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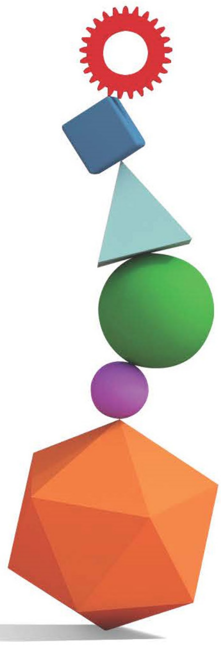

June 2022

Australian monthly market review

Selected market indicators commentary

Asset class returns as at 30 June 2022

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

Equity markets sold off heavily in June after US inflation came in above expectations, which prompted the Federal Reserve to hike its overnight rate by 75 basis points. Economic data hinted at a slowdown and led to increased recession fears. Inflation for other regions such as the UK, Eurozone and Australia remained elevated and we even saw CPI exceed 2% in Japan. Commodities also sold off, as investors positioned for the possibility of commodity demand slowing if a recession were to occur. The conflict in Ukraine raged on as Russia expanded its territorial gains in eastern Ukraine. Restrictions on Russian energy imports to Europe were tightened, exacerbating the energy shortfalls there and leading to fears of rationing later in the year.

Over June, Hedged Developed Markets Overseas Shares returned -8.1%. Equity markets sold off over the month as investors started to price in an increased likelihood of recession amid persistent inflation and aggressive financial tightening that started to take its toll on the real economy. Hedged Developed Market Overseas Shares are now down 12.5% for the year. The sell-off in June was broad based with both growth and value stocks posting steep declines. Emerging markets returned -2.6%, outperforming both the US and other developed markets. China stood out as the only major equity market with strong positive returns. This was driven by optimism over China's potential recovery from its slowdown induced by last year's regulatory campaign and lockdowns in major cities this spring.

Meanwhile monetary policy in China remains very accommodative. Other large emerging markets did poorly this month.

Hedged Overseas Government Bonds returned -1.3% over the month as central bank tightening and high inflation pushed up rates at the longer end of the curve. Ten-year yields rose between 10 and 20 basis points for the US, UK and Eurozone and 30 basis points in Australia. Australian Government Bonds returned -1.3%. Credit spreads also rose in this risk-off environment, which led to poor performance for growth fixed income.

Australian shares underperformed over June, with the ASX300 returning -9.0%. The ASX50 returned -8.2% meanwhile the ASX Small Ordinaries returned -13.1%. The best performing, and only positive performing sector for the month was Consumer Staples, returning 0.2%. Materials (-12.9%) and Financials (-11.9%) were the worst performing sectors. CSL (-0.9%) was the biggest contributor to the ASX300 over the month, meanwhile CBA (-13.4%) was the largest detractor.

Significant Developments

- During its July 2022 meeting, the Reserve Bank of Australia (RBA) decided to increase the current target cash rate by 50 basis points to 1.35% per annum and the interest rate on exchange settlement balances from 0.75% to 1.25%. Global inflation is being boosted by COVID-related disruptions to supply chains, the war in Ukraine and strong demand which is putting pressure on productive capacity. Inflation in Australia is also high due to these global factors, and has been exacerbated by domestic factors, such as strong demand, a tight labour market and capacity constraints in some sectors. Inflation is forecasted to peak later this year and is expected to decline back towards the 2–3% range next year. Higher interest rates will also help establish a more sustainable balance between the supply and demand for goods and services. The Australian economy remains resilient as the unemployment rate was steady at 3.9% in May, and is expected to decline further. There has been a lift in wages growth as firms compete for staff in the tight labour market. One 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. Housing prices have also declined in some markets over recent months. The Board will be paying close attention to these various influences on household spending as it assesses the appropriate setting of monetary policy. The Board will also be paying close attention to the global outlook, which remains clouded by the war in Ukraine and its effect on the prices for energy and agricultural commodities. There are also ongoing uncertainties related to COVID, especially in China. The resilience of the economy and the higher inflation means that the support supplied during the pandemic is no longer needed. The board expects to take further steps in 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 60,600 in May, above expectations for an increase of 25,000 and above the prior month's increase of 4,000. The unemployment was the same for May at 3.9%, above expectations of 3.8%. The participation increased by 66.7%, above expectations of 66.4%. Part time jobs decreased by 8,700 and full time jobs increased by 69,400.
- Australian building approvals increased by 9.9% month-on-month to May, compared to the decrease of 3.9% (revised) for April.
- The Institute for Supply Management (ISM) Manufacturing Index recorded 53 in June, below consensus for 54.5 and below the 56.1 recorded in May. Of the 15 manufacturing industries, Apparel, Leather & Allied Products and Textile Mills were the two industries that reported the highest growth. The only industries that reported a contraction over June was Paper Products; Wood Products; and Furniture & Related Products. The ISM Services Index recorded 55.3 in June, above consensus for 54 and below the 55.9 recorded in May. Of the 18 services industries, the top performers were Mining and Management of Companies & Support Services. No industry reported a decrease in the month of June.
- US Non-Farm Payrolls increased by 372,000 in June, below the 384,000 increase (revised) recorded for May. The unemployment rate stayed the same at 3.6% over June, in line with expectations.
- US GDP third estimate for Q1 2022 is -1.6% quarter on quarter (QoQ) annualised, which was below expectations of -1.5%
- The Caixin Manufacturing PMI in China recorded 51.7 in June, below expectations of 50.2, as manufacturing output rebounds whilst pandemic restrictions recede.

