

Market Trends

David Bassanese
Chief Economist, Betashares

October 2023



Important information

This report has been prepared by Betashares Capital Limited ABN 78 139 566 868, AFSL 341181 (Betashares). The information is general in nature only and does not take into account any person's financial objectives, situation or needs. Investors should consider its appropriateness taking into account such factors and seek financial advice. It is not a recommendation to make any investment decision or adopt any investment strategy.

Investments in Betashares Funds are subject to investment risk and investors may not get back the full amount originally invested. Future outcomes are inherently uncertain. Actual outcomes may differ materially from those contemplated in any opinions, estimates or other forward-looking statements given in this report.

Past performance is not indicative of future performance.

Any Betashares Fund that seeks to track the performance of a particular financial index is not sponsored, endorsed, issued, sold or promoted by the index provider. No index provider makes any representations in relation to the Betashares Funds or bears any liability in relation to the Betashares Funds.

Any person wishing to invest in a Betashares Fund should obtain a copy of the relevant Product Disclosure Statement from www.betashares.com.au and consider whether the product is appropriate. A Target Market Determination (TMD) for each Betashares Fund is also available [here](#).

Market overview – September 2023

Major Asset Class Performance

	Mth	Prev. mth	3-mth	prev. 3-mth	6-mth	12-mth
Defensive Assets	-1.5%	0.3%	-0.8%	-1.6%	-2.4%	1.4%
Cash	0.3%	0.4%	1.1%	0.9%	2.0%	3.6%
Aust. Bonds	-1.5%	0.7%	-0.3%	-2.9%	-3.2%	1.6%
Global Bonds	-1.8%	-0.3%	-2.1%	-0.3%	-2.4%	0.5%
Gold	-4.7%	-1.3%	-3.7%	-2.5%	-6.1%	11.3%
Growth Assets	-3.7%	0.5%	-0.6%	4.6%	3.9%	17.5%
A-REITs	-8.7%	2.2%	-3.0%	3.2%	0.0%	11.9%
Aust. Equities	-2.8%	-0.7%	-0.8%	1.0%	0.2%	13.5%
Global Equities-\$A	-3.8%	1.1%	-0.4%	6.8%	6.4%	20.3%
Balanced Portfolio	-2.6%	0.4%	-0.7%	1.5%	0.8%	9.5%
MSCI ACWI - LC	-3.5%	-2.1%	-2.5%	6.6%	3.9%	19.4%
\$A vs World	0.3%	-3.2%	-2.1%	-0.3%	-2.4%	-0.8%

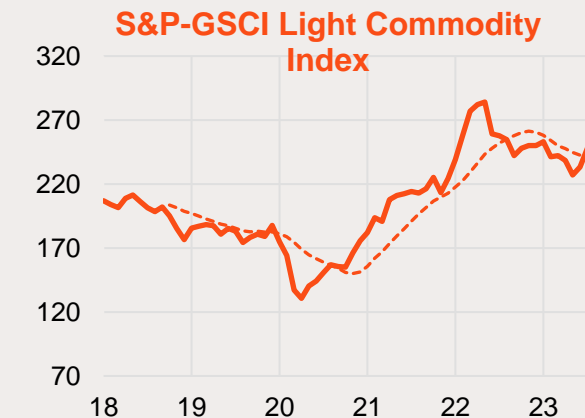
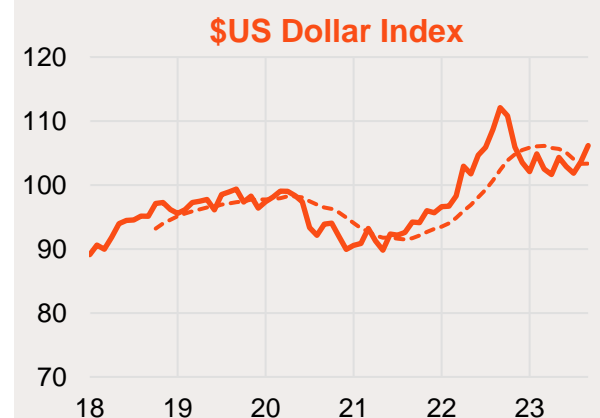
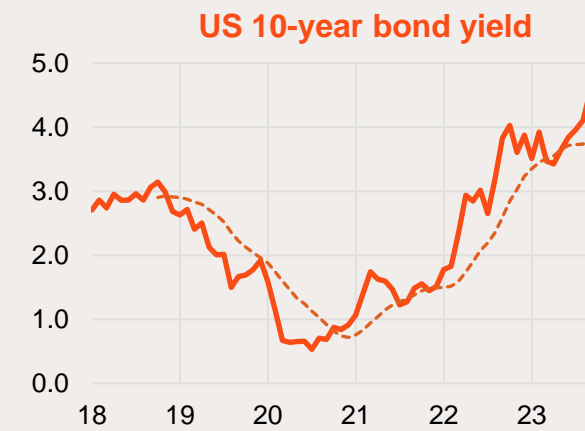
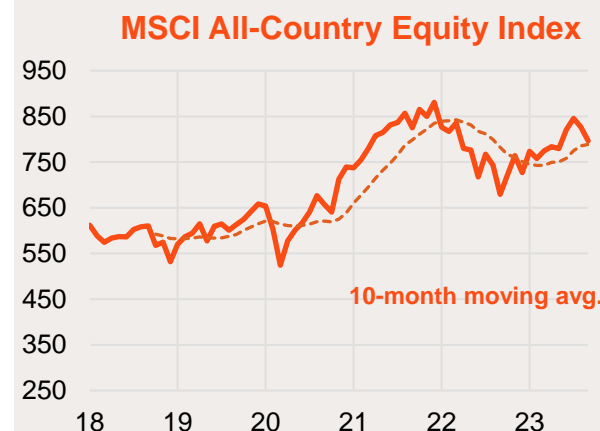
Source: Bloomberg. Past performance is not indicative of future performance. Defensive, growth and Balanced portfolio returns based on asset weights for the Betashares strategic balanced managed portfolio.

