

Market Update

OCTOBER 2021

- The Australian share market fell 1.9% in September, ending an impressive 11 month run of gains.
- Nonfarm payrolls rose 194,000 in September, the lowest so far this year, falling well short of expectations of a 500,000 increase.
- Eurozone economic sentiment rose to 117.8, supported by optimism from consumers and the construction sector.
- The RBA kept the cash rate on hold at 0.1% as expected; the Delta variant has interrupted the economic recovery more severely than expected, with GDP likely to decline materially in Q3.

September market performance

Equity Markets – Index Return*	Index	At Close 30/09/2021	% Return 1 Month	% Return 12 Months
Australia	S&P/ASX 200 Index	7332.16	-1.85%	30.56%
United States	S&P 500 Index	4307.54	-4.65%	30.01%
Japan	Nikkei 225 Index	29452.66	5.50%	29.12%
Hong Kong	Hang Seng Index	24575.64	-4.71%	7.54%
China	CSI 300 Index	4866.38	1.28%	7.96%
United Kingdom	FTSE 100 Index	7086.42	-0.16%	25.36%
Germany	DAX 30 Index	15260.69	-3.63%	19.59%
Europe	FTSE Eurotop 100 Index	3295.15	-2.47%	29.16%

Property – Index Returns*	Index	At Close 30/09/2021	% Return 1 Month	% Return 12 Months
Listed Property	S&P/ASX 200 A-REIT Index	1610.70	-2.18%	29.39%

Interest Rates	At Close 30/09/2021	At Close 31/08/2021	At Close 30/09/2020
Australian 90 day Bank Bills	0.02%	0.10%	0.10%
Australian 10 year Bonds	1.49%	0.98%	0.79%
US 90 day T Bill	0.03%	0.09%	0.09%
US 10 year Bonds	1.49%	0.71%	0.69%

Currency**		At Close 30/09/2021	% Change 1 Month	% Change 12 Months
US dollar	AUD/USD	0.72	-1.34%	-0.59%
British pound	AUD/GBP	0.54	0.79%	-3.52%
Euro	AUD/EUR	0.62	0.68%	1.90%
Japanese yen	AUD/JPY	80.38	-0.03%	6.21%
Australian Dollar Trade-weighted Index		60.80	-0.65%	0.16%

* Closing index values are based on price indices. Index returns are expressed as total returns in local currency.

** All foreign exchange rates rounded to two decimal places.

Past performance is not a reliable indicator of future performance.

Global economies

Global Covid-19 cases continue to rise with numbers surpassing 230 million cases and over 6 billion vaccine doses administered as at the end of September. Vaccine supply in Africa remains an issue with only 4.4% of the population being fully vaccinated contrasting with full vaccinations rates of 62% in Europe and 55% in the US. With lockdowns continuing across the globe, the

pressure on supply chains was further exacerbated with energy crunches across Europe, the UK and China. Energy prices spiked across the globe due to supply issues and rising demand, with some energy suppliers going out of business and factories cutting production to reduce their energy costs.

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US

The Federal Reserve left the target for its federal funds rate unchanged at 0.00-0.25% during its September meeting, as widely expected. The FOMC noted that a moderation in the pace of asset purchases may soon be warranted if the economic recovery continues to progress. CPI came in slightly lower than expected in August, increasing 0.3% (0.4% expected) with the yearly inflation rate declining by 10bps to 5.3%. Core CPI increased by 0.1% in August, lower than the 0.3% expected. Nonfarm payrolls rose 194,000 in September, the lowest so far this year, falling well short of expectations of 500,000 and down from an upwardly revised 366,000 in August. The unemployment rate fell 40bps to 4.8%, coming in below expectations of 5.1%, while the average hourly earnings yearly rate rose 60bps to 4.6%. Personal incomes rose 0.2% in August, below expectations of 0.3%, whilst personal consumption expenditures lifted 0.8%, exceeding expectations of 0.6%. Retail sales surprised to the upside, increasing 0.7% in August, more than the expected 0.8% fall and rebounding from the downwardly revised 1.8% fall in July. U.S. consumer confidence fell to a seven-month low of 109.3 in September as the rise in Covid-19 cases deepened concerns about the economy's near-term prospects. PPI rose 0.7% in August, beating expectations of 0.6% and taking the yearly rate from 7.8% to 8.3% (8.2% expected). The ISM Manufacturing PMI surprised for September, increasing 1.2pts to 61.1 against expectations of a fall to 59.6. The Markit Composite PMI fell 0.4pts to 55.0 in September, against expectations of 54.5, while the Markit Manufacturing PMI came in at 60.7 in September, below the 61.1 in August. The Philadelphia Fed Manufacturing Index rose to 30.7 in September, above forecasts of 18.8, suggesting general activity expanded faster. The Chicago PMI fell to 64.7 in September, slightly below the forecast of 65, which is the lowest level since February. The trade deficit extended to a record high of \$73.3 billion in August, coming in above

