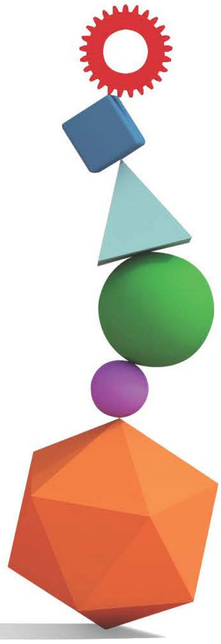
welcome to brighter

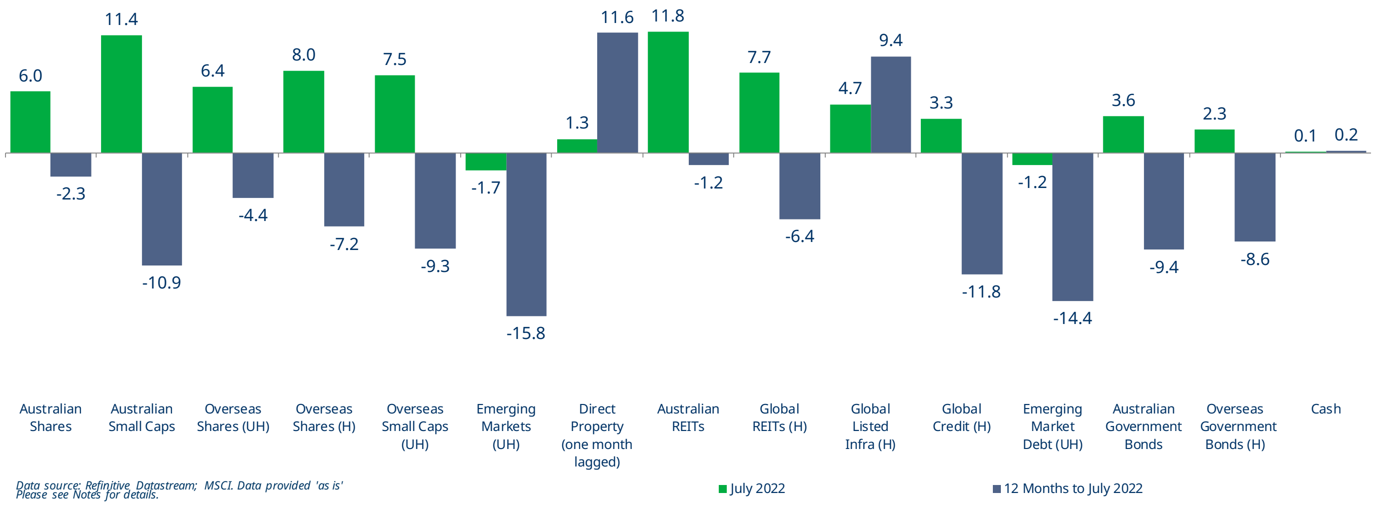


July 2022

Australian monthly market review

Selected market indicators commentary

Asset class returns as at 31 July 2022



Share markets staged a recovery rally during July despite economic data continuing to deteriorate. US GDP declined for the second consecutive quarter, marking what is by some definitions a technical recession. Earnings growth also continued to slow. The clearest catalyst for the recovery was the decline in longer term interest rates, suggesting the Federal Reserve would not have to tighten policy as much to control inflation. Globally, growth stocks outperformed value and North America was the strongest performing region. The Chinese SSE and Hong Kong Hang Seng were the only indices with significant underperformance. Inflation continued to accelerate across the world. For the US, UK and Eurozone, inflation exceeded previous multi-decade highs even though market-based inflation expectations declined. Central banks continued their hiking cycle with interest rate increases in all major economies except Japan and China.

