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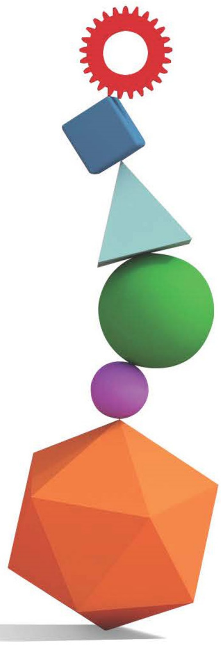
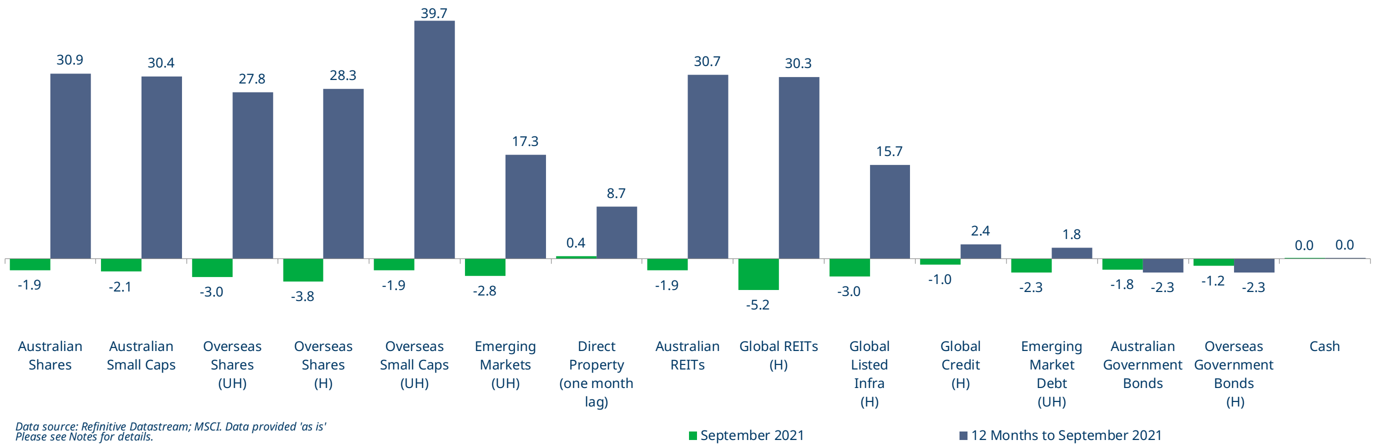


September 2021

Australian monthly market review

Selected market indicators commentary

Asset class returns as at 30 September 2021



Following months of positive performance, equity markets suffered a global sell-off with September being the first negative month since January 2021. Markets demonstrated the risk-off sentiment of investors, which resulted from a combination of a slowing in global recovery, ongoing supply chain issues, and the Evergrande crisis in China.

Hedged Developed Market Overseas shares returned -3.8% over the month, amongst a heavy sell-off in the IT, Healthcare and Industrial sectors. The US Federal Reserve reiterated its plans for tapering and released projections for interest rates, which appeared to be faster than initially expected by the market. As a result, growth stocks underperformed value stocks over the month and contributed to the weak US market performance.

The tighter monetary policy outlook also saw ten-year government yields rise quite considerably across all major developed markets except Japan, where they increased only slightly.

Unhedged Emerging Market Shares achieved a higher return than Developed Market Overseas Shares, returning -2.8%. Brazil was the worst performer, returning -13.0% due to political concerns surrounding next year's election and the Central Bank of Brazil's unwillingness to tackle inflation. However, attention centred on China which suffered a significant equity market sell off. The decline in Chinese equity valuations resulted from regulatory crackdowns, which are expected to slow growth in certain sectors, as well as the weakening Chinese property market.

As the Evergrande situation continues to unfold, investors remain concerned about the potential spillover effect to both China and the broader global financial system.

