
# February 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 January 2021.***

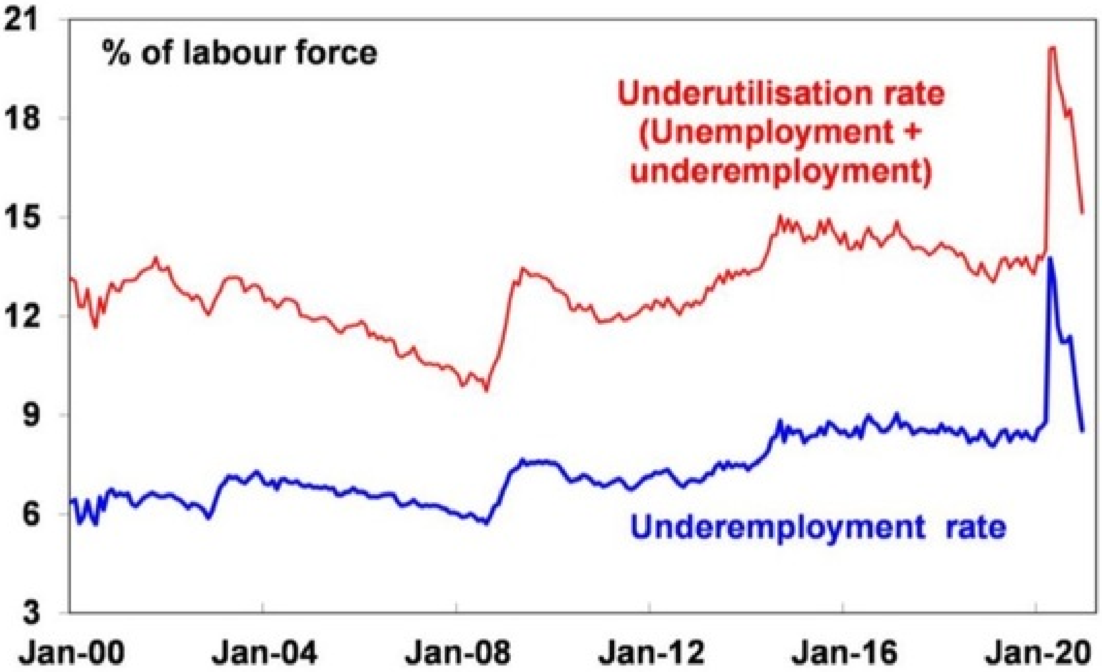
| Asset class (% change) | 1 month | 3 months | 1 year | 3 years (% pa) |
|---|---|---|---|---|
| **Australian shares** | 0.3 | 11.9 | -3.1 | 7.0 |
| **Smaller companies** | -0.3 | 13.0 | 5.4 | 6.7 |
| **International shares (unhedged)** | -0.4 | 6.4 | 0.9 | 10.4 |
| **International shares (hedged)** | -0.8 | 15.1 | 13.3 | 8.6 |
| **Emerging markets (unhedged)** | 3.7 | 10.6 | 11.6 | 6.3 |
| **Property - Australian listed** | -4.1 | 8.9 | -13.3 | 5.5 |
| **Property - global listed** | -0.5 | 14.1 | -14.5 | 1.3 |
| **Australian fixed interest** | -0.4 | -0.8 | 1.7 | 5.4 |
| **International fixed interest** | -0.6 | 0.2 | 2.6 | 4.7 |
| **Australian cash** | 0.0 | 0.0 | 0.3 | 1.2 |

Past performance is not a reliable indicator of future performance.

## Overview and outlook

As the new year begins, the coronavirus pandemic remains at the forefront of investors' concerns. Rising cases in western countries and uncertainty around vaccine effectiveness against new strains weighed down on investor sentiment and increased market volatility. Australia seems to be an exception given the strong response it had with lockdowns and a fiscal stimulus which focus on employment support.

