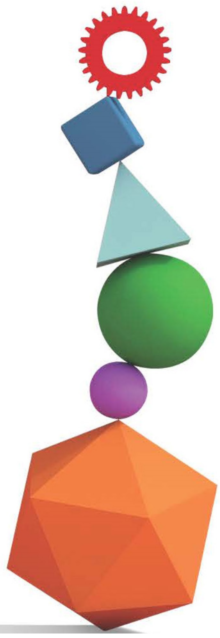
welcome to brighter

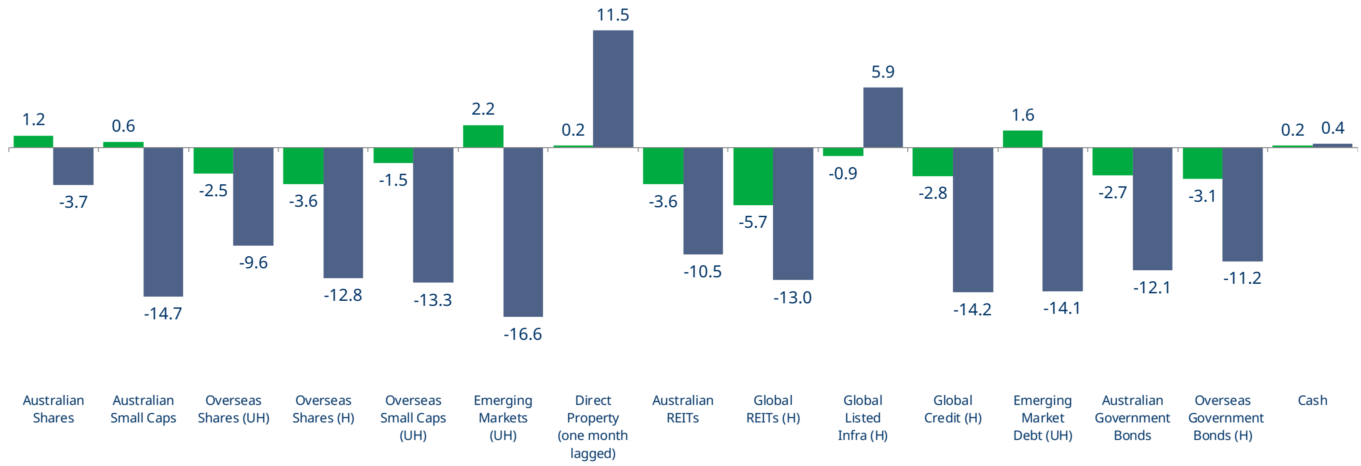


August 2022

Australian monthly market review

Selected market indicators commentary

Asset class returns as at 31 August 2022



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

Shares sold off in the second half of August. Poor economic data and the Federal Reserve reasserting that monetary policy will be tighter for longer were the catalysts for the move downward. Investors had been hoping for a slowdown in monetary tightening following a lower than expected inflation reading, but this appears less likely following hawkish speeches at the annual symposium in Jackson Hole. Emerging markets proved to be a diversifier this month, providing gains when developed markets were down by 3.6%. Commodities indices were nearly flat as spot prices declined, especially oil. However, natural gas continued to increase as Europe and the UK continued to scramble to build reserves before winter. Attention shifted temporarily from the Ukraine conflict to Taiwan where visits by US government officials led to Chinese military exercises around the island and renewed concerns about military action over the island's status.

Over August, Hedged Developed Markets Overseas Shares returned -3.6%. After starting the month with optimism, a sell-off began in mid-August as negative economic data kept trickling in. Jerome Powell's speech in Jackson Hole late in the month accelerated the sell-off, as investors positioned for interest rates to continue to rise sharply and further slowing of the economy. Value outperformed growth for the broad market, as the most duration-heavy stocks suffered the brunt of the market's repositioning for tighter monetary policy for longer. Emerging markets shares returned 2.2% as strong performance in Brazil and India offset weakness in East Asia, while China was close to flat. The completion of a deal between US and Chinese regulators on audits of US listed Chinese firms was good news, but concerns remained over whether it would work in practice.