expectations of \$70.5 billion as imports rose 1.4% to an all-time high of \$287 billion.

Europe

Eurozone economic sentiment rose 0.2 points to 117.8 in September, above market expectations of 116.9. The latest reading is mainly supported by optimism among consumer and construction sectors. Consumer confidence improved in September, increasing from -5.3 to -4.0, better than the expected fall to -5.5. The unemployment rate fell slightly in August from a 7.6% to 7.5%, the lowest level since May 2020. The Markit Manufacturing PMI fell again in September, from 61.4 in August to 58.6 with the Markit Composite PMI softening 2.8pts to 56.2 in September, missing expectations of 58.5. Retail sales rose 0.3% in August, short of the expected 0.8% rise. The yearly retail sales rate was stagnant, following a 3.1% rise in July and below the predicted 0.4% increase. The annual inflation rate came in at 3.4% in September, slightly ahead of expectations of 3.3% and recording the highest level since September 2008. Energy prices spiked across Europe due to supply issues and rising demand - in Spain, the government has put a cap on energy prices for consumers, while France and Greece are directing funds towards helping low-income consumers. PPI rose 1.1% in August, below expectations of 1.3%, as the yearly rate increased 100bps to 13.4% (13.5% expected). In the UK, the Bank of England left its policy rate unchanged at 0.1% during its September meeting, as widely expected, and its quantitative easing program has been maintained at £875 billion. GDP rose 0.1% in July, missing expectations of 0.6% growth, while the yearly rate fell from 15.2% to 7.5%. August CPI rose slightly more than the 0.5% expected, gaining 0.7% in the month, and taking the yearly rate from 2.0% to 3.1%. The unemployment rate fell 10bps to 4.6%, as expected, but Britain's worst labour market shortages in decades are being driven by employers struggling to recruit low-paid workers, such as in road transport

and warehousing, while vacancies in other areas are still significantly below pre-pandemic levels. The Markit/CIPS Composite PMI declined 0.7pts to 54.1 in September, below expectations of 54.5, whilst the manufacturing PMI declined 3.2pts to 57.1, above expectations of 56.3. Retail sales fell by 0.9% in August, dashing expectations of a 0.5% rise, and comes after a 2.5% fall in July. The yearly rate came in at 2.4% against the expected 6.0%. Gas prices have quadrupled in the last year to record levels, causing several suppliers to go bust as due to the government price cap they cannot pass these increases on to consumers, and factories running for fewer hours to cut energy costs. This has intensified supply chain pressures caused by a lack of qualified truck drivers.

China

China's inflation rate lifted 0.1% month-on-month in August, below expectations of 0.5%. The yearly rate slipped from 1.0% to 0.8%, the lowest reading in five months, amid the ongoing steep decline in the cost of food. Industrial production fell from a 6.4% yearly growth rate in July to 5.3% growth in August (5.8% expected). The unemployment rate held steady at 5.1% in August, but retail sales disappointed, falling from an annual rate of 8.5% to 2.0% (7.0% expected). The NBS Manufacturing PMI unexpectedly fell to 49.6 in September, against a forecast 50.1. This is the first contraction in factory activity since February 2020, due to ongoing COVID Delta breakouts, production bottlenecks and more recently, electricity rationing. The Caixin China General Composite PMI climbed to 51.4 in September from a 16-month low of 47.1 a month earlier, as COVID-19 outbreaks in some parts of the country receded. The upturn was mainly boosted by a renewed increase in services activity as manufacturing output fell slightly. The trade surplus was at US\$58.34 billion in August, above market consensus of US\$51.05 billion and compared with a surplus of US\$57.14 billion a year earlier. It was the largest trade surplus since January,

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amid surging commodity prices, and as both exports and imports hit record values. China's power crunch, caused by tight coal supplies and toughening emissions standards, has hurt production in industries across several regions and poses a risk to already strained global supply chains.

