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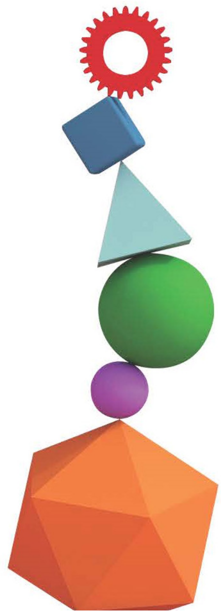
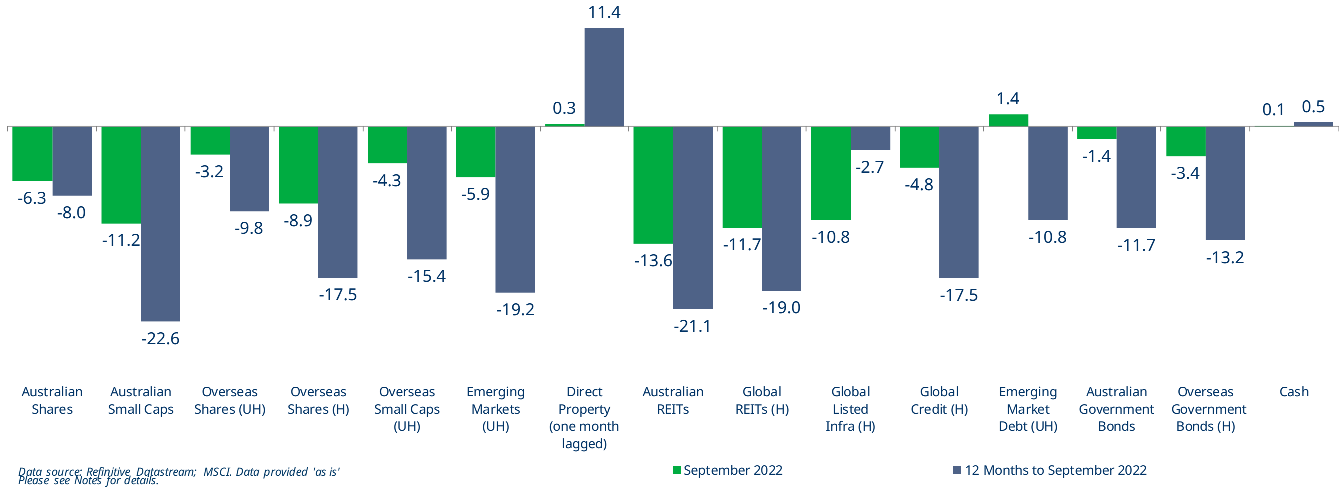


September 2022

Australian monthly market review

Selected market indicators commentary

Asset class returns as at 30 September 2022



September 2022 left few portfolios unscathed in a major drawdown that affected a vast majority of asset classes in public markets. Equities sold off across the board, bringing major indices back into bear market territory. Fears of increased monetary policy tightening caused unrest in markets, as inflation continued to be higher than anticipated. The sell-off was broad based across sectors and regions with emerging market equities faring worse than developed markets (Unhedged). A strengthening US dollar gave some reprieve to unhedged developed markets in Australian dollar (AUD). Equity market volatility returned to the heights seen in early June.

Over September, Hedged Developed Markets Overseas Shares returned -8.9%. Investor sentiment continued to deteriorate in September, according to the latest Bank of America Fund Manager Survey.

Monetary policy is priced to be tighter for longer. Earnings expectations continue to decline amid weakening business conditions. Value stocks continued to outperformed growth stocks over September, with the continued increase in interest rates. On a sector level, healthcare was the only sector not to have a negative performance during September, while real estate and IT posted the most significant declines. Emerging markets underperformed developed markets in AUD terms.

Large Asian economies such as China, Taiwan and Korea posted negative returns in mid double digits. The primary drivers were slowing global growth hitting export demand, the downturn in China’s housing market and disruptions due to Covid restrictions.

