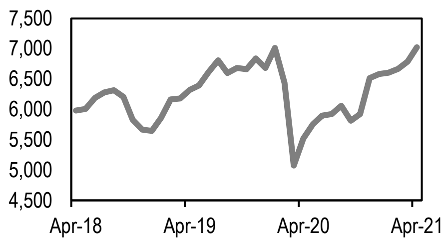
Monthly Economic Wrap

April 2021

Summary

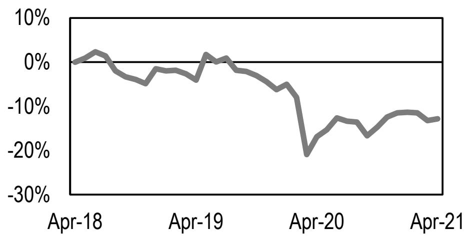
- Share markets rose further in April amidst optimism at global economic recovery and rising energy and commodity prices.
- Vaccine rollout continued to be a major focus with further potential US government stimulus a notable highlight.
- Bond yields stabilised following March quarter weakness as the pandemic escalated in the likes of Japan and India.
- The Global Composite PMI (a useful leading indicator of global economic growth) climbed to an eleven-year high led by the US and UK (Brazil being the only country to signal weaker activity)

1. S&P/ASX 200 Price Index



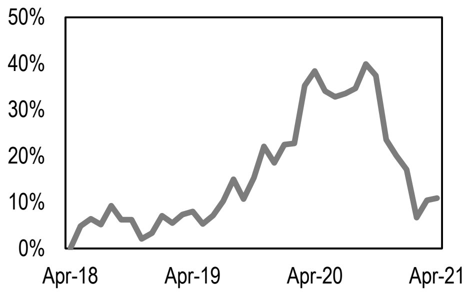
Source: Bloomberg, IOOF

2. ASX200 vs All-World, US$ terms



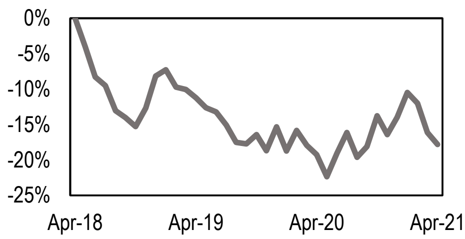
Source: Bloomberg, IOOF

3. Australia – Growth vs Value stocks



Source: Bloomberg, IOOF

4. Emerging markets vs Developed Markets, (In USD)



Sources: Bloomberg, MSCI, S&P, IOOF

Markets

- April was a month marked by positive returns across the board. Bonds recovered slightly but riskier asset classes across both stocks and fixed income led the way. Alternatives such as trend following are enjoying a rare spell of strong returns as these managers latch onto trends such as shorting bonds (see page 12).
- Australian equities lagged against global peers (see Chart 2) while value stocks saw underperformance persist from January as coronavirus concerns supported growth names (see Chart 3).
- Emerging market underperformance persisted (see Chart 4) driven by increased regulation within China with tech giant Alibaba fined 2.8bn for antitrust violations.
- In early May inflation concerns pushed into broader market debate

Key economic news

- Central banks including the US Federal Reserve and the Australian RBA are maintain a supportive stance for interest rate policy to backstop the economic recovery.
- Inflation concerns persisted as a recurrent theme in business surveys plagued by a mix of coronavirus restrictions and rising commodity prices including oil.

Key company news

Company specific news drove outcomes during April. Downgraded growth and earnings expectations from the likes of Challenger (ASX: CGF), Nuix (ASX: NXL) and Redbubble (ASX: RBL) such sizeable price declines. Cleanaway Waste Management saw shareholders favourably receive its planned takeover of Suez Australia with the transaction adding to earnings and boosting the business' geographic footprint.

Sector and stock returns

ASX/S&P 200 Sectors (GICS)				
	Monthly	**% ∆**	**Quarterly**	**% ∆**
▲	Consumer Discretionary	2.80	Consumer Discretionary	5.53
▼	Consumer Staples	-2.55	Consumer Staples	-5.31
▼	Energy	-4.93	Energy	-3.45
▲	Financials ex Property	3.14	Financials ex Property	12.34
▲	Financials	3.14	Financials	12.34
▲	Health Care	3.12	Health Care	2.02
▲	Industrials	4.26	Industrials	5.51
▲	IT	9.68	IT	-3.33
▲	Materials	6.83	Materials	8.74
▲	Property Trusts	2.92	Property Trusts	6.09
▲	Telecommunications	2.72	Telecommunications	7.07
▼	Utilities	-1.16	Utilities	-3.68

Source: Bloomberg, IOOF

Best and Worst S&P/ASX 200 Performers			
Top five stocks		**Bottom five stocks**	
Monthly			
Megaport Ltd	+29.7%	Whitehaven Coal Ltd	-27.5%
Cleanaway Waste Management L	+29.5%	Beach Energy Ltd	-25.7%
Mineral Resources Ltd	+25.6%	Challenger Ltd	-20.2%
Champion Iron Ltd	+24.3%	Nuix Ltd	-19.8%
Monadelphous Group Ltd	+22.6%	Redbubble Ltd	-18.2%
Quarterly			
Virgin Money UK Plc - CDI	+52.8%	Nuix Ltd	-54.9%
Codan Ltd	+49.2%	Redbubble Ltd	-38.8%
EML Payments Ltd	+48.3%	Kogan.com Ltd	-38.4%
Mineral Resources Ltd	+39.0%	A2 Milk Co Ltd	-32.5%
Champion Iron Ltd	+33.3%	NRW Holdings Ltd	-32.0%

