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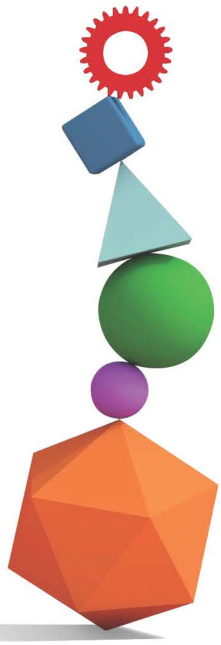
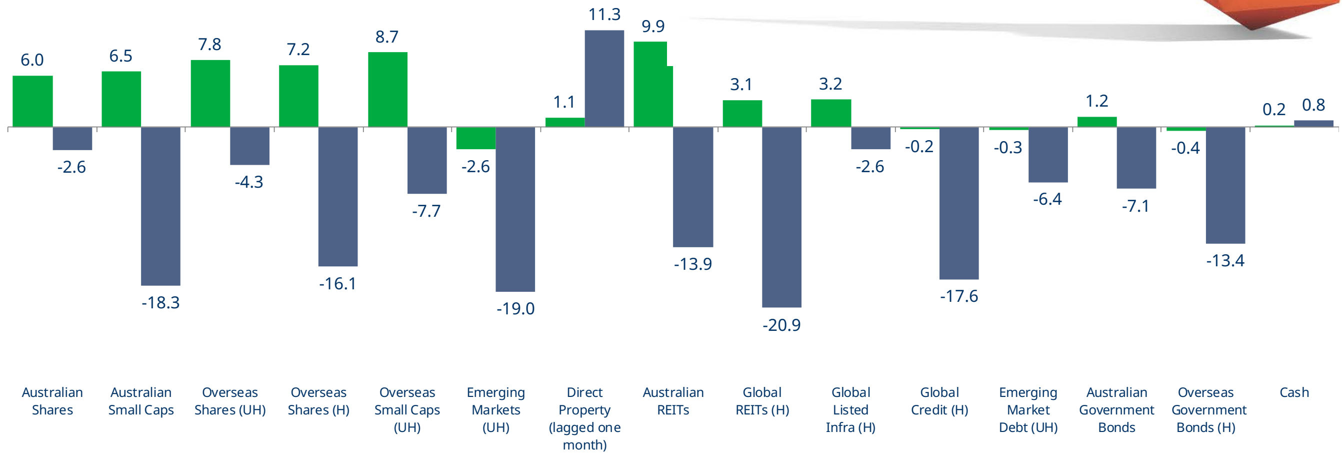


October 2022

Australian monthly market review

Selected market indicators commentary

Asset class returns as at 31 October 2022



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

October saw investor optimism return despite a fragile macro outlook. After two consecutive months of drawdowns across most asset classes, October saw a notable rebound in developed market equities. Defensive fixed income saw modest declines, with the exception of Australian government bonds, while emerging market assets had negative returns driven largely by declines in Chinese equities. US GDP for Q3 showed a return to growth after modest declines earlier in the year, mainly due to higher energy exports and lower import demand. Consumer confidence bounced back but retail sales were flat. While the UK and Eurozone are facing more significant headwinds, Eurozone GDP remained positive in Q3. GDP data from China rebounded, largely driven by infrastructure investment, while the property market and consumption remain weak.

Over October, Hedged Developed Markets Overseas Shares returned 7.2%. After two challenging months, further bad news for markets was limited. Another set of disappointing inflation figures implied more monetary tightening ahead, which markets have been expecting. In spite of the many headwinds, earnings as a whole have been reasonably resilient with a majority of companies who reported in October having earnings above estimates. Value outperformed growth by a wide margin as disappointing earnings for some large US tech companies led to declines in late October.

Emerging markets underperformed developed markets and ended October negative territory. This was driven by a double digit decline in Chinese equities following the broad export bans of semi-conductors and the negative perception of China's Party Congress.

Positive performance in other emerging markets did not entirely offset headwinds from China.

