Market Watch

March Review 2021

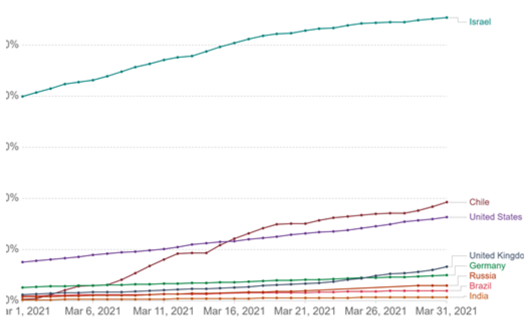
As the first quarter of the year ended, the impact of the COVID-19 pandemic on risk markets almost seemed non-existent. Over March we saw US markets return to all-time highs, further upgrades to the global economic outlook, additional US stimulus packages and central banks reaffirming monetary policy and inflation expectations.

Development in Global Economy

COVID-19 Vaccinations

Now, a year on from the initial global mass lockdowns of economies, the world is well on its way down the path of inoculating its populations. While the United States is leading the charge by total number of citizens inoculated, the likes of Israel and Chile have the higher percentage of total population vaccinated. As at the end of March 4.35% of the world's population, (just under 339 million people) have received at least 1 dose of a COVID-19 vaccine.

Chart 1: Share of country population fully vaccinated (%)

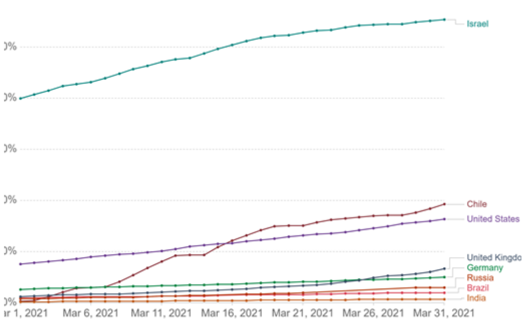


Source: BTIS/Bloomberg

Unfortunately, in Australia, we are somewhat behind our original and since revised plan due to supply issues we spoke about in last month's commentary. As at the end of March, just under 1 million doses had been issued, which was 25% of the original plan. However, despite this, Australia has been able to keep any localised outbreaks under control.

While the US and UK look forward to a path out of their winter lockdown, unfortunately many key European nations once again face their third and fourth lockdowns. By the end of March, France's daily infection rate was reaching heights of +40,000, while Germany was not far behind, at just over 17,000 daily cases. What is becoming increasingly evident for many of these nations, it is a race against time to inoculate the population to once again get the new wave of outbreaks under control.

Chart 2: Rolling 7 Day Average of New COVID-19 Confirmed Cases



Source: BTIS/Bloomberg

As for Japan, they are looking ahead to holding the postponed 2020 Summer Olympics in July, however, without spectators. This news is now starting to look like a probable outcome as towards the end of the month the country is battling to get their fourth wave under control.

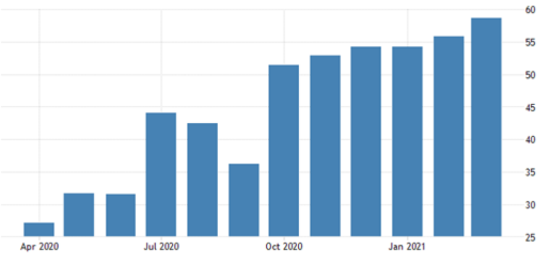
INSIDE THIS ISSUE

Australia

At the March 2 Reserve Bank of Australia (RBA) Board meeting, it once again appeared to be a rinse and repeat of the previous month's meeting. The RBA left the cash rate unchanged at 0.10%, in addition maintaining its $100bn bond buying program. The Board reiterated its core messaging from the February 2 statement - the Board is not expecting to increase the cash rate until 2024 "at the earliest". In response to rising bond yields the RBA added, "The Bank is prepared to make further adjustments to its purchases in response to market conditions." On inflation said, "CPI inflation is expected to rise temporarily because of the reversal of some COVID -19-related price reductions." So, despite the strong rise in house prices in key east coast capital cities and rally in bonds yields towards the end of February, the RBA once again reaffirmed they do not expect to lift rates for the next 3 years.

However, in saying this, over the course of March, we did see many big bank lenders look to increase their fixed term rates on 3 and 4 year retail loans on the expectation that interest rates will increase quicker than the RBA guidance. Who will be correct, only time will tell.

