

# Market Update

## JUNE 2021

- Markets extended gains for the month as accommodative monetary and fiscal policies continued to support markets
- US employment disappointed as non-farm payrolls came in below expectations despite a fall in the unemployment rate.
- Economic data continues to surprise to the upside in Europe as progress is made on the Covid-19 vaccine rollout across the Eurozone.
- The RBA kept the cash rate on hold at 0.1% as expected. First quarter GDP came in at 1.8% qoq.

## May market performance

Equity Markets – Index Return*	Index	At Close 31/05/2021	% Return 1 Month	% Return 12 Months
Australia	S&P/ASX 200 Index	7,161.60	2.34%	28.23%
United States	S&P 500 Index	4,204.11	0.70%	40.32%
Japan	Nikkei 225 Index	28,860.08	0.16%	34.00%
Hong Kong	Hang Seng Index	29,151.80	2.08%	31.44%
China	CSI 300 Index	5,331.57	4.18%	40.62%
United Kingdom	FTSE 100 Index	7,022.61	1.08%	19.48%
Germany	DAX 30 Index	15,421.13	1.88%	33.09%
Europe	FTSE Eurotop 100 Index	4,467.25	2.87%	31.09%

Property – Index Returns*	Index	At Close 31/05/2021	% Return 1 Month	% Return 12 Months
Listed Property	S&P/ASX 200 A-REIT Index	1,492.90	1.69%	24.44%

Interest Rates	At Close 31/05/2021	At Close 30/04/2021	At Close 31/05/2020
Australian 90 day Bank Bills	0.04%	0.04%	0.10%
Australian 10 year Bonds	1.66%	1.70%	0.90%
US 90 day T Bill	0.01%	0.01%	0.14%
US 10 year Bonds	1.59%	1.63%	0.64%

Currency**	At Close 31/05/2021	% Change 1 Month	% Change 12 Months	
US dollar	AUD/USD	0.77	-0.66%	16.01%
British pound	AUD/GBP	0.54	-2.42%	0.93%
Euro	AUD/EUR	0.63	-1.28%	5.62%
Japanese yen	AUD/JPY	84.77	0.17%	18.86%
Australian Dollar Trade-weighted Index		63.50	-1.40%	7.99%

\* Closing index values are based on price indices. Index returns are expressed as total returns in local currency.

\*\* All foreign exchange rates rounded to two decimal places.

Past performance is not a reliable indicator of future performance.

## Global economies

Global Covid-19 cases continue to rise with numbers just surpassing 170 million cases. This represents an increase of about 20 million in the month. Delivery of vaccines continues to rise and Germany now reports over 40% of the population having received at least one dose. The EU has also recommended the relaxation of travel restrictions to those fully vaccinated with

an EU approved vaccine. Key economic indicators continue to improve generally, with a number of leading economies beginning to report modest increases in inflation.

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## US

The United States re-opening continued in May, ending the month with 40% fully vaccinated and with 50% having received at least one dose. US President Joe Biden announced a 'month of action', setting a goal of 70% of American vaccination goal by the July 4th holiday. US Non-farm payrolls disappointed in May, coming in at 559,000 against expectations of 650,000. Despite employment remaining well below February 2020 levels, the unemployment rate fell from 6.1% to 5.8%, helped by a pull-back in the participation rate from 61.7% to 61.6%. The second estimate for Q1 GDP came in unchanged at a 6.4% annual growth rate, whilst personal consumption expenditures increased to an 11.3% annual rate, above the 10.8% expected. Durable goods orders unexpectedly fell 1.3% in April, expected to rise 0.7%. The PMI Composite Index posted a strong result in May, lifting from 63.5 to 68.1, bolstered by the services PMI jumping to 70.1, the sharpest rate of expansion since the series began in October 2009. Existing home sales contracted 2.7% month-on-month in April, missing expectations of a 2.0% rise and taking the annualised rate down to 5.85 million. The Philadelphia Fed Manufacturing Index for May surprised to the downside at 31.5, whilst the Chicago PMI index also surprised, improving 3.1pts to 75.2 in May and beating expectations of a decline to 68.0. Personal incomes fell 13.1% in April (-14.1% expected), as government social benefits were rolled back compared to March, while personal spending rose in line with expectations at 0.5%. The international goods trade deficit narrowed from an upwardly revised \$92.0 billion to \$85.2 billion in April, coming in below expectations of \$91.0 billion. The Markit Composite PMI surged 5.2pts to 68.7 in May, surpassing expectations of 68.1.

