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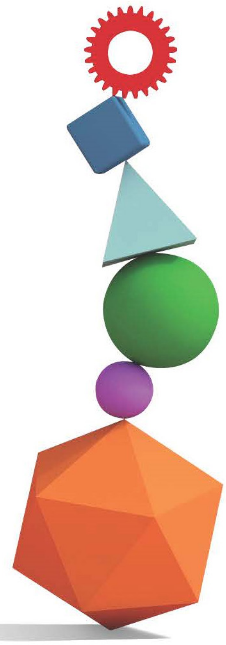
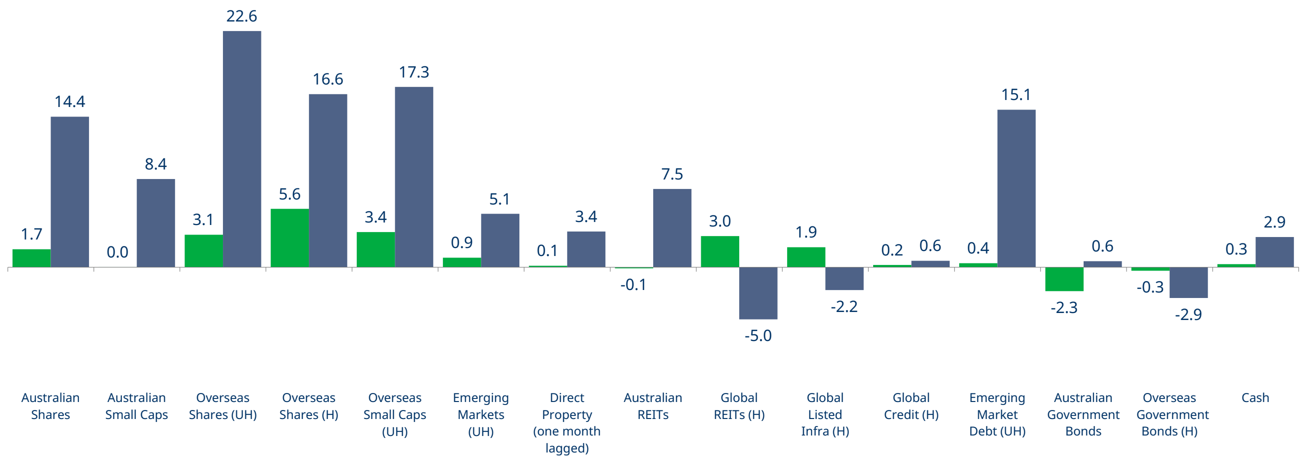


June 2023

Australian monthly market review

Selected market indicators commentary

Asset class returns as at 30 June 2023



Data source: Refinitive Datastream; MSCI. Data provided 'as is'
Please see Notes for details.

Market recap

In June, global equities, commodities and REITs posted strong returns, while bonds were generally flat with credit outperforming government bonds.

Markets continue to price in a soft landing as news flow remains focused on falling headline inflation, a potential end to the global interest rate hiking cycle and broad economic resilience, despite challenges for some sectors, such as regional banks.

Inflation continues to edge down in most major economies raising hopes that the hiking cycle is near an end in most regions. Although the Federal Reserve kept rates on hold for the first time in over a year, forward guidance was more hawkish than expected, which weakened the positive momentum that markets carried during the first half of the month. The ECB and RBA hiked rates by 25bps each, while the Bank of England was compelled to hike by 50bps, given stubbornly elevated levels of inflation in the UK. China continued to ease as its expected economic recovery has been underwhelming. Labour markets remain resilient, with unemployment only marginally rising in some regions, however, remaining close to multi-decade lows.

Volatility in rate markets fell in June, following the resolution of the debt ceiling talks, and the pause in monetary tightening in the US. Bond yields rose slightly in June, while credit spreads slightly decreased during the month.