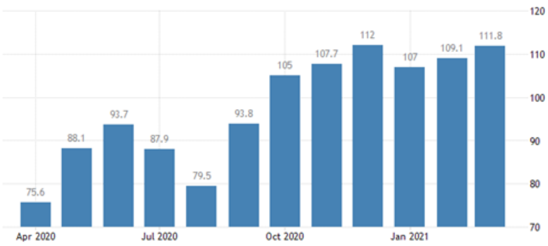
Chart 3: Services PMI Index April 2018 to April 2021



Source: BTIS/Bloomberg

Despite March seeing the end of the JobKeeper and JobSeeker, we continued to see strong signs of economic recovery. The manufacturing PMIs increased to 59.9 in March from 58.8 in February, rising for the sixth consecutive month. This was the highest reading since March of 2018, with all seven indices expanding in March. In addition, the Services PMI Index jumped to 58.7 in March from 55.8 in the month prior. This was the highest reading since June of 2018, with sales, new orders, inventory held, and deliveries showing a robust recovery while employment was close to stable in March.

Chart 4: Westpac Consumer Sentiment Index (%)



Source: BTIS/Bloomberg

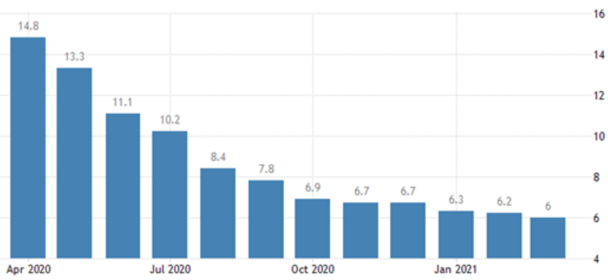
The Westpac-Melbourne Institute Index of Consumer Sentiment increased by 2.6% to 111.8 in March, just 0.2 points below the December level which was a ten -year high driven by improving economic conditions and prospects, both domestically and abroad - particularly as they relate to the Australian labour market. Australia's success in containing COVID-19, the promise of vaccine rollouts bringing an end to the pandemic - and support from stimulatory government policies have all contributed to the sustained lift in sentiment. All components of the index were higher in March. Confidence around the economic outlook led the gains with the 'economy, next 12 months' sub-index up 3.7% and the 'economy, next 5 years' sub-index up 2.3%.

United States

March saw the approval of the largest stimulus package on record for the US, with the Senate approving the USD $1.9 trillion package. As President Biden has been unable so far to lift the legislated minimum wage, this is a multi-year package aimed at improving the lives of the lower working class, targeting those most impacted by the pandemic. Towards the end of the month, this stimulus was followed by the announcement of a USD $2 trillion infrastructure spend, with a key focus on renewables and sustainability. Essentially the proposal would increase corporate taxes to offset the spend to pay for fixing roads and bridges, boosting research, lifting aged care quality and tackling climate change.

As for other economic data, the US unemployment rate fell to 6% in March from 6.2% in the previous month. This was the lowest rate in a year and in line with market expectations. The unemployment rate has been falling steadily in recent months after reaching an all-time high of 14.8% in April 2020. However, many believe it has been understated by people misclassifying themselves as being "employed but absent from work". The number of unemployed people fell by 262k to 9.71 million. The labor force participation rate edged up to a 3 -month high of 61.5%. Fed Chair Powell recently said the participation rate is seen as expanding and holding the unemployment rate up, which would be a highly desirable outcome.

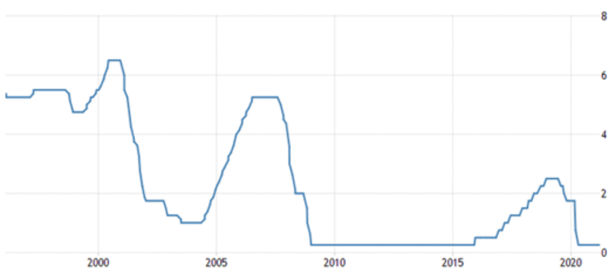
Chart 5: US Monthly Unemployment rate (%)



Source: BTIS/Bloomberg

For non-farm payrolls, the US economy added 916K jobs in March of 2021, versus market expectations of 647k. This was the most monthly jobs added in 7 months, amid easing business restrictions, falling coronavirus infection rates, a fast vaccine rollouts and continued support from the government. The largest job gains occurred in leisure and hospitality (280K), public and private education (190K), and construction (110K). This is clear signs of improvement helped by the reach of the rollout of the US vaccination program and reopening of many states from the winter lockdown as the country headed into spring.

