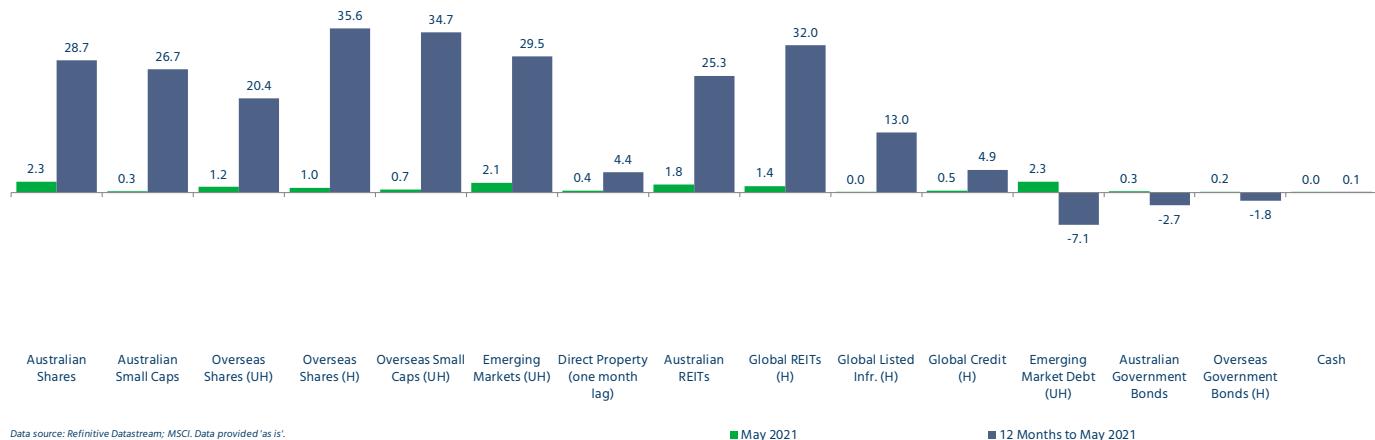


May 2021

Australian monthly market review

Selected market indicators commentary

Asset class returns as at 31 May 2021



Over May, inflation fears intensified as a result of a strong economic growth outlook and ongoing policy support, evidenced by expansionary budget proposals in both the US and Australia. As new variants of the Covid virus continue to emerge, this has created some doubt around the effectiveness of the vaccines. However, the reopening of developed markets and increasing domestic goods consumption continues to push the recovery momentum.

Hedged Developed Market Overseas Shares were positive but relatively muted over the month due to market volatility. The ongoing release of optimistic economic data has added to concerns over potentially more persistent inflation, with investors fearing central bank intervention may disrupt the growth rebound. Unhedged Emerging Market Shares performed strongly over the month, returning 2.1%.

This was primarily driven by a strong rebound in commodity exporting activities from Russia and Brazil. China remains the key main detractor in this region, as they continue to impose stricter regulatory controls on their technology sector and credit tightening.

The US Dollar continued to weaken against the Australian Dollar and other major currencies for the third month in a row. This was a result of higher rising inflation in the US, government spending and accommodative policies. Oil prices increased by 3.5% and the rally is expected to continue as economies increasingly ease restrictions. Recovery in the property sector has also resumed, with Hedged Global REITs (1.4%) and Australian REITs (1.8%) providing positive returns over the month. The slow recovery for commercial property continues to drag down the asset class as office occupancy rates remain low.

Australian Shares outperformed Hedged Overseas Shares over May. The S&P/ASX300 rose 2.3% over May. The Australian Shares market's outcome was driven by large caps with the S&P/ASX 50 Accumulation up 2.9% whereas, the S&P/ASX Mid 50 Accumulation (0.9%) and the S&P/ASX Small Ordinaries (0.3%) achieved slightly softer returns. The best performing sectors were Financials (5.7%) and Healthcare (3.5%), whilst IT (-9.1%) and Utilities (-6.6%) were the worst performers.

