Monthly Economic Wrap

February 2021

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Summary

- Share markets rose on balance in February which belied a tough week to end the month following sharp rises in bond yields.
- Vaccine rollout continued to be a major focus with heightened anticipation of US government stimulus also a highlight.
- Both were factors helping drive a selloff in bonds as investors sought out assets that would benefit from the expected global economic recovery this year.
- The Global Composite PMI (a useful leading indicator of global economic growth rose to a four-month high led by the USA.

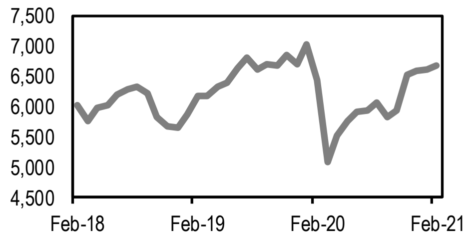
Markets

- Risk assets were broadly positive with Emerging Markets one notable exception. Bonds were the main area of weakness with government debt struggling the most in a rising yield environment (see page 13)
- Australian equities lagged slightly vs global peers (see Chart 2) while value stocks continued their recent rally, clawing back more of the relative underperformance in 2020 (see Chart 3).

Key economic news

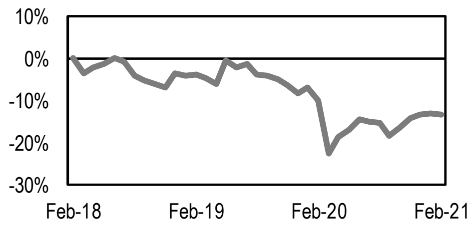
- The RBA committed itself further to the quantitative easing path to lower borrowing costs and weaken the Australian dollar with a potential extension beyond the current program announced in early March. It also flagged its expectation for the cash rate to remain at 0.1% until 2024 at the earliest.
- The Biden Administration successfully passed its $1.9tn stimulus program to support the coronavirus vaccine rollout and economic recovery.
- Inflation concerns continue to persist as a recurrent theme in business surveys plagued by a mix of coronavirus restrictions and rising commodity prices.

1. S&P/ASX 200 Price Index



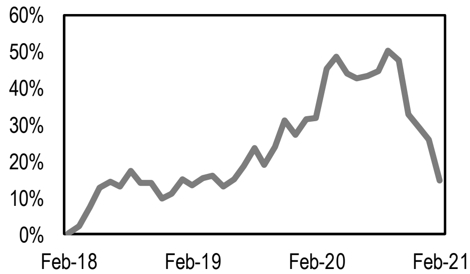
Source: Bloomberg, IOOF

2. ASX200 vs All-World, US$ terms



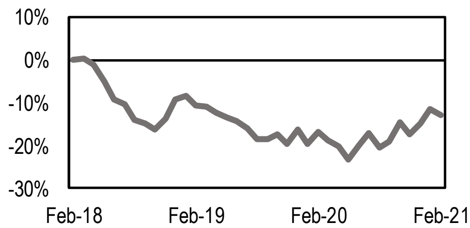
Source: Bloomberg, IOOF

3. Australia – Growth vs Value stocks



Source: Bloomberg, IOOF

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



Sources: Bloomberg, MSCI, S&P, IOOF

Key company news

Macro influences tussled with company-specific news as the majority of the market reported their half-year results to Dec-20. Zip Co benefitted from continued strength in its US rollout while Virgin Money was bolstered by a positive Q1 trading update and stronger expectations for the UK economy following the lifting of coronavirus lockdown restrictions and success in vaccine rollouts.

Sector and stock returns

ASX/S&P 200 Sectors (GICS)				
	Monthly	% Δ	Quarterly	% Δ
▼	Consumer Discretionary	-3.95	Consumer Discretionary	1.46
▼	Consumer Staples	-5.04	Consumer Staples	-0.94
▲	Energy	2.06	Energy	2.45
▲	Financials ex Property	4.53	Financials ex Property	6.28
▲	Financials	4.53	Financials	6.27
▼	Health Care	-2.98	Health Care	-9.41
▼	Industrials	-1.84	Industrials	-7.63
▼	IT	-9.11	IT	-0.16
▲	Materials	7.17	Materials	15.31
▼	Property Trusts	-3.19	Property Trusts	-7.98
▼	Telecommunications	-1.51	Telecommunications	0.51
▼	Utilities	-8.76	Utilities	-15.03

Source: Bloomberg, IOOF

Best and Worst S&P/ASX 200 Performers			
Top five stocks		Bottom five stocks	
Monthly			
Zip Co Ltd	+43.1%	Service Stream Ltd	-39.6%
Virgin Money UK Plc - CDI	+39.5%	NRW Holdings Ltd	-29.7%
EML Payments Ltd	+29.6%	Appen Ltd	-25.3%
Sandfire Resources Ltd	+27.6%	Kogan.Com Ltd	-22.3%
Lynas Rare Earths Ltd	+25.1%	Northern Star Resources Ltd	-20.5%
Quarterly			
Zip Co Ltd	+71.6%	Service Stream Ltd	-49.1%
Lynas Rare Earths Ltd	+58.2%	Appen Ltd	-47.1%
IGO Ltd	+51.4%	Mesoblast Ltd	-40.9%
Pro Medicus Ltd	+50.1%	A2 Milk Co Ltd	-34.9%
Virgin Money UK Plc - CDI	+40.7%	AGL Energy Ltd	-30.6%

