

Market Update

SEPTEMBER 2021

- The Australian share market reached an all-time high in August, with the S&P/ASX 200 gaining 2.5% for the month.
- Non-farm payrolls added 235,000 jobs, the lowest in seven months and well below forecasts of 740,000 as a surge in COVID-19 infections may have discouraged companies from hiring and potentially discouraged workers from actively looking for a job.
- Eurozone economic sentiment dropped to 117.5 falling for the first time since January's slight decline, amid concerns over the Delta coronavirus variant.
- The RBA kept the cash rate on hold at 0.1% as expected; Australian GDP increased 0.7% in the second quarter, ahead of expectations.

August market performance

Equity Markets – Index Return*	Index	At Close 31/08/2021	% Return 1 Month	% Return 12 Months
Australia	S&P/ASX 200 Index	7534.90	2.50%	28.15%
United States	S&P 500 Index	4522.68	3.04%	31.17%
Japan	Nikkei 225 Index	28089.54	3.01%	23.38%
Hong Kong	Hang Seng Index	25878.99	-0.05%	5.58%
China	CSI 300 Index	4805.61	0.13%	1.59%
United Kingdom	FTSE 100 Index	7119.70	2.05%	23.63%
Germany	DAX 30 Index	15835.09	1.87%	22.32%
Europe	FTSE Eurotop 100 Index	3385.08	2.06%	30.01%

Property – Index Returns*	Index	At Close 31/08/2021	% Return 1 Month	% Return 12 Months
Listed Property	S&P/ASX 200 A-REIT Index	1648.00	6.26%	30.75%

Interest Rates	At Close 31/08/2021	At Close 31/07/2021	At Close 31/08/2020
Australian 90 day Bank Bills	0.01%	0.02%	0.10%
Australian 10 year Bonds	1.16%	1.18%	0.98%
US 90 day T Bill	0.04%	0.04%	0.09%
US 10 year Bonds	1.31%	1.22%	0.71%

Currency**	At Close 31/08/2021	% Change 1 Month	% Change 12 Months	
US dollar	AUD/USD	0.73	-0.45%	-1.07%
British pound	AUD/GBP	0.53	0.63%	-3.76%
Euro	AUD/EUR	0.62	0.06%	0.08%
Japanese yen	AUD/JPY	80.40	-0.20%	2.81%
Australian Dollar	Trade-weighted Index	61.20	-0.65%	-2.24%

* 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 217 million cases and over 5 billion vaccine doses administered as at the end of August. As lockdowns continue across the globe, the pressure on supply chains is being felt. Container prices have risen four-fold in the last 18 months with some retailers warning of shortages in the lead up to Christmas and concerns are

growing over global coffee supplies amid tough travel restrictions imposed in Vietnam, the world's second largest coffee exporter.

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US

At the recent Jackson Hole Symposium, Federal Reserve Chair Jerome Powell signalled the central bank will likely be tapering before the end of the year, but this will not translate to a direct increase in the Federal Funds rate. Inflation data for July printed in line with expectations, with inflation lifting 0.5% month-on-month and taking the yearly rate of inflation to 5.4%. Non-farm payrolls added 235,000 jobs in August, the lowest in seven months and well below forecasts of 740,000 as a surge in COVID-19 infections may have discouraged companies from hiring and workers from actively looking for a job. The unemployment rate fell from 5.4% to 5.2%, the participation rate remained at 61.7% and average hourly earnings grew at 0.6% following the 0.4% growth in July. Personal spending increased 0.3% in July as expected, while personal incomes rose 1.1% and above the 0.2% expected. Retail sales, however fell 1.1% in July, well below expectations of a 0.3% fall, driven by a decline in auto purchases and a resurgence in COVID-19 cases which impacted consumer demand. Consumer confidence fell in August to 113.8, well down on the 129.1 in July and the 123.0 expected, with falls in all income, age, and education subgroups and across all regions. The Markit Composite PMI declined 4.5pts to 55.4 in August, well below expectations of 58.3, signalling the slowest output expansion since December 2020, as weaker recoveries were seen in both the manufacturing and service sectors due to capacity pressures. The Markit manufacturing PMI also fell from 63.4 to 61.1, broadly in line with expectations. The Philadelphia Fed Manufacturing Index continued to fall for a fourth straight month to 19.4 in August, below forecasts of 23, and reaching a new low since December of 2020. The Chicago PMI was also weaker than expected, down from 73.4 to 66.8, with 68.0 expected. The trade deficit narrowed in July from a downwardly revised US\$73.2 billion to US\$70.1 billion (US\$74.1 billion expected).

