

BT Index Balanced Fund

Monthly report – 31 March 2022

Fund overview

Inception date	1 August 2016
APIR code	WFS0590AU
Fund size (AUD millions)	\$808.16
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 review²

Period ending 31 March 2022	1 month	3 months	1 year	3 years	5 years	Since inception
	%	%	%	% pa	% pa	% pa
Total return	1.82	(3.22)	8.45	7.82	7.74	7.59
Growth return	1.38	(3.64)	2.97	3.48	2.59	2.98
Distribution return	0.44	0.42	5.49	4.34	5.15	4.62

Actual asset allocation %³



Equity – Australian Listed – 32.86%
● BT Australian Shares Index Fund – 32.86%
Equity – International Listed – 24.96%
● BT International Shares Index Fund (Unhedged) – 19.94%
● Blackrock Index Hedged International Equity Fund – 5.01%
Property – International and Australian Listed – 11.99%
● BT Property Securities Index Fund – 6.05%
● Blackrock iShares Global Listed Property Index Fund – 5.94%
Fixed Income – Australian – 13.66%
● BT Australian Fixed Interest Index Fund – 13.66%
Fixed Income – International – 10.78%
● BT International Fixed Interest Index Fund – 10.78%
Cash – 5.74%
● Advance Cash Multi-Blend Fund – 5.74%

Market update

March was a month full of central bank decisions with two of the key developed market economies choosing to raise official interest rates. As the world continues to deal with the fallout of the war in Ukraine, downstream impacts to asset prices and supply chains, most risk markets ended the month in the green.

Australia

In Australia, the month of March was not only impacted by ongoing conflicts in Ukraine, but the east coast of Australia was hit with devastating floods across Queensland and NSW.

The Reserve Bank of Australia (RBA) kept the cash rate on hold at 0.10% at its March meeting, a level it has held since November 2020. The RBA has underscored the need for patience because of two key factors: uncertainty over how long global supply-chain disruptions will persist, and wages growth. Indeed, wages growth seems the sticking point, as the RBA holds concerns that wages growth will build up only very gradually. Also noting, in the space of just a few weeks, a new source of uncertainty has emerged - being the war in Ukraine - impacting oil prices globally. The RBA remains concerned over possible inertia in wages growth in Australia. However, recent speeches have indicated a focus on a broader range of wage measures beyond just the wage price index. The BT (Westpac economics) house view remains comfortable with our forecast that the rate-hike cycle will kick off in August. However, an earlier move can't be ruled out.

Other key economic indicators released over the month included Consumer sentiment, which fell 4.2% to 96.6 in March. This is the lowest reading since September 2020. Notably, it is the first time since then that the survey has fallen below 100 - indicating that the pessimists outweigh the optimists given recent floods & geopolitical tensions. The deterioration in confidence was broad-based across the sub-indices, led by expectations for economic conditions for the next twelve months which fell 6.7% in the month.

Retail sales jumped 1.8% in February. The result follows a revised 1.6% rise in January and takes retail spending 9.1% higher over the year to February. Spending on cafes, restaurants and takeaway food services surged 9.7% in the month, hitting a new record high. Spending on clothing, footwear, and personal accessories, and at department stores was also strong, both up by more than 10% over the month. Spending is now above pre-Delta levels in all categories.

Manufacturing PMI in Australia increased to 55.70 in March from 53.20 in February of 2022. It was the highest reading since July of 2021.

The S&P/ASX300 Accumulation Index returned 6.90% for the month, bringing the 1 year rolling return to 15.21%.

United States

The long-awaited increase in the cash rate came for the United States. With the FOMC lifting rates by 25 basis points, as expected, marking the first increase since 2018. The FOMC voted 8-1 in favour of the decision. St Louis President Bullard dissented in favour of a 50-basis point hike. In the dot plot, members' median projection was for the benchmark rate to reach around 1.9% by the end of 2022 - sharply higher than previously indicated but broadly in line with market pricing. The projections point to the rate reaching 2.8% in 2023. Powell also signalled that a 50-basis point rate hike remains a possibility, noting "every meeting is a live meeting". The central bank pledged to begin shrinking the Fed's balance sheet at a "coming meeting", Powell indicating an announcement could come as soon as May.

