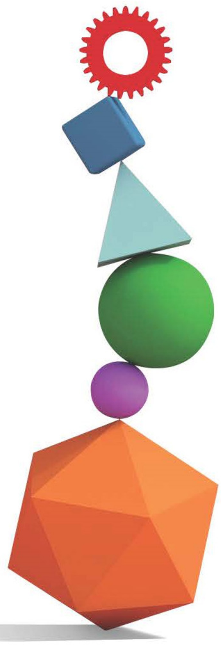
welcome to brighter

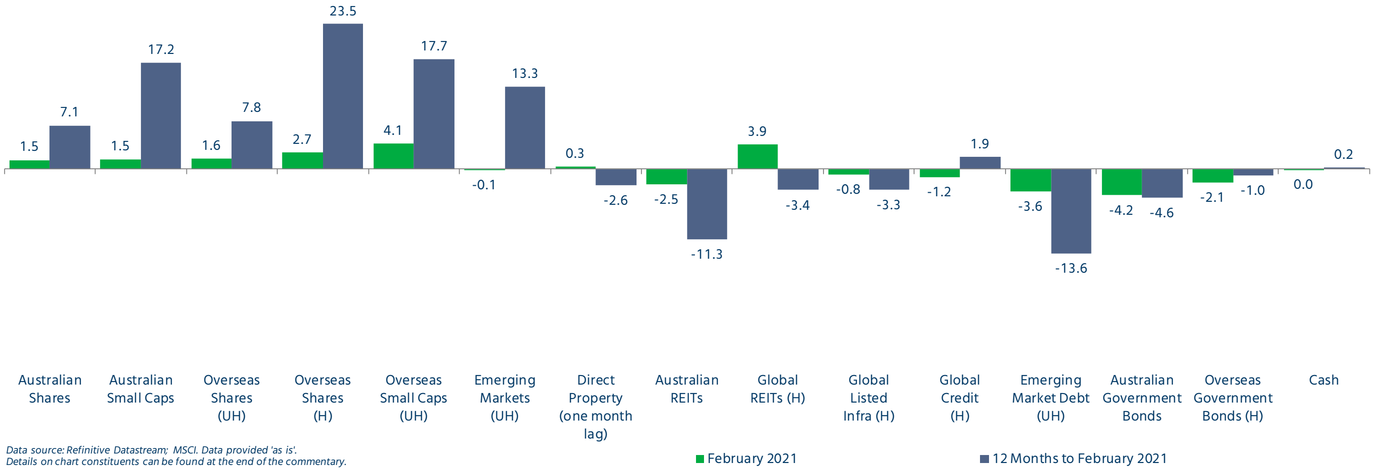


February 2021

Australian monthly market review

Selected market indicators commentary

Asset class returns as at 28 February 2021



Data source: Refinitiv Datastream; MSCI. Data provided 'as is'.
Details on chart constituents can be found at the end of the commentary.

Over the month of February, the economic data that was released showed mixed results and share markets were volatile. However, optimism over medium-term growth and the global economic recovery continues to outweigh short-term concerns. Falling COVID-19 cases and vaccine deployment has reduced restrictions and economies are expected to reopen soon.

For developed markets, the US and UK reported solid economic growth for the final quarter of 2020. Both markets continue to provide strong fiscal support and continue to lead vaccine deployment with their aggressive rollout programs. Globally rising government bond yields caused some volatility towards the end of the month. However, Hedged Developed Markets Overseas Shares still managed to provide a positive return of 2.7% for the month. Small Caps shares, both globally and domestically, also continued to provide positive returns.

In contrast to January, Emerging Markets were the weakest performing region, returning -0.1% over February. Performance was dragged mainly by China's underperformance, caused by slowing profit growth and weak returns from the technology sector. Additionally, Brazil was also negatively impacted by policy and election concerns.

The US dollar weakened against developed market currencies due to higher commodity prices and an increase in yield spreads. An increase in interest rates coupled with a risk on environment meant that investor demand for alternative investments and safe havens fell, causing Gold to fall by 7.0%. Oil prices increased by 18.1%, as a function of both rising demand from economies reopening and earlier supply cuts from Saudi Arabia. Whilst Hedged Global REITs provided positive returns over the month (+3.9%), Australian REITs continued to struggle, returning -2.5%.

The Australian share market provided a positive return over February, with the S&P/ASX300 returning 1.5%. Other domestic share indices achieved similar positive performance over the month, with the standout performer being the S&P/ASX 50, which returned 2.0%. The best performing sectors were Materials (+7.1%) and Financials (5.2%), whilst the worst performing sectors were IT and Utilities, which both returned -8.0% over the month.

