

Monthly Market Insights

March 2021

Australia

Australian economic data released over the quarter painted a picture of an economy that is rapidly recovering from the pandemic-induced economic downturn. February employment numbers surged by 88,700, accentuated by the fact that the entire increase came from full-time jobs with employment now above the pre-pandemic level.

As widely expected, the RBA maintained its current accommodative monetary policy settings at its April meeting. The board noted that it remains committed to the 3-year government bond yield target of 0.10% but will consider whether it retains the April 2024 bond or shift to the next maturity date. Preliminary building permits jumped 21.6% in February, soundly beating expectations of 5.0% and reversing from a 19.4% slump in January. New Zealand announced plans to open a two-way, quarantine-free trans-Tasman travel bubble, with the option to continue, pause or suspend if a case is detected in Australia.

Australia's manufacturing sector continued to expand in March, with the AIG Manufacturing PMI rising 1.1 points from 58.8 to 59.9. All six manufacturing sectors reported positive trading conditions during March, with especially buoyant conditions reported by manufacturers in machinery and equipment and textiles clothing, footwear, paper & printing products.

The Westpac-Melbourne Institute Index of Consumer Sentiment rose 2.7 points in March to 111.8 and is now just 0.2 points below the December level, which was a ten-year high. Key contributors to sentiment have been improving economic conditions on the back of global and local efforts to distribute vaccines and tightening in labour market conditions following a spike in unemployment during the pandemic. Support from stimulatory government policies have also contributed to the sustained lift.

Retail turnover was soft in February, falling 0.8%, but showed a 9.1% increase through the year, demonstrating the importance of consumers in driving the recovery. Department stores saw the strongest rise over the month, adding 2.2%, while food retailing fell 3.0%. Sales are expected to soften as JobKeeper and JobSeeker support concludes, while the recovery will continue to be uneven, with travel retailers and SME's in CBD locations bearing the brunt of the pandemic fallout.

Global

Global Covid-19 cases continue to rise with over 130 million cases reported in early April, but the vaccine narrative is still propelling the economic recovery. The rollout has been slower than many had hoped, but the US and UK are now making strong progress. The International Monetary Fund is forecasting the world economy to expand 6.0% in 2021, up from the 5.5% it had forecast in January.

The US economy continues its upward trajectory with recent data pointing to an upswing in activity and an improvement in confidence as the vaccine rollout increases pace. The IMF expects US GDP to grow by 6.4% in 2021, an upgrade of 1.3 percentage points, driven in large part by the Biden administration's \$1.9 trillion stimulus.

The manufacturing index rose as expected, while the services index surprised to the upside. The reading pointed to the strongest growth in services activity on record as the easing of coronavirus-related restrictions released pent-up demand for many services. Non-farm payrolls for March came in strongly at 916k, while consumer confidence surged. The Federal Reserve maintained its accommodative policy stance at its March meeting, as widely expected.

Europe's battle against the coronavirus took a backward step as France and Italy were forced to impose nationwide lockdowns ahead of the Easter weekend following a surge in cases. Meanwhile the UK remains on a steady path out of its three-month lockdown. UK GDP expanded in the fourth quarter, surpassing expectations.

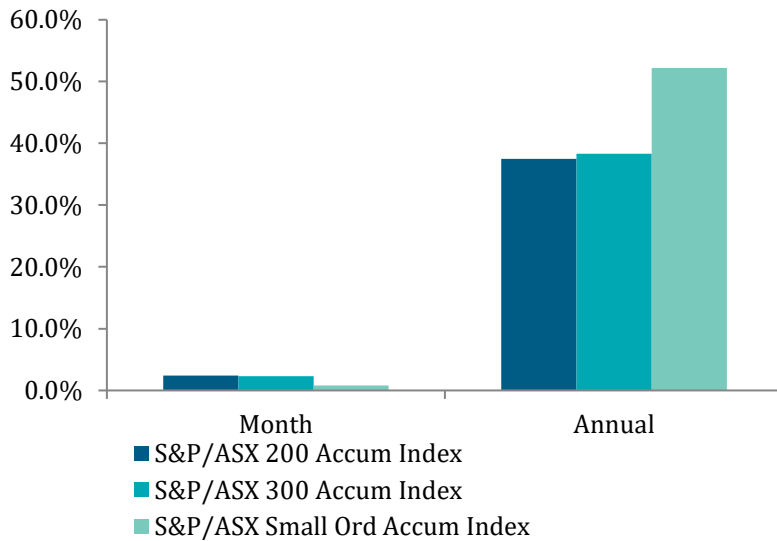
China's economy returned to pre-pandemic levels last year and is projected by the IMF to grow by a further 8.4% in 2021.

