Quarterly Economic Wrap

March 2021

Summary

- Share markets rose further in the March quarter amidst optimism at global economic recovery and rising energy and commodity prices.
- Vaccine rollout continued to be a major focus with a new US government stimulus package also a major 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) climbed further to a near 7-year high led by improvement in the US.

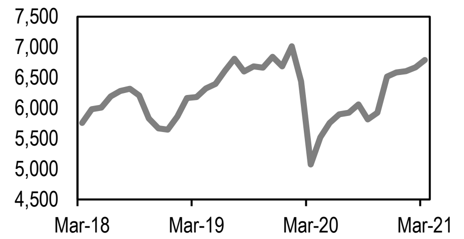
Markets

- Risk assets by and large rose over the quarter while A-REITs (Australian listed property) were a notable exception. Bonds were largely negative with government debt struggling the most in a rising yield environment (see page 12)
- Australian equities lagged 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

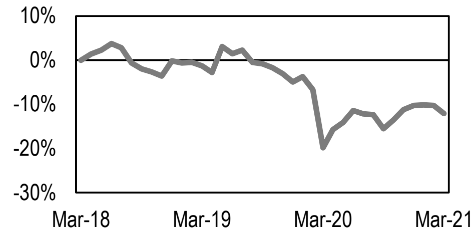
- The RBA committed itself further to its bond purchases to lower borrowing costs and weaken the Australian dollar. It also reiterated its expectations of economic conditions will see the cash rate remain at 0.1% until 2024.
- The Biden Administration passed its $1.9tn stimulus program to support the coronavirus vaccine rollout and economic recovery. A major infrastructure spending package is also being negotiated.
- Inflation concerns persisted as a recurrent theme in business surveys plagued by a mix of coronavirus restrictions and rising commodity prices including oil.

1. S&P/ASX 200 Price Index



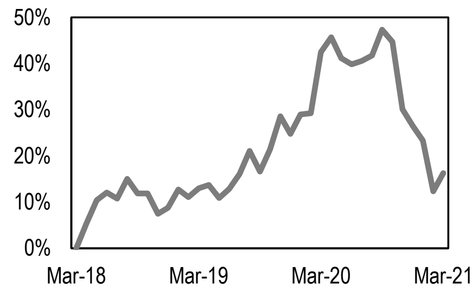
Source: Bloomberg, IOOF

2. ASX200 vs All-World, US$ terms



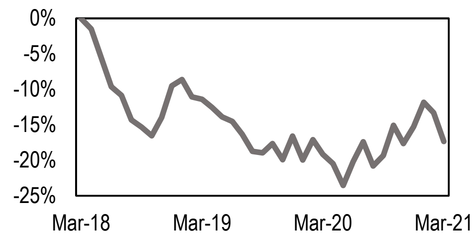
Source: Bloomberg, IOOF

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. Lynas benefited from a strong set of first half results. Rising geopolitical tensions between China and the US and a backdrop of stronger demand for its rare earth metals amidst an electric vehicle demand surge underpinned its performance. 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 vaccination rollouts.

Sector and stock returns

ASX/S&P 200 Sectors (GICS)				
	Monthly	**% ∆**	**Quarterly**	**% ∆**
▲	Consumer Discretionary	6.87	Consumer Discretionary	7.44
▲	Consumer Staples	2.32	Consumer Staples	-0.80
▼	Energy	-0.49	Energy	2.86
▲	Financials ex Property	4.19	Financials ex Property	11.32
▲	Financials	4.19	Financials	11.32
▲	Health Care	1.97	Health Care	-2.90
▲	Industrials	3.10	Industrials	-1.83
▼	IT	-3.03	IT	-11.53
▼	Materials	-5.03	Materials	0.66
▲	Property Trusts	6.48	Property Trusts	-1.13
▲	Telecommunications	5.84	Telecommunications	7.05
▲	Utilities	6.81	Utilities	-2.64

Source: Bloomberg, IOOF

Best and Worst S&P/ASX 200 Performers			
Top five stocks		**Bottom five stocks**	
Monthly			
GrainCorp Ltd	+24.4%	Resolute Mining Ltd	-31.8%
Premier Investments Ltd	+23.4%	Zip Co Ltd	-29.0%
Clinuvel Pharmaceuticals Ltd	+20.8%	CIMIC Group Ltd	-17.4%
JB Hi-Fi Ltd	+19.3%	Fortescue Metals Group Ltd	-17.1%
Crown Resorts Ltd	+18.2%	AMP Ltd	-15.7%
Quarterly			
Lynas Rare Earths Ltd	+55.0%	Resolute Mining Ltd	-44.7%
Virgin Money UK Plc - CDI	+44.7%	Nuix Ltd	-37.5%
Zip Co Ltd	+39.5%	Kogan.Com Ltd	-36.8%
Codan Ltd	+38.1%	Appen Ltd	-35.9%
News Corp - Class B- CDI	+35.7%	NRW Holdings Ltd	-32.7%