Significant Developments

- During its early March 2021 meeting, the Reserve Bank of Australia (RBA) decided to maintain its current policy settings, including the target cash rate at 0.10% per annum and the targeted yield on 3-year Australian Government bonds at 0.10%. It was noted that the outlook for the global economy has improved over recent months due to the ongoing rollout of vaccines. Governor Philip Lowe also noted that in Australia, the economic recovery is well under way and has been stronger than previously expected, particularly in employment with a decline in the unemployment rate to 6.4%. Retail spending has been strong and households and businesses have now recommenced loan payments that were previously deferred. In the RBA's central scenario, it will not be until the middle of this year that the level of GDP reaches the level attained at the end of 2019. In the central scenario, GDP is expected to grow by around 3.5% over both 2021 and 2022, with GDP expected to return to its end-2019 level by the middle of this year. Whilst the unemployment rate is expected to decline, the central scenario is for unemployment to be around 6.0% at the end of this year and 5.5% at the end of 2022. In underlying terms, inflation is forecast to be 1.25% over 2021 and 1.50% over 2022. However, CPI inflation is expected to rise temporarily as a result of the reversal of some COVID-19-related price reductions. Lending rates for most borrowers are at record lows and housing prices across Australia have increased recently. The Board has noted that it will not increase the cash rate until actual inflation sits sustainably within the 2-3% target range. For this to occur, wages growth will have to be materially higher than it is at present. This will require significant gains in employment and a return to a tight labour market. The Board has noted that it does not expect these conditions to be met until 2024 at the earliest.
- Australian seasonally adjusted employment increased by 29,100 in January, below expectations for an increase of 30,000, while the December figure remained at an increase of 50,000. The unemployment rate decreased to 6.4% for January, below expectations for 6.5%. The participation rate decreased to 66.1%, below expectations for 66.2%. Part time jobs decreased by 29,800 and full time jobs increased by 59,000.
- Australian building approvals decreased 19.4% month-on-month to January, compared to the increase of 12.0% (revised) for period ending December.
- The Institute for Supply Management (ISM) Manufacturing Index recorded 60.8 in February, above consensus for 58.9, and above the 58.7 recorded in January. Of the 18 manufacturing industries, Textile Mills and Electrical Equipment, Appliances & Components were the two industries that reported the highest growth. Printing & Related Support Activities and Petroleum & Coal Products were once again the two industries that reported a contraction in February. The ISM Services Index recorded 55.3 in February, below consensus for 58.7 and below the 58.7 recorded in January. Of the 18 services industries, the top performers in February were Accommodation & Food Services and Wholesale Trade. Real Estate, Rental & Leasing was the only industry that reported a contraction over the month.
- US Non-Farm Payrolls increased by 379,000 in February, above the 166,000 increase (revised) recorded for January. The unemployment rate decreased to 6.2% over February, below expectations for 6.3%.
- US GDP second estimate for Q4 2020 is 4.1% quarter on quarter (QoQ) annualised, below expectations for 4.2%.
- The Caixin Manufacturing PMI in China recorded 50.6 in February, below expectations for 51.0, signalling the slowest rate of improvement seen since the current period of recovery began in May 2020.
- The preliminary estimate of the European Core CPI recorded 1.1% over the year to February, in line with expectations.
- The Eurozone composite PMI increased to 48.8 in February, above expectations for 48.1.
- The final estimate recorded for Q4 2020 Eurozone seasonally adjusted GDP is -0.7% QoQ and -4.9% YoY.

Australian Equities

The Australian share market underperformed its hedged overseas counterpart over the month, as the S&P/ASX 300 Index returned 1.5%. The S&P/ASX 50 was the strongest relative performer, increasing 2.0%, while the S&P/ASX Mid 50 was the weakest, returning -1.4% over the month.

The best performing sectors were Materials (+7.1%) and Financials (+5.2%), while the weakest performing sectors were IT (-8.0%) and Utilities (-8.0%). The largest positive stock contributors to the index return were BHP, Westpac and ANZ with absolute returns of 13.1%, 12.9% and 10.6% respectively. In contrast, the most significant detractors were Wesfarmers, CSL and Afterpay with absolute returns of -9.6%, -3.3% and -11.5%, respectively.

