WHITEHELM ADVISERS

MONTHLY UPDATE ON THE INVESTMENT ENVIRONMENT

August 2021

Prime Super

MARKET UPDATE

The global economy continued to record overall positive data over August, with ongoing economic re-opening providing a tailwind. A cautious hint of looming tapering by the US Federal Reserve, optimistic lead indicators in Europe, and improving employment conditions in a number of countries all buoyed markets, with risk assets seemingly unfazed by the risk of new highly virulent COVID-19 strains emerging, weakening vaccine efficacy, or persistently high inflation.

While conditions have improved in a number of countries, the COVID-19 pandemic remains far from over. By early September there had been over 220 million COVID-19 cases and 4.6 million deaths confirmed globally, with daily deaths especially high in south-east Asia, which has until recently been largely insulated from the worst of the pandemic.

Social distancing measures have been lifted across many developed nations. While countries such as the US and UK have experienced a significant corresponding rise in daily cases, the rate of deaths has been much lower than prior peak periods. Divergence among developed nations has emerged between those able and willing to reopen and those continuing to focus on suppression until vaccine coverage rates rise. New issues have also started to arise around vaccine efficacy, which has been found to weaken over time. While booster jabs may resolve this issue, it highlights the significant uncertainties regarding the pandemic, including the risk of more virulent COVID-19 strains.

The recent COVID-19 outbreak in Australia saw a pronounced dip in consumer and business sentiment in August, although it did little to curtail the boom in house prices, which continued to rise over the month – albeit at a slower pace. The nation's second quarter GDP growth surprised to the upside and renders the likelihood of a technical recession in 2021 unlikely, rising 0.7% for the quarter thanks to strong household and government spending.

Australia's unemployment rate continued to decline, reaching a twelve-year low of 4.6%. That said, the fall was due to lower participation as thousands gave up on finding work during lockdown, and also due to firms reducing hours worked instead of cutting jobs.

The RBA left rates unchanged at its early September meeting, however decided against delaying its tapering of bond purchases, instead maintaining its prior decision to reduce weekly purchases by A$1 billion per week to A$4 billion, while extending purchases out to February 2022 and deciding not to consider further tapering until next year. The somewhat hawkish position reflects the RBA's view that the negative impact from current lockdowns will be temporary.

The US economy continued to recover. The core PCE deflator, the Federal Reserve's preferred inflation measure, increased at an annual rate of 3.6% - the fastest rate in 30 years – while CPI growth came in at a 13-year annual high of 5.4%. Jobs data proved more mixed, with non-farm payrolls and private sector job creation well below forecasts due to Delta strain concerns, although the unemployment rate fell 0.2% to 5.2% and hourly earnings increased.

Federal Reserve Chair Jay Powell's Jackson Hole speech in late August was moderately dovish, noting that while the central bank's inflation target had been met, progress toward maximum employment was needed. Powell also intimated a decoupling of interest rates and asset purchases, noting that tapering of bond purchases could be dialled back in late-2021 if the economy grows as anticipated.

The Chinese government continued to crackdown on segments of the economy, reflecting a broader goal for the wealthy to 'return more to society' and reduce inequality. The fresh government measures and a slowdown in export demand saw sentiment readings plummet to their lowest levels in 2021.

In Europe, Eurozone unemployment declined to 7.6% – its lowest level in over a year – while CPI beat expectations to rise to 3% annually. That said, core inflation remains tepid at 1.6%.

Risk assets had another strong month, with investors unconcerned by new virus strains, supply-chain bottlenecks and higher inflation. Leading overseas and local equities indices reached new record highs in August, while fixed interest returns softened as yields edged upward. Iron ore prices continued to fall over the month, with weaker Chinese demand the main driver.

Table: Index Returns to 31 August 2021

	MONTH (%)	THREE MONTHS (%)	FYTD (%)	ONE YEAR (%)
Australian Equities				
S&P/ASX 300 Accumulation Index	2.6	6.1	3.7	28.6
S&P/ASX Small Ordinaries Accumulation Index	5.0	8.9	5.7	29.5
International Equities				
MSCI World (ex Australia) Index (hedged A$)	2.7	7.0	4.5	29.4
MSCI World (ex Australia) Index (unhedged A$)	3.1	12.3	7.3	31.4
MSCI Emerging Markets Index (unhedged A$)	3.2	1.5	-1.7	22.6
Property				
S&P/ASX 200 A-REIT Accumulation Index	6.3	12.5	6.6	30.8
Australian Fixed Interest				
Bloomberg AusBond Composite Index	0.1	2.6	1.9	1.1
Global Fixed Interest				
FTSE WGBI ex-Aust (hedged A$)	-0.3	1.7	1.2	-0.4
Barclay's Global Capital Aggregate Bond Index (hedged A$)	-0.2	1.5	1.0	0.6
Cash				
Bloomberg AusBond Bank Bill Index	0.0	0.0	0.0	0.0
Commodities				
Gold (US$ per ounce)	-0.6	-4.5	2.9	-7.3
Copper (US$ per metric tonne)	-2.1	-7.2	1.6	42.8
WTI Crude Oil (US$ per barrel)	-7.4	3.3	-6.8	60.8
RBA Index of Commodity Prices (A$)	-4.6	11.3	4.2	49.3

Table 1: Australian Dollar versus Foreign Currencies to 31 August 2021

AUSTRALIAN DOLLAR VERSUS	AS AT 31 AUGUST 2021	MONTH (%)	THREE MONTHS (%)	FYTD (%)	ONE YEAR (%)
US Dollar	0.73	-0.6	-5.6	-2.7	-1.2
British Pound Sterling	0.53	0.4	-2.5	-2.3	-3.9
Euro	0.62	-0.1	-2.2	-2.2	0.1
Japanese Yen	80.29	-0.5	-5.2	-3.6	2.4