

Market Update

MAY 2021

- Investors extended expectations of accommodative monetary and fiscal policies following signs of a slowdown in the US recovery.
- US President Biden is believed to be setting a new vaccination goal to have the first dose delivered to 70% of adults by July 4.
- Europe has enjoyed better than expected economic data and a decline in reported Covid-19 cases recently as countries push ahead with vaccine rollouts.
- New Zealand halted quarantine-free travel with Australia while New South Wales investigates the origins of the two locally acquired Covid-19 cases.
- The RBA kept the cash rate on hold at 0.1% as expected and increased its 2021 GDP forecast from 3.50% to 4.75%, with 3.50% growth expected in 2022.

April market performance

Equity Markets – Index Return*	Index	At Close 30/04/2021	% Return 1 Month	% Return 12 Months
Australia	S&P/ASX 200 Index	7025.82	3.47%	30.76%
United States	S&P 500 Index	4181.17	5.34%	45.98%
Japan	Nikkei 225 Index	28812.63	-1.25%	44.94%
Hong Kong	Hang Seng Index	28724.88	1.30%	20.64%
China	CSI 300 Index	5123.49	1.59%	33.81%
United Kingdom	FTSE 100 Index	6969.81	4.11%	22.15%
Germany	DAX 30 Index	15135.91	0.85%	39.35%
Europe	FTSE Eurotop 100 Index	3161.78	2.15%	26.95%

Property – Index Returns*	Index	At Close 30/04/2021	% Return 1 Month	% Return 12 Months
Listed Property	S&P/ASX 200 A-REIT Index	1468.00	2.92%	30.90%

Interest Rates	At Close 30/04/2021	At Close 31/03/2021	At Close 30/04/2020
Australian 90 day Bank Bills	0.04%	0.04%	0.10%
Australian 10 year Bonds	1.65%	1.74%	0.89%
US 90 day T Bill	0.01%	0.03%	0.09%
US 10 year Bonds	1.65%	1.74%	0.64%

Currency**	At Close 30/04/2021	% Change 1 Month	% Change 12 Months	
US dollar	AUD/USD	0.78	2.29%	18.43%
British pound	AUD/GBP	0.56	0.74%	6.04%
Euro	AUD/EUR	0.64	-1.17%	6.19%
Japanese yen	AUD/JPY	84.63	0.42%	21.06%
Australian Dollar Trade-weighted Index		64.4	0.78%	11.42%

* Closing index values are based on price indices. Index returns are expressed as total returns in local currency.

** All foreign exchange rates rounded to two decimal places.

Past performance is not a reliable indicator of future performance.

Global economies

Global Covid-19 cases continue to rise with over 150 million cases reported at the start of May, but the race is now on to vaccinate key demographics. The International Monetary Fund revised its projections for GDP growth upwards, with the US expected to grow by 6.4% in 2021 and China by 8.4% over the same period.

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US

The United States has fully vaccinated more than 100 million people—including two thirds of all seniors—against the Covid-19 virus, according to the Centres for Disease Control and Prevention, providing further reassurance to markets that the worst of the pandemic is over. However, while confidence measures point to greater optimism, other economic data points to a recovery that is less emphatic than expected. April's payroll report came in vastly below expectations (266,000 versus the Dow Jones estimate of 1 million), although the response from markets was relatively muted. The ISM Manufacturing Index came in surprisingly weak in April, down from 64.7 to 60.7 (65.0 expected) as shortages in inputs constrained production. Durable goods orders disappointed in March, growing at just 0.5% month-on-month, below expectations of 2.5%. The result was weighed down by orders for transport equipment which fell 1.7%, with durable goods orders ex-transport printing in line with expectations at 1.6% month-on-month. However, Q1 GDP growth of 6.4% came in above expectations of 6.1% and lifted on the 4.3% expansion in the previous three-month period. Personal consumption was the key driver of the result, lifting 10.7%, while a fall in inventories held back growth.

