

# BT Index Balanced Fund

Monthly report – 31 August 2021

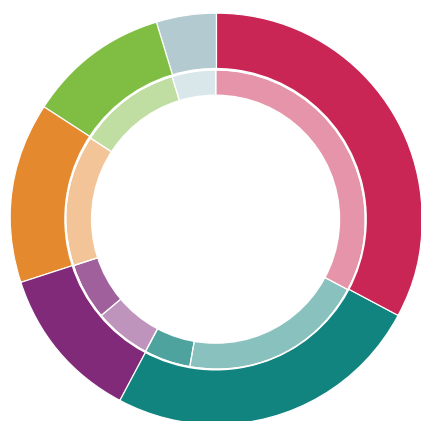
## Fund overview

Inception date	1 August 2016
APIR code	WFS0590AU
Fund size (AUD millions)	\$776.10
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 <sup>1</sup>	0.33
Buy/sell spread (%)	0.08 / 0.09

## Performance review<sup>2</sup>

Period ending 31 August 2021	1 month	3 months	1 year	3 years	5 years	Since inception
	%	%	%	% pa	% pa	% pa
Total return	2.03	6.42	20.36	9.31	9.20	8.93
Growth return	2.03	2.17	14.63	4.78	4.14	3.96
Distribution return	0.00	4.25	5.73	4.53	5.06	4.97

## Actual asset allocation %<sup>3</sup>



<b>Equity – Australian Listed – 33.05%</b>
● BT Australian Shares Index Fund – 33.05%
<b>Equity – International Listed – 24.88%</b>
● BT International Shares Index Fund (Unhedged) – 19.85%
● Blackrock Index Hedged International Equity Fund – 5.03%
<b>Property – International and Australian Listed – 12.17%</b>
● BT Property Securities Index Fund – 6.09%
● Blackrock iShares Global Listed Property Index Fund – 6.08%
<b>Fixed Income – Australian – 13.92%</b>
● BT Australian Fixed Interest Index Fund – 13.92%
<b>Fixed Income – International – 10.94%</b>
● BT International Fixed Interest Index Fund – 10.94%
<b>Cash – 5.04%</b>
● Advance Cash Multi-Blend Fund – 5.04%

## Market update

Globally, COVID Delta cases continued to grow. China used snap venue closures as its main mechanism of containment, whereas most other countries (such as UK and US) continued business as usual as they rely upon their high vaccination rates to keep hospitalization levels down. Notably, Israel has posed an interesting case whereby despite being the vaccination poster child is now seeing a huge Delta resurgence. Comparatively, however, they have been able to keep hospitalisations low – thus supporting the vaccine narrative. Israel, among other countries, is now considering a booster shot to be administered to those fully vaccinated.

The worldwide governmental COVID management programmes created run on effects in global trade and supply chains, causing manufacturing measures to compress. Inflation continues to be a growing concern in Europe and the US, as central banks signalled monetary policy updates may be coming soon. China continued its regulatory crackdown aimed at tackling “foreign-related rule of law”.

At home, Australia finished the month with 60% of its population under stay-at-home orders and reporting record numbers of daily COVID cases. Surprising most economists, RBA Governor Lowe announced that the RBA would stay the course in reducing its rate of bond purchases from \$5bn to \$4bn per week – a move that was determined in more optimistic times (that is, July this year when the Sydney lockdown had a two-week expiration). Lowe maintained the RBA still held its central case scenario that the Australian economy will rebound strongly from late this year and into next.

### Australia

August consensus for the Australian economy was bittersweet. While June quarter reporting season uplifted spirits as positive economic signals were abundant, newfound fears of the current state of the economy soured this sentiment. GDP for the June quarter increased by 0.7% QoQ. Though the mildest of expansions in the last 12 months, it has been somewhat reassuring that ‘recession’ is no longer a guaranteed economic status quo for Australia, ahead of strong expectations for a contraction in the September quarter. Public spending also increased in the June quarter by 2.5% - as the government splurged on public infrastructure to boost growth.

