Market Update

AUGUST 2021

- The Australian share market reached all-time highs in July, with the S&P/ASX 200 gaining 1.1% for the month.
- US employment surprised again as non-farm payrolls came in well above expectations, coupled with a falling unemployment rate, reinforces the strength of the economy.
- Economic sentiment in Europe rose for the sixth month in a row supported by hopes of a strong economic recovery due to the reopening of economic activities.
- The RBA kept the cash rate on hold at 0.1% as expected and upgraded the outlook for 2022 with economic growth expected to be 4.0%.

July market performance

Equity Markets – Index Return*	Index	At Close 31/07/2021	% Return 1 Month	% Return 12 Months
Australia	S&P/ASX 200 Index	7392.62	1.10%	28.56%
United States	S&P 500 Index	4395.26	2.38%	36.45%
Japan	Nikkei 225 Index	27283.59	-5.23%	27.71%
Hong Kong	Hang Seng Index	25961.03	-9.58%	8.32%
China	CSI 300 Index	4811.17	-7.31%	4.25%
United Kingdom	FTSE 100 Index	7032.3	0.07%	23.26%
Germany	DAX 30 Index	15544.39	0.09%	26.24%
Europe	FTSE Eurotop 100 Index	3325.85	1.23%	29.98%

Property – Index Returns*	Index	At Close 31/07/2021	% Return 1 Month	% Return 12 Months
Listed Property	S&P/ASX 200 A-REIT Index	1558.30	0.28%	32.75%

Interest Rates	At Close 31/07/2021	At Close 30/06/2021	At Close 31/07/2020
Australian 90 day Bank Bills	0.02%	0.03%	0.10%
Australian 10 year Bonds	1.18%	1.53%	0.82%
US 90 day T Bill	0.04%	0.04%	0.08%
US 10 year Bonds	1.22%	1.47%	0.53%

Currency**		At Close 31/07/2021	% Change 1 Month	% Change 12 Months
US dollar	AUD/USD	0.73	-2.04%	2.81%
British pound	AUD/GBP	0.53	-2.74%	-3.22%
Euro	AUD/EUR	0.62	-2.20%	2.03%
Japanese yen	AUD/JPY	80.56	-3.26%	6.58%
Australian Dollar Trade-weighted Index		61.6	-1.75%	-0.48%

* 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 197 million cases at the end of July, an increase of 14 million in the month. Delivery of vaccines continues to rise with 3.8 billion doses delivered globally as at the end of July, with the European Union saying that 200 million Europeans have been fully vaccinated. Vaccination remains key as countries with high vaccination rates are showing lower hospitalisation and death rates even with increased infection rates. Key economic indicators continue to improve generally, with several leading economies reporting above expected increases in inflation.

Market Update

US

The FOMC kept interest rates on hold at 0.25% as widely expected, indicating that it is moving closer towards tapering bond purchases. CPI rose 0.9% in June, surpassing expectations of 0.5% and marking the largest monthly rate since June 2008. The yearly rate lifted to 5.4% against expectations of 4.9%. Core CPI lifted 0.9% in June, above the expected 0.4% while the yearly rate rose 0.7% to 4.5% (4.0% expected). The first estimate for 2Q21 GDP disappointed, coming in at a 6.5% annual growth rate, well below the expected 8.0%. Non-farm payrolls added 943,000 jobs in July, surpassing expectations of 870,000 and up on June's upwardly revised 938,000. The robust gain in non-farm payrolls saw the unemployment rate fall to 5.4%, below expectations of 5.7%, which coupled with a rise in the participation rate to 61.7% reinforces the strength of the economy. Personal consumption expenditures grew strongly, posting an 11.8% annual growth rate, led by growth in services and nondurable goods. Personal income surprised in June, rising 0.1% against expectations of a 0.3% decline. The PMI Composite Index fell 4 points to 59.9 in July, from June's 63.7, with the rate of expansion the softest since March amid a slower upturn in service sector activity. The Philadelphia Fed Manufacturing Index fell for the third month to 21.9 in July, well below the market forecast of 28 and the lowest since December. The Chicago PMI jumped 7 points 73.4 in July, the second-highest pandemic-era reading. The trade deficit widened to US$75.7 billion in June, exceeding expectations of a rise to US$73.9 billion.

Europe

Eurozone economic sentiment rose in July for a sixth month in a row to an all-time high of 119.0, ahead of the expected 118.7. The increase was supported by hopes of a strong economic recovery due to the reopening of economic activities. The ECB left its policy setting unchanged at its July meeting, as widely expected. It also commented that the PEPP will continue at least until the end of March 2022 and buying will be at a significantly faster pace than earlier this year. The Markit manufacturing PMI stood at 62.8 in July 2021, little-changed from expectations of 62.6, but down slightly from 63.4 in June. The Markit Services PMI rose 1.5pts to 59.8 in July, missing expectations of 60.4. Retail sales expanded 1.5% in June, below expectations of 1.7% as the yearly rate fell 3.6% to 5.0% (4.5% expected). CPI rose 0.4% in July, as widely expected, while the yearly rate fell 0.2% to 2.3%.

