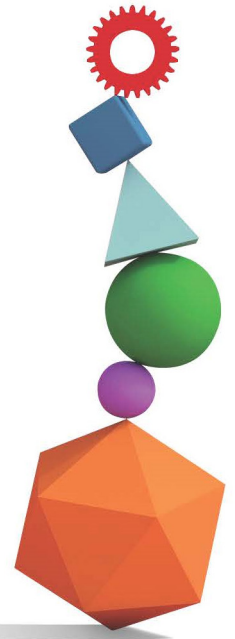


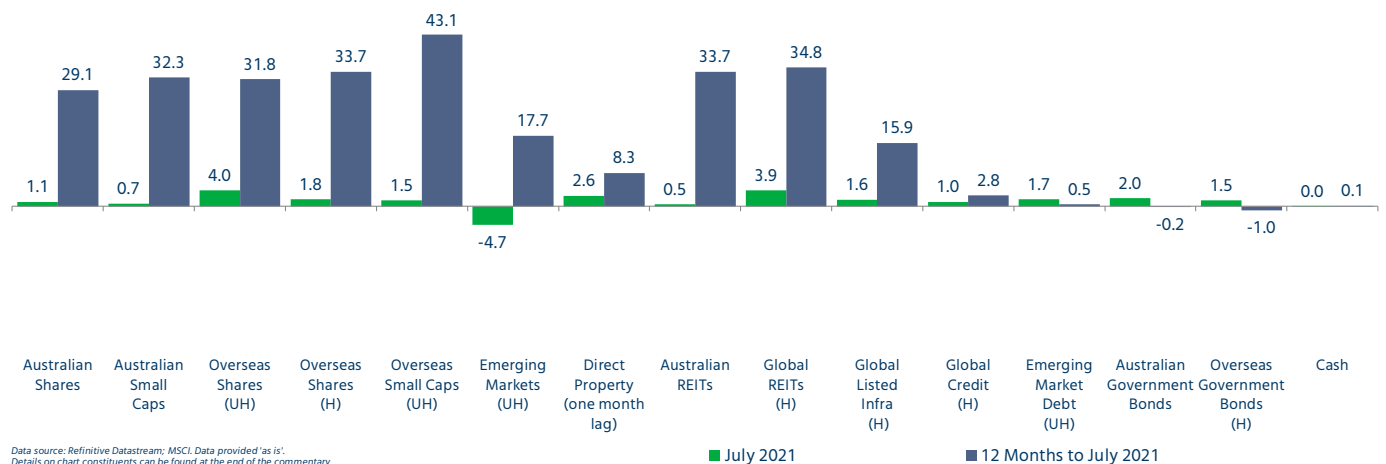
July 2021

Australian monthly market review

Selected market indicators commentary



Asset class returns as at 31 July 2021



Over July, forward-looking purchasing manager indices revealed that growth in highly vaccinated countries has started to stabilise at high levels. Despite the encouraging news, investors remain concerned about how the Delta variant will hinder the global recovery. As the next phase of the global economic recovery relies on the progress of vaccinations, largely unvaccinated economies such as Australia, and many emerging markets, currently face a more challenging environment and remain vulnerable to lockdowns and associated restrictions.

Hedged Developed Market Overseas Shares returned 1.8% over July as the United States (US) reopened its economy. The more technology-heavy US market outperformed other developed markets as growth stocks rallied over the month, supported by strong quarterly earnings from large technology leaders.

Whilst not returning as strong as the US over the month, the Australian share market still fared relatively well compared to other development market indices. Unhedged Emerging Market Shares faced their worst month since the Covid-19 sell-off, returning -4.7%. This came about as the regulatory crackdown on technology companies in China intensified over the month, with strict regulations coming into play causing a sharp sell-off of Chinese shares. Additionally, commodity-heavy indices such as Brazil and Russia were negatively affected by global risk sentiment.

Global government bond yields declined over the month due to signs of global growth moderating. Domestically, Australia's 10-year government bond yield fell by 35bps due to the recent lockdowns and moderate inflation expectations.

