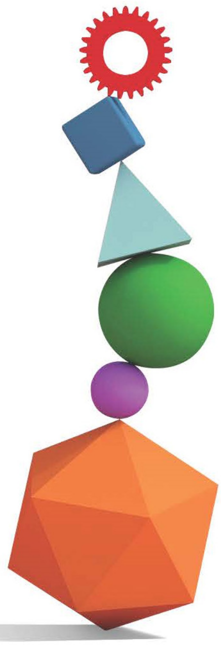
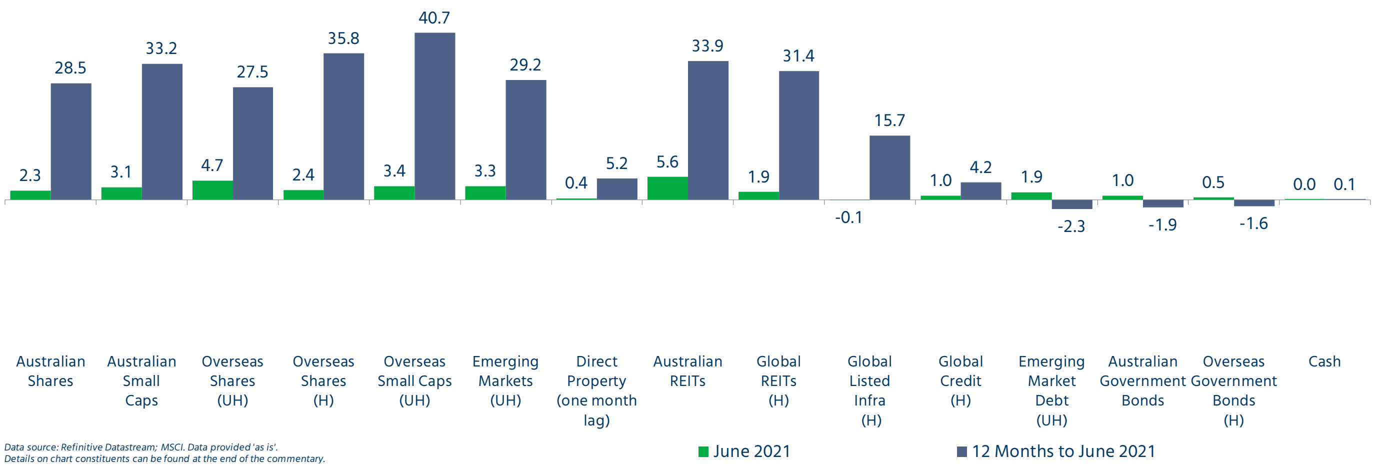


June 2021

Australian monthly market review

Selected market indicators commentary

Asset class returns as at 30 June 2021



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

Over June, the US Federal Reserve shifted to more of a hawkish stance as inflation indicators reached decade highs. Consequently, the Federal Reserve announced plans to scale back on relief programs and further potential tapering. Overseas share markets were volatile over the month but ended on a positive note as investors were reassured that there are no current plans to pre-emptively raise interest rates, given the downside risks that remain to the economic recovery.

Hedged Developed Market Overseas Shares returned 2.4% over June, with US equities leading the positive momentum, driven by a strong US Dollar and the overweight exposure to technology stocks, as investors moved back into growth stocks over the month. Whilst investors continue to remain cautious of stretched equity valuation, data reveals that company earnings fundamentals remain strong. The current number of companies issuing positive earnings per share guidance is almost double the five-year average.

Unhedged Emerging Market Shares also achieved similar positive returns, returning 3.3% over June. Brazil and Russia benefited from the increase in commodity prices, causing their stocks to rally. However, for India headwinds led to lower returns as the country faces a sluggish consumer recovery and tough COVID restrictions. China also detracted, posting flat returns as they continue to enforce strict regulations on their Financial and Technology sectors.

The US Dollar surged in June and appreciated against most currencies, which is a stark contrast to the prior two months. As the Federal Reserve moves to policy normalisation, the US Dollar may continue to recover. The Australian dollar on the other hand, fell by 3.0% relative to the US Dollar over the month.

Australian Shares marginally underperformed as Hedged Overseas Shares moved higher over June. The S&P/ASX300 ended the month at 2.3%, whilst the S&P/ASX Small Ordinaries returned 3.1%. All other domestic share indices provided similar positive returns with the S&P/ASX 50 being the lowest, returning 1.9%. The best performing sectors were IT (12.4%) and Communication Services (5.6%), whilst Financials (-0.2%) was the worst performer.