Significant Developments

- During its early June 2021 meeting, the Reserve Bank of Australia (RBA) decided to maintain its current policy settings, including the target cash rate at 0.10% per annum and the targeted yield on 3-year Australian Government bonds at 0.10%. It was noted that the global economy is continuing to recover from the pandemic and the outlook for growth, this year and next year, remains strong. However, the recovery remains uneven and some countries are yet to contain the virus. Governor Philip Lowe noted that the economic recovery in Australia is stronger than earlier expected and is forecast to continue. The recovery is supported by central bank scenarios for GDP, with forecasted growth of 4.25% over 2021 and 3.5% over 2022. This outlook is supported by fiscal measures and very accommodative financial conditions. Reduction in the unemployment rate has been faster than expected, with the unemployment rate declining to 5.5% in April. Despite strong recovery in the economy, inflation and wage pressures remain subdued. In the central scenario, inflation is expected to be 1.5% over 2021 and 2.0% in mid-2023. In the short term, CPI inflation is expected to rise temporarily to be above 3% in the June quarter because of the reversal of some COVID-19-related price reductions. Housing markets have strengthened further, with prices rising in all major markets. The bank has outlined that it will be monitoring trends in housing borrowing carefully and it is important that lending standards are maintained. The Board has stated its commitment to maintaining supportive monetary conditions and that it 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 be tight enough to generate wages growth that is materially higher than it is currently. This is unlikely to be until 2024 at the earliest.
- Australian seasonally adjusted employment decreased by 30,600 in April, below expectations for an increase of 20,000 and below the prior month's increase of 77,000 (revised). The unemployment rate decreased to 5.5% for April, below expectations for 5.6%. The participation rate decreased to 66.0%, below expectations for 66.3%. Part time jobs decreased by 64,400 and full time jobs increased by 33,800.
- Australian building approvals decreased by 8.6% month-on-month to April, compared to the increase of 18.9% (revised) for March.
- The Institute for Supply Management (ISM) Manufacturing Index recorded 62.1 in May, above consensus for 61.0 and above the 60.7 recorded in April. Of the 18 manufacturing industries, Furniture & Related Products and Nonmetallic Mineral Products were the two industries that reported the highest growth. The only industry reporting a contraction in May was Printing & Related Support Activities. The ISM Services Index recorded 64.0 in May, above consensus for 63.2 and above the 62.7 recorded in April. Of the 18 services industries, the top performers were Retail Trade and Wholesale Trade. There was no contractions reported in the services industry over May.
- US Non-Farm Payrolls increased by 559,000 in May, above the 278,000 increase (revised) recorded for April. The unemployment rate decreased to 5.8% over April, below expectations for 5.9%.
- US GDP second estimate for Q1 2021 is 6.4% quarter on quarter (QoQ) annualised, below expectations for 6.5%.
- The Caixin Manufacturing PMI in China recorded 52 in May, in line with expectations and signalling the strongest increase in new work for five months.
- The preliminary estimate of the European Core CPI recorded 0.9% over the year to May, which was in line with expectations.
- The Eurozone composite PMI increased to 57.1 in May, above expectations for 56.9.
- The final estimate recorded for Q1 2021 Eurozone seasonally adjusted GDP is -0.3% QoQ and -1.3% YoY.

Australian Equities

The Australian share market outperformed its hedged overseas counterpart over the month, as the S&P/ASX 300 Index returned 2.3%. The S&P/ASX 50 was the strongest relative performer, increasing 2.9%, while the S&P/ASX Small Ordinaries was the weakest, returning 0.3% over the month.

The best performing sectors were Financials (5.7%) and Healthcare (3.5%), while the weakest performing sectors were IT (-9.1%) and Utilities (-6.6%). The largest positive stock contributors to the index return were CBA, CSL and Westpac with absolute returns of 12.0%, 7.1% and 6.1% respectively. In contrast, the most significant detractors were Afterpay, Macquarie and BHP with absolute returns of -21.1%, -5.1% and 0.7% respectively.

Global Equities

The broad MSCI World ex Australia (NR) Index returned 1.0% in hedged terms and 1.2% in unhedged terms over the month. In AUD terms, the strongest performing sectors were Energy (5.1%) and Financials (4.5%), while Consumer Discretionary (-1.3%) and IT (-1.2%) were the weakest performers. In AUD terms, the MSCI World Small Caps (TR) Index was up 0.7% and MSCI Emerging Markets (NR) Index was up 2.1% over May.

Over May, the NASDAQ decreased -1.5%, the S&P 500 Composite Index increased 0.7% and the Dow Jones Industrial Average increased 2.2%, all in USD terms. In local currency terms, major European share markets experienced positive returns as the CAC 40 (France) increased 4.0%, FTSE 100 increased 1.1% and the DAX 30 (Germany) increased 1.9%. In Asia, the Indian S&P BSE 500 (6.9%), Hong Kong Hang Seng (2.1%), Chinese SSE Composite (4.9%) and Japanese TOPIX (1.4%) all increased, all in local currency terms.

Real Assets

The Real Assets sector achieved positive returns over May. The Global Real Estate Investment Trusts (REITs) Index increased by 1.4% over the month and the FTSE Global Core Infrastructure 50/50 Index returned flat (both in AUD hedged terms). Domestic REITs rose 1.8% over May, whilst Australian Direct Property (NAV) returned 0.4%, on a one month lagged basis.

Fixed Interest

Global bond markets were broadly positive over May, with the Barclays Capital Global Aggregate Bond Index (Hedged) returning 0.2% and the FTSE World Government Bond (ex-Australia) Index (Hedged) returning 0.2%. Ten-year bond yields were mixed in terms of movement over the month, decreasing in the UK (-3bps to 0.84%) and the US (-4bps to 1.59%), increasing in Germany (2bps to -0.18%) and returning flat in Japan (0.08%). Two-year bond yields were also mixed over the month, decreasing in the US (-2bps to 0.14%) and the UK (-2bps to 0.07%). Meanwhile, they increased in Germany (1bp to -0.69%) and returned flat in Japan (-0.13%).

Returns for Australian bondholders were broadly positive over May, with 10-year (-4bps to 1.61%) and two-year (-2bps to 0.07%) bond yields decreasing, and five-year bond yields increasing (2bps to 0.71%). Of the Bloomberg Ausbond indices, the Bloomberg Ausbond Inflation Index produced the highest monthly return of 0.9% and the Bloomberg Ausbond Bank Bill Index produced the lowest return, returning flat.

Currency Markets

The AUD Trade Weighted Index decreased to 63.5 over May, down by 1.4% from April. The AUD appreciated against the Japanese Yen (0.3%) and US Dollar (0.2%), but depreciated against the Euro (-1.3%) and Pound Sterling (-2.4%).

Commodities

Iron Ore rose 7.8%, finishing the month at US\$201.5 per metric tonne. The S&P GSCI Commodity Total Return Index increased 2.3% over the month. Gold prices increased by 7.7% finishing the month at US\$1,906.0 per ounce and the oil price increased 3.5% to US\$69.7 per barrel over May.

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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 Barclays 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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