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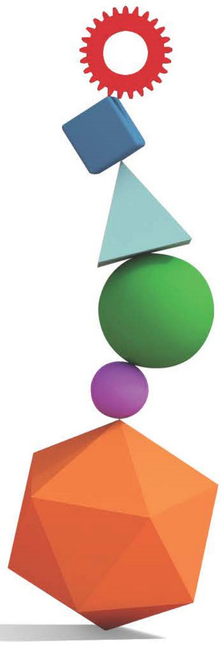
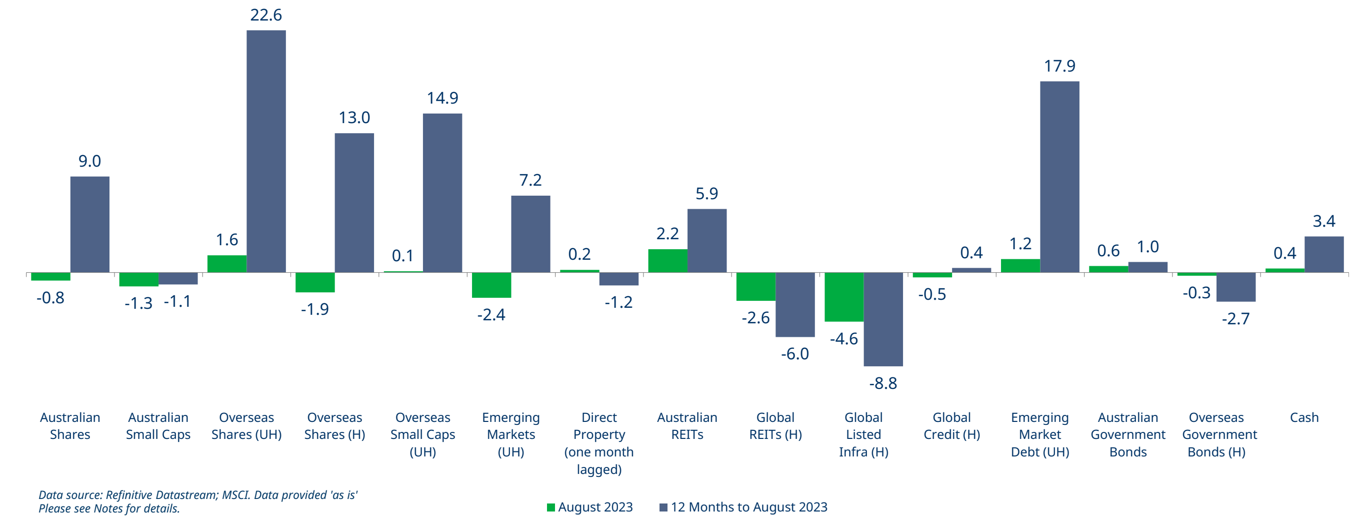


August 2023

Monthly market review

Asset class returns as at 31 August 2023



Market recap

In August, equities lost momentum and weakened (in local currency terms) after a strong rally over recent months. On a relative basis, US equities outperformed most major developed and emerging markets, while growth stocks generally outperformed value. Fixed income returns were broadly flat to slightly negative. The real asset sector saw the largest declines, with global REITs and infrastructure down markedly.

A combination of weaker forward-looking indicators, a modest uptick in inflation data, particularly in the US, and Fitch Ratings' downgrade of its US credit rating at the start of August, impacted returns.

Composite purchasing manager indices (PMI) continue to soften across the globe with the US Composite PMI falling to a six-month low in August. A similar scenario for the Eurozone, China, UK and Australia, however, Japan bucked the trend with a marginally higher reading. Consumer confidence continues to weaken with increasing signs of consumer distress, such as rising credit card and auto-loan delinquencies. After a period of strength, global labour markets appear to be cooling off. US employment data saw a distinct weakening in August with a solid uptick in its unemployment rate (+0.3% to 3.8%).

Headline inflation dropped sharply in the Eurozone and UK, largely driven by base effects as the 2022 inflationary spike rolls off.

Elsewhere, inflation ticked up slightly in the US as a bounce in energy prices fed into its CPI numbers, however, CPI data was broadly unchanged in Japan and China.