Source: Bloomberg, IOOF

Share Markets, April 2021

	Australian Indices	Apr-21 Price	1M return (%)	Jan-21 Price	3M return (%)
▲	S&P/ASX 200	7026	3.46	6607	6.33
▲	All Ordinaries	7291	3.90	6871	6.11
▲	Small Ordinaries	3286	4.94	3081	6.64
US Indices					
▲	S&P 500	4181	5.24	3714	12.57
▲	Dow Jones	33875	2.71	29983	12.98
▲	Nasdaq	13963	5.40	13071	6.82
Asia Pacific Indices					
▲	Hang Seng	28725	1.22	28284	1.56
▼	Nikkei 225	28813	-1.25	27663	4.15
UK & Europe Indices					
▲	FTSE 100	6970	3.82	6407	8.78
▲	CAC40	6269	3.33	5399	16.12
▲	DAX Index	15136	0.85	13433	12.68

Sources: Bloomberg, MSCI, FTSE, S&P, IOOF

Note: return is reported on a price basis and in local currency terms e.g. S&P500 performance is in US dollars and excluding dividends

Global equity markets

US markets were amongst the strongest performers for April while we saw a narrow lead for US tech names (the Nasdaq) relative to the broader US market (the S&P 500). Key return drivers included:

- Stabilisation in bond yields
- Continued decline in coronavirus cases most notably in Europe and the US.

At a regional level, exposure to emerging markets (EM) detracted. EM equities were up 1.1% compared to a 3.2% rise for developed markets (see page 12). A crackdown against tech company market dominance as did concerns of central bank tightening in China weighed on the broader EM index.

	1-mth	3-mth	6-mth	1-yr
MSCI World Index	3.2%	10.2%	17.4%	23.2%
Value	1.9%	13.2%	22.5%	19.0%
Value-Weighted	1.8%	14.0%	27.5%	27.1%
Momentum	5.5%	5.4%	11.9%	23.4%
Growth	5.0%	6.7%	12.9%	26.2%
Quality	3.9%	9.6%	13.0%	18.8%
Low volatility	1.7%	6.3%	6.0%	3.6%
Equal weight	3.2%	5.7%	17.2%	30.4%
Small caps	2.6%	10.4%	28.2%	40.6%

Source: Bloomberg, IOOF, MSCI

At a style level, April saw a reversal of the “reflation trade” where cyclical sectors that the value and small cap styles have exposure to had been outperforming substantially. The recovery in longer-term bond rates supported momentum and growth names. Concerns over a surging coronavirus outbreak and problems with both AstraZeneca and Johnson & Johnson vaccinations cast a cloud over the “reflation trade” clawing back some of the underperformance for growth names since November last year.

Australian equity markets

The Australian market continued to rise, up 3.5%. The leading sectors were technology (up 9.7%) and miners (up 6.8%). Energy (down 4.9%), Consumer Staples (down 2.6%) and Utilities (down 1.2%) were the only areas of the market to fall in April. Consumer Staples struggled as investor expectations for Woolworths soured. Board turnover and scepticism over its prospective demerger dragged on the AGL share price and the Utilities sector overall.

	1-mth	3-mth	6-mth	1-yr
MSCI Australia Index	3.5%	7.8%	21.3%	30.1%
Value	3.3%	10.8%	34.7%	45.5%
Value-Weighted	2.6%	9.9%	29.4%	38.5%
Momentum	6.0%	4.0%	8.1%	23.8%
Growth	5.1%	6.8%	13.1%	26.7%
Quality	3.3%	9.7%	13.1%	18.2%
Low volatility	3.1%	6.0%	14.4%	20.8%
Equal weight	3.2%	5.7%	17.2%	30.4%
Small caps	5.0%	7.4%	21.4%	39.8%

Source: Bloomberg, IOOF, MSCI

Equity styles saw a similar reversal domestically. Previous highflyers in value stocks lagged relative to small cap and, growth and momentum names. Strength in iron ore names such as Fortescue (FMG, +13%) drove the momentum style returns as iron ore prices continued to rise. Another contributor was buy-now-pay-later operator Afterpay (APT, +15.9%) which released a well-received March quarter update.

Outlook

The extent of the equities rally since Mar-20 has left many markets expensive on an absolute basis. Supporting equities is the anaemic outlook for bonds with the equity risk premium (earnings yield less bond yield) still supportive of holding equities over bonds. Shifting inflation and interest rate expectations pose a near term risk given current valuations. Early May shudders illustrate how quickly these can take hold.

Fixed Income

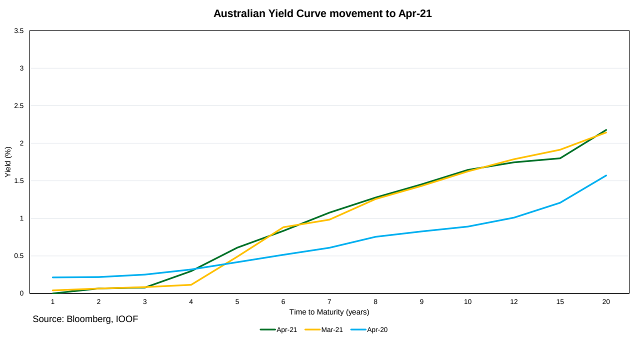
	Fixed Income	Apr-21 yield	1M mvt (bps)	Jan-21 yield	3M mvt (bps)
	Australian Cash rate	0.10	--	0.10	--
▼	10-year Bond Yield	1.75	-0.04	1.13	0.61
▼	3-year Bond Yield	0.10	-0.01	0.11	-0.01
▲	90 Day Bank Bill Yield	0.04	0.01	0.01	0.03
▼	US 10-year Bond Yield	1.63	-0.11	1.07	0.56
▼	US 3-year Bond Yield	0.33	-0.02	0.17	0.16
▼	US Investment Grade spread	1.09	-0.01	1.12	-0.03
▼	US High Yield spread	2.36	-0.13	3.24	-0.88

Source: Bloomberg, IOOF

Australian bond market

The Australian yield curve was relatively flat during April, flattening slightly with the 10-year yield declining 4bps. It marked a respite from the tumultuous moves in February and early March with RBA actions discussed in last month's report helping restore stability to the market.

