

Vaccine rollouts continue to support the economic outlook and risk assets

End-March 2021

For adviser use only

- The rollout of Covid vaccines remained the key focus worldwide. More than 30% of adults in the US have now received at least one jab, for example, and new infections are down by around 80% since the peak in January.
 - The encouraging progress made suggests social distancing restrictions can be lifted during the course of this year, paving the way for a strong rebound in economic growth and company profitability.
 - Evolving interest rate expectations continued to set the tone for bond markets. Yields on US government bonds continued to rise quite sharply, but yields declined in most other regions including Australia.
 - **US:** The latest stimulus payments to US households were distributed, which boosted consumer confidence. The additional funds should help support spending while remaining virus-related restrictions remain in place.
 - Consumer sentiment rose by one of the largest margins on record in March, to the highest level since before the Covid pandemic. Americans appear to have become more optimistic regarding the economic outlook and job prospects.
 - Employment data was broadly in with expectations, with more than half a million jobs created over the month. The improvement reflected a rebound in construction activity and a pickup in the services sector. Firms in the leisure and hospitality industries are increasingly reopening, resulting in new hiring activity.
 - There was also a big spike in employment numbers in Canada, an economy with similarities to Australia. Nearly 260,000 jobs were created in February; well ahead of the 75,000 forecast.
 - US President Biden announced a massive new infrastructure spending plan, which could further support employment and activity levels as the world's largest economy recovers from the Covid shock. More than US\$2 trillion is earmarked for investment in transportation, water systems, broadband and manufacturing facilities over the next eight years.
 - **Australia:** Australian GDP rose 3.1% in the three months ending 31 December 2020, which was comfortably ahead of consensus forecasts. The local economy remains slightly smaller than before the pandemic, but appears to be on track to have regained all of its lost ground in the next few months. For now, the recovery is outpacing that in most other major economies and is helping support both business and consumer confidence.
 - Employment trends are encouraging, and rising commodity prices augur well for Federal and State tax revenues.
 - The economy is missing its usual benefit from immigration, however. Australia's population growth has come off the boil over the past 12 months, to the slowest pace since the early 1940s, owing to the border closure. This is important, as population numbers and migration patterns affect the construction industry. They can also affect overall employment levels and, in turn, government tax revenues and spending plans.
 - **New Zealand:** Unlike in Australia, GDP growth lost momentum in New Zealand in the December quarter. The economy shrunk by 1.0% over the three-month period and the Reserve Bank of New Zealand has guided towards a subdued outlook.
 - Ongoing border closures mean tourism-related spending will remain extremely depressed for the foreseeable future.
 - The recovery in manufacturing output also appears to have petered out – output was little changed in the December quarter, following a sharp increase in the prior three-month period.
 - On the household front, the latest credit card spending data suggests the recent positive momentum in consumer spending has stalled. Spending dropped 2.5% in February from the prior month.
 - More encouragingly, prices of dairy products remain high, which is supporting export values and farmers' income.
 - **Europe:** Markets have been focused on inflation recently, with good reason. Prices in the Eurozone rose 0.9% in March alone, suggesting inflationary pressures may be gathering pace.
 - Conditions in the manufacturing sector have improved markedly, according to the latest survey. This is helping support sentiment towards industrial stocks.
 - Less encouragingly, large parts of Europe are back under lockdown restrictions following a 'fourth wave' of Covid infections. The vaccine rollout in Europe has lagged some other major regions, due to supply shortages.
 - The UK's 2021 Budget was released, containing a myriad of additional spending measures. Tax on company profits will increase to help pay for the higher expenditure, and personal income tax hikes are possible in outer years.
 - Employment trends appear to be improving in the UK. The unemployment rate fell in January for the first time in nearly a year and a half, although overall employment numbers remain around 700,000 below pre-Covid levels.
 - **Asia/EM:** China released 20 new targets for 2025, including a commitment to have at least 20% of its energy use sourced from non-fossil fuels, like wind and solar farms. This was encouraging news for climate activists, as China is currently the world's biggest polluter. The revised target might also result in additional investment opportunities among Asian firms exposed to the renewable energy theme.
 - Elsewhere, Japanese economic indicators remained mixed.
 - Manufacturing output in the country has increased, but the latest data showed household spending down more than 6% in the year ending 31 January 2021.
- ### Australian dollar
- The dollar lost ground against the US dollar, closing around 1 cent lower at US\$0.76, but appreciated against the Japanese yen.
 - Overall, the currency declined by nearly 1% against a trade-weighted basket of international currencies.