Both defensive and growth assets weakened in September, reflecting a strong further increase in global bond yields. In turn this reflected resilient global economic growth and expectations that policy rates would remain 'higher for longer'.

Growth assets declined more than defensive assets, with global (hedged equities) down 3.5% and Australian equities down 2.8%. The interest rate-sensitive listed property sector weakened by 8.7%.

Among defensive assets, bonds underperformed cash, reflecting the rise in bond yields. Gold prices also weakened, reflecting higher bond yields and a stronger US dollar.

Key Global Market Trends



Source: Bloomberg, Refinitiv, Betashares. You cannot invest directly in an index. Past performance is not indicative of future performance.

Cash returns

The RBA left the cash rate unchanged at 4.1% in September for the fourth month in a row.

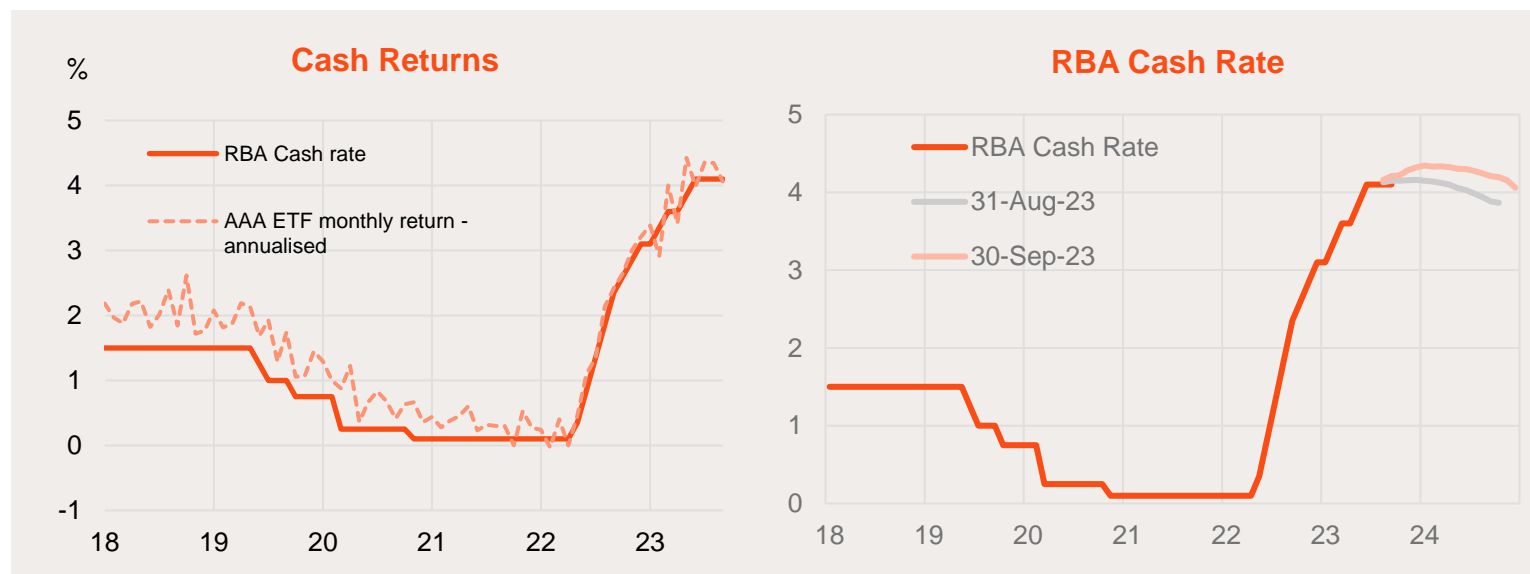
Due to current below-trend economic growth, contained inflation expectations and high but easing inflation, the RBA appears willing to leave rates on hold as long as its central case expectation is for inflation to return to the 2-3% target zone 'within a reasonable time frame', which it currently anticipates to be mid-2025.

Reflecting the current 4.1% official cash rate, the Bloomberg Bank Bill Index returned 0.34% in September, or 4% annualised, as did the AAA cash ETF. AAA's returns have broadly matched the RBA cash rate since early 2022.

Market-implied RBA policy tightening expectations increased moderately over September, reflecting resilient local growth in employment and house prices, a lift in headline inflation due to higher oil prices, and rising global bond yields.

The market has moved to almost fully price in the risk of one further rate hike by mid-2024 from around a 20% chance at end-August.

Cash Returns	Last	Mth	Prev. mth	3-mth	prev. 3-mth	6-mth	12-mth
RBA Cash Rate	4.10	0.00	0.00	0.00	0.50	0.50	1.75
30-day bank bill yield	4.14	0.01	-0.13	-0.21	0.64	0.43	1.08
B/Bg Bank Bill Return Index		0.34%	0.37%	1.08%	0.90%	1.99%	3.56%
AAA ETF		0.33%	0.36%	1.05%	0.97%	2.03%	3.64%



Source: Bloomberg, Refinitiv, Betashares. AAA ETF returns are shown after fund management costs. Past performance is not indicative of future performance.

Floating rate bonds and hybrids

After having narrowed substantially since mid-2022 (following an earlier sharp widening), the floating rate bond spread has been modestly widening so far in 2023.

The spread over 30-day bank bills widened a little further (0.16%) in September to 0.94%, resulting in floating-rate bond returns similar to that of cash (despite a higher yield), with floating rate bonds returning 0.29% (based on QPON's index performance). Spread compression and a higher starting yield allowed floating rate bonds to return 5.0% over the past year, compared to 3.6% for AAA.

