

# BT Index Defensive Fund

Monthly report – 30 April 2022

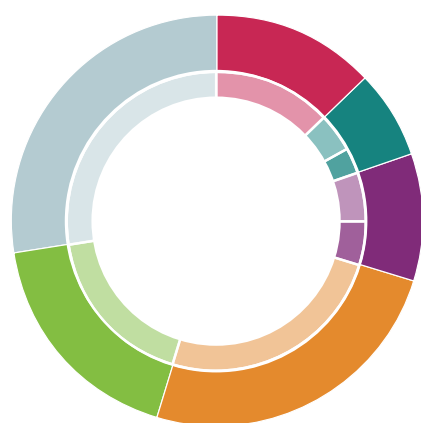
## Fund overview

Inception date	1 August 2016
APIR code	WFS0588AU
Fund size (AUD millions)	\$240.40
Investment objective	To provide investors with predominantly income and some growth returns, with a low probability of loss over the short term which tracks the overall return of a diversified portfolio of underlying investments.
Recommended investment timeframe	3 years
Minimum initial investment	\$500,000
Distribution frequency	Quarterly
Management costs (%) pa <sup>1</sup>	0.33
Buy/sell spread (%)	0.06 / 0.06

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

Period ending 30 April 2022	1 month	3 months	1 year	3 years	5 years	Since inception
	%	%	%	% pa	% pa	% pa
Total return	(1.53)	(2.19)	(0.79)	2.61	3.54	3.39
Growth return	(1.53)	(2.47)	(5.12)	(0.45)	0.00	0.22
Distribution return	0.00	0.27	4.33	3.06	3.53	3.16

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



<b>Equity – Australian Listed – 13.15%</b>
● BT Australian Shares Index Fund – 13.15%
<b>Equity – International Listed – 6.86%</b>
● BT International Shares Index Fund (Unhedged) – 3.91%
● Blackrock Index Hedged International Equity Fund – 2.95%
<b>Property – International and Australian Listed – 10.01%</b>
● BT Property Securities Index Fund – 5.16%
● Blackrock iShares Global Listed Property Index Fund – 4.85%
<b>Fixed Income – Australian – 24.96%</b>
● BT Australian Fixed Interest Index Fund – 24.96%
<b>Fixed Income – International – 17.93%</b>
● BT International Fixed Interest Index Fund – 17.93%
<b>Cash – 27.09%</b>
● Advance Cash Multi-Blend Fund – 27.09%

## Market update

Once again, the month of April saw inflation continue to dominate the headlines. Central Banks commenced transitioning to their next phase of monetary policy settings. Key economic indicators remain mixed, with supply chains issues remaining a concern, consumer & business confidence fell – leading to most risk markets ending the month in the red.

### Australia

On the first Tuesday in May, the RBA delivered its first-rate hike in 11½ years. It hiked by 25 basis points to take the cash rate to 0.35% and clearly signalled more rate hikes are on the way. While the quantity of the increase came as a surprise to some, with many only expecting a 15 basis point rise, on the whole, consensus expected an increase of some form after the prior week's inflation print discussed above.

In addition, the RBA significantly revised up its inflation forecasts and does not expect inflation to fall back into its 2-3% target band until 2024. This is amid RBA expectations that the unemployment rate will fall to 3.50% by early 2023. In the press conference, the RBA Governor stressed that they "need to normalise interest rates" because emergency settings are no longer needed.

The RBA's economic forecasts assume that interest rates increase to 2.50% by the end of next year, which the Governor considers to be a "more normal level" of interest rates. He also viewed a cash rate at the end of this year of 1.50–1.75% as plausible.

BT's house view is a follow up to May's decision with a rate hike in June. We envisage 40 basis points is on the cards for June with further tightening over 2022 to take the cash rate to 1.75% by year's end.

Other key data released over the month included credit growth rates for consumers, investors & businesses. Households and businesses have been borrowing at a considerable pace in response to the record low cash rate.

Credit growth moderated slightly in March after a period of strong gains. Credit extended to the private sector expanded 0.4% in the month and 7.8% over the year. March marked the slowest monthly growth rate in 11 months.

Housing credit grew by 0.6% to be 7.9% higher over the year. This annual growth rate was the highest in more than 11½ years. Credit to investors grew 0.6% to be up 5.3% in annual terms.

Business credit growth slowed in March, expanding only 0.3% in the month – after the last nine months, growth rates have been in a range of 0.5%-1.5%. Annual growth has eased to 9.4%, but remains very solid at this pace.

Producer price inflation accelerated in the first quarter of 2022. The producer price index (PPI) jumped 1.6% over the quarter to be up 4.9% in annual terms. This is the fastest annual pace in over 13 years. The result follows a 1.3% quarterly rise over the December quarter and indicates that inflationary pressures are continuing to manifest.

The S&P/ASX300 Accumulation Index ending the month down -0.84% for the month, bringing the one-year rolling return to 10.17%.

### United States

Over in the US, the US Federal Reserve (Fed) raised the fed funds rate by 50 basis points to a range of 0.75%-1.00% in its May meeting. The move marks the biggest hike from the central bank since 2000. This rate hike was in addition to allowing its holdings of Treasuries and Mortgage-Backed Securities to decline in June at an initial combined monthly pace of \$47.5 billion, stepping up over three months to \$95 billion.

Fed Chair Powell pointed to further 50 basis-point hikes, noting "a broad sense on the committee that additional 50 basis-point increases should be on the table for the next couple of meetings".

