View from the hill

JUNE 2021

Market update

The table below provides details of the movement in average investment returns from various asset classes for the period up to **31 May 2021.**

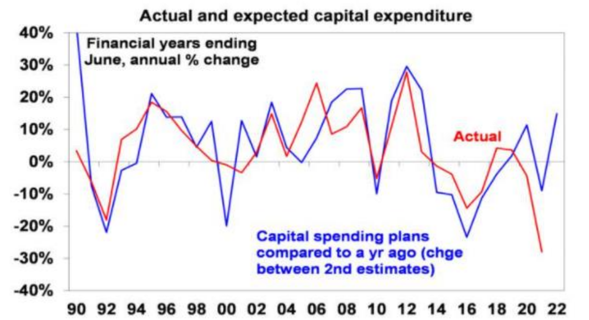
Asset class (% change)	1 month	3 months	1 year	3 years (%pa)
Australian shares	2.3	8.5	28.2	9.9
Smaller companies	0.3	6.1	26.7	7.9
International shares (unhedged)	1.2	9.7	20.4	13.6
International shares (hedged)	1.0	9.5	37.1	14.0
Emerging markets (unhedged)	2.1	3.3	29.5	8.8
Property – Australian listed	1.8	11.5	25.3	7.1
Property – global listed	1.4	11.6	32.0	6.0
Australian fixed interest	0.3	1.6	-1.2	4.1
International fixed interest	0.2	0.0	-0.2	3.9
Australian cash	0.0	0.0	0.1	1.0

Past performance is not a reliable indicator of future performance.

Overview & Outlook

The Federal Budget was unveiled last month and reveals the government's plans to secure Australia's recovery from the pandemic. While the rebound is already well underway and Australia's economic outcomes have been favourable in comparison to international peers, the Budget aims to ensure continued growth. Jobs will continue to be created through infrastructure and homebuyer incentives. The government also announced $A96 billion of spending on tax breaks and social services over the next five years. There will be a focus on reforming aged care, investing in childcare, supporting disability needs and ensuring mental health services are accessible. With the additional stimulus, some economists forecast that a budget surplus is not expected for at least the next 10 years.

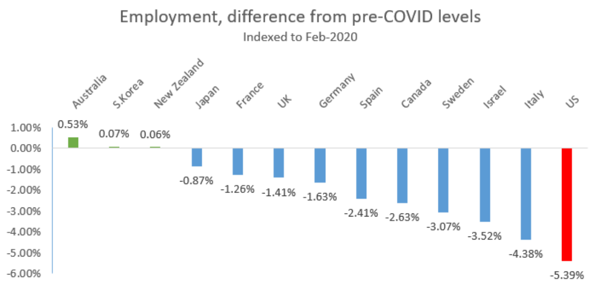
Australia has experienced a V-shaped recovery, with economic performance accelerating through the beginning of the year and now continuing at a reasonable pace as most of the economic boosts from reopening have been realised. Vehicle sales surged in May and car dealers are experiencing delays due to semiconductor shortages. The NAB Survey of Business Conditions in April also noted that business confidence is at its highest levels since 1996. Current capital spending plans for the next financial year (see table below) are up 15% in comparison to current spending and therefore this investment will continue to assist economic growth.



Source: AMP, AMP Capital

The RBA released their quarterly statement on monetary policy, reiterating that there are no plans to hike interest rates in the short-term. While inflationary concerns have been lower in Australia compared to international peers, some economists expect that the RBA may start to taper its bond buying program towards the end of the year.

In the US, inflationary uncertainty was the theme of the month. Headline CPI exceeded expectations and rose to 4.3% YoY and core inflation rose to 3% YoY. Inflation pressure has been driven by rising raw material prices resulting from the current construction boom. Supply chain impacts from COVID have also reduced supply in some sectors, adding to price pressures. On the other hand, unemployment rose to 6.1% as small businesses struggle to hire in an environment where unemployment benefits are keeping people at home. Only 266,000 jobs were created in May (significantly below expectations) and employment is still 5.39% below pre-COVID levels. With the data pointing in multiple directions, the Federal Reserve believes that inflation is temporary and may fall again when unemployment benefits end in September.



