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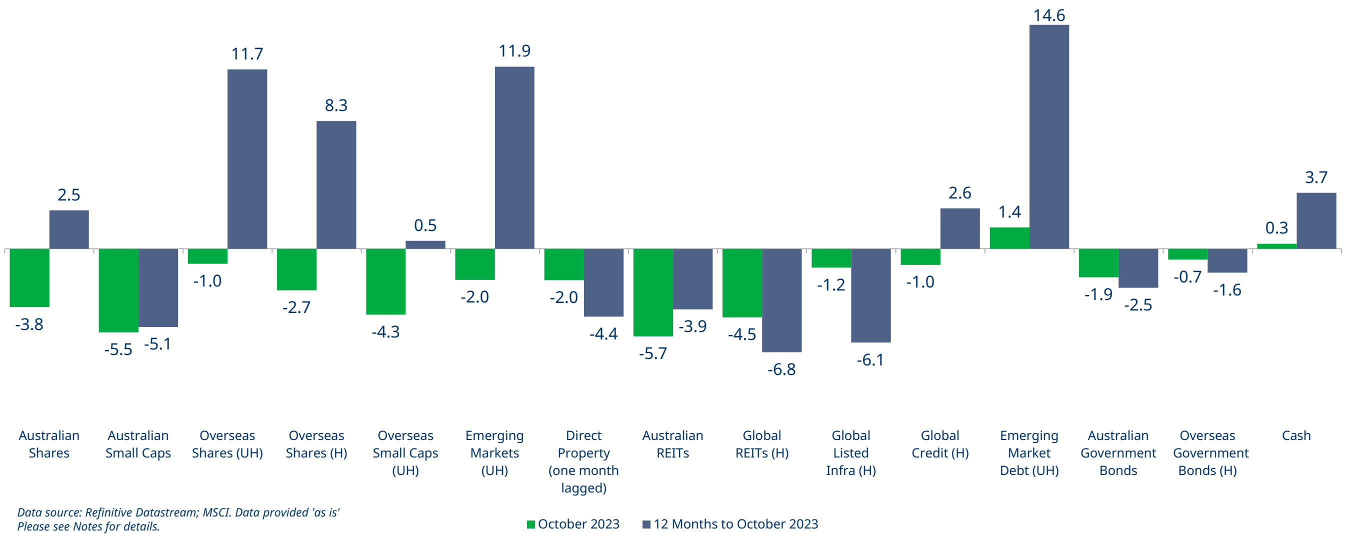
October 2023

Monthly market review

Asset class returns as at 31 October 2023



Economic overview

In Australia, economic indicators over the past month painted a mixed picture for the economy. The latest surveys of business broadly indicate ongoing resilience in trading conditions, albeit with softer conditions recorded in the retail and mining sectors. Meanwhile, house prices have continued to rise, with a further 0.9% month-on-month (MoM) increase in October. A tighter labour market (unemployment for September remained near a record low at 3.6% p.a.) is helping to sustain the housing market and limit weaknesses in consumer spending. The Year-on-Year (YoY) trend in inflation, as measured by the Consumer Price Index (CPI), moderated further to 5.4% p.a. in the September quarter, down from 6.0% p.a. reported in June. A rebound in shorter-term price pressures over the September quarter suggest ongoing inflationary pressures from stickier services components is likely to result in a slower return to within the RBA's target band of 2 - 3%. Consequently, the Reserve Bank of Australia (RBA) hiked interest rates by 25bps to 4.35% p.a. in its November meeting.

The accompanying statement indicated that the RBA may now be on pause, with the statement noting that "whether further tightening of monetary policy is required to ensure that inflation returns to target in a reasonable timeframe will depend upon the data and the evolving assessment of risks".

Elsewhere, recent data releases continue to indicate a weakening trend in growth across developed economies. Business activity in the Eurozone remains weak, with surveys of both manufacturing and services companies indicating a decline in activity for October. Conditions in sectors of the US also appear to be slowing, notably the manufacturing sector survey (US Institute for Supply Management (ISM) Manufacturing Purchasing Manager's Index (PMI)) for October fell to 46.7, indicating further contraction across the sector. However, this is currently offset by strong growth across the Services sector. Inflation also continues to broadly moderate with core inflation (i.e. excluding food and energy) decelerating to 4.1% YoY in the US (down from 4.3% in September) and 4.2% YoY in the Eurozone for October (down from 4.5% in September).