Source: Bloomberg, IOOF

Share Markets, March 2021

	Australian Indices	Mar-21 Price	1M return (%)	Dec-20 Price	3M return (%)
▲	S&P/ASX 200	6791	1.76	6587	3.09
▲	All Ordinaries	7017	1.10	6851	2.43
▲	Small Ordinaries	3131	0.22	3090	1.34
US Indices					
▲	S&P 500	3973	4.24	3756	5.77
▲	Dow Jones	32982	6.62	30606	7.76
▲	Nasdaq	13247	0.41	12888	2.78
Asia Pacific Indices					
▼	Hang Seng	28378	-2.08	27231	4.21
▲	Nikkei 225	29179	0.73	27444	6.32
UK & Europe Indices					
▲	FTSE 100	6714	3.55	6461	3.92
▲	CAC40	6067	6.38	5551	9.29
▲	DAX Index	15008	8.86	13719	9.40

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 for the quarter 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:

- Passage of new fiscal stimulus in the US (a $1.9trn package) 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 pronounced spike in long-term bond yields with the US 10-year rising over 0.8% also dragged down stock indices particularly in more "overvalued" segments such as US tech stocks. For instance, previous high-flier and electric vehicle manufacturer Tesla declined 5.4% over the quarter.

At a regional level, exposure to emerging markets (EM) detracted. The EM benchmark was up 3.6% compared to a 6.3% rise for developed markets (see page 12).

	1-mth	3-mth	6-mth	1-yr
MSCI World	5.0%	6.3%	12.5%	23.8%
Value	7.2%	10.7%	19.4%	18.8%
Value-Weighted	6.5%	12.3%	25.0%	27.2%
Momentum	1.6%	1.4%	4.5%	20.6%
Growth	2.2%	1.3%	6.2%	26.7%
Quality	5.2%	3.9%	6.9%	18.9%
Low volatility	6.6%	3.5%	3.6%	4.0%
Equal weight	1.8%	2.1%	16.5%	42.8%
Small caps	3.5%	10.5%	27.6%	45.3%

Source: Bloomberg, IOOF, MSCI

At a style level, the March quarter saw the continued outperformance of value and small cap stocks persist globally. Progress in vaccine rollouts continues to underpin cyclical sectors such as energy and banking stocks. The rally in longer-term bond rates particularly during February 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 3.1%. At a sector level, the benchmark was driven higher by the financials (up 11.3%), consumer discretionary (up 7.4%) and communication services (up 7.1%) sectors. Strong performance by Telstra was a feature as investors were positive on plans to unlock value by breaking up the business.

	1-mth	3-mth	6-mth	1-yr
MSCI Australia	2.4%	4.8%	19.7%	35.5%
Value	1.1%	9.2%	34.3%	50.0%
Value-Weighted	2.7%	8.7%	30.1%	44.4%
Momentum	1.3%	-2.3%	4.4%	30.3%
Growth	2.2%	1.3%	6.3%	27.2%
Quality	5.8%	4.7%	7.3%	18.8%
Low volatility	4.0%	3.1%	12.6%	26.8%
Equal weight	1.8%	2.1%	16.5%	42.8%
Small caps	0.8%	2.1%	16.2%	52.1%

Source: Bloomberg, IOOF, MSCI

At a style level, value stocks were the standout over all other styles. The banking sector was a primary driver of this divergence. Key to its outperformance was improvement in credit growth with housing finance surging during the quarter. In addition, a steeper Australian yield curve added to expectations of higher bank profit margins while bad debts related to the pandemic have not been as bad as initially feared.

Fixed Income

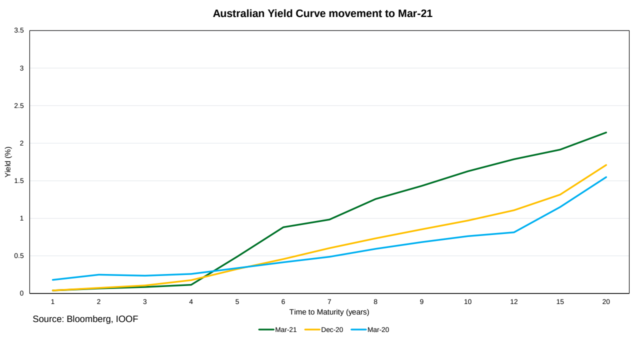
Fixed Income	Mar-21 yield	1M mvt (bps)	Dec-20 yield	3M mvt (bps)
Australian Cash rate	0.10	--	0.10	--
▼ 10-year Bond Yield	1.79	-0.13	0.97	0.82
▼ 3-year Bond Yield	0.12	0.00	0.11	0.01
▲ 90 Day Bank Bill Yield	0.04	0.01	0.02	0.02
▲ US 10-year Bond Yield	1.74	0.34	0.91	0.83
▲ US 3-year Bond Yield	0.35	0.07	0.16	0.18
US Investment Grade spread	1.10	--	1.09	0.01
▼ US High Yield spread	2.49	-0.36	3.27	-0.78

Source: Bloomberg, IOOF

Australian bond market

The Australian yield curve steepened over the March quarter with the longer duration yields now above pre-coronavirus levels as the 10-year yield rose 82bps for the quarter. This was one of the largest quarterly moves on record and you need to go back to the mid-1990s or the “taper tantrum” to see similar shifts.

