

Monthly Market Insights

May 2021

Australia

The RBA left the cash rate unchanged at a record low of 0.1% during its June meeting, as widely expected. Policymakers reaffirmed their commitment to maintaining highly supportive monetary conditions until at least 2024 when actual inflation is expected to be within the 2-3% target. First quarter GDP came in at 1.8%, beating market expectations of 1.5%, a third consecutive quarter of economic growth driven by continued growth in household consumption and private investment. The RBA board outlined it expects GDP to grow by 4.75% this year and 3.50% in 2022, supported by fiscal measures and accommodative financial conditions, while jobs, inflation, and wage pressures are expected to remain subdued.

The Westpac-Melbourne index of Consumer Sentiment fell 4.8% to 113.1 in May, down from the 10-year high of 118.8 in April. The Federal Budget was announced during the midpoint of the survey, with the dip in sentiment potentially reflecting slight disappointment in the budget.

April's labour force survey showed employment fell 30,600 during the month, missing expectations for a 15,000 increase. The softer outcome for April was partly a function of the Easter holiday, which occurred during the survey reference period. Despite employment falling, a reduction in the participation rate from 66.3% to 66.0% saw the unemployment rate edge down 0.1ppt to 5.5%. The Markit manufacturing PMI index rose in May, exceeding expectations as demand continued to improve and supported the expansion of business activity for a twelfth consecutive month, with new orders rising at a record rate.

Global

Global Covid-19 cases continue to rise with numbers just surpassing 170 million cases. This represents an increase of about 20 million in the month. Delivery of vaccines continues to rise and Germany now reports over 40% of the population having received at least one dose. The EU has also recommended the relaxation of travel restrictions to those fully vaccinated with an EU approved vaccine.

Key economic indicators continue to improve generally, with a number of leading economies beginning to report modest increases in inflation.

The United States re-opening continued in May, ending the month with 40% fully vaccinated and with 50% having received at least one dose. US President Joe Biden announced a 'month of action', setting a goal of 70% of American vaccination goal by the July 4th holiday.

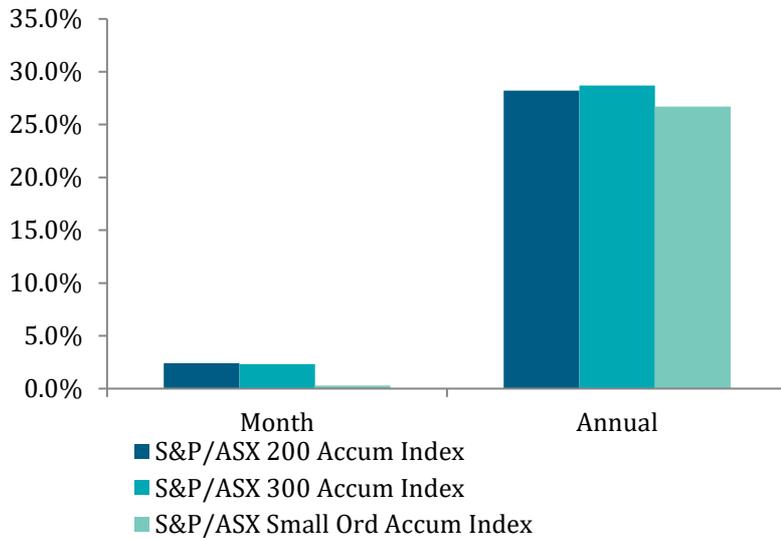
US Non-farm payrolls disappointed in May, coming in at 559,000 against expectations of 650,000. Despite employment remaining well below February 2020 levels, the unemployment rate fell from 6.1% to 5.8%, helped by a pull-back in the participation rate from 61.7% to 61.6%. The second estimate for Q1 GDP came in unchanged at a 6.4% annual growth rate, whilst personal consumption expenditures increased to an 11.3% annual rate, above the 10.8% expected. Durable goods orders unexpectedly fell 1.3% in April, expected to rise 0.7%. The PMI Composite Index posted a strong result in May, lifting from 63.5 to 68.1, bolstered by the services PMI jumping to 70.1, the sharpest rate of expansion since the series began in October 2009.

Eurozone economic sentiment increased in May, beating expectations, and marking its highest reading since January of 2018, remaining considerably above its long-term and pre-pandemic levels. The May Markit manufacturing PMI surprised to the upside. CPI rose 0.3% as widely expected, with the yearly rate rising 0.4% to 2.0% (1.9% expected).

China's CPI fell in April, below expectations, while the yearly rate lifted. The unemployment rate also fell in April to 5.1% coming in below expectations of 5.3%, while Industrial production printed in line with expectations. Retail sales posted a year on year rise in April, however, missed expectations. The Caixin Composite PMI fell in May and was below expectations.

Despite progress in the vaccine rollout and declining Covid-19 case numbers across much of the developed world, case numbers are spiking in Asia where vaccines have been slower to roll out. Concerns regarding a global re-opening have been renewed as restrictions on mobility have re-emerged. Late in May, Japan again extended ahead of the Olympic Games, despite a positive period of declining case numbers.