5. Australian yield curve changes to Apr-21



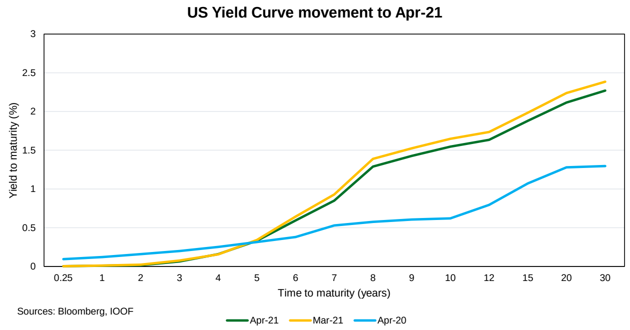
As widely expected, the RBA Board kept its policy settings unchanged in its May meeting. However, the RBA lifted its GDP growth forecast for 2021 from 4% to 4.75% as well as revising up its inflation forecast against a background of "strong growth this year and next" in the global economy. The lift in its inflation forecast was relatively modest, and the Board noted that the pick-up in inflation and wages growth will be "only gradual and modest". The Board flagged two key decisions in its July meeting: 1. The target bond for its 3-year yield target and 2. whether it will further extend its bond purchasing. The Board reiterated that it is "prepared to undertake further bond purchases to assist with progress towards the goal of full employment and inflation" and said that it "places a high priority on a return to full employment".

US bond market

US Treasury yields fell as the yield curve flattened with longer-duration bonds fallings more than shorter-duration equivalents. A miss on headline inflation supported yields, countering strength in other economic data.

We should be expecting some rise in yields going forward. As macroeconomic data improves, and the economy recovers investors tend to expect stronger future growth and rebalance portfolios away from bonds (which offer fixed returns) towards riskier assets. This has happened intermittently in recent weeks. Strong US economic data for instance is periodically increasing expectations of the Federal Reserve raising interest rates. However, misses on inflation (lower than expected) have helped support the Federal Reserve's calls for only gradual change.

6. US yield curve movement to Apr-21



US credit spreads tightened further for both investment grade and for more speculative high yield debt. Stronger oil prices (+5.8% over the month) underpinned high yield contraction (energy companies have a higher weight in the benchmark). Given continued central bank purchases of government debt (and in certain mandates corporate debt) there is scope for spreads to contract further although we note spreads are approaching historic lows with less upside likely available.

Currencies

	Currencies	Apr-21 Price	1M return (%)	Jan-21 Price	3M return (%)
▲	$A vs $US	77.16	1.55	76.44	0.94
▲	$A vs GBP	55.82	1.27	55.76	0.12
▲	$A vs YEN	84.34	0.28	80.03	5.38
▼	$A vs EUR	64.15	-0.96	62.98	1.86
▼	$A vs $NZ	107.70	-0.98	106.38	1.24
▲	$A TWI	64.40	0.78	63.00	2.22
▼	$US vs EUR	83.20	-2.40	82.39	0.98
▼	$US vs CNY	6.47	-1.19	6.43	0.71
▼	$US vs GBP	72.39	-0.22	72.97	-0.79
▼	$US vs JPY	109.31	-1.27	104.68	4.42
▼	$US vs CHF	91.31	-3.23	89.03	2.56
▼	US Dollar Index	91.28	-2.09	90.58	0.77
▲	JPM EM Currency Index	56.85	1.27	57.07	-0.38

Source: Bloomberg, IOOF

The Australian dollar (AUD) rose 1.6% against the US Dollar (USD) in April, up from USD 0.7598 in March to USD 0.7716. We also saw a 0.8% rise in value against major trading partners (with the exception of Europe). Key drivers included:

- Continued strength in commodity prices most notably iron ore (Australia's largest export).
- Weakness against the Euro was likely due to improving economic results in Europe with PMI surveys climbing and vaccination rollout gathering speed helping see new coronavirus cases decline.

The US Dollar saw broad weakness vs other currencies with the trade-weighted dollar (DXY) index declining 2.1%. Improvement in the European economy was one driver while positive economic surprises supported the Japanese Yen.

EM currencies (excluding India) recovered during April. Indian prospects worsened as the scale of the coronavirus epidemic escalated, dragging the rupee lower. High inflation in Brazil prompted speculation of further interest rate hikes following a 0.75% hike in mid-March, supporting the Brazilian Real.

Commodities

	Commodities	Apr-21 Price	1M return (%)	Jan-21 Price	3M return (%)
▲	Aluminium	2391	8.65	1981	20.67
▲	Copper	447	11.69	356	25.65
▲	Nickel	17650	9.99	17699	-0.27
▲	Zinc	2917	3.71	2584	12.88
▲	Crude Oil - Brent	67.25	5.84	55.88	20.35
▲	Natural Gas	2.93	12.38	2.56	14.31
▼	Metallurgical Coal	123	-1.74	126	-1.74
▼	Thermal Coal	89	-10.04	89	-0.63
▲	Iron Ore	179.63	7.63	168.13	6.84
▲	Gold	1768	3.04	1853	-4.59
▲	Silver	26	5.29	27	-4.16

Source: Bloomberg, IOOF

Most commodities continued to rally across the energy and base metals spectrum. Thermal (energy producing) and metallurgical (used in steel production) coal were the notable exceptions.