Source: Bloomberg, IOOF

Share Markets, February 2021

Australian Indices		Feb-21 Price	1M return (%)	Nov-20 Price	3M return (%)
▲	S&P/ASX 200	6673	1.00	6518	2.39
▲	All Ordinaries	6941	1.02	6742	2.95
▲	Small Ordinaries	3124	1.40	3016	3.59
US Indices					
▲	S&P 500	3811	2.61	3622	5.23
▲	Dow Jones	30932	3.17	29639	4.37
▲	Nasdaq	13192	0.93	12199	8.15
Asia Pacific Indices					
▲	Hang Seng	28980	2.46	26341	10.02
▲	Nikkei 225	28966	4.71	26434	9.58
UK & Europe Indices					
▲	FTSE 100	6483	1.19	6266	3.47
▲	CAC40	5703	5.63	5519	3.35
▲	DAX Index	13786	2.63	13291	3.73

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

European indices were amongst the strongest performers while we saw a pronounced divergence in the US between the broader market (the S&P 500) and the technology sector (Nasdaq). Key return drivers included:

- Continued anticipation of fiscal stimulus in the US supported stocks benefitting from re-opening dynamic and stronger economic growth. This drove relative underperformance by the tech sector (as proxied by the Nasdaq index)
- A sharp spike in long-term bond yields towards month-end also dragged down stock indices particularly in more "overvalued" segments such as US tech stocks. For instance, electric vehicle manufacturer Tesla declined 14.9%.

At a regional level, exposure to emerging markets (EM) detracted with underperformance in February. The EM benchmark was down 0.1% compared to 1.5% rise for developed markets (see page 12).

	1-mth	3-mth	6-mth	1-yr
MSCI World Index	1.6%	0.7%	6.7%	7.7%
Value	3.6%	2.3%	11.1%	-1.9%
Value-Weighted	5.2%	5.2%	16.1%	6.1%
Momentum	-1.7%	-0.4%	2.6%	13.4%
Growth	-0.6%	-0.6%	3.2%	18.7%
Quality	0.2%	-2.1%	2.0%	9.7%
Low volatility	-2.0%	-5.1%	-1.7%	-9.6%
Equal weight	0.6%	0.9%	9.9%	8.9%
Small caps	3.9%	9.6%	24.3%	18.3%

Source: Bloomberg, IOOF, MSCI

At a style level, February saw the rotation to value and small cap stocks persist. Progress in vaccine rollouts continues to underpin cyclical sectors such as energy and banking stocks. The rally in longer-term bond rates impacted momentum and growth names and, low volatility stocks. The latter can tend to overweight exposure to "bond proxy" sectors such as infrastructure or utilities which underperform as bonds become competitively priced (given rising yields).

Australian equity markets

The Australian market continued to rise, up 1%. At a sector level, the benchmark was driven higher by the mining (up 7.2%), financials (up 4.5%) and energy (up 2%) sectors. Mining and energy sectors were boosted by stronger metal and oil prices respectively as investors continue to anticipate stronger global growth and resurgent commodity demand. Energy got a boost following month-end as OPEC+ (a group of oil-producing countries) agreed to keep production steady rather than increasing as some had feared.

	1-mth	3-mth	6-mth	1-yr
MSCI Australia Index	1.7%	3.7%	12.4%	4.5%
Value	6.1%	10.8%	25.3%	11.5%
Value-Weighted	4.3%	6.9%	20.6%	6.7%
Momentum	-3.2%	-1.4%	0.0%	6.2%
Growth	-0.5%	-0.5%	3.3%	19.5%
Quality	0.4%	-2.1%	1.9%	8.6%
Low volatility	-1.1%	-1.0%	4.7%	-3.0%
Equal weight	0.6%	0.9%	9.9%	8.9%
Small caps	1.5%	4.1%	12.1%	17.2%

Source: Bloomberg, IOOF, MSCI

At a style level, value stocks (particularly the major banks) were the standout with all other styles lagging the benchmark for a second consecutive month. Continued strength in materials and the banking sector were primary drivers of the divergence relative to other styles. Bank stocks were supported by a stronger domestic economy with unemployment continuing to fall.

