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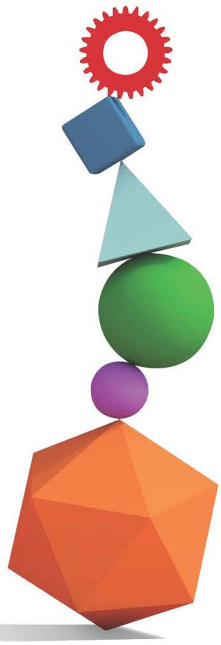
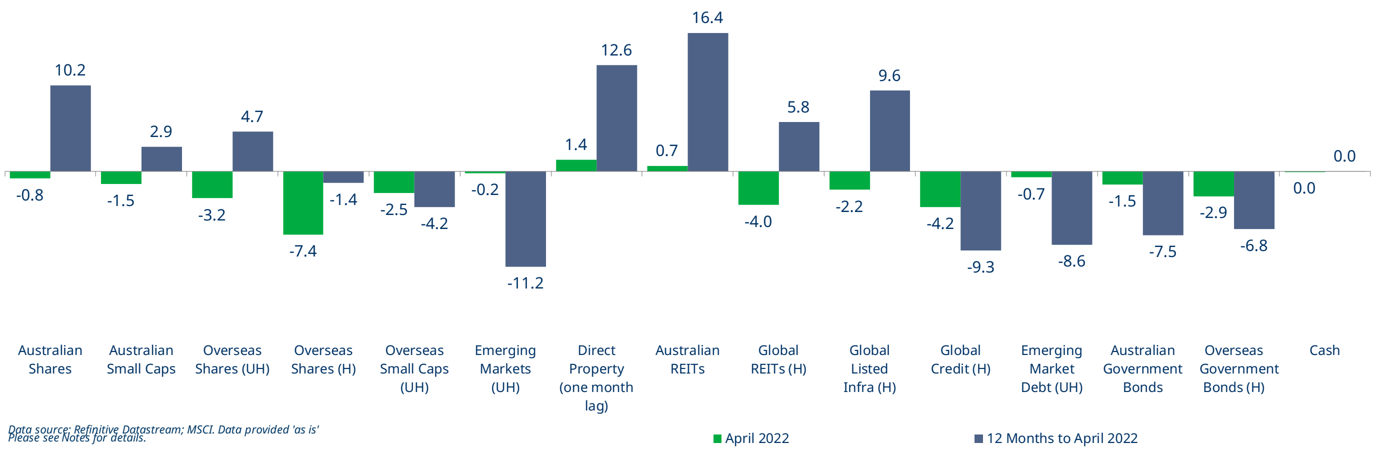
April 2022

Australian monthly market review



Selected market indicators commentary

Asset class returns as at 30 April 2022



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

Global equity markets had their worst month since March 2020. The perfect storm of central bank tightening, economic growth momentum fading and the earnings outlook becoming more challenged contributed to overall risk-off sentiment. The conflict in Ukraine continued as Russian forces focused their efforts on southeastern Ukraine. Lockdowns have closed down many parts of China's economy which has led to a downward revision in growth projections. This will likely lead to a continuation of supply chain stress.

Over April, Hedged Developed Markets Overseas Shares returned -7.4%, as equity markets sold off and volatility spiked in the worst month for the S&P 500 since March 2020. Corporate earnings are beginning to converge into single digit territory after last year's massive rebound.

Markets would normally look at policy support to ease the pain. This time though, high inflation is leaving central banks little choice but to maintain their plans to continue tightening. Therefore, investors had little reason to remain optimistic, which was reflected in price action during the month. Unhedged Emerging Market shares returned -0.2% due to the sell-off in China as markets priced in the impact of the now far-reaching lockdowns. Taiwan and Korea did poorly as well given their economic integration with China.

Hedged Overseas Government Bonds returned -2.9% over the month. US treasury bonds saw the worst month in a decade as yields kept rising, pushing up borrowing costs across the economy. Australian bond yields followed in a similar manner with Australian government bonds returning -1.5%.

Credit spreads also widened for investment grade and high yield corporate debt.

