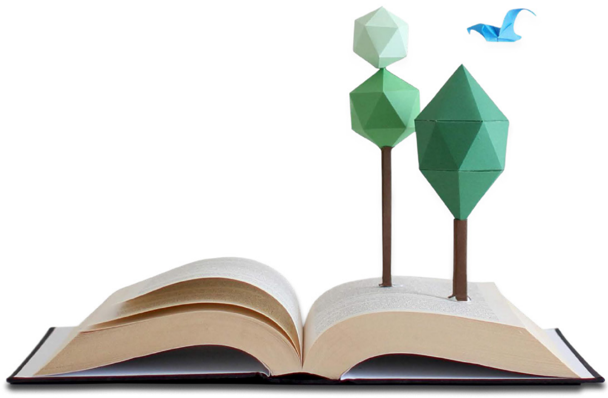
welcome to brighter

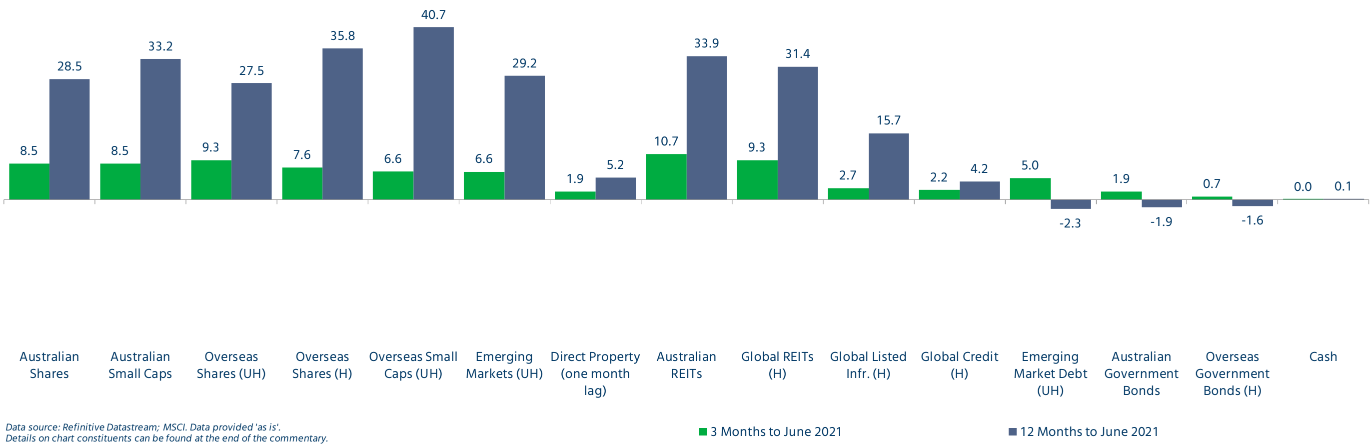
Q2 2021

Market and economic conditions



Selected market indicators commentary

Asset class returns as at June quarter 2021



Data source: Refinitive Datastream; MSCI. Data provided 'as is'.
Details on chart constituents can be found at the end of the commentary.

After an initial slow rollout of vaccination programs, developed markets have now made significant progress. The United Kingdom (UK) is currently taking the lead with a vaccination rate of 60%, with Europe and the US following closely with a 50% vaccination rate. As restrictions continue to lift at different rates around the world, economies are poised to rebound sharply and the global economic outlook remains positive. Investor attention and concern are now fixated on inflation implications and central bank responses. The US Federal Reserve shifted towards a more hawkish stance towards the end of the June quarter, announcing plans to scale back on relief programs and further potential tapering. Domestically, the RBA has maintained an accommodative stance and a rise in cash rates is not expected in the near future.

Hedged Developed Market Overseas Shares returned 7.6% over the quarter as current developed market GDP figures indicate strong economic expansions, driven by domestic goods consumption and a revival in services. Despite highly stretched equity valuations, investors have taken comfort in strong earnings fundamentals. Unhedged Emerging Markets Shares posted slightly weaker returns, returning 6.6% over the quarter, due to a rise in new cases and their lag in vaccination programs. The main contributors to positive performance resulted from Brazil and Russia, who benefited from the increase in commodity prices over the quarter. In comparison, China weighed negatively on the index with news of regulatory crackdowns against its Financial and Technology sectors.