Fixed Income

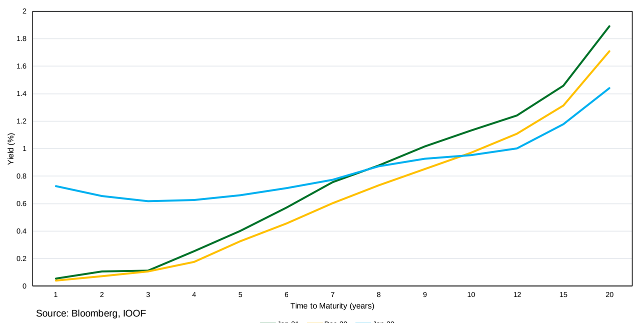
	Fixed Income	Feb-21 yield	1M mvt (bps)	Nov-20 yield	3M mvt (bps)
	Australian Cash rate	0.10	--	0.10	--
▲	10-year Bond Yield	1.92	0.78	0.90	1.02
▲	3-year Bond Yield	0.12	0.01	0.11	0.01
▲	90 Day Bank Bill Yield	0.03	0.02	0.02	0.01
▲	US 10-year Bond Yield	1.40	0.34	0.84	0.57
▲	US 3-year Bond Yield	0.28	0.11	0.19	0.09
▼	US Investment Grade spread	1.10	-0.02	1.19	-0.09
▼	US High Yield spread	2.85	-0.39	3.85	-1.00

Source: Bloomberg, IOOF

Australian bond market

The Australian yield curve continued to steepen during February with a substantial move higher for long-term bond yields with the 10-year bond seeing a rise of 0.78% in one month. This was one of the largest monthly moves on record and you need to go back to the mid-1990s to see similar shifts.

5. Australian yield curve changes to Feb-21



Source: Bloomberg, IOOF

The 3-year yield also deviated from the RBA target of 0.1% necessitating further intervention into March. This is highlighted in chart 6 where the scale of the move is highlighted over less than two weeks. The RBA March statement noted that it brought forward bond purchases to defend its target. A speech by Governor Lowe in early March also confirmed the RBA's willingness to further extend its program if it deems it to be required. At the same time, to defend its 0.1% target the bank has also ensured the AOFM will stop lending out 3-year government bonds to constrict supply available to short-sell. It has also increased the rate at which it will lend out its own holdings of 3-year bonds substantially. These measures have collectively drove the 3-year yield below the 0.1% target.

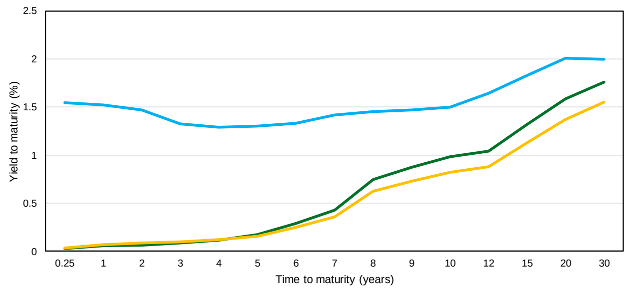
US bond market

US Treasury yields rose as the yield curve steepened. The increased prospect of fiscal stimulus with a major bill being targeted for mid-March passage was one factor. Rapid vaccine rollout was another that stoked investor optimism with coronavirus cases, hospitalisations and deaths continuing since their mid-January peak. We should be expecting some rise in yields as part of the economy recovery. 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.

Other potential drivers of the selloff include:

- RBA failure at yield curve control shook confidence
- Upcoming regulatory deadline (capital relief rule) that could make banks net sellers of US Treasuries
- Insufficient guidance from the Federal Reserve suggesting the move to higher yields would remain unchecked also weakened confidence.

6. US yield curve movement to Feb-21



Sources: Bloomberg, IOOF

US credit spreads tightened further for both investment grade and more speculative high yield debt. Stronger oil prices underpinned high yield contraction (energy companies have a higher weight in the benchmark). The High Yield universe is also shorter duration than the government bond market making it less vulnerable to a rising rate environment.

Currencies

	Currencies	Feb-21 Price	1M return (%)	Nov-21 Price	3M return (%)
▲	$A vs $US	77.06	0.81	73.44	4.93
▼	$A vs GBP	55.33	-0.77	55.12	0.37
▲	$A vs YEN	82.13	2.62	76.61	7.20
▲	$A vs EUR	63.83	1.35	61.58	3.65
▲	$A vs $NZ	106.53	0.14	104.69	1.76
▲	$A TWI	64.50	2.38	61.50	4.88
▲	$US vs EUR	82.83	0.53	83.85	-1.22
▲	$US vs CNY	6.48	0.77	6.58	-1.52
▼	$US vs GBP	71.80	-1.60	75.05	-4.33
▲	$US vs JPY	106.57	1.81	104.31	2.17
▲	$US vs CHF	90.85	2.04	90.89	-0.04
▲	US Dollar Index	90.88	0.33	91.87	-1.08
▼	JPM EM Currency Index	56.76	-0.55	56.36	0.70

Source: Bloomberg, IOOF

The Australian dollar (AUD) rose 0.81% against the US Dollar (USD) during February, from USD 0.7644 to USD 0.7706.

The Australian dollar continued to appreciate for most of February before declining over 3% in the last week amidst weakness in bond and equity markets. Continued quantitative easing (purchasing bonds) by the Reserve Bank and pushing out rate hikes until 2024 has had limited impact in suppressing the currency. Although we note comments by Deputy Governor Christopher Kent suggesting the AUD would be trading even higher had the RBA not intervened. Vaccinations for the pandemic hastening a global recovery continued to be a prevailing narrative. Destocking of inventories fuelling need for new inventory amongst commodity users was another factor with Markit PMI surveys of major steel, aluminium and copper users suggesting strong demand persisted into February.