Over the month, the June quarterly CPI numbers were released and were broadly in line with expectations, supporting the Reserve Bank's narrative that inflation is transitory and will fall back towards target levels over the coming year, as supply bottlenecks ease.

The Australian dollar depreciated against the US dollar over the month as investor concerns over the global recovery negatively affected sentiment for cyclical commodities.

The Australian equity market hit another record high as the S&P/ASX 300 finished the month up 1.1%. All other domestic share indices provided positive returns, with the S&P/ASX Mid 50 and S&P/ASX Small Ordinaries being the lowest, both returning 0.7%. Materials (7.1%) and Industrials (4.1%) were the standout sectors over the month, rising due to strong earnings expectations. Financials (-1.4%) lagged as the recent domestic COVID lockdowns weighed on sentiment towards banks, while the worst performing sector was IT (-6.4%).

Significant Developments

- During its early August 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 \$5bn per week until September and then \$4bn a week until mid-November. In addition, the RBA will maintain the current target of 0.10% for the April 2024 Australian Government Bond. It was noted that although the Australian economic recovery has been stronger than expected, recent outbreaks of COVID-19 are interrupting the recovery, with GDP expected to decline over the September quarter. The outlook for future months is uncertain and depends upon the evolution of the health situation and containment measures. The RBA's central scenario is for the economy to grow just over 4% over 2022 and by around 2.5% over 2023. This is based on the assumption that majority of the population is vaccinated by the end of 2021. The labour market has recovered faster than expected, with the unemployment rate declining further to 4.9% in June. Job vacancies have remained at a high level and there are reports of labour shortages in parts of the economy. The CPI inflation rate spiked to 3.8% for the year to the June quarter, and in underlying terms, remains at around 1.25%.
- A pick-up in both wages growth and underlying inflation is expected. Inflation is expected to be 1.75% over 2022 and 2.25% over 2023. Housing markets have continued to strengthen, with prices rising in all major markets. Housing credit growth has picked up, with strong demand from owner-occupiers, and increased borrowing from investors. The RBA will maintain its flexible approach to the rate of bond purchases 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 at present. This is unlikely to be until 2024 at the earliest.
- Australian seasonally adjusted employment increased by 29,100 in June, above expectations for an increase of 20,000 and above the prior month's decrease of 30,700 (revised). The unemployment rate decreased to 4.9% for June, below expectations for 5.1%. The participation rate did not change for June at 66.2%, in line with expectations. Part time jobs decreased by 22,500 and full time jobs increased by 51,600.
- Australian building approvals decreased by 6.7% month-on-month to June, compared to the decrease of 5.0% (revised) for May.
- The Institute for Supply Management (ISM) Manufacturing Index recorded 59.5 in July, below consensus for 61.0 and below the 60.6 recorded in June. Of the 18 manufacturing industries, Furniture & Related Products and Printing & Related Support Activities were the two industries that reported the highest growth. The only industry that reported a contraction over the July period was Textile Mills. The ISM Services Index recorded 64.1 in July, above consensus for 60.5 and above the 60.1 recorded in June. Of the 17 services industries, the top performers were Arts, Entertainment & Recreation and Wholesale Trade. No industry reported a decrease in July.
- US Non-Farm Payrolls increased by 943,000 in July, above the 614,000 increase (revised) recorded for June. The unemployment rate decreased to 5.4% over July, below expectations for 5.7%.
- US GDP second estimate for Q2 2021 is 6.5% quarter on quarter (QoQ) annualised, below expectations of 8.4%.
- The Caixin Manufacturing PMI in China recorded 50.3 in July, below expectations of 51.0, with operating conditions only slightly improving over the period.

- The preliminary estimate of the European Core CPI recorded 0.7% over the year to July, which was in line with expectations.
- The Eurozone composite PMI increased to 60.2 in July, below expectations for 60.6.
- The advanced estimate recorded for Q2 2021 Eurozone seasonally adjusted GDP is 2.0% QoQ and 13.7% YoY.

