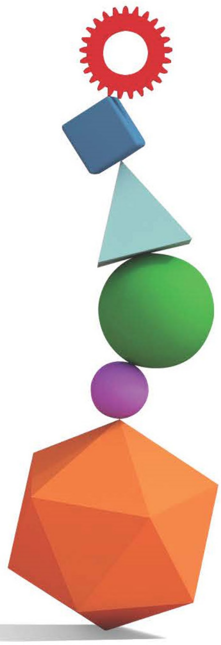
welcome to brighter

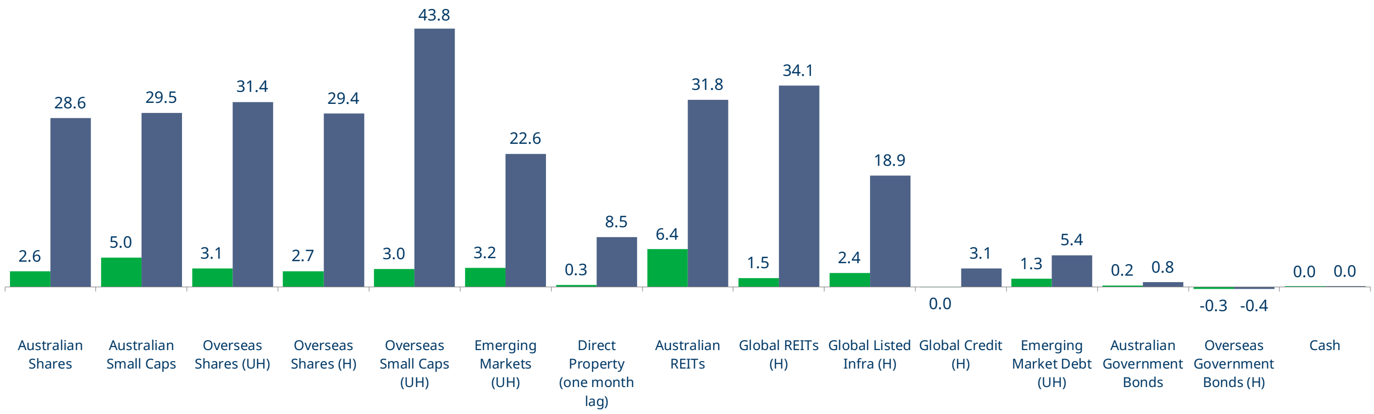
August 2021

Australian monthly market review



Selected market indicators commentary

Asset class returns as at 31 August 2021



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

Over August, the number of cases associated with the COVID-19 delta variant surged, slowing down the global economic recovery as countries with low vaccination rates were forced to reintroduce lockdowns. For developed markets, indices continue to reach new record highs as earnings remained strong and highly vaccinated countries such as the UK demonstrated that it is possible to live with the virus. As such, the going concern of the virus will likely shift to supply chain constraints and high inflationary pressure rather than closed economies.

Hedged Developed Market Overseas Shares returned 2.7% over the month, driven by another growth rally from the US market.

The positive market momentum was driven by the highly anticipated US Federal Reserve speech from Jerome Powell. Investor sentiment lifted as the US Federal Reserve reiterated its view that inflation is transitory and signalled that tapering will occur towards the end of this year. Unhedged Emerging Market Shares rebounded over the month, driven by strong returns from India, Taiwan and Russia. China's performance improved from last month, but continued to lag other emerging market nations as the impact of their regulatory probe widened to affect several other industries. Incidentally, many key players from the Chinese IT sector have signalled to investors that there will likely be further regulatory action, which they plan to abide by.

Australian REITs rebounded over the month, returning 6.4% and outperforming Hedged Global REITs. Results from the latest earning season revealed signs of recovery in FY21 for major REITs, with occupancy rates remaining above 98%. However, domestic lockdowns will likely hinder this recovery progress. Furthermore, as the nature of the workplace changes and flexible working arrangements continue, shifts in demand may occur and challenge the future of office REITs.

Australian Shares marginally underperformed Hedged Overseas Shares as the S&P/ASX 300 ended the month at 2.6%. All other domestic share indices provided similar positive returns with the exception of the S&P/ASX Small Ordinaries, who as the standout returned 5.0%. In contrast to the previous month, performance from the IT and Materials sector reversed. Strong performance from Afterpay (39.2%) and Wisetech (57.0%) aided IT performance (16.2%), whilst the broader drawdown for cyclical commodities negatively impacted BHP (-14.2%) and Rio Tinto (-15.6%), causing the Materials sector to lag (-6.9%).