Commodities

Oil prices softened over March as ongoing lockdowns and delays to vaccine rollouts counteracted the recovery optimism but jumped late in March amid concerns global supplies of crude and refined products could be disrupted for weeks, as workers try to dislodge a giant container ship blocking the Suez Canal.

Base metals were mostly down in March, with falls in Nickel, Lead, Copper and Tin and gains in Aluminium and Zinc. The gold price also fell.

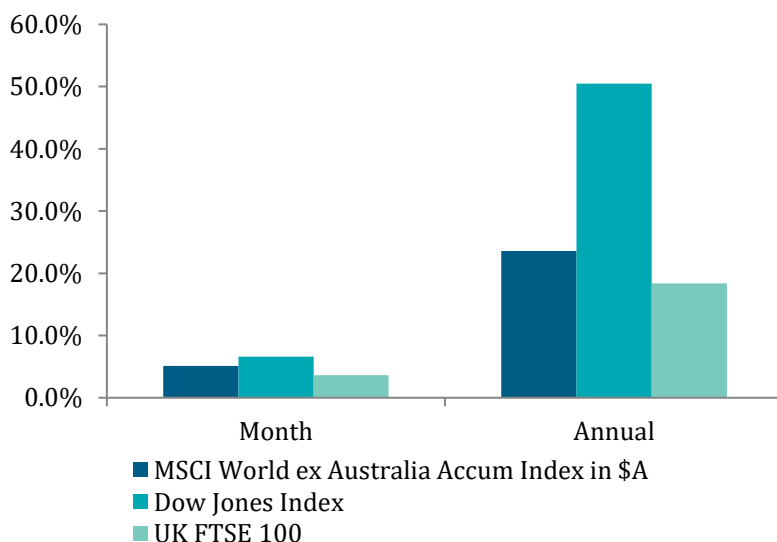
Australian Shares



Australian shares extended their rally through March, gaining 2.4%, but could not keep pace with global markets, which have been buoyed by the vaccine story.

In Australia, very low levels of community transmission and the rollout of the vaccine program have delivered a boost to optimism, particularly for sectors directly linked to the re-opening of the economy such as consumer discretionary and industrials. Meanwhile, companies that benefited from Covid-19 will have higher comparable sales to meet in upcoming result periods.

