Market Watch

February Review 2021

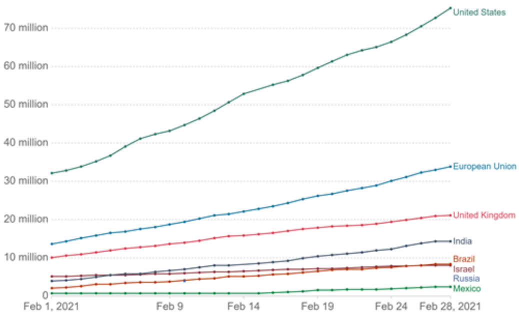
A year on from the first locally acquired cases of COVID-19 outside of China, physical and social distancing remains, however, economic data indicates economies around the world are on the road to recovery.

Development in Global Economy

COVID-19 Outlook

February saw the continued rollout of COVID-19 vaccinations around the world. As the below chart indicates, many of the key impacted countries are hitting a strong pace of daily vaccinations. This is coinciding with decreasing case numbers as many countries appear to once again be flattening the curve as they look to reopen economies from the winter lockdowns across the norther hemisphere. The United States started the year with in excess of 200,000 cases per day and by the end of February has curtailed this to under 70,000 daily cases, with the UK and Europe following a similar trajectory.

Chart 1: Vaccinations Administered (cumulative)



Source: BTIS/Bloomberg

In Australia, the first batch of the Pfizer COVID-19 vaccine was administered on February 21. This rollout is a much slower pace than countries like the United States and United Kingdom who administered 1.74 million and 390k respective vaccines on the last day of February. However, the Australian Federal Government expects the supply of the Astra Zeneca vaccine that is being produced locally in Australia to be available on mass in the coming months.

Australian Corporate Reporting Season

February marks the semi-annual corporate reporting season for most listed Australian companies. On the whole these reports provide a general health check of corporate Australia, something that was watched even more closely given this was the first set of results that had the full impact of the COVID-19 pandemic.

In total, 141 companies of the ASX200 index group reported half-year (interim) results for the 2020/21 year. A further 31 companies with a December 31 reporting date have issued full-year results. The other ASX 200 companies have different balance dates.

Despite the turbulent times, 86% of companies reported statutory profits for the six months to December. This This is a positive outcome considering the physical and social lock downs that impacted many businesses last year. However, in aggregate interim earnings fell by 17%, i.e. while companies remaining profitable there overall top line earnings have come down.

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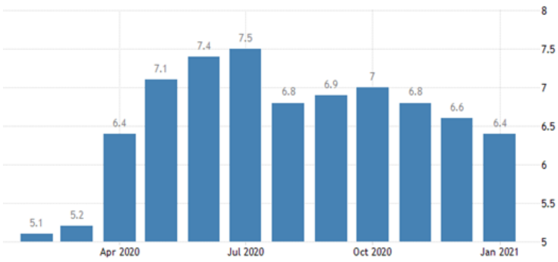
Another watchful measure of the reporting season showed that dividends are returning. Just under 79% of companies issued a dividend, which is not far off the long-term average of 86%, with aggregate dividends increasing by 5% year-on-year. Another recent trend of Australian companies has been the lift in cash holdings. Aggregate cash holdings are up by over 50% from last year to $124 billion, with 70% of companies lifting cash holdings over the past year. This is also somewhat a sign of a low interest rate environment and the ability for companies to raise cheap debt.

Overall, key sectors that were hit hardest include energy companies, given the impact of oil prices, as well as bricks and mortar retailers (outside of homewares and electronics) or shopping centre landlords. Mining companies fared best supported by favourable commodities prices. It is expected that the strength in the Australian dollar will create a headwind for commodity prices going forward.

Australia

After a quiet month on the data front in January, February saw economic reporting return to full swing. On February 2, the RBA met and decided to keep the cash rate at 0.10%. Further to this, the RBA expanded its QE program by purchasing an additional $100bn of bonds. Phillip Lowe, the RBA Governor reiterated that the central bank board would not increase the cash rate until actual inflation is sustainably within the 2% to 3% target range. Lowe also noted "The current monetary policy settings are continuing to help the economy by lowering financing costs for borrowers, contributing to a lower exchange rate than otherwise, supporting the supply of credit needed for the recovery and supporting household and business balance sheets."