### Australia - labour underutilisation

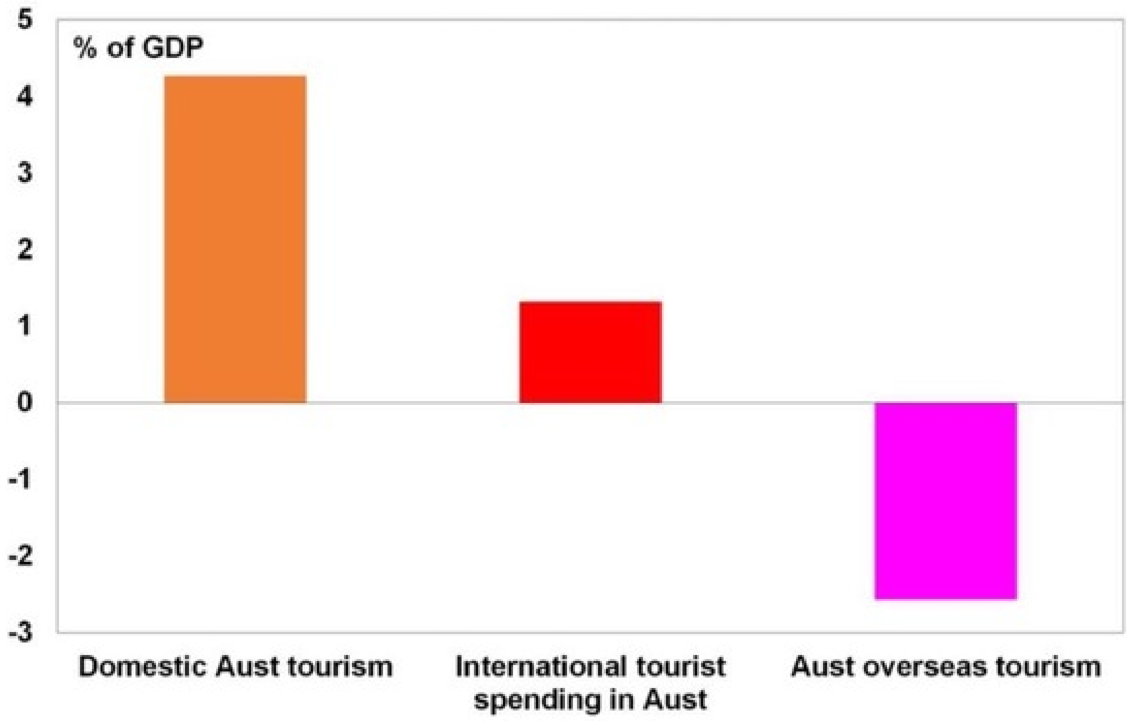



Source: ABS, AMP Capital

Australian economic data remained solid in January with a strong rebound in employment as unemployment fell to 6.6%. Nearly 90% of jobs and hours worked that were lost in May have now been recovered, showing a very deep 'V' rebound with underutilisation (a figure that combines unemployment and under-employment) falling to 15% from a 20% high. Retail sales remain elevated, 1.9% above average in Q4 year on year, however it is expected to slow in the new year as demand softens and spending on services gradually recovers.

Tourist-related industries within Australia have been one of the most impacted sectors from the pandemic, with international travel collapsing to almost zero and unlikely to recover until 2022. The silver lining is that Australian offshore tourism detracts 2.6% of GDP while incoming tourists only adds 1.3% of GDP, meaning that the net 1.3% of GDP that is normally lost could potentially be re-directed domestically and boost the Australian economy.

### Tourism Spending




Source: Tourism Research Australia, ABS, AMP Capital

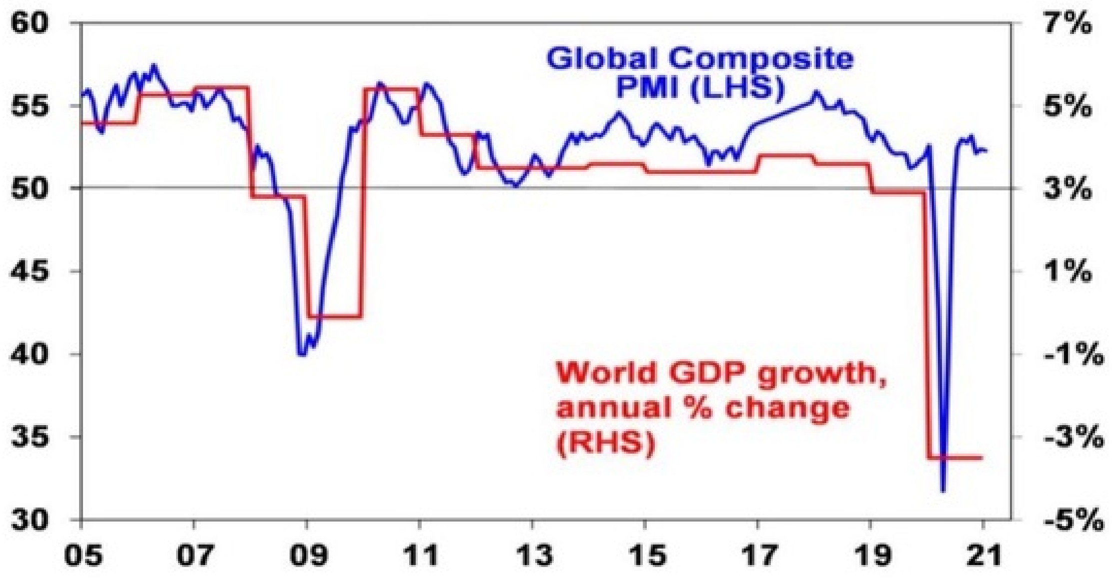
The AUD peaked at US$0.78 during the month before closing at US$0.76. A retracement in iron ore prices weakened the AUD and the 'risk-off' sentiment regarding global growth strengthened the USD. Furthermore, in early February the RBA announced an additional $100B bond purchase program which is likely to keep the AUD down which would help to boost exports.