## Europe

Eurozone economic sentiment increased 4.0pts to 114.5 in May, beating expectations of 112.1 and marking its highest reading since January of 2018, remaining considerably above its long-term average of 100.0 and pre-pandemic levels. The May Markit manufacturing PMI surprised to the upside, increasing 0.2pts to 63.1 (62.8 expected), and the Markit Composite PMI increased to 57.1 in May, surpassing expectations of 56.9. CPI rose 0.3% as widely expected, with the yearly rate rising 0.4% to 2.0% (1.9% expected). PPI grew 1.0% in April, beating expectations of 0.9%, with the yearly rate rising 3.3% to 7.6% (7.3% expected), recording the highest producer inflation since September 2008 as energy costs soared 20%. The unemployment rate fell 0.1% to 8.0% (8.1% expected). In the UK, the Markit/CIPS Composite PMI lifted to 62.9 in May, beating expectations of 62.0. April Retail sales surged 9.2% month-on-month lifting the yearly rate to 42.4%. The strong monthly rise reflected the easing of restrictions including the reopening of all non-essential retail from mid-April. The PMI Composite Index also posted a strong read, lifting from 60.9 to 66.1 and ahead of expectations of 60.5. The United Kingdom's Covid-19 vaccine rollout has continued strength in May, with 38% fully vaccinated and 59% having received at least one dose at the end of May.

## China

China's CPI fell 0.3% in April, below expectations of a 0.2% decline, while the yearly rate lifted 0.5% to 0.9% (1.0% expected). The unemployment rate also fell in April to 5.1% coming in below expectations of 5.3%, while Industrial production printed in line with expectations at 9.8%. Retail sales posted a 17.7% year on year rise in April, however, missed expectations for a 24.9% increase and pulled back from March's 34.2% lift. The Caixin Composite PMI fell 0.9pts to 53.8 in May, below expectations of 54.3.

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## Asia region

Despite progress in the vaccine rollout and declining Covid-19 case numbers across much of the developed world, case numbers are spiking in Asia where vaccines have been slower to roll out. Concerns regarding a global re-opening have been renewed as restrictions on mobility have re-emerged. Late in May, Japan again extended ahead of the Olympic Games, despite a positive period of declining case numbers. The Japan consumer confidence index declined by 0.6pts to 34.1 in May (34.0 expected), marking the weakest reading since February, as most main sub-indices deteriorated. Industrial production rose 2.5% in April, missing expectations of 4.1%, while the yearly rate jumped to 15.4% (12.0% expected). Retail sales fell 4.5% in April, well below expectations of 1.5% growth, as the yearly rate improved to 12.0% (15.3% expected), marking the steepest growth in retail trade since 1997, as consumption accelerated in the wake of the COVID-19 disruption. Household spending also rose in April, increasing 0.1% in April, beating expectations of a 2.2% decline, recording the steepest increase since comparable monthly data became available in January 2001.

## Australia

The RBA left the cash rate unchanged at a record low of 0.1% during its June meeting, as widely expected. Policymakers reaffirmed their commitment to maintaining highly supportive monetary conditions until at least 2024 when actual inflation is expected to be within the 2-3% target. First quarter GDP came in at 1.8% qoq, beating market expectations of 1.5%, a third consecutive quarter of economic growth driven by continued growth in household consumption and private investment. The RBA board outlined it expects GDP to grow by 4.75% this year and 3.50% in 2022, supported by fiscal measures and accommodative financial conditions, while jobs, inflation, and wage pressures are expected to remain subdued. The Westpac-Melbourne index of Consumer Sentiment fell 4.8% to 113.1 in May, down from the 10-year high of 118.8 in April. The Federal Budget was announced during the midpoint of the survey, with the dip in sentiment potentially reflecting slight disappointment in the budget. The NAB Monthly Business Survey reset record highs for the second month running in May, despite some softness in the sub-component Business Confidence measure. April's labour force survey showed employment fell 30,600 during the month, missing expectations for a 15,000 increase. The softer outcome for April was partly a function of the Easter holiday, which occurred during the survey reference period. Despite employment falling, a reduction in the participation rate from 66.3% to 66.0% saw the unemployment rate edge down 0.1ppt to 5.5%. The Markit manufacturing PMI index rose 0.7pts to 60.4 in May, exceeding expectations of 59.9 as demand continued to improve and supported the expansion of business activity for a twelfth consecutive month, with new orders rising at a record rate.