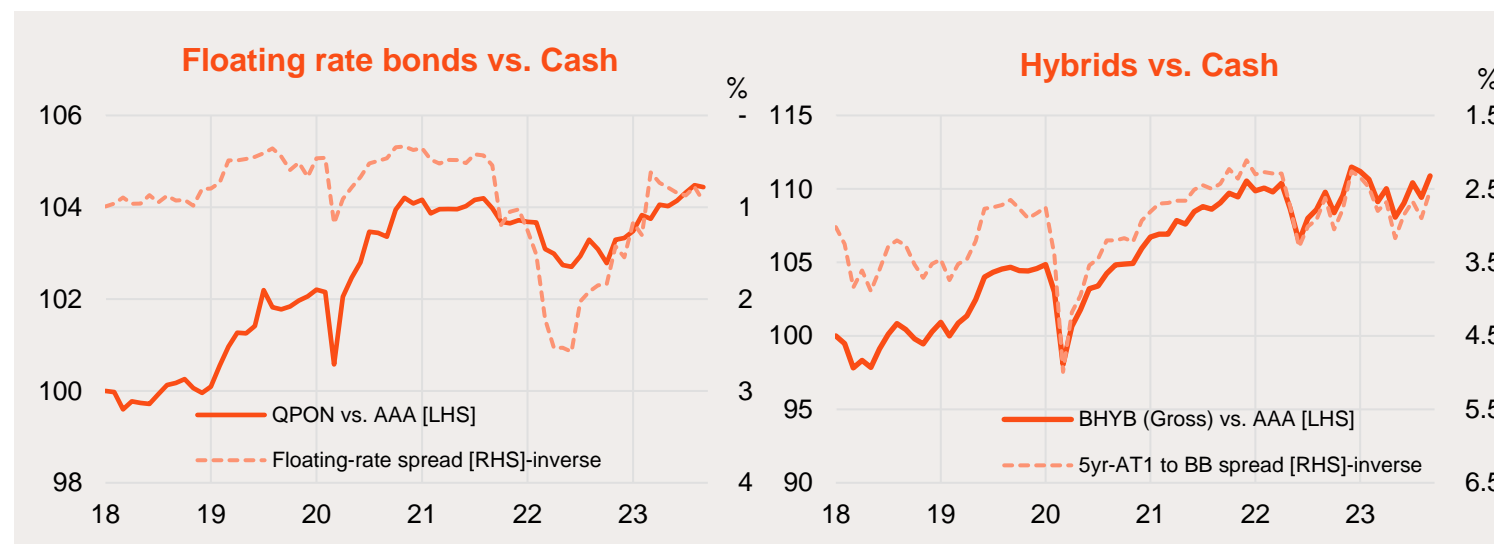
The FRB spread is now broadly in line with its average in the two years prior to 2020 COVID crisis.

The hybrid spread over bank bills has been in a choppy sideways range since around mid-2022. It narrowed a little further in September to be at the lower end of this range at 2.52%. The higher starting yield and spread narrowing saw major bank hybrids return 1.67% over September (based on BHYB's index performance).

The hybrid spread remains somewhat tighter than the average of around 3.5% in the two years prior to the 2020 COVID crisis.

FRBs and Hybrids	Last	Mth	Prev. mth	3-mth	prev. 3-mth	6-mth	12-mth
FRB spread ¹	0.94	0.16	-0.09	0.09	0.22	0.32	-0.91
FRB Yield	5.03	0.16	-0.16	-0.03	0.78	0.75	0.39
FRB Return		0.37%	0.46%	1.30%	1.21%	2.53%	4.63%
QPON's index		0.29%	0.51%	1.33%	1.36%	2.71%	5.01%
Hybrid Spread ²	2.52	-0.37	0.23	-0.33	0.05	-0.28	-0.10
Hybrid yield	6.66	-0.36	0.10	-0.54	0.69	0.15	0.98
BHYB's index		1.67%	-0.54%	2.76%	0.89%	3.67%	4.70%

Source: Bloomberg, Refinitiv, Betashares. Refer to page 11 for more additional information. Shows the performance of the index that each of QPON and BHYB seeks to track, and not the ETF itself. Does not take into account ETF management fees and costs (0.22% p.a. for QPON and 0.35% p.a. for BHYB). You cannot invest directly in an index. **Past performance is not indicative of future performance of any index or ETF.**



Source: Bloomberg, Refinitiv, Betashares. Shows the performance of the index that each of QPON and BHYB seeks to track compared to the AAA ETF, and not QPON or BHYB itself. Does not take into account QPON or BHYB's management fees and costs (0.22% p.a. for QPON and 0.35% p.a. for BHYB). You cannot invest directly in an index. **Past performance is not indicative of future performance of any index or ETF.**

Fixed-rate Australian bonds

Reflecting an increase in monetary policy tightening expectations, long-term bond yields rebounded in September – after declining in August – resulting in negative returns for fixed-rate bonds.

Australian 10-year bond yields rose 0.46% to 4.49% while the yield on the Bloomberg AusBond Composite Index rose 0.34% to 4.53%. As a result, the AusBond Composite Index fell by 1.5% in the month, while OZBD's index declined by 1.8%.

Bonds have underperformed cash with the rebound in bond yields since earlier this year – as markets have moved from fearing a global recession to 'higher for longer' interest rates due to economic resilience.

