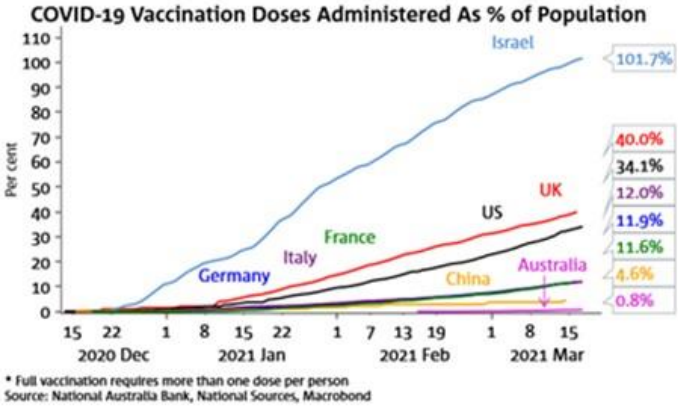
Financial Market Conditions – March 2021

Market confidence continued to rise over the last month, buoyed by mostly good news relating to COVID, especially around vaccine rollouts, and a major fiscal stimulus in the US. Whilst the COVID situation differs in every region, the number of new deaths globally has witnessed a six week decrease. After a brief pause in use of the AstraZeneca vaccine over fears of the association with blood clots in Europe, globally the vaccination drive is back on track after Europe's medicines regulator concluded it was safe and effective. A quick response and contact tracing proves to be an essential part of containing the spread of the virus.



US equity markets continue to publish record highs following the $1.9 trillion US rescue package stimulus bill was passed to turbocharge the economy following the coronavirus pandemic, representing almost 9% of GDP. A testament to the pace of the US recovery, jobless claims fell sharply to be at their lowest level in the post-pandemic period.

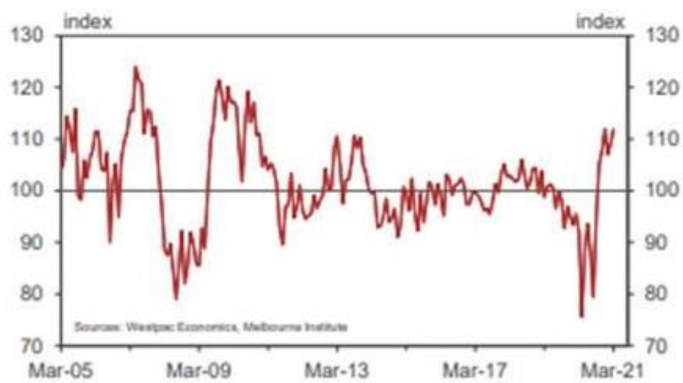
The global move higher in longer-term interest rate yields following expected growth in economies and inflationary expectations continue to be dulled down by messaging from reserve banks. In the US, the Federal Reserve's Open Market Committee communicated that they are "a long way from raising rates at this point".
In Australia, the RBA confirmed that "The Board will not increase the cash rate until actual inflation is sustainably within the 2 to 3 per cent target range. For this to occur, wages growth will have to be materially higher than it is currently…The Board does not expect these conditions to be met until 2024 at the earliest".

In China, the National People's Congress has set out a roadmap to maximise the return from the global recovery and their continued economic development. China, having grown another 6.5% amidst the pandemic (and are already experiencing their own post-COVID recovery), is setting an above 6% growth target that will enable them to "devote full energy to promoting reform, innovation, and high-quality development". Official manufacturing and savings data continue to improve, illustrating the recovery. China has also set out an aggressive vaccination goal of 40% of its 1.4 billion by the end of June, to the extent of offering shopping vouchers for elderly that have received their second dose to encourage more older citizens to complete the full vaccination process.

Locally, the key themes for Australia supported the upbeat mood from consumers and businesses that has been witnessed over previous months. The upswing in Australian house prices quickened again in March with the strongest monthly gain in prices nationally since Oct 1988. The February labour force illustrates a strong recovery, with the unemployment rate falling to 5.8% from 6.3% which is back to pre-COVID levels.

Revisions continue to be made to GDP growth forecasts, with many major banks expecting growth in 2021 to be between 4-4.5%. Annual growth is now –1.1% for 2020, compared to market expectations of –2% only a week earlier. The key components of growth – household consumption; business investment and dwelling construction all surprised on the upside. Consumer Sentiment also increased by 2.6% in March, with the Index now at a ten-year high – driven by proving economic conditions and prospects, both domestically and abroad.

Consumer Sentiment Index



As with February, March continues to witness a movement in global interest rates. Australian 10year rates have increased by 0.60% since the end of 2020, supporting the expected growth in the economy, combined with inflationary expectations. Central banks will continue to face the challenge of how to manage their desire for low reserve rates and medium-term yield control in an environment where strong economic data is suggesting these measures may not be warranted or needed.