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Economic and market commentary – March 2021

Defensive Assets (% return)	1mth	3mth	6mth	1yr	3yr pa	5yr pa	10yr pa
Bloomberg AusBond Bank Bill	0.00	0.00	0.02	0.11	1.12	1.40	2.32
Bloomberg AusBond Composite 0+ Years	0.80	-3.22	-3.32	-1.81	3.97	3.46	5.03
Bloomberg AusBond Credit 0+ Years	0.19	-1.43	-0.09	3.01	4.63	4.42	5.53
Bloomberg Barclays Global Agg. Credit Hedge	-0.94	-3.15	-0.92	7.27	4.80	4.44	6.20
Bloomberg Barclays Global Aggregate Hedge	-0.42	-2.53	-1.76	1.14	3.76	3.26	5.48
Growth Assets (% return)	**1mth**	**3mth**	**6mth**	**1yr**	**3yr pa**	**5yr pa**	**10yr pa**
FTSE Developed Core Infrastr. 50/50 Hedge	7.86	4.76	10.56	21.67	8.18	8.19	11.65
FTSE EPRA Nareit Global	4.47	7.36	12.50	7.99	5.40	5.38	9.63
HFRI Fund Weighted Composite	n/a	4.59	7.73	4.79	6.96	7.16	7.59
MSCI AC World ex Australia	4.46	6.08	12.96	24.61	12.99	14.12	13.28
MSCI Emerging Markets	0.14	3.69	15.35	27.71	7.12	12.70	7.25
S&P ASX 200	2.44	4.26	18.54	37.47	9.65	10.25	7.95
S&P ASX 200 A-REIT (Sector)	6.56	-0.47	12.77	44.66	7.60	5.56	10.60
S&P ASX Small Ordinaries	0.79	2.09	16.20	52.15	8.33	10.69	4.11
Currency & Commodity moves (% change)	**1mth**	**3mth**	**6mth**	**1yr**	**3yr %Δ**	**5yr %Δ**	**10yr %Δ**
AUD vs USD	-1.40	-1.27	6.03	23.75	-1.08	-0.79	-26.43
SPOT GOLD (USD)	-1.58	-10.06	-9.44	8.25	28.84	38.51	19.21
Iron Ore (USD/MT)	-5.17	4.10	37.50	96.43	153.85	210.15	-4.29
NYMEX Light Crude Oil (USD)	-0.61	19.23	40.47	69.30	-12.46	49.17	-46.73
Bitcoin Futures (USD)	26.13	101.75	450.46	815.60	708.25	n/a	n/a

Source: Evergreen Consultants, Financial Express, AUD total returns as at 31 March 2021, unless expressed otherwise.

Shares closed out the March quarter on a high as investors continued to respond positively to virtually unprecedented government fiscal stimulus across the globe. The key focus has been in the US, where the Biden administration passed a US$1.9 trillion spending package designed to further increase the momentum of the nation's economic recovery. This comes in addition to a US$900 billion stimulus bill passed late last year. In total, this amounts to about 13% of US GDP. Emerging Markets traded flat as investors weighed the impact of rising US treasury yields and its potential impact on the US dollar.

Despite a strong finish to March, domestic shares underperformed global peers for both the month and the quarter. The S&P/ASX 200 touched a five-week high during the last trading session of March before dipping in the final moments. Confidence was boosted by positive economic growth news and by strong official jobs data, which showed the labour market was booming. This soothed investor fears around the impact of the expiration of the JobKeeper subsidy program.

In currency markets, the Australian dollar was unable to reach the US80¢ level, which it hit in late February, finally finishing the month and the quarter lower. Elsewhere, iron ore gave back some of its recent gains, while gold prices slipped to a near nine-month low as a firmer US dollar, higher bond yields and hopes for a faster US economic recovery dampened demand for safe-haven bullion. After recent strength, oil traded sideways ahead of a key OPEC+ meeting scheduled for early April. Finally, Bitcoin continued its incredible rally as the crypto-currency/collectible gained institutional acceptance.

Market commentary

The Australian sharemarket finished March strongly, buoyed by a global rally and better-than-expected economic data at home and abroad. Large caps outperformed small caps, though the Small Ordinaries is still handsomely ahead of peers over the twelve month period. Economically sensitive blue-chips enjoyed a strong quarter as investors continued to rotate into value-style stocks, with more favourable near-term earnings growth. Also, listed property staged a relief rally.

Offshore, the Dow and the S&P 500 climbed 6.6% and 4.3%, respectively in March, posting their best month since November and their fourth positive month in five. For the quarter, the blue-chip Dow and the S&P 500 rose 7.8% and 5.8%, respectively, for their fourth positive quarter in a row. The tech-heavy Nasdaq was the relative underperformer (up 0.4% for the month) as technology stock valuations are more sensitive to rising interest rates. For the quarter, the Nasdaq gained 2.8%. Emerging Markets struggled in March after a strong start to the year as Chinese equities continued to sell off on concerns around the extent of recent policy tightening.

In fixed interest markets, the US 10-year Treasury yield traded as high as 1.77% in March. Bond yields have been on the rise this year amid the Covid-19 vaccine rollout and expectations of a broad economic recovery and faster inflation. On the domestic front, bond markets recovered some of their steep losses from the previous two months as investors took comfort from supportive comments out of the Reserve Bank. Australia's central bank reiterated its commitment to maintaining the current 3-year Yield Curve Control target at 0.1%, which ensures cheap funding for important lenders such as the major banks.

Economic commentary

On the economic front, domestic building approvals for February surged by over 20%, thereby reversing a similar-sized fall in January. Investors have been taking advantage of the HomeBuilder subsidy, which expired at the end of March, with approvals for alterations and additions up strongly over the past twelve months. In other news, December quarter GDP showed that the economy accelerated further and that the labour market is recovering strongly. While GDP through 2020 is 2.5% below the 2019 level, there are signs that recent solid growth will continue in 2021.

Globally, aside from the prodigious US fiscal stimulus passed in March, investors were focused on the Federal Reserve's (the Fed) commentary and predictions for US interest rates. Markets were pleased with the upgrades to economic forecasts and remained cautiously optimistic that inflation will be contained over the short term. Overall, the Fed does not believe inflation will be sustainably above its 2% target and it still expects not to raise rates before 2024.

In Europe and the UK, business surveys improved in March, with manufacturing expanding strongly. The UK service sector improved notably, but the European service sector was the clear laggard. A recent rise in Covid-19 cases has seen new restrictions in France and Germany. Britain’s economy shrank by less than was expected in January, even though the country went back into a coronavirus lockdown. We note that the UK is well ahead of Europe with its vaccination program, but the continent should catch up by the middle of this year.

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