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MONTHLY UPDATE ON THE INVESTMENT ENVIRONMENT

May 2021



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surprisingly straightforward



MARKET UPDATE

The ongoing COVID-19 vaccination rollout and the promise of the continuation of accommodative fiscal and monetary policy settings has continued to benefit the global economy and financial markets. Nevertheless, the pandemic rages on. By early June, the pandemic had eclipsed 175 million confirmed cases and at least 3.7 million deaths. The vaccines are proving effective, noted by the dramatic reduction in the daily case count in countries with the most efficient vaccine rollouts. However, the global distribution of vaccinations is disparate – many emerging nations are well behind in their rollouts and are dealing with surging case counts.

Australia's economy continues to have a remarkably robust recovery from the pandemic-induced recession, led by the continued containment of COVID-19. While there was an outbreak of cases in Victoria in mid-May, necessitating a 14-day lockdown, the restrictions are being scaled back at the time of writing. The ongoing fiscal support has been underwriting the strong growth, with the announcement of the Australian Government's 2021-22 budget in mid-May confirming the continuation of abundant support.

The end of the government's JobKeeper scheme in March 2021 was expected to reverse some of the strong gains in the country's labour market witnessed at the start of 2021. Nevertheless, defying worst case scenario expectations, the unemployment rate fell by 0.2% to 5.5% in April. Hidden beneath the headline figures, however, is a slightly less rosy picture. The participation rate fell by 0.3%, 30,600 jobs were shed and the monthly hours worked fell by 0.7% over the month. As expected, the RBA retained its existing policy settings at its early June 2021 meeting. The central bank noted that while the economic recovery continues to be robust, inflation and wage pressures remain subdued. The RBA does not expect to increase its cash rate until at least 2024.

The US economy is also recovering well, in large part due to the very successful vaccination rollout, and the US\$5.3 trillion in pandemic-related fiscal support so far implemented. The unemployment rate fell by 0.3% in April to 5.8%, which remains well above the pre-pandemic level of 3.5%. Meanwhile, strong

inflation figures have been recorded in recent months (3.8% core inflation year-on-year in May), however the Federal Reserve considers it to be transitory and related to the pandemic. The Fed continues to reiterate accommodative monetary policy settings will be maintained until material progress is made in achieving the goals of full employment and 2% per annum inflation.

China's economic recovery continues to benefit Australia, despite the ongoing trade tensions. Customs data has shown that the value of trade between the two nations is 33% higher so far this year compared to over the same period in 2020. China's imports of Australian products are up 6% when measured by trade volume compared to last year, but up 86% when measured by value, due to the surge in commodity prices, especially iron ore.

After recording negative GDP growth in the first quarter of 2021, the European economy is showing signs of notable improvement, with its vaccination program finally making progress. Inflation increased to 2% in May, however, much like in the US, the ECB is considering this to be transitory, and related to the pandemic. The ECB is unlikely to tighten monetary policy anytime soon.

It was yet another positive month for risk assets. Australian equities were a notable outperformer, returning 2.3% for the month, reflecting the comprehensive containment of COVID-19, the continuation of accommodative fiscal policy announced in the 2021-22 federal budget, elevated demand for Australian commodities, and the RBA's commitment to retain its accommodative settings through to 2024. The highly efficient vaccination rollout in the US paired with abundant fiscal policy stimulus has provided support for US shares, however the recent strong inflation prints have temporarily unsettled markets. European share markets benefitted from a long-awaited acceleration in the vaccination rollout in the region.

Defensive assets recorded a modestly positive month, as government bond yields fell marginally, reflecting dovish tones adopted by central banks who reiterated their commitment to maintaining accommodative monetary policy settings for the foreseeable future.



Table: Index Returns to 31 May 2021

	MONTH (%)	THREE MONTHS (%)	FYTD (%)	ONE YEAR (%)
Australian Equities				
S&P/ASX 300 Accumulation Index	2.3	8.5	25.7	28.7
S&P/ASX Small Ordinaries Accumulation Index	0.3	6.1	29.3	26.7
International Equities				
MSCI World (ex Australia) Index (hedged A\$)	1.0	9.5	32.6	35.6
MSCI World (ex Australia) Index (unhedged A\$)	1.2	9.7	21.8	20.4
MSCI Emerging Markets Index (unhedged A\$)	2.1	3.3	25.1	29.5
Property				
S&P/ASX 200 A-REIT Accumulation Index	1.7	11.5	26.2	24.4
Australian Fixed Interest				
Bloomberg AusBond Composite Index	0.3	1.6	-1.5	-1.2
Global Fixed Interest				
FTSE WGBI ex-Aust (hedged A\$)	0.2	-0.1	-2.1	-1.8
Barclay's Global Capital Aggregate Bond Index (hedged A\$)	0.2	0.0	-0.6	-0.2
Cash				
Bloomberg AusBond Bank Bill Index	0.0	0.0	0.1	0.1
Commodities				
Gold (US\$ per ounce)	7.5	9.0	7.5	9.9
Copper (US\$ per metric tonne)	4.4	13.0	70.5	90.8
WTI Crude Oil (US\$ per barrel)	4.3	7.8	68.9	86.9
RBA Index of Commodity Prices (A\$)	5.8	11.2	30.1	23.8

Table 1: Australian Dollar versus Foreign Currencies to 31 May 2021

AUSTRALIAN DOLLAR VERSUS	AS AT 31 MAY 2021	MONTH (%)	THREE MONTHS (%)	FYTD (%)	ONE YEAR (%)
US Dollar	0.77	0.2	0.0	12.4	16.6
British Pound Sterling	0.54	-2.4	-1.7	-2.3	1.4
Euro	0.63	-1.3	-0.7	3.3	6.1
Japanese Yen	84.68	0.3	2.7	14.0	18.4