Additionally, there are some signs emerging of an easing in labour market conditions in the US, with the unemployment rising to 3.9% for October (from 3.8% in September). Meanwhile, economic conditions in China are showing some signs of improvement, with a rebound in consumption and government support for infrastructure investment, among the bright spots.

Against this backdrop, the US Federal Reserve (Fed) decided to keep rates unchanged at 5.25 - 5.00% p.a. at its November meeting, albeit with Fed Chair Jerome Powell reiterating their commitment to bring inflation down to their 2% goal. Similarly, in Europe, the European Central Bank (ECB) kept interest rates unchanged at multi-year highs at its October meeting. The ECB restated its focus to ensure the return of inflation to its targeted rate of 2% occurs in a timely manner. The Bank of Japan (BOJ) kept interest rates unchanged, as was widely expected, but increased the flexibility by which it operates its 1.0% p.a. cap on 10-year Japanese government bond yields as it slowly moves to normalise its policy settings.

Market review

In October, global equities trended down in most regions, primarily driven by concerns that interest rates may remain 'higher for longer' and increased geopolitical concerns due to the conflict in Israel weighing on investor sentiment. The Australian share market was no exception, experiencing a decline of 3.8%. Notable declines were seen in Information Technology, Healthcare, and Industrial sectors.

Government bond yields continued their upward path worldwide following the re-setting of higher US interest rate expectations following a period of stronger than expected economic data. The US 10-year government bond rose by 33bps to 4.91%, the highest level since 2007, as markets reassessed their outlook for interest rates. Similarly, the Australian 10-year yield increased by 44bps to 4.93%. The move higher in US yields resulted in a stronger US dollar (USD) globally with the Australian dollar (AUD) falling to just above 63 US cents.

Commodity markets were mixed over the period. Oil prices weakened, dropping 8.25% to US$87.54/barrel as the market weighed slowing economic conditions against supply concerns following the Israel-Hamas conflict. Meanwhile Iron Ore prices strengthened by 2.1% as the export market improved, and gold prices increased by 7.5% over the month, supported by continued safe-haven demand fuelled by Middle East tensions.

Market insights

Looking ahead, in Australia, we continue to expect economic growth to moderate in the coming quarter, as the impact from higher interest rates takes their toll. The impact is likely to be most notable on consumption as many mortgages originally secured during the era of low interest rates are transitioning from fixed to variable rates over the next six months. Overall inflation may ease over the year, however core inflation is likely to remain above the RBA's 2% to 3% target band for longer given the tight labour market and ongoing wage pressures. Additionally, factors such as high levels of migration, insufficient new housing supply, and low rental vacancy rates are anticipated to provide further support to housing prices.

Elsewhere, we continue to expect a moderation of economic conditions in major developed economies over the coming quarters, primarily due to expected tight financial conditions and the effects of increasing interest rates on households. However, we do not foresee a severe economic downturn, as both household and corporate balance sheets currently appear to be in good health for now. In China, we continue to believe that authorities have the capacity to introduce further specific stimulus measures, especially in the absence of inflationary pressures. Other emerging economies, having raised interest rates earlier and more aggressively than many developed economies, are better positioned to cut interest rates to support economic growth. As a result, we have a more favourable economic outlook for emerging markets compared to developed market economies.

From an asset class perspective, we upgraded our overall equity view with a positive bias toward emerging markets over developed markets. We maintain a cautious view towards developed markets in light of their rich valuations and optimistic earnings outlook, and a favourable view toward emerging markets where valuations are attractive and economic prospects appear more favourable.

Asset class comments

Australian Shares

Australian shares continued to decline in October, with the S&P/ASX 300 Index returning a negative 3.8% for the month, as investor concerns increased that interest rates may remain 'higher for longer' and geopolitical tensions also weighing on sentiment. The S&P/ASX Mid 50 Ordinaries was the weakest segment of the local market, returning a negative 6.9% in October.

Corporate action activity and the defensive characteristics of Utilities helped limit losses across the sector over the month (-1.7%), led by Origin Energy which rallied, following the competition regulator's approval of a buyout offer for the company. On the other hand, Information Technology (-7.4%) and Healthcare (-7.1%) were among the weakest performing sectors. Underperformance in Healthcare was driven by CSL and Resmed as a weaker demand outlook for their products, attributed to the introduction of GLP1-based diabetes and weight loss drugs, weighed on the sector.