Eurozone economic data was poor in the new year. The unemployment rate remained at 8.3% at the end of 2020 with the economy shrinking by 0.7% quarter-on-quarter and 6.8% over the full year. Growth and recovery for the Eurozone will most likely remain subdued as the region is impacted by vaccine supply constraints and the risk of the new Covid-19 strain spreading from the UK.

The US economy continues to improve despite rising Covid-19 cases. Joe Biden has been inaugurated as the new President and has already re-joined the Paris Agreement which boosted the US renewable energy sector. A quarter-on-quarter GDP Growth of 1% and an increased Composite PMI (a measure of future economic activity) of 58.7 suggests a continuation of economic recovery.

The IMF (International Monetary Fund) has revised their global growth forecast to 5.5% indicating a sharp recovery in 2021. Global Composite PMI (52.5) also suggests a sharp rebound in global growth as the graph below indicates that World GDP growth has often lagged the Global Composite PMI.

**Global Composite PMI vs World GDP**




Source: Bloomberg, AMP Capital

## Share markets

The US and other share markets, including Australia, remain at risk of a short-term correction after the significant rally late last year due to the vaccine announcements and the seasonally strong spending that occur during the holiday period. Investors are likely to remain cautious as they wait for evidence on the effectiveness of vaccines and any additional US stimulus to be voted by Congress.

The Australia share market (+0.3%) posted a small return, with early gains in the month being slightly offset by a late January sell off as iron ore prices fell. Consumer Discretionary (+4.7%) and Telecommunication Services (+4.5%) were the biggest contributors as JB Hi-Fi and Super Retail Group announced strong half-year financial results supported by strong sales. Major detractors were transport companies in the Industrials sector (-3.0%) with Sydney Airport down 11% due to the increased restrictions on travel and the Department of Health’s announcement that international travel will be unlikely to restart until 2022.

International equity markets (-0.8%) showed a slow start to the year as the positive outlook of the vaccine-driven recovery was offset by the short-term travel restrictions due to the pandemic. Concerns around the supply of vaccines also lead to the Eurozone market (-1.3%) to decline. In the US, retail investors coordinated a short squeeze on a number of stocks, such as GameStop, which forced some hedge funds to close out their shorts and sell out some of their long positions. Uncertainty around this volatility led to caution among investors resulting in the S&P 500 falling 1% over the month. The CBOE VIX (an index which measures volatility) gained 45% which is the largest increase since the pandemic in 2020, as the short squeeze destabilised the equity market.

Emerging markets (+3.7%) outperformed developed markets as China (+5.8%) showed strong growth which was slightly offset by negative performances in Brazil and India. Supported by a recovery in demand in the domestic and external markets, Chinese manufacturers have been able to gain market share as their international competitors are hampered by lockdown and supply chain disruptions.

## Interest Rates

Australian fixed interest (-0.3%) and International fixed interest (-0.4%) had negative returns as inflation expectations put upward pressure on yields, with the Australian 10-year bond yield (+12bps) rising to 1.13% and US 10-year bond yield (+15bps) to 1.07%. The rise in inflation expectation is expected to be short term as it is most likely due to pent-up demand within the services sector. Furthermore, Central Banks have now started to use average-inflation targeting and given the previous below-average inflation rate, Central Banks may allow future inflation rates to be higher to achieve their target.

## Property

Australian REITs (-4.1%) lagged International property (-0.5%) with Hong Kong being the best performing region. Key AREIT outperformers were Stockland (+6.5%) and Unibail Rodamco Westfield (+6.1%) as ongoing demand within the residential space is likely to remain strong despite the stimulus tapering. Upcoming vaccine rollout in 2021 and the lack of new Covid-19 cases will likely improved investors’ outlook on shopping centres.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