

## Monthly Market Insights

April 2021

### Australia

Australia continues to make a strong recovery from the pandemic-induced recession.

Employment rose by more than 70,000 in March, the sixth consecutive monthly rise in employment. Australia has now recovered all lost jobs during the pandemic. In fact, the level of employment was higher than the pre-pandemic peak in February 2020. Retail trade rose 1.4% in March – the strongest monthly rise since November 2020, reflecting steadily improving consumer confidence driven by a combination of positive pandemic news and rising house prices.

There is also good news on inflation. The Australian Consumer Price Index (CPI) rose 0.6% on a quarterly basis and 1.1% on a year-on-year basis over the March quarter. Further, the Reserve Bank of Australia's preferred measure of underlying inflation rose 1.1% on a year-on-year basis. While the low price increase is reportedly distorted by some one-off changes, it seems inflation remains low despite the strong recovery in economic activity – meaning, the central bank will maintain a low interest rate regime for longer.

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.

Australia's manufacturing sector continued to expand in April, with the AIG Manufacturing PMI rising 1.8 points to 61.7, hitting its third-highest ever reading as the sector bounced back from the depths of the pandemic. All six manufacturing sectors and all seven activity indicators were in expansion, while capacity utilisation index hit a record high (indicating that employment and investment may need to step up in order to facilitate further growth from here).

### Global

In April, a range of market developments as well as concerns about the safety of Coronavirus vaccines caused investors some apprehension as to the pace of immunisation and the strength of the global economic recovery. Over the month, developed economies continued to make solid progress with their vaccination programs. In comparison, the availability of vaccines continued to be a major issue in developing economies, leading to a mixed outlook for emerging markets.

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. However, US economic data in April 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), while the ISM Manufacturing Index also came in surprisingly weak in April as shortages in inputs constrained production. Nevertheless, Q1 GDP growth of 6.4% came in above expectations 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.

In Europe, economic data has generally been better than expected in recent months, but the eurozone as a whole suffered a decline in GDP in Q1 2021 as the pandemic continued to bite in some regions. 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%.

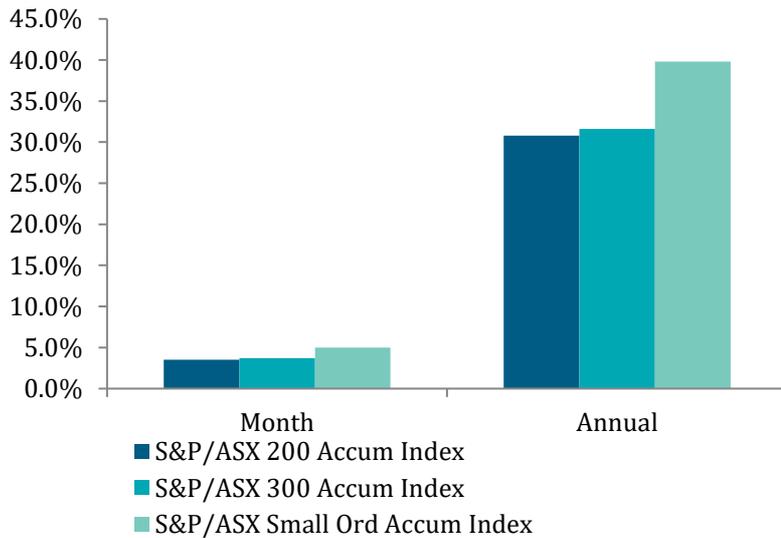
India has been devastated by a surge in Covid-19 infections, with over 20 million confirmed cases in early May. A number of states have been forced into lockdown as hospitals struggle to provide beds and oxygen, while Prime Minister Modi urged all citizens to get vaccinated to help control the wave. 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.

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 also rose less than expected at 14.1%.

### Commodities

Oil prices moved higher through April, driven by the economic recovery, strong economic data from China, and successful vaccine rollouts in the US and Europe, supported by bullish speculative positioning. Base metals also rallied over April, with gains in Tin, Copper, Nickel, Lead, Aluminium and Zinc. The gold price rose 3.3% to US\$1,769 per ounce.