Chart 6: US Cash Rate (%)

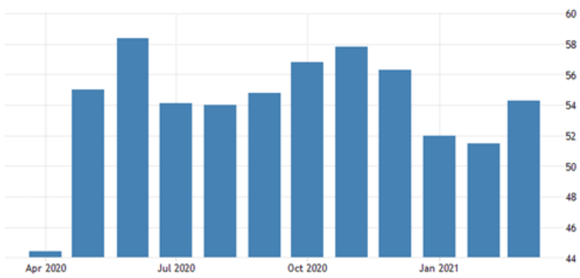


Source: BTIS/Bloomberg

Minutes released from the most recent FOMC meeting showed the Fed officials commented on the notable rise in Treasury yields and generally viewed it as reflecting the improved economic outlook, some firming in inflation expectations, and expectations for increased Treasury debt issuance. Furthermore, the outlook for inflation is seen broadly balanced while supply disruptions and strong demand could push it up more than anticipated. The Fed also noted that asset purchases would continue at least at the current pace until substantial further progress toward maximum-employment and price-stability goals would be realised and highlighted the importance of clearly communicating its assessment of progress toward its goals well in advance of a change in the pace of asset purchases. The Fed left the target range for its federal funds rate unchanged at 0-0.25% during its March meeting and, similar to the RBA, signalled a strong likelihood that there may be no rate hikes through 2023.

Asia

Chart 7: China Services PMI

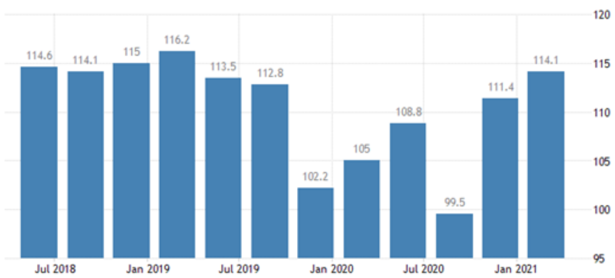


Source: BTIS/Bloomberg

As China headed back to work after what was a second year of very subdued lunar new year celebrations, economic data continued to show China was growing - but at a slower pace than what was referenced mid last year. Manufacturing PMIs for China rose to 51.9 in March from 50.6 in February, beating market consensus of 51.0. This was the highest reading since December 2020, as factories resumed their production after being closed for the Lunar New Year holiday. While Services PMI's picked up to a three-month high of 54.3 in March 2021 from 51.5 in the previous month, amid a further recovery from the pandemic. The latest reading was also slightly higher than the series average, as domestic demand strengthened, with new orders expanding the most since December 2020.

For India, the business expectations index (BEI) in India increased to 114.1 in the fourth quarter of the 2020-21 fiscal year from 111.4 in the previous period. Both Services and Manufacturing PMIs remain in expansion territory at 54.6 and 55.4 respectively in March, they are still slightly down on the previous month. The trade gap widened to USD 14.11 billion in March from USD 9.76 billion a year earlier. However, both the total value of Imports and exports increased dramatically, showing higher levels of spending and economic growth.

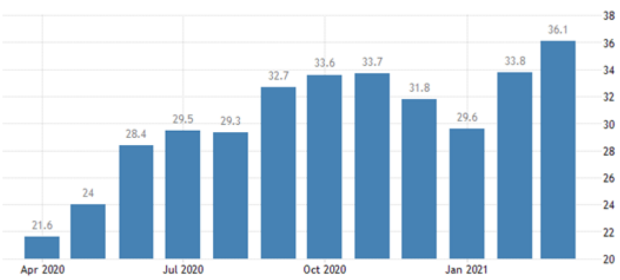
Chart 8: India's Business Confidence (%)



Source: BTIS/Bloomberg

In Japan, in its March meeting, the Bank of Japan (BoJ) left its key short-term interest rate unchanged at -0.1%, and maintained the target for the 10-year Japanese government bond yield at around 0%. Despite this, the BoJ decided to widen the band at which it allows long-term interest rates to move around its 0% target, amid efforts to make its ultra-easy policy more sustainable on the back of the COVID-19 pandemic and a continued battle to boost inflation.