Significant Developments

- During its early July 2021 meeting, the Reserve Bank of Australia (RBA) decided to maintain the current target cash rate at 0.10% per annum, as well as retain the April 2024 bond as the bond for the yield target at 10bps and continue purchasing government bonds after the completion of the current bond purchase program in early September. Maintaining the target of 10bps for the April 2024 bond will help keep interest rates low. It was noted that the Australian economy is recovering stronger than expected and is forecasted to continue. The RBA stated that the outlook for investment has improved and national income is also being supported by the high prices for commodity exports. Domestic financial conditions are supportive despite the exchange rate depreciating slightly. The labour market has continued to recover faster than expected with the unemployment rate declining further to 5.1% in May. Despite the strong recovery in jobs and reports of labour shortages, inflation and wage outcomes remain subdued. In the central scenario, inflation in underlying terms is expected to be 1.5% over 2021 and 2% by mid-2023. In the short term, CPI inflation is expected to rise temporarily to around 3.5% over the year to the June quarter. Housing credit growth has picked up, with strong demand from owner-occupiers, including first-home buyers, and there has also been increased borrowing by investors. The Board has stated its commitment to maintaining supportive monetary conditions and that it 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 115,200 in May, above expectations for an increase of 30,000 and above the prior month's decrease of 30,600 (revised). The unemployment rate decreased to 5.1% for May, below expectations for 5.5%. The participation rate increased to 66.2%, above expectations for 66.1%. Part time jobs increased by 17,700 and full time jobs increased by 97,500.
- Australian building approvals decreased by 7.1% month-on-month to May, compared to the decrease of 5.7% (revised) for April.
- The Institute for Supply Management (ISM) Manufacturing Index recorded 60.6 in June, below consensus for 60.9 and below the 61.2 recorded in May. Of the 18 manufacturing industries, Furniture & Related Products and Machinery were the two industries that reported the highest growth. No industry reported a contraction over the June period. The ISM Services Index recorded 60.1 in June, below consensus for 63.5 and below the 64.0 recorded in May. Of the 18 services industries, the top performers were Arts, Entertainment & Recreation and Other Services. The two industries that reported a decrease in the month of June were Real Estate, Rental & Leasing and Agriculture, Forestry, Fishing & Hunting.
- US Non-Farm Payrolls increased by 850,000 in June, above the 583,000 increase (revised) recorded for May. The unemployment rate increased to 5.9% over June, above expectations for 5.6%.
- US GDP third estimate for Q1 2021 is 6.4% quarter on quarter (QoQ) annualised, which was in line with expectations.
- The Caixin Manufacturing PMI in China recorded 51.3 in June, below expectations of 51.9 and signalling the lowest reading in three months, due to local COVID-19 cases causing supply chain difficulties.
- The preliminary estimate of the European Core CPI recorded 0.9% over the year to June, which was in line with expectations.
- The Eurozone composite PMI increased to 59.5 in June, above expectations for 59.2.
- The final estimate recorded for Q1 2021 Eurozone seasonally adjusted GDP is -0.3% QoQ and -1.3% YoY.

Australian Shares

The Australian share market marginally underperformed its hedged overseas counterpart over the month, as the S&P/ASX 300 Index returned 2.3%. The S&P/ASX Mid 50 was the strongest relative performer, increasing 3.7%, while the S&P/ASX 50 was the weakest relative performer, returning 1.9% over the month.

The best performing sectors were IT (12.4%) and Communication Services (5.6%), while the weakest performing sectors were Financials (-0.2%) and Materials (0.1%). The largest positive stock contributors to the index return were Afterpay, Wesfarmers and Goodman Group with absolute returns of 27.4%, 7.0% and 9.1% respectively. In contrast, the most significant detractors were Woolworths, CSL and Westpac with absolute returns of -8.4%, -1.7% and -2.0%, respectively.

Overseas Shares

The broad MSCI World ex Australia (NR) Index returned 4.7% in unhedged terms and 2.4% in hedged terms over the month. In AUD terms, the strongest performing sectors were Information Technology (10.2%), and Healthcare (6.3%), while Materials (-1.3%) and Financials (-0.4%) were the weakest performers. In AUD terms, the MSCI Small Caps (TR) Index was up 3.4% and MSCI Emerging Markets (NR) Index was up 3.3% over June.

Over June, the NASDAQ (5.5%) and S&P 500 Composite Index (2.3%) both increased, and the Dow Jones Industrial Average returned flat, all in USD terms. In local currency terms, major European share markets experienced positive returns as the CAC 40 (France) (1.2%), FTSE 100 (0.4%) and DAX 30 (Germany) (0.7%) all increased. In Asia, the Indian S&P BSE 500 (1.9%) and Japanese TOPIX (1.2%) increased, while the Hong Kong Hang Seng (-0.6%) and Chinese SSE Composite (-0.7%) decreased, all in local currency terms.

Real Assets

The Real Assets sector achieved broadly positive returns over June. The Global Real Estate Investment Trusts (REITs) Index increased by 1.9% over the month and the FTSE Global Core Infrastructure 50/50 Index decreased by -0.1% (both in AUD hedged terms). Domestic REITs rose 5.6% over June, whilst Australian Direct Property (NAV) returned 0.4% (one-month lag).

Fixed Interest

Global bond markets were broadly positive over June, with the Barclays Capital Global Aggregate Bond Index (Hedged) returning 0.5% and the FTSE World Government Bond (ex-Australia) Index (Hedged) returning 0.5%. Ten-year bond yields were negative over the month, decreasing in the UK (-9bps to 0.75%), the US (-15bps to 1.44%), Germany (-7bps to -0.25%) and Japan (-2bps to 0.05%). Two-year bond yields were mixed over the month, increasing in the US (10bps to 0.24%) and Japan (2bps to -0.11%), decreasing in the UK (-1bp to 0.06%) and returning flat in Germany (-0.69%).

Returns for Australian bondholders were mixed over June, with 10-year bond yields decreasing (-12bps to 1.49%), five-year bond yields increasing (6bps to 0.77%) and two-year bond yields returning flat (0.07%). Of the Bloomberg Ausbond indices, the Bloomberg Ausbond Treasury produced the highest monthly return of 1.0% and the Bloomberg Ausbond Bank Bill Index produced the lowest return, returning flat.

Currency Markets

The AUD Trade Weighted Index decreased to 62.7 over June, down by 1.3% from May. The AUD depreciated against the Pound Sterling (-0.2%), Japanese Yen (-1.6%) and US Dollar (-3.0%) and returned flat against the Euro.

Commodities

Iron Ore rose 6.9%, finishing the month at US$215.5 per metric tonne. The S&P GSCI Commodity Total Return Index increased 7.5% over the month. Gold prices decreased by 7.4% finishing the month at US$1,765.4 per ounce and the oil price increased 7.9% to US$75.3 per barrel over June.

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 Barclays 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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