March 2021

GLOBAL OVERVIEW

Vaccine rollouts that will help to transition into a post COVID world over the course of 2021 gave investors further confidence in the first quarter of the year following a strong last quarter of 2020. The path, however, will not be smooth as evidenced by the recent second wave in India and the shutdowns across Europe as governments attempt to bring outbreaks under control. Closer to home, we saw Brisbane and Perth shut down over the quarter as local outbreaks occurred. Pleasingly, the rate of local transmission was well controlled and the cities were opened again relatively quickly. The rate of vaccination in Australia remains frustratingly slow, well behind initial government projections.

Economic growth around the world remained strong following the massive amounts of stimulus by central banks and governments globally. Australian economic data continued to demonstrate the better than expected recovery in the economy: the unemployment rate declined to 5.8% with 70 thousand new jobs created for the month of February; retail sales for February were up 5.2% year on year; and house prices continued to surge, with national dwelling prices rising 2.8% in March, and 8.2% over the past six months. The data has significantly outpaced even the most optimistic expectations.

Despite the strong economic data, the Reserve bank of Australia has shown no deviation in its rhetoric that accommodative interest rate policy will remain in place until 2024 particularly as there is some uncertainty to come, with government incentive programs expiring and the rollout of vaccines still frustratingly slow. The RBA kept its policy mix unchanged, reaffirming its 0.1% target for the cash rate and yield curve controls, as well as unchanged quantitative easing (money printing) and government bond buying programs which is predominately targeted in the 0-3 year maturity. It will be interesting to see whether the RBA decides to shift further out on the maturity spectrum in its bond buying program. This will be an important indicator of the RBA's expectation of the longevity of ultra-low interest rate levels.

Emmanuel Calligeris

Chairman of the
Investment Committee

The US economy

recorded another wave of strong data that provided further evidence of the benefit of government spending and the successful, albeit gradual, containment of COVID-19.

The passing of a USD1.9 trillion government spending package in the United States, that's $1,900,000,000,000 new US dollars printed to provide additional coronavirus relief to Americans, including US$1,400 direct payments and extended unemployment benefits was taken well by financial markets. Despite the enormity of the package and large debt burden to the economy, markets focussed on the solid growth potential from the stimulus package. Interestingly, this is not the end of the Biden administration's spending spree. The US government is looking to borrow a further $2-$4 trillion dollars to fund infrastructure projects that will ensure further growth in 2022 if passed.

This amount of stimulus has raised the question of whether we are likely to see higher structural inflation or whether inflation will be transitory as we come off the lower base of 2020. While the Chairman of the US Central Bank, Jerome Powell, has guided markets to believe that inflation is more likely to be transitory. We remain undecided. We acknowledge that whilst oil was less than US20 per barrel and is now US60 per barrel, lumber prices are up 220% and supply chain constraints have been remarkably consistent across all industries over the past 6 months, the real inflation outbreak will come from rising wages. The data so far has not highlighted a problem.

Inflation concerns are reflected across many markets but perhaps the most important is the bond market as investors in bonds want to be compensated by a higher interest rate if their future purchasing power is likely to be whittled away. Interestingly, the interest rate on the US 10-year bond, moved lower having increased between December 2020 and February 2021. The Central Bank maintained the target range for the Federal Funds rate at 0–0.25%, suggesting that this will remain the case until maximum employment is achieved and the inflation rate exceeds 2% for some time.

China's economy bounced back

after the deep slump in growth last year, propelled by stronger domestic demand and abroad

and continued government support for smaller firms. GDP jumped 18.3% in the first quarter of 2021 compared to a year earlier due the shutdowns caused by the pandemic. China's rebound has been led by exports as factories race to fill overseas orders, and more recently a steady pick-up in consumption as shoppers return to restaurants, malls and car dealerships. Retail sales increased 34.2% year-on-year in March, beating a 28% gain expected and stronger than the 33.8% jump seen in the first two months of the year. Consumer price inflation is rising at only a modest pace, even as factory gate inflation hit a near three-year high suggesting that companies are absorbing the increases in costs. Authorities have become concerned about financial risks involving the country's overheated property market and have asked banks to trim their loan books this year to guard against asset bubbles. New home prices increased at the fastest pace in seven months in March, with gains spreading to more cities as red-hot demand defied government efforts to cool the market. Growth is likely to slow to 8.6% in 2021 as the government turns its attention to reining in financial risks in overheating parts of the economy.

In Europe,

the recovery continues to gain pace as businesses indicate improved hiring plans for the months ahead, especially in manufacturing.

