View from the hill

SEPTEMBER 2021

Market update

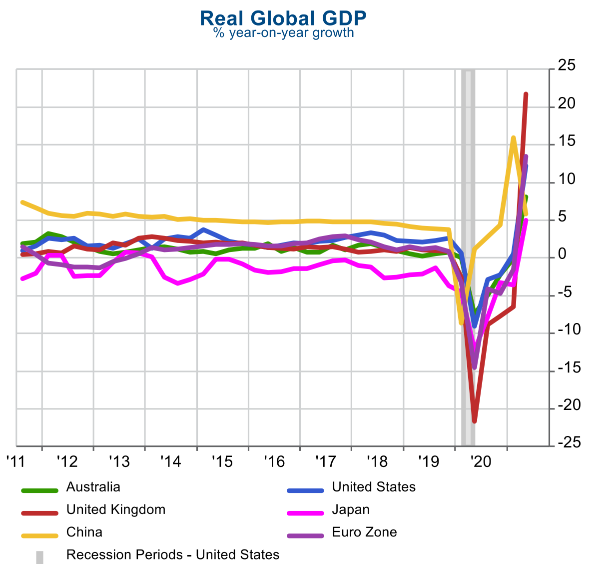
The table below provides details of the movement in average investment returns from various asset classes for the period up to **31 August 2021.**

Asset class (% change)	1 month	3 months	1 year	3 years (%pa)
Australian shares	2.5	6.0	28.2	9.9
Smaller companies	5.0	9.0	29.5	10.1
International shares (unhedged)	3.1	12.3	31.4	14.7
International shares (hedged)	2.7	6.9	30.2	14.8
Emerging markets (unhedged)	3.2	1.5	22.6	9.5
Property – Australian listed	6.4	12.8	31.8	9.4
Property – global listed	1.5	7.5	34.1	7.0
Australian fixed interest	0.1	2.6	1.1	4.5
International fixed interest	-0.2	1.5	0.6	4.3
Australian cash	0.0	0.0	0.0	0.8

Past performance is not a reliable indicator of future performance.

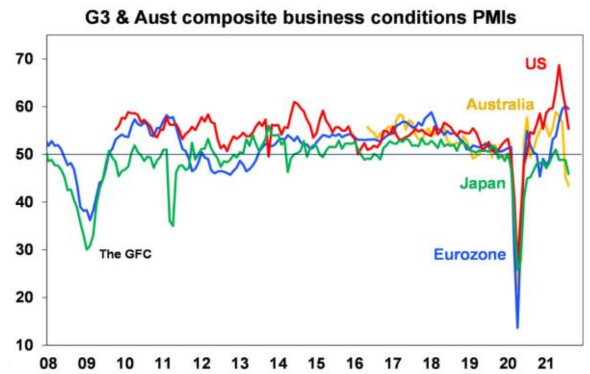
Overview & Outlook

The June data release of economic activity around the world shows year-on-year growth at multi decade highs, largely due to the extraordinary stimulus seen around the globe in the wake of the global Covid-19 pandemic. Growth is expected to slow from here simply due to coming off the low base of June 2020.



Source: FactSet, AMP

A slowing of economic activity is expected due to Delta variant challenges and is supported by the falls in forward-looking purchasing managers indices as shown below. This comes despite a growing proportion of the world's population having received at least one dose of vaccine. Unfortunately, like many other vaccines, Covid-19 vaccines do not provide sterilising immunity. Sterilising immunity is where the immune system can completely prevent a virus from replicating in the body.



Source: AMP Capital

Supply chains remain challenged with one of the world's busiest container ports in China partially shutting down to 10% of its normal activity. In the US non-farm payrolls was over 500,000 jobs short of the 750,000 expected in August as employers and employee struggle with Delta infections.

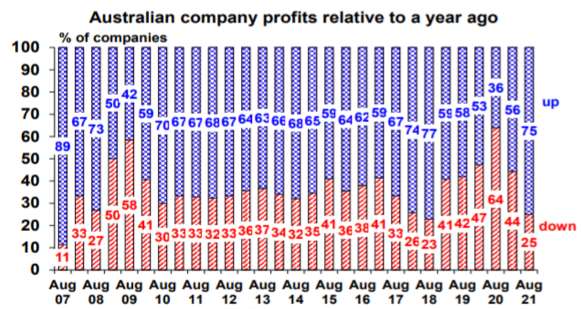
Australia's very low vaccination rates in June saw the Delta outbreaks plunged much of the country into lockdowns with Victoria and NSW still in lockdown. This will likely result in Australian GDP contracting in the September quarter.