Europe

Eurozone economic sentiment dropped to 117.5 in August, from an all-time high of 119.0 in the previous month and below market expectations of 117.9. Sentiment deteriorated for the first time since January's slight decline, amid concerns over the Delta coronavirus variant. Consumer confidence fell to -5.3 in August, coming in below expectations of -5.0 as concerns over rising COVID-19 cases impacted sentiment. The GDP growth rate was 2.2% for the June quarter, exceeding expectations of 2.0%, with the yearly rate surging from -1.2% to 14.3% (13.6% expected). The unemployment rate fell slightly in July from a revised 7.8% to 7.6%. The Markit manufacturing PMI fell from 62.8 in July to 61.4 in August. The Markit Composite PMI fell 0.7pts to 59.5 in August, below expectations of 59.7. Retail sales disappointed in July, falling 2.3% against expectations of 0.1% growth, while the yearly rate fell to 3.1% (4.8% expected). Online trade and sales of non-food products were the largest detractors, tumbling 7.3% and 3.5%, respectively. The flash inflation rate rose from 2.2% in July to 3.0% in August, above the expected 2.8%, with the core inflation rate also rising from 0.7% to 1.6%. PPI rose 2.3 percent in July 2021, the largest monthly increase since January 1995 and well above market expectations of 1.1 percent, while the yearly rate increased 0.7% to 10.3%, adding to signs of inflationary pressure. The unemployment rate edged down to 7.6% in July, the lowest reading since May last year. In the UK, the annual inflation rate fell to 2.0% in July, falling further than the expected 2.3% and down from 2.5% in June, with the core inflation rate also falling more than expected to 1.8% from 2.3% in June. The August Markit/CIPS Composite PMI fell 4.4pts to 54.8, missing expectations of 55.3, whilst the manufacturing PMI came in at 60.3, slightly higher than the 60.1 expected and down from 60.4 in July. Retail sales declined 2.5% in July, coming in below expectations of 0.4% growth as rising

COVID-19 cases and bad weather forced people to stay at home, while the yearly rate came in at 2.4% (6.0% expected).

China

China's inflation rate lifted 0.3% month-on-month in July, ahead of expectations of 0.2%. The yearly rate slipped from 1.1% to 1.0%, the lowest reading since April, amid a steeper decline in cost of food. Industrial production came in at 6.4% year on year growth in July, below the expected 7.8% growth and marking the lowest growth rate for the last 11 months. The unemployment rate rose slightly from 5.0% to 5.1%, whilst retail sales saw 8.5% year on year growth, down from a 12.1% growth rate in June and the expected 11.5% growth rate. The NBS Manufacturing PMI fell in August, down from 50.4 to 50.1, 50.2 expected, marking the weakest pace of increase in factory activity since the contraction in February 2020. The Caixin Composite PMI fell substantially more than expected in August down from 53.1 to 47.2 (52.9 expected), making it the first contradiction in private sector activity since April 2020 due to the resurgence of COVID-19 in several regions. The trade surplus surprised in August, widening to US\$58.34 billion and coming in above expectations of US\$51.05 billion as the yearly growth rates for exports and imports increased to 25.6% and 33.1%, respectively.

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Asia region

From a sporting perspective, the Tokyo Olympics and Paralympics were a massive success for Japan but losses from spectator free games will total 2.4tn Yen and the surge of COVID cases in Tokyo has continued. Japanese consumer confidence decreased 0.8pts to 36.7 in August, with all sub-indices showing a decline. CPI rose 0.2% in July, but the year on year figures show a 0.3% decline amid weakening consumption due to the ongoing COVID-19 pandemic. Household spending fell 0.9% in July, missing expectations of 1.1% growth, while the yearly rate fell to 0.7% (2.9% expected). Toyota, the world's largest car maker, announced a 40% cut in vehicle production due a shortage of semiconductors amid the outbreak of the Delta variant of the coronavirus in south-east Asia.

