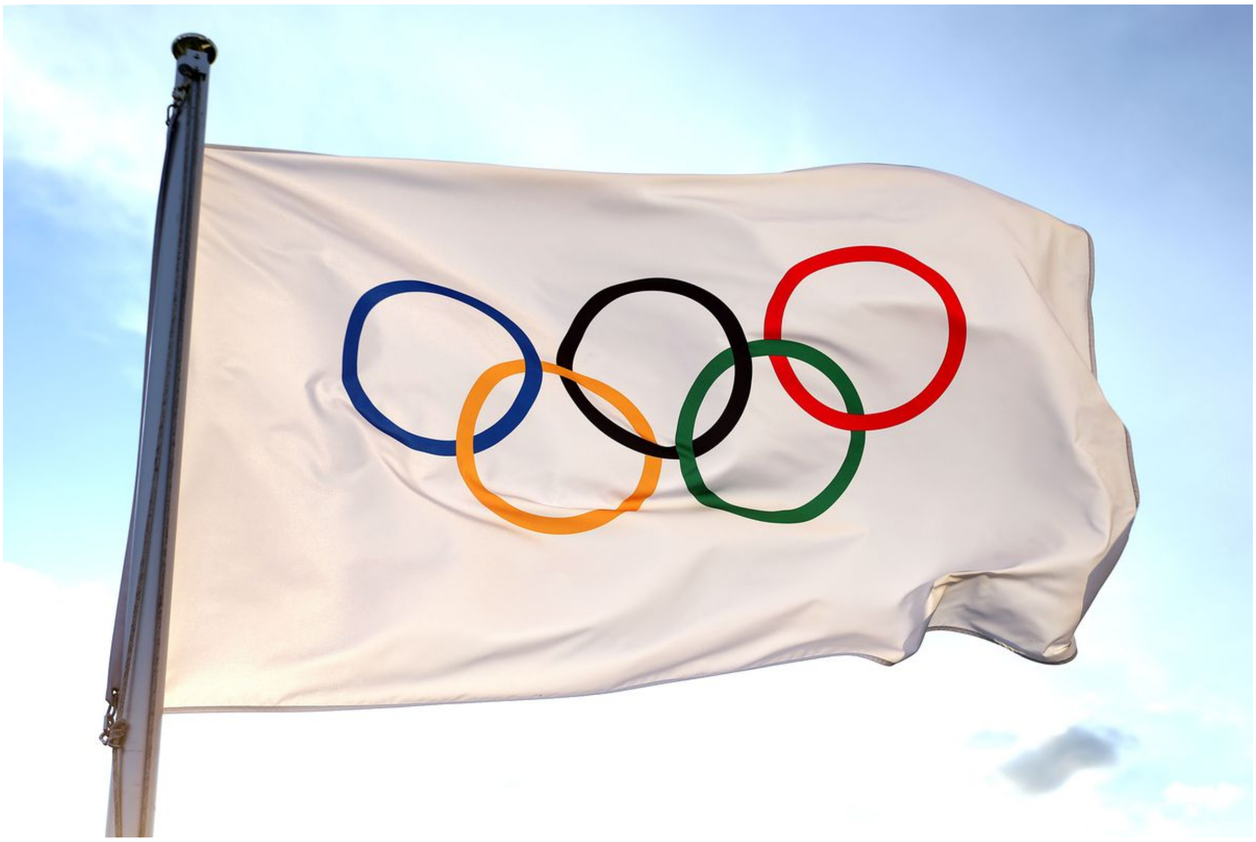
ISSUE 70

NEWSLETTER

Informative articles, Centrelink News & Market Update



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Have you lost income and are getting a Centrelink payment?

3 August 2021

If you're in New South Wales or Queensland, you may be able to get COVID-19 Disaster Payment. Check when you can claim.

You must have been unable to work and earn your usual income of 8 hours or more or a full day's work per week because of a state COVID-19 public health order.

If you're in New South Wales, you can submit a claim from 3 August 2021.

If you're in Queensland, you can submit a claim from 7 August 2021.

You must be getting one of the following payments:

- an income support payment
- ABSTUDY Living Allowance
- Education Allowance.

You must meet all the eligibility rules to get the COVID-19 Disaster Payment.

You must claim this payment online using your myGov account linked to Centrelink. If you don't have a myGov account, you'll need to create one.

If you're eligible, Centrelink will pay you $200 into your bank account for each week of your state's public health order.

You only need to claim once.

You'll continue to get your regular Centrelink payment on your usual payment dates.

TEMPORARY CHANGES - MINIMUM PENSION PAYMENTS

In response to the COVID-19 pandemic, the Government announced some temporary changes which include reductions in the minimum pension drawdown rates.

For account-based pensions and transition-to-retirement pensions, there's a temporary 50 percent reduction in the minimum drawdown requirements for the 2019/20, 2020/21 and 2021/22 financial years. You can see what percentage factor applies to you in the table below. This measure is designed to assist retirees by reducing their need to sell investments to meet minimum drawdown requirements when market prices may be under pressure.

Your age	Default minimum percentage of account balance (%)	Reduced minimum percentage of account balance (%)[1]
Under 65	4	2
65-74	5	2.5
75-79	6	3
80-84	7	3.5
85-89	9	4.5
90-94	11	5.5
95 or more	14	7

[1]The reduced minimums are available for the 2019/20, 2020/21 and 2021/22 financial years. The minimum may be subject to change from time to time.

Further reading:
The Government's economic response to COVID-19. What it costs. How it's changed.

MLC INSIGHTS - 2020-21 FINANCIAL YEAR IN REVIEW

19 June 2021

2020-21 was a remarkable year of economic and market recovery, but COVID-19 risks remain

Despite the ongoing threat of COVID-19, massive fiscal and monetary support measures were successful in engineering an extraordinary global economic recovery. Share markets recorded very strong gains in response, offsetting the large losses in the March quarter 2020 when COVID-19 first spread across the world. Confidence that the recovery in economic activity and corporate earnings can be sustained received a significant boost in November 2020 when the successful development of a number of vaccines were announced. Markets are hoping that rising vaccination rates will reduce the necessity for disruptive social and business activity restrictions.
However, vaccination progress varies across countries and the emergence of COVID- 19 variants such as the highly infectious Delta strain means that the world has a long way to go before returning to 'normal'.