PPI rose 1.4% in June, while the yearly rate increased 0.7% to 10.3%. The unemployment rate fell 0.3% to 7.7% in June, coming in below expectations of 7.9%. In the UK, CPI rose 0.5% in June, surpassing expectations of 0.2%, as the yearly rate increased 0.4% to 2.5% (2.2% expected), marking the highest inflation rate since August 2008. Retail sales increased 0.5% in June, broadly in line with expectations, with the yearly rate at 9.7%. The July Markit/CIPS composite PMI fell more than expected to 59.2, well below the 61.7 estimate. This signals the slowest rate of private sector expansion for four months. COVID related restrictions largely lifted in England on July 19, with other jurisdictions following by the end of the month.

China

China's inflation rate for June unexpectedly fell 0.4%, compared with forecasts of a flat reading, while the annual rate of inflation also fell to 1.1% from May's eight-month high and market expectations of 1.3%. The unemployment rate remained at 5%, the lowest rate in two years. Retail sales rose by 12.1% year-on-year in June, after a 12.4% gain in May and compared with expectations of 11 %. The Caixin Composite PMI jumped to 53.1 in July 2021, up from June's 14-month low of 50.6, pointing to a stronger rise in overall Chinese business activity. The acceleration in activity growth came in after the epidemic in Guangdong province was brought under control, and before Covid-19 resurged in Jiangsu province, the country's most widespread outbreak in months. The trade surplus was US$56.6 billion in July, above market consensus of US$51.5 billion, with exports and imports rising 19.3% and 28.1%, respectively.

Market Update

Asia region

Tokyo hit a new daily record of 3,177 new COVID-19 cases at the end of July, as pressure mounted on the hospital system and increased concerns to the ongoing Olympic games. The Japan consumer confidence index rose 0.1pts to 37.5 in July, beating expectations of a decline to 37.0. Retail sales rose 0.1% year-on-year in June 2021, below market expectations of 0.2%. This was the fourth straight month of growth in retail trade but the weakest pace, as consumption weakened following the latest surge of local COVID-19 infections. CPI rose 0.3% in June, ahead of expectations of 0%, as the yearly rate increased to 0.2%. Household spending slumped 3.2% in June, falling short of expectations of 2.0% growth, marking the first decline in household consumption since February, as spending deteriorated following the latest wave of coronavirus cases. The yearly household spending rate fell to -5.1% (0.1% expected).

Australia

The RBA left the cash rate unchanged at 0.1% during its August meeting, as widely expected, while maintaining the target of 0.1% for the April 2024 Australian Government bond. Additionally, it upgraded the outlook for 2022 with economic growth expected to be 4.0% and the unemployment rate to be 4.25%. CPI for 2Q21 came in at 0.8%, slightly above the expected 0.7% and lifting the annual rate to 3.8%. The labour market has continued to recover with the unemployment rate falling to 4.9% in June, an 18-month low. The declining unemployment rate continues to coincide with employers reporting high levels of job vacancies and difficulties in finding suitable people for them. The Westpac consumer confidence index rose 1.5% to 108.8 in July, with concerns over the coronavirus outbreak and associated restrictions in New South Wales not spilling over to the rest of the country. This, however, may change in August with the lockdown in NSW extending for four more weeks and snap lockdowns in QLD and VIC. The NAB business confidence index fell sharply to 11 in June, well below expectations of 19, amid COVID-19 lockdowns in New South Wales and Victoria. Confidence weakened across all industries except mining and manufacturing. The Markit Manufacturing PMI fell 1.7pts to 56.9 in July, slightly above expectations of 56.8. while the Markit Services PMI fell into contractionary territory with a reading of 44.2 (down from 56.8 in June). The trade surplus widened to $10.50 billion in June, surpassing expectations of $10.45 billion, as exports and imports rose 4% and 1%, respectively.

