

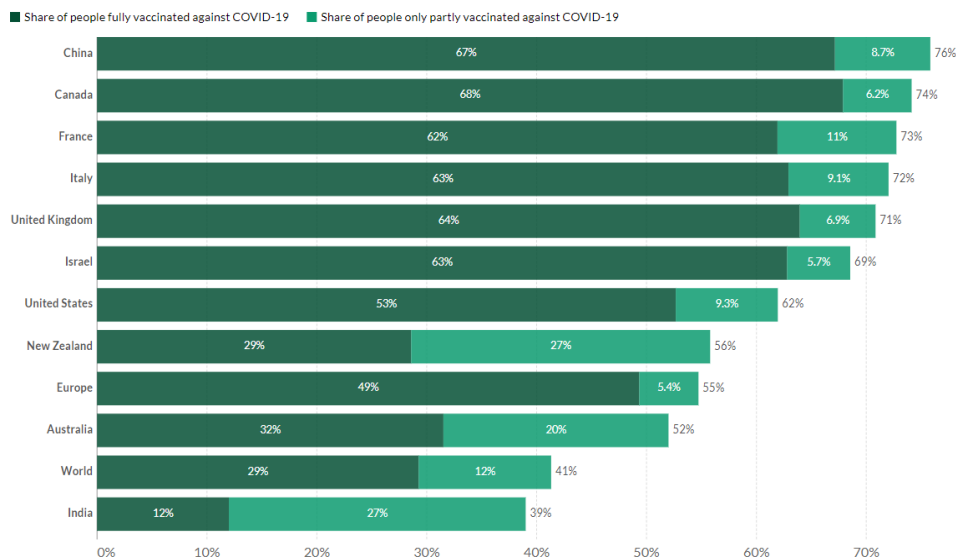


Financial Market Conditions – August 2021

Over the month of August, the Delta variant continued to present a risk for economies globally, with increases in positive COVID cases continuing to escalate around the world. For countries with high vaccination rates such as the UK and throughout Europe, they are illustrating the ability to live life amidst rising COVID cases. The hospitalisation rates instead are the focus, and any indication on the strain on the health system. The focus in Australia has seen a shift, instead of the zero COVID strategy, the focus is on the 70-80% vaccination rate and the road out of lockdown. Globally, markets can see that the risks of other strains are real, and lower longer term interest rates reflect the expectation of a slower economic recovery globally.

Share of people vaccinated against COVID-19, Sep 8, 2021

Alternative definitions of a full vaccination, e.g. having been infected with SARS-CoV-2 and having 1 dose of a 2-dose protocol, are ignored to maximize comparability between countries.

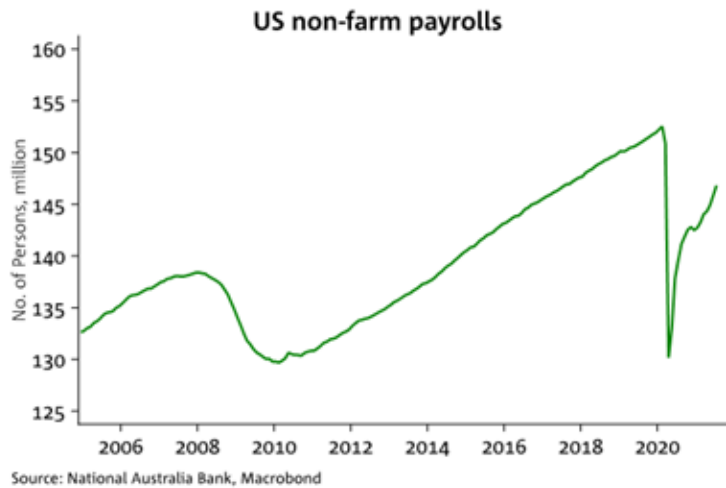


Source: Official data collated by Our World in Data. This data is only available for countries which report the breakdown of doses administered by first and second doses in absolute numbers.

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These familiar themes prevailed on global share markets over the month with investors still searching for return amongst soaring numbers of Delta variant cases, and the lift in global vaccination rates. Despite mixed economic data, earnings results continued to buoy investor spirits and global share markets ended higher once again in August, with the US market wrapping up its seventh straight month of gains. Locally equities advanced for its 11th successive month and witnessed its best run of consecutive monthly gains since 1943.