Nickel prices were supported by continued strength in steel production (Nickel being a key input for stainless steel and despite growing interest in electric vehicles, steel demand remains the largest nickel consumer).

Oil prices rallied further with a 5.8% rise during April. A decision to keep production level unchanged by the OPEC+ group continued to support prices in the near term (by keeping supply repressed relative to stronger demand). Prices were able to defy a weaker demand backdrop in India with expectations of a recovery in jet fuel demand and electricity production in the Middle east (more crude oil reliant than elsewhere) enough to push prices higher.

Thermal coal prices retreated on the weaker economic outlook for India, a major energy importer.

Precious metals specifically **gold** rose in a weaker real yield (bond yield after inflation) environment following the reversal of the spike in government bond yields. **Silver** prices remain supported by the stronger growth outlook given their wider industrial applications makes them more sensitive to economic growth, with slight outperformance over gold.

Australia

The bounce back in economic activity persisted into April with leading indicators suggesting above-trend growth over the next several months. Securing further coronavirus vaccines and new fiscal spending in the FY22 Budget added to consumer and business confidence. Coronavirus outbreaks remain a concern particularly until the second half of this year where new supplies will allow vaccinations to meaningfully accelerate.

Coronavirus pandemic and policy

Australia has effectively curtailed the pandemic domestically. However, concerns from small outbreaks in hotel quarantine continue to persist. The latest include an as-of-yet unidentified leak from hotel quarantine in Sydney that saw two new cases and sparked restrictions across the greater Sydney area. The other was a man who had been through hotel quarantine and subsequently tested positive after returning to Melbourne. At the time of writing these appear to be contained but until more vaccinations occur the ability to derail economic activity will persist.

The Federal government has secured additional vaccines in this case 25m of the Moderna mRNA option (which requires two doses). This will consist of 10m doses in 2021 and a further 15m of an updated variant booster vaccine in 2022. If this is approved by the TGA it is likely Moderna vaccines will be administered towards the end of 2021. Vaccine hubs, organised at a State level, have started up with over 3m doses now administered (as of early May). It will take time to secure the necessary doses to vaccinate Australians under 50.

Federal Budget

The Federal Government recognised an unexpected windfall from the sharper-than-expected economic recovery and strength in commodity prices, notably iron ore (relative to Treasury estimates in the low $50s). Notable spending initiatives include:

- $17.7 billion for aged care to fund another 80,000 new home care packages and training of nurses.
- $1.9 billion is allocated for the roll out of vaccines.
- $2.1 billion in targeted support for aviation, tourism, the arts and international education providers.
- $1.7 billion to increase the affordability of childcare for low- and middle-income families.
- $1.1 billion in women's safety.
- Extension of first-home buyer and pension Loan Schemes to support property ownership and offer retirees an option to release home equity.

These efforts should support economic activity and put off expectations of fiscal tightening into the future. Some notable absences including a lack of further incentives to encourage private sector investment or, unlike other governments, limited focus on green technology (in the context of other spending).

Growth outlook

The Westpac-Melbourne Institute Leading Index eased over the quarter to 3.29% in March, up from 3% in February. This continues to suggest above-trend growth in 2021. It echoes the upgraded RBA forecast for 2021 of 4.75% growth for the year as well (relative to trend growth of 2.7% and a prior forecast of 3.5%). Key to this expectation is a reliance on consumers spending the considerable savings accumulated from government transfers over the past year (RBA estimates put this at ~$200bn). Consumer confidence being maintained at above-average levels would improve the prospect of this occurring. We saw the Westpac-Melbourne Institute Index of Consumer Sentiment rise to 118.8 in April, an 11-year high suggesting that this should be the case.

Rising job vacancy rates points to increased demand for labour amongst businesses and should act as a tailwind for the current jobs recovery. We do note however across both the Treasury and RBA forecasts wage growth is expected to be muted and close to inflation (implying limited wage growth after inflation).

Inflation

Consumer Price Inflation (CPI) rose 0.6% for the March quarter and 1.1% for the year to March. This disappointed consensus expectations for a 0.9% rise in the quarter due to temporary factors including subsidies lowering the cost of new housing. The TD-MI Monthly Inflation Gauge rose to 1.6% year-on-year in April suggesting we will see a pickup in inflation at the next CPI update (due in July) but, at the time of writing, a potentially transient one. **Base effects** refer to the unusually depressed price of certain items (e.g. oil) that makes a year-on-year comparison appear especially large. Once the period of depressed prices passes from the data you will see its effect dissipate.

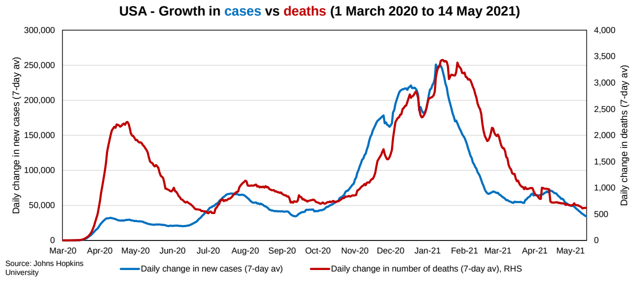
United States

The coronavirus pandemic continues to abate in the US with vaccine rollout helping to hasten its decline. Leading indicators remain supportive of continued growth momentum. Inflation concerns remain a feature with markets tangling between a rising inflation narrative against the Fed and other economist calls for a transitory inflation spike that will fade as the impact of fiscal stimulus and the boost from lifting lockdown restrictions subsides.

Coronavirus pandemic

US cases, hospitalisations and fatalities continued to decline during April and into May. The 7-day average of new cases has fallen to Jul-20 levels.