Table 1: Asset class returns in Australian dollars – periods to 30 June 2021

Asset class		Returns*		
	1 yr	3 yrs (pa)	5 yrs (pa)	10 yrs (pa)
Cash	0.1%	1.0%	1.3%	2.2%
Australian bonds	-0.8%	4.2%	3.2%	4.9%
Global bonds (hedged)	-0.2%	4.0%	2.9%	5.3%
Australian property securities	33.9%	8.2%	6.2%	12.0%
Global property securities (hedged)	30.2%	4.9%	4.7%	8.3%
Australian shares	27.8%	9.6%	11.2%	9.3%
Global shares (hedged)	35.3%	13.0%	14.0%	11.9%
Global shares (unhedged)	27.7%	14.0%	14.4%	13.9%
Emerging markets (unhedged)	29.2%	10.7%	12.8%	8.1%

Benchmark data: Bloomberg AusBond Bank Bill Index (cash), Bloomberg AusBond Composite 0+ Yr Index (Aust bonds), Bloomberg Barclays Global Aggregate Index Hedged to $A (global bonds), S&P/ASX200 A-REIT Total Return Index (Australian property securities), FTSE EPRA/NAREIT Developed Index (gross) hedged to $A (global property securities), S&P/ASX200 Total Return Index (Aust shares), MSCI All Country World Indices hedged and unhedged (net) in $A (global shares), and MSCI Emerging Markets (gross, unhedged).
* Annualised returns. Past performance is not a reliable indicator of future performance. Sources: FactSet, MLC Asset Management Services Limited.

COVID-19 concerns prevail but the global vaccine rollout has commenced

The COVID-19 virus remained a global threat throughout the financial year. After its emergence in the first quarter of 2020, global virus infections grew to around 200,000 per day by the beginning of the financial year. Public health policy failures in some countries and the decision by some governments to reopen economies saw daily infections rise to over 600,00 by the end of the 2020 calendar year. This surge in new infection cases was centred on Europe and the US while India and other emerging countries suffered similar devastating infection numbers in the second half of the year.
The indifference of the Trump administration towards the virus and lax approach to imposing social activity restrictions in some American states caused infection rates and deaths in the US to soar in the final quarter of 2020. The response in Europe to the surge in infections was more strident and decisive with widespread activity restrictions including the closure of bars and restaurants while some countries also imposed curfews. The UK introduced similar restrictions on business and social activity.
Confirmation in November of the successful development of a number of vaccines raised hopes that social and economic circumstances may return to 'normal'. In the US, President Joe Biden's election led to targeted measures to both reduce the infection rate and accelerate the vaccination of the population. This was largely successful with infection numbers and deaths falling dramatically. In Europe, lockdown measures were also successful in reducing infections. Tragically however, infections in India soared to over 400,000 cases per day by May as a new highly contagious 'Delta' variant emerged. As with the original COVID-19 virus, the Delta strain has spread globally. The Delta strain contributed to an alarming spike in UK daily infections late in the year while in Australia the virus necessitated lockdowns that at one stage affected nearly half the population.

In a welcome contrast to the first months of the pandemic, hospital admissions and deaths fell dramatically as many countries successfully implemented their vaccination programs. By the end of the financial year, around 11% of the world's population was fully vaccinated and around 23% partially vaccinated. However, country specific vaccination rates varied considerably. In the US, 46% of the population were fully vaccinated by 30 June while in the UK, 48.7% were fully vaccinated. European vaccination rates are improving after a slow start with many of the larger nations like Germany and France having fully vaccinated between 30% - 40% of their populations. However, vaccination progress has been slow in Asia with Singapore's 35.8% fully vaccinated status looking an outlier compared to Japan's 12.1%, South Korea's 9.8%, Indonesia's 4.9% and India's 4.2%.

Australia's track record in limiting the spread of the virus was superior to most countries although rising case numbers did at times force state governments to impose restrictions. All of the major cities have imposed lockdowns at some stage, with Victoria's extended lockdown from July to October 2020 being the most troubling. Melbourne, Sydney, Brisbane, Perth and Darwin struggled with lockdown as recently as June 2021. Australia's vaccination program was plagued by a number of problems, including cancelled or delayed internationally sourced vaccine supplies, a slow start to local production and delivery issues. The Federal government's decision to recommend limiting the AstraZeneca vaccine to people over 60 following instances of blood clotting in younger recipients also contributed to below target vaccination rates. As a result, only 5.9% of the Australian population had been fully vaccinated by 30 June. However, the vaccine rollout is expected to accelerate when the anticipated supply of Pfizer and Moderna vaccines increases towards the end of the calendar year and state governments open more mass-vaccination centres. The vaccination rate should also improve once people who are partially vaccinated receive their second injection.

The global economy staged a remarkable recovery despite the presence of COVID-19

The economic recovery has been 'multi-speed' with the US and China rebounding strongly while Europe and Japan have lagged in comparison, due principally to social mobility restrictions to halt the spread of the virus.

Thanks to the powerful combination of monetary and fiscal support by the US Federal Reserve (the Fed) and the US government, the US economy recovered strongly from the disastrous decline in the June quarter 2020. The economy grew at an annual rate of 6.4% in the March quarter 2021. The recovery that was evident by the end of the 2020 calendar year was reinforced by the massive spending agenda of newly elected President Biden. Two stimulus packages were announced in the first 100 days of his Presidency. The US$1.9 trillion American Rescue Package which passed through Congress in March provided US$1,400 individual payments to all Americans (following December's $600 payment) plus a range of handouts including an extension of support for the jobless until August. President Biden also proposed a US$2 trillion infrastructure spending plan though this was scaled back to
$973 billion to help its passage through Congress. As the economy improved, the unemployment rate fell from a high of 14.8% in May 2020 to 5.8% by May 2021, although this remains well above the pre-pandemic 3.5% in February 2020. According to US payrolls data, there are still 7.6 million fewer jobs than in February 2020.
China's economy rebounded strongly following the sharp contraction early in 2020. China's assertive stimulus measures helped the economy grow by 18.3% in the March quarter although this is measured from a low base a year ago. Signs that China's economic activity was moderating emerged later in the year as stimulus measures were wound back or removed.