5. Australian yield curve changes to Mar-21



The 3-year yield in the bulk of the February selloff deviated from the RBA target of 0.1% necessitating further intervention which was extended into March. 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 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.

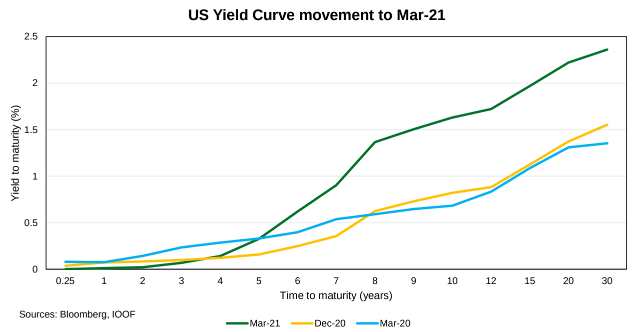
US bond market

US Treasury yields rose as the yield curve steepened particularly for longer-dated bonds. This was driven by (amongst other factors):

- The successful passage of a $1.9tn fiscal stimulus package by the Biden Administration was one factor.
- Rapid vaccine rollout was another that stoked investor optimism with coronavirus cases, hospitalisations and deaths falling substantially from their mid-January peak.
- Stronger oil prices feeding into higher inflation expectations

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.

6. US yield curve movement to Mar-21



US credit spreads were flat for investment grade and tighter for more speculative high yield debt. Stronger oil prices (+20% over the quarter) 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 susceptible to the rising rate environment that defined this quarter.

Currencies

	Currencies	Mar-21 Price	1M return (%)	Dec-21 Price	3M return (%)
▼	$A vs $US	75.98	-1.40	76.94	-1.25
▼	$A vs GBP	55.12	-0.37	56.29	-2.07
▲	$A vs YEN	84.10	2.40	79.47	5.82
▲	$A vs EUR	64.77	1.47	62.98	2.84
▲	$A vs $NZ	108.77	2.10	107.09	1.57
▼	$A TWI	63.90	-0.93	63.40	0.79
▲	$US vs EUR	85.25	2.92	81.86	4.14
▲	$US vs CNY	6.55	1.14	6.53	0.39
▲	$US vs GBP	72.55	1.04	73.18	-0.86
▲	$US vs JPY	110.72	3.89	103.25	7.23
▲	$US vs CHF	94.36	3.86	88.52	6.60
▲	US Dollar Index	93.23	2.59	89.94	3.66
▼	JPM EM Currency Index	56.15	-1.07	57.92	-3.06

Source: Bloomberg, IOOF

The Australian dollar (AUD) fell 1.25% against the US Dollar (USD) in the March quarter, down from USD 0.7694 to USD 0.7598.

The Australian dollar tracking in a narrow range for the quarter, falling in January, rising in February before ultimately closing lower following March weakness. While continued quantitative easing (purchasing bonds) by the Reserve Bank and pushing out rate hikes until 2024 was a feature of news flow it appears other factors were larger drivers.

These included:

- Challenges in the Australian vaccine rollout and broader global issues with the AstraZeneca vaccine as it looked increasingly likely that authorities would halt their use. The broader global issues helped see the US Dollar Index climb 3.7% given the US divergence in vaccinations with Europe especially.
- Stronger-than-expected US economic results and passage of US fiscal stimulus favouring demand for US assets. This arguably contributed to weakness in demand for emerging market currencies as US yields were comparably more attractive.

Commodities

	Commodities	Mar-21 Price	1M return (%)	Dec-20 Price	3M return (%)
▲	Aluminium	2194	2.39	1982	10.69
▼	Copper	400	-2.37	352	13.38
▼	Nickel	16030	-13.62	16626	-3.58
▲	Zinc	2807	0.76	2755	1.91
▼	Crude Oil - Brent	63.54	-3.92	51.80	22.66
▼	Natural Gas	2.61	-5.88	2.54	2.72
	Metallurgical Coal	126	--	129	-2.26
▲	Thermal Coal	98	21.43	88	12.11
▲	Iron Ore	166.90	0.78	155.84	7.10
▼	Gold	1716	-0.92	1903	-9.84
▼	Silver	25	-7.22	26	-7.33

Source: Bloomberg, IOOF

Most commodities continued to rally across the energy and base metals spectrum for the March quarter. Notable exceptions lay in nickel and gold.

