Cross-Asset Review

An evident shift in risk-seeking investor behaviour maintained as vaccination goal rates achieved nation-wide.

October 2021

Foresight Analytics

Unlocking your investment advantage

In this month's Cross Asset Review, we assess the past performance of various asset classes and draw implications for multi asset investors. In September, Emerging companies and Commodities delivered high positive returns as nation's vaccination rate increased significantly resulting investor to be more bullish. The top performing assets were CBOE VIX, S&P/ASX Emerging Companies, and Core Commodity CRB TR.

1. CBOE Market Volatility (VIX) made a comeback by delivering extremely high returns.

- CBOE Market Volatility (VIX) made a comeback over the past month (41%) followed by S&P/ASX Emerging Companies to reflect investors risk-seeking behaviour as the vaccination rates increase and state lockdowns ease.
- After CBOE Market Volatility (VIX), Small caps, Core commodities and Frontier led the listed market asset performance in the past month.
- A-REITs and Small ordinaries delivered negative returns in contrast to leading the charts last month. A-REITs fell to -1.9% followed by Small Ordinaries at -2.1%.
- The AUD Index (TWI) was down -0.7% over the month. The AUD weakness provided some tailwind to returns for unhedged offshore investments.
- The losing assets were FTSE and MSCI Emerging NR.

Heat Map - Total Returns (30.09.2021, AUD)

Index	1 Month	3 Month	6 Month	FYTD	1 year	Annualized 2 year	Annualized 3 year	Annualized 5 year	Annualized 10 year	Annualized 15 year	Annualised Return from Inception
CBOE Market Volatility (VIX)	41.0	48.1	22.6	-29.3	-15.1	13.9	23.1	12.5	-3.4	4.5	2.7
S&P/ASX Emerging Companies TR	7.7	18.8	28.6	89.1	55.9	27.7	22.7	14.3	7.5	5.7	7.5
TReuters/CoreCommodity CRB TR	6.2	11.5	31.2	58.3	53.0	11.3	6.6	6.6	0.9	-0.8	4.7