Europe

The Covid-19 situation in Europe is improving as reported cases decline and countries push ahead with vaccine rollouts. According to the World Health Organisation, 5.5% of the European population have contracted Covid-19, while 7.0% have been fully vaccinated—a number which is expected to grow rapidly in coming months. Economic data has generally been better than expected in recent months, but the eurozone as a whole suffered a decline in GDP (-0.6%, slightly better than the -0.8% expected) in Q1 2021 as the pandemic continued to bite in some regions. The Markit Composite PMI came in above expectations in April, rising from 53.2 in March to 53.7, with both the manufacturing and services PMIs printing ahead of expectations at 63.3 and 50.3, respectively. April's consumer confidence printed in line with expectations at -8.1, while economic sentiment surged to 110.3 ahead of expectations of 102.2, where improvement was seen across all sectors. The European Central Bank left its policy rate unchanged at 0.00% during its April meeting, as officials took a patient approach following last month's decision to conduct emergency bond purchases at a significantly higher pace over 2Q21. The eurozone's year-on-year inflation rate rose from 1.3% to 1.6% in April, as expected, while core inflation fell from 0.9% to 0.8%.

China

China has made deep inroads with its own vaccination program, which has so far inoculated over 240 million people, predominately with the Chinese-developed Sinopharm and Sinovac vaccines. The World Health Organisation is considering the Chinese vaccines for emergency use, which could mean wider distribution through the Covid-19 Vaccines Global Access (COVAX) initiative. China's Q1 GDP increased 0.6%, less than the expected 1.5% growth, however the yearly growth rate increased to 18.3%, marking the highest annual growth rate since the data began to be issued in 1992. March industrial production rose less than expected, with the year-on-year rate coming in at 14.1% (17.2% expected), and retail sales grew to a 34.2% yearly rate in March (28.0% expected). April's NBS Manufacturing PMI slipped to 51.1, down from 51.9 in March and missing expectations of 51.7. The People's Bank of China left its one-year and five-year loan prime rates unchanged at 3.85% and 4.65% respectively during its April meeting, as was widely expected. On the diplomatic front, China announced it will suspend all activities under the China-Australia Strategic Economic Dialogue, likely in retaliation for the Australian government's decision to tear up the Belt and Road agreements in Victoria.

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Asia region

India has been devastated by a surge in Covid-19 infections, with over 20 million confirmed cases in early May. A number of states have been forced into lockdown as hospitals struggle to provide beds and oxygen, while Prime Minister Modi urged all citizens to get vaccinated to help control the wave. The Covid-19 impact will likely set back India's economic recovery, but it is still possible that the country could see double-digit GDP growth over 2021 once the vaccine drive intensifies and infections come under control. Japan placed Tokyo, Osaka, Kyoto and Hyogo prefectures under a 17-day state of emergency and is considering extending the measures as Covid-19 infections rise just three months before the scheduled start of the Tokyo Olympic Games. Japan's recovery has been relatively slow but there are signs that economic activity is picking up pace. Japan's unemployment rate fell unexpectedly to 2.6% in March (2.9% expected), while core CPI for April fell 0.2%. As expected, the Bank of Japan left its monetary policy settings unchanged, with the short-term interest rate holding at -0.1% and its target for the 10-year yield maintained at zero. In a quarterly outlook report, the Bank of Japan slashed its consumer inflation forecasts from 0.5% to 0.1%.

Australia

Australia awaits one of the most important federal budgets in history with the government set to take advantage of record low interest rates to plug the deficit following the mass stimulus deployed during the pandemic. Treasurer Frydenberg said Australia can grow its economy while maintaining "a steady and declining ratio of debt to GDP over the medium term as we continue to move towards balancing the budget." Treasury's projections are that nominal economic growth will exceed the nominal interest rate for at least the next decade. The Reserve Bank of Australia left the cash rate on hold at 0.1% ahead of the May budget, noting that the recovery has been stronger than expected and is forecast to continue. The Markit Composite PMI surprised in April, improving 3.3 points to 58.8 (55.0 expected), driven by sustained increases in manufacturing output and services activity. Retail sales rose 1.4% in March, reversing from a 0.8% drop in February and beating expectations of a 1.0% increase amid a reopening of state borders and an improvement in consumer confidence. Prime Minister Morrison said Australia's borders will only reopen when it is safe to do so. Morrison clarified that the government is not pursuing an 'elimination' strategy and that some cases are to be expected as Australians return home from overseas.