At the annual summit in Jackson Hole, Wyoming, central bankers expressed cautious optimism, while acknowledging inflationary expectations remain elevated. Federal Reserve Chairman, Jerome Powell, reiterated the Fed's goal of bringing inflation down to its 2% target and is prepared to lift rates further if required. The Bank of England raised interest rates for the 14th consecutive month with its policy rate now sitting at 5.25%. On the flipside, the People's Bank of China introduced a number of easing measures, cutting its key interest rate (1yr Loan Prime Rate) to a record low of 3.45%.

In terms of August returns, Hedged Developed Markets Overseas Shares declined -1.9% and Unhedged Emerging Markets Equities dropped -2.4%. Hedged Overseas Government Bonds delivered a narrow loss of -0.3% over the month as government bond yields experienced an uptick in most major regions. Using 10 year government bonds as a guide, US yields saw a jump of 16bps, both Japan and UK were up 6bps, however, there were slight declines for German and Australian 10 year yields.

Australian Shares returned -0.8% in August, outperforming hedged overseas counterparts. Key contributing sectors were Consumer Discretionary (5.8%) and Real Estate (2.2%), whereas Materials (-2.0%) and Consumer Staples (-3.1%) detracted.

Significant Developments

Reported mid-August, Australian seasonally adjusted employment for July decreased by 14,600. A combination of a loss of 24,200 full time jobs, offset by a 9,600 increase in part-time employment, this number was well below expectations for a 15,000 gain. The unemployment rate increased to 3.7% (consensus was 3.6%) and the participation rate slipped to 66.7%, just under 66.8% expectations.

Australian building approvals decreased 8.1% in August (month-on-month figures to July), compared to the decrease of 7.9% (revised) for June.

Total US non-farm payrolls increased by 187,000 in August and was modestly above the adjusted 170,000 increase reported in July, however, well below the monthly average gain of 271,000 over the prior 12 months. Downward adjustments to US employment data have been prevalent over 2023 with sizeable reductions for every month (e.g. June has been cut from its original 209,000 to 105,000). For August, US unemployment rate stepped up to 3.8% (well above 3.5% expectations).

The second estimate for Q2 2023 US GDP was 2.1% quarter on quarter (QoQ, annualised), below July's preliminary figure of 2.4%, as revised inventory figures swung from being a gain to a small drag on GDP growth.

In the US, the Institute for Supply Management (ISM) Manufacturing Index remained in contractionary territory with a 47.6 reading in August, however, an improvement on 46.4 in July and above 47.0 expectations. Five manufacturing industries registered growth in the August survey and 13 industries recorded contraction. The ISM Services survey also saw a jump in August, up 1.8 to 54.5 and well in the expansion zone (52.5 was consensus). The growth / contraction split between industries was a mirror image of manufacturing with 13 reporting growth and 5 in contraction.

China's Caixin Manufacturing PMI moved back into expansion territory with a 51 reading in August (expectations were 49.3), as operating conditions improved for manufacturers on the back of better than expected new orders and output data.

Japan's Manufacturing PMI remains marginally below the expansion / contraction line of 50, however, its Services PMI is well in expansion mode at 54.3 with August marking 12 consecutive months of growth.

Turning to Europe, the 5.3% preliminary estimate for Eurozone Core CPI (year to August) was in line with expectations and similar to the headline CPI, which is flattening out around these levels.

The recently released third estimate for Q2 2023 Eurozone GDP showed a marginally positive 0.1% QoQ (and 0.5% YoY). Coupled with a Services PMI reading dropping into contraction (47.9 from 50.9 in July), policymakers at the ECB will be concerned at these developments.

Asset class comments

Australian Shares

Whilst the Australian share market was a little weaker across August (S&P/ASX 300 Accumulation Index -0.8%), it outperformed hedged overseas indices. Returns were somewhat narrow across the various sub-indices with the S&P/ASX 50 Accumulation Index (-0.6%) the strongest relative performer and the S&P/ASX Small Ordinaries Accumulation Index (-1.3%) weakest.

Best performing sectors were Consumer Discretionary (5.8%) and Real Estate (2.2%), while the weakest performing sectors were Utilities (-3.9%) and Consumer Staples (-3.1%). The largest positive stock contributors to index returns were Wesfarmers (8.9%), Goodman Group (13.9%) and CSL (2.0%). In contrast, the most significant detractors were Transurban (-7.2%), BHP (1.9%) and ResMed (-24.0%).