More economic data out of the US continued to show evidence of growing confidence in the outlook for growth in the economy. Manufacturing data was underpinned by strength in production and new orders, and the service sector survey printed a new record high. Payrolls in the US rose more than expected as well as improvements in the unemployment rate. Positive data suggests another high GDP print in Q3, potentially 6-7%. The next topic of conversation is the potential for Fed tapering, supported by Fed Governor Waller's comments of potentially tapering by October if job strength continues. However, Delta variant dynamics may play a role in the pace of economic recovery, with US cases back at levels higher than in February 2021. Whilst some areas of the US have high vaccination rates, there are many states with lower than 30% of the population vaccinated, presenting a risk to the positive economic activity to date.

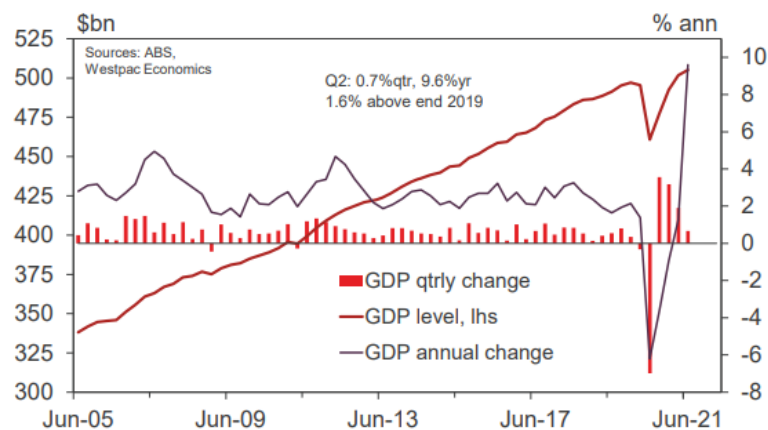


In the Euro zone, business and manufacturing activity remained robust over their summer holidays. High vaccination levels have increased spending and confidence in the region. The recent business activity data illustrated that the lifting of COVID travelling restrictions boosted the economic recovery in the wake of the pandemic. Whilst there continues to be global supply chain issues, job creation and demand continued to grow. Encouragement comes from a second month of job creation the strongest for 21 years, with growth estimates showing that the Euro region had bounced back from a technical recession. In the UK, economic data is also positive, with GDP expected to regain its pre-pandemic level later this year.

In China, risks of the Delta strain were very apparent early in August, now appear to be under control. However, the zero-COVID strategy has also impacted economic activity. There was a downside surprise to retail sales, illustrative of the influence of the lockdowns over the period. There is a growing expectation that the aggressive growth witnessed immediately after restrictions were eased may not be sustained in 2021. Manufacturing data was also weaker throughout the month. Despite these restrictions, China's iron ore imports from Australia rose for the first time in five months in August. However, it is expected this may not last – with expectations that steel output cuts will weight on future demand for iron ore.

In Australia, whilst it is apparent COVID restrictions have impacted the economy substantially, the reality of the 'lag effect' of economic data means that some of that impact is yet to be seen in published data. Q2 GDP was much better than expected printing at 0.7%. As Q2 data only captured the start of the lockdowns, the market expects a significant impact to GDP in Q3, as much as -4%. Labour market data highlighted an underlying strength in the Australian economy, with a creation of jobs and due to the lack of individuals available to work due to lockdowns. This saw a reduction in the unemployment rate to 4.6%. Hospitality is down over 30% since the start of the year, reflecting the impact of ongoing lockdowns. In addition, wage growth continues to disappoint, a key factor for the RBA.

Australian economy: activity



At its September meeting, the RBA stuck to its plan to purchase government securities at the reduced rate of \$4 billion a week, confirming it will continue the purchases at this rate until at least mid-February 2022 (as opposed to November previously). The RBA noted that prior to the Delta outbreak, the Australian economy had considerable momentum. The RBA is still expecting a strong rebound in 2022, noting "This setback to the economic expansion is expected to be only temporary". They were consistent in their expectation that the cash rate will not be increased until inflation is consistent with a 2-3% target and wages growth is evident.