Nickel prices struggled with the surprise announcement of Chinese steel and nickel giant Tsingshan to produce 100,000 tonnes of nickel matte to Chinese battery makers. This eased concerns over supply of battery-grade material and saw prices ease substantially.

Stronger inventory drawdowns driven by rising demand helped push **oil** prices higher. 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 retreated slightly towards the end of the quarter even with the OPEC news as sentiment soured on rising coronavirus cases in Europe and emerging markets such as India (one of the world's largest oil importers).

Precious metals specifically gold fell lower in a stronger real yield (bond yield after inflation) environment following the trend of rising 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 the March quarter with Dec-20 GDP numbers beating consensus expectations. Commencement of coronavirus vaccinations and improvement in the labour market added to consumer and business confidence. Complications with the AstraZeneca vaccine will delay herd immunity in Australia and make any future outbreaks a larger risk to the economy as a result.

Coronavirus pandemic and policy

Australia has effectively curtailed the pandemic domestically. However, the vaccination rollout organised by the Federal government has been stymied by several complications. A mix of poor planning and logistical challenges has seen the government abandon its vaccination targets. In addition, the potential risks of a rare blood-clotting condition have been tied to the AstraZeneca vaccine. This was intended to be the centrepiece of the government vaccination program but these issues and the lack of an emergency with the pandemic contained here led the government to effectively pull this as an option for Australians under 50 years old. Alternative supplies are being sought with a further 20m of Pfizer vaccine secured for late 2021. Novavax's option may also pass regulatory scrutiny and emerge as an option in the second half of 2021.

These issues push back vaccination goals for Australian herd immunity into 2022 as a result. They also leave us susceptible to any future coronavirus outbreaks particularly with emergency support programs like JobKeeper now removed.

The Federal government 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. Vaccination complications have added further delay leaving the tourism and education sectors on a longer road until they recover.

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 eased over the quarter to 2.64% in February, down from 4.24% in December. This continues to suggest above-trend growth in 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 118.8 in April, an 11-year high suggesting that stronger consumer demand should be forthcoming.

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). On the flip side however, low immigration adds to the bargaining power of existing workers potentially supporting wage inflation and better per-capita outcomes.

Labour market

The jobs market gained 188.8k jobs in net terms with the unemployment rate falling to 5.6% as well in the March quarter (down from 6.6% in December). Hours worked (another measure of labour market activity) rose to be up 1.2% year-on-year in March. Job vacancies reflect a similar improvement with 238.7k available in March (vs 153.8k in pre-pandemic Feb-20) according to the National Skills Commission. Rising vacancy rates points to increased demand for labour amongst businesses and should act as a tailwind for the current jobs recovery. The labour market will have to absorb some expected job losses following the end of JobKeeper and it appears well-placed to do so.

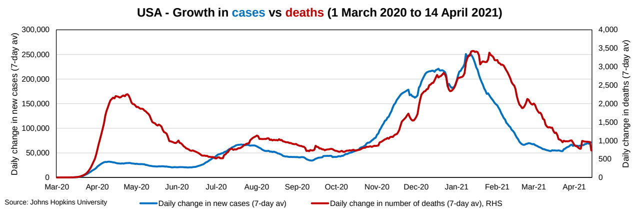
United States

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 with a potential infrastructure package may help offset years of underinvestment.

Coronavirus pandemic

Since mid-January US cases, hospitalisations and fatalities made a rapid decline with widespread vaccinations a key contributor. The 7-day average of new cases has fallen to Oct-20 levels.

7. US coronavirus case and fatality trends



Further vaccination rollout should continue to apply downward pressure on new cases with 194m doses already administered. Mutant strains remain a risk given new cases are still high at 71k per day (but a marked decline from the average daily increase of 189k seen at the end of December). In fact, in the US Midwest we have arguably seen a premature reopening with case growth there driving a national increase over recent weeks

We will continue to monitor to see if the current positive trend meaningfully reverses. Existing vaccines appear to be retaining their effectiveness even against mutant strains with fatalities remaining low even amidst the recent uptick in cases.

Policy

Negotiations for additional fiscal stimulus by the Biden administration succeeded 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,
- more funding to ensure the vaccination process continues smoothly.

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 NY Fed underlying inflation gauge suggesting annual inflation is running at 2.1% (as of March). We continue to observe inflation closely as it does carry the downside risk of policy overreaction by raising rates or reducing government spending.

A new $2.3trn infrastructure spending package is also being negotiated. This will be funded by an unwinding of Trump-era tax cuts (the exact scale remains uncertain). This would have less of an immediate inflationary impact given the greater delays in infrastructure rollout but would also be a net positive for the US which has seen years of substantial underinvestment in public infrastructure.