Hedged Overseas Government Bonds returned -3.1% over the month as major developed bond yields rose sharply over the month. US inflation break-evens fell slightly over the month and the Federal Reserve sent a clear message not to expect a slowdown in tightening anytime soon. Ten-year yields rose between 50 and 100 basis points for the US, UK, Eurozone and Australia. The US 30-year yield rose by around 35 basis points and ended the month at almost 3.3%. The US yield curve is now inverted with two-year yields above ten-year yields. When this dynamic is sustained, it can be a leading indicator of recessions.

Australian shares outperformed their Hedged Overseas counterparts in August, with the S&P/ASX 300 returning 1.2%. The S&P/ASX 50 was the biggest detractor for the index returning 0.8% in absolute terms meanwhile the S&P/ASX Mid 50 was the greatest contributor, returning 4.2% over the month. The best performing sector for the month was Energy, returning 7.8%. Real Estate (-3.3%) and Consumer Staples (-1.7%) were the worst performing sectors. BHP (6.1%) was the biggest contributor to the S&P/ASX 300 over the month, meanwhile CBA (-1.2%) was the largest detractor.

Significant Developments

- During its September 2022 meeting, the Reserve Bank of Australia (RBA) decided to increase the current target cash rate by 50 basis points to 2.35% per annum and the interest rate on exchange settlement balances from 1.75% to 2.25%. The Board places a high priority on the return of inflation to the 2–3% range. The outlook for global economic growth has been downgraded due to pressures on real incomes from higher inflation, tightening of monetary policy in most countries, Russia's invasion of Ukraine and the COVID containment measures in China. Domestic factors are also playing a role in inflation, such as strong demand, a tight labour market and capacity constraints in some sectors. Inflation is forecasted to peak later this year and then decline back towards the 2–3% range next year. The Bank's central forecast is for CPI inflation to be around 7.75% over 2022, a little above 4% over 2023 and around 3% over 2024. The Australian economy is continuing to grow solidly and national income is being boosted by a record level of the terms of trade. The labour market is very tight and many firms are having difficulty hiring workers. The unemployment rate declined further in July to 3.4%. Wages growth has picked up from the low rates of recent years and there are some pockets where labour costs are increasing briskly. A key source of ongoing uncertainty about the economic outlook is the behaviour of household spending, where household budgets are under pressure from higher prices and higher interest rates. Consumer confidence has also fallen and housing prices are declining in some markets. Working in the other direction, people are finding jobs, gaining more hours of work and receiving higher wages. The increase in interest rates over recent months has been required to bring inflation back to target and to create a more sustainable balance of demand and supply in the Australian economy. The Board expects to increase interest rates further over the months ahead. The size and timing of future interest rate increases will be guided by the incoming data and the Board's assessment of the outlook for inflation and the labour market.
- Australian seasonally adjusted employment decreased by 40,900 in July, below expectations for an increase of 25,000 and below the prior month's increase of 88,400. The unemployment decreased in July to 3.4%, below expectations of 3.5%. The participation increased by 66.4%, below expectations of 66.8%. Part time jobs increased by 46,500 and full time jobs decreased by 86,900.
- Australian building approvals decreased by 17.2% month-on-month to July, compared to the decreased of 0.6% (revised) for June.
- The Institute for Supply Management (ISM) Manufacturing Index recorded 52.8 in August, above consensus for 51.9 and in line with the 52.8 recorded in July. Of the 10 manufacturing industries reporting growth, Nonmetallic Mineral Products and Petroleum & Coal Products were the two industries that reported the highest growth. There were seven industries that recorded contraction in August compared to July. The ISM Services Index recorded 56.9 in August, above consensus for 55.3 and above the 56.7 recorded in July. Of the 14 services industries, the top performers were Mining and Real Estate, Rental & Leasing. The two industries reporting a decrease in the month of August were Agriculture, Forestry, Fishing & Hunting and Arts, Entertainment & Recreation.
- US Non-Farm Payrolls increased by 315,000 in August, below the 526,000 increase (revised) recorded for July. The unemployment rate increased to 3.7% over August, above expectations of 3.5%.
- US GDP second estimate for Q2 2022 is -0.6% quarter on quarter (QoQ) annualised, which was above expectations of -0.7%
- The Caixin Manufacturing PMI in China recorded 49.5 in August, below expectations of 50, as power cuts weigh on manufacturing sector performance in August.