Australian shares declined far less than their global counterparts over April, the global selloff in Technology stocks has left the S&P/ASX 300 relatively unaffected as it makes up only 3.5% of the S&P/ASX 300 index. The S&P/ASX300 returned -0.8%, the S&P/ASX 50 (-0.6%) and S&P/ASX Small Ordinaries (-1.5%). The best performing sectors were Utilities (9.3%) and Consumer Staples (3.4%). Alternatively, IT (-9.9%) and Materials (-4.0%) were the worst performing sectors. Ramsay Health Care (24.7%) was the biggest contributor to the S&P/ASX300 over the month, meanwhile BHP (-6.5%) was the largest detractor.

Significant Developments

- During its May 2022 meeting, the Reserve Bank of Australia (RBA) decided to increase the current target cash rate to 0.35% per annum and the interest rate on exchange settlement balances from zero to 0.25%. The Board judged that now was the right time to begin withdrawing some of the monetary support that was put in place to help the Australian economy. Inflation has picked up more quickly and there is also evidence that wages growth is picking up. The unemployment rate declined over recent months to 4.0% and labour force participation increasing to a record high. The central forecast is for the unemployment rate to decline to around 3.5% by early 2023 and remain around this level thereafter. The outlook for economic growth in Australia also remains positive, although there are ongoing uncertainties about the global economy arising from: the ongoing disruptions from COVID-19, especially in China; the war in Ukraine; and declining consumer purchasing power from higher inflation. The central forecast is for Australian GDP to grow by 4.25% over 2022 and 2.0% over 2023. Household and business balance sheets are in good shape, business investment is underway and there is a large amount of construction work in the pipeline. Macroeconomic policy settings also remain supportive of growth and national income is being boosted by higher commodity prices. Inflation has picked up more than expected, although it remains lower than in most other advanced economies. Over the year to the March quarter, headline inflation was 5.1% and in underlying terms inflation was 3.7%. This rise in inflation largely reflects global factors. The central forecast for 2022 is for headline inflation of around 6.0% and underlying inflation of around 4.75%; by mid 2024, headline and underlying inflation are forecast to have moderated to around 3.0%. An increasing number of firms are paying higher wages to attract and retain staff, especially in an environment where the cost of living is rising. The Board is not currently planning to sell the government bonds that the Bank purchased during the pandemic. The Board will continue to closely monitor the incoming information and evolving balance of risks as it determines the timing and extent of future interest rate increases.
- Australian seasonally adjusted employment increased by 17,900 in March, below expectations for an increase of 30,000 and below the prior month's increase of 77,400. The unemployment rate remained at 4.0% for March, above expectations of 3.9%. The participation rate remained at 66.4%, below expectations of 66.5%. Part time jobs decreased by 2,700 and full time jobs increased by 20,500.
- Australian building approvals decreased by 18.5% month-on-month to March, compared to the increase of 42.0% (revised) for February.
- The Institute for Supply Management (ISM) Manufacturing Index recorded 55.4 in April, below consensus for 57.6 and below the 57.1 recorded in March. Of the 17 manufacturing industries, Apparel, Leather & Allied Products and Machinery were the two industries that reported the highest growth. The only industry that reported a contraction over the March period was Petroleum & Coal Products. The ISM Services Index recorded 57.1 in April, below consensus for 58.5 and below the 58.3 recorded in March. Of the 17 services industries, the top performers were Construction and Utilities. The only industry that reported a contraction in March was Information.
- US Non-Farm Payrolls increased by 428,000 in April, in line with the 428,000 increase (revised) recorded for March. The unemployment rate stayed the same at 3.6% over April, above expectations of 3.5%.
- US GDP first estimate for Q1 2022 is -1.4% quarter on quarter (QoQ) annualised, which was below expectations of 1.0%
- The Caixin Manufacturing PMI in China recorded 46.0 in April, below expectations of 47.0, as output and new orders fall at faster rates in April.

- The preliminary estimate of the European Core CPI recorded 3.5% over the year to April, above expectations of 3.2%.
- The Eurozone composite PMI increased to 54.9 in April, above expectations for 54.5.
- The First estimate recorded for Q1 2022 Eurozone seasonally adjusted GDP is 0.2% QoQ and 5% YoY.