Overseas Shares

The MSCI World ex-Australia Accumulation Index returned -1.8% in hedged terms over the month. This translated to a 1.6% gain on an unhedged basis as the Australian Dollar (AUD) depreciated against most major currencies. On a global basis, best performing sectors were Energy (6.0%) and Healthcare (3.3%), while weakest were Utilities (-1.6%) and Materials (-0.5%). In AUD terms, the MSCI Small Caps Total Return Index was up 0.1% in August and MSCI Emerging Markets Accumulation Index down 2.4%.

Looking at individual markets, August saw the S&P 500 Composite Index (-1.6%), NASDAQ (-2.2%) and Dow Jones Industrial Average (-2.0%) all lower (in USD terms). In local currency terms, major European share markets were all negative with DAX 30 (Germany) -3.0%, CAC 40 (France) -2.4% and FTSE 100 (UK) -2.5%. In Asia, Hong Kong's Hang Seng (-8.2%), China's SSE Composite (-5.2%) and India's S&P BSE 500 (-0.8%) decreased, while Japan's TOPIX (0.4%) increased on the back of improving data.

Real Assets

August was a very weak month for global listed real assets. The FTSE EPRA/NAREIT Developed (Global REITs) decreased 2.6% and FTSE Global Core Infrastructure 50/50 Index returned -4.6% (both in AUD hedged terms).

Domestically, the S&P/ASX 300 A-REIT Accumulation Index increased 2.2% over August, whilst the MSCI/ Mercer Australia Core Wholesale Monthly PFI GAV Post Fee (Australian Direct Property) returned 0.3% (on a one-month lagged basis).

Fixed Interest

Global bond markets were marginally lower over August with both the Barclays Capital Global Aggregate Bond Index (Hedged) and FTSE World Government Bond (ex-Australia) Index (Hedged) returning -0.3%. Apart from Germany, where yields dropped (-2bps to 2.44%), ten-year bond yields moved higher across major jurisdictions including the US (16bps to 4.10%), UK (6bps to 4.37%) and Japan (6bps to 0.64%). Two-year bond yields were similar, decreasing in Germany (-6bps to 3.04%), while increasing in the UK (17bps to 5.16%), US (1bp to 4.98%) and Japan (3bps to 0.03%).

Returns for most Australian bondholders were positive over August. In a bull steepening move, 10-year bond yields decreased slightly (-3bps to 4.02%), alongside five-year bond yields (-6bps to 3.77%) and two-year bond yields (-24bps to 3.81%).

Currency Markets

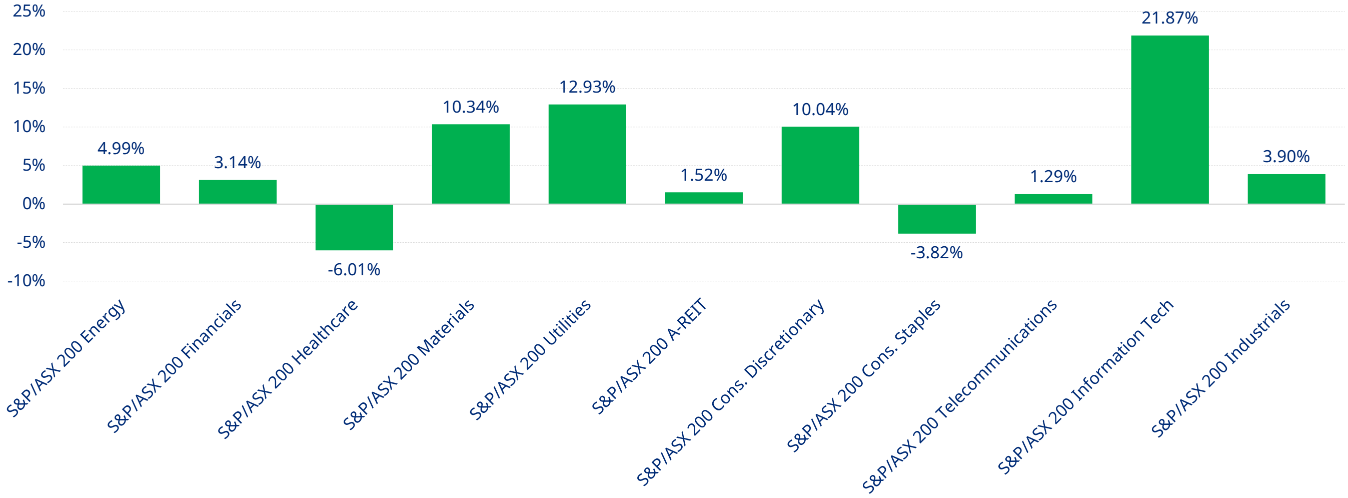
The Australian Trade Weighted Index moved lower over August (-1.1% to 60.6). This outcome was a combination of the Australian dollar depreciating against the US Dollar (-3.9% to US$0.648), Euro (-2.4% to EU€0.597), UK pound (-2.4% to GB£0.511) and Japanese Yen (-1.5% to JP¥94.287).

