BT Index Balanced Fund

Monthly report – 31 January 2022

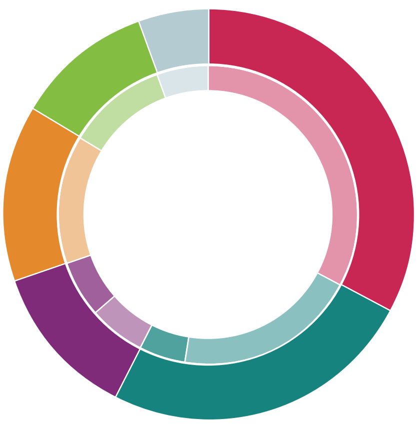
Fund overview

Inception date	1 August 2016
APIR code	WFS0590AU
Fund size (AUD millions)	$788.09
Investment objective	Seeks to deliver predominantly moderate growth and some income returns, which tracks the overall return of a diversified portfolio of underlying investments.
Recommended investment timeframe	5 years
Minimum initial investment	$500,000
Distribution frequency	Quarterly
Management costs (%) pa[1]	0.33
Buy/sell spread (%)	0.07 / 0.07

Performance review[2]

Period ending 31 January 2022	1 month	3 months	1 year	3 years	5 years	Since inception
	%	%	%	% pa	% pa	% pa
Total return	(4.03)	(1.13)	10.73	9.34	8.25	7.66
Growth return	(4.03)	(1.43)	5.20	4.94	3.11	2.99
Distribution return	0.00	0.30	5.53	4.40	5.14	4.67

Actual asset allocation %[3]



Equity – Australian Listed – 32.50%
- BT Australian Shares Index Fund – 32.50%

Equity – International Listed – 25.64%
- BT International Shares Index Fund (Unhedged) – 20.64%
- Blackrock Index Hedged International Equity Fund – 5.01%

Property – International and Australian Listed – 11.90%
- BT Property Securities Index Fund – 5.88%
- Blackrock iShares Global Listed Property Index Fund – 6.02%

Fixed Income – Australian – 13.85%
- BT Australian Fixed Interest Index Fund – 13.85%

Fixed Income – International – 10.75%
- BT International Fixed Interest Index Fund – 10.75%

Cash – 5.37%
- Advance Cash Multi-Blend Fund – 5.37%

Please refer to the end of this report for the footnotes

Market update

While only a month into 2022, the year has well and truly started with a bang. From increasing Omicron concerns, equity market volatility, record levels of inflation, hawkish central bank rhetoric and rising bond yields. January was not a month for the fainthearted.

Australia

As many Australians headed back to office, Omicron continued to play on physical mobility, ongoing supply chain disruptions and staff storages, particularly impacting the service sector. Despite this, key economic data released over the month painted an economy well and truly on the road to recovery, which was reiterated on the first Tuesday in February.

At the first Reserve Bank (RBA) board meeting of the calendar year, the much-anticipated decision to scrap quantitative easing (QE) came to fruition, with the cash rate left unchanged for now. While the RBA was not alone relative to global peers, with many other central banks bringing forward the conclusion of their bond-buying programs, the decision to drop the QE program reflected the positive progress towards key employment and inflation goals.

The RBA sharply revised up its inflation forecast and now expects underlying inflation it to hit 3.25% “over the coming quarters” – notably above its target band. In addition to moving its unemployment forecasts lower to sub 4% - pushing below full employment. It remains only a matter of time before wage pressures mount, laying groundwork for what the market continues to price in -four rate hikes later this year. BT (Westpac economics) house view is that the rate-hiking cycle will start in August with a rate rise of 15 basis points, taking the cash rate to 0.25 per cent. Subsequent hikes will return to 25 basis point intervals.

In other data, dwelling prices recorded another month of solid growth in January, up 1.1%. However, the momentum of the so called “hot” property market is continuing to slow. The three-month growth rate slipped to 3.4%, its lowest level since January 2021. Stretched affordability, a lift in supply and a rise in fixed interest rates appear to be taking steam out of the property market.

Retail sales dropped by 4.4% in December after a 7.3% jump in November post “Black Friday” sales. This was the largest monthly drop since April 2020. However, spending remains elevated, with monthly turnover at its second highest level on record. The fall follows three consecutive monthly increases over September to November as spending bounced back following the Delta lockdowns. The decrease also partly reflects surging COVID-19 cases, although we expect this will be more clearly captured in January when omicron cases peaked.

Underlying inflation increased 1.0% in the December quarter to be 2.6% higher over the year. This is the highest annual rate in more than seven years and the second consecutive print within the RBA’s target band. Headline inflation rose 1.4% in the quarter and 3.5% over the year.

Rising fuel costs, global supply-chain disruptions and the housing boom remained key drivers of inflation in the quarter. The increase in prices was broad-based across capital cities.

Australian markets started the year in the red with the ASX300 Accumulation returning -6.45% for January bringing the 1 year rolling return to 9.59%.

United States

In the US the key points of discussion have been inflation, interest rates, corporate earnings, and the flow on effect to equity markets. With current inflation sitting at 7%, it is no longer a case of “if” the federal reserve (Fed) will raise rates in 2022 but rather “when”.

At the first Federal Open Market Committee (FOMC) meeting of the year, the fed left its policy rates unchanged. However, Chair Powell signalled a rate hike to be expected at the next meeting in March. At the press conference, Chair Powell said: ‘the committee is of a mind to raise the Fed funds rate at the March meeting, if conditions are there to do so’. He noted that officials have not yet made any decisions about the path of policy because it needs to be ‘nimble’. He noted he is inclined to boost his inflation forecast by ‘a few tenths’.

