BLUEBIRD PORTFOLIO SERVICES

Quality Listed Portfolios

Market Update - February 2021

Total Return to 28/02/2021	1M (%)	3M (%)	6M (%)	1YR (%)	3 YR (% p.a.)	5 YR (% p.a.)	Current Yield
Cash	0.0	0.0	0.1	0.2	1.2	1.5	0.1%
Fixed Term Bank Deposit (12M)	0.0	0.1	0.3	0.7	1.7	2.1	0.4%
Australian Bonds (composite)	-3.6	-4.3	-3.1	-2.8	4.0	3.3	1.1%
Australian Bank Hybrids (gross)	0.7	1.8	3.5	2.6	4.2	5.9	2.4%
Australian Property	-2.5	-5.9	4.7	-11.3	5.8	5.2	4.2%
Australian Shares	1.5	3.0	11.5	6.5	7.3	10.8	3.8%
Global Shares (unhedged)	1.6	0.7	6.6	7.8	11.1	12.3	1.8%
Global Infrastructure (hedged)	-0.8	-3.1	2.7	-5.1	6.0		3.4%

Movement to	28/02/2021	1M	3M	6M	1YR
AUD/USD (cents)	0.77	0.01	0.04	0.03	0.12
Aust. 10-year bond yield (%)	1.85	0.76	0.94	0.87	1.00
Gold US$/ounce	1733.5	-112.6	-43.5	-236.3	148.8
Brent oil US$/bbl	66.1	10.3	18.5	20.9	15.6
Iron ore US$/t	165.6	-2.5	41.0	43.1	79.2
Copper US$/pound	4.09	0.52	0.67	1.05	1.55

Source: Refinitiv, relevant ETF/Benchmark data

Global

With COVID-19 vaccines rolling out globally and the Biden administration gaining approval for its US$1.9 trillion fiscal stimulus, the market has started to believe in global recovery but also an inflation pulse. Bond yields and commodities are on the rise and in turn Banks and Resource stocks are outperforming.

While an improving growth and inflation outlook is generally positive for equities, rising bond yields are a risk in that market valuations, particularly for growth stocks, are heavily reliant on low interest rates. As a result, we are seeing market rotation from ‘growth’ sectors into ‘value’ sectors.

In addition, bond prices are falling, as bond yields rise, and hence bond funds are underperforming. However, floating interest rate securities, like Bank Hybrids, are benefiting from rising inflation expectations.

Commodity prices are generally rising on the improved growth outlook and current weakness in the USD. Interest in commodities related to clean energy and electric vehicles (copper, nickel, rare earths and lithium) have also skyrocketed, with the new Biden administration coming in. However, Gold is on the outer for now, as the 'risk on' mood has seen sentiment sour.

Lastly, property and infrastructure stocks are caught in between the negative of rising bond yields but the positive of economic activity returning to 'normal'. As a result, we are seeing patchy performance across the infrastructure and property sectors.

Australia

The COVID-19 vaccine rollout is just beginning but business and consumer confidence already seems to be returning. The housing market has recovered, and employment is improving. The government is preparing to roll back its Jobkeeper program but has maintained a small increase in Jobseeker.

The RBA remains dovish and is holding the short-end of the yield curve (from cash to 3-year bonds) below 0.15% but is starting to lose control of the long-end, with the Australian 10-year bond yield rocketing from 1.0% to 1.8%, in the past month. The RBA has added $100bn to its bond buying program but this has done little to stop the 10-year yield from rising, in-line with the US 10-year bond. In turn, higher interest rates in Australia are leading to strength in the AUDUSD, which has rallied to $0.80 in recent weeks.

Rising interest rates and a stronger AUD are starting to take a toll on many sectors in the Australian market. In fact, most sectors were down in February, despite reporting 1H21 profit results that generally beat low expectations. The Bank, Resource and Energy sectors were the only sectors to generate positive returns. In the short term, diversified portfolios are underperforming the market (which has a heavy bias to Banks and Resources).

Outlook

The outlook generally remains positive for Equities, on the prospect of economic activity returning to 'normal' and still very accommodative fiscal and monetary policy. However, the prospect of rising inflation and interest rates does pose a short-term risk to market valuations and could spark a market correction. In Australia, the rising AUD/USD is also causing some problems for a few sectors. Much depends on the pace of economic recovery, post COVID vaccines, and whether any inflation is sustainable.

Bill Keenan
Principal, Portfolio Manager

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