Asia region

The Bank of Japan left its key short-term interest rate unchanged at -0.1% and kept the target for the 10-year government bond yield at around 0.0% during its September meeting, as widely expected, amid continued weakness in employment and income due to the pandemic. Japanese unemployment rate was unchanged in August at 2.8%, below market consensus of 2.9%. Japanese consumer confidence was up 1.1 points from the previous month to 37.8 in September of 2021. It was the strongest reading since February 2020, with increases in all main sub-indices. Annual CPI rose to 0.3% in September, up from -0.4% in August, while annual core CPI increased 10bps to 0.1% (0.2% expected). Household spending fell 3.9% in August, well above expectations of a 2.0% fall, while the yearly rate declined by 3.0% (1.5% expected). PPI was flat in August, missing expectations of 0.2% growth, while the yearly rate fell 10bps to 5.5% (5.6% expected). Industrial production dropped by 3.2% in August amid rising Delta strain of COVID-19 cases across the country, while the yearly rate fell to 9.3%. Fumio Kishida was appointed Prime Minister, following the resignation of Yoshihide Suga.

Australia

The RBA minutes for its September meeting revealed the bank still expects to keep rates at 0.1% until at least 2024 as it struggles to lift wage growth and inflation. The board noted that the outbreak of the Delta variant has interrupted the economic recovery more severely than expected a month prior, with GDP expected to decline materially in Q3. Retail sales fell 1.7% in August, as widely expected. The unemployment rate fell slightly in August, down from 4.6% to 4.5%, making it the tenth straight month of declines and beating expectations of an increase to 4.9%. The participate rate fell more than expected from 66.0% to 62.2% (65.7% expected). The Westpac consumer sentiment index rose 2.0% to 106.2 in September amid hopes that COVID-19 curbs would be eased soon following an acceleration in vaccinations. The NAB business confidence index surprised in August, increasing from a revised -7 in July to -5 in August (-13 expected), although remains below average given continuing lockdowns in both Victoria and New South Wales. The Markit Composite PMI rose higher than expected in September, increasing from 43.3 to 46.0, with the services PMI increasing from 42.9 to 44.9 and the manufacturing PMI increasing from 52.0 to 57.3, well above the expected fall to 51.0. The trade surplus unexpectedly widened to \$15.08 billion in August, coming in well above expectations of a decline to \$10.30 billion as exports expanded a further 4%. NSW and Victoria outlined reopening roadmaps as vaccination rates climb toward 70% of the population over 16.

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EQUITY MARKETS

- Australia's S&P/ASX 200 Index fell -1.9% in September, with strong returns in Energy (+16.7%) offset by losses in the majority of sectors, most prominently Materials (-9.3%), Health Care (-4.9%) and Information Technology (-3.9%)
- During September, the US S&P 500 Index fell -4.7% in US dollar terms, marking its first negative monthly return in several months.
- In Europe, the UK's FTSE 100 Index was weaker by -0.16% and Germany's DAX 30 was off by -3.6%.
- Asian markets were somewhat mixed with Japan's Nikkei 225 Index gaining 5.5% and China's CSI 300 Index up by 1.3%. By Contrast, Hong Kong's Hang Seng Index finished down -4.7% (all in local currency terms.)