MSCI Frontier Markets NR	2.4	7.4	24.4	36.5	31.2	9.6	10.9	10.8	10.3	3.1	6.8
S&P Emerging Markets Infrastructure NR	3.3	6.3	10.0	15.0	25.7	-5.5	-0.7	0.6	5.9	3.6	7.1
S&P Global Infrastructure NR	-0.2	5.3	9.1	18.0	21.2	-1.3	5.8	6.2	10.1	4.9	6.6
S&P/ASX 300 A-REIT TR	-1.9	4.8	16.1	40.3	30.7	4.9	9.2	7.7	13.5	3.6	10.5
SG CTA PR	1.9	4.6	10.3	8.3	13.6	0.5	4.7	2.9	5.0	3.5	3.8
S&P 500 TR	-3.5	4.5	15.1	35.0	29.0	18.2	16.1	18.3	20.1	10.6	6.6
MSCI World Ex Australia NR	-3.0	4.0	13.7	32.6	27.8	15.4	13.3	15.2	16.2	7.7	10.0
S&P/ASX MidCap 50 TR	-0.6	3.9	14.5	40.9	34.0	17.1	12.4	13.2	13.9	7.8	11.8
Bloomberg Global High Yield TR USD	0.1	3.6	8.3	8.8	8.6	2.6	5.8	6.5	10.1	7.2	9.3
S&P/ASX Small Ordinaries TR	-2.1	3.4	12.2	37.8	30.4	12.3	9.4	10.2	7.7	4.3	6.3
Bloomberg Gbl Agg Corp TR USD	-0.4	3.1	7.4	0.0	0.9	1.2	6.1	5.1	7.1	4.7	3.9
S&P GSCI Gold Spot	-2.2	3.1	8.0	-7.0	-8.0	5.5	13.7	7.2	3.8	7.6	6.6
Bloomberg Global Aggregate TR AUD	-0.6	3.0	5.9	-3.0	-1.7	-0.9	4.3	3.2	4.9	3.7	5.8
FTSE EPRA Nareit Developed NR	-4.7	3.0	14.1	26.1	28.6	-0.5	6.2	5.7	11.6	4.0	6.3
MSCI World Ex AUS Small Cap NR	-2.0	2.4	9.0	43.8	39.4	16.0	10.9	13.8	16.5	8.6	9.0
S&P/ASX 200 VIX Index	16.3	1.8	3.3	-37.3	-42.0	-2.7	4.7	-1.6	-10.4		-8.1
S&P/ASX 200 TR	-1.9	1.7	10.1	30.0	30.6	8.3	9.7	10.4	10.8	6.8	11.2
S&P/ASX 50 TR	-2.1	1.1	9.4	27.9	30.3	6.5	9.4	10.1	10.5	6.9	11.2
Bloomberg AusBond Composite 0+Y TR	-1.5	0.3	1.8	-0.5	-1.5	0.8	4.1	3.1	4.5	5.3	7.6
Bloomberg Global Aggregate TR Hdg AUD	-1.0	0.1	1.0	-0.1	-0.8	1.3	4.1	2.7	4.8	6.1	7.8
Bloomberg AusBond Bank 0+Y TR	0.0	0.0	0.0	0.1	0.0	0.3	0.8	1.2	2.1	3.2	5.8
FTSE WBIG Hdg AUD	-1.0	0.0	1.0	-0.2	-1.1	1.4	4.3	2.7	4.9	6.1	6.5
Australian Dollar Trade Weighted Index	-0.7	-3.0	-4.4	1.8	0.6	1.9	-0.4	-0.8	-1.6	-0.1	0.3
MSCI EM NR	-2.8	-4.5	1.8	23.4	17.3	10.5	8.6	10.5	9.3	5.9	7.8
FTSE EPRA Nareit Emerging NR	-1.8	-5.0	-8.8	-7.8	-3.5	-9.2	-1.1	4.2	7.8		7.6