Australian Shares

Whilst the Australian share market underperformed its hedged overseas counterpart over the month, the S&P/ASX 300 Index did return a solid 1.1%. The S&P/ASX 50 was the strongest relative performer, increasing 1.3%, while the S&P/ASX Small Ordinaries and S&P/ASX Mid 50 were the weakest, returning 0.7% over the month.

The best performing sectors were Materials (7.1%) and Industrials (4.1%), while the weakest performing sectors were IT (-6.4%) and Energy (-2.4%). The largest positive stock contributors to the index return were BHP Group, Sydney Airport and Fortescue Metals Group with absolute returns of 10.5%, 34.9% and 7.6% respectively. In contrast, the most significant detractors were Westpac, Afterpay and Commonwealth Bank with absolute returns of -4.7%, -18.2% and -0.2%, respectively.

Overseas Shares

The broad MSCI World ex Australia (NR) Index returned 4.0% in unhedged terms and 1.8% in hedged terms over the month. In AUD terms, the strongest performing sectors were Real Estate (6.2%), and Healthcare (6.0%), while Energy (-4.3%) and Financials (2.2%) were the weakest performers. In AUD terms, the MSCI Small Caps (TR) Index was up 1.5% and MSCI Emerging Markets (NR) Index was down 4.7% over July.

Over July, the NASDAQ (1.2%), S&P 500 Composite Index (2.4%), and the Dow Jones Industrial Average (1.3%), all in USD terms. In local currency terms, major European share markets experienced positive returns as the CAC 40 (France) (1.6%), FTSE 100 (UK) (0.1%) and DAX 30 (Germany) (0.1%) all increased. In Asia, the Indian S&P BSE 500 (1.4%) increased, while the Hong Kong Hang Seng (-9.6%), Chinese SSE Composite (-5.4%) and Japanese TOPIX (-2.2%) decreased, all in local currency terms.

Real Assets

The Real Assets sector achieved broadly positive returns over July. The Global Real Estate Investment Trusts (REITs) Index increased by 3.9% over the month and the FTSE Global Core Infrastructure 50/50 Index increased by 1.6% (both in AUD hedged terms). Domestic REITs rose 0.5% over July, whilst Australian Direct Property (NAV) returned 2.6% (one-month lag).

Fixed Interest

Global bond markets were broadly positive over July, with the Barclays Capital Global Aggregate Bond Index (Hedged) returning 1.3% and the FTSE World Government Bond (ex-Australia) Index (Hedged) returning 1.5%. Ten-year bond yields fell over the month, decreasing in the UK (-16bps to 0.59%), the US (-21bps to 1.24%), Germany (-25bps to -0.50%) and Japan (-5bps to 0.00%). Two-year bond yields broadly fell over the month, decreasing in the US (-7bps to 0.17%), Japan (-1bp to -0.12%), Germany (-8bps to -0.76%) and returning flat in the UK (0.06%).

Returns for Australian bondholders up 2.0% over July, with 10-year bond yields (-35bps to 1.14%), five-year bond yields (-21bps to 0.56%) and two-year bond yields (-4bps to 0.03%) decreasing. Of the Bloomberg Ausbond indices, the Bloomberg Ausbond Inflation produced the highest monthly return of 2.6% and the Bloomberg Ausbond Bank Bill Index produced the lowest return, returning flat.

Currency Markets

The AUD Trade Weighted Index decreased to 61.6 over July, down by 1.8% from June. The AUD depreciated against the Pound Sterling (-2.7%), Japanese Yen (-3.2%), US Dollar (-2.1%) and the Euro (-2.1%).

Commodities

Iron Ore declined 11.4%, finishing the month at US\$191.0 per metric tonne. The S&P GSCI Commodity Total Return Index increased 3.7% over the month. Gold prices increased by 3.3% finishing the month at US\$1,823.2 per ounce and the oil price increased 1.6% to US\$76.5 per barrel over July.

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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