Quality Listed Portfolios

Monthly Market Update – August 2021

Total Return to 31/08/2021	1M (%)	3M (%)	6M (%)	1YR (%)	3 YR (% p.a.)	5 YR (% p.a.)	Current Yield
Cash	0.0	0.0	0.1	0.1	1.0	1.3	0.1%
Fixed Term Bank Deposit (12M)	0.0	0.1	0.2	0.4	1.1	1.5	0.4%
Australian Bonds (composite)	0.1	2.6	4.2	1.1	4.5	3.3	1.6%
Australian Bank Hybrids (gross yield to call)	-0.1	0.8	1.4	4.4	3.8	4.0	3.4%
Australian Property	6.4	12.8	25.8	31.8	9.4	7.1	4.0%
Australian Shares	2.5	6.0	15.0	28.1	9.9	10.9	3.5%
Global Shares (unhedged)	3.1	12.3	23.2	31.4	14.7	15.6	1.8%
Global Infrastructure (hedged)	2.0	3.9	15.1	17.8	7.3	7.7	3.7%

Movement to	31/08/2021	1M	3M	6M	1YR
AUD/USD (cents)	0.74	0.00	-0.03	-0.03	0.00
Aust. 10-year bond yield (%)	1.16	-0.03	-0.49	-0.69	0.19
Gold US$/ounce	1,809	-0.2%	-5.1%	4.4%	-8.2%
Brent oil US$/bbl	72.8	-4.7%	4.9%	10.0%	60.7%
Iron ore US$/t	159	-25.2%	-22.6%	-3.8%	30.0%
Copper US$/pound	4.32	-3.6%	-7.8%	5.5%	42.0%

Source: Refinitiv, relevant ETF/Benchmark data

Global

A new wave of COVID-19 in the form of the Delta strain, is causing problems across the globe. US economic data has slowed in August and China's strict lockdown has upset global supply chains, leading to supply bottlenecks. At the same time, Japan's Prime Minister, Yoshihide Suga, has resigned over the country's COVID outbreak, despite the country managing to run a reasonably successful Olympic games during the pandemic.

US Federal Reserve Chair, Jerome Powell, made a speech at the virtual Jackson Hole conference which basically stated the Fed's asset purchase program will continue until there is "substantial further progress" towards the Fed's maximum employment and price stability goals. The "substantial further progress" test has been met for inflation but not for employment. Payroll numbers were looking good up to July (around 900-1000K per month) but August payrolls fell to 235,000, well below expectations. This seems to be related to the Delta outbreak upsetting hospitality and leisure jobs, particularly in the Southern States. It now looks like the Fed will maintain its stimulus in the short term and won't be tapering until later in the year, possibly into 2022, depending on the US vaccination rollout and anticipated recovery.

Slowing growth has lowered bond yields and raised expectations that fiscal and monetary stimulus will continue. This has supported equity markets, despite the apparent economic problems that the Delta outbreak is causing. However, commodity prices, particularly iron ore, have retreated.

The US government is still trying to pass a US$3.5 trillion 'budget reconciliation' bill and a US$1 trillion infrastructure package but has hit its self-imposed US$28.5 trillion public debt limit. The Democrats must wrestle with Congress to get the public debt limit extended (once again) but they should have the numbers. To give some context, the US government is already running a circa US$2.5 trillion budget deficit and has accumulated US$28.5 trillion in public debt, which is equivalent to a public debt/GDP ratio of 135% (Australia is around 50%).

The US dollar was rallying up to the release of the weak August payroll numbers in early September, which has cast some doubt on the US recovery and the Fed tightening monetary policy. The US dollar has since retreated and in turn other currencies have rallied, as well as gold.

Australia

Australia's strong economy has hit a few speedbumps in the September quarter, including a new wave of COVID, supply bottlenecks stemming out of China and a retreat in the iron ore price from over US$200/t to around US$145/t, currently.

Australia's largest states, NSW and Victoria, have become bogged down in lockdowns, unable to limit the spread of COVID infections and are now targeting a 70-80% vaccination rate to hopefully open-up again in the December quarter.