The Fed revised up its inflation forecast while the GDP projection was cut back. Core PCE inflation is expected to remain at 4.1% over 2022 (previously 2.7%) before easing to 2.6% in 2023. Meanwhile, the GDP growth forecast was cut to 2.8% for 2022 (previously 4.0%). The statement acknowledged the economic implications of Russia's invasion of Ukraine are "highly uncertain" but in the near term it is likely to "create additional upwards pressure on inflation and weigh on economic activity".

US retail sales were stronger than expected in February after incorporating upward revisions to January's already strong result. Sales rose 0.3% in February, while growth in January was revised up to 4.9% from 3.8%. However, the core measure fell 1.2% in the month, perhaps reflecting the impact of higher petrol prices.

US Manufacturing PMI increased to 58.5 in March of 2022 from 57.3 in February, easily beating forecasts of 56.3. It was the highest reading since September 2020, with output rising at the fastest rate since last June, supported by increasing demand, fewer supply bottlenecks and the easing of coronavirus-related restrictions.

The S&P returned 3.71%, the NASDAQ was up 3.48% and the Dow Jones 2.49%, bringing annual returns to 15.65%, 8.06% and 7.11% respectively.

Asia

As for China, the People's Bank of China (PBOC) maintained its benchmark interest rates for corporate and household loans at its March fixing, as widely expected. This was following the 5 bps and 10 bps cuts in December & January respectively. However, it is expected further cuts are not off the table pending the results of Q1 growth in April.

The Chinese central bank recently reaffirmed its commitment to stay accommodative and increase its support for key areas and weak links in the economy, amid volatile internal and external conditions that would require more counter-cyclical policy adjustment.

Manufacturing PMI for China fell to 49.5 in March 2022 from 50.2 in the prior month and below market forecasts of 49.9. This was the first contraction in factory activity since last October, reflecting the impact of widespread COVID-19 outbreaks in key cities, including Shanghai and Shenzhen.

The Caixin China General Services PMI fell to 50.4 in February 2022 from 51.4 in January, marking the lowest reading in the current six-month sequence of growth in services activity.

In Japan, the Bank of Japan (BoJ) left its key short-term interest rate unchanged at -0.1%, by an 8-1 vote, as widely expected. This amounted to 10-year bond yields around 0%. The BoJ noted that Japan's economy has picked up despite some weakness due to the pandemic and supply-side issues; the board warned of fresh risks from the Ukraine crisis, which it said was destabilising financial markets and sharply pushing up raw material costs.

In the last week of the month, the BoJ also announced that it conducted unlimited fixed-rate purchase operations for 10-year government bonds this week, as the central bank defended its yield target in the face of rising global interest rates.

Over March, the Japanese Nikkei 225 and the Korean KOSPI ended up +5.78% and 2.71% respectively. The Shanghai composite was heavily impacted by the fall in Chinese equities, ending the month down -6.07%.

Europe

As mentioned last month, mainland Europe and the UK, continue to bare the immediate economic risk from the conflict in Ukraine given its geographical proximity and reliance on trade, particularly energy.

The European Central Bank left policy rates on hold but accelerated the pace of the quantitative easing unwind. Their move signals that the central bank is more concerned about inflation than the Ukraine war hitting growth. The inflation forecast for 2022 was revised up to 5.1% from 3.2%. Purchases under the Asset Purchase Program (APP) will now be €40bn in April, €30bn in May and €20bn in June. Previously the central bank indicated purchases would continue at €40bn per month through Q2, €30bn through Q3, and then €20bn in Q4. Any adjustment to interest rates will take place "some time" after the end of the APP and will be "gradual".

The UK's Monetary Policy Committee (MPC) raised rates by 25 basis points to 0.75%, but BOE's Deputy Governor Jon Cunliffe voted to stand pat. The central bank said more tightening "might be" appropriate in coming months, compared with last month's comment that it was "likely." Officials warned however, that the war may push inflation well above 8%.

Consumer confidence declined in March, as concerns around high inflation and the impacts from the war in Ukraine weigh on consumer sentiment. The GfK consumer confidence survey declined to -31 in March, to record its fourth consecutive month of declines. This was down from -26 in February and below consensus expectations of -30. The result sees consumer confidence at its lowest level since November 2020.

European markets were broadly flat over the month with the Europe 600 STOXX ending flat at 0.61%, the French CAC 40 0.02%, the German DAX -0.32%. The UK's FTSE 100 ended up 0.77%.

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

bt.com.au | 1800 819 935 | investorservices@btfinancialgroup.com
GPO Box 2675, Sydney, NSW 2001



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