Australia’s manufacturing Purchasing Manager’s Index (PMI) fell this month to 52, driven by factory activity slowing to its lowest levels since July 2020 because of the COVID lockdowns and supply chain constraints. Manufacturing output and new orders declined for the first time in 14 months as mobility restrictions were extended across the country. Australia’s services PMI marginally decreased by 1.3 points to 42.9. Though this result is only a marginal MoM decrease, it nonetheless showcases July’s deterioration when it fell by 12.6 points compared to June. These consecutive months of contraction represent the ongoing toll lockdowns have placed on the services industry.

While the unemployment rate fell in July, it has been attributed to the decline in the participation rate as people from select industries give up seeking work. The real brunt in July’s labour figures was seen at the hours worked level as the number of people working zero hours due to economic reasons increased to 182k - the highest level since September 2020.

In property, the ABS released home loan data for July that indicated a 0.4% fall in the value of new loans being issued. This is the second straight month of decline amidst the pandemic. Property platform and research house Doman released August auction and vacancy data: In Sydney, 46.5% of residential auctions were sold prior, almost double the decade average and hitting an all-time high since 1995, attributed to stay-at-home orders. Historically, lockdowns have led to higher vacancy rates, however according to Domain current lockdowns are challenging this trend as Sydney rates remain steady as does the national average. Melbourne vacancies, on the other hand, increased by 0.1% this month, remaining lower than August 2020 rates.

Australian markets were mixed this month as the ASX300 Accumulation returned +2.61%. Information Technology boomed this month recording +16.19%, spurred on by M&A activity such as Square’s \$39bn acquisition of homegrown fin-tech Afterpay. COVID and lockdowns seemed to create a catalyst for strong performance in sectors such as consumer staples (+6.79%), healthcare (+6.62%) and telecommunications (5.5%). The Energy and Materials sectors struggled, down (-4.91%) and (-6.92%) respectively, as they reacted to pricing deterioration in commodity markets.

### United States

In the US, the Jackson Hole Economic Policy Symposium provided the economic commentary this month. Fed Chairman Powell announced that, given positive progress made on some metrics, it is “time to stop talking about talking about tapering and start talking about tapering”. In his view, if the economy continues to evolve as anticipated, then reducing the pace of federal asset purchases could start ‘soon’. The chairman’s outlook comes with a caveat: do not interpret this as a signal of an imminent interest rate uplift. Instead, as reiterated over the past 18 months, the Fed will be staying the course in federal fund rates until maximum employment is reached and inflation is steady at 2%, if not exceeding this number.

The US also published several July metrics. The unemployment rate continues to shrink to 5.4% in July, however, it still remains above pre-COVID levels. July’s inflation rate remained unchanged, yet nonetheless remains at a 13 year high of 5.4%. Uplifts in food products, new cars and shelter prices offset declines in energy, second-hand cars, apparel, transport, and medical care services prices. Overall, the US still has significant headwinds in satisfying the conditions necessary for the Fed to increase interest rates.

Despite the marginal decline in unemployment, it is clear the American consumer is sceptical of the future - as the notion that COVID is an ‘issue of the past’ begins to wane. The University of Michigan’s consumer sentiment reading captured a harsh, emotional response to high inflation concerns and worry over COVID’s resurgence. It reported consumer sentiment at 70.3 for August – a staggering 10.9 point reduction from the previous month and the lowest reading in the last year.

The US Bureau of Economic Analysis released July’s income statistics this month. Personal income increased by 1.1% in July, disposable personal income increased by 1.1% and personal consumption expenditures increased by 0.3%.

This mismatch between income and spending growth has been attributed to Delta variant resurgence as Americans continue to preference saving, rather than spending. Reinforcing this observation, the personal savings rate also rose by 0.8% in July to 9.6%.

The NASDAQ returned +4.1%, outperforming returns in the Dow Jones +1.5% and the FTSE100 +1.2%

## Asia

Uncertainty pervades global supply chains as China took steps to contain COVID during the month through containership port shutdowns and factory halts.

China's manufacturing PMI and its non-manufacturing PMI both fell more than expected this quarter. Manufacturing PMI slipped to 50.1, treading finely above the contraction threshold of 50 as factory activity slowed due to Delta outbreak management. This 'slip' was met with a 'plummet' of the non-manufacturing PMI to 47.5 from 53.3 the month before. A strong contraction signal, well below the threshold of 50, this also has been attributed to COVID management as new order rates, new export order rates and employment rates all shrunk more than expected.

