Quarterly Economic Wrap

June 2021

Summary

- Share markets climbed during the June quarter amidst optimism at global economic recovery and rising energy and commodity prices.
- Vaccine rollout continued to be a major focus with further progress in Europe a highlight. A Delta variant of coronavirus has become increasingly problematic in developed countries prompting lockdowns across Australia and delaying the reopening of the UK.
- The Global Composite PMI (a useful leading indicator of global economic growth) remains strongly positive albeit softening over the quarter driven by slowing activity in China, Japan and India.

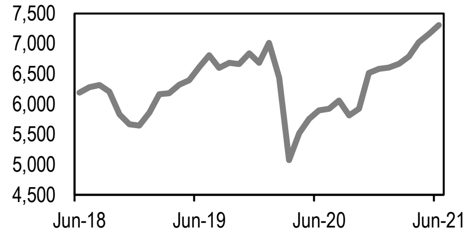
Markets

- June was a quarter marked by positive returns across the board. Bonds recovered from their March quarter selloff but riskier asset classes across both stocks and fixed income led the way. Alternatives such as trend following continued to add value with 2020-21 offering a more attractive opportunity set (see page 12).
- Australian equities underperformed against global peers (see Chart 2) while “peak growth” fears saw investors prioritise growth stocks which are less reliant on stronger economic growth (see Chart 3).
- Emerging market underperformance relative to developed markets persisted (see Chart 4).
- Inflation concerns became a bigger factor in driving markets with inflation ahead of consensus driving concerns that the Fed’s “inflation is transitory” view is incorrect. The focus switched to potential for policy mistakes with the prospect of US rate hikes in 2023 throwing doubt on the strength of future economic growth.

Key economic news

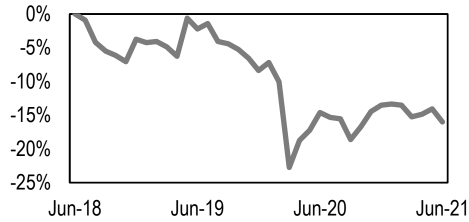
- There are some signs that loose central bank policy is reversing. European Recovery Fund spending looks set to begin in the September quarter, clearing its final hurdles.

1. S&P/ASX 200 Price Index



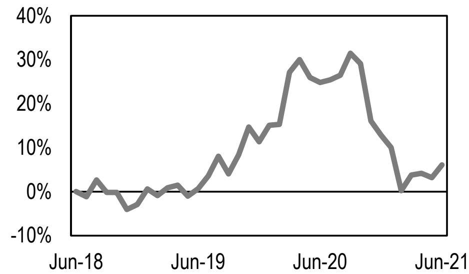
Source: Bloomberg, IOOF

2. ASX200 vs All-World, US$ terms



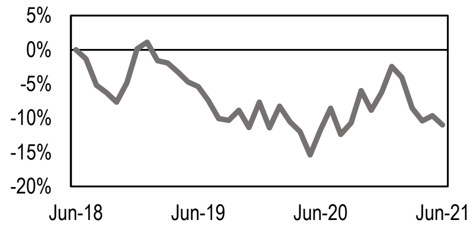
Source: Bloomberg, IOOF

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

Chalice Mining (CHN) has experienced significant upward momentum over the past 12 months after a series of drill results indicated the existence of high-grade nickel-copper-PGE deposits. Admission to the ASX 200 Index in June contributed further to the rally this quarter. Nuix (NXL) continued to receive negative press and further scrutiny as the company comes under attack on multiple fronts. For example, the former CFO is being investigated by ASIC over insider trading while there is increased scrutiny of prospectus disclosure at the IPO.

Sector and stock returns

ASX/S&P 200 Sectors (GICS)				
	Monthly	**% ∆**	**Quarterly**	**% ∆**
▲	Consumer Discretionary	4.46	Consumer Discretionary	11.09
▲	Consumer Staples	5.32	Consumer Staples	5.13
▲	Energy	3.99	Energy	-2.88
▼	Financials ex Property	-0.19	Financials ex Property	7.47
▼	Financials	-0.19	Financials	7.47
▲	Health Care	2.14	Health Care	9.02
▲	Industrials	2.52	Industrials	5.78
▲	IT	13.39	IT	12.10
▲	Materials	0.27	Materials	8.86
▲	Property Trusts	4.09	Property Trusts	8.94
▲	Communication Services	5.55	Communication Services	10.59
▲	Utilities	2.42	Utilities	-5.83