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## EQUITY MARKETS

- Australia's S&P/ASX 200 Index rose 2.3% in May, led by the Financials (+5.7%), Healthcare (+3.5%) and Consumer Discretionary (+3.5%) sectors.
- The US S&P 500 Index gained 0.7% in May in US dollar terms, reaching new all-time highs early in the month before giving back gains as the month progressed.
- In Europe, the UK's FTSE 100 Index rose 1.1%, Germany's DAX 30 Index rose 1.9%, and France's CAC 40 Index rose 4.0%.
- In Asian markets, Japan's Nikkei 225 Index gained 0.16% while Hong Kong's Hang Seng Index rose 2.1% and China's CSI 300 Index rose 4.2%.
- Global developed market shares rose 1.3% in May and emerging market shares rose 2.1% in Australian dollar terms.

## Australian equities

	Index/Benchmark (% pa)	1 Month	1 Year	3 Years	5 Years	7 Years
Australian	S&P/ASX 200 Acc. Index	2.34%	28.23%	9.95%	10.11%	8.21%
	S&P/ASX 50 Acc. Index	2.91%	27.59%	10.07%	9.80%	7.49%
	S&P/ASX Small Ordinaries Acc. Index	0.27%	26.73%	7.89%	10.27%	9.42%

May saw a continuation of the broad cyclical value rotation we have experienced over the last few months, with the Financials and Consumer Discretionary sectors among the strongest over the month. Index heavyweight CBA released its 3Q21 trading update in May, highlighting unaudited Cash NPAT of ~2.4 billion in the quarter, an increase of 24% on the 1H21 quarterly average. Loan impairment expenses were significantly lower in the quarter, with the company citing an improved economic outlook resulting in a reduction in collective provisioning levels. In a reversal of April's gains, Information Technology fell -9.9% led by Afterpay, down 21% over the month and off 38% from recent highs despite little stock-specific news. Growth names generally have come under pressure in recent months as upbeat indications of normalizing economic activity lead investors into the cyclical value pockets of the market.

## Investment Index/Benchmark returns\*

### S&P/ ASX 200 Index

Sector	1 Month	3 Months	1 Year
Financials ex-Property	5.69%	13.72%	47.06%
Health Care	3.51%	9.42%	7.59%
Consumer Discretionary	3.51%	13.91%	47.34%
Communications	2.61%	9.34%	11.05%
Consumer Staples	2.46%	3.09%	7.87%
Materials	1.69%	5.38%	37.16%
Property	1.36%	10.07%	22.21%
Industrials	-1.03%	7.11%	5.97%
Energy	-1.76%	-6.54%	3.02%
Utilities	-6.62%	-1.42%	-21.58%
Information Technology	-9.86%	-4.05%	30.62%

\*Total returns based on GICS sector classification

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## BIG MOVERS THIS MONTH

### Going up

↑	Financials	+5.7%
↑	Consumer Discretionary	+3.5%
↑	Healthcare	+3.5%

### Going down

↓	Information Technology	-9.9%
↓	Utilities	-6.6%
↓	Energy	-1.8%

## Global Equities

	Index/Benchmark (% pa)	1 Month	1 Year	3 Years	5 Years	7 Years
Global	MSCI World Ex Australia Index (AUD)	1.31%	21.49%	13.07%	12.73%	12.89%
	MSCI World Ex Australia Index (LCL)	1.02%	36.24%	12.18%	13.40%	10.99%
	MSCI World Ex Australia Small Cap Index (AUD)	0.65%	34.37%	11.11%	12.41%	13.32%
Emerging	MSCI Emerging Markets Index (AUD)	2.11%	29.49%	8.82%	12.38%	9.58%
	MSCI AC Far East Index (AUD)	0.60%	19.32%	7.97%	11.41%	11.64%