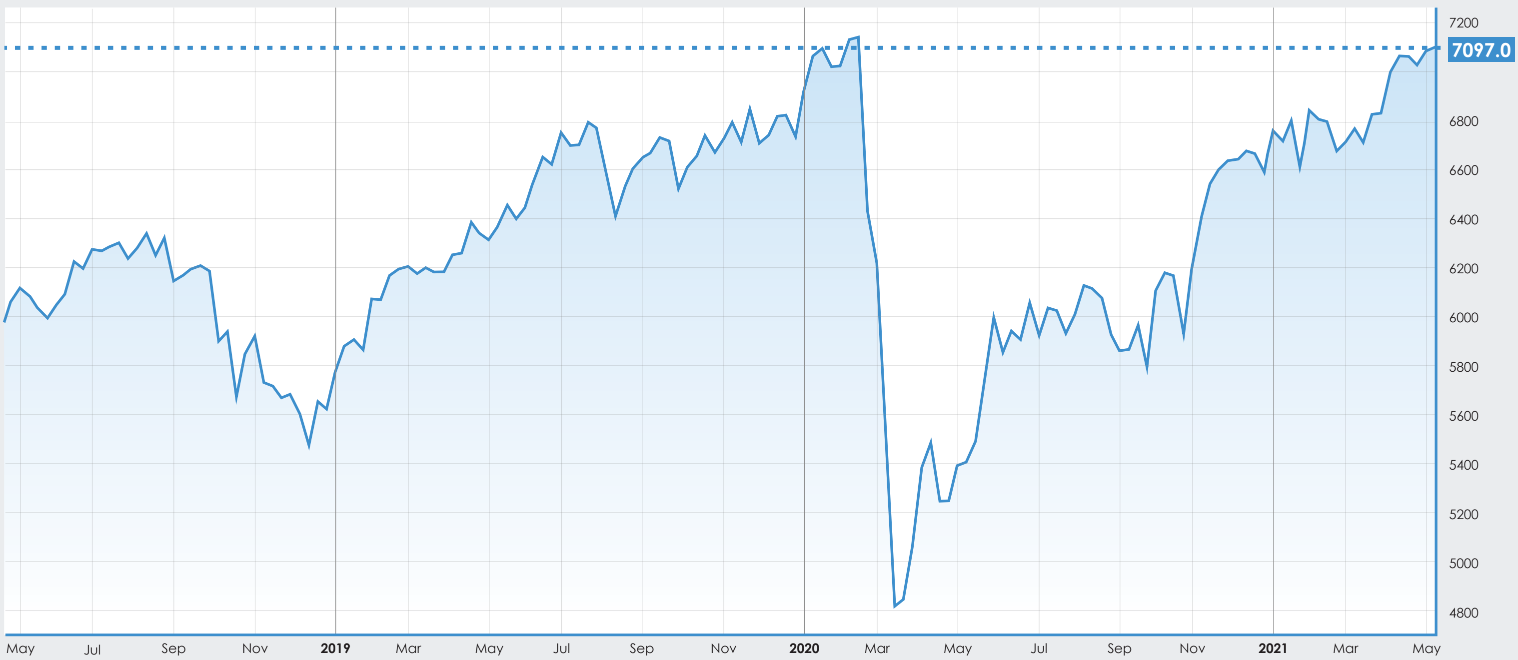
This provides further upside to the recovery prospects of however real employment recovery is unlikely before labour productivity recovers to pre-crisis levels. With furlough schemes still in place, that moment is still a while away.

After a year of unprecedented challenges from the coronavirus (COVID-19) spread around the world and large swings in investor sentiment globally, the Australian share market continued its rise, adding 4.3% over the quarter to be 37.5% higher over the year. Once again, the banks did a lot of the heavy lifting led by Westpac and ANZ. Other stocks to perform well over the quarter included Telstra, Dominos Pizza and Tabcorp. Companies whose share price did not perform well include A2 Milk and AGL and construction group Cimic whose share price declined following a disappointing profit report. International share markets ended the quarter 6.3% higher in Australian dollar terms to be 23.5% higher over the year. The US share market in particular had a buoyant year, with both the S&P 500 (the index of the 500 largest companies) and the technology heavy Nasdaq 100 reaching a new all-time high.

As mentioned in our last quarterly update, the actions of central banks and governments are the driving force behind markets. The very low returns that investors can expect to receive from bank deposits has seen a rush of money into the housing and share markets around the world and gold and commodity markets also. This is likely to be the status quo for quite a few years to come. Low interest rates, the cumulative effect of past policy stimulus measures, the low level of energy prices, and high household savings rates in the U.S., China, and Europe (which indicate pent-up spending power) point to a sustained global economic recovery. To date, some countries have recovered by more than the most optimistic forecasts as economic policymakers throughout the world want to cushion any economic slippage and support a full recovery in employment.

However, all this stimulus is coming at a cost. Government debt around the world is so large that it is difficult to see just how it will be paid back. Raising taxes or cutting costs does not seem politically feasible. Defaulting on debt would collapse currencies and so inflating out of the current situation seems the most viable solution. With the rise in most soft and hard commodities, we are potentially seeing the beginnings of the shift in inflation expectations. Whilst it is likely to be the end game, the timing is very difficult to accurately forecast. In coming months inflation will push higher by virtue of a very low base, however it is difficult to see that it will be the start of structurally higher inflation before 2024-2025.

S&P/ASX 200 - MARKET CLOSE OF 7097.0 ON 12/05/2021



RETURNS

31st March 2021

ASSET CLASS RETURNS ARE BASED ON

Australian Cash
RBA Bank accepted Bills 90 Days

Australian Bonds
Bloomberg AusBond Composite 0+ Yr TR AUD

Australian Listed Property
S&P/ASX 200 A-REIT TR

International Property Hedged
FTSE EPRA/NAREIT Dv REITS TR Hdg AUD

Australian Shares
S&P/ASX 200 TR

International Shares
MSCI World Ex Australia NR AUD

Emerging Market Shares
MSCI EM GR AUD

RETURNS TO THE 31st MARCH 2021

	3 Month	1 Year	3 Years	5 Years	10 Years
Australian Cash	0.01	0.07	1.03	1.34	2.23
Australian Bonds	-3.22	-1.81	3.97	3.46	5.03
International Bonds Hedged	-2.53	1.14	3.76	3.26	5.48
Australian Listed Property	-0.47	44.66	7.60	5.56	10.60
International Property Hedged	8.40	32.93	5.83	3.95	8.91
Australian Shares	4.26	37.47	9.65	10.25	7.95
International Shares	6.33	23.55	13.16	13.67	13.46
Emerging Market Shares	3.70	27.70	7.10	12.70	7.30

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