The month-end move in bonds and equities supported USD. USD remains heavily shorted and widespread in its use as a funding currency for more attractive, speculative plays in other currencies. Stronger bond yields supported USD demand.

Commodities

	Commodities	Feb-21 Price	1M return (%)	Nov-20 Price	3M return (%)
▲	Aluminium	2132	8.33	2046	4.19
▲	Copper	409	15.07	344	18.86
▲	Nickel	18540	4.90	16040	15.59
▲	Zinc	2780	8.15	2794	-0.53
▲	Crude Oil - Brent	66.13	18.34	47.59	38.96
▲	Natural Gas	2.77	8.07	2.88	-3.85
	Metallurgical Coal	126	--	129	-2.26
▼	Thermal Coal	81	-9.03	71	14.52
▼	Iron Ore	165.61	-1.50	124.62	32.89
▼	Gold	1729	-6.57	1785	-3.14
▼	Silver	26	-1.90	23	16.68

Source: Bloomberg, IOOF

Most commodities continued to rally across the energy and base metals spectrum. Notable exceptions lay in coal, iron ore and gold.

Iron ore prices were subdued due to seasonal factors with Chinese demand weaker as activity fell during Lunar New Year celebrations.

Nickel by contrast benefitted from a range of drivers including supply disruptions at two Russian miners run by Russian firm Nornickel. Renewed calls by market observers and sell-side analysts for a commodity super cycle led by clean energy supported nickel demand (given its use in battery production). Other battery metals such as Lithium also benefitted.

Stronger inventory drawdowns driven by rising demand helped push **oil** prices higher. Following month-end 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).

Precious metals specifically gold continue against a stronger real yield (bond yield after inflation) environment following the trend of rising government bond yields persisting into February. Silver prices remain supported by the stronger growth outlook given their wider industrial applications makes them more sensitive to economic growth.

Australia

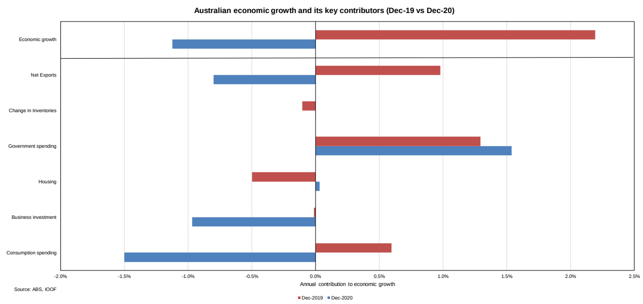
The bounce back in economic activity persisted into February with Dec-20 GDP numbers beating consensus expectations. Vaccine rollout and improvement in the labour market added to consumer and business confidence ahead of JobKeeper's conclusion in March.

Coronavirus pandemic and policy

Australian authorities have continued to ease coronavirus restrictions following outbreak scares in recent months including one quarantine failure that prompted a mid-month short lockdown within Victoria. Actual community transmission has been negligible for several weeks across the country although new cases in quarantine continue to be registered posing a potential risk of hotel quarantine failure. Initial vaccination programs are now underway with over 125,000 people receiving their first doses at the time of writing (both Pfizer and AstraZeneca options are collated in this dataset).

JobKeeper is set to expire at the end of March with offsets in a temporary boost to unemployment benefits and a tourism package by the Federal government. Unemployment may rise following March with one proxy, people working zero hours for economic reasons (e.g. being stood down), still sitting near 103,000 at the end of January (vs a pre-coronavirus average of 55,200). These could be the most immediate victims of JobKeeper ending but we will not have clearer data until we see April labour figures. The Federal government has announced a $1.2bn support package to subsidise domestic airfares to key tourism destinations, subsidise worker wages for international flights and provide government-backed loans to affected businesses. This may be insufficient for the worst-hit areas and more support may be required particularly until international travel can resume.

Economic growth



Economic growth surprised on the upside in the December quarter rising 3.1% (consensus: 2.5%) and falling 1.1% in the year to December. Over 2020 government spending was the main positive driver (up 1.5%) offset by sharp falls in consumption (down 1.5%) and investment spending (down 1%). Pleasingly the savings rate fell further from record highs to 12% (down from a record high of 22% in the June quarter at the height of the pandemic). This is important as a source of growth going forward with the reduction in government spending needing continued recovery in private consumption to drive the economy.

Growth outlook

The Westpac-Melbourne Institute Leading Index rose to 4.48% in January, up from 4.24% in December. This continues to suggest above-trend growth for the first half of 2021. It echoes the RBA forecast for 2021 of 3.5% growth for the year as well (relative to trend growth of 2.7%). Key to this expectation is a reliance on consumers spending the considerable savings accumulated from government transfers over the past year (the RBA estimates this to be ~$200bn). Consumer confidence being maintained at above-average levels would improve the prospect of this occurring. Pleasingly we saw the Westpac-Melbourne Institute Index of Consumer Sentiment rise to 111.8 in March (up from 109.1 in February) and just shy of a 10-year high.