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EQUITY MARKETS

- Australia's S&P/ASX 200 Index rose 3.5% in April, led by the Information Technology (+9.7%) and Materials (+6.8%) sectors.
- The US S&P 500 Index gained 5.3% in April in US dollar terms, pushing to fresh all-time highs in anticipation of further economic support.
- In Europe, the UK's FTSE 100 Index rose 4.1%, Germany's DAX 30 Index rose 0.9%, and France's CAC 40 Index rose 3.6%.
- In Asian markets, Japan's Nikkei 225 Index fell 1.3% while Hong Kong's Hang Seng Index rose 1.3% and China's CSI 300 Index rose 1.6%.
- Global developed market shares rose 3.2% in April and emerging market shares rose 1.1% in Australian dollar terms.

Australian equities

	Index/Benchmark (% pa)	1 Month	1 Year	3 Years	5 Years	7 Years
Australian	S&P/ASX 200 Acc. Index	3.47%	30.76%	9.50%	10.27%	7.95%
	S&P/ASX 50 Acc. Index	3.19%	27.94%	9.39%	9.74%	7.16%
	S&P/ASX Small Ordinaries Acc. Index	4.98%	39.78%	9.10%	11.10%	9.39%

The rotation out of growth and into value sectors has been the key theme through 2021 as the economic recovery materialises, underpinned by a lower unemployment rate. Unless some unforeseen tail risk event occurs, it is expected that business and consumer confidence will rise, providing a clear indication of 'normal' conditions returning in the not-too-distant future. In recent stock related news, JB Hi-Fi reported 3Q21 total sales growth of 10.4% in Australia, 16.0% in New Zealand, and 5.8% in The Good Guys. Sales growth slowed in February and March, but the company noted that it started to cycle elevated sales growth from mid-March. Afterpay reported 3Q21 underlying sales growth of 104% on the prior corresponding period, reflecting strong operating performance across all regions. The US was the highlight, becoming the first region to record more than \$1 billion in underlying sales in a single month. Given the US market is now its largest contributor, Afterpay is currently engaging external advisors to explore options for a dual listing in the US. Woolworths provided its 3Q21 sales results, with group sales up 0.4% on the prior corresponding period. Commenting on the outlook, CEO Brad Banducci said sales are expected to decline over the March to June period for all businesses except hotels due to the strong demand seen in 2020.

Investment Index/Benchmark returns*

S&P/ ASX 200 Index

Sector	1 Month	3 Months	1 Year
Information Technology	9.69%	-3.04%	65.98%
Materials	6.84%	11.23%	45.76%
Industrials	4.26%	6.30%	11.02%
Financials ex-Property	3.14%	13.19%	46.32%
Health Care	3.12%	2.60%	-1.59%
Property	2.92%	6.77%	30.90%
Consumer Discretionary	2.82%	6.83%	51.59%
Communications	2.72%	8.84%	32.63%
Utilities	-1.16%	-2.89%	-13.44%
Consumer Staples	-2.47%	-4.06%	4.86%
Energy	-4.89%	-2.54%	9.79%

*Total returns based on GICS sector classification

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BIG MOVERS THIS MONTH

Going up

↑	Information Technology	+9.7%
↑	Materials	+6.8%
↑	Industrials	+4.3%

Going down

↓	Energy	-4.9%
↓	Consumer Staples	-2.5%
↓	Utilities	-1.2%

Global Equities

	Index/Benchmark (% pa)	1 Month	1 Year	3 Years	5 Years	7 Years
Global	MSCI World Ex Australia Index (AUD)	3.18%	23.03%	13.32%	13.85%	13.35%
	MSCI World Ex Australia Index (LCL)	4.06%	42.19%	14.12%	14.14%	11.29%
	MSCI World Ex Australia Small Cap Index (AUD)	2.35%	40.72%	11.77%	13.73%	13.32%
Emerging	MSCI Emerging Markets Index (AUD)	1.06%	26.04%	6.69%	12.23%	9.72%
	MSCI AC Far East Index (AUD)	-0.23%	19.24%	7.30%	12.13%	12.06%