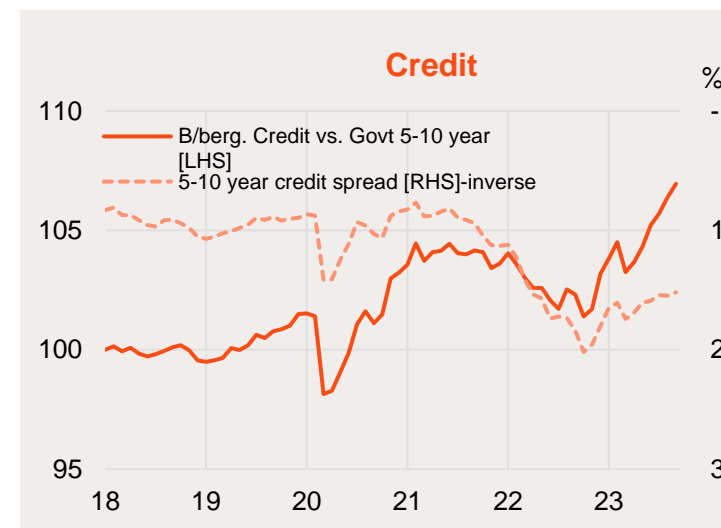
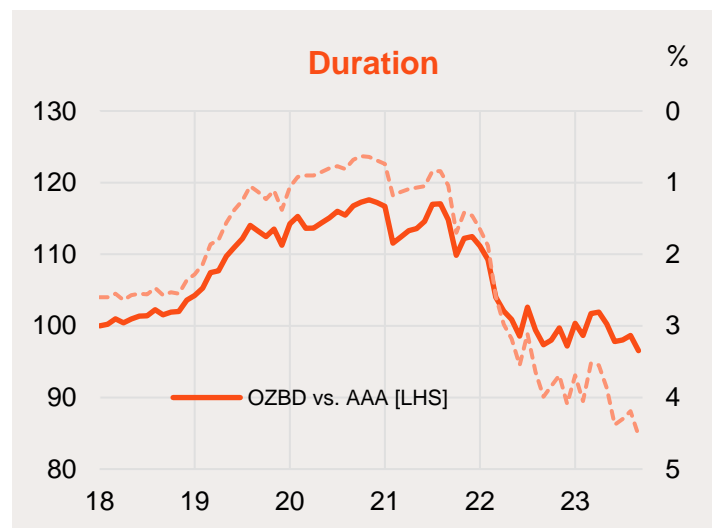
Note fixed-rate bond returns have nonetheless been positive over the past year – albeit marginally less positive than cash. OZBD's index also produced stronger returns than the AusBond Composite.

Note also despite the sell-off in bonds this year, credit spreads on longer-duration bonds have continued to narrow (likely reflecting reduced recession fears) – resulting in long-duration credit outperforming long-duration government bonds.

Fixed-Rate Bonds	Last	Mth	Prev. mth	3-mth	prev. 3-mth	6-mth	12-mth
RBA 12-mth expect. ³	4.31	0.21	-0.19	-0.19	1.14	0.94	0.21
Aust. 10-yr yield	4.49	0.46	-0.03	0.46	0.73	1.19	0.60
AusBond Comp. yield	4.53	0.34	-0.11	0.15	0.86	1.01	0.54
AusBond Comp. Return Index		-1.5%	0.7%	-0.3%	-2.9%	-3.2%	1.6%
OZBD's index		-1.8%	1.0%	-0.3%	-2.9%	-3.2%	2.8%

Long-duration credit	Last	Mth	Prev. mth	3-mth	prev. 3-mth	6-mth	12-mth
5-10yr spread ⁴	1.52	-0.03	0.00	-0.07	-0.15	-0.22	-0.32
5-10yr Govt Bonds		-2.2%	0.7%	-1.0%	-4.0%	-4.9%	0.9%
5-10yr Credit		-1.6%	1.4%	0.6%	-2.2%	-1.5%	5.5%
Credit vs Govt		0.5%	0.6%	1.6%	1.8%	3.4%	4.6%

Source: Bloomberg, Refinitiv, Betashares. Refer to page 11 for more additional information. Shows the performance of the index that OZBD seeks to track, and not the ETF itself. Does not take into account ETF management fees and costs (0.19% p.a.). You cannot invest directly in an index. **Past performance is not indicative of future performance of any index or ETF.**



Source: Bloomberg, Refinitiv, Betashares. Shows the performance of the index that OZBD seeks to track compared to the AAA ETF, and not the ETF itself. Does not take into account ETF management fees and costs (0.19% p.a.). You cannot invest directly in an index. **Past performance is not indicative of future performance of any index or ETF.**