Chart 2: Australia Unemployment Rate (%)

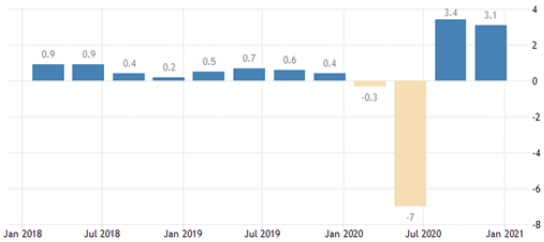


Source: BTIS/Bloomberg

Private sector credit (effectively outstanding loans) rose by 0.2% in January, while just below consensus of 0.3%. This brought the annual rate to positive 1.7% over the year. Despite this Business credit continues to face headwinds and fell by 0.1%, bringing the 1 year number to be up 0.5% over the year – the weakest annual growth rate in over 9 years.

Australia's unemployment rate fell to 6.4% in January from 6.6% in December and below market consensus of 6.5%. This was the lowest jobless rate since April 2020, but still 1.2% off pre-Covid levels. The number of unemployed declined by 34,300 to 877,600 people, as people looking for full-time work was down by 40,300 to 618,400 and those looking for only part-time work decreased by 5,900 to 259,200. The participation rate came in at 66.1%, compared to December's 16-month high of 66.2%. While the underemployment rate fell 0.4% to 8.1%, and the underutilization rate dropped 0.6% to 14.5%. These are very supportive signs that Australians who lost their jobs have since been able to find new employment. However, we must wait until the final stages of the Jobkeeper and JobSeeker scheme role off at the end of March to make a definitive assessment.

Chart 3: Australia Quarterly GDP Growth Rate (%)



Source: BTIS/Bloomberg

As for economic growth or GDP the Australian economy advanced 3.1% in the three months to December, beating market expectations of 2.5%. A very strong number indeed, in particular noting the short term lockdowns pre-Christmas in both NSW and Victoria. The last six months marked the first time in more than 60 years that GDP has grown by more than 3% in two straight quarters on the back of massive monetary and fiscal stimulus. Household consumption rose 4.3%, boosted by spending on goods such as vehicles and on services including recreation and culture, hotels, cafes and restaurants and health. Areas that had been heavily affected by physical lockdowns. Also, private investment advanced 3.9% boosted by rises across both housing and business investment with improved conditions which coincided with government initiatives, such as HomeBuilder and the expanded instant asset write-off.

Overall the data in February indicates positive signs that the Australian economy is on the road to recovery. We expect further advancements with the nation-wide rollout of the COVID-19 vaccine over the coming months.

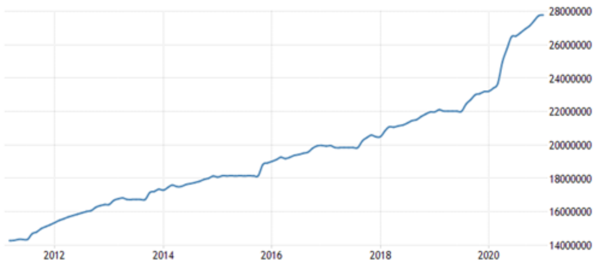
United States

With President Joe Biden well in office, many look closely to what he will achieve in his first hundred days in office- a key indicator of the initial effectiveness of the democratic administration. In February, the US faced a fight on another front, with the extreme weather events we have seen over the past few years. The country saw a massive cold snap hit the east coast, with states such as Texas seeing snow for the very first time. Such a big freeze saw a jump in oil prices as supply was disrupted and increased demand for heating to fight the sub zero temperatures.