In Europe, the implementation of activity restrictions including curfews across the continent late in 2020 in response to high rates of infections slowed the eurozone's recovery. The 0.7% decline in the December quarter's gross domestic product (GDP), followed by a 0.6% contraction in the March quarter, represents the eurozone's second technical recession in 12 months.

The UK economy experienced similar challenges as COVID-19 infections were high for much of the year. UK GDP has yet to return to pre-COVID levels. However, the UK has implemented its vaccination programme with great success, allowing for restrictions to ease. Barring the spread of the new more infectious COVID-19 variants, the Bank of England expects the economy will recover strongly in the remainder of 2021.

Japan's economic recovery has also lagged other developed economies as it has been forced to contend with waves of virus infections and a comparatively low population vaccination rate. In April, a third state of emergency was reintroduced covering Tokyo, Osaka and two prefectures to combat the latest outbreak of infections. This has entrenched divergent performances within the economy with exports surging from last year's lows as a result of the global economic recovery while domestic based industries such as retail continue to struggle. Japan faces the added pressure of hosting the Olympic Games commencing on 23 July following their postponement last year.

Australia's economy also staged a remarkable turnaround, although at considerable cost as the Federal Budget deficit forecast of $161 billion is the highest for decades. However, the deficit is below earlier forecasts, thanks to a better than expected economic recovery and the 108% rise in the price of iron ore which is Australia's largest export.

After contracting -7.0% in the June quarter 2020, Australia's GDP expanded by 3.4% in the September quarter, 3.1% in the December quarter and a further 1.8% in the March quarter. While the rate of recovery has moderated, the economy still grew 1.1% in the year to 31 March to be above pre-pandemic levels. This is an impressive result, especially as the state of Victoria was forced to implement stage 4 restrictions in early August for an extended period due to a spike in COVID-19 infections. The tapering of some government support measures also created challenging circumstances for some households and businesses.

Signs of Australia's recovery were widespread although some sectors remain constrained as a result of COVID-19. The revival in the jobs market and hours worked saw the number of people employed recover to pre-pandemic levels by March 2021 and the unemployment rate fall from a high of 7.5% in mid-2020 to 5.1% in May 2021. Record low interest rates contributed to a 40% rise in housing construction approvals and prices for dwellings increased across the country. The 5.4% March quarter rise in residential property prices was the strongest quarterly growth since the December quarter 2009. Consumer spending has rebounded strongly while recent business and consumer sentiment surveys suggest that Australia's economic recovery still has considerable momentum, barring a serious rise in infections.

Out with deflation, in with inflation

One of the unexpected consequences of the global pandemic and the economic recovery that began in the middle of 2020 has been the emergence of inflation pressures.

The higher inflation readings were accentuated by the 'base effect' as current prices for goods and services are measured against prices a year ago that were generally lower due to the pandemic-induced collapse in demand. The substantial economic recovery following the rollout of massive fiscal and monetary support measures caused demand to rebound, outpacing the supply of many goods and services. This was especially the case for manufactured goods as the closure of factories early in the pandemic, firstly in China followed by the rest of the world, created supply shortages at a time of rising demand. The pandemic also changed demand patterns with stay-at-home workers shifting their consumption to goods at the expense of services.

Supply chain and transportation disruptions also contributed to price inflation. Sea and air freight capacity fell due to shortages of containers and fewer flights, resulting in higher container and freight costs. Aside from the impact of supply bottlenecks and disruptions, prices for some commodities were pushed higher by investors seeking inflation hedges. In the year to 30 June, the London Metal Exchange price of copper was up 55.4% while the price of silver increased 44%.

Evidence of reflation was widespread although not all economies experienced inflation pressures to the same degree. Canada's 3.6% inflation rate for the year to the end of May was the highest for a decade. Britain's 2.1% inflation in the year to May 2021 was above the Bank of England's 2.0% target for the first time in two years while in the US annual headline inflation reached 5.0%, the highest it has been since August 2008. Eurozone inflation increased to 1.6% in April and there are expectations that it could continue rising and exceed the European Central Bank's (ECB) 2% target as the economy continues to recover in the second half of 2021.

In contrast, deflationary conditions persist in Japan with the -0.1% year on year decline in consumer prices the eighth consecutive month of falling prices. At 1.1% for the year to 31 March, Australia's inflation pressures remained subdued and well below the Reserve Bank of Australia's (RBA) 2-3% target band. However, as in Europe and other parts of the world, the RBA expects inflation to rise temporarily as the economy continues to recover. It's in the US where a sustained pick-up in inflation is more likely as massive spending by the government and ultra-low interest rates could result in a further substantial economic expansion.
Despite the widespread evidence of higher inflation and potential for further rises in the second half of 2021, most central banks have avoided changing interest rate policies. This is because they expect price pressures to be "transitory" and eventually recede as supply side disruptions abate. In Australia, the RBA's guidance is that interest rates are on hold until 2024. In the eurozone, the ECB is keeping its policy settings and bond purchasing program steady despite upgrading growth and inflation forecasts for the second half of 2021. The Bank of England maintained the Bank Rate at 0.1% and continued with its supportive bond purchase program as it expects any move in inflation above its 2% inflation target to be temporary. However, the US Fed sent the first signal in June that the era of low interest rates will eventually come to a close while also maintaining the view that recent inflation pressures will transition lower to its target range.