Hedged Overseas Government Bonds returned -0.4% over the month as bond yields continued to rise in the US, but fell in Australia, the Eurozone and most notably the UK. Ten-year and 30-year yields in the US rose by 27 and 43 basis points to 4.1% and 4.2%, respectively. Ten-year government bond yields fell by 60 basis points to 3.5% in the UK. Inflation expectations for the US, as measured by the 10-year inflation breakeven rate, rose from 2.15% to 2.51%, a substantial increase but still in line with the Fed's long-term target of 2% personal consumption expenditure (PCE).

Australian shares underperformed their Hedged Overseas counterparts in October despite the ASX 300 returning 6.0%. The S&P/ASX 50 detracted with a return of 5.7%, meanwhile the S&P/ASX mid 50 lifted the index, returning 7.1%. The best performing sector for the month was Financials (+12.1%) with the top three contributing stocks to the index for the month being CBA, Westpac and NAB. Meanwhile, Materials was the worst performing sector (-0.2%) dragged lower by BHP (-2.1%) which was the largest negative contributor.

Significant Developments

- During its November 2022 meeting, the Reserve Bank of Australia (RBA) decided to increase the current target cash rate by 25 basis points to 2.85% per annum and the interest rate on exchange settlement balances from 2.50% to 2.75%. As is the case in most countries, inflation in Australia is too high. Over the year to September, the CPI inflation rate was 7.3%. Global factors explain much of this high inflation, but strong domestic demand relative to the ability of the economy to meet that demand is also playing a role. Inflation now forecast to peak at around 8% later this year and then is expected to decline next year. The Bank's central forecast is for CPI inflation to be around 4.75% over 2023 and a little above 3% over 2024. The Australian economy is continuing to grow solidly and national income is being boosted by a record level of the terms of trade. Economic growth is expected to moderate over the year ahead as the global economy slows, the bounce-back in spending on services runs its course, and growth in household consumption slows due to tighter financial conditions. The Bank's central forecast for GDP growth is around 3% for this year and 1.5% in 2023 and 2024.The labour market remains tight and many firms are having difficulty hiring workers. The unemployment rate in September was 3.5%. The central forecast is for unemployment to remain around its current level over the months ahead, but to increase gradually to a little above 4% in 2024. Wages growth is continuing to pick up from the low rates of recent years, although it remains lower than in other advanced economies. Price stability is a prerequisite for a strong economy and a sustained period of full employment. The Board is seeking to do this while keeping the economy on an even keel. One source of uncertainty is the outlook for the global economy, which has deteriorated recently. Higher inflation and higher interest rates are putting pressure on household budgets. Consumer confidence has also fallen and housing prices are declining after the earlier large increases. Working in the other direction, people are finding jobs, gaining more hours of work and receiving higher wages. The increase in interest rates has been necessary to achieve a more sustainable balance of demand and supply in the Australian economy. The Board expects to increase interest rates further over 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 900 in September, below expectations for an increase of 25,000 and below the prior month's decrease of 36,300. The unemployment rate remained the same in September at 3.5%, in line with expectations. The participation rate remained at 66.6%, in line with expectations. Part time jobs decreased by 12,400 and full time jobs increased by 13,300.
- Australian building approvals decreased by 5.8% month-on-month to September, compared to the increase of 23.1% (revised) for August.
- The Institute for Supply Management (ISM) Manufacturing Index recorded 50.2 in October, above consensus for 50 and below the 50.9 recorded in September. Apparel, Leather & Allied Products and Nonmetallic Mineral Products were the two industries that reported the highest growth. There were ten industries that recorded contraction in October compared to September. The ISM Services Index recorded 54.4 in October, below consensus for 55.3 and below the 56.7 recorded in September. Of the 16 services industries, the top performers were Mining and Agriculture, Forestry, Fishing & Hunting. The two industries reporting a decrease in the month of October were Management of Companies & Support Services and and Real Estate, Rental & Leasing.

- US Non-Farm Payrolls increased by 261,000 in October, below the 263,000 increase recorded for September. The unemployment rate increased to 3.7% over October, above expectations of 3.6%.
- US GDP first estimate for Q3 2022 is 2.6% quarter on quarter (QoQ) annualised, above expectations of 2.4%.
- The Caixin Manufacturing PMI in China recorded 49.2 in October, above expectations of 48.5, as COVID-19 containment continues to restrict manufacturing output and demand.
- The preliminary estimate of the European Core CPI recorded 5% over the year to October, in line with expectations.
- The Eurozone composite PMI decreased to 47.3 in October, above expectations for 47.1.
- The first estimate recorded for Q3 2022 Eurozone seasonally adjusted GDP is 0.2% QoQ and 2.1% YoY.

