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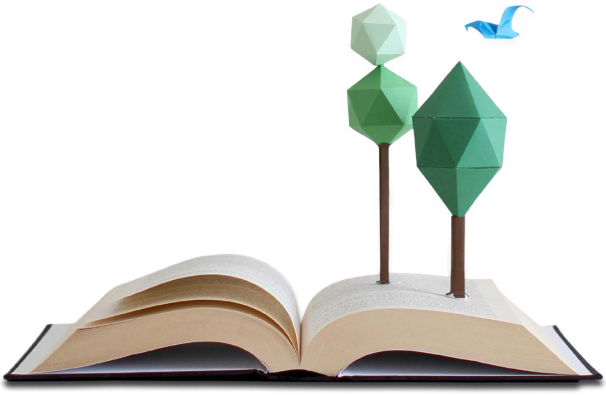
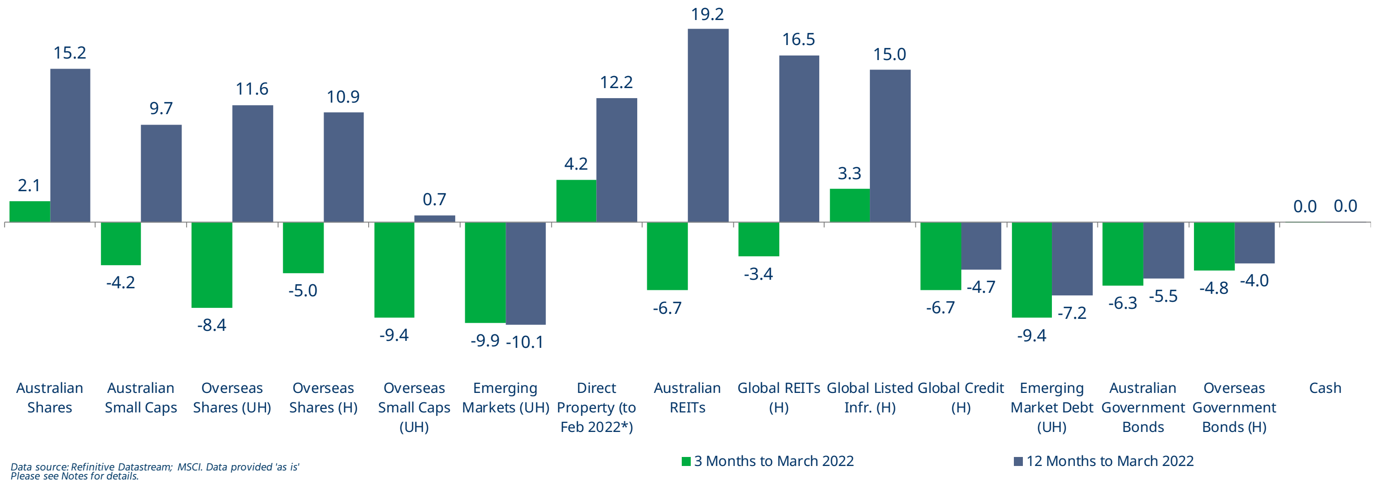
Q1 2022

Market and economic conditions



Selected market indicators commentary

Asset class returns as at March quarter 2022



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

Over the first quarter of 2022, markets faced challenges stemming from the Russia – Ukraine conflict, higher inflation and higher volatility leading to significant declines in global equity and bond markets. Investors remain cautious to how the Russia – Ukraine conflict may impact the economy, as commodity prices soar and whether inflation can be brought back to a sustainable level.

Hedged Developed Market Overseas Shares returned -5.0% for the quarter. Australian shares outperformed over the quarter given their exposure to more defensive sectors, such as materials and energy. The tech heavy Nasdaq underperformed the S&P 500 over the quarter and reflected overall sentiment towards technology over the quarter. Emerging market equities underperformed both overseas and Australian equities, returning -9.9% for the quarter.

This was largely due to the Chinese market, in which the country is battling new lockdowns and slowing economic growth. The collapse of the Russian stock market also detracted. Booming commodity prices benefiting Latin American stock markets was not enough to mitigate the declines in China and Russia.