7. US coronavirus case and fatality trends



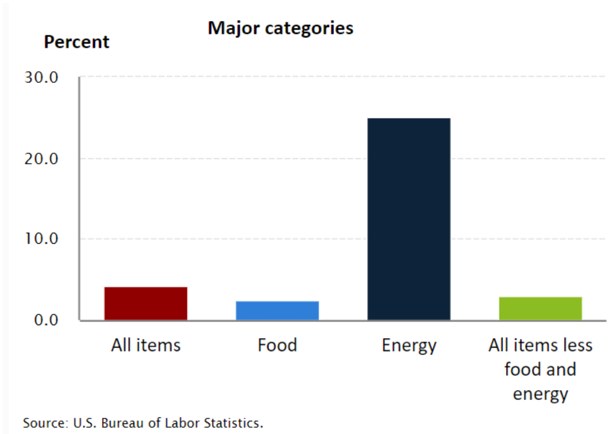
Further vaccination rollout should continue to apply downward pressure on new cases with 80.6 doses administered per 100 people (up from 44.9 at the end of March). Mutant strains remain a risk but the regional surges in new cases such as the Mid-West appear to have abated.

We will continue to monitor to see if the current positive trend meaningfully reverses. This trend is allowing US restrictions to increasingly loosen with current levels per the Oxford Stringency Index at their lowest point since the pandemic began.

Inflation

Inflation surprised on the upside with CPI rising to 0.8% m/m (est: +0.2%) to 4.2% y/y (est: +3.6%) in April. This was the largest monthly gain since 2009. Core measures also surprised, ex-food and energy up 0.9% m/m (est: +0.3%) to 3.0% y/y (est: 2.3%) – the largest monthly gain since 1981. Among the components, the largest surprise was the record 10.0% m/m rise in used vehicle prices. This was the greatest month-on-month increase since 1953. We should note however that these increases were concentrated in sectors under reopening pressure such as hotels while oil prices are still lapping very depressed levels in the first set of lockdowns last year resulting in energy driving year-on-year figures higher as shown in the below chart.

8. US CPI and key category annual growth to April



Inflation pressures were also felt at the business level with Producer Price Index (PPI) rising 0.6% in April (est. 0.3% m/m) and 6.2% for the year to April. The increase in production costs was broad-based, with supply bottlenecks, rising commodity prices and rising labour costs (from pandemic low points) pressuring profit margins and prompting anecdotes of wage rises.

Policy

Fiscal stimulus remains on the forefront for the Biden Administration with longer term structural reform including taxes a feature of his *American Families Plan*. Negotiations remain underway but as of yet inconclusive with substantial push back on tax reform.

Growth outlook

Leading indicators including the Conference Board Leading Economic Index and the ECRI Weekly Leading Index improved further into April. These suggest stronger economic growth in the near term. The Weekly Economic Index by the NY Fed is suggesting quarterly growth of ~1.1% or 11.5% for the year to June 2021.

Business sentiment

The US Composite PMI rose to 63.5 in April, up from 59.7 in March, its strongest level since the survey began in Oct-09. Strength in new orders was a key driver from both domestic and overseas clients with the surge in demand prompting the second-strongest rise in new hires on record. Input costs remain a point of concern in the surveys we continue monitoring.

China

Business surveys picked up in April amidst weakness towards the end of the March quarter, suggesting stronger growth thanks to a pickup in demand both overseas and domestically. Deceleration of credit growth remains a potential headwind in 2021 although this has not yet arisen in business surveys while inflation at a business level continues to rise driven by higher commodity prices.

Business activity and sentiment

Chinese economic momentum improved during April. The Manufacturing PMI, a measure of strength in the manufacturing sector, rose to 51.9, up from 50.6, a four-month high. Key drivers include new business orders which rose for an eleventh consecutive month on stronger customer demand and also saw an uptick in export sales for the second straight month. Pleasingly firms added to worker numbers for the first time in five months on the back of stronger demand. Input price inflation hit its highest level since November 2017 driven in particular by higher industrial metal prices which have prompted increased government scrutiny although amid supply disruptions elsewhere e.g. India it will be difficult to alleviate in the near-term. The Services PMI also improved to 56.3, up from 54.3 in March, a four-month high. A key driver was stronger new orders with stronger demand from overseas and domestic clients. Overall, these surveys suggested the Chinese economy started the June quarter on a strong basis.

Credit growth & policy

Chinese credit growth moderated further with money supply growth slowing to a 21-month low of 8.1% year-on-year (consensus: 9.3%). New loan growth eased to 12.3% for the year to April (consensus: 12.5%), its slowest pace since 2002 excluding the sharp drown seen during last year's lockdowns.

Annual growth in total social financing (a broad measure of credit and liquidity) slowed to 11.7% in April, down from 12.3% year-on-year in March. This slowing is in line with guidance by Chinese authorities that overall credit growth would be in line with nominal economic growth in 2021. China has set a growth target of above 6% for 2021 although current consensus is anticipating 8% or higher.

Chinese firm Huarong Asset Management remains under substantial scrutiny by investors with the company failing to issue its final accounts by the Apr-30 deadline and subject to downgrades by several ratings agencies. There is open discussion of some form of state assistance being deployed to support the firm with Bloomberg reporting that the People's Bank of China might assume over $15bn of Huarong assets to help clean up its balance sheet. Further tightening of credit growth by authorities may see new troubles result amongst riskier lenders.

Any signs of slowing credit growth will be watched for closely as it may bode poorly for key exports such as iron ore as it signals less willingness to lend to fringe projects to create economic activity.

Inflation

Chinese producer prices rose 6.8% in the year to April (consensus: 6.5%). This has been driven by a surge in oil and base metal prices since the pandemic bottom. Consumer prices remain muted by comparison with a 0.9% rise (consensus: 1%) for the year to April, suppressed by weaker food prices even as services activity improved.

