

BT Index Balanced Fund

Monthly report – 31 May 2022

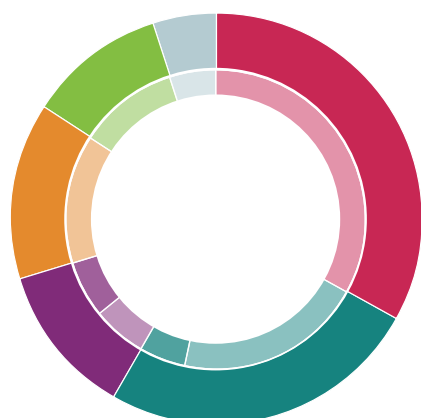
Fund overview

Inception date	1 August 2016
APIR code	WFS0590AU
Fund size (AUD millions)	\$793.64
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 May 2022	1 month	3 months	1 year	3 years	5 years	Since inception
	%	%	%	% pa	% pa	% pa
Total return	(2.02)	(2.24)	0.11	5.78	6.59	6.62
Growth return	(2.02)	(2.66)	(4.96)	1.52	1.50	2.17
Distribution return	0.00	0.42	5.07	4.26	5.09	4.45

Actual asset allocation %³



- **Equity – Australian Listed – 33.11%**
 - BT Australian Shares Index Fund – 33.11%
- **Equity – International Listed – 25.27%**
 - BT International Shares Index Fund (Unhedged) – 20.30%
 - Blackrock Index Hedged International Equity Fund – 4.97%
- **Property – International and Australian Listed – 11.97%**
 - BT Property Securities Index Fund – 5.99%
 - Blackrock iShares Global Listed Property Index Fund – 5.98%
- **Fixed Income – Australian – 13.83%**
 - BT Australian Fixed Interest Index Fund – 13.83%
- **Fixed Income – International – 10.83%**
 - BT International Fixed Interest Index Fund – 10.83%
- **Cash – 4.99%**
 - Advance Cash Multi-Blend Fund – 4.99%

Market update

During May, inflation data and subsequent global central bank reaction remained centre stage. In Australia, the release of March quarter inflation numbers showed the headline rate surging 5.1% over the rolling twelve months (the fastest pace in approx. 21 years), this caused the Reserve Bank of Australia (RBA) to increase its cash rate for the first time in 11½ years by 0.25%. We also saw Anthony Albanese sworn in as the next Prime Minister after the Australian Labor Party clinched victory in the May 21st election, ousting the Coalition party that had held power since 2013.

Globally, we continue to witness the tragic war in Ukraine play out and the resultant instability in the supply of energy to European nations. Evidence of a global food crisis is now emerging as war in this key grain growing region continues with no end in sight.

Australia

Late May it was reported that Australia's Q1 current account remained in surplus for a 12th consecutive quarter. However, the size of the surplus has narrowed, moderating to \$7.5bn (1.3% of GDP) in the March quarter, down from \$13.2bn for the final quarter of 2021. The current account surplus peaked in the June quarter 2021 at \$22.3bn (4.1% of GDP).

May data also showed the economy continuing to benefit from ongoing jobs growth and the unleashing of pent-up demand in the March quarter, although several headwinds weighed on this growth; this included a spike in COVID-19 case numbers in late 2021 and early 2022, extensive flooding across NSW and Queensland, and growing inflationary pressures.

The Australian economy expanded by 0.8% in the March 2022 quarter for an annual increase of 3.3%. A key driver of this growth was household consumption, which increased by 1.5% and included a 4.3% lift in discretionary spending as the economy reopened despite disruptions from the Omicron variant and floods. Notable items were recreation and culture (+4.8%); hotels, cafes, and restaurants (+5.3%); and transport services (+60%). Vehicle purchases also increased by 13% with some easing of supply constraints. Discretionary spending now exceeds the pre-pandemic level for the first time. Essential spending declined by 0.2% due to falls in food (more eating out) and health as Omicron affected visits to doctors and elective surgery.

A slew of housing market data was released over the month with CoreLogic kicking off proceedings. Released in early May, April's dwelling price figures showed a continuation of recent trends in the housing market. Overall, momentum continued to slow in the capital cities, led by further weakness in the most expensive markets of Sydney and Melbourne. Both cities recorded their first three-month fall in prices since the extended lockdowns of 2020. Prices continue to grow strongly in the remaining capital cities, especially in Adelaide, Brisbane, and Canberra, although the peak appears to be behind us. We expect momentum to continue to slow as interest rates rise.

