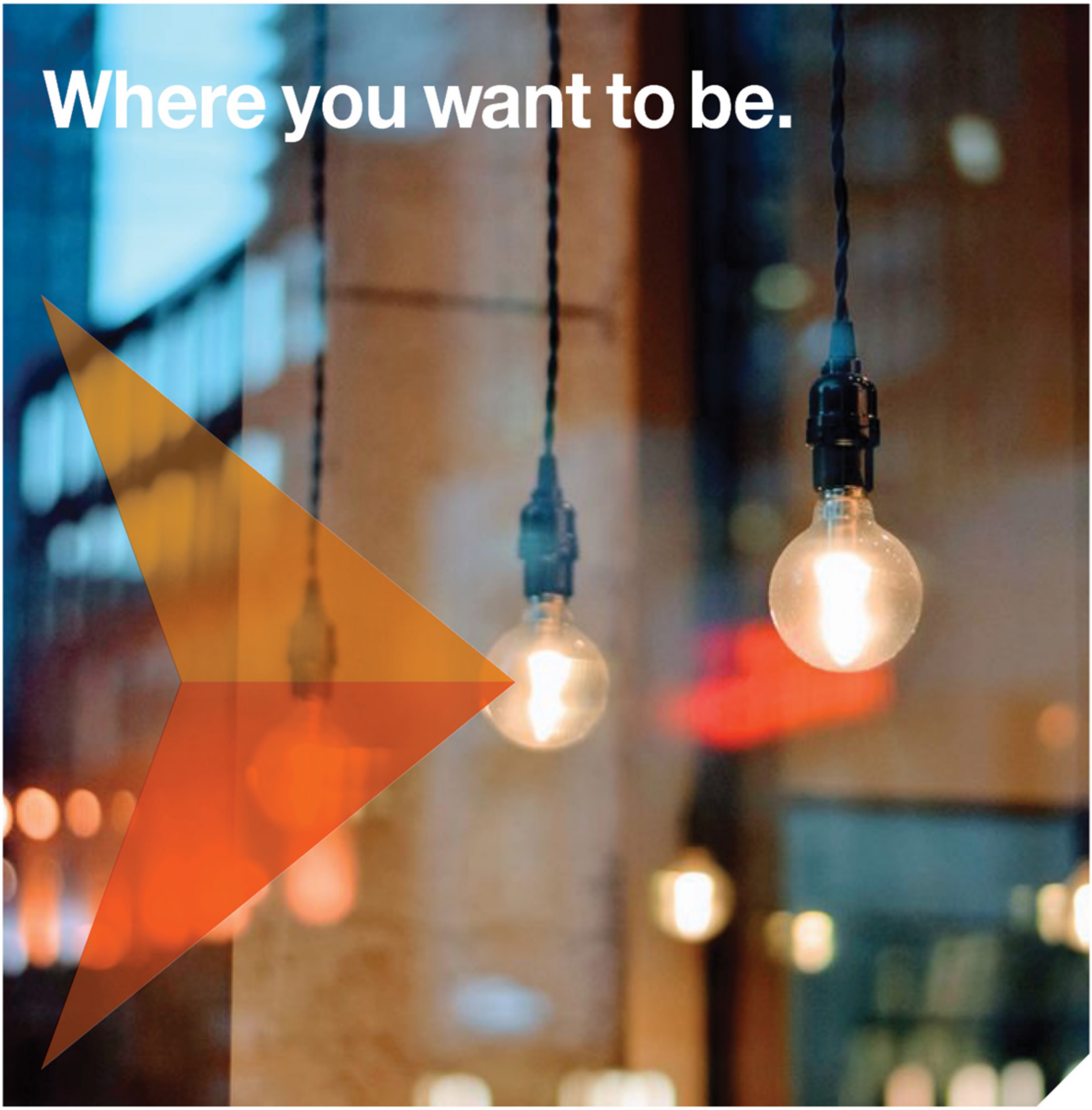

Economic Snapshot

April 2021 in Review

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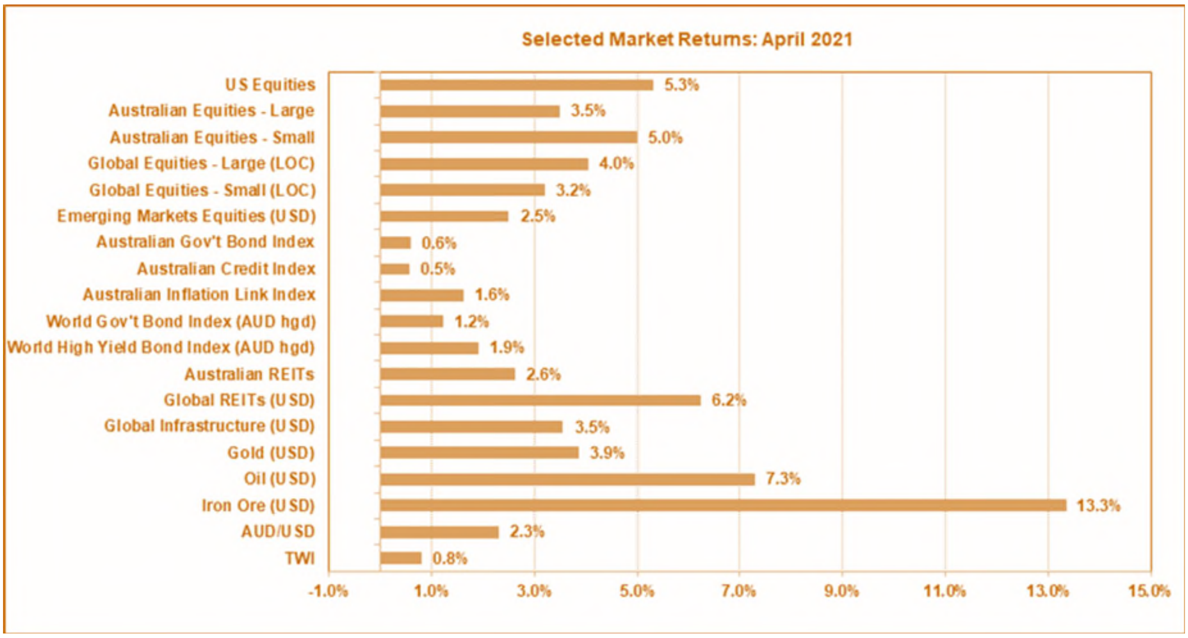
In summary

April saw positive returns across the board for financial markets. Equities and commodities performed especially well. Bond markets steadied in April, after their fears in previous months about the risk of inflation stemming from the robust pace of economic recovery. Data showing softer than expected March Quarter inflation in Australia helped the local bond market.

The better performance of the bond markets provided a good backdrop for equity markets in April. Bond sensitive equities such as REITs did well, while the broader US equity market was supported by a solid company earnings reporting season. The US equity market reached new highs, but the Japanese market declined as a renewed Covid-19 wave saw the reimposition of lockdowns. The emerging equity markets index rallied, despite the weakness of the Indian equity market which was also caused by Covid-19 developments there.

A weaker US$ helped emerging market equities to rally in April. It also assisted the A$ move back towards US$0.78. The big rally in the iron ore price also helped the A$. The price of gold rose as US real bond yields and the US$ declined. A key question for the markets now is how Mr Biden’s next big fiscal package affects the economy and how it is to be funded. The more it is funded by tax increases, the less pressure on bond markets, but the greater the potential pressure on earnings and spending. The more it is funded by issuing bonds, the greater the pressure for bond yields to rise which could hurt equity valuations and the price of gold.

April was a good month across the board for markets



Sources: Thomson Reuters, Bloomberg

Key developments in April 2021

April saw positive returns across the board for financial markets. Equities and commodities performed especially well. Bond markets steadied in April, after their fears in previous months about the risk of inflation stemming from the robust pace of economic recovery. In both Australia and the US, the 10-year government bond yield started the month around 1.75% and finished around 1.6%. Factors contributing to this included reassuring statements from central banks that any near-term inflation pressures are likely to be temporary, as well as moderate readings for the latest CPI inflation data.

For example, here in Australia, the March Quarter CPI figures came in softer than expected. Headline inflation rose 0.6% in the quarter and 1.1% over the year to March. The equivalent figures for underlying inflation were 0.3% and 1.1%. Some changes to government grants contributed to the softer March Quarter result, but even so the inflation figures reflect the degree of spare capacity in the economy. Even though the economy is recovering faster than the Reserve Bank expected, they still do not see sustained inflation for "some years". In the US, inflation picked up a bit in March but was broadly in line with the markets' expectations.

