Quality Listed Portfolios

Market Update – May 2021

Total Return to 31/05/2021	1M (%)	3M (%)	6M (%)	1YR (%)	3 YR (% p.a.)	5 YR (% p.a.)	Current Yield
Cash	0.0	0.0	0.1	0.2	1.0	1.3	0.1%
Fixed Term Bank Deposit (12M)	0.0	0.1	0.2	0.5	1.3	1.6	0.4%
Australian Bonds (composite)	0.3	1.6	-2.7	-1.2	4.1	3.3	1.0%
Australian Bank Hybrids (gross yield to call)	-0.2	0.9	2.8	6.5	4.9	4.2	2.5%
Australian Property	1.8	11.5	5.0	25.3	7.1	5.8	3.9%
Australian Shares	2.3	8.5	11.7	28.2	9.9	10.1	3.8%
Global Shares (unhedged)	1.2	9.7	10.5	20.4	13.6	12.8	1.8%
Global Infrastructure (hedged)	-0.5	10.8	7.2	11.4	7.1	7.5	2.8%

Movement to	31/05/2021	1M	3M	6M	1YR
AUD/USD (cents)	0.77	0.00	0.00	0.04	0.11
Aust. 10-year bond yield (%)	1.66	-0.04	-0.20	0.75	0.76
Gold US$/ounce	1,906	7.8%	10.0%	7.3%	10.4%
Brent oil US$/bbl	69.3	3.1%	4.8%	45.7%	96.2%
Iron ore US$/t	206	14.3%	24.2%	65.1%	123.5%
Copper US$/pound	4.68	4.6%	14.4%	36.9%	93.0%

Source: Refinitiv, relevant ETF/Benchmark data

Global

The Global economy is experiencing a sharp recovery from the COVID pandemic, with the IMF forecasting 6% growth in 2021 and 4.4% in 2022. However, the recovery remains uneven, with some countries yet to contain the virus. Commodity prices have risen on short term supply issues and weakness in the USD.

Inflation has spiked in the US, but markets were well prepared for this and seem to be accepting the Fed's narrative that inflation will be transitory. Core inflation hit 3.8% in May, well above the Fed's 2.0% target, but the market expects core inflation to retreat to 2.5% in 2021 and 2.2% in 2022. Inflation is being temporarily boosted by short term supply bottlenecks and the low base effect from 2020.

Bond markets seem to agree that inflation will subside, as bond yields have drifted lower, after spiking in February and March 2021. In turn, this has given the 'green light' to equities which hit record levels in recent weeks. There has also been some rotation back into growth sectors, including technology and healthcare.

With economic activity recovering and interest rates remaining low, property and infrastructure assets have continued to 'claw' their way back from the March 2020 sell-off. We expect that a recovery in volumes will be more important that any rise in interest rates and hence remain positive on the outlook for property and infrastructure.

The USD continues to remain weak, which most probably reflects budget deficits running above US$2 trillion and the public debt approaching US$28 trillion or 130% of GDP. Gold began to rally in April and hit over US$1,900/oz in May. However, Bitcoin came crashing down from the US$60,000 level to under US$40,000 at the present time.

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%. Fiscal and monetary policy remain very accommodative and the boom in commodity prices is also supportive.

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. Nevertheless, markets are looking for any evidence of the tightening cycle commencing.

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.

The main risk seems to be around continued COVID outbreaks, which recently led to Victoria entering lockdown for 2 weeks. However, this has led to renewed focus on vaccinations and quarantine procedures, which could be a net positive. In addition, relations with China do not seem to be improving and it seems we are in for a 'Cold War' with China. It was notable that the leaders of the US, UK and Australia where keen to improve relations at the recent G7 meeting in England – a meeting where China and Russia are not invited!

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 remains the key risk to bond and equity markets. Much depends on the pace of economic recovery, post COVID vaccines, and whether inflation is transitory or sustained. Other known 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:

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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