Market Update

EQUITY MARKETS

- Australia's S&P/ASX 200 Index rose 1.1% in July, led by the Materials (+7.1%) and Industrials (+4.3%) sectors.
- The US S&P 500 Index gained 2.4% in July in US dollar terms, marking its sixth consecutive monthly advance.
- In Europe, the UK's FTSE 100 Index and Germany's DAX 30 Index eked out a small gain of 0.1%, and France's CAC 40 Index rose 1.6% (all in local currency terms).
- In a month of losses for Asian markets, Japan's Nikkei 225 Index fell -5.2% while Hong Kong's Hang Seng Index fell -9.6 and China's CSI 300 Index fell -7.3% (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	1.10%	28.56%	9.47%	10.04%	8.28%
	S&P/ASX 50 Acc. Index	1.25%	27.75%	9.28%	9.83%	7.54%
	S&P/ASX Small Ordinaries Acc. Index	0.68%	32.03%	9.21%	9.57%	9.41%

The Australian share market reached all-time highs in July, with the S&P/ASX 200 gaining 1.1% for the month. The Materials sector was the clear standout, benefiting from solid gains in both industrial and precious metals, which saw the Materials sector up 7.1% for the month. Industrials also performed strongly with a gain of 4.3%. Information Technology gave up some of the impressive performance seen in June, with the sector retracing 6.9%. Energy and Financials were also weaker in July, both falling 2.5% and 1.4% respectively.

The value rotation continued to show signs of weakening, with the S&P/ASX 200 Value Index down 0.3% for the month. Despite the recent weakness, value remains the leading factor year to date (+15.1%). Investors continue to favour quality as lockdowns are reinforced across the country amidst rising COVID cases, casting doubts over the pace of Australia's economic recovery. The S&P/ASX 200 Quality Index was 3% higher for the month.

Attention now turns to the reporting season which commenced late last month. Investors will be eagerly awaiting results to ascertain whether the impressive market rally from the COVID induced lows of last year has been justified. Equally paramount will be any commentary offered by companies on their expectations for the future, given the dearth of outlook statements provided last year. Given the disruption posed by East Coast lockdowns, guidance may be deferred until the AGM season later this year.

Rio Tinto reported earnings on 28 July 2021; one of the more highly anticipated reports given the impressive rise in iron ore prices over the past year. The miner didn't disappoint, reporting record half-year earnings which more than doubled from last year. Rio reported underlying earnings of US$12.2bn compared with US$4.8bn a year earlier. The company will pay out an impressive US$9.1bn in dividends, consisting of a special dividend of US$1.85 per share and an interim dividend of US$3.76 per share.

Investment Index/Benchmark returns*

S&P/ ASX 200 Index

Sector	1 Month	3 Months	1 Year
Materials	7.13%	13.19%	36.16%
Industrials	4.25%	15.06%	20.01%
Utilities	1.60%	3.61%	-17.12%
Consumer Staples	1.50%	10.21%	6.17%
Health Care	1.16%	13.09%	11.75%
Property	0.28%	18.04%	32.75%
Consumer Discretionary	-0.50%	18.42%	41.54%
Communications	-1.39%	15.85%	25.42%
Financials ex-Property	-1.43%	11.87%	40.12%
Energy	-2.53%	-5.27%	14.03%
Information Technology	-6.88%	1.33%	24.41%

*Total returns based on GICS sector classification

Market Update

BIG MOVERS THIS MONTH

Going up

⥣ Materials +7.1%

⥣ Industrials +4.3%

⥣ Utilities +1.6%

Going down

⥥ Information Technology -6.9%

⥥ Energy -2.5%

⥥ Financials -1.4%

Global Equities

	Index/Benchmark (% pa)	1 Month	1 Year	3 Years	5 Years	7 Years
Global	MSCI World Ex Australia Index (AUD)	4.03%	31.85%	15.05%	15.17%	14.65%
	MSCI World Ex Australia Index (LCL)	1.73%	34.80%	14.25%	14.28%	11.64%
	MSCI World Ex Australia Small Cap Index (AUD)	1.38%	42.51%	11.89%	13.80%	14.12%
Emerging	MSCI Emerging Markets Index (AUD)	-4.74%	17.70%	8.33%	11.11%	8.59%
	MSCI AC Far East Index (AUD)	-3.90%	16.51%	8.37%	10.97%	10.53%

July saw a contrast in global equity performance across regions, with emerging markets posting a 4.7% decline in Australian dollar terms over the month, whilst developed markets continued their strong performance, climbing by 4%. Losses in emerging markets were driven by a deep sell-off in Chinese technology and education stocks towards the end of the month as Chinese regulatory officials confirmed a leaked policy document banning for-profit tutoring, an industry with an estimated value c.US$120 billion. This began a sell-off in Chinese education stocks which spread to the Chinese technology sector, shaving off a combined US$1.0 trillion in company value, with the MSCI China index posting its largest decline since March 2020. Hong Kong was not immune to this mainland decline, with the broader Hang Seng index declining by 9.6% over the month. Heightened regulatory risks for the region are expected to remain in the medium term as the market struggles to price in this regulatory uncertainty which has always been a risk of Chinese equities.
Developed markets continued to rise over July, buoyed on by vaccine rollout which has helped a strong Q2 2021 US corporate earnings results. Of the 89% of S&P500 companies that have reported actual results for Q2 2021 to date, 87% have reported EPS results above analyst estimates. Going forward, developed markets remain supported by near term fiscal policy initiatives with US Senate close to finalisation of a bi-partisan US$1 trillion infrastructure bill, whilst EU member states reached final approval of a €800b EU recovery fund support package.

