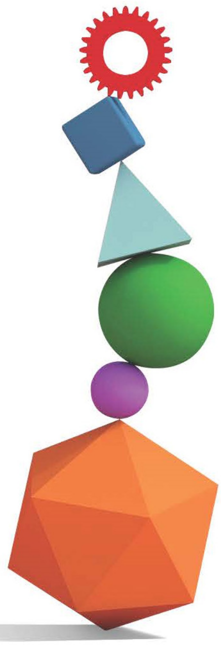
Mercer welcome to brighter

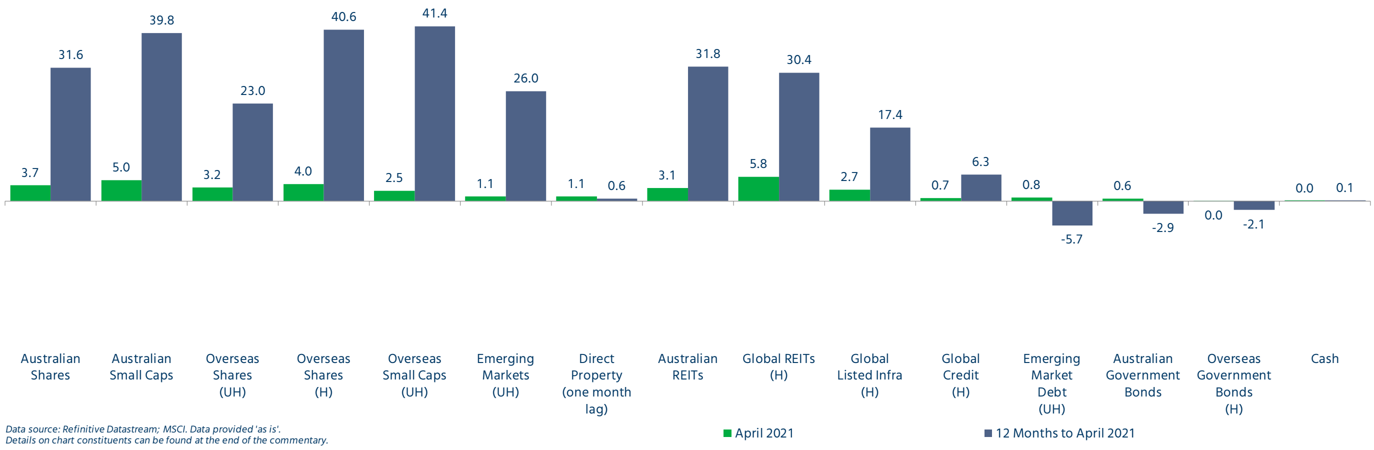
April 2021

Australian monthly market review

Selected market indicators commentary



Asset class returns as at 30 April 2021



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

Global equity markets had a strong month over April, driven by economic optimism, accommodative monetary and fiscal policy and across developed markets the acceleration of vaccination rates. Overall, developed markets are positioned well for a recovery. In contrast, economic outlook is less positive for emerging markets, where the pandemic continues to worsen in countries such as India and Brazil.

Hedged Developed Market Overseas Shares ended the month at 4.0% as developed markets fuelled the momentum in global growth. The current and anticipated effects of global economies reopening continue to paint a positive economic outlook, as the IMF upgraded the 2021 forecast global growth rate to 6.0%. In addition, recently released economic data has helped keep consumer and business confidence high and retail sales across major regions have bounced back from strong demand and supply shortages.

On the other hand, Unhedged Emerging Markets continue to lag, returning only 1.1% for the month. Intensified fatality rates in emerging nations and states imposing restrictions have highlighted the need for vaccine rollouts to start in these countries, as a consequence, could potentially detract the anticipated economic rebound in the second quarter of this year.

The US Dollar weakened against the Australian Dollar and most major developed market currencies. This was mainly driven by inflation concerns and the Federal Reserve's continued commitment to loose monetary policy. Oil prices rallied over April, finishing the month 6.0% higher as markets remain confident about the pent-up demand to be released once economies reopen. Property sectors appear to be recovering as economic activity resumes, with both Hedged Global REITs (+5.8%) and Australian REITs (+3.1%) providing strong performances over the month.

Australian Shares continued their positive momentum, with the S&P/ASX300 Index rising 3.7% over April. All other domestic share indices provided similar positive returns, with the S&P/ASX Mid 50 achieving the strongest performance (+5.3%) and the S&P/ASX 50 achieving the weakest (+3.2%). The best performing sectors were IT (+9.8%) and Materials (+7.5%), whilst Energy (-4.7%) and Consumer Staples (-2.4%) were the worst performers.

