Economic Snapshot

September 2021

Paragem

The Australian share market retreated in September, marking only the second negative month of the past 1.5 years. The S&P/ASX 200 Accumulation Index finished down 1.85%. Despite the fall, the Australian market outperformed most other global equity markets, particularly the US (-4.7%) and China (-4.9%). The pullback in share markets around the world was driven by several factors including:

- concerns about the slowdown in China and in particular the housing sector after Evergrande became the third property developer to default this year;
- the rise in bond yields as central banks signal the end of crisis-era policy with the Norges Bank raising rates, the Bank of England signalling rate rises later this year and the US Federal Reserve signalling a faster and earlier tapering of asset purchases;
- concerns over the US debt ceiling and;
- the impact of shortages (particularly in energy).

The domestic lockdown impacts showed up clearly in the employment data for August with job losses significantly higher than consensus. Unsurprisingly, the unemployment rate fell slightly to 4.5% as the job losses coincided with a sharp decline in labour force participation. Business confidence and business conditions both rebounded modestly in August, despite ongoing strict lockdowns across NSW and VIC. Australian consumer sentiment was also resilient, rising 2.0% in September after falling 4.4% in August, reflecting some consumer optimism in the vaccine roll-out and roadmap to exit lockdowns.

In the US, more hawkish tones from the Federal Reserve lifted global bond yields and another brush with the US debt ceiling caused uncertainty. More broadly, an energy demand rebound off COVID-19 lows combined with transport disruptions caused several regional markets to see steep rises in prices, with natural gas up 34%, thermal coal +21%, and Brent oil 7% higher over the month. Despite the fall last month, the US share market has risen again (at the time of writing) reflecting a good start to the third quarter earnings reporting season and a consumer price index report that was only slightly worse than feared. It was the major banks in the US that helped the share market rebound. Profits by JP Morgan and Goldman Sachs were boosted by stronger consumer credit card spending, financial market trading and merger and acquisition deals.

The U.S. headline CPI was slightly higher than expected, rising 0.4%, edging annual inflation higher to 5.4%. Core CPI inflation (i.e., excluding food and energy) was in line with market expectations, posting a 0.2% per cent gain, keeping the annual rate steady at 4.0%. The ongoing debate of whether inflation is transitory or will reach a new high is likely to continue for some time yet with bond, share and property markets on high alert. Other U.S. data was consistent with a strong US economy – weekly jobless claims fell to 293,000 from 326 000, while retail spending rose a much stronger than expected 0.7% in September.

The jump in energy prices resulted in a stellar return for the Energy sector (+16.7%), materially outperforming the next best sector (Utilities, +2.5%). The spike in energy demand amidst logistics issues drove Brent oil prices up $6 per barrel to $79.Materials (-9.3%) was the worst performer,

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driven down again by the continued pull back in the iron ore price. Weaker Chinese steel demand persisted which drove iron ore prices down 44% over the month. Whilst COVID-19 cases continued to rise in Victoria, NSW now has a clear roadmap out of lockdown including the reopening of many retail and hospitality businesses in October. This saw re-opening names generally outperform. Gold fell 3.4% as the Fed signalled a sooner-than expected rate hike.

At the stock level, the best performers included Ausnet (+30.2%), Woodside (+22.5%), Santos (+19.93%) and Altium (+18.8%) while Fortescue (-28.8%), Bluescope (-18.7%) and Mineral Resources (-18.4%) were amongst the biggest laggards.

The S&P/ASX 200 A-REIT Accumulation Index was down 2.18% during the period, underperforming the broader equity market. Scentre (SCG +4.9%) outperformed as the broader market as investors rotated towards value names with COVID-19 re-opening appeal. GPT (+4.5%) similarly outperformed, with its malls benefitting from the strengthening Victorian reopening plan. Goodman (-6.3%) was amongst the worst performers, as its high valuation pitted it on the opposite side of the value rotation. Similarly impacted was Charter Hall (-4.0%) as well as homebuilder Mirvac (-4.2%).

The key variable in the economic outlook continues to be the pandemic. Merck's announcement is good news for a world economy still not fully reopened. The known unknown is the potential for new mutations. However, these developments offer relief and a roadmap of hope that the marginal impact of any new wave will decline as we learn to live with the virus and new therapeutics overcome this disease allowing the renormalisation of lives.

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