Australian Shares fared better during the global sell off in September, with the S&P/ASX 300 ending the month down 1.9%. The S&P/ASX Small Ordinaries and ASX50 were the worst performers over the month, both returning -2.1%. Price movements in commodities dictated the worst and best performing sectors over the month, as Iron Ore prices plunged over concerns surrounding China's property market. This negatively impacted large names such as Fortescue (-27.5%), BHP (-16.8%), and Rio Tinto (-10.2%) and caused the Materials sector to lag (-9.3%). In contrast, soaring energy prices proved to be a tailwind for the wider Energy sector (15.0%), benefiting companies such as Santos (18.5%) and Woodside (22.8%).

Significant Developments

- During its early October 2021 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. The RBA will continue to purchase government securities at the rate of $4bn per week until mid-February. In addition, the RBA will maintain the current target of 0.10% for the April 2024 Australian Government Bond. It was noted that the Delta outbreak had interrupted the economic recovery and Australian GDP will decline over the September quarter. The setback to the economic expansion is expected to be only temporary and as vaccination rates increase further and restrictions are eased, the economy is expected to bounce back. In the RBA's central scenario, the economy will be growing again in the December quarter and is expected to be back around its pre-Delta path in the second half of 2022. Restrictions on activity has affected the labour market, with hours worked declining 4.0% in August. Wage and price pressures remained subdued over the June quarter. Inflation is around 1.75% and wages are increasing at 1.7%. Housing prices are continuing to rise, however turnover has declined in some markets. Housing credit has shown increased demand for credit by both owner-occupiers and investors. The Bank's package of policies – including record low interest rates, the bond purchase program, the yield target and the funding provided under the Term Funding Facility is providing substantial and ongoing support to the Australian economy. Borrowing rates are at record lows, sovereign bond yields are at very low levels and the exchange rate has depreciated over recent months. The board are committed to maintaining highly supportive monetary conditions and will not increase the cash rate until actual inflation is sustainably within the 2-3% target range. For this to occur, the labour market will need to tighten enough to generate wages growth that is materially higher than it is currently. This is unlikely to be until 2024.
- Australian seasonally adjusted employment decreased by 146,300 in August, above expectations for a decrease of 80,000 and below the prior month's increase of 3,100 (revised). The unemployment rate decreased to 4.5% for August, below expectations for 5.0%. The participation rate decreased to 65.2%, below expectations of 65.7%. Part time jobs decreased by 78,200 and full time jobs decreased by 68,000.
- Australian building approvals increased by 6.8% month-on-month to August, compared to the decrease of 8.6% for July.
- The Institute for Supply Management (ISM) Manufacturing Index recorded 61.1 in September, above consensus for 59.5 and above the 59.5 recorded in August. Of the 18 manufacturing industries, Furniture & Related Products and Petroleum & Coal Products were the two industries that reported the highest growth. The only industry that reported a contraction over the September period was Wood Products. The ISM Services Index recorded 61.9 in September, above consensus for 59.9 and below the 61.7 recorded in August. Of the 17 services industries, the top performers were Retail Trade and Arts, Entertainment & Recreation. The only industry to report a decrease was Agriculture, Forestry, Fishing & Hunting.
- US Non-Farm Payrolls increased by 194,000 in September, below the 1,091,000 increase (revised) recorded for August. The unemployment rate decreased to 4.8% over September, below expectations of 5.1%.
- US GDP third estimate for Q2 2021 is 6.7% quarter on quarter (QoQ) annualised, above expectations of 6.6%.
- The Caixin Manufacturing PMI in China recorded 50.0 in September, above expectations of 49.5, with operating conditions stabilising over the period.

- The preliminary estimate of the European Core CPI is 1.9% over the year to September, which was in line with expectations.
- The Eurozone composite PMI decreased to 56.2 in September, above expectations for 56.1.
- The final estimate recorded for Q2 2021 Eurozone seasonally adjusted GDP is 2.2% QoQ and 14.3% YoY.