With the election now decided, attention is focussed on the ability for Labor to win enough seats to form a majority government. At the time of writing, Labor is expected to achieve that with 77 seats.

The election was also marked by a spectacular swing towards independent candidates and the Greens who both campaigned on climate change reform and a Federal Independent Commission Against Corruption (ICAC). There was also a strong swing away from the Coalition from female voters. This pro-climate move will put pressure on Labor to take stronger action on climate change, even though Labor campaigned on cutting greenhouse gas emissions by 43% by 2030 (compared to the Coalition's target of 26 to 28%). Note that both parties have committed to reaching net zero by 2050.

Millions of Australians are potentially in for a bigger pay rise under the Labor Government. During the election campaign, Anthony Albanese stated that his government would make a submission to the Fair Work Commission to raise the minimum wage by 5.1%, in line with the latest annual growth rate of headline inflation.

As of July 2021, the national minimum wage is \$20.33 per hour. The Commission reviews the minimum wage annually, with the change usually coming into operation from 1 July. Cost-of-living pressures are weighing on the outlook for spending despite the strength of the labour market. The squeeze on household budgets is likely to be more acute for lower-income households.

The S&P/ASX300 Accumulation Index ended down -2.76% for May, lowering the one-year rolling return to +4.71%.

United States

The RBA wasn't the only central bank meeting held during May. The Fed, as widely expected, increased its funds rate by 50bps, following a 25bp move at the March meeting. Several Fed officials, including Chairman Jerome Powell, have recently made supporting comments for this rate hike, as the central bank moves quickly to return interest rates to a 'neutral' level as inflation surges. Hitting an annual rate of 8.5% in March, US inflation is at its highest level since December 1981.

As reported last month, Fed Chair Powell pointed to further 50bp hikes, noting "a broad sense on the committee that additional 50bp increases should be on the table for the next couple of meetings". However, late May comments from Chair Powell dashed speculation that the Fed would hike by an even larger 75bps in the months ahead, saying it is "not something that the committee is actively considering". He also said the committee would not hesitate to push rates above neutral if necessary. The estimated neutral rate in the US is between 2% and 3%.

Over May the word 'recession' became more prominent in economists' thinking. A recent Bloomberg Markets survey suggested that consensus is now at 30% probability for a recession this year. A statistic that was indicating 15% only three months ago.

May date also saw US GDP shrink 1.5% over the March quarter. Whilst this isn't a precursor for a recession, this contraction was the first drop in GDP growth since the economic depths of the COVID-19 induced recession over the second quarter of 2020.

Another data point released during the month was the S&P Global Flash US Manufacturing PMI, which fell to 57.5 from 59.2 in April. This was the slowest growth in factory activity in three months. That said, the reading came in line with expectations and pointed to robust growth supported by strong and steep expansions in output and new orders, alongside a faster upturn in employment and longer supplier lead-times. Moreover, inflationary pressures on goods remained substantial, with input costs rising at the sharpest pace since November 2021, amid hikes in key components and logistics including transportation, metals, fuel, and cardboard prices. Output costs rose at the third-steepest pace on record as a result. Meanwhile, business sentiment was at its lowest in seven months as hopes of new client acquisitions and greater demand were dampened by inflationary fears.

For US employment, there were positive signs with the US economy adding a reported 428K jobs in April. It marks the 12th straight month of job gains above 400K though eased from a February gain of 714K amid an increasingly tight labour market. Employment increased across all sectors, with the largest gains occurring in leisure and hospitality (78K), namely food services and drinking places (44K) and accommodation (22K); manufacturing (55K), mainly durable goods (31K); and transportation and warehousing (52K). However, this still leaves the US economy down by 1.2 million jobs from its pre-pandemic level. Leisure and hospitality (-1.44 million), local government (-596K), and education and health services (-409K) remain considerably below March 2020 levels. Economic consensus tells us that the labour market could soon start to slow down as the economy gets close to full employment. This may provide some relief to hot wage growth at a time when inflation is running at levels not seen since 1981.

