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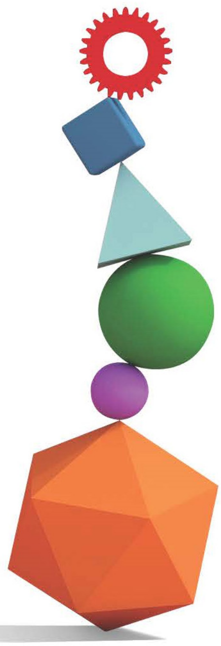
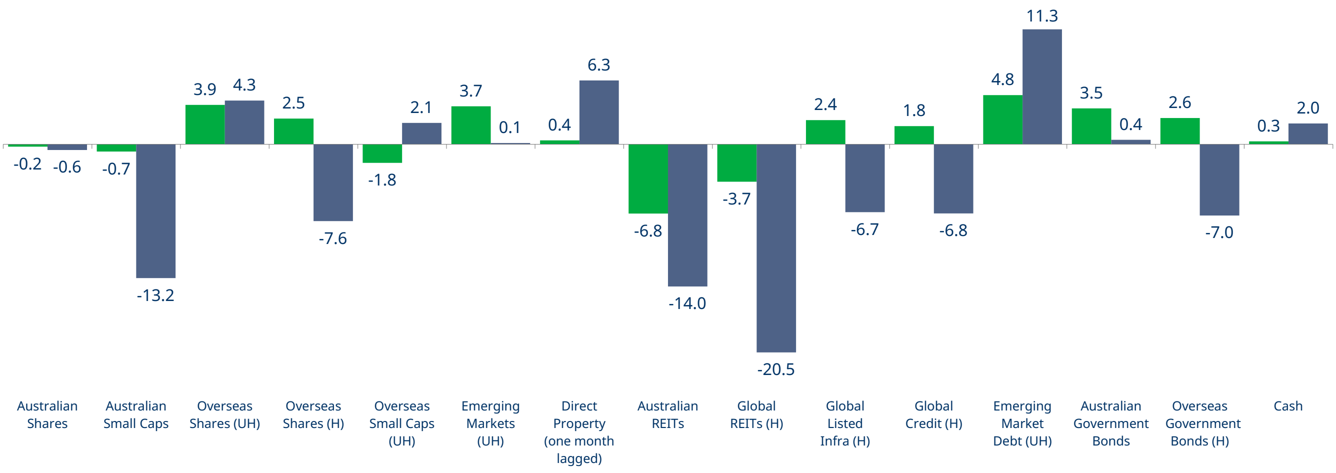


March 2023

Australian monthly market review

Selected market indicators commentary

Asset class returns as at 31 March 2023



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

Market recap

Risk asset returns were mixed over March, whilst defensive assets delivered gains as markets digested financial sector developments in the US and Europe.

Financial distress at a California-based regional bank culminated in the second biggest US bank failure in history. Two other regional banks also went into administration. Outside the US, investors digested UBS's takeover of Credit Suisse and subsequent turmoil in bond markets. Swiss authorities let Credit Suisse's riskiest bonds be wiped out, while equity holders received a small amount of equity in UBS as part of the transaction. While these issues were seen as idiosyncratic and largely driven by poor management of individual banks, there is a pattern of weaker businesses struggling amid high interest rates and declining market liquidity.

Employment and activity data continued to be resilient in the US with signs of recovery emerging from the UK and Europe. Inflation in the US continued to trend down. However, inflation fell by less than expected in the Eurozone and rose in the UK. Central banks consequently hiked rates by 25 bps in the US / Eurozone and 50 bps in the UK.

Over March, Hedged Developed Markets Overseas Shares returned 2.5%, most sectors posted positive returns, although financials sold off strongly amid the banking turmoil. Cyclical areas of the market such as small-caps and energy also struggled.

Emerging Market Shares (UH) marginally underperformed unhedged Overseas Shares in March. China, Taiwan and Korea had modestly positive returns in USD terms, whilst Brazil experienced slightly negative returns.

