smart
BUSINESS SOLUTIONS
Financial Planning

Market *wrap*

March 2021

ECONOMICS OVERVIEW

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.

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.

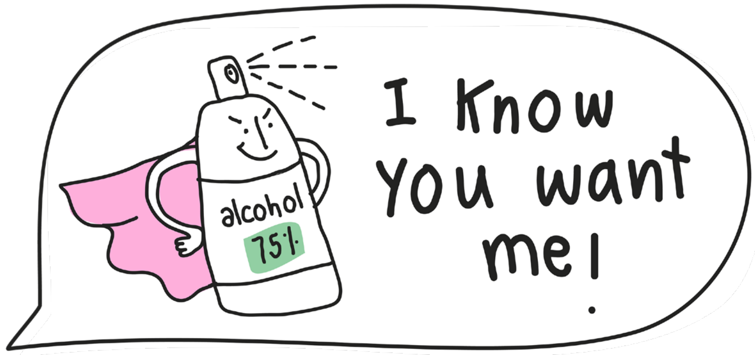
New Zealand

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.

.

- 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.

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.



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.

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.

Global Equities

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 & 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.

Smart Business Solutions Financial Planning Pty Ltd
Corporate Authorised Representative of Count Financial Limited
ASIC ID 001275904
ABN 15631281822
Level 1, 328 Main Street Mornington VIC 3931
P (03) 5911 7000
www.smartfinancialplanning.com.au

smart
BUSINESS SOLUTIONS
Financial Planning