Commodities

August was quite a mixed month for commodities. Energy prices continued to climb higher with oil increasing 1.5% to US$86.88 per barrel (Brent Crude). Industrial metals and agriculture detracted with S&P GSCI Index returns for copper (-4.4%), nickel (-9.0%) and zinc (-5.0%) all moving lower. Precious metals were also mixed with gold decreasing over the month (-1.3% to US$1,942.45/oz) and silver moving higher (+0.7% to US$24.54/oz).

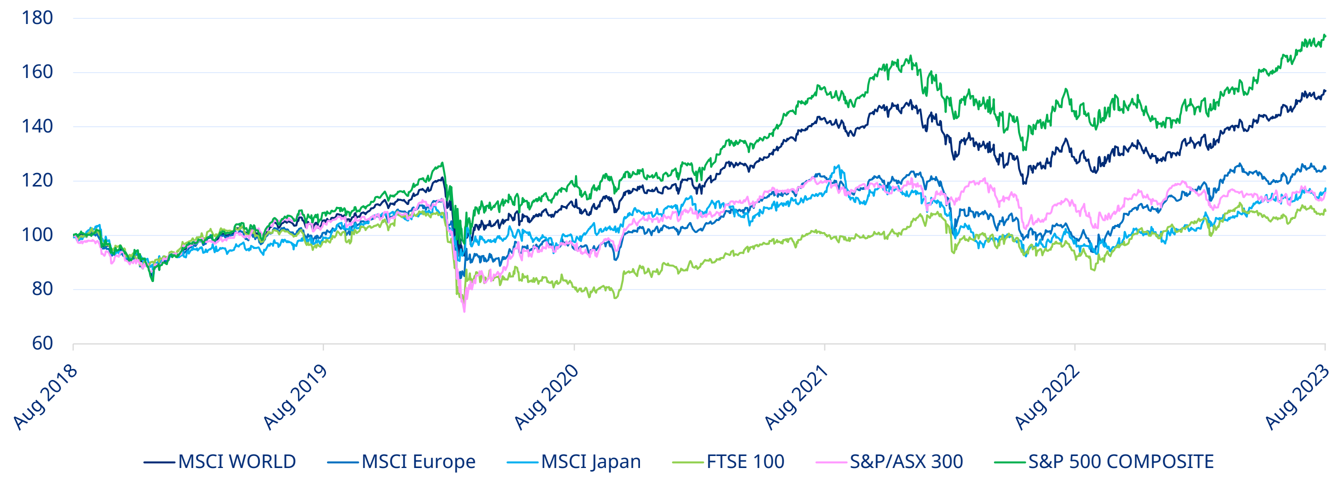
Market charts

ASX Sector Returns - Rolling 12 months



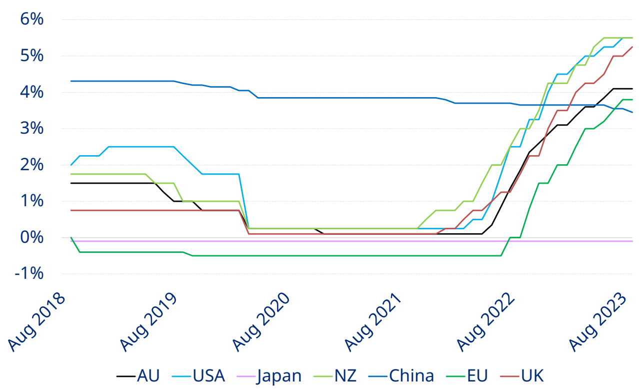
Source: S&P Global

Global Equity Indices - 5 years



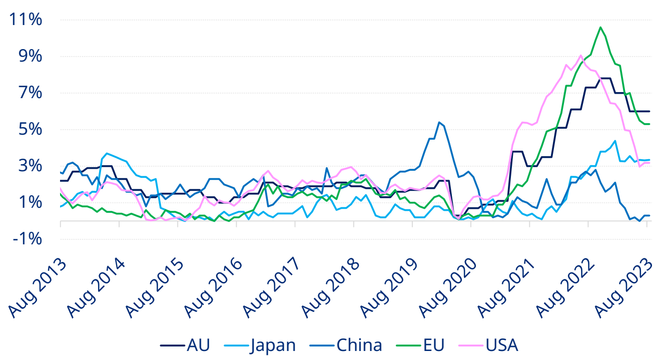
Source: MSCI, Refinitive DataStream (Rebased to 100. All returns denominated in AUD).

Central Bank Policy Rates - 5 years



Source: Bloomberg

Inflation - 10 years



Source: Refinitiv, Australian Bureau of Statistics, Ministry of Internal Affairs & Communication (Japan), National Bureau of Statistics of China, Eurostat, Bureau of Labor Statistics, U.S. Department of Labor

Market data - August 2023

Australian shares		1 Month	3 Months	1 Year	3 Years	5 Years
S&P/ASX 300 Accumulation		-0.76%	3.88%	8.96%	10.51%	6.99%
S&P/ASX 300 Industrials Accumulation		-0.37%	3.54%	6.39%	8.75%	5.30%
S&P/ASX 300 Resources Accumulation		-1.82%	4.79%	16.21%	16.03%	13.00%
S&P/ASX 300 Accumulation A-REIT		2.18%	6.05%	5.93%	7.69%	4.39%
S&P/ASX Small Ords Accumulation		-1.31%	2.22%	-1.12%	3.00%	2.40%
Global shares		**1 Month**	**3 Months**	**1 Year**	**3 Years**	**5 Years**
MSCI World ex Australia Unhedged in $A		1.60%	6.96%	22.62%	13.34%	10.82%
