View from the hill

AUGUST 2021

Market update

The table below provides details of the movement in average investment returns from various asset classes for the period up to **31 July 2021.**

Asset class (% change)	1 month	3 months	1 year	3 years (%pa)
Australian shares	1.1	5.8	28.6	9.5
Smaller companies	0.7	4.1	32.3	9.2
International shares (unhedged)	4.0	10.2	31.8	15.1
International shares (hedged)	1.7	5.2	34.8	14.3
Emerging markets (unhedged)	-4.7	0.5	17.7	8.3
Property - Australian listed	0.5	7.9	33.7	8.1
Property - global listed	3.9	7.4	34.8	6.9
Australian fixed interest	1.8	2.7	0.5	4.8
International fixed interest	1.3	2.0	0.1	4.5
Australian cash	0.0	0.0	0.1	0.9

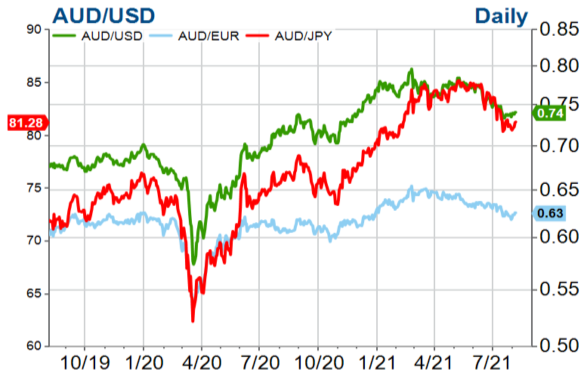
Past performance is not a reliable indicator of future performance.

Overview & Outlook

The economic condition in July has exhibited that Australia's journey to recovery will not be without turbulence. In NSW, lockdowns have been extended to the end of August as daily cases reached the highest numbers since the pandemic started. It is costing the government $1 billion each week in support payments to businesses as well as workers who have had their hours of work reduced. GDP is predicted to contract by around 2% in Q3 2021, and some analysts are anticipating unemployment to bounce back to 5.25%-5.50% by September. Vaccination rates have accelerated to 1.15 million doses per week, but Australia is still months away from reaching the goal of having 70% of the adult population fully vaccinated, which may start to see a return to normality.

The Reserve Bank of Australia previously announced potential tapers to their bond buying program in response to inflationary pressures. However, in an environment of economic cooldown, this could be put on hold. The RBA's flexible arrangement of purchasing $5 billion of bonds each week is likely to increase if economic outlook continues to deteriorate. The Australian dollar also came under pressure last month as growth slumped in comparison to the recoveries in other parts of the world. While commodity prices have been rallying, the Aussie dollar may face downward pressure if commodities continue to decline due to China's regulatory crackdown and market vulnerability.

Australian Dollar



Source: FactSet, AMP

Globally, economic recovery continued in most major developed markets. In the United States, Q2 GDP rose 1.6% QoQ, supported by household consumption as consumers began to utilise their $US2 trillion of pent-up savings. Inflation has now increased for four consecutive months, with headline CPI reaching 5.4% YoY in June. However, payroll data painted a different picture in July, as only 330,000 jobs were added, falling significantly short of expectations. Going forward, the economy and market may experience some uncertainty as their resilience is being put to the test, especially as the Delta variant is causing a wave of new cases, particularly in states with low rates of vaccination.

Recovery in the Eurozone gathered speed, with business activity growing at its fastest rate in 21 years. Economic data has been strong, with GDP growing 2% QoQ and 13.7% YoY. Forward looking guidance on interest rates was provided by the European Central Bank (ECB), who is seeking to push up inflation, as opposed to many other global central banks who are tackling rising inflationary pressures. The ECB reassured investors that monetary policy will continue to be ultra-loose, as their goal is to keep economic recovery on track.

Share markets

The Australian equity market (+1.1%) rose marginally, led by the Materials sector (+7.13%), Resources (+6.58%) and Industrials (+4.25%). Rio Tinto moved +5.9% in July after the announcement of a $12.4 billion interim dividend payment, supported by profit growth of 49%. BHP rallied 10.9% as they won a takeover bid for a Canadian nickel project. The biggest laggard in July was Info Tech (-6.88%) which corrected itself from a stellar month in June.

June reporting season in Australia has commenced, with a major standout being Nick Scali, which is expected to announce a 90% increase in profits YoY, after benefiting from consumers upgrading their home furniture in lockdown. Banks are expected to deliver 58% growth in earnings, and the mining sector has shown improvement as well. However, given the economic environment that Australia is in now, investors this reporting season are also observant of whether companies' have adequate balance sheets in place for surviving this round of lockdowns.

The strongest performing asset class in the last month was international shares which returned +4.0% (currency unhedged), as the US, UK and Europe all saw growth momentum. In the US, bond rates fell throughout July, benefitting equities, particularly growth stocks. Growth stocks in the US returned 2.9% while value stocks were up just 0.7%. The Q2 reporting season is also underway, with 59% of reporting complete and 87% of results beating expectations so far. Analysts predict that earnings per share could grow by 59.8% this quarter (on a YoY basis), fuelling further growth and resilience for the US market.

Source: AMP Capital

Emerging markets (-4.7%) lagged significantly in July in comparison to its developed market peers, as weakness in the Chinese market created ripples of uncertainty among investors globally and triggered a sudden decline in share prices. Reforms were made to the private education sector at the end of July, causing concerns about the earnings of Chinese companies, and wiping around $US126 billion off the value of Chinese companies listed around the world. Going forward, investors are wary that the situation is very fluid and that impacts to other sectors, such as healthcare, are yet to play out.

China Shanghai A Share Index

Source: FactSet, AMP

Interest Rates

Australian fixed interest (+1.8%) delivered positive returns this month as bond yields declined. The Australian 10-Year Treasury Yield fell 30 bps to 1.19%. The RBA is likely to delay the tapering of their bond buying program from September this year to early next year as the economy is reversing from its previously strong momentum.

The US 10-Year Treasury Yields reached its lowest point since February, falling 24 bps to 1.22% at month-end. While falling yields could be a signal from the bond market that the economy is in trouble, this was contrasted by the US equity market as the S&P 500 rose by 2.4%. As such, other factors could be at play in the bond market, including the strong demand from the Federal Reserve, and pent up cash in the private sector. However, it could also be a reflection of the poor payroll data. International fixed interest returned +1.3% over July.

Property

Australian REITs (+0.5%) posted a small gain in July, significantly underperforming Global REITs (+3.9%), as office valuations put downward pressure on the net tangible assets of Dexus (-3.5%), and retail traffic slows amidst lockdowns. Global property benefitted from the decline in bond yields, but also the strong housing market in almost every major economy, especially US where the lack of supply means that house price gains are more structural than cyclical.