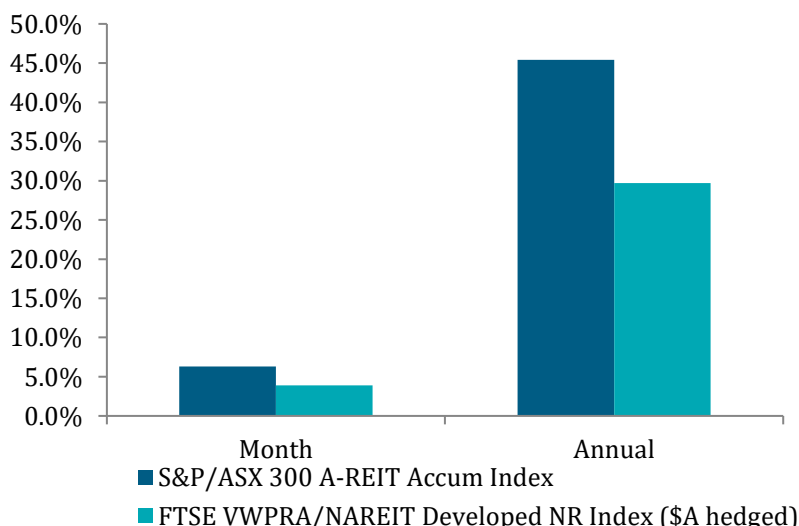
International Shares



Following the March 2020 low, the subsequent rebound in global markets was initially fuelled by growth companies that performed well as the pandemic swept across the globe. As vaccines continue to roll out globally, the rebound has shifted to more cyclical areas of the market that are expected to perform strongly as the world returns to 'normal'.

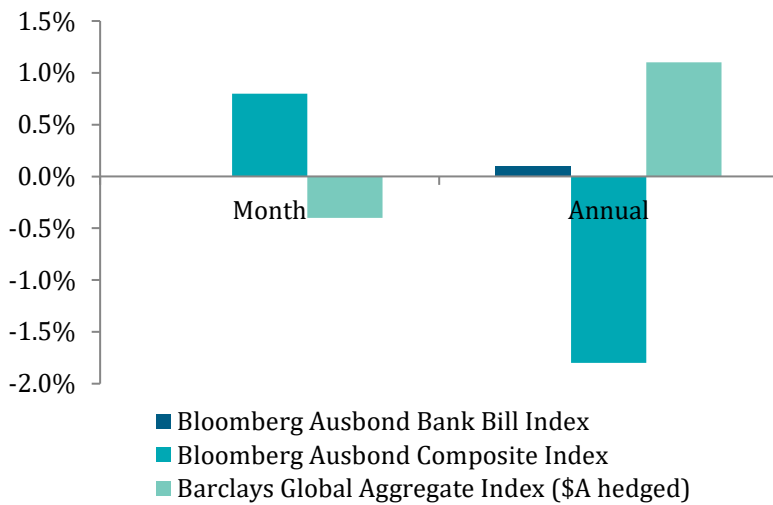
In the US, the style rotation has been most strongly depicted in the performance disparity between the 'old economy' Dow Jones Industrial Index, which rose 8.3% in the March quarter, and the 'new economy' NASDAQ Composite Index, which rose 1.8%.

Property



Debate in global property markets has turned to office markets and how the pandemic may have changed demand for office space on a permanent basis. While the return to work in CBDs is progressive, there is a growing realisation that more flexibility to include working from home arrangements is both possible and desired. As companies plan ahead and leases come to an end, there is already demand for core space plus an option for a flexible amount. After selling off heavily in early 2020, retail property REITs have had bursts of recovery during the last six months as investors react to a vaccine-led recovery.

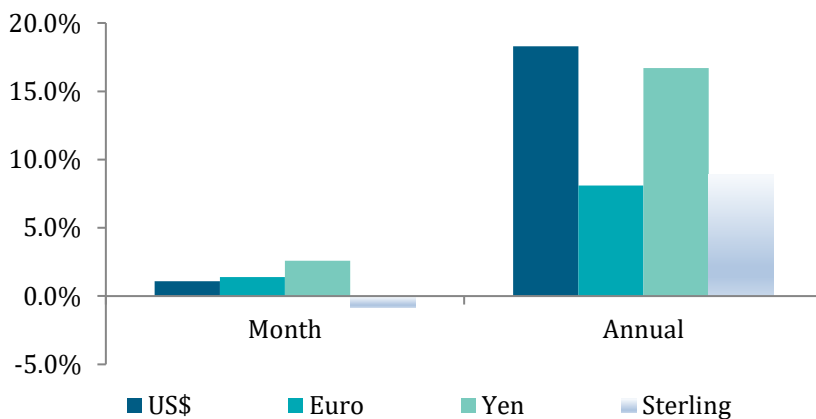
Fixed Interest



The RBA remains committed to the 3-year government bond yield target of 0.10%. The initial \$100 billion government bond purchase program will finish in April and the second \$100 billion program will commence.