Chart 4: US Monthly Unemployment rate (%)

Source: BTIS/Bloomberg

Chart 5: US Government Debt $USD



Source: BTIS/Bloomberg

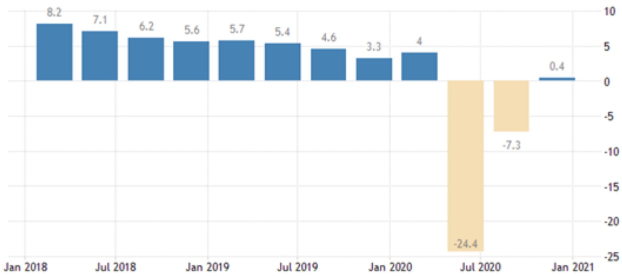
As for the central bank, Fed Chair Powell gave his semi-annual Monetary Policy Report to the Congress. In these prepared remarks he said the economy is a long way from Fed's employment and inflation goals, and it is likely to take some time for substantial further progress to be achieved. Although the number of new Covid-19 cases and hospitalizations has been falling, and ongoing vaccinations offer hope for a return to more normal conditions later this year, the economic recovery remains uneven and far from complete, and the path ahead is highly uncertain. Something to keep in mind in the coming months of macro data releases.

To put the level of monetary and fiscal stimulus into perspective the Gross federal debt in the United States increased to 107.6% of the GDP in 2020 from 106.9% in 2019. Government Debt in the United States stands at $27.7 trillion USD as at January 2020, a number that has more than doubled over the past 10 years. This will only increase further with the $1.9 trillion USD stimulus package the democratic are currently trying to get through the senate. We look to March to see the final detail of this next round of stimulus.

Asia

As for our market darlings China, the poster child for recovery from the Covid-19 pandemic, February's economic data showed increasing signs that its recovery is slowing. China's Services PMI dropped to a ten-month low of 51.5 from 52.0 a in January. New orders rose the least since May 2020 with export sales declining for the first time in four months.

Chart 6: India's Quarterly GDP Growth Rate (%)



Source: BTIS/Bloomberg

Looking at India, the long awaited Q4 GDP numbers indicate that the economy grew 0.4% in the last three months of 2020. While slightly below market forecasts of a 0.5% gain, this is still the first expansion in three quarters. This result is showing strength that the economy is restarting post lockdown as the government opened economic activities in phases from June 2020. Manufacturing and Services PMI's continue to remain in expansion territory in February with readings of 57.5 and 55.3 respectively.

As Japan prepares to host the Summer Olympics in the middle of 2021, it still remains uncertain if crowds will be in attendance as the country still remains under lockdown. There are positive signs the country is getting the latest mutant strain under control as the daily infection rate has been coming down from the highs of December and January.

As for economic data, the consumer confidence index in Japan increased by 4.2 points in February from the previous month to 33.8, the highest since February 2020. All main sub-indices have improved: overall livelihood (up 4.1 points to 36.3); income growth (up 1.9 points to 35.4); willingness to buy durable goods (up 4.5 points to 36.1), and employment perceptions (up 6.4 points to 27.5) Similar to the rest of the western world, the increasing improvement in confidence and activity shows individuals are optimistic about the future and generally willing to spend or invest more money going forward.

Europe

February saw many European countries look to a path out of lockdown in light of declining COVID-19 case numbers and promising vaccination programs. Business Confidence in the Euro Area increased to -0.14 points in February from -0.27 points in January of 2021.

The Eurozone Manufacturing PMI hit a three-year high of 57.9 in February, up from a preliminary estimate of 57.7 and compared with January's 54.8. Output and new orders expanded by the most since last October's recent peaks, helped by the steepest increase in new export trade since January 2018. In addition, employment increased for the first time in nearly two years. Eurozone Services came in at 45.7 in February 2021, up from an estimate of 44.7 and compared with 45.4 in the previous month.

While an improvement, the latest reading indicated a sixth consecutive monthly contraction of services sector activity, as virus-related restrictions continued to affect many businesses. Incoming new work fell for a seventh month in a row, due also to a decline in export sales, while employment increased for the first time in a year, although at a modest pace.

