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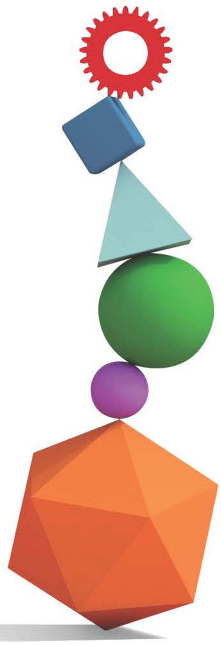
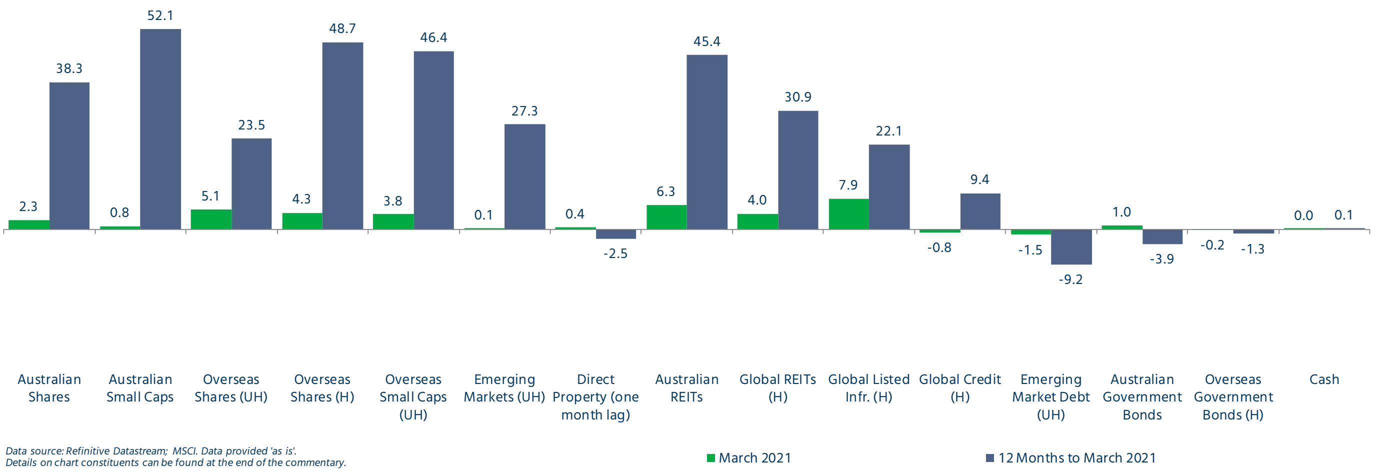


March 2021

Australian monthly market review

Selected market indicators commentary

Asset class returns as at 31 March 2021



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

Over March, the US released positive economic data and announced the potential for further government stimulus, which helped strengthen investor sentiment. The global economic outlook remains positive despite increased infection rates, potential for further border closures and slow global vaccination rates.

Despite the lag in vaccine rollouts, Hedged Developed Market Overseas Shares performed well over March, returning 4.3%. Share markets in Japan and Europe both provided solid returns despite having only vaccinated a small percentage of their populations. Both economies have benefited from a rebound in global goods demand and better financials, resulting from steep yield curves. The US outperformed most major developed markets after surpassing expectations in their recent release of economic data.

Whilst Overseas Small Caps provided similar positive performance to the broader developed market, Unhedged Emerging Markets continued to underperform, returning 0.1% over the month.

The main detractor in this region was China, which was caused by concerns over tighter monetary and fiscal policy. In contrast to other major global markets, Chinese policymakers have been maintaining a tight control on liquidity and spikes in short term rates.

Oil prices ended the month slightly lower than February, but remain relatively high due to limited supply and investor anticipation of a demand increase as economies continue to reopen.
After a difficult start to the year, Australian REITs rebounded and returned 6.3% over March. This is largely due to the strong reporting season, as well as an increase in rent collection rates.

Similarly, Global REITs returned 4.0% over March. The global economic recovery, rising inflation and a push for decarbonisation has sparked investor hype around a potential commodity supercycle.

The Australian share market provided another month of positive returns, with the S&P/ASX300 Index rising 2.3% over March. The result was similar for other domestic share indices, with the S&P/ASX Mid 50 Accumulation Index achieving the strongest positive performance (+2.7%) whilst small caps had the lowest return (+0.8%). The best performing sectors were Utilities (+6.8%) and Consumer Discretionary (+6.7%), whilst Materials (-3.1%) and IT (-2.7%) were the worst performing sectors.