Global share markets produced great returns

After enduring sharp and substantial market falls in the March quarter 2020, share investors have enjoyed a remarkable rebound. For the year to 30 June, global shares returned 35.3% on an Australian dollar hedged basis. This was higher than the 27.7 % return for global shares on an unhedged basis as the Australian dollar appreciated in value against some major currencies.

As they are inherently forward looking, share markets chose to look beyond the immediate social and economic dislocation caused by the global spread of COVID-19 and instead focussed on prospects for economic and corporate earnings recovery. These expectations weren't misplaced as supportive stimulus measures implemented by governments and central banks led to encouraging signs of economic recovery by the September quarter 2020. Market confidence in the longevity of the recovery received a significant boost in November when Pfizer, Moderna and AstraZeneca confirmed they had developed vaccines with encouraging trial results.

Most major share markets closed out the financial year with positive returns. The US share market was by far the best developed market performer, rising by 40.1% (in local currency terms). Aside from the positive response to the vaccine rollout, strong economic data and exuberant forecasts for US corporate profit results underpinned the market's spectacular rise. Investors were also encouraged by expectations that the new Democrat President Biden would implement more fiscal stimulus measures while also struggling to get the planned 7% corporate tax rise through the Republican controlled US Senate. The US market had been narrowly led prior to the vaccine announcements in November with technology and online shopping giants such as Facebook, Apple, Microsoft, Google and Amazon accounting for much of the market's rise. However, the focus of investors broadened after the vaccine announcements to include sectors and companies more exposed to the improving economic cycle.

The performance of European markets strengthened throughout the year due to the gradual relaxation of lockdown restrictions, good progress with vaccinations, improving economic conditions globally and the ECB's commitment to keeping interest rates low, all of which underpinned confidence that Europe's economy would recover strongly through the remainder of the 2021 calendar year. Germany's DAX Index increased by 26.2% and the French CAC Index rose by 35.5%. Despite the dire economic consequences of COVID-19 in the UK in the December half and a worrying escalation in the rate of infections late in the year, the UK's FT 100 Index still managed to rise by 18.0% over the year. China's strong recovery helped the MSCI China Index to increase by 16.8%, which also contributed to the 29.2% (unhedged) return of the MSCI Emerging Markets Index. Elsewhere in Asia, Japan's Nikkei Index gained 31.3% as the global economic recovery benefitted its manufacturing exporters.

Our share market also performed strongly

Australia's share market also performed well with the ASX200 Accumulation Index returning 27.8% in the year to 30 June. This was our market's highest financial year return for more than three decades. As in other parts of the world, supportive fiscal measures by the Federal and state governments and initiatives by the RBA that included reducing the cash rate to a historic low of 0.1% were successful in restarting the economy. Corporate profits improved with some companies, particularly the large banks, increasing dividends and payout ratios.

As numerous lockdowns across Australia during the year forced people to spend more time at home and prevented travel, the industry sector that produced the best return was Consumer Discretionary with an increase of 46.1%. Companies such as Wesfarmers, JB Hi-Fi and Harvey Norman experienced significant demand growth as people spending more time from home undertook maintenance and put in place work-from-home office infrastructure. Information Technology increased 39.8%, emulating in part the performance strength of the US technology companies as well as strong price performance by AfterPay.

The Materials index was another strong performer. The 34.5% rise was due largely to ideal market circumstances for the iron ore miners BHP, Rio Tinto and Fortescue Metals Group as strong Chinese demand and constrained Brazilian supply pushed the iron ore price upwards by 108.4%. This led to higher earnings and dividends for shareholders.

Of greater significance to the market and a key contributor to its financial year return was the revival in performance of the four large banks - Commonwealth Bank, ANZ, National Australia Bank and Westpac - which collectively account for approximately 18% of the ASX200 index value. The Financials ex A-REIT index increased 40.6% in the year. After suffering sharply lower profits last year which resulted in markedly lower dividends, the banks have been significant beneficiaries of the economic recovery in Australia and New Zealand. Bank share prices rebounded as investors grew confident that the economic recovery would result in lower loan deferrals and bad debts and revive credit growth. Commonwealth Bank reached an all-time high of over $100 per share during the year. The strength of the Australian residential property market and high demand for housing finance also benefitted the banks. The most recent half year profits were above the previous half year results and dividends were also higher. While limitations imposed by the prudential regulator APRA on banks' dividend payout were removed late in 2020, bank payout ratios (dividends paid as a % of earnings) remain below pre-COVID levels.

Fixed income markets also recovered

The recovery in the global economy was reflected in varying ways across the fixed income landscape. While plentiful government and central bank support provided a strong tailwind to most credit assets, this also gave rise to higher inflation expectations, which hurt the performance of long duration fixed income securities.

By July last year, financial markets were already firmly in recovery mode, thanks to the extraordinary levels of fiscal and monetary support. While this was effective at providing liquidity and preventing the cascading wave of defaults and distress that many investors had feared, it was the combination of the US election results (and associated promises of further massive stimulus) and the approval of several vaccines that led to real confidence in a strong rebound from the pandemic. This was reflected in a rapid rise in government bond yields in February and March this year, as investors sought higher-returning opportunities elsewhere. Rising inflation expectations were another driver of rising bond yields, due to a combination of stronger than expected consumer demand, supply chain disruptions, promises of continuing plentiful fiscal stimulus, and central banks committing to letting inflation run somewhat higher than target until the economy has fully recovered.

In the US, 10-year government bond yields rose from 0.9% at the beginning of the year to 1.7% at the end of March, a sell-off that led to one of the worst quarters of performance for bonds in the last 30 years. It was similar in Australia, with the 10-year bond yield rising from 1.0% to 1.8% over the quarter, and there were even signs of life in Germany with the 10-year bond yield rising from- 0.6% to -0.3%. The last three months of the financial year saw some reversion, as the US Fed in particular showed signs they might respond to inflation pressures by hiking cash rates earlier than expected, thus reducing the chances of an inflation break-out over the longer term.