Overall while there are some signs of rising inflation observed in producer prices there are substantial question marks in how sustained it will be given the backdrop of tighter credit activity.

Geopolitics

Lastly, we note diplomatic relations have worsened between China and the EU. Human rights concerns over China's treatment of its Uighur minority in Xinjiang Province saw the EU issue sanctions against four Chinese officials and the Xinjiang Public Security Bureau. China retaliated, targeting sanctions against high-profile European Parliament members, European academics and members of national parliaments. This saw the European Commission suspend ratification of a previously announced landmark Comprehensive Investment Agreement with China.

This move amounts to a geopolitical win for the US which has been trying to improve relations under the Biden Administration, moving away from the unilateral stance of President Trump. It may have longer-term economic implications for China particularly if human rights issues become a more pressing political issue with several Western companies already targeted for their criticism of China's handling of Xinjiang.

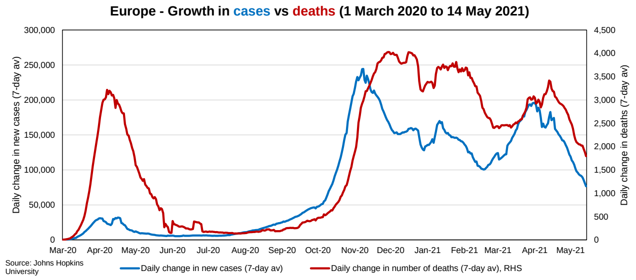
Europe

After flagging economic concerns for Europe in the wake of renewed coronavirus lockdowns it was confirmed that the region suffered a "double dip" recession with the economy contracting in the March quarter. Lockdown restrictions are now lifting, thanks in part to accelerating vaccine programs. New fiscal policy in Recovery Fund disbursements combined with economic re-opening will likely see an economic recovery take firmer hold in the coming months.

Coronavirus pandemic

A combination of renewed lockdown restrictions and vaccinations has seen a substantial decline in new cases. Vaccinations accelerated from 17.2 doses per 100 people administered at the end of March, rising to 43.3 doses per 100 people as of mid-May. Average daily cases fell from ~196k/day at the end of March to ~77k/day in mid-May. Coronavirus-related deaths declined substantially from 3.1k to 1.8k over the same period as shown below.

8. Europe coronavirus case and fatality trends



Lockdown restrictions have begun receding since late March as countries get better control over cases. This will add to the economic recovery as businesses are able to re-open particularly so for the pressured service sector.

Economic growth

The EU experienced a double-dip recession with the economy contracting in the March quarter. Growth was -1.8% for the year to March (consensus: -1.9%), slightly ahead of expectations. This was consistent with earlier remarks highlighting the weakness in business surveys to start 2021, particularly for services industries such as hospitality and tourism.

Looking forward the combination of loosening restrictions and a pickup in fiscal stimulus for the second half of the year suggest improving growth for the rest of 2021. The growing uptick of vaccine doses suggests the risk of new lockdowns should continue falling, removing a left-tail risk for the economy.

United Kingdom

The UK has continued exiting lockdown restrictions with a full reopening expected by June. Vaccine doses per 100 people have climbed from 52.5 at the end of March to 81.7 as of mid-May. Coronavirus cases and fatalities have continued to fall as well, stoking optimism amongst businesses and consumers.

The IHS Markit Composite PMI strengthened to its highest level since October 2013. Services sector output at 61 expanded faster than manufacturing (at 59.2) as businesses benefitted from further lifting of lockdown restrictions with jobs growing at their fastest pace since October 2015. Rising input inflation was also a feature. Overall, it suggests the UK economy remains on track for economic recovery.

Business activity and sentiment

The Eurozone Manufacturing PMI rose slightly to 62.9, up from 62.5 in March, its highest level in the series' 24-year history but below consensus expectations of a 63.3 print. Manufacturing strength remained across all surveyed countries with most at multi-year rising new orders from both domestic and international clients were a key contributor. Businesses hired new workers, sparked by stronger confidence in the year ahead. Input price pressures remain an ongoing feature driven by continued product shortages. This backdrop is seeing businesses lift their own prices as they take confidence in the demand outlook. Stronger investment in staff and machinery will likely lift capacity and reduce inflationary pressures eventually.

The services sector improved to 50.5 in April, up from 49.6 in March, ahead of consensus expectations of a 50.3 reading. This was the first positive reading above 50 since August last year indicating the services sector expanded after months of contracting activity sparked by lockdown restrictions with August marking the lows in new coronavirus cases. Foreign demand remained a source of weakness and has been contracting for almost 3 years. Confidence has improved to its highest since May 2017, helping push an uptick in new hiring. Unlike manufactured goods, price inflation for services remains limited. Given the sizeable weight towards services in inflation data it does not appear likely we will see meaningful upward pressure in European inflation figures

Company news - best and worst performers of April 2021

Megaport (MP1, +29.7%)

Megaport (MP1) produced a positive 3Q result with management very upbeat on their 4Q pipeline – noting a significant pick-up in sales momentum in late Feb-Mar that carried onto April, with the pipeline (at April) 4x larger than historical quarterly sales. MP1 runs a Network-as-a-Service (NaaS) model which allows customers to quickly increase, and decrease, data consumption needed, and although COVID didn't produce an expected uplift in sales (as key customers were in travel and retail industries), the positive result provides an early indication of recovery. The launch of MVE also provides an opportunity for MP1 to materially expand its addressable market, as more clients are increasingly seeking to move away from legacy infrastructure towards the cloud, however this will take time to be realised.