Source: Bloomberg, IOOF

Best and Worst S&P/ASX 200 Performers			
Top five stocks		**Bottom five stocks**	
Monthly			
Altium Ltd	+29.8%	Nuix Ltd	-20.2%
Afterpay Ltd	+27.4%	Gold Road Resources Ltd	-18.4%
Pro Medicus Ltd	+27.3%	Westgold Resources Ltd	-17.5%
Whitehaven Coal Ltd	+23.2%	Silver Lake Resources Ltd	-17.4%
Megaport Ltd	+22.9%	Evolution Mining Ltd	-16.8%
Quarterly			
Megaport Ltd	+66.2%	Nuix Ltd	-57.2%
Uniti Group Ltd	+43.9%	EML Payments Ltd	-29.0%
Chalice Mining Ltd	+43.0%	Costa Group Holdings Ltd	-28.9%
Pro Medicus Ltd	+42.1%	Redbubble Ltd	-27.9%
Mineral Resources Ltd	+41.3%	Beach Energy Ltd	-27.7%

Source: Bloomberg, IOOF

Share Markets, June 2021

Asia Pacific Indices					
▼	Hang Seng	28828	-1.11	28378	1.58
▼	Nikkei 225	28792	-0.24	29179	-1.33
UK & Europe Indices					
▲	FTSE 100	7037	0.21	6714	4.82
▲	CAC40	6508	0.94	6067	7.26
▲	DAX Index	15531	0.71	15008	3.48

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

International markets were broadly positive for the quarter with the US market one of the strongest performers (up 8.2%) while we saw US tech outperform (up 9.5%). Key return drivers included:

- "peak growth" concerns amidst weakening economic surprises in the US and the rise of the problematic Delta variant
- The Federal Reserve's shift in interest rates flagging potential hikes in 2023 for the US.

Chinese stocks saw relative underperformance driven by a regulatory crackdown against (predominantly) tech names persisting into this quarter (and beyond).

	Australian Indices	Jun-21 Price	1M return (%)	Mar-21 Price	3M return (%)
▲	S&P/ASX 200	7313	2.11	6791	7.69
▲	All Ordinaries	7585	2.41	7017	8.09
▲	Small Ordinaries	3384	2.82	3131	8.07
US Indices					
▲	S&P 500	4298	2.22	3973	8.17
▼	Dow Jones	34503	-0.08	32982	4.61
▲	Nasdaq	14504	5.49	13247	9.49

	1-mth	3-mth	6-mth	1-yr
MSCI World Index	4.6%	9.3%	16.2%	27.5%
Value	1.8%	6.4%	17.7%	26.7%
Value-Weighted	2.1%	7.3%	20.5%	33.6%
Momentum	4.4%	8.6%	10.2%	21.3%
Growth	7.8%	12.6%	14.1%	28.4%
Quality	7.0%	12.5%	16.9%	26.3%
Low volatility	3.6%	7.1%	10.8%	11.1%
Equal weight	3.3%	7.2%	9.5%	25.4%
Small caps	3.4%	6.7%	17.9%	40.5%

Source: Bloomberg, IOOF, MSCI

At a style level, the June quarter marked a reversal of the "reflation trade" with cyclical sectors (Value names) substantially underperforming growth and quality stocks. Much of this outperformance arrived late in the quarter following "peak growth" concerns (amidst weakening economic surprises in the US) and the Federal Reserve's shift in interest rates flagging potential hikes in 2023. This soured sentiment towards stocks with greater sensitivity to economic growth. This was arguably consistent with a decline we saw in long-term bond yields (led by the US) as investor sentiment towards names less reliant on the business cyclical (e.g. growth stocks) improved.

Australian equity markets

The Australian market continued to rise, up 7.7% on a price basis. The leading sectors were technology (up 12.1%), consumer discretionary (up 11.1%) and telecommunications (up 10.6%). Utilities (down 5.8%), and Energy (down 2.9%) were amongst the worst-performing sectors. Utilities struggled amidst souring investor sentiment towards industry giant AGL with a downgrade in guidance that saw underlying EBITDA guided to be in the lower half of the previously reported guidance range while scepticism remains at its proposed restructuring into two businesses, one focused on renewables, the other, legacy fossil fuels.