Longer-term, structural challenges still loom however as current policy support unwinds (e.g. JobKeeper concluding in March), and immigration levels remain low (adding more people tends to boost economic activity and overall growth in aggregate).

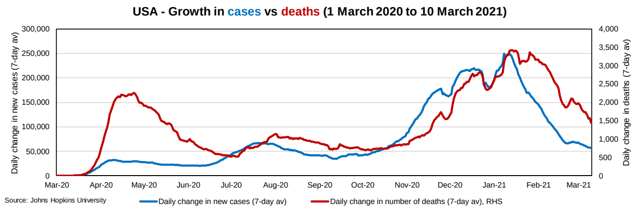
Labour market

The jobs market gained 29,100 jobs in net terms with the unemployment rate falling to 6.4% as well in January (down from 6.6% in December). Hours worked (another measure of labour market activity) fell to be down 5.7% year-on-year driven by much larger-than-expected annual leave absences. Job vacancies continue to recover with a 7% rise in online jobs ads during February according to the National Skills Commission. This saw total ads rise to 192,000 nationally, 24.8% above the level we saw in February 2020 (pre-coronavirus). Rising vacancy rates points to increased demand for labour amongst businesses and should act as a tailwind for the current jobs recovery.

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 with supply bottlenecks triggering inflation. A new $1.9trn stimulus package will further support growth.

Coronavirus pandemic



Since mid-January US cases, hospitalisations and fatalities have been making a rapid decline with widespread vaccinations a key contributor. The 7-day average of new cases has fallen to Oct-20 levels. Further vaccination rollout should continue to apply downward pressure on new cases although mutant strains remain a lingering risk given new cases are still high at 56,000 per day. Over 96m vaccine doses have been administered with over 2m/day currently being applied. This progress has seen some States move to relax lockdown restrictions more forcefully prompting concerns that these steps were prematurely taken given the presence of mutant strains such as B.1.1.7 within the US. We will continue to monitor the situation to see if the current positive trend meaningfully reverses. Thankfully however existing vaccines appear to be retaining their effectiveness even against mutant strains.

Policy

Negotiations for additional fiscal stimulus by the Biden administration succeeded following month-end with a $US1.9trn package approved. Key tenets include:

- $350bn in support to State and local governments,
- Extension of $300/week unemployment supplementary benefit until early September,
- extending direct cheques to households,
- expanding a child tax credit,
- more funding to ensure the vaccination process continues smoothly.

A mooted increase to the minimum wage and to the unemployment benefit were both pulled to appease more conservative Democrat Senators with the Republicans and Democrats voting on party lines (i.e. it did not enjoy bipartisan support). As noted last month this package is a net positive to US growth prospects. It does raise potential concerns over stronger inflation although this is not yet evident in current figures with the latest CPI print for February missing on the downside. We continue to observe inflation closely as it does carry the downside risk of policy overreaction by raising rates or reducing government spending.

Growth outlook

Leading indicators including the Conference Board Leading Economic Index and the ECRI Weekly Leading Index suggest growth momentum should continue improving in the near term. The Weekly Economic Index product by ECRI remained in positive year-on-year growth over February and into March suggesting the US will officially exit recession during the March quarter.

Business sentiment

The US manufacturing PMI remained elevated in February only down slightly to 58.6 from 59.2 in January (readings above 50 point to expansion in business activity). New order growth remained strong, at near three-year highs, while new export orders grew at the second-fastest rate since September 2014. One lingering point of concern lies in rising input costs and delays in delivery by suppliers with firms partially passing these on to end customers. These inflationary pressures should ease when we see the supply situation improving. We saw businesses gain more confidence to add to worker numbers which saw the fastest increase since September 2014.

The Services PMI also signalled strength with a rise to 59.8, up from 58.3, its fastest expansion since July 2014. Strength in new orders was a key driver from both domestic and overseas clients. Points of caution lie in higher input costs due to greater fuel and supplier costs particularly for protective health equipment with cost inflation rising at its fastest since the series began in October 2009.

The overall picture reinforced the view that this will be a strong March quarter for the US. Inflationary pressures remain a point of concern particularly amongst raw materials and to a lesser extent wages for the services sector.

China

Business surveys suggest improvement in February but at much more subdued pace. Deceleration of credit growth remains a potential headwind in 2021 with concerns that Chinese firms and households cannot persist with current trends in growing leverage.

Business activity and sentiment

Chinese economic momentum softened further in February. The Manufacturing PMI, a measure of strength in the manufacturing sector, declined to 50.9 in February, down from 51.5 in January. The export backdrop was a key factor with new export orders falling for the second-consecutive month seeing an overall slight increase in total new orders. The labour market for manufacturers continues to be challenged with employment falling slightly in February while in contrast to the US experience, backlogs of work fell (indicating limited pressure on existing capacity). Inflationary pressures were also absent with the input cost subindex at its highest point since December 2017 driven by higher transportation costs and stronger prices for industrial metals with some of these passing to output prices (echoing the PPI trend in recent months). Pleasingly confidence improved with future output expectations at their second-highest level since August 2014.

