

BT Index Balanced Fund

Monthly report – 30 June 2021

Fund overview

Inception date	1 August 2016
APIR code	WFS0590AU
Fund size (AUD millions)	\$731.59
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 (%)	0.08 / 0.09

Performance review²

Period ending 30 June 2021	1 month	3 months	1 year	2 years	3 years	Since inception
	%	%	%	% pa	% pa	% pa
Total return	2.36	6.47	19.54	8.36	8.97	8.39
Growth return	(1.73)	2.22	13.85	3.23	4.46	3.28
Distribution return	4.09	4.25	5.69	5.13	4.51	5.11

Actual asset allocation %³



■ Equity – Australian Listed – 32.66%
● BT Australian Shares Index Fund – 32.66%
■ Equity – International Listed – 24.81%
● BT International Shares Index Fund (Unhedged) – 19.84%
● Blackrock Index Hedged International Equity Fund – 4.97%
■ Property – International and Australian Listed – 11.88%
● BT Property Securities Index Fund – 6.00%
● Blackrock iShares Global Listed Property Index Fund – 5.88%
■ Fixed Income – Australian – 13.99%
● BT Australian Fixed Interest Index Fund – 13.99%
■ Fixed Income – International – 10.99%
● BT International Fixed Interest Index Fund – 10.99%
■ Cash – 5.67%
● Advance Cash Multi-Blend Fund – 5.67%

Market update

June started with the continuing outbreak of COVID-19 in Melbourne and by the end of the month Sydney was feeling the full force of the Delta variant. The resulting three-week lockdown has seen considerable pressure being placed on the domestic economy. Whilst the RBA stayed firm on its 0.10% cash rate at its June meeting, industry consensus is leaning further towards a pre-2024 rate hike, despite what has been indicated by the RBA. Neighbouring China will allow couples to have a third child to combat a falling birth rate, whilst in Europe consumer confidence rose from -5.1 to -3.3 in June, representing a return to pre-pandemic levels. Global COVID-19 vaccinations reached 2 billion doses early in the month.

The Group of Seven (G7) nations reached a landmark deal in June to impose a minimum corporate tax rate of at least 15% on foreign earnings. The rules could help states collect tax from digital (or technology) companies based on where they make money instead of purely where they are headquartered. G7 leaders also debated their responses to China's continued effort to win influence around the world as well as rebuking the nation for its alleged forced labour practices.

Australia

The remarkable economic recovery continued in the March quarter of 2021, with the Australian economy growing by a stronger than expected 1.8%, beating consensus expectations of 1.5%. Economic activity has now recovered to its pre-pandemic levels, with the economy now 0.8% bigger than it was before the pandemic. Australia represents one of only a few countries around the world that have already recovered the output lost due to COVID-19. Leading the charge in this recovery was consumer spending, which continued to underpin economic activity. Falling unemployment, low interest rates, and elevated confidence assisted as well.

The RBA met at the outset of the month, leaving policy settings unchanged. Despite this, over the course of the month, industry consensus tended to increasingly favour the cash rate being raised before 2024. Minutes released from the June RBA meeting reaffirmed expectations that the three-year yield target under the yield curve control (YCC) will not be rolled to the November 2021 bond and that quantitative easing (QE) will transition to an open-ended, flexible model.

Consumer sentiment declined by 5.2% to 107.2 in June, according to the latest Melbourne Institute and Westpac surveys. This decline likely reflects some impact from the two-week lockdown in Melbourne, which will be further exacerbated by the current Sydney lockdown. This decline, however, is coming off an 11-year high in April. Notably, sentiment remains high and well above its long-run average.

During the month, the Fair Work Commission (FWC) raised the minimum wage by 2.5%, representing more than double the rate of inflation. This will increase the hourly rate of more than 2.2 million workers from \$19.84 to \$20.33. The FWC said the decision followed the economy's stronger-than-expected economic recovery.

In other data released during the month, the house price index published by the ABS rose 5.4% in the March quarter, following a rise of 3.0% in the December quarter. Annually, house prices rose 7.5%. The strong demand for housing was supported by record low interest rates, government initiatives like the HomeBuilder Scheme, and elevated consumer confidence. Across all states, Sydney had the highest increase in prices in the quarter with a 6.1% gain, followed by Melbourne and Brisbane, which rose 5.1% and 4.0%, respectively.

Job data released during June was nothing short of amazing, with jobs surging by 115.2k in May, well above the consensus forecast of 30.0k. What is even more remarkable is that job gains over the twelve months to May summed to 987.2k, the best on record. Unemployment fell 0.4% to 5.1%, the lowest rate since December 2019. This makes it even more likely that the unemployment rate will have a '4' in front this year and hit full employment in the middle of next year, which will generate wage and inflation pressures.

Total household wealth rose 4.3% in the March quarter to reach a new record. Over the year, growth was 15.3% - the strongest growth in 11 years. Wealth per capita also rose to a record high of \$492,055. The continued growth has been driven by higher residential property prices, support from government incentives and a recovery in the labour market.