	1-mth	3-mth	6-mth	1-yr
MSCI Australia Index	1.7%	8.5%	13.7%	28.2%
Value	0.4%	7.5%	17.4%	39.4%
Value-Weighted	0.9%	7.3%	16.7%	34.5%
Momentum	2.1%	9.5%	7.0%	19.4%
Growth	7.9%	12.8%	14.3%	28.9%
Quality	7.4%	12.4%	17.7%	26.2%
Low volatility	2.2%	8.1%	11.5%	19.4%
Equal weight	3.3%	7.2%	9.5%	25.4%
Small caps	3.1%	8.5%	10.8%	33.2%

Source: Bloomberg, IOOF, MSCI

Equity styles saw a similar reversal domestically. Previous highflyers in value stocks underperformed over the quarter relative to growth and quality names.

Outlook

The extent of the equities rally since Mar-20 has left many markets expensive on an absolute basis. Supporting equities is the anaemic outlook for bonds with the equity risk premium (earnings yield less bond yield) still supportive of holding equities over bonds.

Fixed Income

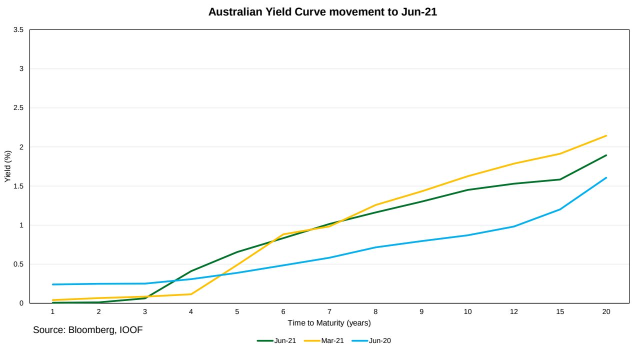
	Fixed Income	Jun-21 yield	1M mvt (bps)	Mar-21 yield	3M mvt (bps)
	Australian Cash rate	0.10	--	0.10	--
▼	10-year Bond Yield	1.53	-0.18	1.79	-0.26
▲	3-year Bond Yield	0.41	0.35	0.12	0.30
▼	90 Day Bank Bill rate	0.03	-0.01	0.04	-0.01
▼	US 10-year Bond Yield	1.47	-0.13	1.74	-0.27
▲	US 3-year Bond Yield	0.46	0.16	0.35	0.11
▼	US Investment Grade spread	1.04	-0.04	1.10	-0.06
▼	US High Yield spread	2.28	-0.14	2.49	-0.21

Source: Bloomberg, IOOF

Australian bond market

The Australian yield curve saw a rise in shorter-term yields contrasted with a decline in longer-term rates over the quarter.

5. Australian yield curve changes to Jun-21



The RBA kept its policy settings unchanged during the quarter. In its July meeting it made several notable decisions including:

1. Leaving the bond whose yield it targets at 0.1% unchanged as the Apr-24 bond,
2. Reducing the pace of bond purchases,
3. Concluding the Term Funding Facility (TFF)

Leaving the target bond unchanged arguably suggests the RBA is readying the ground for an earlier interest rate hike (after Apr-24) given the strength of the economy (prior to the latest coronavirus disruption). The conclusion of the TFF has pressured fixed mortgage rates as it withdraws a cheap source of bank funding.

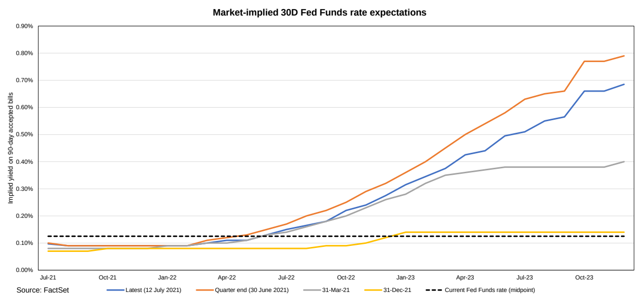
Reducing bond purchases (a.k.a. tapering) should also act as important precursor to normalising other RBA policy measures. These include lifting yield curve controls (where it targets bond purchases to ensure the 3-year government bond yield sits at 0.1%) and, eventually raising interest rates. We maintain that rate hikes will take time because:

1. Inflation is sitting below the 2-3% target and wage inflation is tepid at 1.5% p.a. (well shy of the 3% needed according to the RBA) unlikely to justify material hiking in rates, and
2. RBA signalling has repeatedly maintained a stance of leaving rates on hold until that inflation condition is met and its conviction that this will not occur until at least 2024.