Growth outlook

Leading indicators including the Conference Board Leading Economic Index and the ECRI Weekly Leading Index improved further over the March quarter. These suggest stronger economic growth in the near term. The Weekly Economic Index product by ECRI at these levels is suggesting current growth momentum is exceeding the bounce from GFC lows that began in early 2009.

Business sentiment

The US manufacturing PMI climbed over the quarter to 59.1, up from 57.1 in December and the second highest on record. New order growth was strong, at near seven-year highs, while new export orders grew albeit at a slower pace. An ongoing concern lies in rising input costs and delays in delivery by suppliers with firms passing these on to end customers at the fastest rate since 2007. These inflationary pressures should ease when we see the supply situation improving but provide an inflationary impulse at present. This may be countered however by a rising US dollar in recent months which puts downward pressure on imported goods.

The Services PMI also signalled strength with a strong uptick to 60.4, up from 54.8, 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. The overall picture reinforced the view that this will be a strong March quarter for the US.

China

Business surveys declined from a strong finish to 2020 with coronavirus flare-ups a drag on the services sector. 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 during the quarter. The Manufacturing PMI, a measure of strength in the manufacturing sector, declined to 50.6 over the period, down from 53 in December and the softest level seen in past 11 months. Unlike previous months, it was softer domestic demand that weighed on new business orders with new export sales rising for the first time in March.

The labour market for manufacturing workers continues to be challenged with employment falling for a fourth consecutive month. Inflationary pressures also increased driven by rising raw material costs with the input cost index hitting its highest level since November 2017 with much of these passed on to end customers, potentially supressing customer demand. Confidence improved with future output expectations remaining above its long-term average. Overall, however this result highlights the weaker momentum of the Chinese economy to end the March quarter.

The Services PMI also fell, dropping to 54.3 in March, down from 56.3 in December. Coronavirus flare-ups in the winter have subsided with both services firm supply and demand improving. New export orders remain a point of weakness contracting over both February and March although pleasingly we saw employment growth resume towards quarter-end. Input cost inflation persisted for a ninth-consecutive month due to rising labour and raw material costs with firms sufficiently confident to pass on some of these to end customers. Confidence improved however and is at its highest in over a decade expecting pandemic challenges will be overcome in the near term.

Rising input cost inflation remains a recurrent point of concern. Fiscal stimulus efforts in the US could form a strong tailwind to support overseas demand.

Credit growth & policy

Broad M2 money supply disappointed expectations rising 9.4% in the year to March (consensus: 9.6%) and new bank loans rose to 2.73trn yuan in March (consensus: 2.45trn).

Annual growth in total social financing (a broad measure of credit and liquidity) slowed to 12.3% in March, down from 13.3% year-on-year in February 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.

Speculation at the distressed state of bad-debt manager Huarong Asset Management spooked credit markets with concerns over systemic risk in China (Huarong had 160 bn yuan in net assets as of mid-2020). This could prompt further intervention by Chinese authorities to restructure the business and prevent further escalation.

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 4.4% from March 2020 (consensus: 3.5%). Consumer prices exited a deflationary state after two consecutive negative months with a rise of 0.4% over the year to March 2021 (consensus: 0.3%). Falling food prices, particularly for pork, had been drags on consumer relation in recent months according to the NBS.

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.

Growth

The Chinese economy grew 18.3% for the year to March (consensus: 19%). This striking headline number is inflated by its comparison to what was a depressed March quarter to start 2020 where restrictions saw much of the economy effectively shut down with the economy contracting 6.8% in that period. In line with the weaker PMI prints we saw growth slow to 0.6% for the quarter (consensus: 1.5%), down from 3.2% in the December quarter.

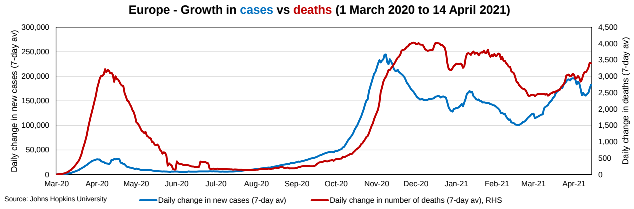
Europe

The coronavirus pandemic remained an ongoing concerning with logistical issues plaguing vaccine distribution. Lockdown restrictions will likely weigh on near-term growth while delays in the Recovery Fund disbursements may do the same.

