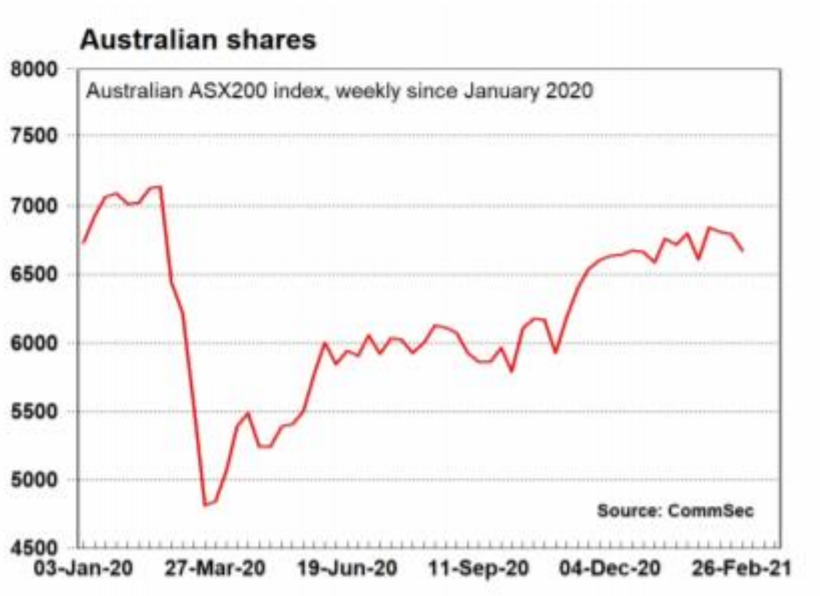
Financial Market Conditions – February 2021

Over February, global sentiment improved. This was largely due to the pace and success of the COVID vaccine rollout globally; in addition to news of increased global economic stimulus. Amid exceptional uncertainty, there is the expectation of a vaccine-powered strengthening of activity later in the year. The World Health Organisation indicated that it will be possible to take the tragedy out of the coronavirus crisis by reducing hospitalisation and deaths. Increased lockdowns in early 2021 has seen success in controlling the spread, but it has been highlighted that its unrealistic to think that we're going to finish with this virus by the end of the year.

In the US, with a sharp reduction in COVID cases and a clearer path for economic stimulus, there has been a significant improvement in economic prospects. As a result, many banks have revised growth forecasts for the US upwards following the commitment of $1.9 trillion of stimulus. This has seen a move higher in longer term interest rates with US 10-year rates moving from 0.66% to 1.30% since June 2020. The increase in these yields is as a result of higher inflationary expectations as a result of economic stimulus.

During the month global share markets witnessed its worst session in about six months following the rise in global bond yields, prompting investors to dump equities in search of higher yields in Treasuries and Bonds. The Australian share market still managed to gain 1% in the month of February – with general optimism limiting the fall in equities.

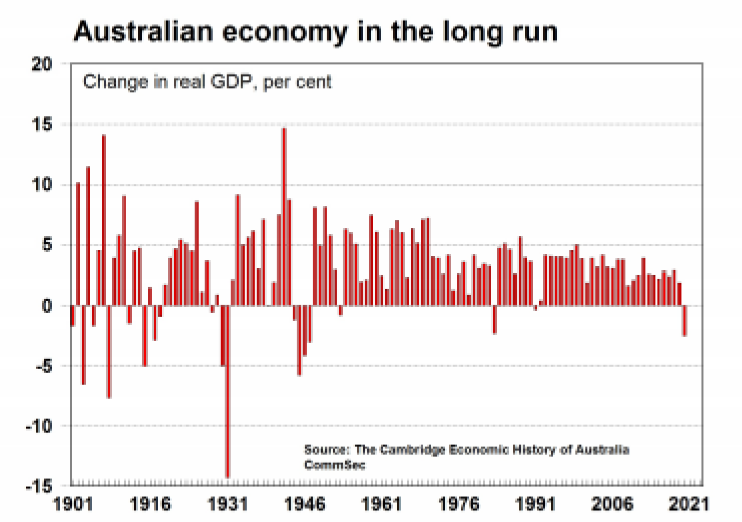


Whilst the US has witnessed a positive start to 2021, UK and Europe prospects appear decidedly less certain, with the expectation that the European and UK economies will take a number of years to regain the lost ground. Many countries in Europe are seeing the end of forced lockdowns implemented at the end of 2019, and whilst vaccines provide a silver lining, the economic impact throughout Europe is varied, as are stimulus measures.

China spent a portion of February celebrating the Lunar New Year, however data received before the holidays signalled that China's economy will pick up where it left off before the break, with continued investment and income-fuelled household consumption. The latest loan and financing data from China were both strong illustrating continued optimism in the market.

Locally, the key themes for Australia have been upbeat consumers and businesses with support of State and Federal spending, a very strong housing market, and the start of the vaccine roll out. Success of the quick ‘circuit breaker’ style lock-downs throughout Australia has seen success with the borders again open nationally.

In February, consumer sentiment recovered some of the lost ground in January and indicated that consumers are very positive on the outlook for the economy. The NAB business survey indicated that confidence was also above average with the expectation that business conditions should remain well supported. Employment continues to illustrate a strong recovery from its pandemic low, with the unemployment rate falling from 6.6% to 6.4%. The number of individuals working zero hours for economic reasons fell again in January to just 76k, from 770k last April; with total underemployment now just 0.7% lower than last March. Finally, Q4 GDP reaffirmed the brisk rebound in activity, with GDP printing at 3.1% over the quarter, to be -1.1% over the year, well above expectations.



Over February, following the movement in global interest rates, Australian 10- year rates have increased by 0.50% since the end of 2020, supporting the expected growth in the economy, combined with inflationary expectations. The RBA, witnessing this increase, reacted by increasing its bond purchases by doubling the normal QE purchases to defend the 3-year yield control target – with messaging at its February board meeting that the RBA remain committed to not lifting rates until at least 2024. The Australian dollar has also seen a positive impact as a result of the bullish view of the global backdrop, remaining in the upper end of recent ranges. How central banks deal with increasing longer-term yields amidst expectations for low rates until 2024 is a challenge that will be faced in coming months.