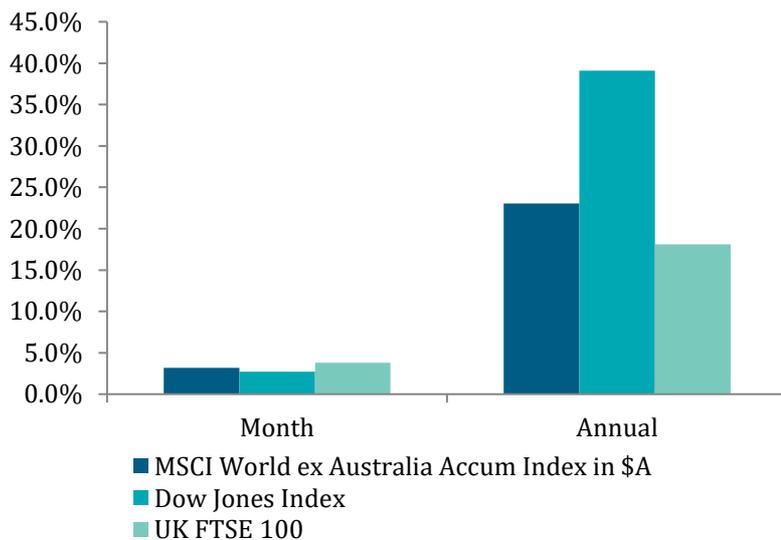
## Australian Shares



Yields stabilised in April, strengthening sharemarkets. By month's end, the ASX 200 was up 3.5%. Stocks in the resources sector continued to benefit from stronger commodity prices that are being driven by the global manufacturing recovery.

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. It is expected that business and consumer confidence will rise providing a clear indication of 'normal' conditions returning in the not-too-distant future.

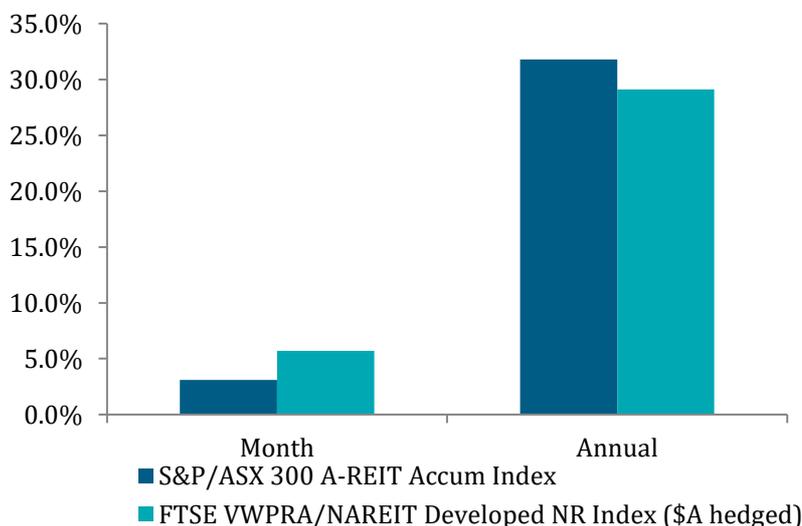
## International Shares



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.

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.

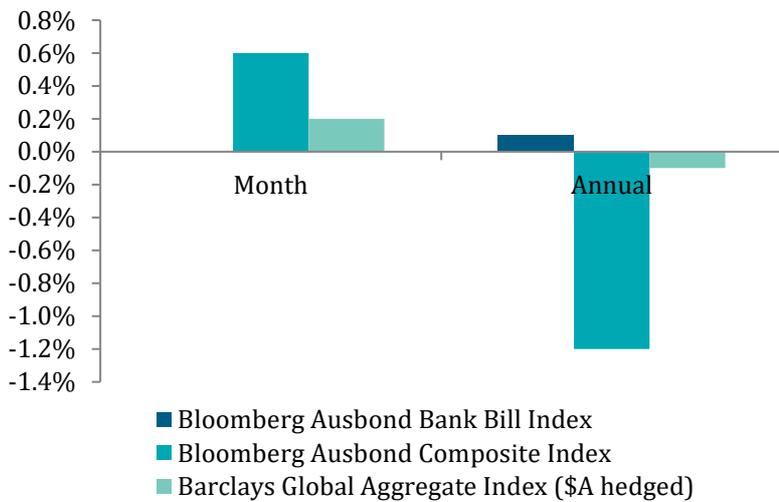
## Property



Australian listed property had a positive month but struggled compared to other sectors. Melbourne's CBD will be Amazon's new Victorian home as the company expands its Australian presence.

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 were up a dramatic 21.6% month-on-month, supported by the HomeBuilder scheme.