The Services PMI also fell, dropping to 51.5 in February from 52.0 in January. Weaker overseas demand was one factor with new export orders falling for the first time since October 2020 and overall growth in new orders at a ten-month low. Input cost inflation persisted into February was also a factor for services firms with rising raw material and labour costs being largely absorbed instead of being passed on to end customers. Confidence improved however and is at near eight-year highs in anticipation that the pandemic challenges will be overcome in the near term.

The overall Composite PMI fell to 51.7 in February, down from 52.2 in January signalling the softest growth rate in the past ten months. Rising input cost inflation was one point of concern as was a weaker overseas demand backdrop. Fiscal stimulus efforts in the US could form a strong tailwind to restore the overseas demand picture. At present jobs growth remains a challenge with employment declining for the first time since last January.

Credit growth & policy

Broad M2 money supply beat expectations rising 10.1% in the year to February (consensus: 9.4%) and new bank loans rose to 1.36trn in February (consensus: 0.95trn). Real financing demand remained strong into February despite reports that regulators had told banks to trim loan books this year to reduce overall leverage (and avoid asset bubbles potentially forming).

Annual growth in total social financing (a broad measure of credit and liquidity) rose to 13.3% year-on-year in February with market observers expecting this to weaken 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.

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 1.7% from February 2020 (consensus: 1.5%), the second annual increase observed since the start of last year and the fastest since February 2018. Consumer prices however persisted in a deflationary state with a decline of 0.2% over the year to February 2021 (consensus: -0.4%).

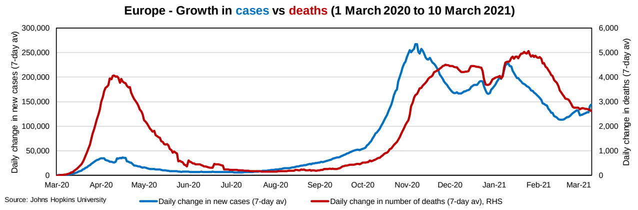
The divergence was partly driven by increases in raw material inputs for Chinese producers as noted in the business surveys. Another factor was what economists call “base effects” which reflect unusual items inflating the numbers we are comparing against.

Overall while there are some signs of rising inflation observed in producer prices (which tend to lead prices for consumer goods) it remains at a subdued level unlikely to trigger a sharp monetary policy response.

Europe

The coronavirus pandemic has declined from recent peak levels, but logistical issues are plaguing vaccine distribution and cases have begun to increase since mid-February. This will weigh on near-term growth even as governments look to moderate lockdown restrictions with further government stimulus likely required.

Coronavirus pandemic



In Europe a near-term peak in both cases and fatalities was reached in January with a sharp decline in both since that point. This includes within the UK as well even with the presence of the mutant B.1.1.7 strain. However, we have seen a trough in cases more recently with growth in the likes of France, Italy and Germany posing a challenge to lockdown restriction relief. In France for example over 2m people went into lockdown in early March along the country’s north coast with hospital capacity sitting at 90% in Pas-de-Calais. Two thirds of recent cases recorded there were the more contagious UK strain.

The vaccine rollout has remained problematic for mainland Europe with a considerable lag in delivery relative to the UK and US which are standouts amongst developed countries globally. Currently the EU has administered almost 10 doses per 100 people (compared to 28.3 for the US as at early March).

United Kingdom

The services sector bounced back strongly rising from 39.5 in January to 49.5 in February, marking a much weaker contraction. Vaccination rollout and the prospect of loosening restrictions spurred stronger business expectations. Coronavirus restrictions continued to pose a challenge for the sector with Brexit-related issues also cited as a factor crimping demand from EU customers. The Overall Composite PMI improved to 49.6 in February, up from 41.2 in January thanks to the improvement in the services sector from stronger business confidence. As noted for other major economies cost pressure remained a challenge with shipping, fuel and free food costs all increasing.

Business activity and sentiment

The Eurozone Manufacturing PMI rose sharply to 57.9 in February, up from 54.8 in January, its highest level in almost three years. Manufacturing strength remained across most surveyed countries with several including Germany at three-year highs. All three major sectors of consumer, invest and intermediate goods showed improving prospects with strong overseas demand a key driver, growing at its fastest rate since January 2018. Rising inflation in raw materials and shipping delays suggest upward pressure on consumer inflation in the months ahead.

The services sector improved slightly to 45.7 in February, up from 45.4 in January. Lockdown restrictions were a key driver with overall new orders falling for a seventh consecutive month. These results suggest a further contraction in GDP is likely for the March quarter and, given both the slow vaccine rollout and current case trends, this risk may persist into the June quarter or beyond.

Further fiscal and monetary support will likely be required particularly for services sectors such as hospitality and tourism that have been amongst the worst-affected by the pandemic.