Australian equities

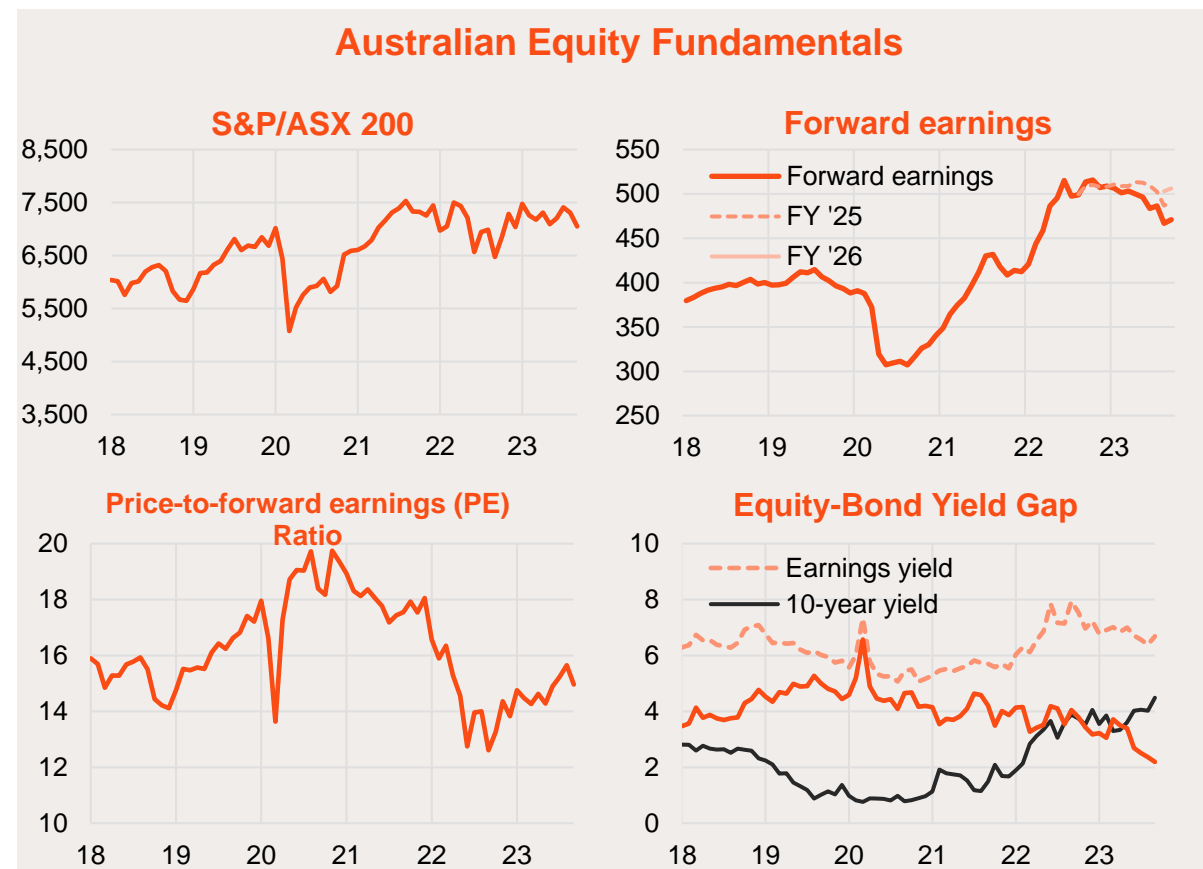
The S&P/ASX 200 Index dropped back 3.5% in September. In turn, this reflected a drop in the PE ratio - from 15.7 to 15.0 - in the face of sharply rising bond yields, partly offset by a 0.9% uptick in forward earnings.

Given the rise in bond yields, the decline in the PE ratio – and equity prices – would have been greater were it not for a further narrowing in the already relatively low equity-risk premium to 2.2%.

Allowing for dividends, total returns from the market were -2.8% in September.

After recovering from the 2022 sell-off up until earlier this year, the market has since moved in a choppy sideways range in recent months - due to generally falling earnings partly offset by a rising PE ratio.

Australian Equities	Mth	Prev. mth	3-mth	prev. 3-mth	6-mth	12-mth
Aust. 10-yr yield	0.46	-0.03	0.46	0.73	1.19	0.60
Equity-risk premium ⁵	-0.17	-0.14	-0.49	-1.02	-1.52	-1.85
Earnings yield ⁶	0.29	-0.18	-0.03	-0.30	-0.33	-1.25
PE ratio ⁷	-4.4%	2.7%	0.5%	4.4%	4.9%	18.7%
Forward Earnings ⁸	0.9%	-4.1%	-2.6%	-3.9%	-6.4%	-8.3%
S&P/ASX 200 Price Index	-3.5%	-1.4%	-2.1%	0.4%	-1.8%	8.9%
Dividend	0.7%	0.7%	1.4%	0.7%	2.0%	4.6%
Total Return	-2.8%	-0.7%	-0.8%	1.0%	0.2%	13.5%



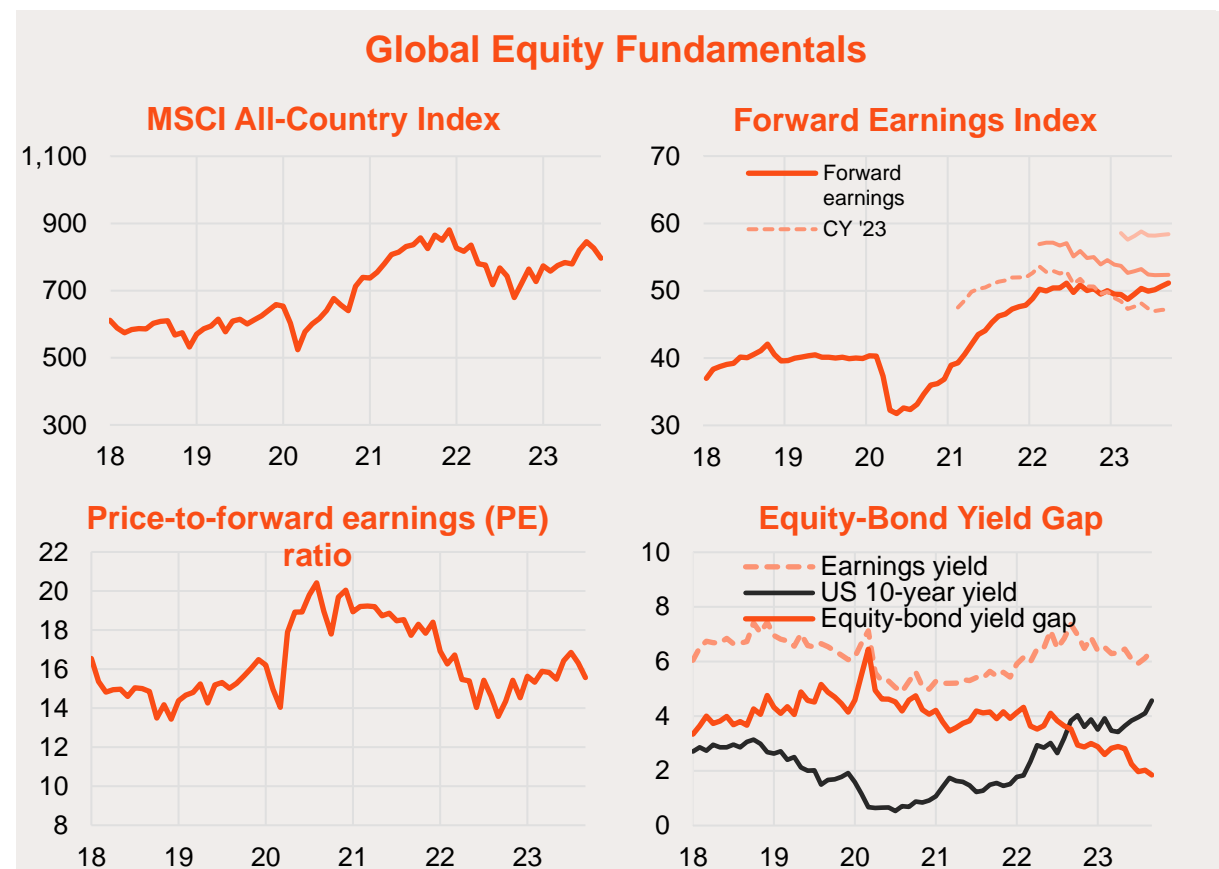
Source: Bloomberg, Refinitiv, Betashares. Past performance is not indicative of future performance.