Rank of % 1 28

Source: Foresight Analytics - Data source: Morningstar and Refinitiv

Measurement Period
All

Index
Multiple values

2. Large-, Small- and Mid-Cap equities delivered strong returns, rewarding risk seeking behavior.

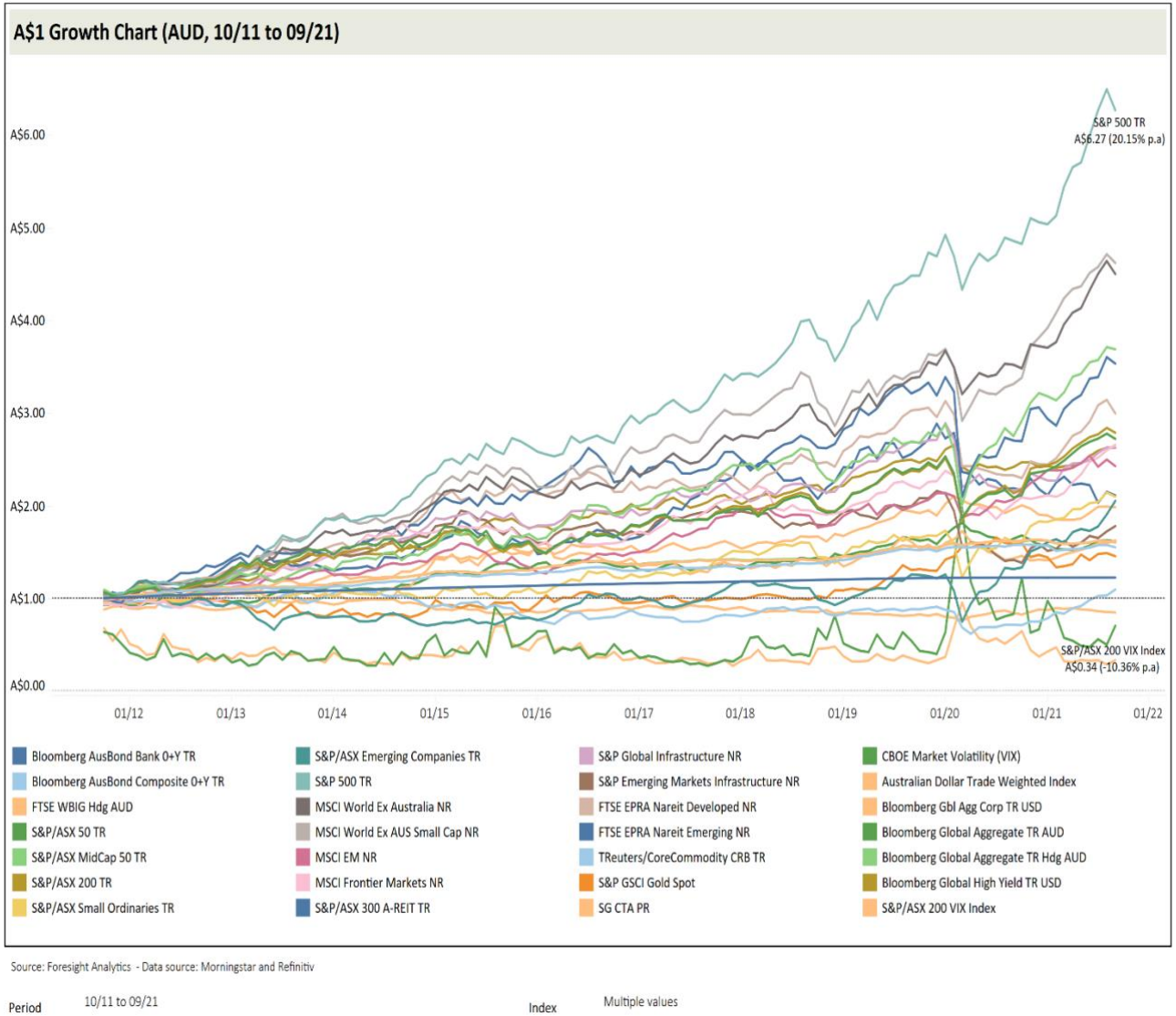
- The chart indicates that Large-, Small- and Mid-Cap equities have delivered strong returns. Risk-return pay-off has been great as the risk seeking behavior has been well rewarded more recently over the 10-year time horizon. Quantitative easing played a great role in post Covid-19 recovery phase.

- The VIX indices were one of the worst performing indices over the past 10 years followed by the Australian Dollar Trade Weighted index and the Commodities Index.

- The S&P/ASX Emerging Companies that has been a constant underperformer over the past 10 years has shown an upward trend in performance recently.

- CBOE Market Volatility VIX index spiked in January and fell thereafter in February. As the Covid-19 vaccine roll-out increases globally, the volatility seems to decrease gradually, stabilising the economy.

- Our analysis indicates that over the long term and not withstanding various shocks, a well-diversified portfolio can yield positive returns.

