# View from the hill

## JULY 2021

## Market update

The table below provides details of the movement in average investment returns from various asset classes for the period up to **30 June 2021.**

| Asset class (% change) | 1 month | 3 months | 1 year | 3 years (%pa) |
|---|---|---|---|---|
| Australian shares | 2.3 | 8.3 | 27.8 | 9.6 |
| Smaller companies | 3.1 | 8.5 | 33.2 | 8.6 |
| International shares (unhedged) | 4.7 | 9.3 | 27.5 | 14.5 |
| International shares (hedged) | 2.4 | 7.6 | 37.1 | 14.8 |
| Emerging markets (unhedged) | 3.3 | 6.6 | 29.2 | 10.7 |
| Property – Australian listed | 5.6 | 10.7 | 33.9 | 8.2 |
| Property – global listed | 1.9 | 9.3 | 31.4 | 5.9 |
| Australian fixed interest | 0.7 | 1.5 | -0.8 | 4.2 |
| International fixed interest | 0.5 | 0.9 | -0.2 | 4.0 |
| Australian cash | 0.0 | 0.0 | 0.1 | 1.0 |

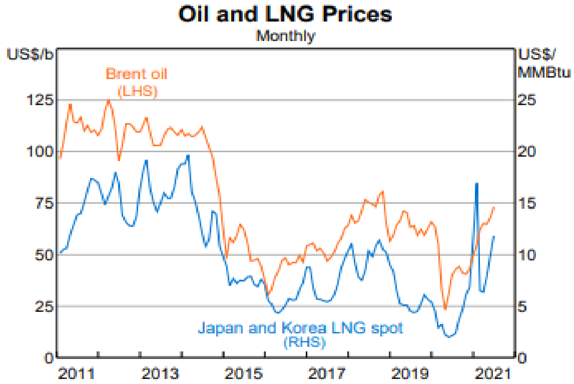
Past performance is not a reliable indicator of future performance.

## Overview & Outlook

The Australian economy experienced a setback in June as recovery was shaken by snap lockdowns in Sydney and Melbourne. The Australian economic activity tracker, which is based on weekly data on job ads, card transactions service bookings and is therefore an excellent indicator of current economic activity, declined over the last week of June as retail traffic slowed and restaurant bookings declined. On the upside, Australia reported a trade surplus of $9.7 billion in May, just under the record set in January this year, as export earnings surged 6.1%, led by iron ore. The surplus reflects both the higher iron ore price as well as the increase volumes of iron ore exports that were developed in the mining boom. The surplus will act as a support for the Aussie dollar while higher dividends from the increased company cash flows will increase disposable incomes and government tax revenue. In the housing market, prices have been buoyant, however, high debt-to-income ratio loans are also increasing. In this environment, APRA may look to tightening lending.

Globally, growth momentum has continued to be the theme of the month. Supply chain pressures remain high due to disrupted transportation and manufacturing with a range of materials such as semiconductors and chips still in short supply, impacting car production and technology products. Meanwhile, pressure in the market for industrial metals has been eased slightly by the Chinese government releasing some of its reserves in an attempt to cool these markets that have recorded significant price increases as the global economy has accelerated. Precious metals, oil and agricultural product prices remain strong, again supported by strong growth.

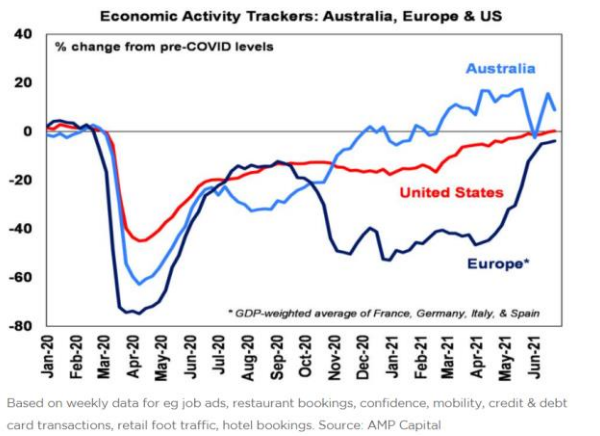
**Oil and LNG Prices**




Source: Bloomberg; RBA

In the US, there was increased volatility in both the bond and equity markets in mid-June as the Federal Reserve sent their most hawkish message in relation to interest rates since early last year, signalling potential rate hikes in 2023. This volatility subsequently declined after the Fed Chair reiterated the Fed's view that inflation is temporary. Economic data remains very positive with US payroll data showing that 850,000 jobs were added during June, causing the equity market to surge. Strong job growth combined with growth in real consumer spending signals that economic recovery for the US remains buoyant. The US economic activity tracker has now reached pre-pandemic levels.