The better performance of the bond markets helped provide a good backdrop for equity markets in April. For example, global REITs, which are sensitive to movements in bond yields, had a very good month with a 6.2% rally. Locally, AREITs did not perform at that pace but still managed to rise by 2.6%.

In the broader US equity market, the company reporting season went well with many companies, including some of the big tech stock names like Apple, reporting better than expected earnings. The S&P500 rose just over 5% in April to reach new highs over the 4,000 mark. The local and European equity markets could not match that but still posted good positive returns.

However, the Japanese equity market underperformed with a 2.8% fall, reflecting the impact of the renewed Covid-19 wave which has led to lockdowns in parts of Japan. Emerging equity markets had a better month after underperforming through February and March. The 2.5% gain in the emerging markets index in April reflected the weaker US dollar seen through the month. The US dollar softened as markets wound back their expectations of the Fed lifting interest rates anytime soon.

The strength of the US earnings reporting season obviously reflects the strong economic recovery happening over there. Analysts are now starting to wonder if we have seen the best of US growth and that it slows from here. Central to this question is what Mr Biden's next fiscal package will look like. So far, he has announced spending on infrastructure and other programs of around US$2.25 trillion, with increases in taxes on companies and wealthy individuals to help pay for it. The equity market initially baulked at the idea of higher taxes eating into company profits, but soon recovered. The stimulus provided by the package would be significant and spread over several years.

Within the local equity market, resources and banks performed well in April, with the former assisted by the 13.3% increase in the iron ore price driven by demand from China. This also helped push the A$/US$ up from US$0.760 at the start of the month to US$0.778 by 30 April. The softer US$ also helped, but the A$/US$ is still trading at levels well below what the iron ore price would suggest. Bond differentials with the US and the path of the US$ remain the key drivers of the A$/US$ at the moment.

In commodity markets, the price of oil rose 7.3% despite the big Covid-19 wave in India raising concerns about the demand for oil. The price of gold had a better month after some sustained weakness. The recent rally was assisted by a decline in US real bond yields and in the US$. A key question for gold is whether further US fiscal stimulus starts to push bond yields up again which would tend to undermine the gold price.

MAJOR MARKET INDICATORS

	30-Mar-21	Changes over periods shown:*			
		1 Month	3 Months	6 Months	12 Months
Cash rates					
Australia	0.10%	0.0%	0.0%	-0.2%	-0.2%
USA	0.07%	0.0%	0.0%	0.0%	0.1%
Japan	-0.10%	0.0%	0.0%	0.0%	0.0%
Europe	0.00%	0.0%	0.0%	0.0%	0.0%
10 Government bond yields					
Australia	1.73%	-0.1%	0.8%	0.9%	1.0%
USA	1.73%	0.3%	0.8%	1.0%	1.1%
Japan	0.09%	-0.1%	0.1%	0.1%	0.1%
Europe	-0.28%	0.0%	0.3%	0.2%	0.2%
Equity markets					
ASX200	6738	1.0%	2.3%	15.9%	32.7%
AREITs	3244	4.4%	-2.4%	9.6%	36.7%
S&P 500	3959	3.9%	5.4%	17.7%	53.2%
Topix	1978	6.1%	9.6%	21.7%	41.0%
EuroStoxx	3926	8.0%	10.5%	22.9%	40.9%
MSCI Emerging Markets	1319	-1.5%	2.2%	22.0%	55.5%
VIX volatility index	19.34	-29.5%	-13.7%	-25.8%	-63.4%
Currency markets					
Aud/Usd	0.7652	-2.3%	-0.6%	7.7%	23.9%
Aud TWI	64.20	-0.5%	1.3%	5.8%	17.4%
Usd/Yen	110.31	3.5%	6.8%	4.5%	2.2%
Euro/Usd	1.17	-3.4%	-4.2%	0.0%	6.9%
Commodity markets					
Gold	1685.7	-2.4%	-11.2%	-11.3%	4.6%
Oil	60.6	-1.6%	25.2%	51.2%	195.2%
Iron Ore	165.0	-5.2%	4.1%	37.5%	96.4%
Coal	86.1	0.0%	10.1%	65.5%	30.0%

* For cash rates and bonds the changes are % differences; for the rest of the table % changes are used. Equities are price indices. Equities in accompanying chart are total return indices.

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