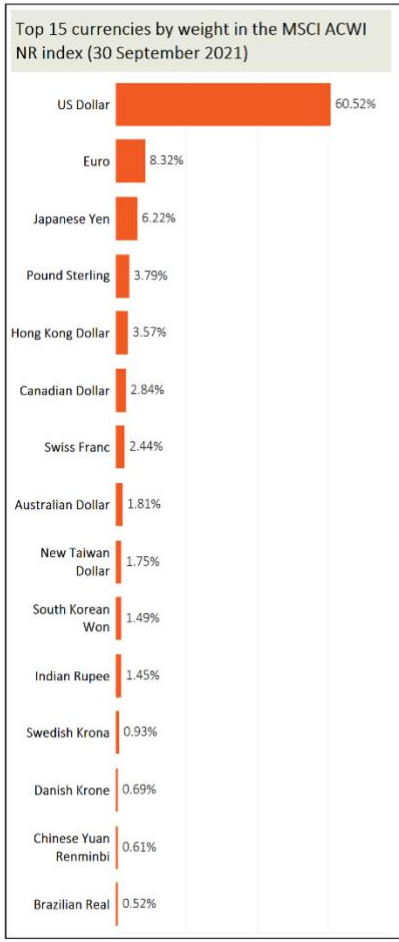


Source: Foresight Analytics - Data source: Morningstar and Refinitiv

Period 10/11 to 09/21 Index Multiple values

3. AUD gained ground against most currencies in the past 12-months.

- Over the past year the currencies to see relative losses against AUD were GBP (-3.26%), CAD (-3.94%), and TWD (-2.93%).
- The biggest gains over the year were against JPY (6.50%), KRW (2.63%) and EUR (2.08%).
- Over the past month AUD gained ground against five currencies and lost momentum against the other five.
- The largest gains over the past month were against KRW (0.99%) and GBP (0.85%) and largest losses were against USD (-1.22%), and HKD (-1.11%).
- From our FX cyclical and strategic analysis, our expectation of AUD continues to be bearish over 1-year time horizon with cyclical volatility.
- There is no evidence to suggest that investors should consider hedging their risks against majors such as USD at this stage.



Currency Pairs Returns (30.09.2021)

The returns are calcuated using monthly closing mid spot rates at 4 p.m London time expressed as amount of foreign currencies for one unit of Australian dollar.

	1 month	3 month	6 month	1 year	Annualised 2 year	Annualised 3 year	Annualised 5 year	Annualised 7 year	Annualised 10 year	Annualised 15 year
AUDKRW	0.99%	0.98%	-0.09%	2.63%	2.86%	2.18%	0.28%	-1.06%	-2.83%	1.29%
AUDGBP	0.85%	-1.10%	-2.71%	-3.26%	-1.16%	-1.13%	-1.91%	-0.08%	-1.44%	2.00%
AUDEUR	0.71%	-1.36%	-3.68%	2.08%	0.38%	0.06%	-1.76%	-1.48%	-1.45%	0.38%
AUDCAD	-0.72%	-1.43%	-3.97%	-3.94%	1.27%	-0.60%	-1.85%	-0.95%	-1.01%	0.63%
AUDCHF	0.57%	-2.95%	-6.08%	2.07%	-0.01%	-1.76%	-1.99%	-3.03%	-2.61%	-2.15%
AUDHKD	-1.11%	-3.36%	-4.74%	1.36%	3.14%	-0.20%	-1.09%	-2.65%	-2.86%	-0.22%
AUDJPY	-0.09%	-3.48%	-4.39%	6.50%	5.01%	-0.73%	0.70%	-2.48%	0.77%	-0.61%
AUDUSD	-1.22%	-3.63%	-4.88%	0.91%	3.47%	-0.02%	-1.17%	-2.69%	-2.86%	-0.22%
AUDINR	0.43%	-3.89%	-3.56%	1.72%	6.03%	0.74%	1.00%	-0.15%	1.24%	3.05%
AUDTWD	-0.67%	-3.92%	-6.98%	-2.93%	-2.03%	-2.98%	-3.48%	-3.92%	-3.74%	-1.36%

Periodic Volatility of Currency Pairs (30.09.2021)

