 100 (UK) (2.2%) and DAX 30 (Germany) (2.8%) all increased. In Asia, the Indian S&P BSE 500 (0.2%) and Hong Kong Hang Seng (3.3%) increased, while the Japanese TOPIX (-1.4%) and Chinese SSE Composite (-0.6%) decreased, all in local currency terms.

Real Assets

The Real Assets sector achieved positive returns over October. The Global Real Estate Investment Trusts (REITs) Index increased by 5.6% over the month and the FTSE Global Core Infrastructure 50/50 Index increased by 3.1% (both in AUD hedged terms). Domestic REITs increased by 0.6% over October, whilst Australian Direct Property (NAV) returned 1.3% (one-month lag).

Fixed Interest

Global bond markets were broadly negative over October, with the Barclays Capital Global Aggregate Bond Index (Hedged) returning -0.3% and the FTSE World Government Bond (ex-Australia) Index (Hedged) returning -0.1%. Ten-year bond yields rose over the month, increasing in the UK (1bp to 1.03%), the US (3bps to 1.56%), Germany (10bps to -0.10%) and Japan (1bp to 0.08%). Two-year bond yields also rose over the month, increasing in the US (20bps to 0.46%), UK (30bps to 0.71%), Japan (2bps to -0.10%) and Germany (16bps to -0.58%).

Returns for Australian bondholders were negative over October, with 10-year bond yields (60bps to 2.09%), five-year bond yields (79bps to 1.57%) and two-year bond yields (57bps to 0.62%) increasing. Of the Bloomberg Ausbond indices, the Bloomberg Ausbond Bank Bill produced the highest monthly return, returning flat, and the Bloomberg Ausbond Treasury produced the lowest return, returning -3.8%.

Currency Markets

The AUD Trade Weighted Index increased to 63.1 over October, up by 3.8% from September. The AUD appreciated against the Pound Sterling (2.3%), Euro (4.1%), Japanese Yen (6.3%), and the US Dollar (4.0%).

Commodities

Iron Ore declined 2.3%, finishing the month at US$107.5 per metric tonne. The S&P GSCI Commodity Total Return Index increased by 1.7% over the month. Gold prices increased by 0.9% finishing the month at US$1,776.8 per ounce and the oil price increased by 7.4% to US$84.4 per barrel over October.

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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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