Global Equities

The broad MSCI World ex Australia (NR) Index returned 1.6% in unhedged terms and 2.7% in hedged terms over the month. In AUD terms, the strongest performing sectors were Energy (+15.1%) and Financials (+9.3%), while Utilities (-6.7%) and Healthcare (-3.6%) were the weakest performers. In AUD terms, the MSCI Small Caps (TR) Index was up 4.1% and MSCI Emerging Markets (NR) Index was down 0.1% over February.

Over February, the NASDAQ increased 0.9%, the S&P 500 Composite Index increased 2.8% and the Dow Jones Industrial Average increased 3.4%, all in USD terms. In local currency terms, major European share markets experienced positive returns as the CAC 40 (France) increased 5.6%, FTSE 100 increased 1.6% and the DAX 30 (Germany) increased 2.6%. In Asia, the Indian S&P BSE 500 (+7.8%), Hong Kong Hang Seng (+2.5%), Chinese SSE Composite (+0.7%) and Japanese TOPIX (+3.1%) all increased, all in local currency terms.

Real Assets

The Real Assets sector achieved mixed returns over February. The Global Real Estate Investment Trusts (REITs) Index increased by 3.9% over the month, while the FTSE Global Core Infrastructure 50/50 Index returned -0.8% (both in AUD hedged terms). Domestic REITs decreased -2.5% over February, whilst the Australian Direct Property (NAV) returned 0.3% on a one-month lagged basis.

Fixed Interest

Global bond markets were broadly negative over February, with the Barclays Capital Global Aggregate Bond Index (Hedged) returning -1.6% and the FTSE World Government Bond (ex-Australia) Index (Hedged) returning -2.1%. Ten-year bond yields increased in most markets including the UK (+51bps to 0.86%), Germany (+26bps to -0.29%), Japan (+12bps to 0.16%) and the US (+35bps to 1.45%). Two-year bond yields also increased over the month, increasing in the US (+3bps to 0.15%), Germany (+7bps to -0.66%), the UK (+24bps to 0.13%) and Japan (+1bp to -0.11%).

Returns for Australian bondholders were negative over February, with 10-year (+78bps to 1.87%) and five-year (+43bps to 0.81%) bond yields increasing, and two-year bond yields remaining flat (0.12%). Of the Bloomberg Ausbond indices, the Bloomberg Ausbond Inflation Index produced the lowest return, decreasing 4.3% over the month.

Currency Markets

The AUD Trade Weighted Index increased to 64.5 over February, up by 2.4% from January. The AUD appreciated against the Pound Sterling (+0.6%), US Dollar (+0.9%), Japanese Yen (+4.0%) and Euro (+1.9%).

Commodities

Iron Ore rose 10.1%, finishing the month at US$174.0 per metric tonne. The S&P GSCI Commodity Total Return Index increased 9.6% over the month. Gold prices decreased by 7.0% finishing the month at US$1,727.4 per ounce and the oil price increased 18.1% to US$66.1 per barrel over February.

Chart Constituents

Notes

- *Currency: AUD.*
- *UH: Unhedged.*
- *H: Hedged.*
- *Net Index: Total Return (Net Dividends Reinvested).*
- *Total Return: Total Return Index with Gross Dividends.*
- *Where a lag exists, the performance period start and end dates are shifted accordingly.*

Asset class	Benchmark	Data type
Australian Shares	S&P/ASX 300	Total Return
Australian Small Caps	S&P/ASX Small Ordinaries	Total Return
Overseas Shares (UH)	MSCI World ex Australia	Net Index
Overseas Shares (H)	MSCI World ex Australia 100% Hedged	Net Index
Overseas Small Caps (UH)	MSCI World Small Cap	Total Return
Emerging Markets (UH)	MSCI Emerging Markets	Net Index
Direct Property (one month lag)	MSCI/Mercer Australia Core Wholesale Monthly PFI	NAV Post Fee
Australian REITs	S&P/ASX 300: Industry Group: A-REIT	Total Return
Global REITs (H)	FTSE EPRA/NAREIT Developed Hedged	Total Return
Global Listed Infrastructure (H)	FTSE Global Core Infrastructure 50/50 Hedged	Total Return
Global Credit (H)	Bloomberg Barclays Global Credit	Hedged Return
Emerging Market Debt (UH)	JP Morgan GBI EM Global Diversified Composite	Total Return
Australian Government Bonds	Bloomberg AusBond Treasury 0+ year	Total Return
Overseas Government Bonds (H)	FTSE WGBI Non Australia	Hedged Return
Cash	Bloomberg AusBond Bank Bill	Total Return

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