Europe's economy is starting to accelerate, with consumer confidence up and unemployment continuing to decline. Inflation reached its highest levels (2.0% YoY) in more than two years and its economic activity tracker has almost reached pre-pandemic levels (see chart below). Vaccine rollout has been effective, but the greatest threat and uncertainty is now the Delta variant, particularly in the UK where it is the main constraint on reopening.




Source: AMP Capital

## Share markets

The Australian equity market (+2.3%) closed higher for the ninth consecutive month, with smaller companies (+3.1%) outperforming the broader index. Info Tech was the standout sector (+13.41%), followed by Telecom (+6.59%) and A-REITs (+5.6%). This reflects falling bond yields positively impacting valuations, the lockdown sentiment as we saw "stay-at-home" stocks rise and an ongoing re-rating of the property sector. IRESS (+21%) was notable in the IT sector on the back of takeover speculation. Strong performers in the Consumer Staples and Consumer Discretionary sectors included Kogan, Harvey Norman and JB Hi-Fi. In Telecoms, Telstra (+8.0%) rose after selling almost half of its mobile towers business for $2.8 billion.

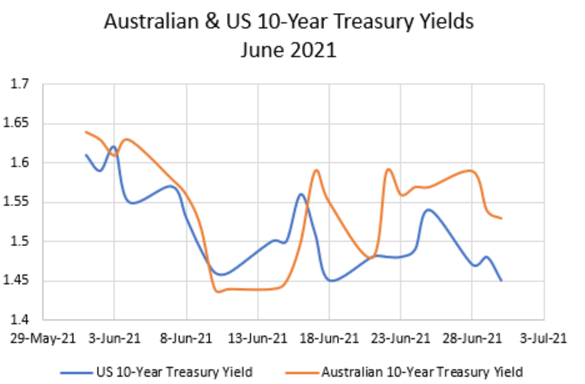
The global market experienced volatility throughout the month as bond yields fluctuated, but international shares finished with a +4.7% return on an unhedged basis. In the US, bond rates fell at the end of June, benefitting the equity market. Companies such as Google, Amazon, Apple and Microsoft each rose over 2% at month-end benefitting from investment flows back into the technology sector. A notable performer was Facebook, where share prices surged as an antitrust case was dismissed. The equity market was broadly stronger driven by favourable payroll data which saw all the major indices reach new highs.

Going forward, global and domestic growth is likely to continue, but markets may experience jitters due to factors such as inflation uncertainty, supply chain bottlenecks, and the Delta variant of the virus. With US second-quarter reporting season to commence in mid-July, investors may get an indication of inflation pressures.

## Interest Rates

Both domestically and internationally, bond yields were volatile in June as the US Federal Reserve sent a slightly hawkish message about tapering monetary policy and potential interest rate hikes in 2023, which was earlier than markets previously expected. This caused the US 10-Year Treasury Yield to spike mid-month, before settling at 1.45% as the Fed Chair calmed the market by reiterating that, in their view, the current inflation is transitory. International fixed interest (+0.5%) saw a small gain.

The Australian fixed interest index (+0.7%) had a similar result, as the 10-Year Treasury Yield followed the same pattern as the US, spiking mid-month but declining 18bps over the month to 1.49%. The RBA continues to send a strong message that interest rates hikes are a long way off, but some quantitative easing measures may be reviewed next month. Looking forward, we may continue to see volatility in bond yields driven by both supply and inflation expectations.




Source: AMP

## Property

REITs (+5.6%) were the strongest performing asset class in June, finishing the financial year with a solid return of +33.2%. Most REITs announced revaluations, with industrial assets notable as they were revalued up between 6 – 12 per cent driven by positive investor sentiment toward this sub-sector. Global REITs (+1.9%) saw a small gain despite lower US bond yields. Should bond yields continue to decline the asset class is likely to be a major beneficiary.