June saw another month of strong returns for the Australian Share market, continuing the strong rally of CY 2021 and regaining losses caused by the pandemic. The ASX300 Accumulation returned +2.25%, while the ASX Small Ordinaries Accumulation gained +3.08% over the month. The one year returns on these respective indices is +28.49% and +33.23%. The market was led by strong performance in the Information Technology sector which ended the month up (+11.32%). The Utilities and Consumer Discretionary sectors also did well, ending up (+3.14%) and (+4.20%), respectively. The Financials sector struggled over the month, ending down (-0.74%).

United States

In the US, the ADP jobs report showed 978k jobs were added in May, well above the 650k expected and the largest increase since June 2020. The unemployment rate rose conservatively in June to 5.9% from 5.8% in May, however it remains elevated relative to its pre-pandemic levels of around 3.5%.

Amid other signs the labour market continues to gradually recover, mid-June saw a downward trend in workers filing for unemployment benefits. Initial jobless claims, a proxy for layoffs, moved lower to 411,000. The four-week moving average for claims, which smooths out volatility in the weekly figures, rose slightly off a pandemic low to 397,750.

While these initial jobless claims were higher than projected their downward trajectory, along with a pickup in hiring, falling unemployment and elevated consumer confidence, points to an improving labour market.

President Biden reportedly proposed a corporate tax floor of 15%, setting aside an earlier plan to raise them as high as 28%, which was unpopular with Republicans. During the month, Biden was also able to reach an agreement with a bipartisan group of senators on a \$579 billion infrastructure plan. The bill will move in tandem with a much larger package of spending and tax increases, which Republicans oppose. Of course passage of this bill is not assured.

The University of Michigan survey showed that consumer sentiment slipped in the second half of June, remaining at subdued levels. The final reading of the index of consumer sentiment was 85.5 in June, below consensus expectations that centred on an outcome of 86.5. The Dallas Fed manufacturing index remained in expansionary territory. General business activity declined from 34.9 to 31.1, but production, new orders and prices paid indices all rose.

The US Federal Reserve (FED) moved markets this month after Chair Powell said that the central bank had begun discussing a tapering of their bond buying program. At their June meeting the FED Market Committee left its target range for the federal funds rate unchanged at 0-0.25%.

Asia

China will allow couples to have a third child to boost the nation's falling birth rate. This comes despite 2016 reforms which allowed second children but did little to reverse the declining birth rate.

Tensions between Australia and China continue as China seeks World Trade Organisation (WTO) rulings on the alleged dumping of goods by Australia.

In May, China's manufacturing sector expanded at the fastest pace in five months, despite the surge in prices for raw materials. The Caixin manufacturing PMI rose modestly in May to 52.0, from 51.9 in April.

China's trade surplus widened to US\$45.5 billion in May, as imports grew faster than exports. Exports rose 27.9% from a year earlier, fuelled by strong global demand as the UK and US both emerged from months of lockdown, fuelling consumer spending. Imports grew 51.1% in the year to May, the fastest pace in ten years. The increase was largely due to the rise in commodity prices. Aggregate financing was 1.92 trillion Yuan in May, up from 1.85 trillion Yuan in April, broadly in line with expectations.

The Bank of Japan maintained its policy settings in June, as expected. The short-term policy rate and 10-year government bond yield target remained unchanged at 0.1% and 0.0%, respectively. The central bank decided to extend its pandemic relief program by six months from September 2021 to March 2022 and announced a new back-financing program for climate change, aiming to commence by the end of the year. Retail sales in Japan contracted 4.6% in April, compared to a 1.2% increase in March, largely due to ongoing COVID-19 restrictions. Over the year, retail sales rose 12% reflecting effects from a sharp decline in spending following the onset of the pandemic.

Europe

During the month, the European Central Bank (ECB) left policy settings unchanged, as expected. Over the coming quarter, the ECB expects net purchases under the pandemic emergency purchase program to continue at a significantly higher pace than during the first few months of the year. The ECB raised its GDP forecasts for 2021 and 2022 and had a more balanced view on risks to the economic outlook. However, the central bank is still forecasting 1.4% p.a. inflation in 2023, well below the 2% target, and suggests that policy will remain accommodative for some time yet.

Eurozone inflation dropped conservatively to 1.9% p.a., down from 2.0% p.a. in May.

In reports released during the month, the unemployment rate in the Euro area fell 0.2% to 7.9% in May, down from 8.1% in both March and April.

As infection rates fell and restrictions eased in the Eurozone, consumer confidence increased, up from -5.1 to -3.3 in June. Confidence is now well above its pre-pandemic level.

The Eurozone PMI rose from 64.4 in May to 64.9 in June with the services PMI rising from 55.2 to 58.0 and the composite index lifting to a record high of 59.2.

Over in the UK and the GfK Consumer Confidence Barometer remained at -9 in June, unchanged from May, matching pre-pandemic levels. Consumer confidence may weaken as the country continues its post-COVID recovery, with expectations that retail price inflation will rise.

By the end of the month, the FTSE 100 fell 0.9% after governments from Europe to Asia imposed new limits on travel from Britain following a spike in COVID-19 cases.

The average asking price for a home in the UK grew 0.8% in June to a new record high, with buyer demand remaining strong whilst property availability was low.

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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