Policy

In response to the disruption in bond markets the ECB kept its policy settings unchanged overall in terms of its key interest rates. It did announce that asset purchases under the pandemic emergency purchase program (PEPP) would occur significantly faster over the next quarter. It also re-affirmed its commitment to key rates at current (or lower) levels until it meets its inflation target and its preparedness to adjust policy including PEPP purchases to keep financing conditions favourable for the European economy.

Retail sales

The cost of the lockdowns in January was revealed with a 5.9% fall in retail sales (down 6.4% year-on-year) with food (up 1.1% month-on-month) and online (up 7.1%) the only categories to show some growth (excluding automotive fuel).

Labour market

The unemployment rate was unchanged at 8.1% in January (up from 7.4% a year earlier). Wage subsidy programs have helped limit further permanent job losses. Pleasingly PMI surveys showed a slight improvement in jobs growth for February.

Company news - best and worst performers during February 2021

Zip Co (Z1P, +43.1%)

Zip Co (Z1P) continued its projection upward after 1H21 results created investor enthusiasm in Z1P's international expansion, with the key US market now contributing c.40% of revenues. Z1P also provided a positive improvement on its unit economics, with revenue yield (revenue/avg. receivables) surging from 16% to 25% and a 3.7% cash gross profit as a percentage of sales. Through a series of acquisitions, Z1P has now expanded to 9 global markets, with $2.3bn in GMV for 1H21 and 5.7m total active customers as of Dec 2020.

Virgin Money UK (+39.5%)

Virgin Money UK (VUK) released a positive Q1 trading update which saw the group returning to a statutory profit for the first time in several years. The company reported a 50bps improvement in CET1 to 13.9%, despite a £49M charge for PPI in the period equivalent to 19bps and a stable NIM at 152bps in line with Q4. The rally was further supported by declining COVID-19 cases across the UK as the initial phases of the vaccine rollout were successful, prompting investors to be more upbeat on earnings expectations.

EML Payments (+29.6%)

EML Payments (EML) released positive 1H21 results despite a difficult operating environment as the pandemic caused a reduction in the use of EMLs payment services. Gross Debit Volume increased +54% pcp to $10.2bn, while revenue and EBITDA increased +61% and +42% pcp to $95.3m and $28.1m respectively. Although the strong result included the acquisition of Prepaid Financial Services (PFS), EML experienced strong organic growth in Salary Packaging (+60%) and Gaming (+42%), while Gifts & Incentives were detractors (-11%). EML continues to be leveraged to the rollout of sports betting legalisation in the US and increased uptake of digital payments.

Service Stream (-39.6%)

Service Stream (SSM) suffered a steep decline after the company provided a challenged FY21 which investors initially hoped would improve after the 1H. The company forecast 2H results would be approximately in-line with the 1H, which suffered an -18% revenue and -40% NPAT decline. The FY21 outlook has been progressively impacted by the prolonged COVID setting which continued to subdue near-term earnings from client-initiated work reductions and delays in commencing new projects.

NRW Holdings Ltd (-29.7%)

NRW Holdings (NRW) retracted most of its November and December gains as the enthusiasm surrounding the acquisition of Primero waned. All segments showed a healthy increase, Civil engineering and Mining divisions standout performers, increasing +52% and +46% to $464.9m and +547.8m respectively. NRW was upbeat on its outlook, emphasising its strong Order Pipeline with potential for further infrastructure projects – the pipeline of tenders and prospects expected to be awarded in the next 12 months increased to $14.1bn.

Appen Ltd (-25.3%)

Appen (APX) declined on lower than expected FY21 guidance which lead to several downward forecast revisions. Increased regulatory scrutiny on big tech giants has compounded a reduction in advertising-related AI program spend from Facebook, Microsoft, and Google. Although APX took on 34 new projects and added 136 new customers, they were predominately a long tail of smaller customers which did not offset the decline in spend from its core big tech clients. Overall, the decline is not a structural issue, and APX is continuing with its diversification strategy outside key clients and into growth markets such as China.

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

Movers and Shakers for month of February 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 (%)
Z1P	Zip Co Ltd	10.40	7.27	43.1	6.06	71.6	2.72	282.4
VUK	Virgin Money UK Plc – CDI	3.25	2.33	39.5	2.31	40.7	2.99	8.7
EML	EML Payments Ltd	4.99	3.85	29.6	3.73	33.8	3.62	37.8
SFR	Sandfire Resources Ltd	6.10	4.78	27.6	4.38	39.3	4.26	43.2
LYC	Lynas Rare Earths Ltd	5.98	4.78	25.1	3.78	58.2	1.82	228.6
VOC	Vocus Group Ltd	5.04	4.12	22.3	4.11	22.6	3.44	46.5
CTD	Corporate Travel Management	20.27	16.65	21.7	20.00	1.4	13.54	49.7
OZL	Oz Minerals Ltd	22.39	18.65	20.1	16.32	37.2	9.00	148.8
NEC	Nine Entertainment Co Hldgs	2.87	2.41	19.1	2.30	24.8	1.59	81.1
IEL	IDP Education Ltd	27.26	22.98	18.6	24.47	11.4	21.25	28.3