In credit markets, the support provided by policy makers allowed companies to raise record levels of debt as they sought to build a buffer to see them through the COVID-19 crisis. However, the cost of that borrowing has been extremely low, and at the same time earnings have been stronger than feared, meaning companies are generally well capitalised and unlikely to face financial difficulties over the next year or two. Default rates over the past 12 months were much lower than expected this time last year, and looking forward, default expectations even among the lowest-rated companies are lower than they have been for many years. This has been reflected in pricing, with credit spreads compressing to post-GFC lows across most sectors of the credit markets, delivering strong outperformance for credit relative to government bonds.

In terms of index performance, global government bonds delivered -1.4% over the year to 30 June, with investment grade corporate bonds higher at 2.7% over the year in Australian dollar (hedged) terms. Australian bonds (-0.8%) slightly underperformed global bonds (-0.2% hedged). High yield bonds performed strongly to deliver 10.0% (hedged) for the year to 30 June, outperforming floating rate bank loans (9.4%). Australian inflation-linked bonds returned 4.3%, well ahead of nominal bonds, benefitting from higher than expected inflation and rising inflation expectations.

Geopolitical issues were prominent as the year progressed

The US Presidential election in November was a major focus for markets. The strong performance of the US economy at the beginning of the year was expected to favour the incumbent President Trump. However, the economic damage caused by COVID- 19 and the indifferent and inadequate response by the Trump administration to the worsening health crisis enabled the Democratic nominee Joe Biden to win the Presidency. Predictions the Democrats would easily win majorities in both the House of Representatives and Senate proved to be wide of the mark. The Democrats held the House but with a smaller majority while the Democrats secured the balance of power in the Senate (early in 2021) after winning two run-off elections in the state of Georgia. The incoming Vice-President Kamala Harris will have the casting vote in the Senate as both the Democrats and Republicans have 50 seats each for the next two years.

The Brexit saga continued through the year. After securing parliamentary agreement early in 2020 for the withdrawal, the terms of Britain's exit from the European Union was finally agreed between Brussels and London and ratified just days before the 31 December deadline.

A concerning development was the deteriorating diplomatic and trade relationship with China, our largest trading partner and destination for approximately a third of Australia's total exports. A number of issues over an extended period have contributed to the growing tension, including banning Huawei from tendering for the 5G mobile network, introducing "foreign interference laws" on national security grounds, Australia speaking out on the South China Sea and human rights issues in China and the call for an inquiry into the origins of the coronavirus pandemic. China imposed high tariffs or import restrictions on a range of Australian agricultural and food exports such as barley, beef and wine and also coal. Exports of iron ore to China have not been affected so far as it is a commodity that is crucial to China's ongoing infrastructure development and supply from Brazil remains restricted. Should this change, the impact on Australia's economy, government revenue, share market and currency would be great.

MLC portfolios continue to search for attractive risk-reward opportunities

The current investment environment represents a challenging point in the economic cycle. The combination of high share market valuations, low return potential from cash and fixed income, an unstable inflationary outlook and lingering risks to growth from new COVID-19 variants we think justifies continuing with a 'Participate & Protect' mantra for our multi-asset portfolio investors. Participate and protect facilitates participation in potential market upside to a limit and protection by limiting losses on the downside. The inflation regime remains uncertain so we continue to seek innovative solutions to insulate funds' real returns. As markets have priced the risk of inflation into fixed income values, our actively managed strategies with low duration and a preference for inflation linked bonds over nominal bonds has been rewarding and remains appropriate for all our multi-asset portfolios.

After an extensive research process, baskets of companies with attractive thematic characteristics (eg companies with high and sustainable dividend yields) have been introduced into our multi-asset portfolios. The investment team has also been researching candidate asset classes and strategies such as global listed infrastructure which provide an additional source of return and help insulate the portfolios from inflation risks.

MLC's investment process is ideally suited to deal with an uncertain future

Rather than basing portfolio decisions on a single future, we attempt to understand the many ways in which the future may unfold and the trade-offs between risk and return that each future may entail. A continuation of the current environment is only one of many scenarios that could unfold. By understanding how our multi-asset portfolios are likely to perform in many potential market scenarios, both good and bad, we can adjust their asset mix to manage possible risks and take advantage of potential return opportunities. This careful analysis means our portfolios are prepared for the range of outcomes that may occur, including having adequate diversification, being risk-aware and being positioned for a range of future market environments.

1. In which country did the Olympics originate?
2. The Olympic torch is a tribute to the fire that burned throughout the ancient Greek Olympic games honouring which goddess?
3. What do the Olympic rings represent?
4. Usain Bolt shattered which two records in 2008?
5. Which dog breed was the first official Olympic mascot?
6. In what order are the four strokes of a medley relay swum?
7. Cathy Freeman was born in which Queensland coastal town?
8. True or false: Tennis was one of the original nine sports when the modern Olympic Games began in Athens in 1896?
9. Which two Australian swimmers will compete in their fourth Olympics at Tokyo 2020?
10. What is the Olympic motto?

1. Greece
2. Hestia
3. Africa, the Americas, Asia, Europe & Oceana
4. 100- & 200-metres
5. Dachshund
6. Backstroke, breaststroke, butterfly, freestyle.
7. Mackay.
8. True
9. Cate Campbell and Emily Seebohm.
10. Faster, higher, stronger

Market Update

JULY 2021

- The Australian share market finished the fiscal year with its best performance since inception, with the market gaining 23.9% over the past 12 months (on a capital return basis beating even the 23.7% seen in FY 2007).
- US employment surprised as non-farm payrolls came in well above expectations, despite a slight increase in the unemployment rate.
- Economic sentiment was upbeat in Europe supported by hopes of a strong recovery, and an accelerated Covid 19 vaccine roll out.
- The RBA kept the cash rate on hold at 0.1% as expected and the labour market continues to recover quicker than expected.