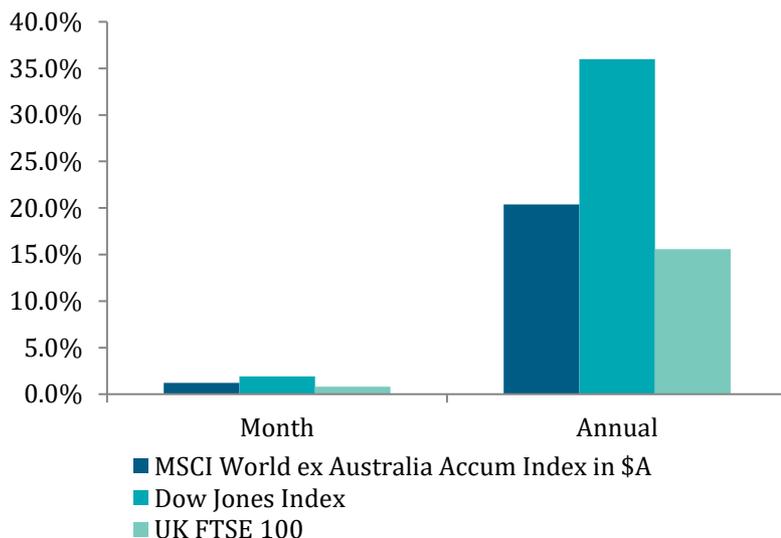
Australian Shares



May saw a continuation of the broad cyclical value rotation we have experienced over the last few months, with the Financials and Consumer Discretionary sectors among the strongest over the month.

In a reversal of April's gains, Information Technology fell -9.9%. Growth names generally have come under pressure in recent months as upbeat indications of normalizing economic activity lead investors into the cyclical value pockets of the market.

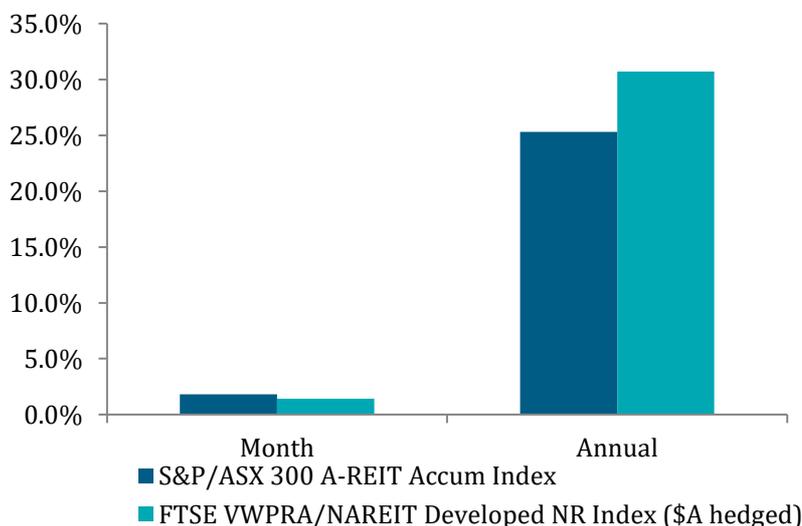
International Shares



First quarter earnings in the United States came in generally stronger than expected. The strongest results were seen in the cyclical areas of the market. Similar to the sentiment we have seen domestically, more expensive sectors have come under pressure amid continued inflation concerns, highlighted again by the divergence between the 'old economy' Dow Jones Industrial Average and the 'new economy' Nasdaq 100, returning 2.2% and -1.7% respectively in May.

Valuations however remain at elevated levels in a historical context, particularly in the United States.

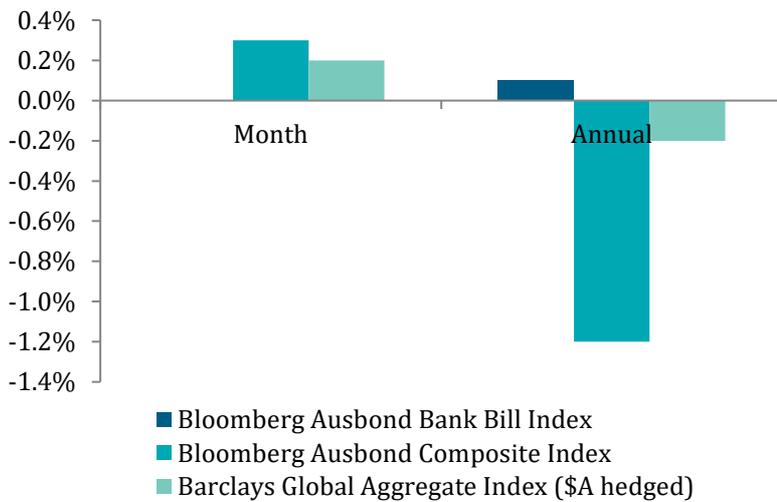
Property



Australian Listed Property added another month of positive performance, although underperformed the broader Australian equity market.

In the May Reserve Bank meeting, members noted the continued strength of the Australian residential housing market, with prices continuing to increase across all major markets. Housing credit growth had also strengthened, with strong demand from owner-occupiers, especially first-home buyers.