- The preliminary estimate of the European Core CPI recorded 4.3% over the year to August, above expectations of 4.1%.
- The Eurozone composite PMI decreased to 48.9 in August, below expectations for 49.2.
- The first estimate recorded for Q2 2022 Eurozone seasonally adjusted GDP is 0.8% QoQ and 4.1% YoY.

Australian Shares

The Australian share market outperformed its hedged overseas counterpart over the month, as the S&P/ASX300 Index returned 1.2%. The S&P/ASX Mid 50 Accumulation Index was the strongest relative performer, returning 4.2%, while the S&P/ASX Small Ordinaries was the weakest, returning 0.6% over the month.

The best performing sectors were Energy (7.8%) and Materials (4.5%), while the weakest performing sectors were Consumer Staples (-1.7%) and Real Estate (-3.3%). The largest positive stock contributors to the index return were BHP, Woodside Energy Group and Oz Minerals with absolute returns of 6.1%, 7.7% and 36.3%, respectively. In contrast, the most significant detractors were CBA, Transurban Group and Goodman Group with absolute returns of -1.2%, -3.5% and -4.9%, respectively.

Overseas Shares

The broad MSCI World ex Australia Accumulation Index returned -3.6% in hedged terms and -2.5% in unhedged terms over the month as the Australian dollar weakened against the US dollar and the Euro. In AUD terms, the strongest performing sectors were Energy (3.5%) and Utilities (0.1%), while Real Estate (-4.3%) and Healthcare (-4.4%) were the weakest performers. In AUD terms, the MSCI Small Caps Total Return Index was down by 1.5%, while the MSCI Emerging Markets Accumulation Index was up by 2.2% over August.

Over the month, the S&P500 Composite Index (-4.1%), the Dow Jones Industrial Average (-3.7%) and the NASDAQ (-4.6%) decreased, all in USD terms. In local currency terms, major European share markets experienced negative returns as the FTSE 100 (UK) (-1.1%), the DAX 30 (Germany) (-4.8%) and the CAC 40 (France) (-5.0%) all decreased. In Asia, the Chinese SSE Composite (-1.6%) and the Hong Kong Hang Seng (-0.8%) decreased, while the Indian S&P BSE 500 (4.6%) and the Japanese TOPIX (1.2%) increased, all in local currency terms.

Real Assets

The listed Real Assets sector produced negative returns over August. The Global Real Estate Investment Trusts (REITs) Index decreased by 5.7% over the month and the FTSE Global Core Infrastructure 50/50 Index decreased by 0.9% (both in AUD hedged terms). Domestic REITs decreased by 3.6% over August, whilst Australian Direct Property (NAV) returned 0.2% on a one month lagged basis.

Fixed Interest

Global bond markets were negative over August, with the Barclays Capital Global Aggregate Bond Index (Hedged) returning -2.7% and the FTSE World Government Bond (ex-Australia) Index (Hedged) returning -3.1%. Ten-year bond yields moved higher over the month, increasing in the UK (96bps to 2.80%), Germany (71bps to 1.48%), the US (50bps to 3.14%), and Japan (10bps to 0.22%). Two-year bond yields also moved higher over the month, increasing in Germany (80bps to 1.08%), the US (53bps to 3.44%) and the UK (129bps to 3.01%), while remaining flat in Japan (0bps to -0.08%).

Returns for Australian bondholders were negative over August, with 10-year bond yields (54bps to 3.60%), five-year bond yields (54bps to 3.34%) and two-year bond yields (59bps to 3.14%) increasing. Of the Bloomberg Ausbond indices, the Bloomberg Ausbond Bank Bill produced the highest monthly return, returning 0.2% whilst the Bloomberg Ausbond Semi-Government produced the lowest return of -2.8%.

Currency Markets

The AUD Trade Weighted Index increased to 63.3 over August, up by 0.3% from July. The AUD depreciated against the US Dollar (-1.8%) and the Euro (-0.4%), while appreciating against the Pound Sterling (2.7%) and the Japanese Yen (1.9%).

Commodities

Iron Ore decreased by 15.7%, finishing the month at US$99.0 per metric tonne. The S&P GSCI Commodity Total Return Index decreased by 0.9% over the month. Gold prices decreased by 2.5% finishing the month at US$1,719.56 per ounce and the oil price decreased by 12.3% to US$96.55 per barrel over August.

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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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