Australian equities

	Index/Benchmark (% pa)	1 Month	1 Year	3 Years	5 Years	7 Years
Australian	S&P/ASX 200 Acc. Index	-1.85%	30.56%	9.64%	10.41%	9.14%
	S&P/ASX 50 Acc. Index	-2.07%	30.33%	9.39%	10.06%	8.30%
	S&P/ASX Small Ordinaries Acc. Index	-2.14%	30.41%	9.42%	10.17%	10.36%

The Australian share market finished lower in September, ending an impressive 11-month run of gains, with the S&P/ASX 200 losing 1.9% for the month. The Energy sector benefitted from rising coal and oil prices, with the sector up 16.7% for the month. The Utilities sector also finished higher with a 2.5% gain. Materials (-9.3%), Health Care (-4.9%) and Information Technology (-3.9%) were the biggest drags on the Index. For the quarter the S&P/ASX 200 gained 1.7%, with Energy the standout sector (+9.2%), whilst falling iron prices weighed on Materials (-9.9%). Value was the only factor to produce a positive return in September, finishing 0.9% higher. Momentum and Quality finished the month 6.4% and 4.9% lower respectively. Over the quarter, Value was the best performing factor producing a return of 4.6%, whilst Growth was the worst performing factor falling 1.4%. Falling iron ore prices, which have been impacted by Chinese production cuts across the steel manufacturing industry, have weighed on local mining heavy weights which account for roughly a fifth of the Index. Iron ore prices have also been adversely impacted by the financial woes of Evergrande, China's second largest property developer. The Chinese construction sector accounts for roughly half of all China's steel consumption and should Evergrande fail, the impact is expected to be felt across other Chinese property developers, which will likely contribute to a further reduction in demand for iron ore. Additionally, investor sentiment was dented by rising energy inputs and a change in central bank rhetoric, many of whom have begun striking a more hawkish tone, including the Fed who have signalled that the time to taper back on extraordinary levels of stimulus may be near. Bond yields have risen in anticipation of higher inflation which has unsettled investors in recent weeks, leading many to question if current valuations are sustainable.

Investment Index/Benchmark returns*

S&P/ ASX 200 Index

Sector	1 Month	3 Months	1 Year
Energy	16.70%	9.27%	39.11%
Utilities	2.50%	5.14%	-6.80%
Financials ex-Property	1.59%	4.90%	57.13%
Communications	1.29%	5.08%	41.99%
Consumer Discretionary	-0.26%	2.59%	37.88%
Industrials	-0.42%	6.64%	17.69%
Property	-2.18%	4.24%	29.85%
Consumer Staples	-3.62%	4.57%	17.59%
Information Technology	-3.94%	4.70%	29.96%
Health Care	-4.94%	2.74%	8.18%
Materials	-9.28%	-9.90%	16.57%

*Total returns based on GICS sector classification

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BIG MOVERS THIS MONTH

Going up

↑	Energy	+16.7%
↑	Utilities	+2.5%
↑	Financials ex Property	+1.6%

Going down

↓	Information Technology	-3.9%
↓	Health Care	-4.9%
↓	Materials	-9.3%

Global Equities

	Index/Benchmark (% pa)	1 Month	1 Year	3 Years	5 Years	7 Years
Global	MSCI World Ex Australia Index (AUD)	-3.05%	27.76%	13.28%	15.17%	13.69%
	MSCI World Ex Australia Index (LCL)	-3.72%	29.02%	13.02%	13.87%	11.17%
	MSCI World Ex Australia Small Cap Index (AUD)	-1.81%	39.70%	10.95%	13.87%	13.68%
Emerging	MSCI Emerging Markets Index (AUD)	-2.84%	17.29%	8.64%	10.49%	8.54%
	MSCI AC Far East Index (AUD)	-0.58%	13.83%	7.79%	10.74%	10.53%

September saw an evaporation to the gains made in global markets over the last three months, with developed and emerging markets receding by 3.1% and 2.8% in Australian Dollar terms, respectively. Over the one-year period, Global small caps led comparative markets, returning 38.7% compared with 27.8% for global large caps and 17.3% for emerging markets in Australian dollar terms. Contraction in performance over September was primarily driven by fears of a global financial contagion stemming from the worlds most indebted company, Evergrande Group based in China, after news that it was renegotiating coupon repayments on its US\$300b of outstanding debt. The outlook for global growth remains somewhat negative with the US Fed announcing it will begin tapering asset purchases by the end of the year. This coincides with an already poor environment for global growth with rising energy prices and a global supply chain gridlock, not to mention the ever present spectre of the delta Covid variant. The release of Fed policy discussions drove a further sell off in developed market equities over the month as global asset managers reposition for a higher discount rate environment. Despite this, the Fed remain committed to keeping the Fed Funds rate within the current 0-0.25% target range until labour market conditions and inflation levels are maintained within their target ranges.