Significant Developments

- During its early April 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 rollout of vaccines is supporting the recovery of the global economy and whilst there are still uncertainties regarding the outlook, the central case has improved. Governor Philip Lowe also noted that the economic recovery is well under way in Australia and has been stronger than previously expected, particularly in employment with a decline in the unemployment rate to 5.8% in February 2021. GDP increased by a solid 3.1% in the December 2020 quarter, boosted by a further lift in household consumption as the health situation improved. The recovery in GDP is expected to continue, with above-trend growth expected both this year and next year. Inflation remains low and below central bank targets around the world. In the short term, CPI Inflation is expected to rise temporarily because of the reversal of some COVID-19-related price reductions. Beyond this, underlying inflation is expected to remain below 2% over the next few years. Housing markets continue to strengthen, with prices rising in most markets. The RBA will be monitoring trends in housing borrowing carefully to ensure that lending standards are maintained. 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 88,700 in February, above expectations for an increase of 30,000, while the January figure was revised upwards to 29,500. The unemployment rate decreased to 5.8% for February, below expectations for 6.3%. The participation rate remained at 66.1%, in line with expectations. Part time jobs decreased by 500 and full time jobs increased by 89,100.
- Australian building approvals increased 21.6% month-on-month to February, compared to the decrease of 19.4% for period ending January.
- The Institute for Supply Management (ISM) Manufacturing Index recorded 64.7 in March, above consensus for 61.5, and above the 60.8 recorded in February. Of the 18 manufacturing industries, Textile Mills and Electrical Equipment, Appliances & Components were once again the two industries that reported the highest growth. No industries reported contraction in March. The ISM Services Index recorded 63.7 in March, above consensus for 59.0 and above the 55.3 recorded in February. Of the 18 services industries, the top performers in March were Arts, Entertainment & Recreation and Wholesale Trade. Similar to the Manufacturing Index, no industries reported contraction in March.
- US Non-Farm Payrolls increased by 916,000 in March, above the 468,000 increase (revised) recorded for February. The unemployment rate decreased to 6.0% over March, in line with expectations.
- US GDP third estimate for Q4 2020 is 4.3% quarter on quarter (QoQ) annualised, above expectations for 4.1%.
- The Caixin Manufacturing PMI in China recorded 50.6 in March, below expectations for 51.4, as manufacturing output continues to expand modestly.
- The preliminary estimate of the European Core CPI recorded 0.9% over the year to March, below expectations for 1.1%.
- The Eurozone composite PMI increased to 53.2 in March, above expectations for 52.5.
- 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 2.3%. The S&P/ASX Mid 50 was the strongest relative performer, increasing 2.7%, while the S&P/ASX Small Ordinaries was the weakest, returning 0.8% over the month.

The best performing sectors were Utilities (+6.8%) and Consumer Discretionary (+6.7%), while the weakest performing sectors were Materials (-3.1%) and IT (-2.7%). The largest positive stock contributors to the index return were CBA, ANZ and Telstra with absolute returns of 5.6%, 7.9% and 10.7% respectively. In contrast, the most significant detractors were BHP, Fortescue and Rio Tinto with absolute returns of -7.4%, -16.2% and -12.5%, respectively.

Global Equities

The broad MSCI World ex Australia (NR) Index returned 5.1% in unhedged terms and 4.3% in hedged terms over the month. In AUD terms, the strongest performing sectors were Utilities (+9.6%) and Consumer Staples (+8.4%), while IT (+2.4%) and Communication Services (+3.4%) were the weakest performers. In AUD terms, the MSCI Small Caps (TR) Index was up 3.8% and MSCI Emerging Markets (NR) Index was up 0.1% over March.

Over March, the NASDAQ increased 0.4%, the S&P 500 Composite Index increased 4.4% and the Dow Jones Industrial Average increased 6.8%, all in USD terms. In local currency terms, major European share markets experienced positive returns as the CAC 40 (France) increased 6.5%, FTSE 100 increased 4.2% and the DAX 30 (Germany) increased 8.9%. In Asia, the Indian S&P BSE 500 (+1.2%) and Japanese TOPIX (+5.7%) increased, while the Hong Kong Hang Seng (-1.8%) and Chinese SSE Composite (-1.9%) decreased, all in local currency terms.

Real Assets

The Real Assets sector achieved positive returns over March. The Global Real Estate Investment Trusts (REITs) Index increased by 4.0% over the month and the FTSE Global Core Infrastructure 50/50 Index returned 7.9% (both in AUD hedged terms). Domestic REITs rose 6.3% over March, whilst the Australian Direct Property (NAV) returned 0.4% on a one-month lagged basis.

Fixed Interest

Global bond markets were broadly negative over March, with the Barclays Capital Global Aggregate Bond Index (Hedged) returning -0.4% and the FTSE World Government Bond (ex-Australia) Index (Hedged) returning -0.2%. Ten-year bond yields were mixed in terms of movement over the month, increasing in the UK (+3bps to 0.88%) and the US (+30bps to 1.75%), and decreasing in Germany (-4bps to -0.33%) and Japan (-7bps to 0.09%). Two-year bond yields broadly decreased over the month, including in Germany (-2bps to -0.68%), the UK (-3bps to 0.10%) and Japan (-1bp to -0.12%). However, they increased in the US (+1bp to 0.16%).

Returns for Australian bondholders were positive over March, with 10-year (-14bps to 1.74%), five-year (-9bps to 0.72%) and two-year bond yields (-3bps to 0.09%) all decreasing. Of the Bloomberg Ausbond indices, the Bloomberg Ausbond Inflation Index produced the highest monthly return of 1.5% and the Bloomberg Ausbond Bank Bill Index produced the lowest return, returning flat.

Currency Markets

The AUD Trade Weighted Index decreased to 63.9 over March, down by 0.9% from February. The AUD appreciated against the Japanese Yen (+2.0%) and Euro (+1.6%) and depreciated against the US Dollar (-1.6%) and Pound Sterling (-0.3%).

Commodities

Iron Ore fell 5.2%, finishing the month at US$165.0 per metric tonne. The S&P GSCI Commodity Total Return Index decreased 0.5% over the month. Gold prices decreased by 1.3% finishing the month at US$1,704.7 per ounce and the oil price decreased 3.9% to US$63.5 per barrel over March.

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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