The broadening of the recovery in equities globally would suggest that the market anticipates a successful global inoculation drive and a potential reopening of borders. Valuations have moderated through the start of 2021 but remain at elevated levels, while sources of yield across both equities and fixed income remain constrained. The US S&P 500 rose 3.5% over April as optimism about corporate earnings offset concerns regarding rising Covid-19 infections. Facebook reported better than expected 1Q21 results, with revenue jumping 48% on the prior corresponding period to US\$26.17 billion, driven by a 30% year-on-year increase in the average price per ad and a 12% increase in the number of ads delivered. Alphabet (Google) also beat the market's expectations, reporting a rise in revenue of 34% to US\$55.31 billion, boosted by a surge in advertising revenues. The rise in European equities and optimistic economic data came despite a sluggish vaccine rollout and fears of a third wave of the virus across much of the eurozone, sparking tighter restrictions. Developed market shares rose 3.2% in April while emerging markets were softer, rising 1.1% in Australian dollar terms, but are still outperforming developed markets over 12 months.

Property

	Index/Benchmark (% pa)	1 Month	1 Year	3 Years	5 Years	7 Years
Australian	S&P/ASX 200 A-REIT Acc	2.92%	30.90%	7.07%	5.59%	9.71%
Global	FTSE EPRA/NAREIT Developed Ex Australia Index (AUD Hedged)	5.84%	29.40%	5.38%	5.04%	6.45%

Australian listed property had a positive month but struggled compared to other sectors as major retail REITs Vicinity Centres (-4.2%) and Scentre Group (-3.6%) dragged on the index. Charter Hall (+8.7%) led the pack in April, advising that it expects post-tax operating earnings per security to increase more than 57 cents, or 6% compared to FY20, noting that there is no material change to current trading conditions. Charter Hall's \$1.5 billion office development on Collins Street in Melbourne's CBD will be Amazon's new Victorian home as the company expands its Australian presence. Unibail-Rodamco-Westfield provided a 1Q21 update, with Covid-19 restrictions continuing to impact centres. Proportionate Gross Rental Income (GRI) fell 33.4% in the quarter with 42 days of closures versus 13 days in the prior period. Australia's residential housing market was in focus again given the pace of house price rises, especially in Sydney and Melbourne. March house prices rose 2.8% month-over-month across Australia's eight capital cities, and February building approvals

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were up a dramatic 21.6% month-on-month, supported by the HomeBuilder scheme. In the US, February's S&P/Case-Shiller Home Price Index posted a 1.2% rise, with year-on-year growth in the index coming in ahead of expectations at 11.9%.

Fixed Interest

	Index/Benchmark (% pa)	1 Month	1 Year	3 Years	5 Years	7 Years
Australian	Bloomberg AusBond Composite 0+ Yr Index	0.56%	-1.19%	4.29%	3.52%	4.25%
	Bloomberg AusBond Bank Bill Index	0.00%	0.07%	1.06%	1.36%	1.68%
Global	Bloomberg Barclays Global Aggregate Index (AUD)	-0.15%	-11.90%	3.00%	2.39%	4.70%
	Bloomberg Barclays Global Aggregate Index (AUD Hedged)	0.24%	-0.11%	3.98%	3.25%	4.32%

Sovereign bond yields steadied in April after pushing higher earlier in the year due to the positive news on vaccines and the additional fiscal stimulus announced in the US. The Australian sovereign yield curve has steepened since the end of 2020, reflected in the spread between the 10-year and 2-year government bond yields, which has risen from 90 basis points at the end of December to 158 basis points at the end of April. While a rise in yields is potentially a welcome sign for economic conditions ahead, the inverse is that they also represent higher borrowing costs for market participants such as corporations and governments. While the RBA has noted the rise in the 'long end' of the yield curve, their announcements have indicated a firm stance in relation to the official cash rate remaining at its current level until a sustained rise in inflation. The RBA has briefly acknowledged a temporary rise in inflation "due to reversals in some Covid-19 related price reductions", however they note that "underlying inflation is expected to remain below 2 percent over the next few years". Other markets—including the US, UK, and Europe—have seen similar yield curve steepening over 2021. The US Federal Reserve has also acknowledged a potential temporary rise in US inflation and a continued willingness to tolerate overshoots of their target.

Australian dollar

The Australian dollar continued to strengthen in April, rising 2.3% against the US dollar and lifting 0.8% in trade-weighted terms, helped by an easing in US Treasury yields over the month. The weaker-than-expected US jobs report has raised expectations that the US Fed will keep rates on hold for longer, although the RBA has also indicated that it will remain highly accommodative until 2024.

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