China's policies have raised fresh concerns about the impact of COVID management on global trade, as supply chains become bottlenecked. Ningbo-Zhoushan, the world's third busiest port, shutdown for two weeks this month in response to the detection of a single COVID case. Immediate follow-on effects of this include further disruption to major trade routes, as well as container shortages. Analysts predict the fall out is not over, believing the shutdown will impact future global supply chains, notably delaying Christmas orders.

The Chinese government maintains its regulatory tightening, unveiling a 5-year plan aimed to tackle monopolies and "foreign-related rule of law". August's 'flavour of the month' has been new data protection laws that give comprehensive rules for data collection and punishments for company non-compliance. Beijing continued to enforce private tutoring changes this month, with the resultant effect expected to be captured in August's unemployment figures - as it was in July's. Back then, the education sector's unemployment rate was nearly double the national aggregate unemployment number.

Japan kicked off the Paralympics this month, despite the surge in COVID cases causing another extension to their state of emergency into September. August's consumer confidence index fell by 0.8 points, driven by deterioration in underlying scorecards for overall livelihood, income growth, employment perceptions and willingness to buy durable goods. Japan has had a difficult month in their vaccination rollout - two men in their 30s died after receiving their second doses, as a batch of 1.63 million Moderna doses were found to be contaminated.

The strength of India's economy becomes a question of reporting interpretation. Though reporting a record GDP growth rate of 20.1% year-on-year for the June quarter, this is propped up by the same quarter last year suffering a 24.4% GDP contraction. The Indian government has attributed this V-shaped recovery to manufacturing and construction growth. In comparison to other developed countries, India is yet to return to pre-COVID levels.

The Shanghai Composite was the frontrunner this month returning +4.3% indicating strength in Mainland China stocks. Conversely, Hong Kong's Hang Seng was one of the few negative performers this month with especially volatile returns of -0.3%, driven by regulatory uncertainty in the technology sector. Japan's Nikkei was mildly volatile throughout the month however still finished positive at a strong +3%.

## Europe

For the first time since COVID emerged, European growth in the services sector exceeded that of the manufacturing. This was driven by a service tailwind of further re-opening across Europe, as well as a manufacturing headwind of global supply chain delays. The growing concern of the Delta variant was reflected in this month's business confidence as the index contracted slightly compared to July's 12 month high.

The UK's recovery momentum dried up this month, with preliminary reports showing a decrease in both services PMI and manufacturing PMI to 55.5 and 60.3, respectively. Reflecting on this data, an observable retraction can be seen in services, as this measurement underperformed the market expectation of 59 points. Driven by COVID re-entering public concern, as well as less favourable demand conditions, this number should be taken with a grain of salt. Historically, the UK's PMI has been revised up from preliminary estimates. In manufacturing, the UK was not immune to run-on effects from global supply chain issues as shortages of raw/input materials and delivery delays saw a slight contraction in this monthly metric.

UK MoM inflation fell below market expectations to 2% from June's 2.5% - hitting the Bank of England's target rate. A Drag on the cost of consumer discretionary goods was offset by a boost in prices in the second-hand car market. This boost has been a constant key driver of inflation in the last 12 months with increased demand from consumers opting to stay away from public transport, as well as global shipping delays and shortages of goods tightening car supply. Economists are not convinced that the reduction in inflation is here to stay, citing that this slowdown reflects the jump in prices seen last year in July when Britain was first re-emerging from lockdown, and does not properly capture the full inflationary pressures in the British economy. The Bank of England's August meeting re-affirmed its expectation that they would tighten monetary policy moderately over the next three years.

Germany released their June quarter GDP movements in August, recording a QoQ increase of 1.6%. This is an apt recovery from the 2% contraction in the March quarter. Driven by economic rebound, high energy prices and global supply chain disruption, German inflation rose to 3.4% this month. These rises were mimicked across Europe. France's inflation not only exceeded market expectations but reached a three-year high, reporting 1.9% in August. This is expected to intensify market concerns over the ECB 'ultra-loose' monetary policy as it stays the course of its "transitory" outlook vis-a-vis current inflation rises.

European markets had positive returns over the month where Euro STOXX was up +2.0% and the German DAX outperformed the French CAC 40 returning +1.9% to France's +1.0% over the month.

## 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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