The US 10-year Treasury yield has risen to over 1.7% at the end of March 2021 which, in part, reflects the market's concern about inflation, which has been exacerbated by the speed and scale of stimulus measures and questions around the ability of governments and central banks to withdraw or scale back these measures responsively.

Australian Dollar



The Australian dollar was under pressure in March, softening 2.9% against the US dollar to around 76¢ at month end.

Rising Treasury yields in the US have been supportive of the greenback, while the risk-on sentiment has also supported 'commodity currencies' like the Australian dollar in recent months.

Both the RBA and US Federal Reserve remain highly accommodative.

Key Investment Indices

As at 31 March 2021		1 month	3 months	6 months	1 year	5 years	
Australian Shares		%	%	%	%	%	
S&P/ASX 200 Accumulation Index		2.4	4.3	18.5	37.5	10.3	
1S&P/ASX 300 Accumulation Index		2.3	4.2	18.5	38.3	10.3	
S&P/ASX Small Ordinaries Accumulation Index		0.8	2.1	16.2	52.2	10.7	
S&P/ASX 300 Industrials Index		4.1	4.7	17.8	34.5	8.5	
S&P/ASX 300 Resources Index		-4.1	2.2	21.1	54.9	19.9	
International Shares		Value	%	%	%	%	
MSCI World ex Australia Accumulation Index in \$A			5.1	6.3	12.4	23.6	13.7
MSCI World ex Australia Accumulation Index (\$A hedged)			4.3	6.2	18.6	48.7	13.2
MSCI World Small Cap Index			3.8	10.9	27.5	45.8	13.9
MSCI Emerging Markets Index in \$A			0.1	3.6	15.2	27.3	12.3
Dow Jones Index in \$US	32,982		6.6	7.8	18.7	50.5	13.3
S&P 500 Index in \$US	3,973		4.2	5.8	18.1	53.7	14.0
FTSE 100 Index in £	6,714		3.6	3.9	14.5	18.4	1.7
Deutsche Boerse DAX Index in €	15,008		8.9	9.4	17.6	51.1	8.5
Nikkei 225 Index in ¥	29,179		0.7	6.3	25.9	54.3	11.7
Hang Seng Index in HKD	28,378		-2.1	4.2	21.0	20.2	6.4
Shanghai Shenzhen CSI 300 Index in RMB	5,048		-5.4	-3.1	10.1	37.0	9.4
Property			%	%	%	%	
S&P/ASX 200 A-REIT Accumulation Index			6.6	-0.5	12.8	44.7	5.6
S&P/ASX 300 A-REIT Accumulation Index			6.3	-0.6	12.6	45.4	6.0
FTSE EPRA/NAREIT Developed NR Index (\$A hedged)			3.9	7.3	18.7	29.7	3.6
Fixed Interest			%	%	%	%	
Bloomberg Ausbond Bank Bill Index			0.0	0.0	0.0	0.1	1.4
Bloomberg Ausbond Composite Bond Index			0.8	-3.2	-3.3	-1.8	3.5
Barclays Global Aggregate Index (\$A edged)			-0.4	-2.5	-1.8	1.1	3.3
Currencies (relative to \$A)		Value	%	%	%	%	
\$US	0.7598		-1.5	-1.3	6.1	23.9	-0.4
Japanese ¥	84.0980		2.4	5.8	11.3	27.5	-0.5
Euro €	0.6477		1.4	3.7	3.3	8.1	-0.6
Sterling £	0.5512		-0.8	0.4	0.3	8.9	1.5
Commodities		Value	%	%	%	%	
S&P Goldman Sachs Commodity Index (\$US)			-2.0	14.2	33.5	82.9	7.6
Oil (\$US/barrel)	63.54		-3.8	21.9	47.1	188.9	9.1
Gold (\$US/ounce)	1,707.71		-1.5	-10.0	-9.4	8.3	6.7
Iron Ore (\$US/tonne)	166.90						
Inflation			%	%	%	%	
Australia CPI			0.1	0.2	1.1	0.7	1.7

Sources: Lonsec; Colonial First State