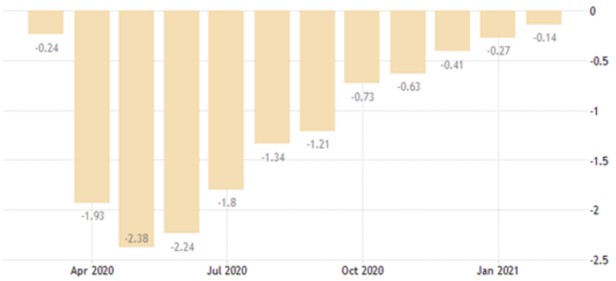
As for the UK, the Bank of England (BoE) voted unanimously to keep its benchmark interest rate on hold at a record low of 0.1% and left its bond-buying programme unchanged during its February meeting. Policymakers noted it would be appropriate to start the preparations so that it could set a negative rate in 6 months, but stressed it should not be interpreted as a signal. The central bank also said that the coronavirus vaccine rollouts in a number of countries, including the United Kingdom, have improved the economic outlook, but voiced concerns about the recent spike in reported cases, including from newly identified strains of the virus, and the associated reimposition of some restrictions.

As for the health of the economy, the UK Manufacturing PMI increased to 55.1 in February from 54.1 in January. Output rose at the weakest pace during the current nine-month sequence of increase. Exporters continue to be held up by the additional paper work in a post Brexit world and the pandemic.

UK Services PMI came in at 49.5 in February, slightly weaker than the estimate of 49.7 but much stronger compared with January's eight-month low of 39.5. Still, the latest reading signalled the softest rate of decline since the current phase of contraction began in last November, as the country remains under lockdown.

Despite this, Business optimism rose to a 77-month high in February, with over 63% of companies reporting that they expect output to be higher in one year's time. Positive sentiment was linked to continued recovery from the pandemic, reopening of the global economy (including less transport restrictions) and reduced Brexit uncertainties.

Chart 7: Eurozone Business Confidence



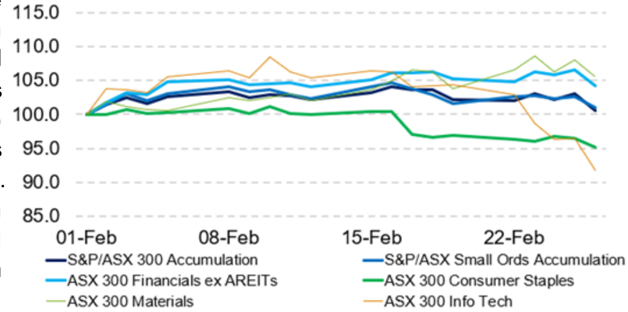
Source: BTIS/Bloomberg

Development in Financial Markets

Australian shares

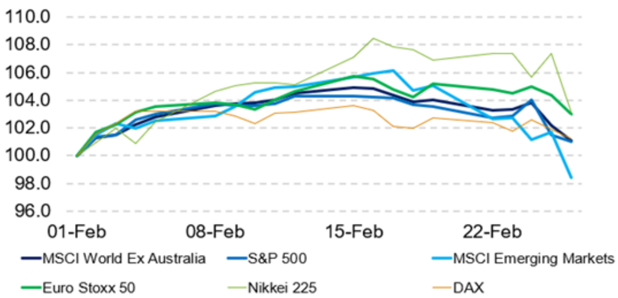
After a fairly quiet January, the Australian market had a strong month on the back of a somewhat optimistic earnings season. The ASX300 Accumulation returned +1.48%, while the ASX Small Ordinaries Accumulation gained +1.55% over the month. The market was led by strong performance from its two largest sectors Financials and Materials, up (+1.90%) and (+2.76%) respectively. Previous market darlings Technology and Consumer Staples struggled despite strong results, down (-12.77%) and (-5.43%) respectively. However, the Utilities sector has been the worst hit over the last year down (-21.00%) on a year basis. Many of these businesses rely on regulated contracts with pricing decided by government/government agencies, which have been under pressure to lower prices to ease pressure of households.