Overseas Shares

The broad MSCI World ex-Australia Accumulation Index returned -2.7% in hedged terms and -1.0% in unhedged terms in October. The strongest performing sectors were Utilities (2.5%) and Information Technology (1.1%), while Consumer Discretionary (-2.9%), Energy (-2.5%) and Industrials (-2.2%) underperformed. The Energy sector's weakness continued despite escalating tensions in the Middle East, as investors deliberated the risk of decreased demand given a softer economic climate versus the potential for disruptions in energy supply. Emerging Markets declined in October (MSCI Emerging Markets Index,-2.0%) whilst the economically sensitive small companies' segment was the worst performer for the month (MSCI World Small Caps Index, -4.3%).

In October, the S&P 500 Composite Index (-2.1%), the Dow Jones Industrial Average (-1.3%), and the NASDAQ Composite Index (-2.8%) all declined in USD terms. Large benchmark constituents such as Nvidia and Tesla sold off due to below-consensus third-quarter earnings. As a result, there was increased dispersion among the mega-cap names over the month. Similarly, European markets were mostly negative (in local currency terms), with the CAC 40 (France, -3.5%), DAX 30 (Germany, -3.7%), and FTSE 100 Index (UK, -3.7%) all underperforming over the month. Equity returns were also negative across Asia, the SSE Composite (China, -2.9%) and Hang Seng (Hong Kong, -3.9%), TOPIX (Japan, -3.0%), and S&P BSE 500 (India, -2.9%) all declined in local currency terms.

Real Assets

Domestic listed property declined -5.7% in October (S&P/ ASX 300 A-REIT Accumulation Index) and Global REITs fell -4.5% (FTSE EPRA/ NAREIT Developed, in AUD hedged terms), given an increase in global bond yields and sentiment for higher interest rates.

Similarly, the Australian unlisted property sector (NAV) returned -2.0% mainly due to ongoing limited transaction volumes, which constrained substantial repricing of Australian direct assets. The FTSE Global Core Infrastructure 50/50 Index returned -1.2% in October (in hedged AUD terms).

Fixed Interest

Global sovereign bond performance was negative in October following the repricing of expectations for interest rates to remain elevated for longer, on the back of strong US economic data and inflation risk, on top of increased geopolitical uncertainty. 10-year bond yields increased in the US (33bps to 4.91%), the UK (7bps to 4.53%) and Japan (17bps to 0.92%) but decreased in Germany (-3bps to 2.81%). The benchmark 10-year bond yields in the US briefly hit 5% for the first time since 2007 due to resilient economic data and expectations that interest rates will have to remain higher for longer. Meanwhile, in Europe, lower-than-expected inflation and GDP resulted in the ECB maintaining rates on hold. The rise in Japanese bond yields was additionally driven by the Bank of Japan's announcement to increase flexibility on its 10-year Japanese government bond yields, changing the 1% limit from a hard cap to now a 'reference point'. In terms of global indices, FTSE World Government Bond (ex-Australia) Index decreased by 0.7% in October on a fully hedged basis, while Bloomberg Global Aggregate Bond Index returned -0.8%. Across credit markets, elevated government yields and general risk-aversion saw spreads widen across sectors with high yield underperforming.

Domestically, yields across the curve rose as higher-than-expected inflation data, and comments from the RBA indicating that rates may rise further, negatively impacted our market. These moves resulted in the Australian 10-year bond yield rising 44bps for the month to 4.93%. As a result of the rise in bond yields, the Bloomberg Ausbond Treasury index weakened in October (-1.9%), and the domestic credit market, as tracked by the Bloomberg Ausbond Credit index, declined 0.8%.