Hedged Overseas Government Bonds returned -4.8% over the quarter as 10-year government bond yields for major developed markets rallied. Australian 10-year government bond yields increased 117bps to 2.8%. In spite of the elevated market volatility brought about by the Russia-Ukraine crisis, government bonds did not exhibit their usual safe haven characteristics. Instead yields have continued to rise due to higher expected inflation and hawkish monetary policy expectations.

The Australian share market outperformed its overseas counterparts over the March quarter. The S&P/ASX300 returned 2.1% for the quarter. The strongest domestic index was the ASX 50, returning 4.0%. The strongest performing sectors over the quarter were Energy (28.4%) and Materials (15.2%), whilst the worst performing sectors were IT (-13.7%) and Consumer Discretionary (-10.4%).

Significant Developments

- During its April 2022 meeting, the Reserve Bank of Australia (RBA) decided to maintain the current target cash rate at 0.10% per annum and the interest rate on exchange settlement balances at zero. Inflation has increased in many parts of the world. Supply-side problems, Russia's invasion of Ukraine and strong demand as economies recover from the pandemic are all contributing to the upward pressure on prices. In response, bond yields have risen and expectations of future policy interest rates have increased. The Australian economy remains resilient and spending is picking up. 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. At the same time, rising prices are putting pressure on household budgets and the floods are causing hardship for many communities. Unemployment rate fell a further to 4% in February. The RBA's central forecast is for the unemployment rate to fall to below 4% this year and to remain below 4% next year. Wages growth has picked up, with a further pickup gradually expected. Inflation has increased in Australia in underlying terms at 2.6% and in headline terms at 3.5%. Higher prices for petrol and other commodities will result in a further lift in inflation over coming quarters. The main sources of uncertainty relate to the speed of resolution of the various supply-side issues, developments in global energy markets and the evolution of overall labour costs. Financial conditions in Australia continue to be highly accommodative. Interest rates remain at a very low level, although fixed mortgage rates for new loans have risen recently. The Australian dollar exchange rate has appreciated due to the higher commodity prices. Housing prices have risen strongly. The board will not increase the cash rate until actual evidence that inflation is sustainably within the 2-3% target range. Inflation has picked up and a further increase is expected, but growth in labour costs has been below rates that are likely to be consistent with inflation being sustainably at target.
- Australian seasonally adjusted employment increased by 77,400 in February, above expectations for an increase of 37,000 and above the prior month's increase of 12,900. The unemployment rate decreased to 4.0% for February, below expectations of 4.1%. The participation increased by 66.4%, above expectations of 66.3%. Part time jobs decreased by 44,500 and full time jobs increased by 121,900.
- Australian house prices increased by 4.7% in the fourth quarter of 2021, taking it 23.7% higher from a year earlier and above expectations of 3.5% quarter-on-quarter (QoQ) and above expectations of 21.9% year-on-year (YoY). Australian building approvals increased by 43.5% month-on-month to February, compared to the decrease of 27.1% (revised) for February.
- The Institute for Supply Management (ISM) Manufacturing Index recorded 57.1 in March, below expectations of 3.7%.
- US GDP third estimate for Q4 2021 is 6.9% quarter on quarter (QoQ) annualised, which was below expectations of 7.0%
- US headline consumer price index (CPI) increased to 0.8% MoM and increased to 7.9% YoY in February.
- • The Caixin Manufacturing PMI in China recorded 48.1 in March, below expectations of 49.9, as manufacturing performance was dampened by the latest COVID-19 wave in March.
- Chinese GDP increased 4.0% YoY for Q4 2021, above expectations for 3.3%. Seasonally adjusted GDP increased 1.6% QoQ for Q4 2021, above expectations for 1.2%.
- The preliminary estimate of the European Core CPI recorded 3.0% over the year to March, below expectations of 3.1%. The unemployment rate increased over the month to 5.5% in March 2021.
- The Eurozone composite PMI increased to 54.9 in March, above expectations for 54.5.
- The Final estimate recorded for Q3 2021 Eurozone seasonally adjusted GDP is 0.3% QoQ and 4.6% YoY.