Global equities

The MSCI All-Country World Index also declined in September, with - as in Australia - pressure on PE valuations due to higher bond yields only partly offset by a further modest lift in forward earnings.

Global equities have outperformed Australian equities over the past year largely because of a stronger uplift in forward earnings (+2.3% vs 8.3% earnings decline in Australia). But as in Australia, global equities now face the challenge of a narrow equity risk premium by the standards of the past 10-20 years.

Global Equities	Mth	Prev. mth	3-mth	Prev. 3-mth	6-mth	12-mth
US 10-yr yield	0.46	0.15	0.73	0.37	1.10	0.74
Equity-risk premium ⁵	-0.17	0.05	-0.40	-0.58	-0.97	-1.68
Earnings yield ⁶	0.29	0.20	0.34	-0.21	0.13	-0.94
PE ratio ⁷	-4.5%	-3.2%	-5.2%	3.4%	-2.0%	14.7%
Forward Earnings ⁸	1.0%	1.0%	2.4%	2.5%	5.0%	2.3%
MSCI ACWI Price Index	-3.6%	-2.2%	-2.9%	6.0%	2.9%	17.3%
Dividend	0.1%	0.2%	0.4%	0.6%	1.0%	2.1%
Total Return-hedged	-3.5%	-2.1%	-2.5%	6.6%	3.9%	19.4%
\$A vs World	0.3%	-3.2%	-2.1%	-0.3%	-2.4%	-0.8%
Total return-\$A basis	-3.8%	1.1%	-0.4%	6.8%	6.4%	20.3%



Source: Bloomberg, Refinitiv, Betashares. Past performance is not indicative of future performance.

Global equity themes

Selected Betashares Global Equity Funds – September Index Performance

Global Equity Returns ⁹	Mth	Prev. mth	3-mth	Prev. 3-mth	6-mth	12-mth
MSCI ACWI	-3.5%	-2.1%	-2.5%	6.6%	3.9%	19.4%
HNDQ's index	-5.0%	-1.5%	-2.9%	15.3%	12.0%	35.0%
HQLT's index	-3.8%	-1.1%	-2.6%	7.8%	5.0%	25.0%
FUEL's index	2.7%	2.0%	10.9%	-1.6%	9.2%	20.4%
BNKS's index	0.4%	-5.7%	0.7%	5.4%	6.2%	12.4%
DRUG's index	-2.4%	0.5%	-1.2%	2.6%	1.4%	9.9%
FOOD's index	-3.2%	-3.4%	-0.4%	-3.7%	-4.0%	2.5%
MNRS's index	-7.2%	-5.2%	-8.3%	-9.5%	-17.0%	3.7%

Source: Bloomberg, Betashares. Shows the performance of the index that each ETF seeks to track, and not the ETF itself. Does not take into account ETF management fees and costs. You cannot invest directly in an index. **Past performance is not indicative of future performance of any index or ETF.**