Over July, Hedged Developed Markets Overseas Shares returned 8.0%. Declining longer term interest rates boosted sentiment despite second quarter earnings continuing to weaken with positive earnings surprises below long term averages and year-on-year earnings growth at its lowest level since 2020 Q4. Notably, the S&P 500 and Nasdaq ended the month out of bear market territory. Emerging markets returned -1.7% as Chinese equities posted steep declines. China's reopening last month had lifted sentiment but renewed talks of restrictions returning, including to Shanghai, dampened sentiment. In addition, further signs of China's deeply troubled property market emerged casting doubt on China's economic trajectory, at least in the short term. Strong returns for India and low to mid-single digit positive returns for Taiwan, Brazil and Korea helped to offset some of the losses in China.

Hedged Overseas Government Bonds returned 2.3% over the month as major developed market bond yields ended the month down sharply from their highs reached at June quarter end. From previously pricing an aggressive hiking cycle, investors began to position for a meaningful slowdown, falling inflation expectations and central banks ultimately going into an easing cycle. Ten year yields fell between 30 and 60 basis points for the US, UK, Eurozone and Australia. The Japanese 10-year yield declined by 5 basis points. High yield spreads declined sharply, supported by risk-on sentiment and elevated spreads drawing some investors to the space.

Australian shares underperformed hedged overseas counterpart in July, with the ASX 300 returning 6.0%. The ASX 50 returned 4.7% meanwhile the ASX Small Ordinaries returned 11.4%. The best performing sector for the month was IT, returning 15.4%. Materials (-0.4%) and Energy (2.2%) were the worst performing sectors. CBA (11.5%) was the biggest contributor to the ASX 300 over the month, meanwhile BHP (-5.3%) was the largest detractor.

Significant Developments

- During its August 2022 meeting, the Reserve Bank of Australia (RBA) decided to increase the current target cash rate by 50 basis points to 1.85% per annum and the interest rate on exchange settlement balances from 1.25% to 1.75%. 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, the tightening of monetary policy in most countries, Russia's invasion of Ukraine and the COVID containment measures in China. In Australia, headline inflation was 6.1% over the year to the June quarter; in underlying terms it was 4.9%. 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 expected to continue to grow strongly this year, with the pace of growth then slowing. Employment is growing strongly, consumer spending has been resilient and an upswing in business investment is underway. The Bank's central forecast is for GDP growth of 3.25% over 2022 and 1.75% in each of the following two years. The unemployment rate declined further in June to 3.5%. The Bank's central forecast is for the unemployment rate to be around 4% at the end of 2024. 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. 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 take further steps in the process of normalising monetary conditions 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 increased by 88,400 in June, above expectations for an increase of 30,000 and above the prior month's increase of 60,600. The unemployment rate decreased in June to 3.5%, below expectations of 3.8%. The participation increased by 66.8%, above expectations of 66.7%. Part time jobs increased by 35,500 and full time jobs increased by 52,900.
- Australian building approvals decreased by 0.7% month-on-month to June, compared to the increase of 11.2% (revised) for May.
- The Institute for Supply Management (ISM) Manufacturing Index recorded 52.8 in July, above consensus for 52 and below the 53 recorded in June. Of the 11 manufacturing industries, Apparel, Leather & Allied Products and Nonmetallic Mineral Products were the two industries that reported the highest growth. There were seven industries that recorded contraction in July compared to June. The ISM Services Index recorded 56.7 in July, above consensus for 53.5 and above the 55.3 recorded in June. Of the 13 services industries, the top performers were Mining; Real Estate, Rental & Leasing. The three industries reporting a decrease in the month of July are: Agriculture, Forestry, Fishing & Hunting; Retail Trade; and Finance & Insurance.
- US Non-Farm Payrolls increased by 528,000 in July, above the 398,000 increase (revised) recorded for June. The unemployment rate stayed the same at 3.5% over July, below expectations of 3.6%.
- US GDP first estimate for Q2 2022 is -0.9% quarter on quarter (QoQ) annualised, which was below expectations of 0.4%.

- The Caixin Manufacturing PMI in China recorded 50.4 in July, below expectations of 51.5, as business conditions improved marginally in July.
- The preliminary estimate of the European Core CPI recorded 4% over the year to July, above expectations of 3.9%.
- The Eurozone composite PMI decreased to 49.9 in July, above expectations for 49.4.
- The first estimate recorded for Q2 2022 Eurozone seasonally adjusted GDP is 0.7% QoQ and 4% YoY.