Coronavirus pandemic

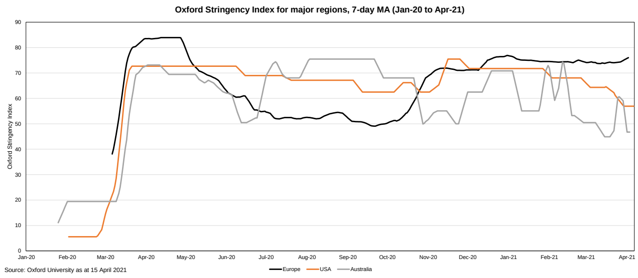
In Europe the mutant B.1.1.7 strain proved to be a substantial challenge for authorities over the quarter. Average daily cases rose 134k at the end of 2020 to ~183k in mid-April. Coronavirus-related deaths declined slight from 3.5k to 3.3k over the same period but have been rising after quarter-end.

8. Europe coronavirus case and fatality trends



This case growth prompted elevated lockdown restrictions as shown in the below chart where higher levels indicate greater severity of lockdowns. The relative trend of Europe (ex-UK) shows levels not far from the first wave in March-May last year.

9. Oxford Stringency Index, 7-day average



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 23 doses per 100 people (compared to 58.2 and 59.7 for the US and UK respectively as at mid-April). Concerns over side-effects of the AstraZeneca vaccine have contributed to delays in the program with authorities instead planning a sizeable extension of its current Pfizer deal to secure an extra 50m doses over the current quarter. This should assist in a much better trajectory for vaccinations and lockdown relief as we exit the March quarter.

United Kingdom

The UK has begun exiting lockdown restrictions with almost 40m combined first and second vaccine doses now administered. The 7-day average of new cases has fallen from 43,000 a day at the end of 2020 to ~1,600 per day in mid-April with coronavirus-related deaths falling from 556 per day to ~34 per day over the same period. This sets the stage for improving business confidence and economic activity. The IHS Markit Services PMI ending the quarter at 56.3, its first expansionary print since October 2020 with consumer spending and stronger demand driving the first increase in new business orders in six months even with a challenged backdrop of EU trade following Brexit and lockdown restrictions in continental Europe.

Business activity and sentiment

The Eurozone Manufacturing PMI rose sharply to 62.5 in March, up from 55.2 in December, its highest level in the series' 24-year history. Manufacturing strength remained across all surveyed countries with most at multi-year or in Germany's case record high levels. The strength was broad-based across industries particularly investment and intermediate goods. However, coronavirus logistical challenges and stronger demand contributed to higher inflationary pressures. The services sector improved to 49.6 in March, up from 46.4 in December, led by stronger business confidence although the new business backdrop remained challenged particularly with foreign sales falling for almost three years.

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.

In addition, the promise of European Recovery Fund relief appears more distant following an emergency appeal to the German Supreme Court that halted the fund's ratification. This is particularly concerning for embattled southern European states that have borne greater economic costs amidst general weakness in services sectors including tourism.

Company news - best and worst performers during March 2021 quarter

Lynas Rare Earths Ltd (LYC, +55.0%)

Lynas Rare Earths (LYC) reported strong 1H21 results with revenue up +12.4% to $202.5m and NPAT jumping +1004.1%, from $3.9m to $40.6m. LYC was the beneficiary of increased geopolitical tensions with China (China controls a majority of the global rare earths supply), a Democratic Party victory in the US elections (Biden administration support for green energy), and the Morrison government support to build rare earths supply and shift reliance to non-Chinese sources. The strong result was also reflected in price increases for neodymium-praseodymium, with average Chinese domestic prices climbing from US$35.9/kg to US$55.5/kg in the 12 months ending 31 Dec 2020 – reflective of the strong demand for battery powered electronics over the pandemic.

Virgin Money UK Plc (VUK, +44.7%)

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.

Zip Co Ltd (+39.5%)

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.

Resolute Mining (-44.7%)

Resolute Mining (RSG) suffered the loss of its mining lease for the Bibiani gold mine in Ghana, with the Ghanaian Minerals Commission advising that the lease termination would require all operations and activities to be ceased immediately. No further information was provided. The termination highlights an example of sovereign risk that miners can be exposed to with assets that are in some emerging market jurisdictions. FY20 results prior to the announcement of the loss of lease was strong, with revenue increasing +15% to $618m and EBITDA increasing +169% to $247m on the back of stronger gold prices.

Nuix Ltd (-37.5%)

Nuix Ltd (NXL) disappointed investors with the release of FY20 results that fell short of IPO prospectus forecasts. The share price fall was triggered by a 4% decline in 1H21 revenue as COVID-19 impacts and US election-related sales challenges affected US government contracts, however, positioned as a fast-growing tech company, the decline was not warmly received by the market. NXL reaffirmed that it was on track to meet full-year guidance of $194m in revenue, as well as annualised contract value of $200m, however the market has remained sceptical.