US bond market

In the US we saw an uptick in short-term yields driven by rising interest rate expectations contrasted with declining long-term yields over the quarter. Chart 6 illustrates the shift in expectations at the end of March vs end of June for the Fed Funds rate. This was triggered by strong economic momentum in the US as well as a shift in Fed projections with a majority of board members anticipating two hikes in 2023 consistent with the stronger macroeconomic view.

6. US interest rate expectations (Dec-20 to Jun-21)



US credit spreads tightened further driving strong returns for riskier kinds of bonds relative to government bonds. High yield is increasingly less attractive given current spreads, but we note that these levels aren't unprecedented historically and can last for long multi-year periods e.g. pre-GFC.

Currencies

	Currencies	Jun-21 Price	1M return (%)	Mar-21 Price	3M return (%)
▼	$A vs $US	74.98	-3.05	75.98	-1.32
▼	$A vs GBP	54.22	-0.35	55.12	-1.64
▼	$A vs YEN	83.32	-1.69	84.10	-0.93
▼	$A vs EUR	63.24	-0.02	64.77	-2.36
▲	$A vs $NZ	107.38	0.94	108.77	-1.28
▼	$A TWI	62.70	-1.26	63.90	-1.88
▲	$US vs EUR	84.34	3.12	85.25	-1.07
▲	$US vs CNY	6.46	1.37	6.55	-1.46
▲	$US vs GBP	72.29	2.74	72.55	-0.36
▲	$US vs JPY	111.11	1.40	110.72	0.35
▲	$US vs CHF	92.50	2.90	94.36	-1.97
▲	US Dollar Index	92.44	2.90	93.23	-0.85
▼	JPM EM Currency Index	57.25	-1.20	56.14	1.98

Source: Bloomberg, IOOF

The Australian dollar (AUD) fell 1.3% against the US Dollar (USD) during the quarter, down from USD 0.7598 in March to USD 0.7498 in June. We also saw a 1.9% decline in value against major trading partners ($A TWI). Key drivers included:

- Growing outbreak of Delta variant with two major cities, Sydney and Melbourne in lockdown.
- Weaker relative economic momentum with economic data surprises for Australia declining compared to results for other countries.
- US interest rate hikes for 2023. This makes the AUD relatively less attractive particularly given the suppression of shorter-duration bonds at present.

USD saw broad weakness vs other currencies persist with the trade-weighted dollar (DXY) declining 0.9%.

Improvement in the European and UK economies (and coronavirus cases in both declining) helped drive this outcome with USD falling vs EUR and GBP.

EM currencies recovered further during the quarter with the JPM EM Currency Index rising 2%.

Commodities

	Commodities	Jun-21 Price	1M return (%)	Mar-21 Price	3M return (%)
▲	Aluminium	2520	1.87	2216	13.71
▼	Copper	429	-8.41	400	7.18
▲	Nickel	18206	0.61	16073	13.27
▼	Zinc	2970	-2.70	2822	5.26
▲	Crude Oil - Brent	75.13	8.38	63.54	18.24
▲	Natural Gas	3.65	22.24	2.61	39.95
	Metallurgical Coal	123	--	126	-1.74
▲	Thermal Coal	136	10.21	98	38.63
▲	Iron Ore	214.55	4.29	166.90	28.55
▼	Gold	1772	-7.02	1718	3.15
▼	Silver	26	-6.60	25	6.44

Source: Bloomberg, IOOF

Commodities continue to enjoy a strong run since the selloff over March-April 2020 with coking coal the only notable negative return for the quarter.

Oil prices continued to rise, up 18.2% for the quarter. Delays to further increased OPEC production combined with stronger demand (rising PMIs in the likes of US and Europe) helped drive prices higher.

Thermal coal prices were supported by several factors including:

- A landmark agreement between miner Glencore and major Japanese utility Tohuku Electric saw a 60% increase on last year's pandemic-driven low of US$68.75/t. This supported a re-rating of other utility customers.
- Supply bottlenecks in several other coal producing countries due to infrastructure upgrades and coronavirus restrictions.

