

## Market Review

May 2021

How the different asset classes have fared:  
(As at 31 May 2021)

Asset Class	10 Yr % p.a.	5 Yr % p.a.	3 Yr % p.a.	1 Yr % p.a.	YTD %	6 Mth %	3 Mth %	1 Mth %
Cash <sup>1</sup>	2.23	1.33	1.01	0.06	0.01	0.01	0.01	0.00
Australian Bonds <sup>2</sup>	4.93	3.32	4.14	-1.21	-2.41	-2.68	1.64	0.27
International Bonds <sup>3</sup>	5.26	3.18	3.92	-0.17	-2.09	-1.84	0.03	0.21
Australian Shares <sup>4</sup>	8.86	10.47	10.44	29.96	9.77	11.70	7.90	1.96
Int. Shares Unhedged <sup>5</sup>	14.22	13.02	13.93	21.13	11.72	11.11	10.34	1.75
Int. Shares Hedged <sup>6</sup>	12.52	13.78	12.89	35.97	11.86	15.63	9.79	1.22
Emerging Markets Unhedged <sup>7</sup>	7.11	11.86	8.27	28.30	6.69	9.21	3.15	2.05
Listed Infrastructure Unhedged <sup>8</sup>	12.05	6.70	7.69	0.31	7.48	3.49	11.22	-0.22
Australian Listed Property <sup>9</sup>	11.29	5.84	7.09	25.32	4.33	4.96	11.52	1.78
Int. Listed Pty Unhedged <sup>10</sup>	9.57	3.37	5.90	17.65	15.73	14.71	12.09	1.09

1 Bloomberg AusBond Bank 0+Y TR AUD, 2 Bloomberg AusBond Composite 0+Y TR AUD, 3 Bloomberg Barclays Global Aggregate TR Hdg AUD, 4 S&P/ASX All Ordinaries TR, 5 Vanguard International Shares Index, 6 Vanguard Intl Shares Index Hdg AUD TR, 7 Vanguard Emerging Markets Shares Index, 8 FTSE Developed Core Infrastructure 50/50 NR AUD, 9 S&P/ASX 300 AREIT TR, 10 FTSE EPRA/NAREIT Global REITs NR AUD



## Australian and International Equities

May was a volatile month for equity markets. Inflation worries caused a fall in the first half of the month with the ASX All Ords down -1.83% at one stage. It rebounded strongly in the second half of the month, posting a 1.96% gain at the close of May. This was an impressive 3.75% rebound from the lows of the month. International equities in both developed and emerging markets also had a strong end to the month as inflation worries eased.

In the first half of the month, inflation worries were at the forefront of investors' minds due to strong commodity prices and supply chain constraints. Commodity price increases were widespread across several areas such as steel, lumber, oil and corn. Iron ore and copper rallied to all-time highs in mid-May. Commodity prices generally surge following a recession. This is because firms cut back during a recession and cannot ramp up production as quickly once demand comes back. Supply chain constraints also saw shortages of certain goods leading to an increase in prices. Notable was the shortage in new cars and price rises in the second-hand car market. These factors contributed to the initial losses in the ASX early in the month, as investors worried about the impact of higher inflation on equity markets. Historically higher inflation has been a negative for equities in the short to medium term, as companies dealt with higher input prices and the potential increase in interest / borrowing rates.

During the second half of the month, inflation worries lessened as investors questioned whether the uptick will just be transitory due to the opening of economies. Commodities fell from their highs and cryptocurrencies saw a sharp decline as China signaled their intention to curb commodity price rises and implement greater scrutiny over cryptocurrencies. Bitcoin fell from a high of \$58.9k to \$34.7k within the month - a decline of over -41.0%.

## Domestic and International Fixed Income

Global and domestic bond yields remained stable over May. However, there were early indications that many central banks may start tapering sooner than expected given the recent economic data.

## COVID and vaccines

COVID concerns remain at the forefront. While case numbers across the world have been declining, there is no room for complacency as evidenced by the recent lockdown in Melbourne. Concerningly, other countries such as Vietnam and Taiwan, which have been successful in dealing with COVID have seen renewed increases in the number of cases. The vaccine roll-out continues across the world. Approximately 8.0% of the population of emerging countries have been vaccinated vs 38.0% in developed countries.

## Australian Economy

Notwithstanding the recent lockdowns in Melbourne the Australian economy has grown with employment now above pre-COVID levels. The Federal government announced its 2021-22 budget, which will be stimulatory, with an expected deficit of \$161 billion. Fortunately, the higher iron ore prices and stronger economic growth will help fund part of the budget rather than the Australian government issuing a massive supply of bonds.

Going forward, key risks include inflation scares, the persistent spread of COVID, the effectiveness of vaccines

against new variants and geopolitical tensions. However, with the vaccine rollout, opening of economies, fiscal stimulus, and rates still at low levels, the local and global economies look well placed to continuing growing.

## Australian dollar

The Australian dollar has been steadily weakening since mid-May with the fall in commodity prices.

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