The Federal and State governments are providing financial support where necessary and the RBA is maintaining a very low cash rate and bond purchases running at $4bn per week, until at least mid-February 2022. This is keeping the Australian yield curve very low from cash out to 10-year bonds.

The Australian dollar touched a low of $0.71 in August, as Australia slowed and the USD strengthened but the weak US payroll report in early September has reversed this trend, even with a weaker iron ore price.

Australian companies generally posted very resilient results and demonstrated strong balance sheets in the August reporting season. This had led to higher dividends and a number of share buybacks and capital returns. However, the outlook is uncertain, and most companies are not providing guidance. The usual experience is for the economy to bounce back quickly, post virus outbreaks, and the vaccination program gives a good reason to believe this will be the case in 2022.

Outlook

The outlook generally remains positive on very accommodative fiscal and monetary policy and the hope of mitigating the economic and social impact of COVID, with the rollout of vaccination programs.

However, recent COVID outbreaks have tilted the risks towards slowing growth rather than inflation and this is reflected in lower bond yields. 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, regulatory intervention in various sectors and the ongoing impact of climate change.

With equity markets at record levels, there is a risk that slowing growth and/or persistent inflation sparks a market correction or indeed some other unknown risk factor has an impact. We have generally been recommending a dollar cost averaging strategy of investing gradually, with perhaps 1/3 of funds invested every 3 months.

The next key events on the calendar include:

- US Fed meeting – 21-22 September 2021
- G20 meeting in Italy - 30-31 October 2021
- US $28.5 trillion public debt limit - must be resolved by 31 October 2021
- UN Climate Change conference, Scotland - 31 October - 12 November 2021
- Australian AGM season - November 2021
- Australian Bank reporting season - November 2021

Bill Keenan

Principal, Portfolio Manager

Warnings, Disclosure and Disclaimer

Date issued: Tuesday, September 7, 2021

This document is provided by Bluebird Portfolio Services Pty Ltd (Bluebird), ABN 91 620 481 218, AFSL 503266.

General Securities Advice

Any advice provided in this document, is general in nature only and does not take into consideration an investor's objectives, financial situation or needs. Before acting on the advice, the reader must consider whether it is personally appropriate considering his or her financial circumstances or should seek independent financial advice on its appropriateness.

Past performance is not a reliable indicator of future performance.

Disclosure

Bluebird DOES NOT accept fees or gifts from companies or product issuers.

Bluebird and its respective officers may have an interest in the securities or derivatives of any entities referred to in this material. See https://www.bluebirdportfolios.com.au/documents for a list of Director shareholdings. The analyst hereby certifies that all the views expressed in this report accurately reflect their personal views about the subject investment theme and/or company securities.

Disclaimer

The material in this document has been obtained from sources believed to be true but neither Bluebird nor its associates make any recommendation or warranty concerning the accuracy, or reliability or completeness of the information or the performance of the companies or portfolios referred to in this document.

Any opinions and or recommendations expressed in this material are subject to change without notice and Bluebird is not under any obligation to update or keep current the information contained herein. References made to third parties are based on information believed to be reliable but are not guaranteed as being accurate. Although every attempt has been made to verify the accuracy of the information contained in the document, liability for any errors or omissions (except any statutory liability which cannot be excluded) is specifically excluded by Bluebird, its associates, officers, directors, employees and agents. Except for any liability which cannot be excluded, Bluebird, its directors, employees and agents accept no liability or responsibility for any loss or damage of any kind, direct or indirect, arising out of the use of all or any part of this material.

Recipients of this document agree in advance that Bluebird is not liable to recipients in any matters whatsoever otherwise recipients should disregard, destroy, or delete this document. All information is correct at the time of publication. Bluebird does not guarantee reliability and accuracy of the material contained in this document and is not liable for any unintentional errors in the document

This communication is intended for the named recipients only. It is confidential and may contain information which is privileged or personal. If you are not an intended recipient, you must not disclose or use this communication for any purpose. If you have received this communication in error, please call us and then destroy the communication or delete it from your computer system.

www.bluebirdportfolios.com.au

bill.keenan@bluebirdportfolios.com.au

M: 0403534426

T: 03 8840 7886

Exchange Tower, Level 1, 530 Little Collins Street, Melbourne, VIC 3000.