Kogan.Com Ltd (-36.8%)

Kogan.com (KGN) saw its share price retract after a strong CY20 and signs of lower growth as KGN cycles strong like-for-like sales comparisons spurred by lockdown-induced retail frenzy (from last year). 1H21 results saw gross sales growth halve to +97% ($638m), with revenues jumping +88.6% to $414m, and EBITDA to $38.8m. January gross sales was up +45% yoy, signalling a significant slowdown in sales growth run rate.

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

Movers and Shakers for quarter ending March 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 (%)
LYC	Lynas Rare Earths Ltd	6.17	5.98	3.2	3.98	55.0	1.43	332.9
VUK	Virgin Money UK Plc - CDI	3.43	3.25	5.5	2.37	44.7	1.24	177.7
Z1P	Zip Co Ltd	7.38	10.40	-29.0	5.29	39.5	1.59	365.6
CDA	Codan Ltd	15.44	14.98	3.1	11.18	38.1	5.41	185.4
NWS	News Corp - Class B - CDI	31.39	28.74	9.2	23.14	35.7	14.60	115.0
VOC	Vocus Group Ltd	5.45	5.04	8.1	4.04	34.9	2.48	119.8
NUF	Nufarm Ltd	5.31	4.80	10.6	4.10	29.5	5.10	4.1
IPL	Incitec Pivot Ltd	2.91	2.66	9.4	2.28	27.6	2.02	44.1
ELD	Elders Ltd	12.43	11.26	10.4	9.86	26.1	7.52	65.3
WBC	Westpac Banking Corp	24.41	23.82	2.5	19.37	26.0	16.50	47.9

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 (%)
RSG	Resolute Mining Ltd	0.44	0.65	-31.8	0.80	-44.7	0.81	-45.7
NXL	Nuix Ltd	5.16	6.06	-14.9	8.25	-37.5	N/A	N/A
KGN	Kogan.Com Ltd	12.00	13.98	-14.2	19.00	-36.8	5.35	124.3
APX	Appen Ltd	15.83	16.69	-5.2	24.69	-35.9	19.69	-19.6
NWH	NRW Holdings Ltd	1.97	2.01	-2.2	2.92	-32.7	1.26	56.6
A2M	A2 Milk Co Ltd	7.83	8.99	-12.9	11.45	-31.6	16.60	-52.8
PNV	Polynovo Ltd	2.71	2.41	12.4	3.88	-30.2	1.61	68.8
NAN	Nanosonics Ltd	5.70	6.03	-5.5	8.03	-29.0	5.60	1.8
CIM	CIMIC Group Ltd	17.59	21.29	-17.4	24.37	-27.8	23.25	-24.3
PRN	Perenti Global Ltd	1.02	1.14	-11.0	1.37	-25.9	0.61	66.4

Source: Bloomberg, IOOF

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

Asset class	1-mth	3-mth	6-mth	1-yr	3-yr	5-yr	7-yr	10-yr	15-yr	20-yr
				Annualised						
Australian equities (S&P/ASX 200)	2.4%	4.3%	18.5%	37.5%	9.7%	10.2%	7.7%	8.0%	6.3%	8.4%
Australian equities - Mid caps	2.7%	0.2%	17.1%	60.4%	10.5%	13.0%	12.6%	10.1%	7.1%	10.9%
Australian equities - Small caps	0.8%	2.1%	16.2%	52.1%	8.3%	10.7%	8.4%	4.1%	3.7%	7.0%
Australian equities - Micro caps	-2.6%	3.2%	21.2%	113.0%	11.9%	14.0%	10.3%	1.8%	4.2%	#N/A
International equities	5.1%	6.3%	12.4%	23.5%	13.2%	13.7%	13.0%	13.5%	6.8%	4.6%
International equities (Hedged)	4.3%	6.1%	18.6%	48.7%	12.1%	13.2%	11.2%	12.1%	8.4%	7.9%
International equities - Small caps	3.5%	10.5%	27.6%	45.3%	11.9%	13.8%	12.6%	13.4%	7.3%	7.7%
Emerging Markets equities	0.1%	3.6%	15.2%	27.3%	6.7%	12.3%	9.6%	6.9%	5.5%	7.6%
Australian REITs	6.6%	-0.5%	12.8%	44.7%	7.6%	5.6%	10.1%	10.6%	3.6%	6.7%
Global REITs	4.5%	7.2%	12.8%	8.2%	5.3%	4.1%	7.9%	9.0%	3.4%	#N/A
Global REITs (Hedged)	3.9%	7.3%	18.7%	29.7%	4.4%	3.6%	6.1%	7.7%	4.4%	#N/A
Global Infrastructure	8.4%	5.0%	5.8%	1.7%	8.0%	7.8%	9.7%	11.5%	6.0%	#N/A
Global Infrastructure (Hedged)	7.3%	4.7%	10.7%	20.6%	7.6%	7.5%	8.3%	10.5%	9.3%	#N/A
Trend following (USD)	-1.2%	5.5%	10.9%	5.2%	3.7%	-0.9%	3.8%	1.4%	3.5%	5.3%
Australian bonds	0.8%	-3.2%	-3.3%	-1.8%	4.0%	3.5%	4.3%	5.0%	5.4%	5.4%
Australian bonds - government	0.9%	-3.6%	-3.9%	-2.7%	4.0%	3.4%	4.3%	5.0%	5.3%	5.4%
Australian bonds – corporate	0.2%	-1.4%	-0.1%	3.0%	4.6%	4.4%	4.7%	5.5%	5.8%	5.8%
Australian bonds - floating rate	0.0%	0.1%	0.6%	2.6%	2.2%	2.6%	2.7%	3.5%	4.2%	4.6%
Global bonds (Hedged)	-0.4%	-2.5%	-1.8%	1.1%	3.8%	3.3%	4.4%	5.5%	6.3%	6.6%
Global bonds - government (Hedged)	-0.2%	-2.7%	-2.5%	-1.2%	3.4%	2.9%	4.4%	5.4%	6.1%	6.4%
Global bonds - corporate (Hedged)	-1.2%	-3.4%	-0.9%	8.3%	4.9%	4.6%	5.1%	6.4%	6.8%	7.1%
Global bonds - High Yield (Hedged)	-0.5%	-0.5%	6.0%	22.0%	4.1%	6.6%	5.6%	7.6%	8.6%	#N/A
Emerging Market bonds (Hedged)	-1.1%	-5.3%	0.1%	15.0%	2.8%	4.4%	5.1%	6.6%	7.6%	9.7%
Cash (AUD)	0.0%	0.0%	0.0%	0.1%	1.1%	1.4%	1.7%	2.3%	3.4%	3.9%