Hedged Overseas Government Bonds returned -3.4 over the month as major developed bond yields rose sharply over the month. Discouraging inflation readings across the developed world made it likely that monetary tightening will continue for the foreseeable future. Ten-year and 30-year yields rose by 68 and 52 basis points respectively in the US. The UK went through a major government bond (gilt) sell-off after its government announced a budget that markets deemed fiscally unsound.

Australian shares outperformed their Hedged Overseas counterparts in August, with the ASX 300 returning -6.3%. The S&P/ASX Small Companies was the biggest detractor for the index returning -11.2%, meanwhile the S&P/ASX 50 was the greatest contributor, returning -5.4 for the month. The best performing sector for the month was Materials, returning -2.6%. Utilities (-13.8%) and Real Estate (-13.5%) were the worst performing sectors. CSL (-2.8%) was the biggest contributor to the S&P/ASX 300 over the month, meanwhile Macquarie (-13.2%) was the largest detractor.

Significant Developments

- During its October 2022 meeting, the Reserve Bank of Australia (RBA) decided to increase the current target cash rate by 25 basis points to 2.6% per annum and the interest rate on exchange settlement balances from 2.25% to 2.2%. The Board is committed to returning inflation to the 2–3% range. As is the case in most countries, inflation in Australia is too high. 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. A further increase in inflation is expected over the months ahead, before a decline back towards the 2–3% range. The expected moderation in inflation next year reflects the ongoing resolution of global supply-side problems, recent declines in some commodity prices and the impact of rising interest rates. The Bank's central forecast is for CPI inflation to be around 7.75% over 2022, a little above 4% over 2023 and around 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. The labour market is very tight and many firms are having difficulty hiring workers. The unemployment rate in August was 3.5%. 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. It 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, with the full effects of higher interest rates yet to be felt in mortgage payments. 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 will help 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 33,500 in August, below expectations for an increase of 35,000 and above the prior month's decrease of 40,900. The unemployment rate increased in August to 3.5%, above expectations of 3.4%.The participation rate increased by 66.6%, in line with expectations. Part time jobs decreased by 25,300 and full time jobs increased by 58,800.
- Australian building approvals increased by 28.1% month-on-month to August, compared to the decreased of -18.2% (revised) for July.
- The Institute for Supply Management (ISM) Manufacturing Index recorded 50.9 in September, below consensus for 52 and below the 52.8 recorded in August. Of the 9 manufacturing industries, Nonmetallic Mineral Products and Machinery were the two industries that reported the highest growth. There were seven industries that recorded contraction in September compared to August. The ISM Services Index recorded 56.7 in September, above consensus for 56 and below the 56.9 recorded in August. Of the 15 services industries, the top performers were Mining and Other Services. The three industries reporting a decrease in the month of September were Accommodation & Food Services; Arts, Entertainment & Recreation and Transportation & Warehousing.

- US Non-Farm Payrolls increased by 263,000 in September, below the 315,000 increase recorded for August. The unemployment rate decreased to 3.5% over September, below expectations of 3.7%.
- US GDP third estimate for Q2 2022 is -0.6% quarter on quarter (QoQ) annualised, which was in line with expectations.
- The Caixin Manufacturing PMI in China recorded 48.1 in September, below expectations of 49.5, as output and demand were dampened by COVID-19 containment measures.
- The preliminary estimate of the European Core CPI recorded 4.8% over the year to September, above expectations of 4.7%.
- The Eurozone composite PMI decreased to 48.1 in September, below expectations for 48.2.
- The final estimate recorded for Q1 2022 Eurozone seasonally adjusted GDP is 0.8% QoQ and 4.1% YoY.

Australian Shares

The Australian share market outperformed its hedged overseas counterpart over the month, as the S&P/ASX300 Index returned -6.3%. The S&P/ASX Mid 50 Accumulation Index was the strongest relative performer, returning -5.4%, while the S&P/ASX Small Ordinaries was the weakest, returning -11.2% over the month.

