Market Watch

First Sentier Investors

Low interest rates and encouraging data continue to support risk assets

End-April 2021

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- Risk assets including equities and credit continued to power ahead in April. Locally, the share market and the Australian dollar were supported by rising commodity prices.
- Investors continued to monitor Covid cases and the pace of vaccine rollouts worldwide. Thankfully there remain very few infections in Australia, although rising numbers elsewhere has provided a reminder that the pandemic is far from over.

- **US:** The economic recovery in the US appears to be continuing apace, supported by massive government spending.
- There was speculation about additional stimulus; an 'American Families Plan' was discussed in April, with additional investment proposed for child care, education and paid leave.
- Commentators indicated the Biden Administration could raise capital gains tax rates to help finance this additional spending. Initial reports suggest capital gains tax could almost double for high income earners.
- US inflation has picked up. Consumer prices were up 0.6% in March and 2.6% on a rolling 12-month view. There remains concern that the high level of government spending could see inflation rise further, although policymakers insist the central bank has the tools to curb any inflation pressures.
- 900,000 jobs were created in March. This was comfortably ahead of expectations and saw the unemployment rate drop to 6.0%, from 6.2% previously. Whilst encouraging, employment numbers remain 8.4 million below pre-pandemic levels.
- The ISM Services Index – a reasonable indicator of conditions and confidence levels among firms in services sectors – rose to its highest ever level in March. The easing of Covid restrictions has undoubtedly released pent-up demand and supported consumer spending. Retail sales rose by 9.8% month-on-month in March, supporting sentiment among retailers.

- **Australia:** The latest inflation data were well below consensus forecasts. Price falls for fruit and domestic travel, along with increased government subsidy payments for new dwellings and electricity, resulted in headline CPI coming in at just 0.6% for the March quarter, versus expectations of a 0.9% increase. The annual rate rose to 1.1%, well below the 2% to 3% target range.
- The subdued inflation print indicates the Australian economy might be less susceptible to rising inflation than was previously thought. The Reserve Bank of Australia still expects wage and price pressures to remain subdued "for some years", which suggests policymakers could be hesitant to unwind the accommodative monetary policies that are in place. The duration of Australia's Quantitative Easing and yield curve control programs could be extended, and official interest rates might remain unchanged until 2024.
- More than 70,000 new jobs were created in March – twice as many as forecast – which saw the unemployment rate drop to 5.6%. Interestingly, Australia is the only G20 country where current employment is above pre-Covid levels.

- **New Zealand:** At 1.5% year-on-year, inflation in New Zealand was little changed in the March quarter. Official interest rates were left unchanged, at 0.25%.
- Arguably the most significant development over the month was the removal of travel restrictions between New Zealand and Australia. This has created a quarantine-free Trans-Tasman travel 'bubble', which is expected to have a beneficial impact on the New Zealand economy, in particular.

- **Europe:** The President of the European Central Bank has projected a "tale of two halves" for the European economy in 2021, with "good signs" for the second half of the year as the vaccine rollout gathers pace. Growth in the first half of the year is expected to remain subdued, affected by ongoing lockdowns.
- Despite persistently high unemployment and reports of vaccine shortages in the region, consumer confidence in the Eurozone has risen back towards pre-Covid levels.
- Indicators from over the English Channel may be providing some encouragement. More social distancing restrictions in the UK were lifted during April, and so far there have been no indications of any associated increase in Covid cases. This suggests restrictions will continue to be relaxed as planned through May and June. The UK is well ahead of other European countries with its rollout program, with at least one vaccine already provided to more than half the population.

- **Asia/EM:** The post-Covid recovery in China appeared to lose momentum in the March quarter. The world's second largest economy grew by just 0.6% during the period; much less than expected.
- Exports remain strong, but small private companies are not yet enjoying the same level of growth. As a result, the Chinese central bank is expected to provide targeted support for these firms. In general, services sectors are performing less well than manufacturers, partly owing to fresh virus outbreaks early in the year and 'celebrate in place' directives for February's Lunar New Year holiday.
- There was an alarming spike in new Covid infections in India. Wealthier emerging market nations like Chile are making good progress on the vaccine front, but sizeable populations and rudimentary health infrastructure in poorer nations like India and selected African countries suggest 'restriction free' global travel could be months or even years away.