Australian Shares

The Australian share market outperformed its hedged overseas counterpart over the month, as the S&P/ASX 300 Index returned -0.8%. The S&P/ASX 50 Accumulation Index was the strongest relative performer, returning -0.6%, while the S&P/ASX Mid 50 Accumulation was the weakest, returning -1.5% over the month.

The best performing sectors were Utilities (9.3%) and Consumer Staples (3.4%), while the weakest performing sectors were IT (-9.9%) and Materials (-4.0%). The largest positive stock contributors to the index return were Ramsay Health Care, CSL and Transurban Group with absolute returns of 24.7%, 2.0% and 6.1%, respectively. In contrast, the most significant detractors were BHP, Block and CBA with absolute returns of -6.5%, -21.7% and -1.8%, respectively.

Overseas Shares

The broad MSCI World ex Australia (NR) Index returned -3.2% in unhedged terms and -7.4% in hedged terms over the month as the Australian dollar weakened against most developed market currencies, especially against the USD over the month. In AUD terms, the strongest performing sectors were Consumer Staples (6.5%) and Energy (4.2%), while Communication Services (-9.0%) and Consumer Discretionary (-7.2%) were the weakest performers. In AUD terms, the MSCI Small Caps (TR) Index was down by 2.5%, while the MSCI Emerging Markets (NR) Index was down by 0.2% over April.

Over the month, the NASDAQ (-13.3%), the S&P 500 Composite Index (-8.7%) and the Dow Jones Industrial Average (-4.8%) decreased, all in USD terms. In local currency terms, major European share markets experienced mixed returns as the FTSE 100 (UK) (0.8%) increased, while the DAX 30 (Germany) (-2.2%) the CAC 40 (France) (-1.3%) decreased. In Asia, the Japanese TOPIX (-2.4%), the Indian S&P BSE 500 (-0.6%), the Chinese SSE Composite (-6.3%) and the Hong Kong Hang Seng (-4.1%) decreased, all in local currency terms.

Real Assets

The Real Assets sector produced mixed returns over April. The Global Real Estate Investment Trusts (REITs) Index decreased by 4.0% over the month and the FTSE Global Core Infrastructure 50/50 Index decreased by 2.2% (both in AUD hedged terms). Domestic REITs increased by 0.7% over April, whilst Australian Direct Property (NAV) returned 1.4% (one month lagged).

Fixed Interest

Global bond markets were negative over April, with the Barclays Capital Global Aggregate Bond Index (Hedged) returning -2.9% and the FTSE World Government Bond (ex-Australia) Index (Hedged) returning -2.9%. Ten-year bond yields moved higher over the month, increasing in the UK (28bps to 1.90%), the US (56bps to 2.89%), Germany (39bps to 0.90%) and Japan (2bps to 0.22%). Two-year bond yields were mixed over the month, increasing in the UK (25bps to 1.61%), Germany (44bps to 0.26%) and the US (39bps to 2.65%), whilst decreasing in Japan (-1bp to -0.05%).

Returns for Australian bondholders were negative over April, with 10-year bond yields (28bps to 3.12%), five-year bond yields (30bps to 2.90%) and two-year bond yields (70bps to 2.50%) increasing. Of the Bloomberg Ausbond indices, the Bloomberg Ausbond Bank Bill produced the highest monthly return, returning flat whilst the Bloomberg Ausbond Semi-Government produced the lowest return of -1.6%.

Currency Markets

The AUD Trade Weighted Index decreased to 63.1 over April, down by 0.8% from March. The AUD appreciated against the Japanese Yen (1.0%) and depreciated against the Pound Sterling (-0.8%), Euro (-0.2%), and the US Dollar (-5.4%).

Commodities

Iron Ore decreased by 7.2%, finishing the month at US$142.0 per metric tonne. The S&P GSCI Commodity Total Return Index increased by 11.1% over the month. Gold prices decreased by 1.7% finishing the month at US$1,908.49 per ounce and the oil price increased by 0.3% to US$107.83 per barrel over April.

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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.
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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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