Currency Markets

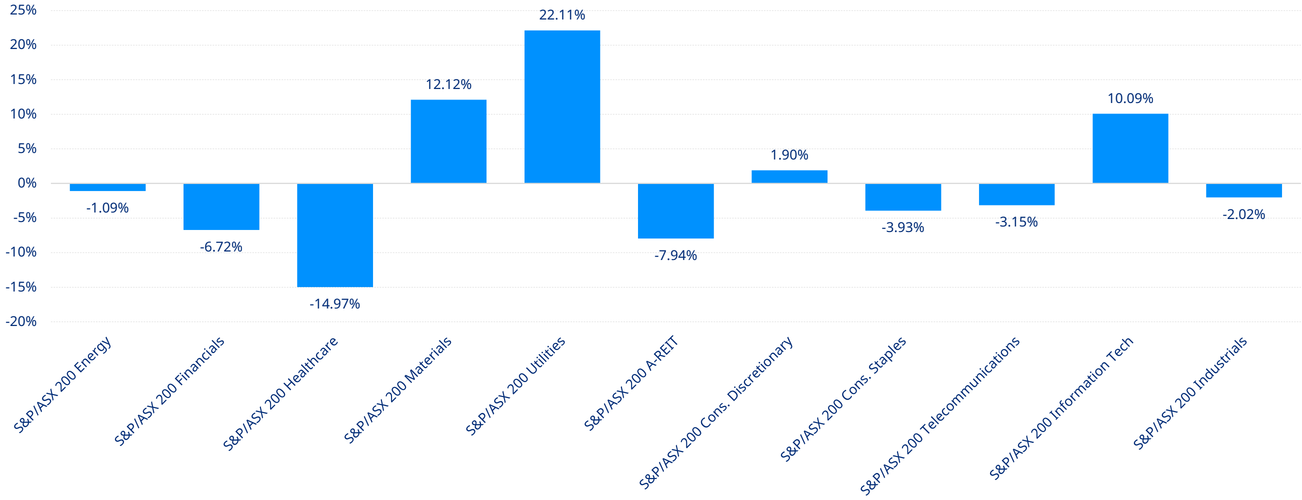
The Australian Dollar (AUD) depreciated against most major developed market currencies in October. The AUD was weaker against the US Dollar (-1.9%), UK Pound (-1.3%), Euro (-1.7%), and Yen (-0.4%), as negative risk sentiment weighed on investor flows and positioning in higher risk currencies like the AUD. Similarly, on a trade-weighted basis, the local currency was 0.8% weaker in October.

Commodities

The S&P GSCI Commodity Total Return Index decreased by 2.3% in October. Energy was a drag on the Index with oil prices (as measured by Brent Crude) down 8.25% to US$87.54 per barrel. Industrial Metals meanwhile were more mixed, with Iron Ore ending the month up 2.1% whilst Copper was down 3.9%. Precious Metals remained the bright spot for the month with gold prices up 7.5% to US $1,995.90 per ounce supported by investor flows towards safe haven assets amidst current higher levels of uncertainty.