Property

	Index/Benchmark (% pa)	1 Month	1 Year	3 Years	5 Years	7 Years
Australian	S&P/ASX 200 A-REIT Acc	-2.18%	29.85%	8.56%	7.09%	10.77%
Global	FTSE EPRA/NAREIT Developed Ex Australia Index (AUD Hedged)	-5.41%	30.27%	5.77%	5.34%	7.39%

The S&P/ASX 200 A-REIT Accumulation Index returned -2.2% in September, mainly fuelled by a couple of days of selling towards the month end. Global real estate equities (represented by the FTSE EPRA/NAREIT Developed Ex Australia Index (AUD Hedged)) sold off during September, with the index closing 5.4% lower. A-REIT's had a quieter month with regards to announcements following the August reporting month. Dexus (ASX: DXS) announced a \$1.5bn expansion in industrial platforms via the acquisition of a portfolio alongside APN Industria REIT (ASX: ADI). The acquisition includes Jandakot Airport, Perth, and some other industrial portfolio properties including circa 80 hectares of developable land, a logistics facility leased to Australia Post in Truganina, VIC and a fund-through development located at Kemps Creek in NSW. Abacus Property Group (ASX: ABP) is now included in the FTSE EPRA NAREIT Global Real Estate Index Series, which became effective Monday 20th September.

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Nationally, the housing market continued to increase in value, despite somewhat slowing quarterly increases, with the CoreLogic 5 city aggregate recording a 1.5% increase for September. The recent house price rise, 12 months to August, equates to the largest rate of annual appreciation since mid-1989 (as reported by Core Logic).

Fixed Interest

	Index/Benchmark (% pa)	1 Month	1 Year	3 Years	5 Years	7 Years
Australian	Bloomberg AusBond Composite 0+ Yr Index	-1.51%	-1.54%	4.14%	3.06%	3.97%
	Bloomberg AusBond Bank Bill Index	0.00%	0.04%	0.79%	1.20%	1.52%
Global	Bloomberg Barclays Global Aggregate Index (AUD)	-0.62%	-1.68%	4.30%	3.18%	5.00%
	Bloomberg Barclays Global Aggregate Index (AUD Hedged)	-0.97%	-0.79%	4.07%	2.71%	3.91%

September saw a sharp reversal in the performance in Fixed Income markets, with the trend of decreasing yields that had defined the prior months coming to a screeching halt. Increasing inflationary expectations, and growing fears that the current high levels of inflation may not be transitory have driven yields upwards with the yield of 10-year Australian Government Bonds having risen by more than 30bps from the end of August to the end of September. As the shorter end of the curve has remained suppressed due to the RBA's yield curve control, this rise in the long end has resulted in a substantial steepening of the curve. Credit spreads also widened over the course of September, which combined with the changes to the risk free rate resulted in a month of poor performance in Fixed Income markets, which can be seen in the Bloomberg AusBond Composite 0+ Yr Index returning -1.5% over the month. Internationally, the story is very similar, as continued supply issues drive fears of protracted inflationary pressure, resulting in rising yields. As such, the Bloomberg Barclays Global Aggregate Index (AUD Hedged) Index returned -1.0% over the course of September, with the unhedged variant having returned -0.6%.

Australian dollar

The descent of the Australian dollar persisted in the month of September, closing -1.3% lower against the greenback and -0.7% in trade-weighted terms. Gains made earlier in the month by a weakened US dollar were curtailed by continued suppression of investor confidence surrounding the Delta variant of COVID-19, plummeting iron ore prices, and an apprehensive outlook on demand from a growth decelerating China, exacerbated by angst over the potential collapse of Evergrande and associated fallout

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