## Fixed Interest

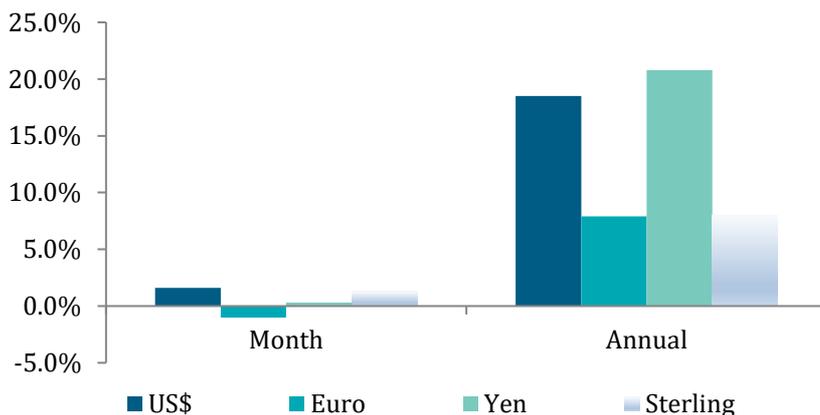


The Australian sovereign yield curve has steepened since the end of 2020. While a rise in yields is potentially a welcome sign for economic conditions ahead, the inverse is that they also represent higher borrowing costs.

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% over the next few years”.

Other markets—including the US, UK, and Europe—have seen similar yield curve steepening over 2021.

## 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.

## Key Investment Indices

As at 30 April 2021		1 month	3 months	6 months	1 year	5 years	
<b>Australian Shares</b>		%	%	%	%	%	
S&P/ASX 200 Accumulation Index		3.5	7.5	20.3	30.8	10.3	
1S&P/ASX 300 Accumulation Index		3.7	7.6	20.6	31.6	10.4	
S&P/ASX Small Ordinaries Accumulation Index		5.0	7.4	21.4	39.8	11.1	
S&P/ASX 300 Industrials Index		3.1	7.3	18.3	29.2	8.8	
S&P/ASX 300 Resources Index		6.0	8.9	30.0	41.2	17.9	
<b>International Shares</b>		Value	%	%	%	%	
MSCI World ex Australia Accumulation Index in \$A			3.2	10.2	17.3	23.0	13.9
MSCI World ex Australia Accumulation Index (\$A hedged)			4.0	11.3	27.4	40.6	13.8
MSCI World Small Cap Index			2.4	10.6	28.0	40.8	13.7
MSCI Emerging Markets Index in \$A			1.1	1.0	11.8	26.0	12.2
Dow Jones Index in \$US	33,875		2.7	13.0	27.8	39.1	13.8
S&P 500 Index in \$US	4,181		5.2	12.6	27.9	43.6	15.2
FTSE 100 Index in £	6,970		3.8	8.8	25.0	18.1	2.2
Deutsche Boerse DAX Index in €	15,136		0.9	12.7	31.0	39.4	8.6
Nikkei 225 Index in ¥	28,813		-1.25	4.2	25.4	42.7	11.6
Hang Seng Index in HKD	28,725		1.2	1.6	19.2	16.6	6.4
Shanghai Shenzhen CSI 300 Index in RMB	5,123		1.5	-4.3	9.1	31.0	10.2
<b>Property</b>			%	%	%	%	
S&P/ASX 200 A-REIT Accumulation Index			2.9	6.8	16.5	30.9	5.6
S&P/ASX 300 A-REIT Accumulation Index			3.1	6.9	16.4	31.8	6.0
FTSE EPRA/NAREIT Developed NR Index (\$A hedged)			5.7	14.0	29.8	29.1	5.0
<b>Fixed Interest</b>			%	%	%	%	
Bloomberg Ausbond Bank Bill Index			0.0	0.0	0.0	0.1	1.4
Bloomberg Ausbond Composite Bond Index			0.6	-2.3	-3.0	-1.2	3.5
Barclays Global Aggregate Index (\$A hedged)			0.2	-1.7	-1.5	-0.1	3.3
<b>Currencies (relative to \$A)</b>		Value	%	%	%	%	
\$US	0.7716		1.6	1.2	9.8	18.5	0.3
Japanese ¥	84.3350		0.3	5.4	14.7	20.8	0.8
Euro €	0.6415		-1.0	1.9	6.3	7.9	-0.7
Sterling £	0.5582		1.3	0.1	2.9	8.0	1.4
<b>Commodities</b>		Value	%	%	%	%	
S&P Goldman Sachs Commodity Index (\$US)			8.2	17.4	48.4	96.8	7.0
Oil (\$US/barrel)	67.25		7.5	21.8	77.7	237.5	6.7
Gold (\$US/ounce)	1,769.13		3.6	-4.3	-5.8	4.9	6.5
Iron Ore (\$US/tonne)	179.63						
<b>Inflation</b>			%	%	%	%	
Australia CPI			0.1	0.6	1.3	1.8	1.7

Sources: Lonsec; Colonial First State