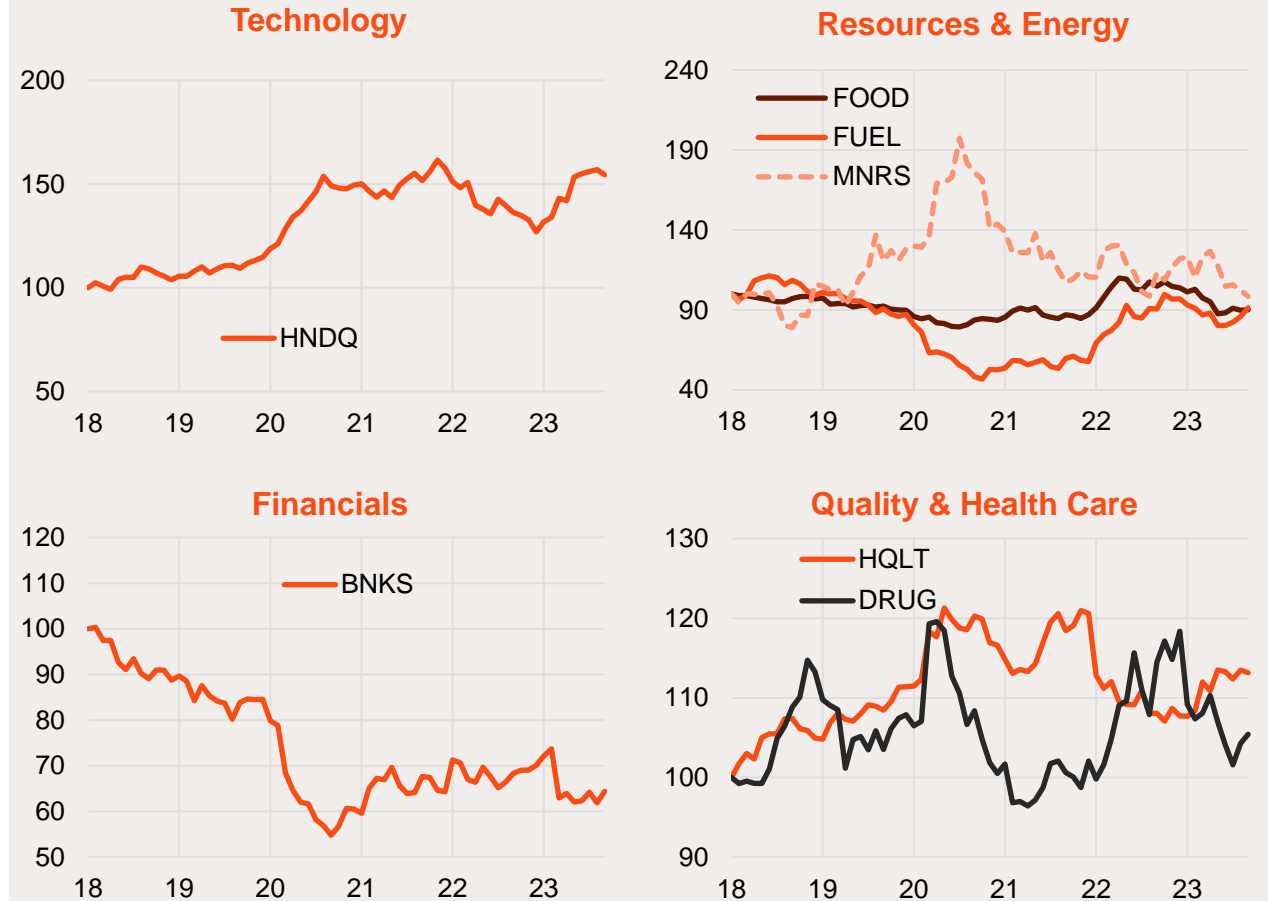
Higher interest rates once again hit technology-related exposures such as HNDQ and (to a degree) HQLT relatively hard in September, though MNRS also dropped due to weaker gold prices.

By contrast, higher oil prices have helped FUEL perform relatively well over recent months.

Being somewhat 'defensive' in nature, DRUG has also held up relatively well in the global equity correction over recent months.

Selected Betashares Global Equity Funds Index Performance

Relative Performance Indices*



Source: Bloomberg, Betashares. International ETF indices vs. MSCI ACWI. Shows the performance of the index that each ETF seeks to track, not the ETF itself. Does not take into account ETF management fees and costs. You cannot invest directly in an index. **Past performance is not an indicator of future performance of any index or ETF.**

Australian equity themes

Selected Betashares Australian Equity Funds – September Index Performance

Aust. Equity Returns ⁹	Mth	Prev. mth	3-mth	Prev. 3-mth	6-mth	12-mth
S&P/ASX 200	-2.8%	-0.7%	-0.8%	1.0%	0.2%	13.5%
ATEC's index	-4.7%	0.9%	2.7%	9.2%	12.2%	28.5%
QFN's index	-1.6%	-0.8%	2.4%	3.1%	5.6%	14.0%
QRE's index	-0.7%	-1.8%	-0.2%	-1.8%	-2.0%	19.4%
AQLT's index	-2.5%	0.2%	1.1%	1.7%	2.8%	18.1%

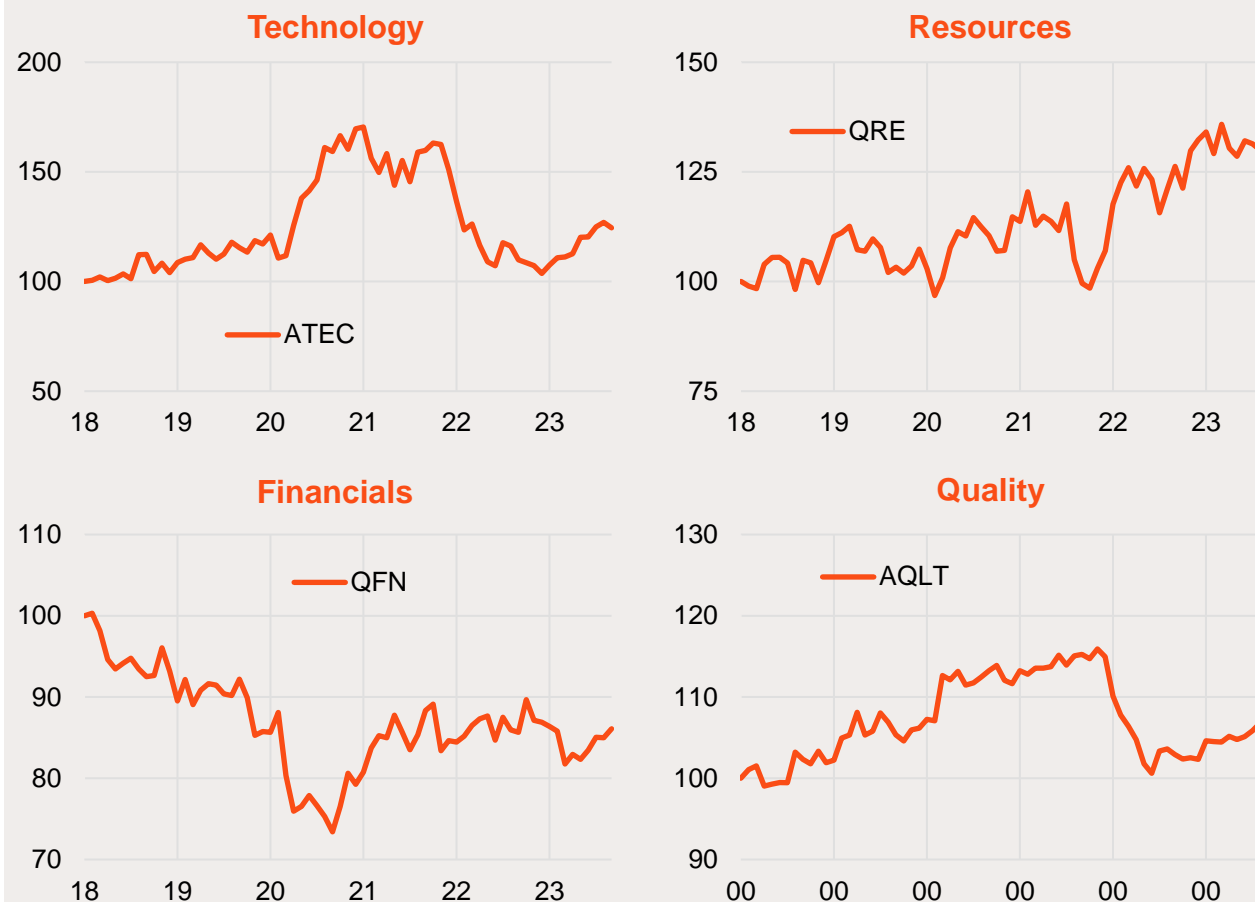
Source: Bloomberg, Betashares. Shows the performance of the index that each ETF seeks to track, and not the ETF itself. Does not take into account ETF management fees and costs. You cannot invest directly in an index. **Past performance is not indicative of future performance of any index or ETF.**