Following a relatively muted first quarter, Australian REITs was the best performing asset class over the June quarter. The rebound resulted in a positive quarterly return of 10.7%, slightly outperforming Global REITs, which returned 9.3%. The strong performance is a result of the anticipation of the global economy reopening and pandemic recovery. Furthermore, the anticipated energy demand from economies reopening continues to drive up prices of cyclical commodities.

The Australian share market outperformed its hedged overseas counterpart, with the S&P/ASX300 returning 8.5% over the June quarter. All other domestic indices posted similar positive returns, with the S&P/ASX Mid 50 being the top performer, returning 10.1%. The strongest performing sectors were IT (12.1%) and Consumer Discretionary (11.6%), whilst the weakest performing sector was Utilities (-4.5%).

Significant Developments

- Over the second quarter of 2021, the Reserve Bank of Australia (RBA) decided to maintain the current target cash rate at 0.10% per annum, as well as retain the April 2024 bond as the bond for the yield target at 10bps and continue purchasing government bonds after the completion of the current bond purchase program in early September. Maintaining the target of 10bps for the April 2024 bond will help keep interest rates low. It was noted that the Australian economy is recovering stronger than expected and is forecasted to continue. The RBA stated that the outlook for investment has improved and national income is also being supported by the high prices for commodity exports. Domestic financial conditions are supportive despite the exchange rate depreciating slightly. The labour market has continued to recover faster than expected with the unemployment rate declining further to 5.1% in May. Despite the strong recovery in jobs and reports of labour shortages, inflation and wage outcomes remain subdued. In the central scenario, inflation in underlying terms is expected to be 1.5% over 2021 and 2% by mid-2023. In the short term, CPI inflation is expected to rise temporarily to around 3.5% over the year to the June quarter. Housing credit growth has picked up, with strong demand from owner-occupiers, including first-home buyers, and there has also been increased borrowing by investors. 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 increased by 115,200 in May, above expectations for an increase of 30,000 and compared to an increase of 76,600 (revised) in February. The unemployment rate decreased to 5.1% for May, below expectations for 5.5%. The participation rate increased to 66.2% over May, above expectations for 66.1%. Part time jobs increased by 17,700 and full time jobs increased by 97,500.
- Australian house prices increased by 5.4% in the first quarter of 2021, taking it 7.5% higher from a year earlier and above expectations for 5.3% quarter-on-quarter (QoQ) and lower than expectations for 7.6% year-on-year (YoY). Australian building approvals decreased by 7.1% month-on-month to May, which was a decrease from the February rate of 19.2% (revised).
- The Institute for Supply Management (ISM) Manufacturing Index recorded 60.6 in June, below consensus for 60.9 and below the 64.7 recorded in March. Of the 18 manufacturing industries, Furniture & Related Products and Machinery were the two industries that reported the highest growth. No industry reported a contraction over the June period. The ISM Services Index recorded 60.1 in June, below consensus for 63.5 and below the 63.7 recorded in March. Of the 18 services industries, the top performers were Arts, Entertainment & Recreation and Other Services. The two industries that reported a decrease in the month of June were Real Estate, Rental & Leasing and Agriculture, Forestry, Fishing & Hunting.
- US Non-Farm Payrolls increased by 850,000 in June, above the 785,000 increase (revised) recorded for March. The unemployment rate decreased to 5.9% over the second quarter of 2021, above expectations for 5.6%.
- US GDP third estimate for Q1 2021 is 6.4% quarter on quarter (QoQ) annualised, in line with expectations.
- US headline consumer price index (CPI) increased to 0.6% MoM and increased to 5.0% YoY in May.
- The Caixin Manufacturing PMI in China recorded 51.3 in June, below expectations of 51.9 and signalling the lowest reading in three months, due to local COVID-19 cases causing supply chain difficulties.
- Chinese GDP increased 18.3% YoY for Q1 2021, below expectations for 18.5%. Seasonally adjusted GDP increased 0.6% QoQ for Q1 2021, below expectations for 1.4%.
- The preliminary estimate of the European Core CPI recorded 0.9% over the year to June, which was in line with expectations. The unemployment rate decreased to 7.7% over June.

- The Eurozone composite PMI increased to 59.5 in June, above expectations for 59.2 and above the 53.2 recorded in March, after Eurozone growth hit a 15-year high.
- The final estimate recorded for Q1 2021 Eurozone seasonally adjusted GDP is -0.3% quarter-on-quarter (QoQ) and -1.3% year-on-year (YoY).