Hedged Overseas Government Bonds returned 2.6% over the month as bond yields fell sharply across the developed world. In the US, 10-year and 30-year bond yields fell 44bps and 26bps, respectively. In developed markets outside the US, 10-year yields fell by 20–50 bps. US inflation expectations, as measured by the 10-year inflation breakeven rate, fell from 2.4% to 2.3%. Australian Bonds also produced a positive return of 3.5% over the month as yields decreased.

Since the demise of Silicon Valley Bank and emergency merger of Credit Suisse and UBS, liquidity in fixed income markets has diminished and fundraising has slowed with limited corporate bond issuance or IPO activity.

Australian Shares returned -0.2%, underperforming their overseas counterparts in March. Materials (5.6%) and Communication Services (3.3%) were the strongest sectors, meanwhile Property (-6.9%), and Financials (-4.9%) were the largest detractors.

Significant Developments

- Australian seasonally adjusted employment increased by 53,000 in March, above expectations for an increase of 20,000 and below the prior month's increase of 64,600. The unemployment rate remained the same in March at 3.5%, below expectations of 3.6%. The participation rate increased to 66.7%, above expectations of 66.6%. Part time jobs decreased by 19,200 and full time jobs increased by 72,200.
- Australian building approvals increased by 4.0% month-on-month to February, compared to the decrease of -27.1% (revised) for January.
- The Institute for Supply Management (ISM) Manufacturing Index recorded 46.3 in March, below consensus for 47.5 and below the 47.7 recorded in February. Of the six manufacturing industries that reported growth in March, the top performers were Printing & Related Support Activities; and Miscellaneous Manufacturing. There were 12 industries that recorded contraction in March compared to February.
- The ISM Services Index recorded 51.2 in March, below consensus for 54.4 and below the 55.1 recorded in February. Of the 13 services industries that reported growth, the top performers were Other Services; and Arts, Entertainment & Recreation. There were five industries that reported a decrease in the month of March.
- US Non-Farm Payrolls increased by 236,000 in March, below the 311,000 increase recorded for February. The unemployment rate decreased to 3.5% over March, below expectations of 3.6%.
- US GDP third estimate for Q4 2022 is 2.6% quarter on quarter (QoQ) annualised, below expectations of 2.7%.
- The Caixin Manufacturing PMI in China recorded 50.0 in March, below expectations of 51.4, as manufacturing production growth slowed over the month.
- The preliminary estimate of the European Core CPI recorded 5.7% over the year to March, in line with expectations.
- The Eurozone composite PMI increased to 53.7 in March, below expectations for 54.1.
- The first estimate recorded for Q4 2022 Eurozone seasonally adjusted GDP is 0.0% QoQ and 1.8% YoY.

Market Outlook

Looking ahead, global economic activity is likely to remain weak this year as the effects of the interest rate hikes over the past year or so take their toll. There have, however, been a number of important developments recently including (i) the re-opening of China's economy and (ii) the easing of energy prices in Europe, which should provide some support to global growth. The global economy, however, remains in a fragile state and further adverse shocks could lead to worse outcomes compared to our base case. Whilst the recent banking crisis has been a timely reminder of the potential for episodes of stress, we believe that a broader financial sector collapse is very unlikely. However, further defaults and bouts of volatility cannot be ruled out, particularly following the rapid rise in interest rates over the past year from a very low base.

Domestically we continue to view a mild recession outcome in Australia as our base case, with likely headwinds to consumption given the high level of indebtedness of Australian households and the rapid rise in mortgage rates over the past year. Whilst the rate of expiring fixed rate mortgage are expected to rise notably in the June quarter, it may still be some time before such effects on consumption come through in the data.

We, however, believe that should conditions contract more sharply than expected the Reserve Bank of Australia (RBA) is well positioned to respond quickly and effectively. From a markets perspective, whilst there have been a number of positive developments, we believe that earnings growth expectations appear somewhat optimistic and equity markets appear to be pricing in a benign outlook for economic conditions.