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 (%)
SSM	Service Stream Ltd	1.15	1.91	-39.6	2.26	-49.1	2.10	-45.2
NWH	NRW Holdings Ltd	2.01	2.86	-29.7	2.65	-24.2	2.40	-16.3
APX	Appen Ltd	16.69	22.33	-25.3	31.55	-47.1	20.72	-19.4
KGN	Kogan.Com Ltd	13.98	17.99	-22.3	16.40	-14.8	4.46	213.5
NST	Northern Star Resources Ltd	10.21	12.85	-20.5	12.61	-19.0	13.46	-24.1
NWL	Netwealth Group Ltd	13.99	17.26	-18.9	16.83	-16.9	7.60	84.1
AGL	AGL Energy Ltd	9.37	11.47	-18.3	13.50	-30.6	19.14	-51.0
ORI	Orica Ltd	12.56	15.26	-17.7	16.15	-22.2	19.80	-36.6
RMS	Ramelius Resources Ltd	1.28	1.53	-16.7	1.69	-24.3	1.15	10.9
JBH	JB Hi-Fi Ltd	43.41	51.77	-16.1	45.71	-5.0	36.79	18.0

Source: Bloomberg, IOOF

Asset class performance to February 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)	1.5%	3.0%	11.5%	6.5%	7.4%	10.7%	7.4%	7.8%	6.5%	8.0%
Australian equities - Mid caps	-1.4%	0.8%	10.6%	20.7%	8.5%	13.6%	12.2%	9.8%	7.4%	10.6%
Australian equities - Small caps	1.5%	4.1%	12.1%	17.2%	7.2%	11.7%	8.1%	4.0%	4.0%	6.5%
Australian equities - Micro caps	2.0%	8.8%	23.2%	51.5%	11.5%	15.7%	10.6%	2.1%	4.7%	#N/A
International equities	1.6%	0.7%	6.6%	7.8%	11.1%	12.3%	11.7%	12.6%	6.9%	4.4%
International equities (Hedged)	2.7%	5.3%	10.4%	23.5%	9.7%	13.4%	10.6%	11.5%	8.3%	7.4%
International equities - Small caps	3.9%	9.6%	24.3%	18.3%	11.1%	13.2%	11.4%	12.9%	7.7%	7.6%
Emerging Markets equities	-0.1%	6.1%	16.8%	13.3%	6.6%	13.4%	9.5%	7.3%	5.8%	7.4%
Australian REITs	-2.6%	-6.2%	4.2%	-12.0%	5.4%	4.7%	8.9%	9.7%	3.1%	6.3%
Global REITs	2.8%	1.3%	7.8%	-15.8%	5.1%	3.5%	6.7%	8.2%	3.7%	#N/A
Global REITs (Hedged)	3.8%	5.8%	11.3%	-4.4%	3.9%	4.4%	5.6%	7.1%	4.6%	#N/A
Global Infrastructure	-1.8%	-6.2%	-0.5%	-16.5%	6.0%	6.1%	8.2%	10.3%	5.6%	#N/A
Global Infrastructure (Hedged)	-0.9%	-2.2%	2.8%	-4.0%	5.4%	7.2%	7.4%	9.6%	8.7%	#N/A
Trend following (USD)	10.1%	13.2%	12.1%	14.4%	4.3%	-0.8%	4.1%	1.5%	4.0%	5.8%
Australian bonds	-3.6%	-4.2%	-3.1%	-2.8%	4.0%	3.2%	4.2%	5.0%	5.3%	5.4%
Australian bonds - government	-4.0%	-4.8%	-3.6%	-3.6%	4.0%	3.1%	4.2%	5.0%	5.3%	5.4%
Australian bonds – corporate	-1.7%	-1.6%	0.2%	1.3%	4.7%	4.4%	4.7%	5.6%	5.8%	5.9%
Australian bonds - floating rate	0.0%	0.1%	0.6%	1.6%	2.2%	2.7%	2.8%	3.5%	4.2%	4.6%
Global bonds (Hedged)	-1.6%	-1.9%	-1.0%	-0.2%	4.2%	3.5%	4.5%	5.6%	6.2%	6.7%
Global bonds - government (Hedged)	-1.9%	-2.3%	-1.6%	-1.2%	3.9%	3.1%	4.5%	5.5%	6.1%	6.5%
Global bonds - corporate (Hedged)	-1.5%	-1.8%	0.2%	1.7%	5.4%	5.3%	5.3%	6.5%	6.8%	7.2%
Global bonds - High Yield (Hedged)	0.1%	2.0%	4.9%	5.1%	4.1%	7.5%	5.8%	7.8%	8.6%	#N/A
Emerging Market bonds (Hedged)	-2.9%	-2.5%	-0.8%	-1.2%	3.3%	5.3%	5.5%	6.8%	7.5%	9.7%
Cash (AUD)	0.0%	0.0%	0.0%	0.2%	1.2%	1.4%	1.7%	2.4%	3.4%	3.9%

Sources: Bloomberg, IOOF calculations
* AUD total returns as at Feb-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

Research Analyst – Cameron Curko

Approved By – Matt Olsen

Research Analyst Disclosures:

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