Australia

RBA left the cash rate unchanged at 0.1% during its September meeting, as widely expected and reconfirmed the gradual reduction of its quantitative easing program. GDP increased 0.7% in the second quarter, ahead of the 0.5% growth expected, and following the upwardly revised 1.9% growth in the previous quarter. Household consumption continued to grow, up 1.1% driven by spending on services, whilst government spending rebounded rising 1.3% vs a 0.3% fall in the prior quarter mainly due to increased spending on health. The July unemployment rate fell from 4.9% to 4.6%, with the participation rate falling to 66%. The Westpac consumer confidence index fell 4.4% to 104.1. This is the lowest point in a year, but it remains comfortably above lows seen in the national lockdown last year (75.6) and is above the reading seen over the twelve months prior to the pandemic (average read of 97.5). Business conditions fell by 14pts to +11 index points in July after declining 9pts in the previous month, driven largely by NSW. Despite two consecutive large falls, business conditions remain around twice their long-run average, reflecting the very high levels reached in early-to-mid 2021. The Markit Composite PMI fell 1.9pts to 43.3 in August, marking the second straight month of contraction in the private sector, reflecting the continued toll that the current coronavirus wave is taking on Australia's private sector economy. The trade surplus expanded to a new record high in July of \$12.12 billion, up from the upwardly revised \$11.11 billion surplus in June and ahead of the expected contraction to \$10.2 billion. Exports rose at 5.0% whilst imports rose at a lesser rate of 3.0%, both ahead of expectations.

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EQUITY MARKETS

- Australia's S&P/ASX 200 Index rose 2.5% in August, led by strong returns in Information Technology (+17.0%), Consumer Staples (+6.9%), Health Care (+6.8%) and Property (+6.3%).
- The US S&P 500 Index gained 3.0% in August in US dollar terms, marking its seventh consecutive monthly advance.
- In Europe, the UK's FTSE 100 Index gained 2.1% and Germany's DAX 30 rose 1.9% (all in local currency terms).
- Asian markets stabilised somewhat after losses in July. Japan's Nikkei 225 Index gained 3.0% and China's CSI 300 Index was up a moderate 0.13%. Hong Kong's Hang Seng Index finished down -0.1% (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	2.50%	28.15%	9.86%	10.93%	8.57%
	S&P/ASX 50 Acc. Index	1.99%	27.99%	9.64%	10.66%	7.78%
	S&P/ASX Small Ordinaries Acc. Index	4.98%	29.51%	10.08%	10.99%	9.81%

The Australian share market continued its advance for the year following a strong reporting season, with the S&P/ASX 200 gaining 2.5% for the month; year to date the index is up an impressive 17%. Information Technology contributed strongly with a 17% gain for the month, with Consumer Staples (+6.9%) and Health Care (+6.8%) also leading the index higher. Materials and Energy were the only detractors for the month with the sectors retracing 7.3% and 3.9% respectively; continued weakness in iron ore prices and a softer month for oil contributed to the losses. Despite the impressive monthly gains in Information Technology, low volatility (+5.4%) and value (+4.1%) were the best performing factors for the month. Interestingly, growth only edged a modest 0.9% higher. Value continues to remain the dominant factor year to date, with a gain of 19.8%. It was a busy month for investors as attention turned to FY21 reporting season. Healthy profits and record dividends were a feature of reporting season as materials and COVID beneficiaries continue to recover strongly from the March 2020 lows. Banks also continue to build momentum as bad debt provisions are scaled back amidst an improving economic backdrop.

Investment Index/Benchmark returns*

S&P/ ASX 200 Index

Sector	1 Month	3 Months	1 Year
Information Technology	17.04%	23.61%	26.11%
Consumer Staples	6.89%	14.27%	13.97%
Health Care	6.84%	10.42%	14.84%
Property	6.26%	12.47%	30.75%
Communications	5.20%	9.49%	37.12%
Financials ex-Property	4.76%	3.06%	45.27%
Consumer Discretionary	3.37%	7.46%	34.64%
Industrials	2.72%	10.34%	17.85%
Utilities	0.97%	6.12%	-12.08%
Energy	-3.94%	-2.63%	5.99%
Materials	-7.29%	-0.42%	24.78%

*Total returns based on GICS sector classification

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BIG MOVERS THIS MONTH

Going up

↑	Information Technology	+17.04%
↑	Consumer Staples	+6.89%
↑	Health Care	+6.84%

Going down

↓	Energy	-3.94%
↓	Materials	-7.29%

Global Equities

	Index/Benchmark (% pa)	1 Month	1 Year	3 Years	5 Years	7 Years
Global	MSCI World Ex Australia Index (AUD)	3.10%	31.37%	14.67%	15.58%	14.88%
	MSCI World Ex Australia Index (LCL)	2.69%	30.15%	14.75%	14.77%	11.63%
	MSCI World Ex Australia Small Cap Index (AUD)	2.87%	43.65%	10.83%	14.19%	14.16%
Emerging	MSCI Emerging Markets Index (AUD)	3.31%	22.56%	9.47%	11.02%	8.83%
	MSCI AC Far East Index (AUD)	2.31%	17.24%	8.17%	10.84%	11.09%

Global markets continued their climb into August, with emerging markets slightly outperforming developed markets as the region recovers from a sharp sell-off driven by Chinese equities in late July. Developed markets continue to be supported by economic stimulus and vaccination efforts, despite unabated trends in daily case rates across developed economies. In Australian dollar terms, Small cap global equities continue to be the best performer over the last twelve months, whilst their larger cap counterparts continue to outperform both small cap and emerging markets over the longer term.