First quarter earnings in the United States came in generally stronger than expected. The strongest results were seen in the cyclical areas of the market. Similar to the sentiment we have seen domestically, more expensive sectors have come under pressure amid continued inflation concerns, highlighted again by the divergence between the 'old economy' Dow Jones Industrial Average and the 'new economy' Nasdaq 100, returning 2.2% and -1.7% respectively in May. Despite seeing a brief elevated period during May, the CBOE VIX ended the month reaching a low of 16.7, the lowest level we have seen post-Covid, reflecting the ongoing downward trend in implied market volatility. Valuations however remain at elevated levels in a historical context, particularly in the United States. Emerging Markets gained in May and outperformed Developed market peers, benefitting from weakness in the US Dollar. Despite elevated Covid-19 infections, among the worst hit by the pandemic, India one of the best performing markets in May.

## Property

	Index/Benchmark (% pa)	1 Month	1 Year	3 Years	5 Years	7 Years
Australian	S&P/ASX 200 A-REIT Acc	1.69%	24.44%	6.59%	5.39%	9.96%
Global	FTSE EPRA/NAREIT Developed Ex Australia Index (AUD Hedged)	1.37%	30.71%	5.03%	4.93%	6.24%

Australian Listed Property added another month of positive performance, although underperformed the broader Australian equity market. Diversified REITS Charter Hall Long WALE (-1.97%), Abacus Property Group (-0.66%), and GPT Group (-0.04%) dragged on the index. Index standout over the month was Unibail-Rodamco-Westfield, gaining 7.17% over the month and announcing a new 1.25 billion Euro bond placement. Residential property developer Ingenia Communities was among the best performers within the A-REIT index. In May, Ingenia announced the purchase of a portfolio of five coastal holiday parks at a combined value of \$40 million, bringing total acquisitions announced year to date to \$220 million. In the May Reserve Bank meeting, members noted the continued strength of the Australian residential housing market, with prices continuing to increase across all major markets. Housing credit growth had also strengthened, with strong demand from owner-occupiers, especially first-home buyers.

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## Fixed Interest

	Index/Benchmark (% pa)	1 Month	1 Year	3 Years	5 Years	7 Years
Australian	Bloomberg AusBond Composite 0+ Yr Index	0.27%	-1.21%	4.14%	3.32%	4.09%
	Bloomberg AusBond Bank Bill Index	0.00%	0.06%	1.01%	1.33%	1.65%
Global	Bloomberg Barclays Global Aggregate Index (AUD)	0.73%	-10.41%	3.59%	1.76%	4.79%
	Bloomberg Barclays Global Aggregate Index (AUD Hedged)	0.21%	-0.17%	3.92%	3.18%	4.17%

Since the large movements in bond yields we experienced late in 2020 and into early 2021, yields globally have generally traded sideways as a result of ongoing inflationary uncertainty and central bankers monetary response. Underlying the relatively stagnant bond yield movements, rises in inflation expectations continue to push real yields downwards. Credit spreads widened over the month but remain near their narrowest points. At the June meeting, the RBA elected to maintain the official cash rate and 3-year Australian Government bond yield at current rates. RBA Governor Phillip Lowe noted the recent stability of sovereign bond yields after increasing earlier in the year, citing positive news on vaccines and additional fiscal stimulus in the United States. Governor Lowe also reflected on the pick-up in medium-term inflation expectations from near record lows, now sitting closer to central bank target levels. The outlook for strong growth in the global economy continues amid the recovery from the Covid-19 pandemic, supported by fiscal measures and accommodative financial conditions.

## Australian dollar

The Australian dollar reversed its recent strength somewhat in May, falling -0.66% against the US dollar and -1.40% in trade-weighted terms. Weaker-than-expected US jobs report has raised expectations that the US Fed will keep rates on hold for longer, although the RBA has also indicated that it will remain highly accommodative until 2024.

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