As was the case globally, the local technology-related index that ATEC aims to track fell harder than the broader market in September, though only partly unwinding its strong outperformance over the past year.

Over the past year, all four selected Australian equity theme indices - covering financials, resources, technology and quality - have outperformed the broader market's gain of 13.5%. This reflects the fact certain sectors - such as health care, consumer staples and A-REITs - have been the biggest laggards in the market.

Selected Betashares Australian Equity Funds Index Performance

Relative Performance Indices*



Source: Bloomberg, Betashares. Australian ETF indices vs. S&P/ASX 200. Shows the performance of the index that each ETF seeks to track, not the ETF itself. Does not take into account ETF management fees and costs. You cannot invest directly in an index. **Past performance is not an indicator of future performance of any index or ETF.**

Additional information

1. FRB yield and return is based on that of the Bloomberg Floating Rate Bond Index. FRB spread is its yield difference to the 30-day bank bill rate.
2. Hybrid yield refer to average yield on 5-year to call AT1 hybrids. Hybrid spread is difference in the hybrid yield and the 30-day bank bill rate.
3. 12-month forward RBA expectation is the market implied expected change in the RBA cash rate over the coming 12 months, based on interest rate futures.
4. Yields and returns relating to 5-10 year government and credit exposures related to the Bloomberg 5-10 Year maturity Australian Government Bond Index and the 5-10 Year Bloomberg Australian Credit Index.
5. The equity-risk premium is defined as the difference between the equity market's forward-earnings yield (reciprocal of the forward PE ratio) and the 10-year government bond yield.
6. Forward earnings yield is the market's level of forward earnings divided by the equity price index.
7. The price to forward earnings (PE ratio) is the ratio of forward earnings to the equity price index.
8. Forward earnings are a time weighted pro-rata average of the expected level of earnings for the current and following financial year. The weight on next year's earnings in the calculation grows as the new year approaches.
9. Global equity total returns includes estimated reinvested dividends and are in local currency terms. Australian equity returns also include estimated reinvested dividends and are in Australian dollar terms.

Further information on the complete range of Betashares exchange traded products can be found [here](#).

Considerations when investing



Investment risk

The value of an investor's portfolio can go down as well as up. Risks include:

- Market risk with equities
- Currency risk with international investments
- Interest rate risk with cash and bonds.



No guarantees

Future outcomes are uncertain – desired return outcome may not be achieved.



General information only

This report does not take into account any person's individual circumstances and is not personal financial advice.



Professional advice

Investors should seek professional financial advice before investing.



Research

See relevant Product Disclosure Statement for more information about risks and other features of each fund and consider the relevant Target Market Determination which sets out the class of consumers that comprise the target market for the relevant fund.

Regular content

Visit our website for the latest Fund data, blogs and investment information

Sign up for regular insights

Follow us on Twitter, LinkedIn and Facebook

The screenshot displays the Betashares website's 'Insights' page. At the top left is the Betashares logo and navigation links: Funds, About, Learn, Insights, For investors. A search bar is located at the top center with the placeholder text 'Search by topic, keyword or author'. Below the search bar is a 'Filter' icon. The main content area features three article cards:

- Oil concerns return**: A 'Bassanese bites' article by David Bassanese, featuring an image of an oil pumpjack.
- How to generate passive income with ETFs**: A 'Funds' article by Patrick Pake, featuring an image of a person sitting on a chair with coins falling around them.
- Bonds behaving badly**: A 'Bassanese bites' article by David Bassanese, featuring an image of US dollar bills.

Below the article grid is a bio for David Bassanese, including a profile picture, the text 'Written by David Bassanese', and social media icons for Twitter and LinkedIn. A bio blurb reads: 'Ex Treasury, OECD, Macquarie Bank and AFR. Betashares Chief Economist and author of The Australian ETF Guide.' Below the bio is a link that says 'Read more from David.'

 @Betashares

 @Betashares

 @Betashares

 @Betashares

 @Betashares

betashares.com.au