Australian dollar

- The Australian dollar was little changed in the first half of April, but started to strengthen in mid-month thanks to rising commodity prices. Iron ore prices climbed to new record highs, for example, and copper and LNG prices also increased.
- In the month as a whole, the 'Aussie' appreciated by 1.4% against the US dollar – to 77.2 US cents – and by 0.8% against a trade-weighted basket of international currencies.

Australian equities

- Rising earnings expectations saw the S&P/ASX 100 Accumulation Index rally 3.5% in April, as the effects of large monetary and fiscal stimulus programs continue to trickle through the economy. Improving economic data, rising commodity prices and a small decline in bond yields provided additional support.
- Lower bond yields provided relief across the board for the Information Technology sector (+9.7%), however it was the prospect of continued market penetration and earnings growth that drove Afterpay 15.9% higher. The buy-now-pay-later firm's third-quarter results highlighted strong underlying sales growth of 104%, a 75% increase in active customers, and a 77% increase in active merchants.
- The Materials sector also performed strongly, rallying 6.8% as the price of gold and iron ore moved higher. Demand for iron ore has surged given the size of infrastructure-focused fiscal stimulus programs in Australia and elsewhere.
- Poor performances from Beach Energy and Origin Energy pushed the Energy sector -4.9% lower, despite a modest rise in oil prices. Beach Energy fell -25.6% after downgrading full-year earnings guidance. The company's oil reserves are also down, following production delays and disappointing drilling results.
- Small cap companies outperformed across the majority of sectors, enabling the S&P/ASX Small Ordinaries Index to close the month 5.0% higher. Lithium producers Galaxy Resources (+55.3%) and Orocobre (+41.8%) were among the best performers, after announcing a merger proposal that was unanimously supported by both boards.

Listed property

- Global property securities posted solid gains in April. The FTSE EPRA/NAREIT Developed Index rose 5.0% in Australian dollar terms, outperforming wider equity markets.
- The best performing regions included the US (+8.2%), France (+7.0%) and the UK (+6.1%). Laggards included Japan (-0.4%), Singapore (+1.4%) and Hong Kong (+2.1%).
- Real estate markets continue to be supported by stimulatory fiscal policy, which will most likely persist through 2021. Combined with positive sentiment on the back of major markets reopening from Covid, these policy measure have seen demand in the sector increase.
- Markets that have experienced new waves of Covid cases have seen a temporary pullback, as governments impose new lockdowns to stifle local transmission. This was the case in Japan, and helps explain why listed property stocks in Japan underperformed global peers.
- Consensus forecasts suggest rising bond yields will play a part in the economic recovery of 2021. That said, 10-year Treasury yields fell slightly in April, which was reflected in the outperformance of property markets globally.
- We are seeing markets factor in a 5-year inflation rate of 2.5%, but policymakers appear reluctant to raise interest rates. This points to ongoing investment in property as investors take advantage of low borrowing costs, at least in the near term.
- Locally, the A-REIT market increased 2.9%. The best performers included Centuria Office REIT (+9.5%) and Charter Hall Group (+8.7%).

Global equities

- Most global share markets made solid progress, enabling the MSCI World Index to close the month 4.0% higher in local currency terms.
- US equities led the way, with the S&P 500 Index and the technology-heavy NASDAQ both rising more than 5%. Both hit fresh all-time highs during the month.
- In President Biden's first 100 days in office, the S&P 500 Index added 10.9%. This was the US stock market's best performance in the first 100 days of a new Presidency since 1933, when Franklin D. Roosevelt was in the White House. It appears Biden's massive spending plans have been well received by investors.
- Sentiment has also been buoyed by the release of generally favourable company results for the first quarter of 2021. High profile firms like Tesla and Facebook were among firms to release their latest financial results during April
- Technology firms have performed particularly well during the pandemic, fuelled by stay-at-home guidelines and evolving consumer habits. Several have amassed increasingly large cash piles, and may be looking to deploy this as and when suitable acquisition opportunities are identified. During April, Apple and Google announced plans for share buybacks worth US$90 billion and US$50 billion, respectively.
- In Europe, most major bourses closed April between 1% and 4% higher. Italy was a notable laggard, returning -2.0%.
- In Asia, major stock markets in China, Hong Kong and Singapore added between 1% and 2%, although the Japanese Nikkei 225 Index declined by 1.3%.
- Emerging markets also registered solid gains, despite the spike in Covid infections in countries like India. The MSCI Emerging Markets Index added 2.4% in local currency terms, extending gains made over the past year to nearly 50%.