Chart 8: Australian Shares (rebased to 100)



Source: BTIS/Bloomberg

Chart 9: Major Market Indices (rebased to 100)



Source: BTIS/Bloomberg

International shares

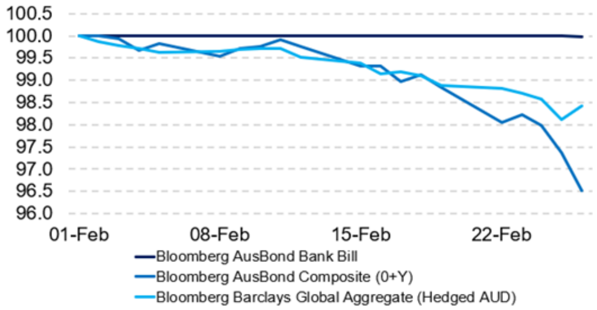
International markets reversed the losses of late January, with performance driven by promising economic data, positive momentum in vaccination programs and a path out of winter. The MSCI World ex Australia Unhedged ended the month up +1.64%, with Hedged returns slightly higher given the impact of the strengthening Australian dollar. The United States ended the month of strongly of hopes of passing the USD$1.9 trillion dollar stimulus bill. The S&P ended the month up +2.31%, the Dow Jones +3.43%, with the NASDAQ the weakest of the three finishing up +1.01%. European shares were similar, the Euro STOXX up +2.31%. France's CAC 40 and Germany's DAX Index ended up (+5.63%) and (+2.63%) respectively.

Asian Share markets told a similar story this month. Japan's Nikkei once again hit all-time highs, at +4.75%, bringing its one year return to +39.61%. China's Shanghai Composite finished the month up +0.75% and the Hang Seng up 2.46%. The Korean KOSPI continued its upward trajectory ending up 1.23%, bringing its one-year return to 51.63%.

Fixed interest

Government bond yields had an interesting month, with a positive economic outlook for growth and potential inflation, the long end yield of many developed market curves rose, causing a mini meltdown in prices. In the last week of the month ahead of the US Federal Reserve commentary, bonds nearly saw equity like intraday moves. In Australia, bond prices fell, with the Bloomberg AusBond Composite (0+Y) index ended down -3.58%. For international fixed interest markets, the Barclays Global Aggregate TR Hedged index also lost ground as its one-month number closed at -1.56%. While the shorter end of the curve remained anchored very close to zero, supported by central bank bond buying programs, the longer end of the curve is well and truly starting to steepen. The 10-year Treasury bond yields in Australia finishing the month at +1.91%, while the US ended at +1.44%.

Chart 10: Australian & US 10 Yield Bond Yields

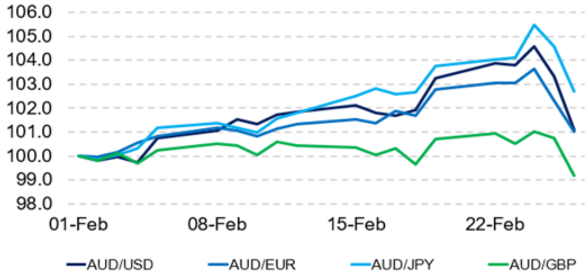


Source: BTIS/Bloomberg

Currencies

The Australian dollar continues to strengthen across developed world currencies. The AUD added+ 0.81% against the USD, ending the month at 0.7706. Additionally, the Euro lost ground against the USD, with a -0.50% loss to 1.2075. Moreover, the GBP ended up +1.64% to 1.3933.

Chart 11: Major Currencies (rebased to 100)



Source: BTIS/Bloomberg

Commodities

Commodities saw another strong month of positive returns with the exception of gold. Oil continued to consolidate on the previous quarter of gains, now hitting 2017 levels. Over February, Brent Crude Oil was up +18.34% to US$66.13 while WTI Oil also made strong gains up +17.82% to US$61.50. These large moves were somewhat brought on by the cold snap in the United States that impacted both the demand and supply of oil. Iron Ore continues to consolidate on prior quarter gains ending up +5.97% to US$165.38. Gold continued to lose ground ending as risk on sentiment spurred the market on, ending the month down -6.15% to US$1734.04. The Bloomberg Commodity Index reported gains of 6.47% up to 85.28.