Quality Listed Portfolios

Market Update – April 2021

Total Return to 30/04/2021	1M (%)	3M (%)	6M (%)	1YR (%)	3 YR (% p.a.)	5 YR (% p.a.)	Current Yield
Cash	0.0	0.0	0.1	0.2	1.1	1.4	0.1%
Fixed Term Bank Deposit (12M)	0.0	0.1	0.2	0.5	1.3	1.6	0.4%
Australian Bonds (composite)	0.6	-2.3	-3.0	-1.2	4.3	3.5	1.1%
Australian Bank Hybrids (gross yield to call)	0.9	1.3	3.1	7.9	4.9	4.3	2.5%
Australian Property	3.1	6.9	16.4	31.8	7.5	6.0	3.9%
Australian Shares	3.5	7.5	20.3	30.8	9.5	10.3	3.7%
Global Shares (unhedged)	3.2	10.2	17.3	23.0	13.3	13.8	1.8%
Global Infrastructure (hedged)	3.3	10.4	14.6	16.6	7.4	7.9	2.8%

Movement to	30/04/2021	1M	3M	6M	1YR
AUD/USD (cents)	0.77	0.01	0.01	0.07	0.11
Aust. 10-year bond yield (%)	1.70	-0.11	0.60	0.87	0.79
Gold US$/ounce	1768.6	3.6%	-4.2%	-5.8%	5.3%
Brent oil US$/bbl	67.3	5.8%	20.3%	79.5%	166.1%
Iron ore US$/t	180.0	8.7%	7.1%	49.8%	114.7%
Copper US$/pound	4.48	11.9%	25.3%	47.2%	90.3%

Source: Refinitiv, relevant ETF/Benchmark data

Global

The Global economy continues to recover from the COVID-19 pandemic, but the recovery is patchy. The US, China and the UK are making steady progress, while Europe, Japan, India and Brazil are still dealing with virus outbreaks. In addition, recent US data has been a little softer than expected. This patchiness has calmed inflation fears (for now) and bond yields have retreated.

With interest rates remaining very low, Equity and Commodity markets have been given the 'green light' to continue their strong rally. However, beneath the surface, there has been a continual trend of investors switching from 'growth' sectors to 'value' sectors, mainly on the fear of higher inflation and interest rates ahead. Accordingly, Technology and Healthcare sectors have been volatile, while Banks and Resources continue to do well. Property and Infrastructure sectors also continue to recover as economic activity returns and interest rates remain generally low.

Australia

The economic recovery has been stronger than expected, with the RBA expecting growth to be 4.75% in 2021 and the unemployment rate to fall below 5.0%. In addition, the March CPI figure was surprisingly low at 1.1%. This 'Goldilocks' scenario has led to a strong rally in the Australian share market.

Strong growth and a buoyant iron ore price have led to the FY21 Federal Budget deficit 'improving' to -$161bn (from -$200bn) but a big spending FY22 Federal Budget will keep the deficit out at -$106bn or 5.0% of GDP. Gross public debt will continue to ratchet up towards $1.2 trillion or 50% of GDP. It seems Australia is headed for never-ending budget deficits, following in the footsteps of the US.

At the same time, the RBA continues to hold the short-end of the yield curve (from cash to 3-year bonds) down at 0.10% and will continue to do so until inflation is sustainably within its 2-3% target range. The RBA is targeting a low unemployment rate, which should eventually lead to wage inflation and then general inflation. The RBA expects it will take until 2024 to achieve its objectives.

Recent weakness in the USD and strong commodity prices has seen the AUDUSD rally back to the $0.78 level. It does not seem the AUD will weaken until commodity prices (particularly iron ore) fall.

On a negative note, relations with China do not seem to be improving and it seems we are in for a 'Cold War' with China. At this stage, it is not really hurting Australia, with iron ore buoyant but one by one, China seems to be targeting our exports and it looks like LNG could be next. In addition, China seems to be increasing pressure on Taiwan, which could bring the West (including Australia) into conflict with it. This is one risk to keep an eye on.

Outlook

The outlook generally remains positive for growth assets (equities, property and infrastructure), on the prospect of economic growth rebounding and still very accommodative fiscal and monetary policy. However, the prospect of rising inflation and interest rates does pose a short-term risk to bonds and eventually equity market valuations. Much depends on the pace of economic recovery, post COVID vaccines, and whether inflation is transitory or sustained. Other risks include: East/West relations and regulatory intervention in various sectors, which seems to be on the rise in recent years.

The next key events on the calendar include:

RBA meeting – 1 June 2021

US Fed meeting – 15 and 16 June 2021

US 2Q21 reporting season – July 2021

Australian FY21 reporting season – August 2021

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Warnings, Disclosure and Disclaimer

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