Significant Developments

- During its early September 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 of 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 maintain the current target of 0.10% for the April 2024 Australian Government Bond. It was noted that prior to the Delta outbreak the Australian economy had considerable momentum. GDP increased by 0.7% over the June quarter and by nearly 10% over the year to 30 June 2021. Business investment was also strong with unemployment falling below 5%. However, the COVID-19 Delta outbreak has interrupted the recovery in Australia, resulting from restrictions on activity. GDP is expected to decline materially over the September quarter and the unemployment rate will move higher over coming months. The setback to the economic expansion is expected to be only temporary and as vaccination rates increase further and restrictions are eased, the economy should bounce back. The timing of the bounce back depends upon the health situation and the easing of restrictions. In the RBA's central scenario, the economy will grow again in the December quarter and is expected to be back around its pre-delta path in the second half of 2022. Wage and price pressures remain subdued over the June quarter rising 1.7%. Housing prices are continuing to rise along with housing credit, showing stronger demand for credit by both owner-occupiers and investors. Borrowing rates are at record lows, sovereign bond yields are at very low levels and the exchange rate for the AUD has depreciated over recent months. The RBA has committed to maintaining 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 currently. This is unlikely to be until 2024 at the earliest.
- Australian seasonally adjusted employment increased by 2,200 in July, above expectations for a decrease of 43,100 but below the prior month's increase of 29,100. The unemployment rate decreased to 4.6% for July, below expectations for 5.0%. The participation rate decreased to 66.0%, in line with expectations. Part time jobs increased by 6,400 and full time jobs decreased by 4,200.
- Australian building approvals decreased by 8.6% month-on-month to July, compared to the decrease of 8.4% (revised) for June.
- The Institute for Supply Management (ISM) Manufacturing Index recorded 59.9 in August, above consensus for 58.5 and above the 59.5 recorded in August. Of the 18 manufacturing industries, Furniture & Related Products and Computer & Electronic Products were the two industries that reported the highest growth. The only two industries that reported a contraction over the August period was Textile Mills and Non-metallic Mineral Products. The ISM Services Index recorded 61.7 in August, above consensus for 61.6 and below the 64.1 recorded in July. Of the 17 services industries, the top performers were Accommodation & Food Services and Retail Trade. The only industry to report a decrease was Arts, Entertainment & Recreation.
- US Non-Farm Payrolls increased by 235,000 in August, below the 962,000 increase (revised) recorded for July. The unemployment rate decreased to 5.2% over August, in line with expectations.
- US GDP second estimate for Q2 2021 is 6.6% quarter on quarter (QoQ) annualised, below expectations of 6.7%.

- The Caixin Manufacturing PMI in China recorded 49.2 in August, below expectations of 51.1, with business conditions deteriorating slightly over the period.
- The preliminary estimate of the European Core CPI recorded 1.6% over the year to August, which was in line with expectations.
- The Eurozone composite PMI decreased to 59.0 in August, below expectations for 59.5.
- The final estimate recorded for Q2 2021 Eurozone seasonally adjusted GDP is 2.2% QoQ and 14.3% YoY.

Australian Shares

The Australian share market marginally underperformed its hedged overseas counterpart over the month, as the S&P/ASX 300 Index returned 2.6%. The S&P/ASX Small Ordinaries was the strongest relative performer, increasing 5.0%, while the S&P/ASX 50 Accumulation was the weakest, returning 2.0% over the month.

The best performing sectors were IT (16.2%) and Consumer Staples (6.8%), while the weakest performing sectors were Materials (-6.9%) and Energy (-3.8%). The largest positive stock contributors to the index return were Afterpay, CSL and NAB with absolute returns of 39.2%, 8.1% and 7.2% respectively. In contrast, the most significant detractors were BHP, Rio Tinto and Fortescue Metals with absolute returns of -14.2%, -15.6% and -14.8%, respectively.

Overseas Shares

The broad MSCI World ex Australia (NR) Index returned 3.1% in unhedged terms and 2.7% in hedged terms over the month. In AUD terms, the strongest performing sectors were Communication Services (4.5%), and Information Technology (4.4%), while Energy (-0.6%) and Materials (1.2%) were the weakest performers. In AUD terms, the MSCI Small Caps (TR) Index was up 3.0% and MSCI Emerging Markets (NR) Index was up 3.2% over August.

Over August, the NASDAQ (4.0%), S&P 500 Composite Index (3.0%), and the Dow Jones Industrial Average (1.5%) increased, all in USD terms. In local currency terms, major European share markets experienced positive returns as the CAC 40 (France) (1.0%), FTSE 100 (2.1%) and DAX 30 (Germany) (1.9%) all increased. In Asia, the Indian S&P BSE 500 (6.5%), Chinese SSE Composite (4.3%) and Japanese TOPIX (3.2%) increased, while the Hong Kong Hang Seng decreased (-0.1%), all in local currency terms.

Real Assets

The Real Assets sector achieved broadly positive returns over August. The Global Real Estate Investment Trusts (REITs) Index increased by 1.5% over the month and the FTSE Global Core Infrastructure 50/50 Index increased by 2.4% (both in AUD hedged terms). Domestic REITs rose 6.4% over August, whilst Australian Direct Property (NAV) returned 0.3% (one-month lag).

Fixed Interest

Global bond markets were broadly negative over August, with the Barclays Capital Global Aggregate Bond Index (Hedged) returning -0.2% and the FTSE World Government Bond (ex-Australia) Index (Hedged) returning -0.3%. Ten-year bond yields rose over the month, increasing in the UK (+13bps to 0.72%), the US (+4bps to 1.28%), Germany (+8bps to -0.42%) and Japan (+2bps to 0.02%). Two-year bond yields were also broadly positive over the month, increasing in the US (+2bps to 0.19%), UK (+10bps to 0.16%) and Germany (+3bps to -0.73%), whilst decreasing in Japan (-1bp to -0.13%).

Returns for Australian bondholders were mixed over August, with 10-year bond yields (-2bps to 1.12%) and two-year bond yields (-1bp to 0.02%) decreasing, and five-year bond yields (+2bps to 0.59%) increasing. Of the Bloomberg Ausbond indices, the Bloomberg Ausbond Treasury Index produced the highest monthly return of 0.2% and the Bloomberg Ausbond Inflation Index produced the lowest return, returning -0.3%.

Currency Markets

The AUD Trade Weighted Index decreased to 61.2 over August, down by 0.6% from July. The AUD appreciated against the Pound Sterling (0.4%) and depreciated against the Japanese Yen (-0.5%), US Dollar (-0.6%) and Euro (-0.1%).

Commodities

Iron Ore declined -18.1%, finishing the month at US$156.5 per metric tonne. The S&P GSCI Commodity Total Return Index decreased by 1.7% over the month. Gold prices decreased by 0.9% finishing the month at US$1,806.3 per ounce and the oil price decreased by 4.5% to US$73.0 per barrel over August.

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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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