June market performance

Equity Markets – Index Return*	Index	At Close 30/06/2021	% Return 1 Month	% Return 12 Months
Australia	S&P/ASX 200 Index	7313.02	2.26%	27.80%
United States	S&P 500 Index	4297.50	2.33%	40.79%
Japan	Nikkei 225 Index	28791.53	-0.08%	31.26%
Hong Kong	Hang Seng Index	28827.95	-0.64%	21.60%
China	CSI 300 Index	5224.04	-1.48%	27.72%
United Kingdom	FTSE 100 Index	7037.47	0.41%	18.01%
Germany	DAX 30 Index	15531.04	0.71%	26.16%
Europe	FTSE Eurotop 100 Index	3287.88	1.92%	25.39%

Property – Index Returns*	Index	At Close 30/06/2021	% Return 1 Month	% Return 12 Months
Listed Property	S&P/ASX 200 A-REIT Index	1553.90	5.54%	33.24%

Interest Rates	At Close 30/06/2021	At Close 31/05/2021	At Close 30/06/2020
Australian 90 day Bank Bills	0.03%	0.04%	0.10%
Australian 10 year Bonds	1.53%	1.71%	0.87%
US 90 day T Bill	0.04%	0.00%	0.13%
US 10 year Bonds	1.47%	1.60%	0.66%

Currency**		At Close 30/06/2021	% Change 1 Month	% Change 12 Months
US dollar	AUD/USD	0.75	-3.11%	8.81%
British pound	AUD/GBP	0.54	-0.27%	-2.40%
Euro	AUD/EUR	0.63	-0.02%	3.25%
Japanese yen	AUD/JPY	83.28	-1.70%	12.10%
Australian Dollar Trade-weighted Index		62.70	-1.26%	4.50%

* 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 just surpassing 183 million cases. This represents an increase of about 13 million in the month. Delivery of vaccines continues to rise and the UK reports over 84.9% of adults have received their first dose while 62.4% had received both. With a record number of cases recorded in Africa, the IMF has urged the G20 to do more to end the growing divergence of vaccine distribution. This comes on the back of the G7 agreeing to distribute 870m surplus vaccines this year. Key economic indicators continue to improve generally, with a number of leading economies beginning to report modest increases in inflation.

Market Update

US

The United States continued to reopen, with 64.5% of the adult population fully vaccinated by the July 4th holiday, just shy of the 70% target President Biden set for the vaccination ‘month of action’. US Non-farm payrolls surprised in June, adding 850,000 jobs, well ahead of the 700,000 jobs expected. The unemployment rate increased from 5.8% to 5.9%, with the participation rate largely unchanged at 61.6%. Average hourly earnings increasing 0.3% in the month, slightly lower than the 0.4% expected. The second estimate for Q1 GDP came in unchanged at a 6.4% annual growth rate, whilst personal consumption expenditures were unchanged in May following the April increase to an 11.3% annual rate. Durable goods orders rebounded from the April fall, increasing 2.3%, but below the market expectations of a 3.8% rise. As expected, the PMI Composite Index fell 5 points to 63.7 in June, reversing the gains made in May, with the services PMI down from 70.4 to 64.6. The ISM non-manufacturing PMI disappointed, falling from 64.0 to 60.1, well below the expected 63.5. The Philadelphia Fed Manufacturing Index fell for the second month to 30.7, whilst the Chicago PMI index also fell to 66.1, well below the market forecasts of 70. Personal incomes fell 2.0% in May (-2.5% expected), as government social benefits rolled off (the withdrawal of stimulus is recorded as a drop in personal income), while personal spending rose at 0.1%, below the expectation of 0.4%. The international goods trade deficit widened to $88.1 billion in May, coming in above expectations of $84.0 billion.

Europe

Eurozone economic sentiment increased 3.4pts to 117.9 in June, beating expectations of 116.5, taking it just below the 21 year high of 118.20 in May 2000. Sentiment was supported by hopes of a strong economic recovery, particularly, among service providers with the highest sentiment since August 2007. The ECB also revised up its GDP projections for 2021 and 2022 to 4.6% and 4.7%, respectively. The June Markit manufacturing PMI achieved a record high of 63.4, from an expected 63.1, marking the twelfth successive month of expansion in the sector. The Markit Composite PMI increased to 59.5 in June, broadly in line with expectations, whilst Retail sales surged 4.6% in May 2021, following an upwardly revised 3.9% drop in the previous month and slightly higher than forecasts of a 4.4% increase. CPI eased to 1.9% in June from a 2 year high of 2% in May. PPI grew 1.3% in May, slightly higher than the expected 1.2% and taking the year on year increase to 9.6%. The unemployment rate fell to 7.9% slightly below expectations of 8.0%. In the UK, the Markit/CIPS Composite PMI fell to 62.2, slightly ahead of expectations of 61.7. Retail sales volumes declined by 1.4% in May 2021 following a sharp increase in April when retail restrictions were eased. Despite the monthly decline, total retail sales were up 9.1% when compared with their pre-pandemic February 2020 levels. The PMI Composite Index came in at 62.2, ahead of expectations of 61.7. The United Kingdom’s Covid-19 vaccine accelerated in June, with 62.4% of adults fully vaccinated and 84.9% having received at least one dose by the end of the month.

China

China’s inflation data disappointed in May, with month-on-month inflation contracting 0.2% (-0.1% expected), with the yearly inflation rate coming in at 1.3%, below expectations of 1.6%. The unemployment rate fell in May to 5.0%, the lowest rate in two years. Retail sales slowed to 12.4% year-on-year in May 2021, missing the expectations of 13.6% and pulling back from the 17.7% increase in April. The Caixin Composite PMI fell 3.2pts to 50.6 in May, below expectations of 53.6. This was the lowest reading since April 2020, due to concerns over the epidemic situation in the export hub of Guangdong that led to a reintroduction of travel restrictions.

The Chinese government announced that they were moving away from the reliance on Australian iron ore, but this had little effect on iron order prices as they peaked at US$229.50.