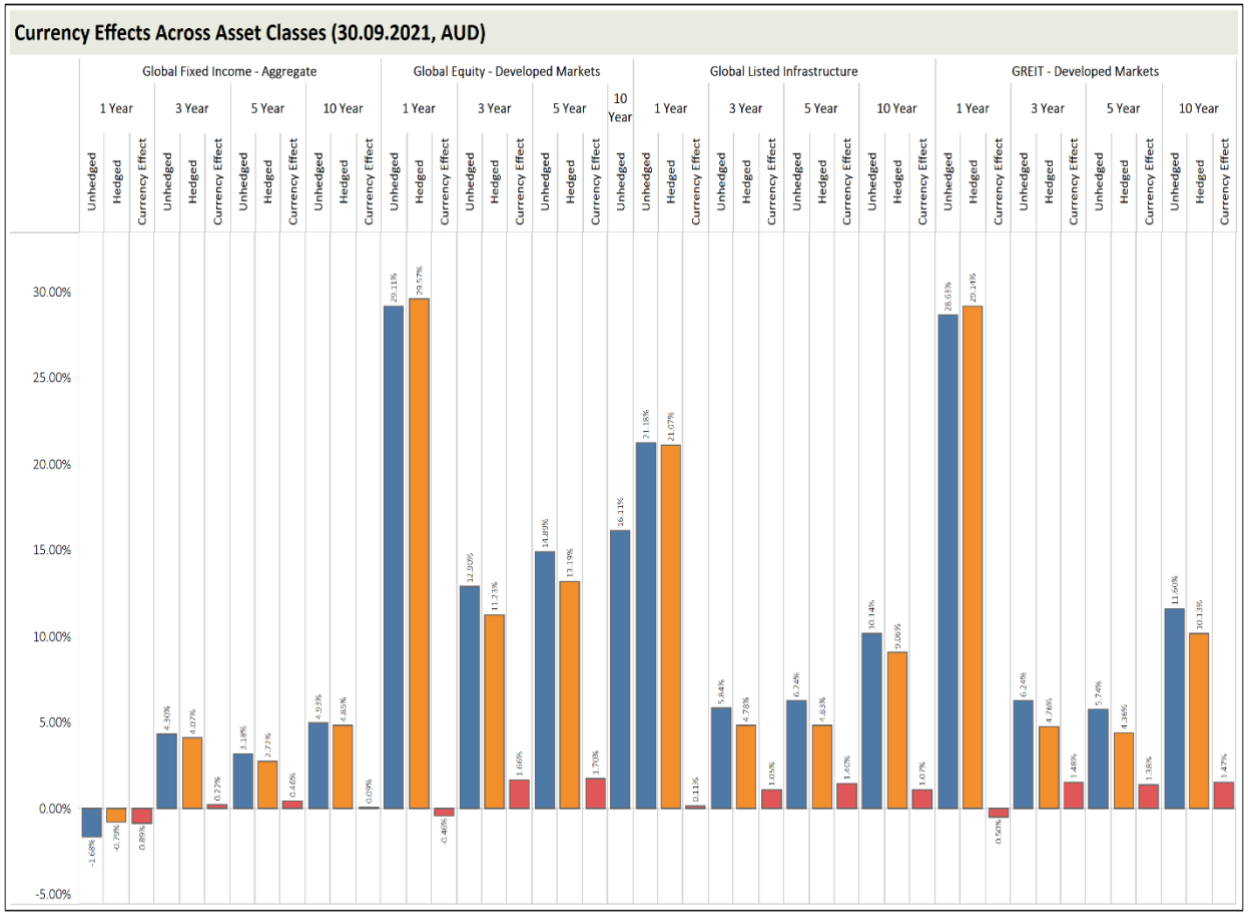
The volatility is calcuated using monthly closing mid spot rates at 4 p.m London time expressed as amount of foreign currencies for one unit of Australian dollar.

	1 year	Annualised 2 year	Annualised 3 year	Annualised 5 year	Annualised 7 year	Annualised 10 year	Annualised 15 year
AUDUSD	8.57%	11.11%	10.11%	9.40%	9.77%	10.33%	13.02%
AUDHKD	8.44%	11.17%	10.09%	9.42%	9.72%	10.25%	12.94%
AUDJPY	8.20%	10.84%	10.93%	10.20%	10.84%	11.85%	14.91%
AUDINR	8.02%	9.28%	9.20%	8.55%	8.91%	9.16%	10.46%
AUDCHF	8.01%	9.93%	9.60%	8.97%	9.67%	9.61%	10.65%
AUDTWD	7.31%	9.62%	8.88%	8.03%	7.74%	8.32%	10.53%
AUDKRW	6.58%	9.00%	8.15%	8.19%	7.89%	7.84%	9.95%
AUDGBP	5.52%	8.01%	7.75%	8.60%	9.75%	9.66%	11.01%
AUDCAD	5.51%	6.65%	6.49%	6.02%	6.59%	6.94%	8.73%
AUDEUR	5.04%	8.52%	8.19%	7.86%	7.98%	8.65%	8.88%