Australian Shares

Australian shares were positive over Q1 2022 as the S&P/ASX 300 Index returned 2.1% for the period. The S&P/ASX 50 Accumulation Index was the best performer for the quarter returning 4.0%, while the worst performer was the S&P/ASX Small Ordinaries returning -4.2%.

The best performing sectors were Energy (28.4%) and Materials (15.2%), while the weakest performing sectors were IT (-13.7%) and Consumer Discretionary (-10.4%). The largest positive contributors to the return of the index were BHP Group, Woodside Petroleum and NAB with absolute returns of 27.6%, 47.9% and 13.0% respectively. On the other hand, the most significant detractors from performance were CSL, Wesfarmers and Goodman Group with absolute returns of -7.5%, -14.3% and -13.3% respectively.

Overseas Shares

The broad MSCI World ex Australia (NR) decreased -5.0% in hedged terms and decreased -8.4% in unhedged terms over the quarter, as the AUD appreciated against major currencies over the period. The strongest performing sectors were Energy (26.4%) and Utilities (-2.0%), while Consumer Discretionary (-13.5%) and Communication Services (-13.3%) were the worst performers. Other global shares were negative as the MSCI Small Caps (TR) Index returned -9.4% and the MSCI Emerging Markets (NR) Index returned -9.9% over the quarter, all in AUD terms.

Over the March quarter, the NASDAQ decreased -9.1%, the S&P 500 Composite Index decreased -4.6% and the Dow Jones Industrial Average decreased -4.1%, all in USD terms. European markets experienced mixed returns, with the FTSE 100 (United Kingdom) increasing 2.9%, the CAC 40 (France) decreasing -6.7% and the DAX 30 (Germany) decreasing -9.3%, all in local currency terms. Equity returns were broadly negative across Asia as the TOPIX (Japan) (-1.2%), Hang Seng (Hong Kong) (-5.7%), S&P BSE 500 (India) (-0.5%) and SSE Composite (China) (-10.6%) decreased, all in local currency terms.

Real Assets

Domestic listed property experienced poor performance over the quarter and returned -6.7%. Global REIT's returned -3.4% (in AUD hedged terms) over the March quarter. The Australian unlisted property sector (NAV) increased 4.4% over the quarter on a one month lagged basis and the FTSE Global Core Infrastructure 50/50 Index increased 3.3% for the quarter in hedged AUD terms.

Fixed Interest

Global sovereign bonds produced broadly negative returns over the March quarter for hedged Australian investors. Ten-year bond yields increased in the US (+83bps to 2.33%), Germany (+69bps to 0.51%), UK (+61bps to 1.59%) and Japan (+14 bps to 0.21%). Two-year bond yields increased in the US (+161bps to 2.27%), Germany (+47bps to 0.19%), UK (+68bps to 1.36) and Japan (+5bps to -0.04%). In terms of global bond indices, the Barclays Capital Global Aggregate Bond Index returned -5.0% and the FTSE World Government Bond (ex-Australia) Index decreased by 4.8% over the March quarter, both on a fully hedged basis.

Domestically, the Australian 10-year bond yield (+117bps to 2.84%), five-year bond yield (+126bps to 2.60%) and two-year bond yield (+143bps to 1.80%) all increased. The Bloomberg Ausbond indices returned broadly negative results over the quarter, with the Bloomberg Ausbond Bank producing returning flat, the weakest performer was the Bloomberg Ausbond Inflation, which returned -6.4%.

Currency Markets

The Australian Dollar (AUD) appreciated against major developed market currencies over the March quarter, finishing at US$0.75. The AUD appreciated against the USD (3.3%), the Pound Sterling (6.3%), the Japanese Yen (8.9%) and the Euro (5.6%). On a trade-weighted basis, the local currency appreciated 4.1% over the quarter.

Commodities

The S&P GSCI Commodity Total Return Index increased by 28.9% over the quarter. Gold prices finished the quarter at US$1,941.15 per ounce with a 6.5% increase. Meanwhile, Iron Ore prices increased by 31.9% to US$153.0 per metric tonne over the period and Oil increased by 37.1% to US$107.46 per barrel.

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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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