Market Update

Asia region

Despite progress in the vaccine rollout across the developed world, case numbers are spiking in Asia where vaccines have been slower to roll out. Concerns regarding a global re-opening have been renewed as restrictions on mobility have re-emerged. Late in June, Japan again extended its state of emergency ahead of the Olympic Games. The Japan consumer confidence index increased by 3.3 points to 37.4 in June (33.0 expected), marking the strongest reading since February 2020, as all main sub-indices improved. Retail sales fell 0.4% in May, well below expectations of 1.9% growth, as the yearly rate rose 8.20% (7.9% expected), marking the third straight month of increases, as consumption recovered further from the COVID-19 disruption. The central bank also extended the September deadline for its pandemic-relief programme by six months. CPI expanded 0.3% in May, ahead of expectations of 0.1%, as the yearly rate improved to -0.1%.

Australia

The RBA left the cash rate unchanged at a record low of 0.1% during its July meeting, as widely expected. Policymakers reaffirmed their commitment to maintaining highly supportive monetary conditions until at least 2024 when actual inflation is expected to be within the 2-3% target. The labour market has continued to recover faster than expected with the unemployment rate at 5.1 per cent in May and more Australians have jobs than before the pandemic. Despite this strong recovery in jobs and reports of labour shortages, inflation and wage outcomes remain subdued. The Westpac-Melbourne index of Consumer Sentiment fell 5.2% to 107.2 in June, largely due to concerns about the two week lockdown in Melbourne as the survey was conducted in the first week of the lockdown. May's' labour force survey showed employment rose 115,200 during the month, beating expectations for a 30,000 increase. Part-time employment rose 97,500 and full time employment 17,700. The participation rate rose from 66.0% to 66.20% and the unemployment rate unexpectedly dropped to a 17 month low of 5.1%. The Markit manufacturing PMI index fell 1.8pts to 58.6 in June, slightly higher than the estimate of 58.4 as factory orders and output slowed and employment growth momentum eased. The Greater Sydney lockdown started on 26 June so the economic impact will be felt from July.

Market Update

EQUITY MARKETS

- Australia's S&P/ASX 200 Index rose 2.3% in June, led by the Information technology (+13.4%), Communications (+5.6%) and Property (+5.5%) sectors.
- The US S&P 500 Index gained 2.3% in June in US dollar terms, reaching new all-time highs early in the month before giving back gains as the month progressed.
- In Europe, the UK's FTSE 100 Index rose 0.4%, Germany's DAX 30 Index rose 0.7%, and France's CAC 40 Index rose 1.2%.
- In Asian markets, Japan's Nikkei 225 Index fell -0.1% while Hong Kong's Hang Seng Index fell -0.6% and China's CSI 300 Index fell -1.5%.
- Global developed market shares rose 4.7% in June and emerging market shares rose 3.3% in Australian dollar terms.

Australian equities

	Index/Benchmark (% pa)	1 Month	1 Year	3 Years	5 Years	7 Years
Australian	S&P/ASX 200 Acc. Index	2.26%	27.80%	9.58%	11.15%	8.78%
	S&P/ASX 50 Acc. Index	1.87%	26.44%	9.42%	10.79%	8.01%
	S&P/ASX Small Ordinaries Acc. Index	3.08%	33.23%	8.59%	11.23%	10.06%

The Australian share market finished the fiscal year with its best performance since inception, with the market gaining 23.9% over the past 12 months. For June, Australia's S&P/ASX 200 Index rose 2.3%. The recent value rotation showed some signs of weakening, with the S&P/ASX 200 Value Index returning 1.6% for the month, versus a return of 3% for the S&P/ASX 200 Growth Index. The best performing sectors for the month were information technology (+13.4%), followed by communications services (+5.6%) and property (+5.5%). Financials was the only sector to finish in the red for the month (-0.2%).

In stock specific news, Nuix's share price fell 20.2% for the month and was the worst performing stock on the ASX 200. The disappointing result follows a series of negative developments, including the departure of several executives and allegations of insider trading within the firm. Altium was the best performing stock in the index, with a gain of 29.8% following the announcement of a takeover offer made by Autodesk. Afterpay also had a strong month with a 27.4% gain in June, with the company announcing the expansion of its US offering to 12 of the country's largest merchants, including Nike and Amazon.

Two of Australia's longest standing investment companies are set to merge, following the news that Washington H. Soul Pattinson has entered a binding scheme of arrangement with Milton. If approved, Soul Pattinson will pay an equivalent of $6 per Milton Share and assets under management at Soul Pattinson will increase to over $10bn.

Sydney Airport, which has been devastated by the pandemic, has received an opportunistic takeover bid from a consortium of investors which includes IFM, QSuper and Global Infrastructure Management. The offer of $8.25 a share represents a huge premium to the company's average share price throughout COVID; however, it is still well below where the company traded prior to the pandemic (c. $9 in December 2019). The company is currently reviewing the offer.

Investment Index/Benchmark returns*

S&P/ ASX 200 Index

Sector	1 Month	3 Months	1 Year
Information Technology	13.41%	-0.89%	39.80%
Communications	5.55%	17.17%	31.56%
Property	5.54%	14.60%	33.24%
Consumer Staples	5.33%	3.54%	8.11%
Consumer Discretionary	4.48%	15.53%	46.09%
Energy	3.99%	-0.44%	9.32%
Utilities	3.45%	-6.20%	-18.57%
Industrials	3.04%	8.42%	10.68%
Health Care	2.16%	8.50%	6.18%
Materials	0.27%	13.41%	34.49%
Financials ex-Property	-0.19%	19.40%	40.57%

*Total returns based on GICS sector classification

Market Update

BIG MOVERS THIS MONTH

Going up

⥣ Information Technology +13.4%

⥣ Communications +5.6%

⥣ Property +5.5%

Going down

⥥ Financials -0.2%

Global Equities

	Index/Benchmark (% pa)	1 Month	1 Year	3 Years	5 Years	7 Years
Global	MSCI World Ex Australia Index (AUD)	4.71%	27.50%	14.49%	14.72%	13.96%
	MSCI World Ex Australia Index (LCL)	2.35%	37.09%	14.79%	14.80%	11.21%
	MSCI World Ex Australia Small Cap Index (AUD)	3.42%	40.75%	11.62%	14.25%	13.42%
Emerging	MSCI Emerging Markets Index (AUD)	3.28%	29.22%	10.67%	12.83%	9.88%
	MSCI AC Far East Index (AUD)	3.07%	21.82%	9.71%	12.66%	11.74%

Global equities continued to rally for their fifth consecutive quarter in June buoyed by the global vaccination rollout supporting strong corporate earnings results posted in the US and Europe.