Australian Shares

The Australian share market underperformed its hedged overseas counterpart over the month, as the S&P/ASX300 Index returned 6.0%. The S&P/ASX Small Ordinaries was the strongest relative performer, returning 11.4%, while the S&P/ASX 50 Accumulation Index was the weakest, returning 4.7% over the month.

The best performing sectors were IT (15.4%) and Real Estate (12.0%), while the weakest performing sectors were Energy (2.2%) and Materials (-0.4%). The largest positive stock contributors to the index return were CBA, NAB and Westpac with absolute returns of 11.5%, 12.2% and 10.8%, respectively. In contrast, the most significant detractors were BHP, Rio Tinto and Woodside Energy Group with absolute returns of -5.3%, -3.9% and -0.9%, respectively.

Overseas Shares

The broad MSCI World ex Australia Accumulation Index returned 6.4% in unhedged terms and 8.0% in hedged terms over the month as the Australian dollar strengthened against most developed market currencies. In AUD terms, the strongest performing sectors were Consumer Discretionary (13.9%) and IT (11.5%), while Communication Services (1.7%) and Healthcare (1.7%) were the weakest performers. In AUD terms, the MSCI Small Caps Total Return Index was up by 7.5%, while the MSCI Emerging Markets Accumulation Index was down by 1.7% over July.

Over the month, the S&P500 Composite Index (9.2%), the Dow Jones Industrial Average (6.8%) and the NASDAQ (12.3%) increased, all in USD terms. In local currency terms, major European share markets experienced positive returns as the FTSE 100 (UK) (3.7%), the DAX 30 (Germany) (5.5%) and the CAC 40 (France) (9.0%) all increased. In Asia, the Chinese SSE Composite (-4.3%) and the Hong Kong Hang Seng (-7.3%) decreased, while the Indian S&P BSE 500 (9.5%) and the Japanese TOPIX (3.7%) increased, all in local currency terms.

Real Assets

The Real Assets sector produced positive returns over July. The Global Real Estate Investment Trusts (REITs) Index increased by 7.7% over the month and the FTSE Global Core Infrastructure 50/50 Index increased by 4.7% (both in AUD hedged terms). Domestic REITs increased by 11.8% over July, whilst Australian Direct Property (NAV) returned 1.3% on a one month lagged basis.

Fixed Interest

Global bond markets were positive over July, with the Barclays Capital Global Aggregate Bond Index (Hedged) returning 2.5% and the FTSE World Government Bond (ex-Australia) Index (Hedged) returning 2.3%. Ten-year bond yields moved lower over the month, decreasing in the UK (-36bps to 1.85%), Germany (-60bps to 0.77%), the US (-33bps to 2.64%), and Japan (-11bps to 0.12%). Two-year bond yields also moved lower over the month, decreasing in Germany (-26bps to 0.28%), the US (-3bps to 2.92%), the UK (-16bps to 1.72%) and Japan (-3bps to -0.08%).

Returns for Australian bondholders were positive over July, with 10-year bond yields (-61bps to 3.06%), five-year bond yields (-56bps to 2.80%) and two-year bond yields (-44bps to 2.55%) decreasing. Of the Bloomberg Ausbond indices, the Bloomberg Ausbond Semi-Government produced the highest monthly return, returning 3.6% whilst the Bloomberg Ausbond Bank Bill produced the lowest return of 0.1%.

Currency Markets

The AUD Trade Weighted Index increased to 63.1 over July, up by 2.1% from June. The AUD appreciated against the US Dollar (1.5%), the Pound Sterling (1.3%) and the Euro (4.0%), while depreciating against the Japanese Yen (-0.2%).

Commodities

Iron Ore decreased by 4.1%, finishing the month at US$117.5 per metric tonne. The S&P GSCI Commodity Total Return Index decreased by 1.5% over the month. Gold prices decreased by 2.4% finishing the month at US$1,764.24 per ounce and the oil price decreased by 4.2% to US$110.06 per barrel over July.

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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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