August saw the release of troubling data across several major economies with US hiring at seven-month lows, decelerating Chinese PMI for the fifth straight month and supply chain bottlenecks increasing for Europe's largest manufacturers. Energy prices have also risen significantly across G7 economies, poorly timed as winter approaches for the northern hemisphere. Inflation will be a key discussion point for the Federal Reserve meeting scheduled for the second last week of September. The timing and degree of stimulus tapering remains a central issue for policy makers to contend with as they must balance managing inflation without compromising economic growth. This poses a significant short-term risk for global equity markets which have been enjoying an unprecedented bull run since the March 2020 COVID induced sell-off.

Property

	Index/Benchmark (% pa)	1 Month	1 Year	3 Years	5 Years	7 Years
Australian	S&P/ASX 200 A-REIT Acc	6.26%	30.75%	8.72%	6.62%	10.25%
Global	FTSE EPRA/NAREIT Developed Ex Australia Index (AUD Hedged)	1.325%	34.27%	7.10%	6.32%	7.55%

A-REIT's advanced strongly during August with the S&P/ASX 200 A-REIT Accumulation Index achieving 6.3% for the month and 30.8% for 12 months to 31 August 2021. The months news was dominated by the release of the 2021 full-year financial results. The financial results across A-REITs were generally strong, pushing the index higher. One exception was Goodman Group (ASX: GMG) that closed the day down over 2% upon releasing poorer than expected earnings growth guidance for FY22. GPT Group (ASX: GPT) released an announcement in mid-August in response to media speculation, confirming they are indeed in exclusive due diligence to acquire a portfolio from Ascot Capital for approximately \$800m, comprising 26 logistics and industrial assets, along with 4 office assets. In the U.S., August saw an increase in people working from home for the first month since December last year as the delta variant causes concern (Source: Nareit). This, along with a slowdown in job growth may lead to a slower recovery of the office sector

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than expected. CoreLogic reported that the 5-capital city aggregate all dwellings (including Sydney, Melbourne, Brisbane including Gold Coast, Adelaide, and Perth) advanced by 1.5% in August, 17.2% year on year.

Fixed Interest

	Index/Benchmark (% pa)	1 Month	1 Year	3 Years	5 Years	7 Years
Australian	Bloomberg AusBond Composite 0+ Yr Index	0.82%	1.05%	4.52%	3.33%	4.15%
	Bloomberg AusBond Bank Bill Index	0.05%	0.04%	0.84%	1.22%	1.55%
Global	Bloomberg Barclays Global Aggregate Index (AUD)	0.16%	1.72%	4.19%	3.04%	5.67%
	Bloomberg Barclays Global Aggregate Index (AUD Hedged)	-0.22%	0.55%	4.28%	2.93%	4.03%

August saw continued strong performance from domestic Fixed Income markets. Yields remained relatively static at the short end of the curve, but fell at the longer end, resulting in a flatter curve overall. This can be seen in the 3-year Australian Government Bond having had a net change of less than 1bp over the month, while the 10-year issue had its yield fall by 2.6bps. The fall has been driven by doubts about the Reserve Bank of Australia's commitment to tapering off the current level of stimulus, doubts which have grown significantly over the month as both Victoria and New South Wales remain in lockdown. These concerns, combined with credit spreads continuing to tighten over the course of the month led to the Bloomberg AusBond Composite 0+ Yr Index returning 0.82% over August. Globally, there has been significant heterogeneity in the performance of international bond markets as variation in vaccination rates and other COVID related metrics remains high. In the US, continued strong economic performance has driven talks of sooner tapering, which has resulted in higher yields overall. The Bloomberg Barclays Global Aggregate Index (AUD Hedged) Index returned -0.22% over August, with the unhedged variant having returned 0.16%.

Australian dollar

The Australian dollar continued its downward trend over the month of August, falling marginally by -0.45% against the greenback and -0.65% in trade-weighted terms. Losses early in the month were caused by the continued retreat of investor confidence due to the Delta variant of COVID-19 domestically and falling Iron Ore prices. These forces were partially offset by strong gains in Coal pricing and the RBA's steadfast decision to continue with the tapering of QE in mid-November.

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