Developed markets rose 4.7% during June while performance in emerging market equities were softer, rising 3.3% in Australian dollar terms despite continuing to lead developed markets over 12 months. June performance remains dispersed across developed markets with the US S&P 500 returning 2.3% and 40.8% for the fiscal year. More cyclical economies like Europe (1.6%) and Japan (1.2%) lagged the US as investors in these regions remain within defensive assets. The disparity in economic recovery continues within emerging markets with China posting an 8.8% YOY growth in industrial production for June whilst India and Brazil remain hamstrung by consecutive second and fourth wave Covid outbreaks.

Given the varied economic backdrop across developed and emerging markets, June factor performance for global equities was dispersed by region. Notably, there was a broad reversal to the much-publicised rotation to value in the June month as investors increased their risk appetites, seeking out high beta stocks. Momentum, and to a lesser extent growth, had strong outperformance within emerging markets, whilst US, Europe and Japan saw similar outperformance in measures of quality. Across all regions value and yield were underperformers with the US posting the strongest underperformance in the value factor. While global equity markets remain buoyed in the short term by continued vaccination efforts, inflation concerns and a tapering of the global monetary stimulus by central banks pose significant uncertainties for global equities into the medium term.

Property

	Index/Benchmark (% pa)	1 Month	1 Year	3 Years	5 Years	7 Years
Australian	S&P/ASX 200 A-REIT Acc	5.54%	33.24%	7.74%	5.79%	10.29%
Global	FTSE EPRA/NAREIT Developed Ex Australia Index (AUD Hedged)	1.83%	31.59%	5.96%	5.75%	7.19%

Australian listed property achieved strong results in June, posting a 5.5% gain and finishing the month with 9.9% YTD. June's move higher was largely fuelled by Goodman Group (ASX: GMG) (the largest constituent in the S&P/ASX 200 A-REIT index) advancing 9%, with some of this gain being attributable to the dividend distribution announcement on 15 June.

The A-REIT segment has continued to witness acquisition activity. Abacus Property Group (ASX: ABP) announced that it had exchanged contracts to acquire a one-third interest in 314-336 Bourke Street, Melbourne (known as "Myer Melbourne"). Charter Hall Long WALE

REIT (ASX: CLW) will also acquire a one-third interest while Vicinity (ASX: VCX) will retain the remaining third. Total consideration for the acquisition, which will be funded by debt, is $135.2m, with settlement expected by the end of July 2021.

SCA Property Group (ASX: SCP) agreed to acquire Marketown in Newcastle from AMP Capital Investors Ltd for $150.5m.

Charter Hall announced late June that its FUM has risen to $52b, with the industrial sector being a key contributor, achieving 10.8% growth over six months and 15.5% growth over 12 months, the largest of the five sectors across both time periods. The Group's FUM has increased by $12b over the course of FY21, equating to 28% growth.

Residential property markets advanced further in June, with CoreLogic Daily Home Value Index reporting the five-city aggregate increasing by 1.9%, Sydney led the charge, achieving 2.6% and Melbourne lagged the aggregate with 1.5%. CoreLogic's data also indicates that the rise in residential property prices has outstripped that of rent values for all cities but Perth and Darwin. This is despite National rent values having risen 5.6% in the year to May, being the fastest annual increase since February 2009.

Fixed Interest

	Index/Benchmark (% pa)	1 Month	1 Year	3 Years	5 Years	7 Years
Australian	Bloomberg AusBond Composite 0+ Yr Index	0.69%	-0.84%	4.22%	3.19%	4.07%
	Bloomberg AusBond Bank Bill Index	0.00%	0.06%	0.96%	1.29%	1.61%
Global	Bloomberg Barclays Global Aggregate Index (AUD)	2.19%	-5.87%	3.67%	2.17%	5.21%
	Bloomberg Barclays Global Aggregate Index (AUD Hedged)	0.49%	-0.17%	4.03%	2.87%	4.16%

Throughout June, yields at the higher end of the Australian Sovereign curve fell substantially, with the 10-year yield having fallen by 17 basis points over the course of the month. This movement has helped to drive strong returns for the Bloomberg AusBond Composite 0+ Yr Index, which increased by 0.7% throughout June. Similar movements have been observed globally, resulting in the Bloomberg Barclays Global Aggregate Index (AUD Hedged) returning 0.5% over the month. However, this fall in yields is not universal, as the shorter end of the curve has seen yields rise recently, most notably at the 3-year level, which increased by 35 basis points in Australia over the course of June. This has resulted in a flattening of the yield curve, signalling headwinds for strategies that rely substantially on roll-down as a source of return.

Maintaining its focus on the real economy, the Reserve Bank of Australia (RBA) remains committed to seeing realised inflation within its target range of 2-3% before raising the Cash Rate from its current record low level of 0.1%. However, a recent announcement wherein the Central Bank declined to switch its target bond for yield curve control from the April 2024 to the November 2024 issue has been widely interpreted as a prelude to a tapering of stimulus. In this respect the RBA is moving in tandem with Central Banks around the world, who are beginning similar discussions as the global economy surpasses projections in its recovery from COVID.

Australian dollar

The Australian dollar slid over the month of June, falling -3.1% against the greenback and -1.3% in trade-weighted terms, hamstrung primarily by domestic outbreaks of COVID-19 and hawkish signals from the Federal Reserve. This thematic may continue in the short-term as local lockdowns continue and the arrival of new variants of the virus reach Australian shores could continue to stifle investor confidence, in addition to the strengthening US dollar bolstered by hawkish posture from the Fed.