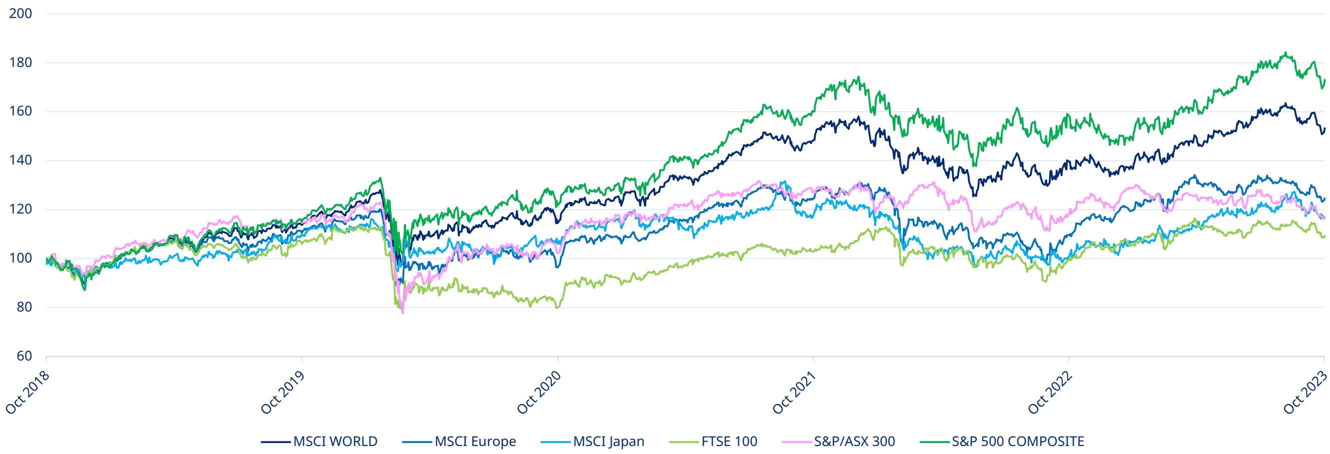
Market charts

ASX Sector Returns - Rolling 12 months



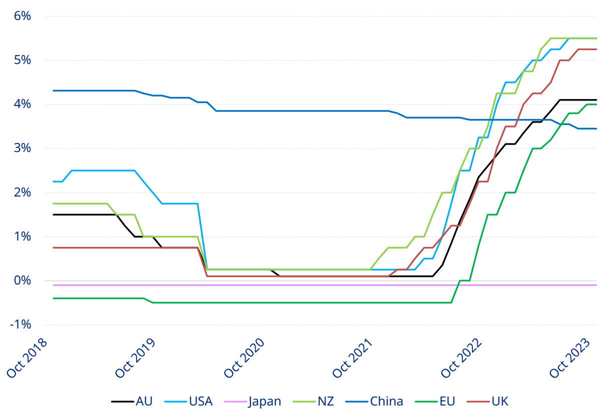
Source: S&P Global

Global Equity Indices - 5 years



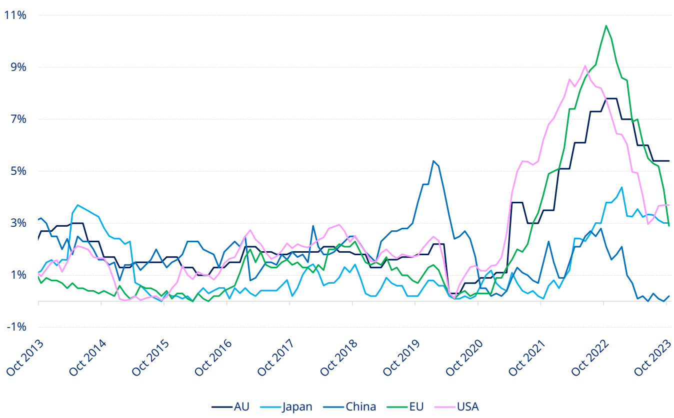
Source: MSCI, Refinitive DataStream (Rebased to 100. All returns denominated in AUD).

Central Bank Policy Rates



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 - October 2023

Australian shares		1 Month	3 Months	1 Year	3 Years	5 Years
S&P/ASX 300 Accumulation		-3.80%	-7.29%	2.51%	8.68%	7.15%
S&P/ASX 300 Industrials Accumulation		-4.73%	-8.60%	-1.86%	5.88%	5.38%
S&P/ASX 300 Resources Accumulation		-1.35%	-3.79%	15.15%	17.78%	12.92%
S&P/ASX 300 Accumulation A-REIT		-5.72%	-12.01%	-3.95%	2.94%	2.28%
S&P/ASX Small Ords Accumulation		-5.45%	-10.45%	-5.10%	0.52%	2.55%
Global shares		**1 Month**	**3 Months**	**1 Year**	**3 Years**	**5 Years**
MSCI World ex Australia Unhedged in $A		-0.98%	-3.42%	11.72%	11.98%	10.80%
EPRA/NAREIT Developed Index Hedged A$		-4.50%	-12.26%	-7.73%	0.70%	-1.93%
STOXX Europe 600 Total Return		-3.68%	-8.00%	5.21%	8.20%	3.70%
S&P 500 Total Return		-2.10%	-8.25%	10.14%	10.36%	11.01%
Nikkei 225 Total Return		-3.13%	-6.25%	14.24%	12.53%	9.25%
Fixed interest		**1 Month**	**3 Months**	**1 Year**	**3 Years**	**5 Years**
Bloomberg AusBond Bank Bill Index		0.33%	1.04%	3.66%	1.47%	1.31%
Bloomberg AusBond Composite (0+Y)		-1.85%	-2.63%	-1.18%	-4.61%	-0.13%
Barclays Global Aggregate TR Hedged A$		-0.83%	-2.92%	0.07%	-4.82%	-0.36%
Commodities	**Month End Price**	**1 Month**	**3 Months**	**1 Year**	**3 Years**	**5 Years**
Bloomberg Commodity Index	104.62	-0.21%	-2.54%	-7.71%	13.35%	4.69%
Generic Brent Crude Oil	87.41	-8.29%	2.16%	-7.82%	32.64%	2.98%
Generic WTI Crude Oil	81.02	-10.76%	-0.95%	-6.37%	31.30%	4.41%
Gold US$/oz	1984.21	7.33%	0.67%	21.32%	1.84%	10.34%
Iron Ore	118.75	1.63%	6.88%	50.49%	0.45%	9.74%
Currencies	**Month End Price**	**1 Month**	**3 Months**	**1 Year**	**3 Years**	**5 Years**
AUD/USD	0.6339	-1.49%	-5.74%	-0.89%	-3.38%	-2.16%
EUR/USD	1.0575	0.02%	-3.92%	6.96%	-3.17%	-1.33%
USD/JPY	151.51	1.43%	6.61%	1.94%	13.12%	6.03%
GBP/USD	1.2148	-0.42%	-5.52%	5.93%	-2.10%	-0.97%

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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