The S&P500 and Dow Jones Industrials Average Index were marginally in the green with returns of +0.18% and +0.33% respectively over the month. Conversely, the NASDAQ was down -1.93%.

Asia

China, the world's second-largest economy, saw very weak activity growth over April as exports lost momentum and the property sector wobbled.

During May, we also saw China's April month-end profits reporting for industrial firms falling at their fastest pace in two years, as high raw material prices and supply chain chaos caused by COVID-19 squeezed margins and disrupted factory activity. Profits shrank 8.5% from a year earlier, swinging from a 12.2% gain in March. The slump is the biggest since March 2020.

The industrial sector has been hit hard by the stringent and widespread anti-virus measures that have shut factories and clogged highways and ports.

As the month ended, Premier Li Keqiang acknowledged the very weak economic growth and said economic difficulties in some respects were worse than in 2020 when the economy was first hit by the COVID-19 outbreak.

China recently cut its benchmark lending rates for corporate and household loans for a second straight month and lowered a mortgage reference rate for the first time in nearly two years. While policymakers have pledged more support for the faltering economy, many analysts have downgraded their full-year growth forecasts, noting the government has shown no sign of relaxing its "COVID-zero" policy.

Japan's economy shrank in the first quarter of 2022, as it continues to fluctuate between growth and contraction.

Accelerating inflation and a surge in cases of the Omicron COVID variant in the January to March period contributed to a 0.2% drop in the country's inflation-adjusted GDP from the previous quarter. Data from the Cabinet Office showed the economy shrank at annualized rate of 1.0%.

The world's third-largest economy has contracted in three of the last five quarters and has yet to return to its pre-pandemic output level. During most of Q1, Japan imposed economic restrictions on much of the country as it sought to stem its biggest wave of COVID-19 infections. Many people refrained from shopping or dining out, leading to flat private consumption.

To cushion the blow from inflation, Prime Minister Fumio Kishida's government approved a 2.7 trillion-yen fiscal spending program over May, comprising petrol subsidies and cash handouts to low-income families. The Bank of Japan is bucking the global monetary tightening trend, keeping the cost of credit at rock-bottom for businesses and households.

Another drag on the economy was sluggish exports, with export growth held back by weak auto demand in China as a direct result of their 'COVID-zero' related lockdowns. Conversely, imports grew due to huge purchases of vaccine booster shots.

The Japanese Nikkei 225 ended the month up +1.61% and the Korean KOSPI ending down -0.34%. The Chinese Shanghai Composite and Hong Kong's Hang Seng clawed back earlier losses, ending the month up a comfortable +4.57% and +1.54% respectively, though both are still under pressure for the year with their 1-year returns at -11.87% and -26.54%.

Europe

Whilst a Thompson Reuters survey showed growth in Eurozone business activity slowing, it remains relatively strong despite a cost-of-living crisis putting a dent in consumer spending power and a shortage of raw materials holding back expansion in manufacturing. During May, S&P Global's flash Composite Purchasing Managers' Indexes (PMI) were released, printed 54.9 in May, a fall from 55.8 in April – and lower than the market forecast of 55.3. Note that any reading above 50 indicates growth.

From the same survey, Europe's services PMI fell to 56.3 from 57.7, well below the market expectation of 57.5, as sharply rising prices kept consumers cautious.

A sustained rebound in services buoyed German business activity. However, signs of rising prices, market uncertainty and supply chain problems are starting to put pressure on demand.

In France, growth slowed slightly as inflationary pressures took the shine off a reduction in COVID-19 restrictions.

Momentum in Britain's economy, which now sits outside the Eurozone and European Union, slowed much more than expected this month, adding to recession worries as inflation pressures ratcheted higher. The S&P Global's flash Composite Purchasing Managers' Index (PMI) slumped to 51.8 in May from 57.6 in April, its lowest level since February last year.

Inflation in the Eurozone was a record 7.4% in April, driven by soaring fuel and food costs. Consensus is now pointing to the European Central Bank (ECB) raising its deposit rate in July. Inflation has soared over the past year, first on post-COVID supply bottlenecks and latterly on knock-on effects from Russia's war in Ukraine, pushing up prices of everything from raw materials to finished industrial goods.

The Europe 600 STOXX ended the month down -1.56%, the French CAC 40 -0.99%, the German DAX up +2.06%, and the UK's FTSE100 ending up +0.84%.

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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