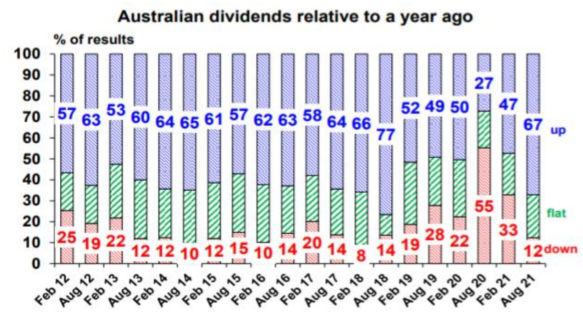
We believe the net outcome of this will be a slower response of central banks in their move to unwind stimulus. Already economists are suggesting that the US Fed will push back the commencement of the tapering of its bond buying by one month following the latest payroll data. Locally with many people unable to work in Melbourne and Sydney due to lockdowns and many businesses closed it is expected that September quarter GDP will contract by around 4% with growth for 2021 likely to be around 0%. Delays in stimulus reduction is likely to enable share markets to continue to rise.

Share markets

The Australian share market (+2.5%) gained strongly with small companies outperforming (+5.0%). Driving the strong returns was growth companies with Info Tech (+17.0%) the strongest sector. Consumer Staples (+6.9%) and Health Care were the next best performing sectors. Value companies saw negative returns for the month and yield was also a poor performer. The sector detracting the most was Materials (-7.3%) as iron ore companies were sold off heavily on the back of China cutting steel production. Energy (-3.9%) was also sold off while Utilities (1.0%) was amongst the poorest performing sector for the month.

The June reporting season finished with around 75% of companies delivering profit ahead of last year. This drove an increase in dividend payouts with 67% of companies increasing their dividend and only 12% of companies reducing it. Over $30bn in dividends were declared with an additional $20bn in buybacks.





Source: AMP Capital

International shares (+2.7%) on a currency hedged basis outperformed the local market as they continue to face less restrictions in the wake of the Delta wave. With moves in the Australian dollar adding to return unhedged International shares (+3.1%) were stronger still.

The S&P 500 (+3.0%) continues to make new highs, gaining for 7th consecutive month. This is the longest winning streak since a 10-month run ending in December 2017. In Europe (+2.6%) share markets also performed well in August.

India (+7.4%) helped Emerging market shares (+3.2%) gain strongly outperforming much of the developed world. China's market (+0.5%) continues to struggle following the Government's move on businesses in the education industry, raising concerns around what other measures could be put in place to improve economic equality.

Interest Rates

Australian fixed interest (+0.1%) was effectively steady for the month as the Australian 10-Year Treasury Yield slipped 3.4 bps to 1.155%. Like the US Fed we believe that the RBA is likely to delay the tapering of their bond buying program. However, given the weakness currently being experienced due to the latest round of lock downs the delay is likely to be longer perhaps being delayed until early next year to enable a better recovery.

The US 10-Year Treasury yield recovered slightly to end the month at 1.307%. This saw international fixed interest (-0.2%) deliver a slight negative return for the month as bond prices fell by more than any coupon payments through the month. With the current challenges in employment markets in the US and the Australian job market challenged by the current lockdown in Melbourne, Sydney and Canberra we don't see meaningful risk in bond yields rising in the short term.

Property

Australian REITs (+6.4%) was the strongest of the asset classes we follow and was a significantly stronger than the broader share market. The performance was aided by Retail REITs (9.5%) which gained strongly as Scentre Group (+12.6%) jumped on strong results which saw operating profit up 28% on last year. Vicinity Centres (+11.3%) was another outstanding performer in Retail, as it preserved occupancy at 98.2% with strong leasing activity in the second half of the financial year.

International REITs (+1.5%) was not as strong on a currency hedged basis. Industrial (+4.4%) being a significant part of the market was a major contributor to performance with Health Care Facilities (-2.0%) the biggest detractor.