Over June, Hedged Developed Markets Overseas Shares returned 5.6%, US stocks outperformed emerging markets and other international developed markets. Value and growth stocks delivered similar results in June, although year to date growth has significantly outperformed value. Japan contributed significantly to the outperformance of developed markets, gaining 7.5% in June, as the Bank of Japan continues to stimulate the economy. Emerging Markets Shares (UH) gained 0.9%, held back by weakness in China. Latin America was the standout in emerging markets as the recovery in commodities provides a tailwind for its equities.

Hedged Overseas Government Bonds returned -2.3% over the month, as bond yields generally increased during June. In the US, the 10-year bond yield rose by 16bps. In developed markets outside the US, 10-year yields fell by 3bps in Japan, while yields rose 20bps in the UK, and 13bps in the Eurozone. US inflation expectations, as measured by the 10-year inflation breakeven rate, was unchanged and ended June at 2.2%.

Australian Shares returned 1.7%, underperforming their overseas counterparts in June. Materials (4.6%) and Financials (3.1%) were the strongest sectors, meanwhile Healthcare (-6.4%), and Communication Services (-1.0%) were the largest detractors.

Significant Developments

- Australian seasonally adjusted employment increased by 75,900 in May, well ahead of expectations for an increase of 17,500 and significantly above the prior month's decrease of 4,300. Unemployment rate decreased to 3.6%, below expectations of 3.7%, with the participation rate increasing to 66.9% (above expectations of 66.7%). Full time jobs increased by 61,700 and part-time jobs +14,200.
- Australian building approvals increased by 20.6% month-on-month to May, compared to the decrease of -6.8% (revised) for April.
- The Institute for Supply Management (ISM) Manufacturing Index (US) recorded 46 in June, below consensus for 47.1 and below the 46.9 recorded in May. Of the four manufacturing industries that reported growth in May, the top performers were Printing & Related Support Activities; and Nonmetallic Mineral Products. There were 11 industries that recorded contraction in June compared to May. The ISM Services Index recorded 53.9 in June, above consensus for 51.2 and above the 50.3 recorded in May. Of the 15 services industries that reported growth, the top performers were Accommodation & Food Services; and Arts, Entertainment & Recreation. There were three industries that reported a decrease in the month of June.
- US Non-Farm Payrolls increased by 209,000 in June, below the 339,000 increase recorded for May. The unemployment rate decreased to 3.6% over June and in line with expectations.
- The third estimate of US GDP for Q1 2023 was 2% quarter on quarter (annualised), above expectations of 1.4%.
- China's Caixin Manufacturing PMI recorded 50.5 in June, above expectations of 50, as there was a modest rise in manufacturing production over the month.
- The preliminary estimate of the European Core CPI was 5.4% (year to June), marginally below expectations of 5.5%.
- The Eurozone composite PMI increased to 49.9 in June, below expectations for 50.3, showing slightly contractionary conditions.
- Eurozone seasonally adjusted GDP (first estimate for Q1 2023) was -0.1% QoQ and 1% YoY.

Market Outlook

Looking ahead, we expect weak growth for the next few quarters for most of the developed world as central banks maintain a restrictive policy setting to temper inflation. We however do not believe that a hard landing is likely given the health of the household and corporate balance sheet. The one key bright spot remains China in our view where, despite disappointing economic performance recently, we expect policy to remain supportive and for economic conditions to improve.

In Australia, whilst economic conditions have held up well, we continue believe that the risks to economic growth remains to the downside with the rise in mortgage rates and its impact on consumption the main likely driver. Meanwhile, we maintain our view for inflation to moderate this year, albeit the risks are for core inflation to decline more slowly than rapidly given the pressures in labour and residential rental markets, and consequently, we believe that the risks are that RBA maintains its cash rate higher for longer as they seek to manage these risks.

From an asset class perspective, we maintain a neutral view on global equities whilst persisting with a cautious bias given market pricing relative to potential downside macroeconomic risk. We also maintain a neutral view on Australian equities with a cautious bias as well in light of the risks to the domestic economic outlook, whilst we have a more favourable view of growth fixed income given the yields on offer.