The FOMC statement declared ‘it would soon be appropriate’ to lift rates, citing inflation well above the 2% target and the robust labour market. It also stated asset purchases will conclude on schedule in ‘early March’. Balance sheet reduction will commence after rate lift-off. The vote was unanimous. Now, the focus is shifting to whether a 50-basis point hike is on the cards for the next meeting.

In other data the labour market remained tight at the end of 2021 as job openings rose to 10.9 million in December. This followed a 10.8 million outcome in November and above consensus expectations of 10.3 million openings. The quit rate or many term as the “great resignation” remained high at 2.9%, despite falling from the record level of 3.0% in prior months.

As for economic growth, GDP increased to 6.9% in Q4, beating market expectations of a 5.5% rise. Output is growing at the fastest annual pace since September 2020. Once again supporting the Fed’s current commentary.

The S&P returned -5.17%, the NASDAQ posted its worst January since 2008 returning -8.96% and the Dow Jones -3.24%.

Asia

In China, a dichotomy between the economic health of the developed world was becoming increasing apparent. The People’s Bank of China slashed its key lending rates for corporate and household loans for a second straight month at its January meeting. The one-year loan prime rate (LPR) was cut by 10 bps to 3.7%, following a 5bps cut in December, and the five-year LPR which influences the pricing of home mortgages was trimmed 5 bps to 4.60%,

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the first reduction since April 2020. These cuts were sought by policymakers looking to cushion a slowdown in economic recovery due to multiple headwinds, including sporadic COVID-19 cases and soaring cost of raw materials. Furthermore, Government-led infrastructure projects are being accelerated and property policy has been gradually loosened in an attempt to stabilise the economy.

As for economic growth, the Chinese economy expanded 4.0% (YoY) in the fourth quarter of 2021. While still exceeding market expectations of 3.6% but weaker than the previous quarter of 4.9%. Fuelling the ongoing slowdown concerns as it was the slowest pace of expansion since Q2 2020.

However, in saying this, the Chinese economy grew 8.1% over 2021, the fastest expansion in nearly a decade, exceeding the government's target of above 6% and following a revised 2.2% growth in 2020. Consumption expenditure contributed 65.4% to the 2021 GDP growth, compared with 54.3% in 2020, but was still lower than in developed economies.

The Caixin China General Manufacturing PMI fell to a 23-month low of 49.1 in January 2022 from 50.9 in December, missing market consensus of 50.4. The latest reading pointed to the 2nd contraction in factory activity in three months, As China looked ahead to Luna New Year Celebrations and host of the 2022 Beijing Winter Olympic games in February, concern continued to wane over the countries focus of a zero covid policy. Only time will tell as to the success of such a strategy.

The Japanese Nikkei 225, Shanghai Composite and Korean KOSPI all finished the month down, reporting -6.21%, -7.65% and -10.56% respectively.

Europe

Europe continued to face the impact of rising political tension between Russia and the Ukraine – downstream impacts leading to pricing pressure on energy prices.

The Euro Area CPI reading for January beat expectations, rising 0.3% in the month, taking annual inflation to 5.1% – a new record high. While Core inflation which excludes energy, food, alcohol, and tobacco, eased to a 3-month low of 2.3%.

Regardless of the differential, the inflation rate remains well above the ECB's target of 2% amid a power crisis in Europe which sent cost of natural gas, coal, and electricity sharply higher while improving demand and pandemic-related supply constrains continue to pressure prices up.

Manufacturing activity gained momentum in January, while the services sector took a hit from the Omicron outbreak with many businesses impacted by lower mobility and tourism. The manufacturing PMI rose to 59.0, from 58.0 in December. While the services PMI slid from 53.1 to 51.2 in January and is at its lowest level since April 2021. Despite this, encouragingly the index remains in expansionary territory.

Over to the United Kingdom, where the Bank of England (BoE) has taken a very hawkish stance. Following the December rate rise to 25bps, the BoE raised rates again to 50bps in their first meeting of the year. However, the surprise was the outcome of the vote of board members. Four of nine board members voted for a more hawkish increase of 50 bps, rather than 25bps. The remaining five board members voted for a 25bps increase. Officials indicated that 'some further modest tightening is likely to be appropriate in the coming months'. The updated forecasts indicate that the BoE expects inflation to hit 7.25% in April. Markets are now pricing rates to increase to 1.0% by May.

However, the Consumer Confidence indicator in the United Kingdom dropped to its lowest level in 11 months at minus 19 in January 2022, as consumer mood was dampened by persistently high inflation, suggesting that rising living costs will slow the household spending recovery.

The Europe 600 STOXX reported a loss of -3.88%, the French CAC 40 -2.15%, the German DAX -2.60% and the UK's FTSE100 ended up 1.08%.

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Footnotes

1 The Management Costs included in this fact sheet are inclusive of the Management Fee and any Performance Fees and includes the effect of GST (net of RITC). They do not include other indirect costs. Refer to the Product Disclosure Statement and online disclosures for further information.

2 Past performance is not a reliable indicator of future performance. Performance returns are calculated net of management fees and costs. Growth and distribution returns may not equal the total net return due to rounding.

3 Allocations may not equal 100% due to rounding.

For more information

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