The best performing sectors were Materials (-2.6%) and Energy (-3.9%), while the weakest performing sectors were Utilities (-13.8%) and Real Estate (-13.5%). The largest positive stock contributors to the index return were CSL, ANZ and BHP with absolute returns of -2.8%, 0.4% and -4.1%, respectively. In contrast, the most significant detractors were Macquarie Group, Goodman Group, and Transurban with absolute returns of -13.6%, -19.7% and -11.4%, respectively.

Overseas Shares

The broad MSCI World ex Australia Accumulation Index returned -8.9% in hedged terms and -3.2% 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 Healthcare (2.6%) and Consumer Staples (-1.6%), while Real Estate (-6.8%) and IT (-6.1%) were the weakest performers. In AUD terms, the MSCI Small Caps Total Return Index was down by 4.3%, while the MSCI Emerging Markets Accumulation Index was down by 5.9% over September.

Over the month, the S&P500 Composite Index (-9.2%), the Dow Jones Industrial Average (-8.8%) and the NASDAQ (-10.5%) decreased, all in USD terms.

In local currency terms, major European share markets experienced negative returns as the FTSE 100 (UK) (-5.2%), the DAX 30 (Germany) (-5.6%) and the CAC 40 (France) (-5.8%) all decreased. In Asia, the Chinese SSE Composite (-5.6%), Hong Kong Hang Seng (-13.1%), Indian S&P BSE 500 (-3.3%) and the Japanese TOPIX (-5.5%) decreased, all in local currency terms.

Real Assets

The listed Real Assets sector produced negative returns over September. Over the month, the Global Real Estate Investment Trusts (REITs) Index decreased by 11.7% and the FTSE Global Core Infrastructure 50/50 Index decreased by 10.8% (both in AUD hedged terms). Domestic REITs decreased by 13.6% over September, whilst Australian Direct Property (NAV) returned 0.4% on a one month lagged basis.

Fixed Interest

Global bond markets were negative over September, with the Barclays Capital Global Aggregate Bond Index (Hedged) returning -3.5% and the FTSE World Government Bond (ex-Australia) Index (Hedged) returning -3.4%. Ten-year bond yields moved higher over the month, increasing in the UK (143bps to 4.23%), Germany (72bps to 2.2%), the US (66bps to 3.8%), and Japan (2bps to 0.24%). Two-year bond yields also moved higher over the month, increasing in Germany (67bps to 1.75%), the US (81bps to 4.26%), the UK (127bps to 4.28%) and Japan (4bps to -0.05%).

Returns for Australian bondholders were negative over September, with 10-year bond yields (30bps to 3.90%), five-year bond yields (35bps to 3.69%) and two-year bond yields (37bps to 3.51%) increasing. Of the Bloomberg Ausbond indices, the Bloomberg Ausbond Bank Bill index produced the highest monthly return, returning 0.1% whilst the Bloomberg Ausbond Inflation index produced the lowest return of -3.8%.

Currency Markets

The AUD Trade Weighted Index decreased to 61.5 over September, down by 2.8% from August. The AUD depreciated against the US Dollar (-6.2%) and the Euro (-3.7%), the Pound Sterling (-2.2%) and the Japanese Yen (-2.1%).

Commodities

Iron Ore decreased by 1.0%, finishing the month at US$98.0 per metric tonne. The S&P GSCI Commodity Total Return Index decreased by 1.7% over the month. Gold prices decreased by 2.6% finishing the month at US$1,674.06 per ounce and the oil price decreased by 8.1% to US$88.69 per barrel over September.

Contact: Mercer >IS<

Tel: 1800 512 947
Email: merceris@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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- Investments denominated in a foreign currency will fluctuate with the value of the currency.
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- Certain investments, such as illiquid, leveraged or high-yield instruments or funds and securities issued by small capitalization and emerging market issuers, carry additional risks that should be considered before choosing an investment manager or making an investment decision.
- For higher volatility investments, losses on realisation may be high because their value may fall suddenly and substantially.
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