Precious metals rose in a weaker real yield (bond yield after inflation) environment following the reversal of the spike in government bond yields in February-March 2021. Notably however the shock of the Federal Reserve potentially hiking rates hit gold prices hard given greater attractiveness of shorter-term yields as a safe haven option.

Australia

The bounce back in economic activity persisted over the June quarter with leading indicators suggesting above-trend growth over the next several months. This threatens to be derailed by an outbreak of the more infectious Delta variant of coronavirus that has prompted extended lockdowns for both Sydney and Melbourne. New stimulus packages will help offset the economic damage, but the end of the public health emergency remains uncertain.

Coronavirus pandemic

For most the quarter the coronavirus pandemic was not a pressing concern. However, from late May the situation changed radically and intensified towards quarter-end. Failures in hotel quarantine led to snap lockdowns for 14 days in Victoria (centred on Melbourne) and subsequently another failure in containment saw the imposition of increasingly tighter lockdowns in Sydney.

These outbreaks involving the more infectious Delta variant of coronavirus have proven difficult to contain and seen authorities take renewed steps to counteract them including imposing mandatory testing every 3 days for workers in South-West Sydney. At the time of writing Sydney will be in lockdown until the end of July at least. In addition, in Melbourne another 5-day lockdown is in place with several inter-state travellers from NSW spreading the virus there.

We have seen 9.3m vaccines administered as at 13 July (a marked improvement from only 0.67m doses at the end of March). Unfortunately, of this total only 2.4m people have been fully vaccinated (a single dose offers only partial protection). Additional supplies of Pfizer have been secured but it will take time to both arrive and be administered. Accordingly, lockdowns remain one of the crucial public health options available to combat the pandemic.

Government policy

In response to the pandemic we have seen new packages introduced at a State and Federal level. In NSW there are emergency support payments available to businesses while at a Federal level it appears the coronavirus disaster payment is going to be expanded. This payment was criticised originally for being very difficult to meet thresholds required to receive it including having liquid assets below $10k. It appears that test will now be waived. While not comparable to the slew of measures deployed last year, these steps should help to mitigate the worst of the pandemic. We caution however that more might be required particularly depending upon the duration of the lockdown.

Growth outlook

The Westpac-Melbourne Institute Leading Index continued to ease, falling to 1.47% in May from 3.31% in March. Positive numbers suggest economic growth to remain above-trend levels for the rest of 2021 which is in line with consensus economist expectations. Importantly this reading was taken prior to the escalation of the pandemic domestically. Signs from other states outside NSW suggest economic recovery is continuing to track well. In addition, there has been a notable “bounce back” in economic activity following the end of lockdowns. This suggests that even the spell of a month in lockdown for NSW should not have an undue economic impact.

Business conditions

NAB’s Business Survey for the June quarter continued to point to strong outcomes for the business sector but also began to reflect the rising outbreaks nationally. Business confidence fell 9 points to +11, a pronounced decline but still above average. Meanwhile business conditions (a reflection of profitability, hiring intentions and trading conditions) also fell 12 points to +24, still strongly positive but down from the record high reached in May. Much hinges on the duration of the lockdown but at present sentiment remains positive and supportive of investment spending.

Inflation

The ABS wage inflation index rose 1.5% for the year to March. Excluding bonuses, we saw annual growth of 1.5% for both public and private sector wages. Including bonuses saw a rare return to strength for the private sector (up 1.9%) relative to public sector roles (up 1.5%). Current levels remain well below the ~3% target the RBA sees as necessary to support inflation and economic growth to its longer-term targets.

Unemployment

Unemployment hit a new low of 4.9% driven by jobs growth. The full lockdown impact will not be known for some time, but this serves to show the strength of the labour market nationally unlike last year.

United States

The coronavirus pandemic continued to abate in the US with vaccine rollout helping to hasten its decline though the Delta strain has emerged as a risk for unvaccinated people especially. Leading indicators remain supportive of continued growth momentum. Inflation concerns have subsided somewhat while structural drivers are still subdued in our assessment.