- The preliminary estimate of the European Core CPI recorded 3.7% over the year to June, below expectations of 3.9%.
- The Eurozone composite PMI decreased to 52 in June, above expectations for 51.9.
- The final estimate recorded for Q1 2022 Eurozone seasonally adjusted GDP is 0.6% QoQ and 5.4% YoY.

Australian Shares

The Australian share market underperformed its hedged overseas counterpart over the month, as the S&P/ASX300 Index returned -9.0%. The S&P/ASX 50 Accumulation Index was the strongest relative performer, returning -8.2%, while the S&P/ASX Small Ordinaries was the weakest, returning -13.1% over the month.

The best performing sectors were Consumer Staples (0.2%) and Energy (-0.6%), while the weakest performing sectors were Materials (-12.9%) and Financials (-11.9%). The largest positive stock contributors to the index return were CSL, Woodside Energy and Woolworths with absolute returns of -0.9%, 7.5% and 2.7%, respectively. In contrast, the most significant detractors were CBA, Westpac and NAB with absolute returns of -13.4%, -17.9% and -12.0%, respectively.

Overseas Shares

The broad MSCI World ex Australia Accumulation Index returned -4.6% in unhedged terms and -8.1% in hedged terms over the month as the Australian dollar weakened against most developed market currencies. In AUD terms, the strongest performing sectors were Healthcare (1.1%) and Consumer Staples (0.7%), while Materials (-12.1%) and Energy (-11.6%) were the weakest performers. In AUD terms, the MSCI Small Caps Total Return Index was down by 6.0%, while the MSCI Emerging Markets Accumulation Index was down by 2.6% over June.

Over the month, the S&P500 Composite Index (-8.3%), the Dow Jones Industrial Average (-6.6%) and the NASDAQ (-8.7%) decreased, all in USD terms. In local currency terms, major European share markets experienced negative returns as the FTSE 100 (UK) (-5.5%), the DAX 30 (Germany) (-11.2%) and the CAC 40 (France) (-8.2%) all decreased. In Asia, the Chinese SSE Composite (6.7%) and the Hong Kong Hang Seng (3.0%) increased, while the Indian S&P BSE 500 (-5.2%) and the Japanese TOPIX (-2.1%) decreased, all in local currency terms.

Real Assets

The Real Assets sector produced mostly negative returns over June. The Global Real Estate Investment Trusts (REITs) Index decreased by 7.7% over the month and the FTSE Global Core Infrastructure 50/50 Index decreased by 5.0% (both in AUD hedged terms). Domestic REITs decreased by 10.4% over June, whilst Australian Direct Property (NAV) returned 0.5% (one month lagged).

Fixed Interest

Global bond markets were negative over June, with the Barclays Capital Global Aggregate Bond Index (Hedged) returning -1.6% and the FTSE World Government Bond (ex-Australia) Index (Hedged) returning -1.3%. Most ten-year bond yields moved higher over the month, increasing in the UK (14bps to 2.21%), Germany (25bps to 1.37%) and the US (12bps to 2.97%), while decreasing in Japan (-1bp to 0.23%).

Two-year bond yields moved higher over the month, increasing in Germany (13bps to 0.54%), the US (44bps to 2.94%), the UK (30bps to 1.88%) and Japan (2bps to -0.06%).

Returns for Australian bondholders were largely negative over June, with 10-year bond yields (31bps to 3.66%), five-year bond yields (29bps to 3.36%) and two-year bond yields (26bps to 2.99%) increasing. Of the Bloomberg Ausbond indices, the Bloomberg Ausbond Bank Bill produced the highest monthly return, returning 0.1% whilst the Bloomberg Ausbond Inflation produced the lowest return of -2.2%.

Currency Markets

The AUD Trade Weighted Index decreased to 61.8 over June, down by 2.2% from May. The AUD depreciated against the US Dollar (-4.1%), the Pound Sterling (-0.5%) and the Euro (-1.8%), while appreciating against the Japanese Yen (1.2%).

Commodities

Iron Ore decreased by 11.6%, finishing the month at US$122.5 per metric tonne. The S&P GSCI Commodity Total Return Index decreased by 3.7% over the month. Gold prices decreased by 2.1% finishing the month at US$1,806.87 per ounce and the oil price decreased by 6.5% to US$114.93 per barrel over June.

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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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