However, risks remain in our view and consequently we favour retaining a neutral view on global equities. We also favour retaining a neutral view on Australian equities with the re-opening of China's economy and relative valuations providing some offset to our base case of a mild recession. Within fixed income, we maintain a slight preference to growth fixed income over defensive fixed income in light of the total yields on offer.

Australian Shares

The Australian share market underperformed its hedged overseas counterpart over the month as the S&P/ASX300 Index returned -0.2%. The S&P/ASX 50 Accumulation Index was the strongest relative performer, returning 0.2%, while the S&P/ASX Mid 50 Accumulation was the weakest, returning -2.5% over the month.

The best performing sectors were Materials (5.6%) and Communication Services (3.3%), while the weakest performing sectors were Real Estate (-6.9%) and Financials (-4.9%). The largest positive stock contributors to the index return were BHP, Newcrest Mining and Liontown Resources with absolute returns of 5.3%, 19.3% and 89.7%, respectively. In contrast, the most significant detractors were NAB, Macquarie Group and ANZ with absolute returns of -7.2%, -7.0% and -6.5%, respectively.

Overseas Shares

The broad MSCI World ex Australia Accumulation Index returned 2.5% in hedged terms and 3.9% in unhedged terms over the month as the AUD depreciated against most major world currencies. In AUD terms, the strongest performing sectors were IT (10.8%) and Communication Services (9.8%), while Financials (-7.3%) and Real Estate (-1.4%) were the weakest performers. In AUD terms, the MSCI Small Caps Total Return Index was down by 1.9%, while the MSCI Emerging Markets Accumulation Index was up by 3.7% over March.

Over the month, the S&P500 Composite Index (3.7%), the Dow Jones Industrial Average (2.1%) and the NASDAQ (6.7%) increased, all in USD terms. In local currency terms, for the major European share markets the DAX 30 (Germany) (1.7%) and the CAC 40 (France) (0.9%) both increased, while the FTSE 100 (UK) (-2.5%) decreased. In Asia, the Chinese SSE Composite (-0.2%) decreased, while the Japanese TOPIX (1.7%), the Hong Kong Hang Seng (3.5%) and the Indian S&P BSE 500 (0.3%) increased, all in local currency terms.

Real Assets

The listed real assets sector produced mixed returns over March. Over the month the FTSE EPRA/NAREIT Developed (Global REITs) decreased by 3.7%, while the FTSE Global Core Infrastructure 50/50 Index increased by 2.4% (both in AUD hedged terms). S&P/ASX 300 Industry Group: A-REIT (Domestic REITs) decreased by 6.8% over March, whilst the MSCI/Mercer Australia Core Wholesale Monthly PFI NAV Post Fee (Australian Direct Property) returned 0.4% (on a one month lagged basis).

Fixed Interest

Global bond markets increased over March with the Barclays Capital Global Aggregate Bond Index (Hedged) returning 2.1% and the FTSE World Government Bond (ex-Australia) Index (Hedged) returning 2.6%. Ten-year bond yields moved lower over the month, decreasing in the UK (-33bps to 3.49%), Germany (-31bps to 2.30%), the US (-44bps to 3.48%) and Japan (-17bps to 0.33%). Two-year bond yields also declined over the month, decreasing in the UK (-25bps to 3.44%), Germany (-38bps to 2.75%), the US (-70bps to 4.15%), and Japan (-2bps to -0.06%).

Returns for Australian bondholders were positive over March with 10-year bond yields increasing (-56bps to 3.30%), five-year bond yields (-64bps to 3.03%) and two-year bond yields (-60bps to 3.08%).

Currency Markets

The AUD Trade Weighted Index decreased to 60.3 over March, down by 1.8% from February. The AUD depreciated against the US Dollar (-0.7%), the Pound Sterling (-2.8%), the Euro (-3.1%), and the Japanese Yen (-3.0%).

Commodities

Iron Ore increased by 0.8%, finishing the month at US$127.0 per metric tonne. The S&P GSCI Commodity Total Return Index decreased by 0.4% over the month. Gold prices increased by 8.2% to US$1,976.50 per ounce and the oil price decreased by 5.0% to US$79.76 per barrel over March.

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