Powell dashed speculation that the Fed would hike by an even larger 75 basis points in the months ahead, saying it is "not something that the committee is actively considering". However, Powell said the committee would not hesitate to push rates above neutral if necessary. The neutral rate in the US has been estimated to be somewhere between 2% and 3%.

As for other data points, the ISM Manufacturing PMI for the US fell for a second straight month to 55.4 in April of 2022 from 57.1 in March. This was well below market expectations of 57.6. It was the lowest reading since July 2020 – as a slowdown was seen in production, new orders, and employment. Meanwhile, price pressures moderated while the backlog of orders decreased. Overall, it is evident the US manufacturing sector remains demand-driven and supply chain-constrained.

Meanwhile, the services PMI fell to 54.7 in April of 2022 from 58 in March, the lowest in 3 months. Continued reports of labour, supply shortages and inflation concerns dampened customer willingness to spend.

The US economy added 431K payrolls in March of 2022. While below consensus of 490K, this still signals a tightening job market. Job gains continued in leisure and hospitality (112K), professional and business services (102K), retail trade (49K), and manufacturing (38K).

The S&P returned -8.7%, the NASDAQ was -13.24% and the Dow Jones -4.82%, bringing annual returns to 0.20%, -11.08% and -0.82% respectively.

## Asia

China continued to show signs of weakness on the back of localised lockdowns to combat their zero Covid policy. The manufacturing PMI fell from 49.5 in March to 47.4 in April. This was slightly above market expectation of 47.3. While the services PMI fell from 48.4 in March to 41.9 in April – well below consensus of 46. While this read is in contractionary territory, what is more significant is both PMIs fell to their lowest levels since February 2020.

As for Japan, the Bank of Japan (BoJ) left its key short-term interest rate unchanged at -0.1% and that for 10-year bond yields around 0% during its April meeting, by an 8-1 vote.

The BoJ said it will offer to buy unlimited amounts of bonds to defend an implicit 0.25% cap around its 0% target on each market day.

In a quarterly outlook report, the BoJ said Japan's economy was projected to grow more slowly, amid headwinds from a resurgence in COVID-19 cases and a rise in commodity prices due to the war in Ukraine. Policymakers cut the FY 2022 GDP growth forecasts to 2.9% from 3.8% made in January and slashed the FY 2021 GDP growth to 2.1% from 2.8%. For the FY 2023, however, the outlook was revised higher to 1.9% from the previous 1.1%. Meanwhile, inflation for the FY 2022 was revised upward to 1.9% from 1.1% but that for the FY 2023 and 2024 was projected to ease to 1.1%. The BoJ reiterated that it will not hesitate to take extra easing measures if needed.

The Japanese Nikkei 225 and the Korean KOSPI ending down -3.50% and -2.27% respectively. While the Shanghai composite and Hang Seng followed the same trajectory, ending the month down -6.31%, and -4.13%, bringing the 1-year return to -11.60% and -26.58% respectively.

## Europe

European Central Bank (ECB) policymakers said during their April 2022 meeting that incoming data reinforced expectations that net asset purchases should be concluded in the third quarter.

Monthly net purchases under the APP will amount to €40 billion in April, €30 billion in May and €20 billion in June, the same as defined in the previous meeting and that any adjustments in the interest rate will take place sometime after the end of the asset purchase programme and will be gradually applied.

During the regular press conference however, ECB President Lagarde said the exact end-date for the APP hasn't been determined, nor has the timeline for potential increases in interest rates. On the economic front, the central bank noticed that inflation pressures have intensified, and inflation has increased significantly and will remain high over the coming months, mainly because of the sharp rise in energy costs.

GDP for the March quarter was in line with market expectations. It rose 0.2% in the quarter and 5.0% in the year.

The consumer confidence indicator in the Euro Area declined further to -22 in April of 2022, the worst since April of 2020, compared to a preliminary reading of -16.9. The war in Ukraine and rising prices continue to take a toll on consumers' mood.

As for the UK, data was mixed. UK Manufacturing PMI was revised higher to 55.8 in April of 2022 from a preliminary of 55.3 and up from a 13-month low of 55.2 in March. Solid rates of expansion were registered for intermediate and investment goods, while the expansion at consumer goods producers was only marginal. Companies linked higher production to increased intakes of new business, reduced delivery delays (compared to earlier in the year) and efforts to clear backlogs of work.

Services PMI decreased by 4.3 points to 58.3 in April of 2022 from 62.6 in the previous month, the sharpest drop in any month since Omicron hit business activity across the sector at the end of 2021. Orders slowed due to squeezed household finances and rising prices for essential items.

On the price front, the rate of cost inflation was the second-fastest since this index began more than two decades ago.

Looking ahead, confidence deteriorated to the lowest since May 2020. The CBI's quarterly gauge of manufacturing optimism in the UK dropped to -34 in the second quarter of 2022 from -9 in the previous three-month period. It was the weakest morale since April 2020 as growth in manufacturing output and new orders slowed, and costs and selling prices grew at their fastest paces in over 40 years.

In addition, house prices rose 0.3% in the UK, the slowest monthly growth rate in 6 months, according to Nationwide. The annual rate of growth slowed from 14.3% in March to 12.1% in April.

Markets were mixed over the month with the Europe 600 STOXX ending the month down -1.20%, the French CAC 40 -1.89%, the German DAX -2.20%. The UK's FTSE100 ended up 0.38%.

## 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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