Australian equities

- Positive sentiment from February's strong earnings season continued into the start of March. Despite the return of lockdowns and border controls towards the end of the month, improving economic data, combined with ongoing stimulus plans, supported the local share market. The S&P/ASX 100 Accumulation Index closed the month 2.5% higher.
- Consumer Discretionary (+7.9%) was the best performing sector, partly thanks to strong performance from electronics and appliance retailer JB Hi-Fi (+19.3%). Retailers such as JB Hi-Fi have benefited from the consumer-led economic rebound experienced over the last 12 months. Gaming and entertainment group Crown Resort also outperformed, adding 18.2% after receiving a takeover offer from US investment firm Blackstone.
- The Financials sector rallied 4.6%, reflecting gains made by banking stocks as a result of the improving economic outlook.
- The underperformance of the Materials sector (-3.3%) was driven by weakness among iron ore and gold miners. Fortescue Metals Group (-11.7%), Rio Tinto (-9.2%) and BHP Group (-5.3%) all fell. China's revised emission targets prompted concerns about the outlook for steel production, which in turn could affect demand for iron ore.
- Small companies underperformed their larger peers, with the S&P/ASX Small Ordinaries Index returning 0.8%. African-focused gold miner Resolute Mining and diversified fintech Zip were among the worst performers. The termination of its licence for the Ghana-based Bibiani mine, combined with lower gold prices, pushed Resolute -31.8% lower. Zip fell -29.0%, given the broader weakness in technology companies and concerns about mounting capital requirements.

Listed property

- Global property securities continued to perform well in March, with the FTSE EPRA/NAREIT Developed Index rising 4.7% in Australian dollar terms.
- Real estate markets globally were underpinned by optimism regarding a strong economic recovery this year, on the back of a speedy vaccine rollout and continued government and central bank support.
- All regions delivered solid performance, except for Hong Kong where the property index was down 1.5%. Company earnings reported for the second half of 2020 in Hong Kong were broadly in line with market expectations, although the recovery in the retail sub-sector was slower than expected as landlords continued to offer rental rebates/support to tenants.
- Locally, A-REITs rallied 6.6% over the month. Sentiment was supported by reasonable valuations and anticipation of a pickup in economic activity and property demand as the vaccine rollout gathers pace. The best performers locally included Growthpoint Properties (+10.9%) and Mirvac (+12.1%).

Global equities

- Developed markets – represented by the MSCI World Index – performed well in March, rising by 5.1%. Emerging markets performed much less well; the MSCI Emerging Markets Index returned just 0.1%, both in Australian dollar terms.
- Despite a shortage of supply and associated delays with the vaccine rollout in the region, European markets had a positive month as investors continued to look towards a strong economic

recovery. The Euro Stoxx 50 rose by 7.8%, while the German DAX added 8.9%, hitting new record highs. Sentiment was supported by ongoing fiscal policy support and further signs of improving demand in the manufacturing sector.

- In the US, the continued vaccine program and the distribution of stimulus cheques boosted consumer confidence. Improving labour markets paved the way for the S&P 500 Index to rise 4.4%, in US dollar terms. The S&P 500 Index has enjoyed its strongest 12-month performance for 85 years, outpacing the recovery in 2009/10 following the Global Financial Crisis.
- Asian markets were mixed. China's CSI 300 and Hong Kong's Hang Seng Index returned -4.4% and -2.1% respectively in local currency terms, influenced by tighter monetary policy and liquidity. At the other end of the spectrum, Singapore's Straits Times added 7.6%. The Index was buoyed by its orientation towards cyclical stocks, which have typically fared well recently reflecting upward revisions to economic growth forecasts.

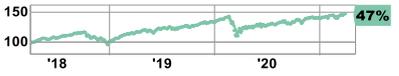
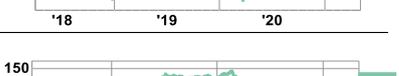
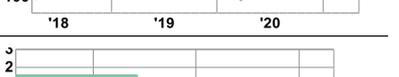
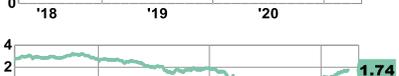
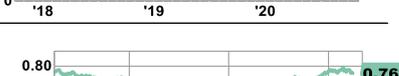
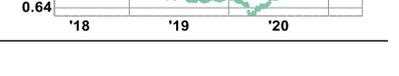
Global and Australian Fixed Income