Cleanaway Waste Management (CWY, +29.5%)

Cleanaway Waste Management (CWY) had an eventful April, at first announcing a proposed $2.5bn takeover of Suez Australia's business, only to have it terminated shortly afterwards after Suez and Viola agreed on a takeover of Suez's global business. Although CWY has missed out on Suez's national business, a fallback deal allows CWY to purchase Suez's Sydney assets, which competition concerns would have likely forced Viola to sell regardless, which are strategically important to CWY. With CWY only having one landfill and no transfer stations in Sydney, the deal gives an immediate geographic expansion of CWYs Sydney operations and is estimated to be 8-9% EPS accretive.

Mineral Resources Ltd (MIN, +25.6%)

Mineral Resources (MIN) benefitted from a continued surge in iron ore prices alongside a positive production outlook. MINs lithium mining operations, although not currently in production, also benefitted from the surge in lithium prices as investors continually place a higher value on the optionally upside of lithium operations.

Whitehaven Coal (WHC, -27.5%)

Whitehaven Coal (WHC) suffered from a selloff after citing geological problems at the Narrabri mine, cutting sales guidance for the mine by -4% with approximately 4 weeks of production lost, and preventing WHC from benefitting from the coal price rally. The problem was further exacerbated by seemingly poor governance, after MD Paul Flynn sold $1.7m of shares just 2 weeks before the downgrade was announced.

Beach Energy (BPT, -25.7%)

Beach Energy (BPT) was sold off after full year production guidance was downgraded by 5% to 5.9MMboe. In an out of cycle review, the update confirmed that BPTs Western Flank was in terminal decline after the initial finding that the Bauer well produced less than anticipated yield in February. Although a material impact to BPTs outlook for existing assets, the downgrade comes after BPT discovered more than double the amount of gas it expected from a new gas field off the Victorian cost in Feb.

Challenger Ltd (CGF, -20.2%)

Challenger (CGF) provided a 3Q performance update that saw AUM increase +8% pcp to $100bn and reaffirmed earnings guidance. However, the company expects FY21 NPAT to fall at the bottom end of the $390-$440m guidance range after a sharp decline in credit spreads over the year that was not fully reflected in customer pricing. CGF expects to respond to the changed investment conditions by adjusting annuity pricing.

Sources: ASX company announcements, Bloomberg, Fund manager disclosures, Australian Financial Review, Sydney Morning Herald

Movers and Shakers for April 2021

ASX Code	Company Name	Closing price ($)	Month ago, close ($)	Month price return (%)	Quarter ago close ($)	Quarter Price return (%)	Year ago, close ($)	Annual Price Return (%)
MP1	Megaport Ltd	14.38	11.09	29.7	13.48	6.7	12.00	19.8
CWY	Cleanaway Waste Mgmt	2.85	2.20	29.5	2.22	28.4	1.87	52.4
MIN	Mineral Resources Ltd	47.75	38.02	25.6	34.35	39.0	16.78	184.6
CIA	Champion Iron Ltd	6.81	5.48	24.3	5.11	33.3	2.00	240.5
MND	Monadelphous Group Ltd	12.75	10.40	22.6	12.96	-1.6	11.30	12.8
HUB	Hub24 Ltd	25.28	20.76	21.8	24.45	3.4	9.77	158.8
DHG	Domain Holdings Australia Lt	5.08	4.20	21.0	4.99	1.8	2.62	93.9
IGO	IGO Ltd	7.49	6.28	19.3	6.42	16.7	4.69	59.7
REH	Reece Ltd	20.27	17.14	18.3	16.01	26.6	8.83	129.6
NHF	NIB Holdings Ltd	6.18	5.23	18.2	5.52	12.0	4.92	25.6

Source: Bloomberg, IOOF

ASX Code	Company Name	Closing price ($)	Month ago, close ($)	Month price return (%)	Quarter ago close ($)	Quarter Price return (%)	Year ago, close ($)	Annual Price Return (%)
WHC	Whitehaven Coal Ltd	1.28	1.77	-27.5	1.50	-14.4	1.82	-29.7
BPT	Beach Energy Ltd	1.28	1.72	-25.7	1.65	-22.5	1.52	-16.1
CGF	Challenger Ltd	5.11	6.40	-20.2	6.66	-23.3	4.96	3.0
NXL	Nuix Ltd	4.14	5.16	-19.8	9.17	-54.9	#N/A	#N/A
RBL	Redbubble Ltd	4.10	5.01	-18.2	6.70	-38.8	0.79	419.0
TPG	TPG Telecom Ltd	5.51	6.33	-13.0	7.40	-25.5	#N/A	#N/A
AMP	AMP Ltd	1.12	1.27	-11.9	1.49	-24.9	1.43	-22.0
ORG	Origin Energy Ltd	4.16	4.69	-11.3	4.74	-12.2	5.56	-25.2
CCP	Credit Corp Group Ltd	29.03	32.68	-11.2	28.38	2.3	16.55	75.4
LYC	Lynas Rare Earths Ltd	5.50	6.17	-10.9	4.78	15.1	1.72	219.5

Source: Bloomberg, IOOF

Asset class performance to April 2021 (Total returns in AUD)