Source: Foresight Analytics - Data source: Morningstar and Refinitiv

4. Positive currency effects were realised across all asset classes over medium to long-term

- FX movements over the past year have caused negative currency effects on unhedged defensive and growth assets.
- Global Listed Infrastructure was the only asset class to have realised neutral to positive returns over 1-year time horizon.
- Investors realised negative currency returns across 1-year time horizon for Global Fixed Income, DM Global Equity and DM GREITs.
- Unhedged positions surpassed returns from hedging across all asset classes and most time horizons. GREIT and Global Equity DM returns across 1-year period was an exception.
- Overall, the risk appetite of the investors was well rewarded.
- The range of expected return suggest that a neutral to unhedged position may be warranted depending on the FX risk appetite of investors.



Source: Foresight Analytics - Data source: Morningstar and Refinitiv

Asset class
Multiple values

Measurement Period
Multiple values

5. Correlation between Sectors in past three years

- The 3-year correlation statistics provide instructive insights of the relationship between two or more sectors for sectoral diversification. Investors need to be aware that correlation between sectors is not stable over time and is cyclical in nature.
- There is a moderate level of correlation between Australian Equity market and bond proxies (from 0.29 for consumer staples to 0.36 for utilities)
- There is a high level of correlation between Financials and Consumer Discretionary, A-REITs and Energy.
- The data shows that maintaining exposure to a broad set of sectors within Australian share allocation can add to diversity and reduce risk.

3 Years Correlation Matrix (ending at 30.09.2021, AUD)

	S&P/ASX 300 A-REIT TR	S&P/ASX 300 Cons Discretionary TR	S&P/ASX 300 Consumer Staples TR	S&P/ASX 300 Energy TR	S&P/ASX 300 Financials TR	S&P/ASX 300 Health Care TR	S&P/ASX 300 Information Tech TR	S&P/ASX 300 Materials TR	S&P/ASX 300 Resources TR	S&P/ASX 300 Telecom Svcs TR	S&P/ASX 300 Utilities TR
S&P/ASX 300 A-REIT TR	1.00	0.87	0.34	0.76	0.77	0.50	0.65	0.57	0.63	0.58	0.49
S&P/ASX 300 Cons Discretionary TR	0.87	1.00	0.47	0.82	0.79	0.50	0.77	0.62	0.68	0.54	0.50
S&P/ASX 300 Consumer Staples TR	0.34	0.47	1.00	0.29	0.29	0.59	0.59	0.25	0.26	0.48	0.36
S&P/ASX 300 Energy TR	0.76	0.82	0.29	1.00	0.75	0.35	0.58	0.61	0.73	0.57	0.52
S&P/ASX 300 Financials TR	0.77	0.79	0.29	0.75	1.00	0.32	0.50	0.50	0.57	0.55	0.36
S&P/ASX 300 Health Care TR	0.50	0.50	0.59	0.35	0.32	1.00	0.46	0.23	0.25	0.43	0.33
S&P/ASX 300 Information Tech TR	0.65	0.77	0.59	0.58	0.50	0.46	1.00	0.51	0.54	0.41	0.41
S&P/ASX 300 Materials TR	0.57	0.62	0.25	0.61	0.50	0.23	0.51	1.00	0.98	0.42	0.29
S&P/ASX 300 Resources TR	0.63	0.68	0.26	0.73	0.57	0.25	0.54	0.98	1.00	0.46	0.35
S&P/ASX 300 Telecom Svcs TR	0.58	0.54	0.48	0.57	0.55	0.43	0.41	0.42	0.46	1.00	0.52
S&P/ASX 300 Utilities TR	0.49	0.50	0.36	0.52	0.36	0.33	0.41	0.29	0.35	0.52	1.00