Chart 9: Japanese Consumer Confidence



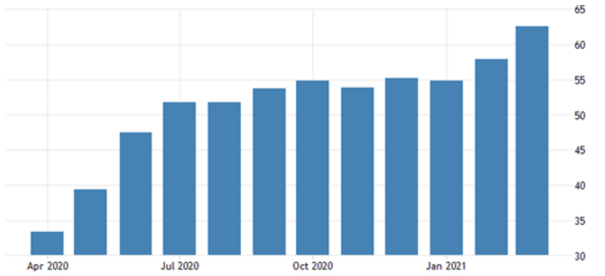
Source: BTIS/Bloomberg

As for other economic data the consumer confidence index in Japan increased by 2.2 points from the previous month to 36.1 in March of 2021, the highest since February last year, as all main sub-indices have improved: overall livelihood, income growth, willingness to buy durable goods and employment perceptions. This is a very positive sign for overall sentiment in Japan.

Europe

In the UK, at the March meeting the Bank of England (BoE) voted unanimously to keep its benchmark interest rate on hold at a record low of 0.1% and to leave its bond-buying programme unchanged. With key supporting rhetoric that the UK GDP was projected to recover strongly over 2021 towards pre-Covid levels and CPI inflation was expected to return towards the 2% target in the spring. Similar to the Fed, BoJ and RBA, the BoE reaffirmed they have plenty of tools left in their tool kit and it does not intend to tighten monetary policy at least until there is clear evidence that significant progress is being made in eliminating spare capacity and achieving the 2% inflation target sustainably.

Chart 10: Eurozone Manufacturing PMI's



Source: BTIS/Bloomberg

For economic data, both Manufacturing and Services PMIs ended the month higher at 58.9 and 56.3, respectively. Both readings showed a significant expansion as a result of easing restrictions, certainty around Brexit and rollout of the COVID-19 vaccination program in the UK. So long as the UK keeps following down this path, the market expects to see this rebound continue in the coming months, inline with the BoE expectations.

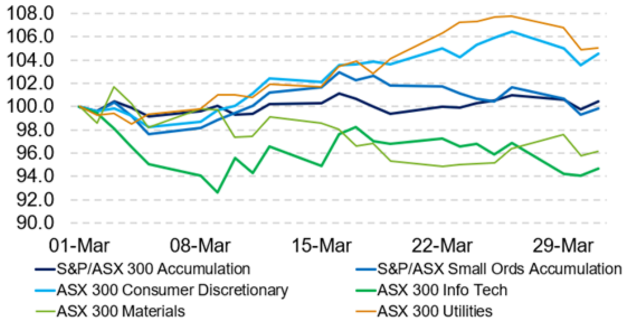
Across the pond to Europe, Eurozone Manufacturing PMI ended higher to 62.5 in March, well above February's 57.9. This result suggested operating conditions improved to the greatest degree in nearly 24 years of survey history. However, Services PMI's remained in contractionary territory at 49.6 in March. This contraction was the slowest in the current sequence. It is worth flagging as we mentioned above, as many European countries head back into lockdown, these PMI's may deteriorate in the short term.

Development in Financial Markets

Australian shares

With the year well underway, March saw a month of strong returns in the market, consolidating a strong first quarter of 2021. The ASX300 Accumulation returned +2.30%, while the ASX Small Ordinaries Accumulation gained +0.79% over the month. The one year returns on these respective indices is 38.34% and 52.15%. The market was led by strong performance in the Utilities and Consumer Discretionary sectors, ending up (+6.81%) and (+6.68%) respectively. Technology and Materials struggled over the month, ending the month down (-2.67%) and (-3.07%) respectively. March saw a continuation of sector rotation from high P/E growth sectors to beaten up cyclical sectors as the economy continues to open up and benefit from the vaccine rollout globally on eventual hope of a speedy economic recovery.

Chart 11: Australian Shares (rebased to 100)