				Annualised					
Asset class	**1-mth**	**3-mth**	**6-mth**	**1-yr**	**3-yr**	**5-yr**	**7-yr**	**10-yr**	**15-yr**	**20-yr**
Australian equities (S&P/ASX 200)	3.5%	7.5%	20.3%	30.8%	9.5%	10.3%	8.0%	8.4%	6.4%	8.3%
Australian equities - Mid caps	5.3%	6.6%	16.2%	45.5%	11.4%	13.6%	13.2%	10.9%	7.3%	11.1%
Australian equities - Small caps	5.0%	7.4%	21.4%	39.8%	9.1%	11.1%	9.4%	4.9%	3.9%	7.0%
Australian equities - Micro caps	7.5%	6.8%	28.6%	82.0%	14.5%	14.0%	12.4%	2.7%	4.4%	#N/A
International equities	3.2%	10.2%	17.3%	23.0%	13.3%	13.8%	13.4%	14.0%	7.2%	4.6%
International equities (Hedged)	4.0%	11.3%	27.4%	40.6%	12.8%	13.8%	11.7%	12.2%	8.6%	7.8%
International equities - Small caps	2.6%	10.4%	28.2%	40.6%	11.8%	13.6%	13.3%	13.9%	7.7%	7.7%
Emerging Markets equities	1.1%	1.0%	11.8%	26.0%	6.7%	12.2%	9.7%	7.3%	5.5%	7.6%
Australian REITs	2.9%	6.8%	16.5%	30.9%	7.1%	5.6%	9.7%	10.9%	3.8%	6.8%
Global REITs	4.9%	12.7%	19.9%	13.4%	5.8%	4.9%	8.2%	9.6%	4.2%	#N/A
Global REITs (Hedged)	5.7%	14.0%	29.8%	29.1%	5.3%	4.9%	6.5%	7.9%	5.0%	#N/A
Global Infrastructure	2.0%	9.0%	6.9%	3.0%	7.6%	7.9%	9.8%	12.1%	6.4%	#N/A
Global Infrastructure (Hedged)	2.7%	9.7%	14.9%	16.5%	7.8%	8.1%	8.4%	10.6%	9.4%	#N/A
Trend following (USD)	3.5%	10.2%	16.8%	10.7%	5.2%	0.6%	4.4%	1.5%	3.6%	5.8%
Australian bonds	0.6%	-2.3%	-3.0%	-1.2%	4.3%	3.5%	4.3%	5.0%	5.4%	5.5%
Australian bonds - government	0.6%	-2.5%	-3.6%	-2.0%	4.4%	3.4%	4.3%	5.0%	5.4%	5.5%
Australian bonds – corporate	0.5%	-0.9%	-0.1%	3.5%	4.9%	4.4%	4.7%	5.5%	5.9%	5.9%
Australian bonds - floating rate	0.1%	0.1%	0.4%	1.8%	2.1%	2.5%	2.7%	3.4%	4.1%	4.5%
Global bonds (Hedged)	0.2%	-1.7%	-1.5%	-0.1%	4.0%	3.3%	4.3%	5.4%	6.3%	6.6%
Global bonds - government (Hedged)	0.0%	-2.0%	-2.4%	-2.0%	3.6%	2.9%	4.3%	5.3%	6.2%	6.5%
Global bonds - corporate (Hedged)	0.7%	-1.8%	-0.2%	4.6%	5.4%	4.5%	5.0%	6.3%	6.8%	7.2%
Global bonds - High Yield (Hedged)	1.4%	1.2%	7.5%	19.0%	4.6%	6.2%	5.6%	7.6%	8.6%	#N/A
Emerging Market bonds (Hedged)	2.4%	-1.7%	2.5%	15.0%	4.2%	4.5%	5.2%	6.6%	7.7%	9.8%
Cash (AUD)	0.0%	0.0%	0.0%	0.1%	1.1%	1.4%	1.7%	2.3%	3.4%	3.8%

Sources: Bloomberg, IOOF calculations
* AUD total returns as at Apr-21 assuming reinvestment of dividends unless otherwise specified
** Returns reflect index performance excluding any fees; Actual ETF/managed fund performance will vary due to both fees and tracking error.

Appendix – Index sources

Asset class	Index
Australian equities (S&P/ASX 200)	S&P/ASX 200 Accumulation Index
Australian equities - Mid caps	S&P/ASX Accumulation Midcap 50 Index
Australian equities - Small caps	S&P/ASX Accumulation Small Cap Ordinaries Index
Australian equities - Micro caps	S&P/ASX Emerging Companies Total Return Index
International equities	MSCI World ex Australia Net Total Return (in AUD)
International equities (Hedged)	MSCI World ex Australia Hedged AUD Net Total Return Index
International equities - Small caps	MSCI World Small Cap Net Total Return USD Index (in AUD)
Emerging Markets equities	MSCI Emerging Markets EM Net Total Return AUD Index
Australian REITs	S&P/ASX 200 A-REIT Accumulation Index
Global REITs	FTSE EPRA/NAREIT Developed Index Net Total Return (in AUD)
Global REITs (Hedged)	FTSE EPRA/NAREIT Developed Index Net Total Return (Hedged to AUD)
Global Infrastructure	FTSE Global Core Infrastructure 50/50 Net Total Return in AUD
Global Infrastructure (Hedged)	FTSE Global Core Infrastructure 50/50 100% Hedged to AUD Net Tax Index
Trend following	SGI Cross Asset Trend Following Index (USD)
Australian bonds	Bloomberg AusBond Composite 0+ Yr Index
Australian bonds - government	Bloomberg AusBond Govt 0+ Yr Index
Australian bonds – corporate	Bloomberg AusBond Credit 0+ Yr Index
Australian bonds - floating rate	Bloomberg AusBond Credit FRN 0+ Yr Index
Global bonds (Hedged)	Bloomberg Barclays Global Aggregate Total Return Index Value Hedged AUD
Global bonds - government (Hedged)	Bloomberg Barclays Global Aggregate Treasuries Total Return Index Hedged AUD
Global bonds - corporate (Hedged)	Bloomberg Barclays Global Aggregate Corporate Total Return Index Hedged AUD
Global bonds - High Yield (Hedged)	Bloomberg Barclays Global High Yield Total Return Index Hedged AUD
Emerging Market bonds (Hedged)	J.P. Morgan EMBI Global Core Hedged Index Level AUD
Cash (AUD)	Bloomberg AusBond Bank Bill Index

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