Source: AMP

The European economy is on the rebound as vaccination rates have picked up. This has been reflected in the Eurozone Sentiment Index which increased to 113.5 and consumer confidence which has risen to a three-year high.

In emerging markets, India is seeing a steady decline in new virus cases and the government is preparing to revive the economy. In China, the Caixin manufacturing PMI climbed to 52 and the country is in expansionary mode. However, with iron ore price surges and raw material shortages, supply chains are being impacted and price pressures starting to build.

Share markets

The Australian market (+2.3%) in May was led by gains from major Materials (+1.69%) and Financial (+5.69%) companies. Demand for Materials has picked up due to construction and rapidly increasing economic growth globally. The major banks benefitted from strong credit growth, improving unemployment numbers, as well as investors who are closing their underweight positions. Info Tech (-9.86%) was the worst performer with share price declines driven by profit taking and investor concerns around the very demanding PE multiples in the artificial intelligence (AI), buy now pay later and e-commerce themes. By way of example, AI data companies Appen and Nuix fell 14% and 30% respectively.

With the release of quarterly trading updates, companies have begun to announce improved dividend payments for the year, many demonstrating confidence to distribute more to shareholders. This is largely being led by major banks and miners, but also includes other blue-chip players such as Macquarie Group and Wesfarmers. Looking forward, some analysts are predicting that with strong earnings underpinning share prices, the S&P/ASX 200 has potential to reach 8000 points by year-end.

International markets (+1.2%, unhedged) were mixed, with the S&P500 (+0.7%) underperforming the broader market due to volatility resulting from inflation uncertainty. The MSCI Europe ex-UK rose 2.8% due to boosts to their energy and consumer sectors as the economy reopened. In other developed markets, Japan ended the month 1.4% up as pandemic controls took effect and vaccinations accelerated. Emerging markets (+2.1%) performed well partly assisted by expectations of a weaker $US, which makes debt repayment easier for those countries.

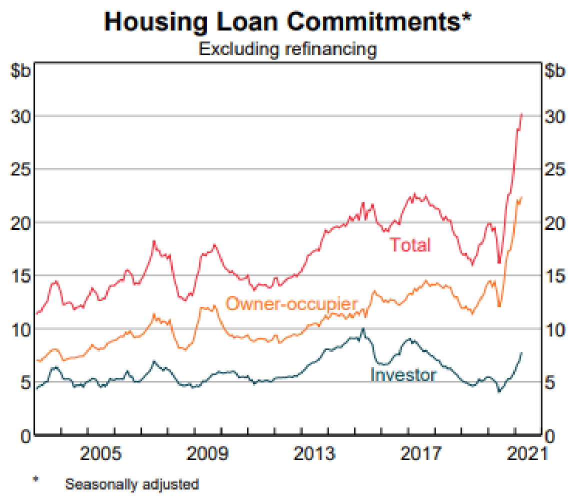
Interest Rates

Government bond rates both locally and internationally have been relatively unchanged. Australian fixed interest returns (+0.3%) were stable as the Australian 10-year bond rate fell 5bps to 1.64%. International fixed interest (+0.2%) moved in the same direction, with the US 10-year bond rate ending the month 3bps lower at 1.59%. Going forward, bond markets may experience bouts of heightened volatility as interest rate uncertainties linger, especially if the market continues to worry about higher inflation and central banks' inability to control it.

Property

Australian listed property (+1.8%) performed steadily, with commercial landlords Centuria, Growthpoint and Charter Hall all reporting strong valuation gains on their industrial portfolios. Charter Hall acquired four commercial properties this month in an improving commercial property market. Global REITS (+1.4%) had only a small increase as retail property remains uncertain.

In residential property, home lending activity across the board has increased sharply (see table below). House prices in Australia jumped 2.3% in May and some analysts expect continued buoyancy over the medium term.



Source: ABS, RBA