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

I, Cameron Curko, hereby certify that all the views expressed in this report accurately reflect my personal views about the subject investment theme and/or company securities. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

I, Cameron Curko, and/or entities in which I have a pecuniary interest, have an exposure to the following securities and/or managed products mentioned in this report: Nil

Important Information

This report is prepared by Bridges Financial Services Pty Limited ABN 60 003 474 977 AFSL 240837 (Bridges). Bridges is an ASX Market Participant and part of the IOOF group of companies. This report is prepared by the IOOF Research team for:

Bridges Financial Services Pty Limited ABN 60 003 474 977 AFSL 240837, Consultum Financial Advisers Pty Ltd ABN 65 006 373 995 AFSL 230323, Elders Financial Planning ABN 48 007 997 186 AFSL 224645, Financial Services Partners ABN 15 089 512 587 AFSL 237 590, Millennium3 Financial Services Pty Ltd ABN 61 094 529 987 AFSL 244252, RI Advice Group Pty Ltd ABN 23 001 774 125 AFSL 238429, Shadforth Financial Group Ltd ABN 27 127 508 472 AFSL 318613 ('Advice Licensees'). The Advice Licensees are part of the IOOF group comprising IOOF Holdings ABN 49 100 103 722 and its related bodies corporate (IOOF group).

The Advice Licensees and/or their associated entities, directors and/or employees may have a material interest in, and may earn brokerage from, any securities or other financial products referred to in this document, or may provide services to the company referred to in this report. The document is not available for distribution outside Australia and may not be passed on to any third person without the prior written consent of the Advice Licensees. The Advice Licensees and associated persons (including persons from whom information in this report is sourced) may do business or seek to do business with companies covered in its research reports. As a result, investors should be aware that the firms or other such persons may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as a single factor in making an investment decision.

The document is current as at the date of issue but may be superseded by future publications. You can confirm the currency of this document by checking the intranet site (links below).

The information contained in this report is for the sole use of advisers and clients of AFSL entities authorised by the Advice Licensees. This report may be used on the express condition that you have obtained a copy of the Advice Licensees Financial Services Guide (FSG) from their respective website.

Disclaimer: The information in this report is general advice only and does not take into account the financial circumstances, needs and objectives of any particular investor. Before acting on the advice contained in this document, you should assess your own circumstances or seek advice from a financial adviser. Where applicable, you should obtain and consider a copy of the Product Disclosure Statement, prospectus or other disclosure material relevant to the financial product before making a decision to acquire a financial product. It is important to note that investments may go up and down and past performance is not an indicator of future performance.

The contents of this report should not be disclosed, in whole or in part, to any other party without the prior consent of the IOOF Research Team and Advice Licensees. To the extent permitted by the law, the IOOF Research team and Advice Licensees and their associated entities are not liable for any loss or damage arising from, or in relation to, the contents of this report.

For information regarding any potential conflicts of interest and analyst holdings; IOOF Research Team's coverage criteria, methodology and spread of ratings; and summary information about the qualifications and experience of the IOOF Research Team please visit https://www.ioof.com.au/adviser/investment_funds/ioof_advice_research_process