Property

	Index/Benchmark (% pa)	1 Month	1 Year	3 Years	5 Years	7 Years
Australian	S&P/ASX 200 A-REIT Acc	0.28%	32.75%	7.49%	4.74%	9.56%
Global	FTSE EPRA/NAREIT Developed Ex Australia Index (AUD Hedged)	4.15%	35.02%	7.06%	5.59%	7.66%

A-REIT's advanced slightly during July, with the S&P/ASX 200 A-REIT Accumulation Index (XPJ) achieving 0.3% for the month. This is considerably less than the prior month of June, where the index advanced 5.5%. The lower monthly return can largely be attributed to the COVID-19 Delta variant outbreak, causing continued lockdowns across Sydney, and shorter, periodic lockdowns across Brisbane and Melbourne. Global property, as measured by the FTSE EPRA/NAREIT Developed Ex Australia Index (Hedged to AUD), gained 4.2% for July and the Federal Reserve's Senior Loan Officer Survey for August 2021 indicated that there is stronger demand for commercial construction loans, multifamily properties, and other secured non-residential real estate, indicating strength in the sector.

Market Update

No news was good news for some of the A-REIT's during July. Goodman Group (GMG), the largest constituent of the XPJ, advanced by 6.7% and Charter Hall group (CHC) achieved 4.9%, both of which released no price sensitive announcements to the market during the period. Other news included Cromwell Property Group (CMW) appointing Jonathan Callaghan as the new CEO and Dexus (DXS) acquiring a 49% interest in a holding unit trust which owns Capital Square Tower 1 in Perth for a total consideration of $339 million. Dexus also entered into binding terms to fund, develop and invest in Atlassian's new headquarters on Lee Street in Sydney. The 40-level building is expected to cost $1.4bn with commencement in early 2022 and completion in early 2026. Atlassian has taken a 15-year lease. CoreLogic's July 2021 update stated Australian dwellings rose by 13.5% in the 2020-21 financial year, being the highest annual growth rate since April 2004. Rents in June continued to increase, with year to June growing by 6.5%. In July, the 5-capital city aggregate advanced by 1.61%, with Sydney, Melbourne and Brisbane achieving 1.9%, 1.3% and 2.0% respectively.

Fixed Interest

	Index/Benchmark (% pa)	1 Month	1 Year	3 Years	5 Years	7 Years
Australian	Bloomberg AusBond Composite 0+ Yr Index	1.76%	0.53%	15.00%	18.17%	34.17%
	Bloomberg AusBond Bank Bill Index	0.00%	0.52%	2.70%	6.45%	11.61%
Global	Bloomberg Barclays Global Aggregate Index (AUD)	3.50%	-1.66%	5.14%	3.14%	5.64%
	Bloomberg Barclays Global Aggregate Index (AUD Hedged)	1.25%	0.05%	4.45%	2.99%	4.28%

The Bond rally that started in June has continued throughout July, as yields plummeted. The Australian Sovereign 3 and 10 year yields fell by 16 and 30 basis points respectively. The 10 year rate ended the month at 1.19%, approaching the level it was at prior to February's large selloff. July's fall in yields can be attributed, at least in part, to ongoing concerns over the impact of the Delta variant of COVID, and markets doubting whether the Reserve Bank of Australia will continue to slow down their Quantitative Easing program as Sydney remains in lockdown. This same uncertainty has impacted credit markets, as credit spreads widened over the month, as can be seen by the iTraxx Australia Index increasing by slightly over 4 basis points from the start to the end of July. This increase in spreads pales in comparison to the sharp fall in the risk-free rate however, which resulted in the AusBond Composite 0+ Yr Index returning 1.8% over the month. Globally, the story is much the same, with yields falling as the world grapples with the Delta variant of COVID. This has resulted in the Bloomberg Barclays Global Aggregate Index (AUD Hedged) Index returning 1.3%, or 3.5% for the unhedged variant, over the course of July.

Australian dollar

The Australian dollar continued to fall over the month of July, dropping -2.0% against the greenback and -1.8% in trade-weighted terms. Domestic lockdowns in major economic centres of Australia continue to suppress investor confidence, further weakened by the rapidly growing outbreak of the highly infectious Delta variant of COVID-19 in New South Wales. Announcements earlier in the month from the RBA regarding the tapering of QE offered some support to the AUD, however, this may be overshadowed by recent steep price decline in Iron Ore moving into August.