Significant Developments

- During its early May 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 global economy is continuing to recover from the pandemic and the outlook for growth, this year and next year, remains strong. However, the recovery remains uneven and some countries are yet to contain the virus. Governor Philip Lowe also noted that the economic recovery in Australia has been stronger than expected and is forecast to continue on this trajectory. The recovery is particularly evident in employment with a decline in the unemployment rate to 5.6% in March 2021. The recovery in GDP is expected to continue, with the central scenario for GDP growth revised upward to 4.25% over 2021 and 3.5% over 2022. Recent CPI data has confirmed that inflation pressures remain subdued in most parts of the domestic economy. Whilst a pick-up in inflation and wages growth is expected, it is likely to be only gradual and modest. In the short term, CPI Inflation is expected to rise temporarily to be above 3% in the June quarter as a result of the reversal of some COVID-19-related price reductions. Housing markets have strengthened further, with prices rising in all major 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 70,700 in March, above expectations for an increase of 35,000, however below the prior month's increase of 88,700. The unemployment rate decreased to 5.6% for March, below expectations for 5.7%. The participation rate increased to 66.3%, above expectations for 66.1%. Part time jobs increased by 91,500 and full time jobs decreased by 20,800.
- Australian building approvals increased 17.4% month-on-month to March, compared to the increase of 20.1% (revised) for period ending February.
- The Institute for Supply Management (ISM) Manufacturing Index recorded 60.7 in April, below consensus for 65.0, and below the 64.7 recorded in March. Of the 18 manufacturing industries, Electrical Equipment, Appliances and Components and Textile Mills were the two industries that reported the highest growth for the second consecutive month. No industries reported a contraction in April. The ISM Services Index recorded 62.7 in April, below consensus for 64.1 and below the 63.7 recorded in March. Of the 18 services industries, the top performers were Arts, Entertainment and Recreation and Wholesale Trade, for the second consecutive month. Agriculture, Forestry, Fishing and Hunting was the only industry that reported a contraction in April.
- US Non-Farm Payrolls increased by 266,000 in April, above the 770,000 increase (revised) recorded for March. The unemployment rate increased to 6.1% over April, above expectations for 5.8%.
- US GDP advanced estimate for Q1 2021 is 6.4% quarter on quarter (QoQ) annualised, below expectations for 6.7%.
- The Caixin Manufacturing PMI in China recorded 51.9 in April, above expectations for 50.9, signalling the strongest improvement in the health of the sector since December 2020, however still modest overall.
- The preliminary estimate of the European Core CPI recorded 0.8% over the year to April, in line with expectations.
- The Eurozone composite PMI increased to 53.8 in April, above expectations for 53.7.
- The advanced estimate recorded for Q1 2021 Eurozone seasonally adjusted GDP is -0.6% QoQ and -1.8% YoY.

Australian Equities

The Australian share market underperformed its hedged overseas counterpart over the month, as the S&P/ASX 300 Index returned 3.7%. The S&P/ASX Mid 50 was the strongest relative performer, increasing 5.3%, while the S&P/ASX 50 was the weakest, returning 3.2% over the month.

The best performing sectors were IT (+9.8%) and Materials (+7.5%), while the weakest performing sectors were Energy (-4.7%) and Consumer Staples (-2.4%). The largest positive stock contributors to the index return were Fortescue, Afterpay and BHP with absolute returns of 14.1%, 15.9% and 5.7% respectively. In contrast, the most significant detractors were Woolworths, Woodside Petroleum and Telstra with absolute returns of -3.8%, -4.6% and 0.0%, respectively.

Global Equities

The broad MSCI World ex Australia (NR) Index returned 3.2% in unhedged terms and 4.0% in hedged terms over the month. In AUD terms, the strongest performing sectors were Communication Services (+5.4%) and Real Estate (+5.1%), while Energy (-0.9%) and Industrials (+1.3%) were the weakest performers. In AUD terms, the MSCI Small Caps (TR) Index was up 2.5% and MSCI Emerging Markets (NR) Index was up 1.1% over April.

Over April, the NASDAQ increased 5.4%, the S&P 500 Composite Index increased 5.3% and the Dow Jones Industrial Average increased 2.8%, all in USD terms. In local currency terms, major European share markets experienced positive returns as the CAC 40 (France) increased 3.6%, FTSE 100 increased 4.1% and the DAX 30 (Germany) increased 0.9%. In Asia, the Indian S&P BSE 500 (+0.4%), Hong Kong Hang Seng (+1.3%) and Chinese SSE Composite (+0.1%) all increased, while the Japanese TOPIX (-2.8%) decreased, all in local currency terms.

Real Assets

The Real Assets sector achieved positive returns over April. The Global Real Estate Investment Trusts (REITs) Index increased by 5.8% over the month and the FTSE Global Core Infrastructure 50/50 Index returned 2.7% (both in AUD hedged terms). Domestic REITs rose 3.1% over April, whilst the Australian Direct Property (NAV) returned 1.1% on a one-month lagged basis.

Fixed Interest

Global bond markets were broadly positive over April, with the Barclays Capital Global Aggregate Bond Index (Hedged) returning 0.2% and the FTSE World Government Bond (ex-Australia) Index (Hedged) returning flat. Ten-year bond yields were mixed in terms of movement over the month, decreasing in the UK (-1bp to 0.87%), the US (-11bps to 1.63%) and Japan (-1bp to 0.08%), and increasing in Germany (+13bps to -0.20%). Two-year bond yields were also mixed over the month, decreasing in Germany (-1bp to -0.69%) and the UK (-2bps to 0.08%). However, they returned flat in Japan (-0.12%) and the US (0.16%).

Returns for Australian bondholders were broadly positive over April, with 10-year (-9bps to 1.65%) and five-year (-3bps to 0.70%) bond yields decreasing, and two-year bond yields returning flat (0.09%). Of the Bloomberg Ausbond indices, the Bloomberg Ausbond Inflation Index produced the highest monthly return of 1.6% and the Bloomberg Ausbond Bank Bill Index produced the lowest return, returning flat.

Currency Markets

The AUD Trade Weighted Index increased to 64.4 over April, up by 0.8% from March. The AUD appreciated against the Japanese Yen (+0.3%), Pound Sterling (+1.1%) and US Dollar (+1.4%), but depreciated against the Euro (-1.0%).

Commodities

Iron Ore rose 13.3%, finishing the month at US$187.0 per metric tonne. The S&P GSCI Commodity Total Return Index increased 6.7% over the month. Gold prices increased by 3.9% finishing the month at US$1,770.5 per ounce and the oil price increased 6.0% to US$67.4 per barrel over April.

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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