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MONTHLY UPDATE ON THE INVESTMENT ENVIRONMENT

April 2021

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surprisingly straightforward

MARKET UPDATE

April was yet another positive month for the global economy and risk assets, driven by expectations of further monetary and fiscal policy support, the effective vaccine rollout in the US and the UK, as well as the acceleration of the rollout in other regions, including Europe. Nevertheless, the pandemic rages on, with 20 million active cases currently and at least 3.3 million deaths to date.

It was another positive month for equities in developed markets. Australian equities returned 3.7% on a total return basis over the month, as the local economy continues to benefit from the strong containment of COVID-19 as well as the surging iron ore price, spurred on by robust global demand amid the ongoing economic recovery. Developed overseas equities returned 4.0% on a currency hedged basis, bringing the one-year return to a remarkable 41%. Both US and European equities pushed higher, reflecting the accelerating vaccination rollout.

Bond markets got off to a weak start to the year as yields spiked due to ongoing uncertainty about the impact of current unprecedented stimulus measures on future inflation. However, there was a slight pull-back in yields in April, caused by subdued inflation prints and dovish tones from prominent central banks, allowing global bond markets to record modestly positive performance over the month.

The Australian economy continues to benefit from the country's strong containment of COVID-19, as well as ample fiscal and monetary policy support. Strong commodity prices and China's sustained demand for Australian iron ore continue to support the Australian economy and fiscal outlook. Employment data also recorded a second consecutive month of robust improvement, with the unemployment rate at 5.6% at the end of March, only 0.5% higher than the pre-pandemic level of 5.1%. Unsurprisingly, the RBA retained its policy settings at its early May 2021 meeting.

The Australian Government's 2021-22 budget announced on 11 May unveiled a projected $107 billion budget deficit this year, as well as deficits for each of the next 10 years. The level of projected spending is higher than anticipated and is focused on infrastructure and aged care. The budget also incorporates tax write-offs for businesses and tax cuts for low- and middle-income earners. Following the announcement, ratings agency S&P reaffirmed its negative outlook on Australia, noting the sizeable deficits leave the government little room to respond to the ongoing geopolitical risks.

The US economic recovery remains strong, marked by an annualised 6.4% GDP growth in the first quarter, the third consecutive quarter of strong growth. The robust recovery continues to be supported by extraordinary levels of fiscal stimulus. US Congress has so far approved US$5.3 trillion in a variety of fiscal spending measures over the course of the pandemic, with both Biden's US$2 trillion infrastructure bill and his US$2 trillion 'American Families Plan' still going through the negotiation and approval process. The US Federal Reserve retained its policy settings at its April 2021 meeting. The post-meeting communication clearly articulated the Fed's view that the US economy is gaining momentum and that risks relating to COVID-19 are dissipating, but that the economy continues to be a long way from the central bank's goals of maximum employment and long-term inflation at 2%.

China's strong economic growth continues to be overshadowed by the ongoing tensions between China and several other nations, including Australia. After the Australian Government cancelled the Victorian state government's planned involvement in China's Belt and Road global infrastructure initiative in late April, the Chinese Government announced the indefinite suspension of all activities under the China-Australia Strategic Economic Dialogue. This is a largely symbolic move however, as the annual dialogue has not taken place since 2017.

Despite the eurozone officially recording a 'double dip' recession with a first quarter GDP print of -0.6%, economic sentiment has improved significantly over the past few months. This is reflective of the view that the worst of the pandemic is over, attributed to the acceleration of the vaccine rollout after a sluggish start, and the easing of containment measures in many countries.

Table 1: Index Returns to 30 April 2021

	MONTH (%)	THREE MONTHS (%)	FYTD (%)	ONE YEAR (%)
Australian Equities				
S&P/ASX 300 Accumulation Index	3.7	7.6	22.8	31.6
S&P/ASX Small Ordinaries Accumulation Index	5.0	7.4	28.9	39.8
International Equities				
MSCI World (ex Australia) Index (hedged A$)	4.0	11.3	31.3	40.6
MSCI World (ex Australia) Index (unhedged A$)	3.2	10.2	20.3	23.0
MSCI Emerging Markets Index (unhedged A$)	1.1	1.0	22.5	26.0
Property				
S&P/ASX 200 A-REIT Accumulation Index	2.9	6.8	24.1	30.9
Australian Fixed Interest				
Bloomberg AusBond Composite Index	0.6	-2.3	-1.8	-1.2
Global Fixed Interest				
FTSE WGBI ex-Aust (hedged A$)	0.0	-2.4	-2.2	-2.1
Barclay's Global Capital Aggregate Bond Index (hedged A$)	0.2	-1.7	-0.9	-0.1
Cash				
Bloomberg AusBond Bank Bill Index	0.0	0.0	0.1	0.1
Commodities				
Gold (US$ per ounce)	4.5	-5.2	0.0	3.8
Copper (US$ per metric tonne)	11.8	25.1	63.3	89.4
WTI Crude Oil (US$ per barrel)	7.5	21.8	61.9	237.5
RBA Index of Commodity Prices (A$)	3.4	7.0	23.9	15.4

Table 2: Australian Dollar versus Foreign Currencies to 30 April 2021

AUSTRALIAN DOLLAR VERSUS	AS AT 30 APRIL 2021	MONTH (%)	THREE MONTHS (%)	FYTD (%)	ONE YEAR (%)
US Dollar	0.77	1.4	0.7	12.2	18.0
British Pound Sterling	0.56	1.1	-0.1	0.1	7.5
Euro	0.64	-1.0	1.6	4.7	7.4
Japanese Yen	84.43	0.3	5.1	13.7	20.6