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2021 September Market Wrap Friday 1 October 2021

Equity markets sold off to the tune of 5% across world markets, US stocks ended their worst quarter since the pandemic began. The S&P 500 lost almost 5% on the month as concerns over Fed tightening, political wrangling and China risks weighed on sentiment. Treasuries fluctuated, keeping 10-year yields under 1.52%.

China is the gift that keeps giving:

- Tech Crackdown
- Crypto outlawed
- Evergrande Potential default with $300 billion of liabilities
- Power Black outs
    - secure supplies for this winter at all costs

China told top state-owned energy companies to secure supplies for this winter at all costs, people familiar said. Vice Premier Han Zheng delivered the order directly at an emergency meeting this week.

Prior to the Delta outbreak the Australian economy had considerable momentum. GDP increased by 0.7 per cent in the June quarter and by nearly 10 per cent over the year. Business investment was picking up and the labour market had strengthened. The unemployment rate had fallen below 5 per cent and job vacancies were at a high level.

The recovery in the Australian economy has, however, been interrupted by the Delta outbreak and the associated restrictions on activity. GDP is expected to decline materially in the September quarter and the unemployment rate will move higher over coming months. While the outbreak is affecting most parts of the economy, the impact is uneven, with some areas facing very difficult conditions while others are continuing to grow strongly.

This setback to the economic expansion is expected to be only temporary. The Delta outbreak is expected to delay, but not derail, the recovery. As vaccination rates increase further and restrictions are eased, the economy should bounce back.

Australian house prices will now see Australian regulators take action. Notably the Reserve Bank of Australia (RBA) and the Australian Prudential Regulation Authority (APRA), have been slow to respond. Both deny responsibility. Governor Phillip Lowe recently said higher house prices are "outside the domain of monetary policy and the central bank", although Assistant Governor Michele Bullock later said: "developments in the housing market (including prices) provide information on the emergence of financial stability risks".

House price increases are directly related to interest rates, low interest rates mean higher house prices. The sting in the tail is rates will raise in the future and that is the elephant in the room for the Australian economy. Higher rates, higher repayment, less household income for consumption in turn slower growth.

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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: We are at the phase we have to live with Covid this is a transition in thinking and activity. The day of lockdown is passing. The Public has lost patience in Government heavy hands.
Inflation: Will it be higher than expected if recent drivers prove to be more than "transitory" and a tight labour market drives wage growth?

- Fed Reserve Chair noting "inflation may last longer than first thought"
- Supply chain issues pushing through to higher prices and shortages

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?

- The unwind has start with Bank of England looking to increase rates
- QE is being reduced around the world

Asset Prices: Re- evaluation of asset prices as interest rates normalise with the removal of QE.

- Volatility and price swings will become more normal

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

Summary of Major share indices

Index	1 Month	52 Weeks	YTD
DJIA	-4.51%	+21.67%	+10.58%
Nasdaq	-5.76%	+27.56%	+12.11%
S&P 500	-5.06%	+27.41%	+14.681%
Russel 2000	-4.32%	+43.96%	+11.62%
Europe 600 Index	-4.17%	+25.71%	+13.98%
UK FTSE 100 Index	-1.08%	+20.53%	+9.69%
Hong Kong Hang Seng	-5.81%	+4.76%	-9.75%
Japan Nikkei 225	-0.75%	+25.52%	+5.33%
China Shanghai Composite	-0.80%	+10.88%	+2.74%
India S&P BSE Sensex	+2.20%	+52.79%	+23.82%
ASX 200 (Australia)	-1.85%	+23.91%	+14.83%

Australian Dollar

	Close	52 week Range
AUD	0.7228%	0.6992-0.8008%

Government Bonds

	Close	52 week Range
US 3 Month Bill	0.045%	0.003-0.124%
US 10 Years Note	1.480%	0.650 – 1.778%
US 30 Years Bond	2.039%	1.423 – 2.515%
Australia 10 years	1.486%	0.734-1.919%

Source: Wall Street Journal.