Source: Foresight Analytics - Data source: Morningstar and Refinitiv

Period 3 Years Index ~~Multiple values~~ Counter Index ~~Multiple values~~

6. Analysis of cross-asset correlations and volatilities demonstrate the benefits of multi-asset diversification for investors

- The 3-year correlation statistics provide instructive insights of the relationship between the returns of two or more asset classes. However, correlation is not stable over time, so investors need to consider cyclical & secular relationships between asset classes.

- Exposure to gold offers diversification benefits to investors but one needs to consider that gold is not a typical financial asset that generates income. It is often highly volatile. It can be used for hedging tail risks in portfolios as it is one of the asset classes that's positively correlated with VIX.

- The correlation analysis shows that multi asset investors continue to benefit from cross-asset diversification with with most defensive and bond proxy asset offering good diversification benefits against the most dominant holdings for investors- Australian shares.

3 Years Correlation Matrix (ending at 30.09.2021, AUD)

	Bloomberg AusBond Bank 0+Y TR	Bloomberg AusBond Composite 0+Y TR	FTSE WBIG	MSCI Frontier Markets NR	MSCI World Ex AUS Small Cap NR	MSCI World Ex Australia NR	S&P/ASX 50 TR	S&P/ASX MidCap 50 TR	S&P/ASX 300 TR	S&P/ASX Small Ordinaries TR	S&P/ASX Emerging Companies TR	S&P/ASX 300 A-REIT TR	S&P Global Infrastructure NR	S&P Emerging Markets Infrastructure NR	FTSE EPRA Nareit Developed NR	FTSE EPRA Nareit Emerging NR	TReuters/CoreCommodity CRB TR	S&P GSCI Gold Spot	Australian Dollar Trade Weighted Index	S&P 500 TR AUD	S&P/ASX 200 TR AUD
Bloomberg AusBond Bank 0+Y TR	1.00	0.37	0.27	-0.15	-0.26	-0.17	-0.12	-0.24	-0.15	-0.20	-0.28	-0.12	0.00	-0.07	-0.05	0.17	-0.34	0.27	-0.20	-0.15	-0.15
Bloomberg AusBond Composite 0+Y TR	0.37	1.00	0.67	0.24	-0.08	0.10	0.11	0.07	0.08	-0.04	-0.09	0.22	0.24	-0.08	0.27	-0.20	-0.21	0.57	-0.47	0.12	0.09
FTSE WBIG	0.27	0.67	1.00	0.04	-0.41	-0.24	-0.30	-0.39	-0.34	-0.47	-0.49	-0.25	-0.08	-0.32	-0.07	-0.35	-0.21	0.65	-0.87	-0.23	-0.34
MSCI Frontier Markets NR	-0.15	0.24	0.04	1.00	0.61	0.53	0.68	0.68	0.70	0.65	0.60	0.76	0.73	0.56	0.69	0.24	0.64	-0.13	-0.03	0.50	0.69
MSCI World Ex AUS Small Cap NR	-0.26	-0.08	-0.41	0.61	1.00	0.91	0.86	0.84	0.88	0.89	0.76	0.75	0.80	0.67	0.73	0.45	0.62	-0.46	0.43	0.87	0.88