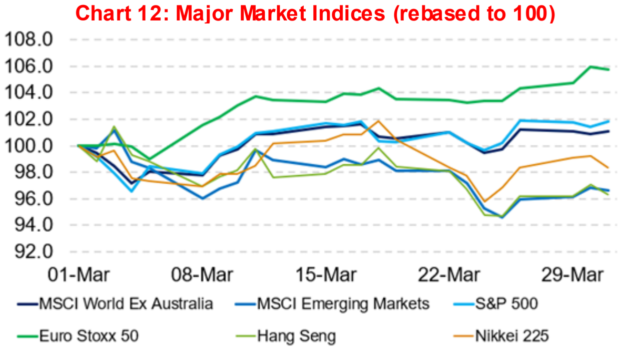


Source: BTIS/Bloomberg

International shares

International share markets consolidated on the strong returns of February, with US markets hitting all-time highs once again. Promising economic data particularly PMIs as mentioned above, positive momentum in vaccination programs, and a path out of winter lockdowns drove this performance. The MSCI World ex Australia Unhedged index ended the month up +5.09%. The United States saw the initial benefits of the stimulus cheques hitting bank accounts. The S&P ended the month up +4.38%, the Dow Jones +6.78%, with the tech heavy NASDAQ the weakest of the three ended still positively at +0.48%. The respective 1 year returns on the three US market is 56.35%, 53.78% and 73.40%. European shares were similar, the Euro STOXX up +6.08%. France's CAC 40 and Germany's DAX Index ended up +6.38% and +8.86% respectively. With the 1 year returns on these respective markets being 34.22%, 38.01% and 51.05%.

Chart 12: Major Market Indices (rebased to 100)



Source: BTIS/Bloomberg

Asian Share markets told a similar story this month. Japan's Nikkei once again hit all-time highs, aided by a +1.35% return over the month This brings the 1 year return to +56.58%. China's Shanghai Composite finished the month down -1.91% and the Hang Seng down -2.08%. The Korean KOSPI continued its upward trajectory ending up 1.61%, bringing its one-year return to 74.48%.

Fixed interest

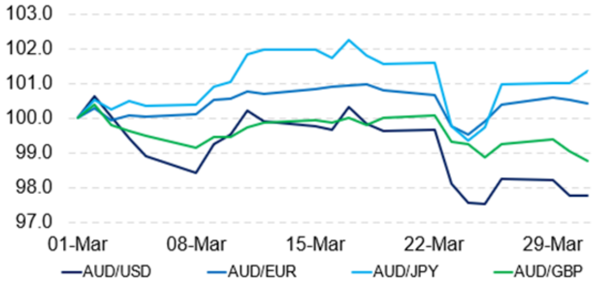
Government bond yields had an interesting month, despite the mini meltdown in prices towards the end of February as a result of a positive economic outlook for growth and potential inflation, the long end yield of many developed market curves- which continue to appear elevated. However, some say yields are not as high as they could be in light of multiple central banks rhetoric towards the end of the month, reaffirming that they do not intend to raise interest rates in the short term.

In Australia, bond yields fell slightly and prices rose, with the Bloomberg AusBond Composite (0+Y) index ended up +0.80%. For international fixed interest markets, the Barclays Global Aggregate TR Hedged index lost ground as its one-month number closed at -0.42%. 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 +1.81%, while the US ended at +1.75%.

Currencies

After a strong rally over the past few months the Australian dollar is starting to appear range bound against most developed market countries. The AUD lost -0.40% against the USD, ending the month at 0.7598. Additionally, the Euro lost ground against the USD, with a -2.68% loss to 1.173. Moreover, the GBP reversed the gains of February ended down -1.08% to 1.3783. The strength in the USD is somewhat an output of the latest round of stimulus in the US, progress of the current vaccination program.

Chart 13: Major Currencies (rebased to 100)

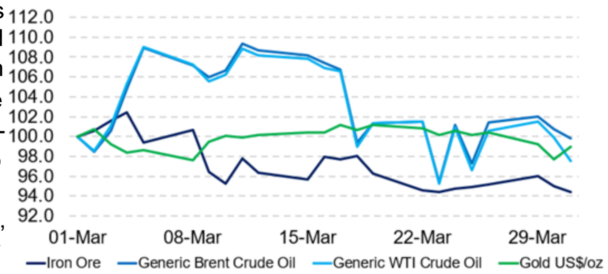


Source: BTIS/Bloomberg

Commodities

Commodities took a tumble over the month, somewhat linked to the concerns of potential delays to global shipping routes due to the temporarily blocked Suez Canal. Oil ended the month down over March, Brent Crude Oil was down -3.92% to USD $63.54 while WTI Oil lost -3.80% to USD $59.16. While the beached ship in the Suez Canal was blocking a key oil trading route, the additional supply on market as northern hemisphere weather started to warm up offset some of these concerns. Iron Ore tumbled -6.74% to USD $154.24. Gold continued to lose ground ending as risk on sentiment spurred the market on, ending the month down -1.52% to USD $1707.71 The Bloomberg Commodity Index reported a loss of -2.15% down to 83.44.

Chart 14: Major Commodities (rebased to 100)



Source: BTIS/Bloomberg