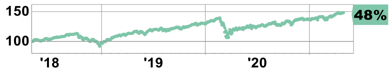
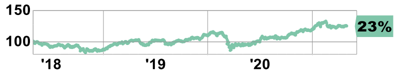
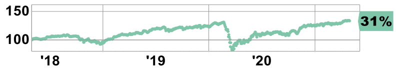
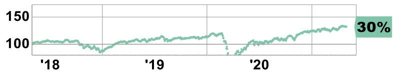
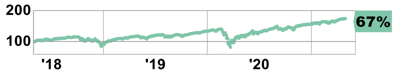
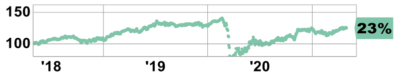
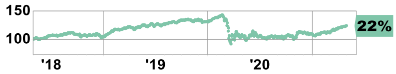
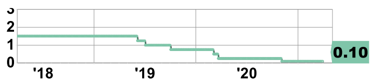
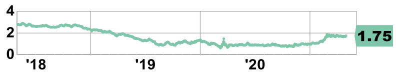
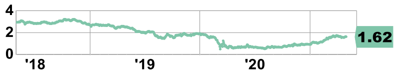
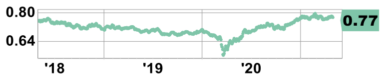
Global and Australian Fixed Income

- Returns from global bond markets were mixed, with yields moving in opposite directions in the US and Europe.
- In the US, 10-year Treasury yields paused for breath, moving 11 bps lower after having increased 83 bps in the March quarter.
- Conversely, 10-year Bund yields continued to increase, closing the month 9 bps higher, at -0.20%. German government bond yields have been in negative territory for around two years, although some forecasters are expecting them to rise above zero by the end of this year as the vaccine rollout gathers pace.
- Yields on UK gilts and Japanese Government Bonds were unchanged over the month.
- In Australia, 10-year Commonwealth Government Bond yields fell 4 bps, to 1.75%. This move helped the domestic fixed income market register steady positive returns over the month.

Global credit

- Sentiment towards global credit markets was supported by generally encouraging economic data, and pleasing corporate earnings releases for the March quarter.
- Spreads narrowed in both the investment grade and high yield sub-sectors, resulting in positive returns from credit markets.
- Spreads on some speculative grade bonds are now back to levels last seen prior to the GFC in 2008. This is not necessarily a negative indicator, but is something for credit investors to monitor in case of a sudden reversal in sentiment.

MARKET WATCH DATA SHEET

		1 Month Return/Change	3 Month Return/Change	12 Month Return/Change	3 Year Annualised Return/Change	3 Year Chart
EQUITIES						
MSCI World (Gross of withholding tax, in AUD)	4,260.80	3.24%	10.31%	23.75%	13.83%	
MSCI Emerging Markets (AUD)	1,259.60	1.07%	1.07%	26.46%	7.08%	
ASX 200	7,025.80	3.47%	7.54%	30.76%	9.50%	
ASX Small Ordinaries	3,285.50	4.98%	7.44%	39.78%	9.10%	
S&P 500 (USD)	4,181.17	5.34%	12.98%	45.98%	18.67%	
REITs						
ASX 200 A-REIT	1,468.00	2.92%	6.77%	30.90%	7.07%	
FTSE EPRA/NAREIT Developed (AUD)	3,407.65	5.00%	13.12%	14.55%	6.77%	
CASH and FIXED INCOME						
Official Cash Rate Australia	0.10%	0.00%	0.00%	-0.15%	-	
10-year yield Australia	1.75%	-0.04%	+0.62%	+0.86%	-	
10-year yield US	1.62%	-0.12%	+0.55%	+0.98%	-	
Foreign Exchange						
AUD/USD	0.7725	1.42%	0.68%	17.99%	0.77%	

Source: Factset and Bloomberg, at 30 April 2021