EPRA/NAREIT Developed Index Hedged A$		-2.70%	3.23%	-7.01%	2.15%	-0.90%
STOXX Europe 600 Total Return		-2.79%	1.42%	10.38%	7.73%	3.69%
S&P 500 Total Return		-1.59%	8.28%	15.94%	10.52%	11.12%
Nikkei 225 Total Return		-1.60%	5.83%	18.76%	14.33%	9.55%
Fixed interest		**1 Month**	**3 Months**	**1 Year**	**3 Years**	**5 Years**
Bloomberg AusBond Bank Bill Index		0.37%	1.04%	3.37%	1.25%	1.24%
Bloomberg AusBond Composite (0+Y)		0.74%	-0.72%	1.78%	-3.09%	0.56%
Barclays Global Aggregate TR Hedged A$		-0.27%	-0.47%	-1.17%	-3.84%	0.06%
Commodities	**Month End Price**	**1 Month**	**3 Months**	**1 Year**	**3 Years**	**5 Years**
Bloomberg Commodity Index	106.03	-1.22%	8.23%	-12.83%	13.09%	4.83%
Generic Brent Crude Oil	86.86	1.52%	19.54%	-9.98%	24.25%	2.33%
Generic WTI Crude Oil	83.63	2.24%	22.82%	-6.61%	25.20%	3.68%
Gold US$/oz	1941.78	-1.48%	-1.19%	13.14%	-0.51%	10.10%
Iron Ore	113.48	2.13%	15.28%	19.14%	-3.39%	12.85%
Currencies	**Month End Price**	**1 Month**	**3 Months**	**1 Year**	**3 Years**	**5 Years**
AUD/USD	0.647	-3.79%	0.08%	-5.63%	-4.33%	-2.09%
EUR/USD	1.084	-1.53%	1.89%	7.82%	-3.18%	-1.35%
USD/JPY	145.5	2.38%	4.13%	4.90%	11.20%	5.56%
GBP/USD	1.266	-1.52%	2.23%	8.93%	-1.81%	-0.46%

Source: Bloomberg

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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.
- Investments denominated in a foreign currency will fluctuate with the value of the currency.
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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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