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## 2021 August Market Wrap

Wednesday 1 September 2021

August was another month of conflicting signs, all of which could influence the course of financial markets. Now is one of the most uncertain times in financial market history and the outcome is difficult to predict. The direction market take will be determined by time only.

Equity Market performed well to finish in the black after a sell off mid-month. Key positive development on two months. Firstly, Fed Chair Jerome Powell was relatively dovish in his Jackson Hole speech, calming fears of aggressive tightening. Secondly, there are signs that Covid cases may be peaking in the US. In response, we saw bond yields rise slightly in a controlled manner, commodities rally and equity market gains.

Markets are watching, economic growth, corporate earnings, inflation, monetary and fiscal policy, liquidity, the timing of central bank tapering, government debt, bond yields, risk asset valuations, geopolitical issues including Afghanistan, China's recent regulatory crackdowns, and coronavirus.

The Reserve Banks Policy Decision provides a great summary of Australia. "The economic recovery in Australia has been stronger than was earlier expected. The recent outbreaks of the virus are, however, interrupting the recovery and GDP is expected to decline in the September quarter. The experience to date has been that once virus outbreaks are contained, the economy bounces back quickly. Prior to the current virus outbreaks, the Australian economy had considerable momentum and it is still expected to grow strongly again next year. The economy is benefiting from significant additional policy support and the vaccination program will also assist with the recovery".

Australian National Accounts:

The Australian economy (as measured by gross domestic product or GDP) grew by 0.7 per cent in the June quarter after rising by 1.9 per cent in the March quarter. Over the year, the economy grew by a record 9.6 per cent (records back to 1959) – admittedly off a pandemic-induced low base. Economic growth slowed ahead of lockdowns in many Australian regions over July and August. Federal, state and territory governments and the central bank will need to maintain significant economic support measures until well into 2022.

- One of the most encouraging aspects of the National Accounts was the lift in government investment spending – highlighting the substantial increases in infrastructure projects that will support the economy over the next few years. The massive lift in infrastructure spending will benefit construction, building materials, engineering and mining over 2022.

Key issues facing markets looking forward:

**Economic growth:** Having reached peak momentum do we see material downside surprises as a result of fiscal cliffs and the re-emergence of structural issues?

**Covid:** Does a combination of the Delta variant and waning immunity lead to an environment of perpetual new waves that require on-going restrictions, limit the service sector recovery, hit confidence and lead to weaker growth?

**Inflation:** Will it be higher than expected if recent drivers prove to be more than "transitory" and a tight labour market drives wage growth?

**Policy:** Is there a risk of policy mistakes as central banks exit quantitative easing (QE) and attempt to reconcile the need to anchor inflation expectations and support growth?



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Good news on Covid and policy should help support markets into the quarter's end.

If you have any questions do not hesitate to contact me.

Stay Safe, Happy and Healthy

### Summary of Major share indices

Index	1 Month	52 Weeks	YTD
DJIA	+0.70%	+23.44%	+15.53%
Nasdaq	+3.37%	+27.80%	+18.40%
S&P 500	+2.73%	+26.30%	+20.41%
Russel 2000	+3.53%	+42.80%	+15.14%
Europe 600 Index	+0.57%	+26.83%	+18.01%
UK FTSE 100 Index	+0.54%	+19.39%	+10.20%
Hong Kong Hang Seng	+1.48%	+3.66%	-4.37%
Japan Nikkei 225	+3.04%	+22.24%	+3.54%
China Shanghai Composite	+2.80%	+4.99%	+2.92%
India S&P BSE Sensex	+6.16%	+47.68%	+20.87%
ASX 200 (Australia)	+2.50%	+23.90%	+17.00%

### Australian Dollar

	Close	52 week Range
AUD	0.7317%	0.6992-0.8008%

### Government Bonds

	Close	52 week Range
US 3 Month Bill	0.046%	0.003-0.132%
US 10 Years Note	1.335%	0.608 – 1.778%
US 30 Years Bond	1.949%	1.321 – 2.515%
Australia 10 years	1.256%	0.734-1.919%

Source: Wall Street Journal.