Australian Shares

The Australian share market outperformed its hedged overseas counterpart over the month, as the S&P/ASX 300 Index returned -1.9%. The S&P/ASX Mid 50 was the strongest relative performer, returning -0.6%, while the S&P/ASX 50 and S&P/ASX Small Ords were the weakest, both returning -2.1% over the month.

The best performing sectors were Energy (15.0%) and Utilities (2.5%), while the weakest performing sectors were Materials (-9.3%) and Healthcare (-4.8%). The largest positive stock contributors to the index return were CBA, Macquarie and Woodside with absolute returns of 4.2%, 9.4% and 22.8% respectively. In contrast, the most significant detractors were BHP, Fortescue and CSL with absolute returns of -16.8%, -27.5% and -5.9%, respectively.

Overseas Shares

The broad MSCI World ex Australia (NR) Index returned -3.0% in unhedged terms and -3.8% in hedged terms over the month. In AUD terms, the strongest performing sectors were Energy (10.5%), and Financials (-0.3%), while Utilities (-6.0%) and Materials (-6.0%) were the weakest performers. In AUD terms, the MSCI Small Caps (TR) Index was down 1.9% and the MSCI Emerging Markets (NR) Index was also down 2.8% over September.

Over the month, the NASDAQ (-5.3%), S&P 500 Composite Index (-4.7%), and the Dow Jones Industrial Average (-4.2%) decreased, all in USD terms. In local currency terms, major European share markets experienced negative returns as the CAC 40 (France) (-2.2%), FTSE 100 (UK) (-0.2%) and DAX 30 (Germany) (-3.6%) all decreased. In Asia, the Indian S&P BSE 500 (3.3%), Chinese SSE Composite (0.7%) and Japanese TOPIX (4.4%) increased, while the Hong Kong Hang Seng decreased (-4.7%), all in local currency terms.

Real Assets

The Real Assets sector achieved broadly negative returns over September. The Global Real Estate Investment Trusts (REITs) Index decreased by 5.2% over the month and the FTSE Global Core Infrastructure 50/50 Index decreased by 3.0% (both in AUD hedged terms). Domestic REITs declined by 1.9% over September, whilst Australian Direct Property (NAV) returned 0.4% (one-month lag).

Fixed Interest

Global bond markets were broadly negative over September, with the Barclays Capital Global Aggregate Bond Index (Hedged) returning -1.0% and the FTSE World Government Bond (ex-Australia) Index (Hedged) returning -1.2%. Ten-year bond yields were positive over the month, increasing in the UK (31bps to 1.02%), the US (25bps to 1.53%), Germany (23bps to -0.19%) and Japan (5bps to 0.07%). Two-year bond yields were also broadly positive over the month, increasing in the US (7bps to 0.26%), UK (26bps to 0.41%), Japan (1bp to -0.12%) and decreasing in Germany (-1bp to -0.74%).

Returns for Australian bondholders were negative over September, with 10-year bond yields (38bps to 1.49%), five-year bond yields (20bps to 0.78%) and two-year bond yields (3bps to 0.05%) increasing. Of the Bloomberg Ausbond indices, the Bloomberg Ausbond Bank Bill produced the highest monthly return, returning flat and the Bloomberg Ausbond Inflation Index produced the lowest return, returning -2.6%.

Currency Markets

The AUD Trade Weighted Index decreased to 60.8 over September, down by 0.7% from August. The AUD appreciated against the Pound Sterling (0.9%), Euro (0.7%) and the Japanese Yen (0.4%), and depreciated against the US Dollar (-1.2%).

Commodities

Iron Ore declined 29.7%, finishing the month at US$110.0 per metric tonne. The S&P GSCI Commodity Total Return Index decreased by 0.8% over the month. Gold prices decreased by 2.5% finishing the month at US$1,761.0 per ounce and the oil price increased by 7.3% to US$78.6 per barrel over September.

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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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