Australian Shares

Australian shares were positive over Q2 2021 as the S&P/ASX 300 Index returned 8.5% for the period. The S&P/ASX Mid 50 was the best performer for the quarter returning 10.1%, while the worst performer was the S&P/ASX 50 returning 8.2%.

The best performing sectors were IT (12.1%) and Consumer Discretionary (11.6%), while the weakest performing sectors were Utilities (-4.5%) and Energy (-2.3%). The largest positive contributors to the return of the index were CBA, Aristocrat Leisure and Fortescue with absolute returns of 16.0%, 25.6% and 20.0% respectively. On the other hand, the most significant detractors from performance were Woolworths, ANZ and NAB with absolute returns of -6.7%, 0.7% and 1.7% respectively.

Global Shares

The broad MSCI World ex Australia (NR) increased 7.6% in hedged terms and increased 9.3% in unhedged terms over the quarter, as the AUD achieved negative returns against major currencies over the period. The strongest performing sectors were Information Technology (13.1%) and Real Estate (12.0%), while Utilities (0.8%) and Industrials (5.6%) were the worst performers. Other global shares were also positive as the MSCI Small Caps (TR) Index and the MSCI Emerging Markets (NR) Index both returned 6.6% over the quarter, all in AUD terms.

Over the June quarter, the NASDAQ increased 9.5%, the S&P 500 Composite Index increased 8.5% and the Dow Jones Industrial Average increased 5.1%, all in USD terms. Most European markets experienced positive returns, with the FTSE 100 (United Kingdom) increasing 5.7%, the CAC 40 (France) increasing 9.1% and the DAX 30 (Germany) increasing 3.5%, all in local currency terms. Equity returns were broadly positive across Asia as the S&P BSE 500 (India) increased 9.5%, the SSE Composite (China) increased 4.3% and the Hang Seng (Hong Kong) increased 2.7%, all in local currency terms. In comparison, the TOPIX (Japan) decreased over the quarter, returning -0.3%.

Real Assets

Domestic listed property experienced strong performance over majority of the quarter and returned 10.7%. Similarly, Global REIT's performed strongly and returned 9.3% (in AUD hedged terms) over the June quarter. The Australian unlisted property sector (NAV) increased 1.9% over the quarter on a one month lagged basis and the FTSE Global Core Infrastructure 50/50 index increased 2.7% for the quarter in hedged AUD terms.

Fixed Interest

Global sovereign bonds produced broadly negative returns over the June quarter for hedged Australian investors. Ten-year bond yields increased in Germany (8bps to -0.25%), and decreased in Japan (-4bps to 0.05%), the US (-30bps to 1.44%) and the UK (-13bps to 0.75%). Two-year bond yields increased in Japan (1bp to -0.11%) and the US (8bps to 0.24%) and decreased in Germany (-1bp to -0.69%) and the UK (-4bps to 0.06%). In terms of Global Bond indices, the Barclays Capital Global Aggregate Bond Index increased by 0.9% and the FTSE World Government Bond (ex-Australia) Index increased 0.7% over the June quarter, both on a fully hedged basis.

Domestically, Australian 10-year bond yields decreased (-25bps to 1.49%), five-year bond yields increased (5bps to 0.77%) and two-year bond yields decreased (-2bps to 0.07%). Bloomberg Ausbond indices returned positive results over the quarter, with the Bloomberg Ausbond Inflation Index achieving the highest return of 3.3%, and the weakest being the Bloomberg Ausbond Bank Bill, returning flat.

Currency Markets

The Australian Dollar (AUD) tumbled against major developed market currencies over the June quarter, finishing at US$0.75. The AUD depreciated against the USD (-1.4%), the Pound Sterling (-1.6%), the Japanese Yen (-1.0%) and the Euro (-2.3%). On a trade-weighted basis, the local currency depreciated 1.9% over the quarter.

Commodities

The S&P GSCI Commodity Total Return Index increased by 17.4% over the quarter. Gold prices finished the quarter at US$1,765.4 per ounce for a 3.6% increase. Meanwhile, Iron Ore prices increased by 30.6% to US$215.5 per metric tonne over the period and Oil prices also increased by 18.5% to US$75.3 per barrel.

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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