MSCI World Ex Australia NR	-0.17	0.10	-0.24	0.53	0.91	1.00	0.79	0.75	0.80	0.81	0.64	0.69	0.77	0.56	0.73	0.33	0.51	-0.30	0.28	0.98	0.80
S&P/ASX 50 TR	-0.12	0.11	-0.30	0.68	0.86	0.79	1.00	0.90	0.99	0.89	0.82	0.88	0.85	0.71	0.81	0.43	0.56	-0.30	0.40	0.73	0.99
S&P/ASX MidCap 50 TR	-0.24	0.07	-0.39	0.68	0.84	0.75	0.90	1.00	0.94	0.94	0.91	0.86	0.74	0.60	0.64	0.29	0.47	-0.27	0.47	0.73	0.94
S&P/ASX 300 TR	-0.15	0.08	-0.34	0.70	0.88	0.80	0.99	0.94	1.00	0.93	0.87	0.89	0.84	0.70	0.78	0.41	0.55	-0.32	0.44	0.76	1.00
S&P/ASX Small Ordinaries TR	-0.20	-0.04	-0.47	0.65	0.89	0.81	0.89	0.94	0.93	1.00	0.93	0.85	0.76	0.62	0.67	0.34	0.53	-0.40	0.55	0.78	0.93
S&P/ASX Emerging Companies TR	-0.28	-0.09	-0.49	0.60	0.76	0.64	0.82	0.91	0.87	0.93	1.00	0.80	0.66	0.53	0.57	0.23	0.48	-0.35	0.57	0.62	0.86
S&P/ASX 300 A-REIT TR	-0.12	0.22	-0.25	0.76	0.75	0.69	0.88	0.86	0.89	0.85	0.80	1.00	0.85	0.73	0.80	0.44	0.49	-0.25	0.40	0.65	0.89
S&P Global Infrastructure NR	0.00	0.24	-0.08	0.73	0.80	0.77	0.85	0.74	0.84	0.76	0.66	0.85	1.00	0.77	0.87	0.43	0.56	-0.17	0.19	0.73	0.84
S&P Emerging Markets Infrastructure NR	-0.07	-0.08	-0.32	0.56	0.67	0.56	0.71	0.60	0.70	0.62	0.53	0.73	0.77	1.00	0.65	0.60	0.48	-0.33	0.32	0.48	0.70
FTSE EPRA Nareit Developed NR	-0.05	0.27	-0.07	0.69	0.73	0.73	0.81	0.64	0.78	0.67	0.57	0.80	0.87	0.65	1.00	0.39	0.54	-0.23	0.21	0.69	0.78
FTSE EPRA Nareit Emerging NR	0.17	-0.20	-0.35	0.24	0.45	0.33	0.43	0.29	0.41	0.34	0.23	0.44	0.43	0.60	0.39	1.00	0.28	-0.45	0.31	0.29	0.41
TReuters/CoreCommodity CRB TR	-0.34	-0.21	-0.21	0.64	0.62	0.51	0.56	0.47	0.55	0.53	0.48	0.49	0.56	0.48	0.54	0.28	1.00	-0.40	0.20	0.43	0.55
S&P GSCI Gold Spot	0.27	0.57	0.65	-0.13	-0.46	-0.30	-0.30	-0.27	-0.32	-0.40	-0.35	-0.25	-0.17	-0.33	-0.23	-0.45	-0.40	1.00	-0.50	-0.26	-0.31
Australian Dollar Trade Weighted Index	-0.20	-0.47	-0.87	-0.03	0.43	0.28	0.40	0.47	0.44	0.55	0.57	0.40	0.19	0.32	0.21	0.31	0.20	-0.50	1.00	0.28	0.43
S&P 500 TR AUD	-0.15	0.12	-0.23	0.50	0.87	0.98	0.73	0.73	0.76	0.78	0.62	0.65	0.73	0.48	0.69	0.29	0.43	-0.26	0.28	1.00	0.75
S&P/ASX 200 TR AUD	-0.15	0.09	-0.34	0.69	0.88	0.80	0.99	0.94	1.00	0.93	0.86	0.89	0.84	0.70	0.78	0.41	0.55	-0.31	0.43	0.75	1.00

Source: Foresight Analytics - Data source: Morningstar and Refinitiv

Period 3 Years Index Multiple values Counter Index Multiple values

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