Quality Listed Portfolios

Monthly Market Update – October 2021

Total Return to 31/10/2021	1M (%)	3M (%)	6M (%)	1YR (%)	3 YR (% p.a.)	5 YR (% p.a.)	Current Yield
Cash	0.0	0.0	0.1	0.1	0.7	1.1	0.1%
Fixed Term Bank Deposit (12M)	0.0	0.1	0.2	0.4	1.0	1.4	0.4%
Australian Bonds (composite)	-3.6	-4.9	-2.3	-5.3	2.7	2.6	2.0%
Australian Bank Hybrids (gross yield to call)	0.6	0.9	1.5	4.7	4.4	4.2	3.3%
Australian Property	0.6	4.9	13.3	31.9	10.6	9.5	3.5%
Australian Shares	-0.1	0.5	6.3	28.0	11.9	10.9	3.6%
Global Shares (unhedged)	1.7	1.6	12.0	31.4	16.0	15.9	1.8%
Global Infrastructure (hedged)	3.2	2.5	3.9	19.1	8.1	7.8	3.8%

Movement to	31/10/2021	1M	3M	6M	1YR
AUD/USD (cents)	0.76	0.03	0.02	-0.02	0.05
Aust. 10-year bond yield (%)	2.07	0.66	0.88	0.37	1.24
Gold US$/ounce	1,792	2.0%	-1.2%	1.3%	-4.6%
Brent oil US$/bbl	84.4	7.5%	10.5%	25.5%	125.3%
Iron ore US$/t	121	1.1%	-43.2%	-32.8%	0.7%
Copper US$/pound	4.38	5.0%	-2.3%	-2.3%	43.8%

Source: Refinitiv, relevant benchmark data. Note: Past performance is not a reliable indicator of future performance.

Global

Markets managed to overcome worries over Chinese property and rising inflation in October, with equity markets recovering from September's 'mini-correction'. However, bond yields continued to rise on inflation concerns (leading to bond prices falling) and this seems to have triggered greater urgency for Central Banks to withdraw stimulus. The US Federal Reserve announced it would taper its bond purchases by $15bn per month, starting in November 2021 and winding up by mid-2022. However, the US cash rate is expected to remain near zero for most of 2022. Markets were well prepared for the announcement and reacted positively. The Biden administration has managed to get its infrastructure bill through Congress, but its broader 'social infrastructure bill' and the lifting of the US $28.5 trillion public debt limit has been delayed to December.

China's property issues seem to be on hold for now, with property developer Evergrande meeting interest payments. We expect Chinese property issues to be largely contained to China but there do so seem to be a number of challenges ahead for the Chinese administration including energy shortages (partly attributable to its ban on Australian coal) and its zero-tolerance program on COVID. It seems likely that the Chinese economy will continue to slow in the short to medium-term.

The United Nations Climate Change conference (COP26) is currently being held in Glasgow, Scotland. As usual there is disagreement between developed and emerging economies, with Australia caught in between as a key supplier of fossil fuels and a primary producer. Nonetheless, the conference is making progress (global standards for companies to report on ESG policies, moves to shift from coal, limit deforestation and cut methane emissions by 2030) and was never going to limit global warming to no more than 1.5% in one fell swoop. The important part is that momentum is increasing with the US, Australia and India now engaging, while Russia and China acknowledge the global warming problem but prefer to target 2060 for moving to net zero. In their view, developed economies need to lead (for past emissions) and emerging economies need to be given more flexibility and time.

The other major positive news is the steady progress on containing the COVID pandemic with the continual rollout of COVID vaccines and the development of new antiviral medications, which should reduce the infection and hospitalisation rate materially in 2022. It certainly looks like the COVID pandemic will fade in 2022. Let's hope so!

Australia

The Australian economy slowed in the September quarter, due to lockdowns in NSW and Victoria and a large fall in the iron ore price. However, Australia has made major progress on its COVID vaccination rate with the national fully vaccinated rate over 80% and approaching 90% by December. Economic activity is returning to 'normal' across the nation and the development of new weapons against COVID like rapid antigen tests and antiviral medications suggest the infection and hospitalisation rate should be under control in 2022.

The RBA has acknowledged the improving growth and inflation outlook. Indeed, underlying inflation has hit 2.1% and is now within the RBA's 2-3% target range. However, the RBA expects it will take until 2023 for underlying inflation to sustainably stay within its 2-3% range, as it will require higher wage inflation. The RBA has removed its control of the yield curve (out to the April 2024 bond) and will most likely halt bond purchases by February 2022. It still believes the cash rate won't be increased until 2023, at the earliest.

The other big news was the LNP Federal government adopting a net zero carbon emission policy (by 2050), timed to coincide with the PM's trip to the COP26 conference, mentioned above. That's the easy part, the hard part will be converting the economy from a reliance on fossil fuel inputs (coal, oil and gas) over to a diversified mix of energy sources, without undue inflation and disruption to local communities. The answer according to the PM is "technology" but there will also be some major macro and micro economic reforms required over the next 30 years.

Outlook

The outlook generally remains positive based on expectations that the global economy will recover as the COVID pandemic fades in 2022. In addition, fiscal and monetary policy is expected to remain supportive for most of 2022. We expect interest rates to gradually rise but equity markets should be able to handle this as long as inflation stays lukewarm and doesn't get too hot!

The key known risks ahead seem to be:

1. COVID pandemic (expected to fade in 2022);
2. Inflation (supply bottlenecks and ESG transition issues);
3. China (Xi pivoting back to Mao policies and property bubble);
4. Regulatory interventions (related to market failures and/or ESG issues); and
5. Geopolitical tensions around trade, security and sovereignty.

The next key events on the calendar include:

- Australian AGM season wraps up – November 2021
- RBA meeting – 7 December 2021
- US Fed meeting – 14-15 December 2021
- US $28.5 trillion public debt limit - must be lifted by end of December 2021
- US Fed Chair appointment – due before February 2022
- US 4Q21 reporting season – February 2022
- Australia 1H22 profit season – February 2022

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Warnings, Disclosure and Disclaimer

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