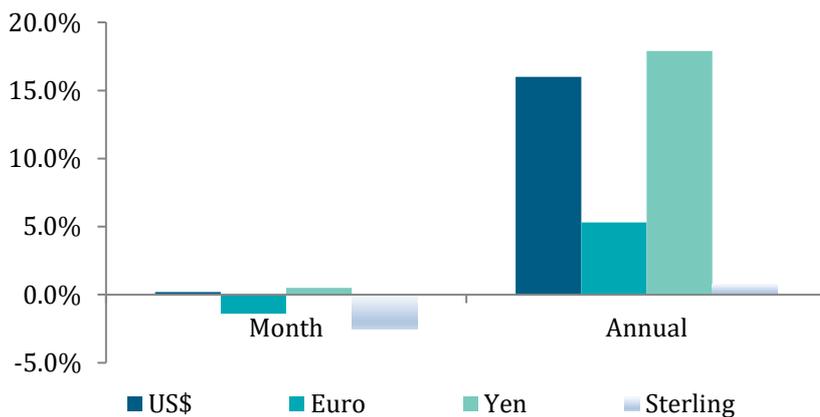
Fixed Interest



Since the large movements in bond yields we experienced late in 2020 and into early 2021, yields globally have generally traded sideways as a result of ongoing inflationary uncertainty and central bankers monetary response. Underlying the relatively stagnant bond yield movements, rises in inflation expectations continue to push real yields downwards.

At the June meeting, the RBA elected to maintain the official cash rate and 3-year Australian Government bond yield at current rates.

Australian Dollar



The Australian dollar reversed its recent strength somewhat in May, falling against the US dollar. 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 31 May 2021		1 month	3 months	6 months	1 year	5 years	
Australian Shares		%	%	%	%	%	
S&P/ASX 200 Accumulation Index		2.4	8.5	11.7	28.2	10.1	
S&P/ASX 300 Accumulation Index		2.3	8.5	12.0	28.7	10.2	
S&P/ASX Small Ordinaries Accumulation Index		0.3	6.1	10.4	26.7	10.3	
S&P/ASX 300 Industrials Index		2.6	10.1	10.2	27.8	8.4	
S&P/ASX 300 Resources Index		1.4	3.1	19.1	32.3	19.4	
International Shares		Value	%	%	%	%	
MSCI World ex Australia Accumulation Index in \$A			1.2	9.7	10.5	20.4	12.8
MSCI World ex Australia Accumulation Index (\$A hedged)			1.0	9.5	15.3	35.6	13.6
MSCI World Small Cap Index			0.6	7.0	17.2	34.2	12.4
MSCI Emerging Markets Index in \$A			2.1	3.3	9.6	26.5	12.4
Dow Jones Index in \$US	34,529		1.9	11.6	16.5	36.0	14.2
S&P 500 Index in \$US	4,204		0.6	10.3	16.1	38.1	14.9
FTSE 100 Index in £	7,023		0.8	8.3	12.1	15.6	2.4
Deutsche Boerse DAX Index in €	15,421		1.9	11.9	16.0	33.1	8.5
Nikkei 225 Index in ¥	28,860		0.2	-0.4	9.2	31.9	10.9
Hang Seng Index in HKD	29,152		1.5	0.6	10.7	27.0	7.0
Shanghai Shenzhen CSI 300 Index in RMB	5,332		4.1	-0.1	7.5	37.9	11.0
Property			%	%	%	%	
S&P/ASX 200 A-REIT Accumulation Index			1.7	11.5	4.6	24.4	5.4
S&P/ASX 300 A-REIT Accumulation Index			1.8	11.5	5.0	25.3	5.8
FTSE EPRA/NAREIT Developed NR Index (\$A hedged)			1.4	11.3	17.8	30.7	4.9
Fixed Interest			%	%	%	%	
Bloomberg Ausbond Bank Bill Index			0.0	0.0	0.0	0.1	1.3
Bloomberg Ausbond Composite Bond Index			0.3	1.6	-2.7	-1.2	3.3
Barclays Global Aggregate Index (\$A hedged)			0.2	0.0	-1.8	-0.2	3.2
Currencies (relative to \$A)		Value	%	%	%	%	
\$US	0.7734		0.2	0.3	5.3	16.0	1.4
Japanese ¥	84.7510		0.5	3.2	10.6	17.9	1.1
Euro €	0.6325		-1.4	-0.9	2.7	5.3	-0.5
Sterling £	0.5441		-2.5	-1.7	-1.3	0.8	1.7
Commodities		Value	%	%	%	%	
S&P Goldman Sachs Commodity Index (\$US)			2.6	8.9	34.7	69.1	7.0
Oil (\$US/barrel)	69.32		4.3	7.8	46.3	86.9	6.2
Gold (\$US/ounce)	1,906.87		7.8	10.0	7.3	10.2	9.4
Iron Ore (\$US/tonne)	205.73						
Inflation			%	%	%	%	
Australia CPI			0.1	0.6	1.0		

Sources: Lonsec; Colonial First State