

Market wrap

October 2021



Energy and Evergrande fear arise

- Global shares fell 3.8% and 3% in hedged and unhedged terms, respectively. After a period of strong outperformance, growth stocks led by US tech names were the worst performers in September. Inflation fears amidst energy supply issues in China and Europe was one driver. The prospect of reduced central bank support with lower bond purchases was another.
- Australian shares outperformed global shares, falling 1.9% in September. The leading sectors were Energy (up 16.4%), Utilities (up 2.1%) and Financials (up 1.5%). The mining sector underperformed (down 12.1%) as investors reacted to the sharp selloff in iron ore prices, driven by Chinese growth fears.
- Fixed income returns were also poor. An increase in long-term bond yields saw both Australian and international bonds sell off.
- The Australian dollar (AUD) fell 0.7% against major currencies and 1.2% against the US dollar. Concerns over China amidst the unravelling of developer Evergrande weighed on AUD support.

As global growth momentum slows

Globally

- Global business surveys suggest economic growth momentum continued to soften in September. Supply chain disruptions remain an ongoing feature in business surveys impacting inflation.
- In addition, several factors drove energy fears across both China and Europe. In China's case, restrictions on Australian coal imports played a part as did issues crimping coal mining outside Australia.
- The unravelling of Chinese property developer Evergrande also triggered fears about the Chinese property market and flow on impact outside China. It appears the government will not bail out the business but is looking to minimise the fallout of any collapse.

Locally

- The lifting of coronavirus restrictions in Sydney and Melbourne is approaching. 11 October is the likely start for Sydney and late October for Melbourne.
- As both business and consumer confidence has held up in this lockdown phase, we anticipate a strong bounce back in the economy for the December quarter.
- The RBA maintained guidance that interest rates would stay at 0.1% until 2024.
- The strength of the local property market is drawing regulatory attention with expectations of APRA using macroprudential policy tools. These could impact the total amount able to be borrowed due to tighter debt servicing requirements, slowing the market.

Major asset class performance

Asset classes	1 month %	1 year %	5 years (p.a.) %
Australian shares	-1.9	30.6	10.4
Australian small companies	-2.1	30.4	10.2
Global shares (hedged)	-3.8	28.3	13.4
Global shares (unhedged)	-3.0	27.8	15.2
Global small companies (unhedged)	-1.8	39.4	13.8
Global emerging markets (unhedged)	-2.8	17.3	10.5
Global listed property (hedged)	-5.3	29.1	4.4
Cash	0.0	0.0	1.2
Australian fixed income	-1.5	-1.5	3.1
International fixed income	-1.0	-0.8	2.7

Source: Bloomberg & IOOF, 30 September 2021

Indices used: Australian Shares: S&P/ASX 200 Accumulation Index, Australian small companies: S&P/ASX Small Ordinaries Accumulation Index, Global shares (hedged): MSCI World ex Australia Net Total Return (in AUD), Global shares (unhedged): MSCI World ex Australia Hedged AUD Net Total Return Index; Global small companies (unhedged): MSCI World Small Cap Net Total Return USD Index (in AUD); Global emerging markets (unhedged): MSCI Emerging Markets EM Net Total Return AUD Index; Global listed property (hedged): FTSE EPRA/NAREIT Developed Index Hedged in AUD Net Total Return; Cash: Bloomberg AusBond Bank Bill Index; Australian fixed income: Bloomberg AusBond Composite 0+ Yr Index; International fixed income: Bloomberg Barclays Global Aggregate Total Return Index Value Hedged AUD

Please note: Past performance is not indicative of future performance

Currency markets

Exchange rates	At close on 31/8 %	1 month change %	1 year change %
USD/AUD	0.73	-1.2	0.8
Euro/AUD	0.62	0.7	2.1
Yen/AUD	80.4	-0.1	8.6
Trade weighted index	60.8	-0.7	0.2

Source: Bloomberg & IOOF, 30 September 2021

All foreign exchange rates are rounded to two decimal places where appropriate.

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