Australian Shares

The Australian share market underperformed its hedged overseas counterpart over the month, as the S&P/ASX300 Index returned 6.0%. The S&P/ASX Mid 50 Accumulation Index was the strongest relative performer, returning 7.1%, while the S&P/ASX 50 was the weakest, returning 5.7% over the month.

The best performing sectors were Financials (12.1%) and Real Estate (9.3%), while the weakest performing sectors were Materials (-0.2%) and Consumer Staples (-0.2%). The largest positive stock contributors to the index return were CBA, Westpac, and NAB with absolute returns of 15.4%, 17.3% and 12.9%, respectively. In contrast, the most significant detractors were BHP, CSL, and Fortescue Metals with absolute returns of -2.1%, -1.5% and -11.3%, respectively.

Overseas Shares

The broad MSCI World ex Australia Accumulation Index returned 7.2% in hedged terms and 7.8% in unhedged terms over the month as the Australian dollar weakened against most major developed market currencies. In AUD terms, the strongest performing sectors were Energy (21.0%) and Industrials (11.0%), while Real Estate (1.5%) and Communication Services (1.6%) were the weakest performers. In AUD terms, the MSCI Small Caps Total Return Index was up by 8.6%, while the MSCI Emerging Markets Accumulation Index was down by 2.6% over October.

Over the month, the S&P500 Composite Index (8.1%), the Dow Jones Industrial Average (14.1%) and the NASDAQ (3.9%) increased, all in USD terms.

In local currency terms, major European share markets experienced positive returns as the FTSE 100 (UK) (3.0%), the DAX 30 (Germany) (9.4%) and the CAC 40 (France) (8.8%) all increased. In Asia, the Chinese SSE Composite (-4.3%) and the Hong Kong Hang Seng (-14.7%) decreased, while the Indian S&P BSE 500 (4.0%) and the Japanese TOPIX (5.1%) increased, all in local currency terms.

Real Assets

The listed Real Assets sector produced positive returns over October. Over the month, the Global Real Estate Investment Trusts (REITs) Index increased by 3.1% and the FTSE Global Core Infrastructure 50/50 Index increased by 3.2% (both in AUD hedged terms). Domestic REITs increased by 9.9% over October, whilst Australian Direct Property (NAV) returned 1.1% (on a one month lagged basis).

Fixed Interest

Global bond markets were negative over October, with the Barclays Capital Global Aggregate Bond Index (Hedged) returning -0.4% and the FTSE World Government Bond (ex-Australia) Index (Hedged) returning -0.4%. Ten-year bond yields were mixed over the month, decreasing in the UK (66bps to 3.53%) and Japan (1bps to 0.24%), while increasing in Germany (4bps to 2.1%) and the US (27bps to 4.1%). Two-year bond yields were also mixed over the month, increasing in Germany (25bps to 1.95%), the US (29bps to 4.55%), and Japan (1bps to -0.04%), while decreasing in the UK (-99bps to 3.29%)

Returns for Australian bondholders were positive over October, with 10-year bond yields decreasing (14bps to 3.76%), five-year bond yields (24bps to 3.45%) and two-year bond yields (26bps to 3.24%). Of the Bloomberg Ausbond indices, the Bloomberg Ausbond Inflation index produced the highest monthly return, returning 4.0% whilst the Bloomberg Ausbond Bank Bill index produced the lowest return of 0.2%.

Currency Markets

The AUD Trade Weighted Index decreased to 61.3 over October, down by 0.3% from September. The AUD depreciated against the US Dollar (-0.5%), the Euro (-1.4%), and the Pound Sterling (-3.6%), while appreciating against the Japanese Yen (2.1%).

Commodities

Iron Ore decreased by 16.3%, finishing the month at US$82.0 per metric tonne. The S&P GSCI Commodity Total Return Index increased by 7.3% over the month. Gold prices decreased by 2.2% finishing the month at US$1,638.03 per ounce and the oil price increased by 8.7% to US$95.84 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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- 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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