- US Treasury yields continued to rise, closing March 34 bps higher, at 1.74%. Despite the increase, some commentators are suggesting rates remain too low given the strength of the anticipated economic rebound and the likelihood of a meaningful increase in inflation.
- US policymakers insist that interest rates will not be moving any time soon. In fact, the majority of voting officials at the Federal Reserve expect official borrowing costs to remain unchanged until the end of 2023, at least. This has helped keep shorter-dated bond yields anchored close to all-time lows.
- At the same time, yields on longer-dated securities have increased, reflecting expectations of future rate hikes to help keep inflation under control. The Treasury yield curve continued to steepen sharply given these moves.
- Government bond yields in other major regions were mixed, but generally moved in narrower ranges than those in the US. Gilt yields edged higher in the UK, but yields on German Bunds and Japanese government bonds drifted lower.
- Locally, the Reserve Bank of Australia continued with its bond purchase program. With policymakers suggesting official interest rates will be unchanged for a prolonged period, the likely duration of Australia's quantitative easing program and the quantum of bond purchases has become an increasingly important driver of Australian bond yields and prices.
- In the month as a whole, 10-year Australian government bond yields declined by 13 bps, to 1.79%. This move resulted in positive returns from the domestic fixed income market.

Global credit

- Investment grade credit spreads have traded in a narrow range between 0.9% and 1.0% for almost all of the 2021 calendar year to date. With risk-free rates so low, the prospective income generated by credit securities is attractive for income seekers.
- The cautiously optimistic outlook for profitability has been beneficial, and lower borrowing costs should help ensure default rates remain low.
- Investors' healthy risk appetite has enabled more speculative areas of the market to outperform recently. High yield spreads narrowed by a further 18 bps in March, backing up favourable performance from February.

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)	4,134.38	5.09%	6.42%	24.37%	13.71%	
MSCI Emerging Markets (AUD)	1,247.90	0.14%	3.69%	27.71%	7.17%	
ASX 200	6,790.70	2.44%	4.26%	37.47%	9.65%	
ASX Small Ordinaries	3,130.80	0.79%	2.09%	52.15%	8.33%	
S&P 500 (USD)	3,972.89	4.38%	6.17%	56.35%	16.78%	
REITs						
ASX 200 A-REIT	1,426.40	6.56%	-0.47%	44.66%	7.60%	
FTSE EPRA/NAREIT Developed (AUD)	3,253.88	4.67%	7.50%	9.25%	6.35%	
CASH and FIXED INCOME						
Official Cash Rate Australia	0.10%	0.00%	0.00%	-0.15%	-	
10-year yield Australia	1.79%	-0.09%	+0.82%	+1.03%	-	
10-year yield US	1.74%	+0.22%	+0.81%	+1.06%	-	
Foreign Exchange						
AUD/USD	0.7616	-1.62%	-1.30%	24.44%	-0.24%	

Source: Factset and Bloomberg, at 31 March 2021

This material has been prepared and issued by First Sentier Investors (Australia) IM Ltd (ABN 89 114 194 311, AFSL 289017) (Author). The Author forms part of First Sentier Investors, a global asset management business. First Sentier Investors is ultimately owned by Mitsubishi UFJ Financial Group, Inc (MUFG), a global financial group.

This material is directed at persons who are professional, sophisticated or 'wholesale clients' (as defined under the Corporations Act 2001 (Cth) (Corporations Act)) and has not been prepared for and is not intended for persons who are 'retail clients' (as defined under the Corporations Act). This material contains general information only. It is not intended to provide you with financial product advice and does not take into account your objectives, financial situation or needs. Before making an investment decision you should consider, with a financial advisor, whether this information is appropriate in light of your investment needs, objectives and financial situation. Any opinions expressed in this material are the opinions of the Author only and are subject to change without notice. Such opinions are not a recommendation to hold, purchase or sell a particular financial product and may not include all of the information needed to make an investment decision in relation to such a financial product.

To the extent permitted by law, no liability is accepted by MUFG, the Author nor their affiliates for any loss or damage as a result of any reliance on this material. This material contains, or is based upon, information that the Author believes to be accurate and reliable, however neither the Author, MUFG, nor their respective affiliates offer any warranty that it contains no factual errors. No part of this material may be reproduced or transmitted in any form or by any means without the prior written consent of the Author.

In Australia, 'Colonial', 'CFS' and 'Colonial First State' are trade marks of Colonial Holding Company Limited and 'Colonial First State Investments' is a trade mark of the Bank and all of these trade marks are used by First Sentier Investors under licence.

Copyright © First Sentier Investors (Australia) Services Pty Limited 2021

All rights reserved.