Australian Shares

The Australian share market underperformed its hedged overseas counterpart over the month as the S&P/ASX300 Index returned 1.7%. The S&P/ASX 50 Accumulation Index was the strongest relative performer, returning 2.1%, while the S&P/ASX Small Ords was the weakest with a flat return over the month.

The best performing sectors were Materials (4.6%) and Financials (3.1%), while the weakest performing sectors were Healthcare (-6.4%) and Communication Services (-1.0%). The largest positive stock contributors to the index return were BHP, Fortescue Metals and CBA with absolute returns of 7.9%, 16.3% and 3.6%, respectively. In contrast, the most significant detractors were CSL, Transurban and Telstra with absolute returns of -9.4%, -3.7% and -1.1%, respectively.

Overseas Shares

The broad MSCI World ex-Australia Accumulation Index returned 5.8% in hedged terms and 3.1% in unhedged terms over the month as the AUD appreciated against the USD and most major developed market currencies. The best performing sectors were Consumer Discretionary (7.4%) and Industrials (6.0%), while the weakest performing sectors were Utilities (-0.3%) and Consumer Staples (-0.1%). In AUD terms, the MSCI Small Caps Total Return Index was up by 3.4%, while the MSCI Emerging Markets Accumulation Index was up by 0.9% over June.

Over the month, the S&P500 Composite Index (6.6%), the NASDAQ (6.6%) and the Dow Jones Industrial Average (4.7%) increased, all in USD terms. In local currency terms, for the major European share markets the DAX 30 (Germany) (3.1%), the CAC 40 (France) (4.5%) and the FTSE 100 (UK) (1.4%) were all ahead. In Asia, Hong Kong's Hang Seng (4.5%), the Japanese TOPIX (7.5%) and the Indian S&P BSE 500 (4.1%) increased, while the Chinese SSE Composite (-0.1%) decreased, all in local currency terms.

Real Assets

The listed real assets sector produced mostly positive returns over June. Over the month, the FTSE EPRA/NAREIT Developed (Global REITs) increased by 3.0%, and the FTSE Global Core Infrastructure 50/50 Index returned 1.9% (both in AUD hedged terms). The S&P/ASX 300 Industry Group: A-REIT (Domestic REITs) decreased by 0.1% over June, whilst the MSCI/Mercer Australia Core Wholesale Monthly PFI NAV Post Fee (Australian Direct Property) returned 0.2% (on a one month lagged basis).

Fixed Interest

Global bond markets generated a negative return over June 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%. Most ten-year bond yields moved higher over the month, increasing in the UK (20bps to 4.38%), the US (16bps to 3.81%), and Germany (14bps to 2.41%), while decreasing in Japan (-3bps to 0.40%). Two-year bond yields mostly moved higher over the month, increasing in the UK (93bps to 5.26%), the US (40bps to 4.94%) and Germany (49bps to 3.19%), while decreasing in Japan (-2bps to -0.08%).

Returns for most Australian bondholders were negative over June as 10-year bond yields (42bps to 4.03%), five-year bond yields (58bps to 3.95%) and two-year bond yields (64bps to 4.20%) increased.

Currency Markets

The AUD Trade Weighted Index increased to 61.7 over June. The AUD appreciated against the US Dollar (2.9%), the Pound Sterling (0.3%), the Euro (0.5%) and the Japanese Yen (6.4%).

Commodities

The S&P GSCI Commodity Total Return Index increased by 1.5% over the month. Iron Ore had a strong month, increasing by 13.5% to close out June at US$113.50 per metric tonne. Key metals were mixed to down with Copper (+0.3%) and Nickel (-3.2%). Precious metals were also weaker with gold prices dropping 2.3% over the month (US$1,916.00/oz) and silver –3.1% (US$22.75/oz). The oil price increased by 3.1% to US$74.90 per barrel (Brent Crude) over June.

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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- For higher volatility investments, losses on realisation may be high because their value may fall suddenly and substantially.
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