Coronavirus pandemic

The 7-day average of new cases fell from 64k/day to 12.5k/day over the June quarter while deaths fell from 953/day to 253/day over the same period. We note however that the Delta variant has now become the dominant strain accounting for the majority of new cases with numbers in the US South climbing from 4.8k/day in late June to 12k/day in mid-July. Importantly it appears that fully vaccinated individuals are less susceptible to symptomatic infection, hospitalisation, and fatality with this strain. By contrast of the ~10,000 people who died from coronavirus in June in the US, over 90% were unvaccinated with low vaccination rates more prevalent in some Southern States. The protection offered by the vaccine means we haven't seen (to date) the same pressure on the health care system or the threat of renewed lockdown restrictions. There is a potential downside risk of localised restrictions given the growth in some States.

Inflation

Inflation in the US has jumped to the highest rate since 2008 as the world's largest economy rebounded from the coronavirus crisis-induced recession. The consumer prices index rose by 5.4% for the year to June. Our expectation however is that this rise in inflation will not be sustained and can be attributed mainly to base effects (May 2020 marked the low point for inflation last year in the US), improving demand due to large scale fiscal stimulus and supply side disruptions.

If you take stock of current inflation trends there are signs of economic slack persisting that will constrain inflation until these resources are utilised including:

- Capacity utilisation for businesses is improving but below pre-pandemic levels. Labour force participation remains below pre-pandemic levels.
- Wage inflation across different measures has risen but remains below levels consistent with driving inflation higher while business price inflation looks to be peaking potentially.
- Unemployment remains well above levels consistent with a "tight" labour market (as measured by a theoretical natural rate of unemployment).

Policy

Fiscal stimulus negotiations remain underway. An initial $1.2trn bipartisan package is nearing completion although remains unapproved at the time of writing with some complications emerging in finalising details between Democrat and Republican senators. A further Democrat-led $3.5trillion package to be spent over next decade on health care, climate change and social services is another material shift in US policy. It faces considerable opposition within and outside the party but is another area we are following closely.

The Federal Reserve projects macroeconomic variables as part of its quarterly releases. This illustrates how committee members perceive the economy and also where they think interest rates will be in future. The latest meeting saw a notable uptick in expected interest rates for 2023 with two hikes being anticipated. This projection prompted some fierce market reactions (discussed above) and remains an area we are monitoring closely.

Growth outlook

Leading indicators including the Conference Board Leading Economic Index and the ECRI Weekly Leading Index remained positive. They have however begun to slow in year-on-year terms (reflecting base effects given the depressed state of the economy this time last year). This suggests economic growth in the near term but at a slower pace. The Weekly Economic Index by the NY Fed is suggesting continued strength with a year-on-year figure of 8.59% (this is the implied annual growth rate if current levels of growth for the quarter are sustained for the full year).

Business sentiment

The US Manufacturing PMI hit a record high of 62.1 in June, up from 59.1 in March, the highest level in the survey's 14-year history. Strong demand remains a notable feature as does input cost inflation. The US Services PMI hit 64.6, up from 60.4 in March but a drop off from the 70.4 recorded in May. Overall, it signals positive conditions although there are signs of momentum peaking with the ISM Manufacturing PMI beginning to fall (but remain positive).

China

Business surveys were mixed for the June quarter, a slight improvement from the weakness to start the year. Deceleration of credit growth remains a potential headwind in 2021 while localised coronavirus outbreaks have also stymied economic activity particularly for people-facing industries.

Business activity and sentiment

Chinese economic momentum was mixed for the June quarter. The Manufacturing PMI, a measure of strength in the manufacturing sector, rose slightly to 51.3, up from 50.6 in March. New business orders slowed amidst the uptick in coronavirus cases domestically with new export growth flat for June. Manufacturers also saw inflationary pressures ease to a seven-month low with pass-through to end clients slowing to levels last seen in February although high commodity prices remain a challenge. The Services PMI by contrast slipped further from 54.3 in March, to 50.3 in June. New orders softened materially with a local uptick in coronavirus cases dampening overall new business. Input cost inflation also eased.

Overall, this was a softer result with the slowdown in services sectors driving the Composite PMI to a 14-month low of 50.6. The pressures of high commodity prices remain a concern but insufficient to offset still strong levels of confidence amongst manufacturing and services firms.

Credit growth

Chinese credit growth was stronger than expected in June. New bank loans surprised with 2.21 trillion yuan issued in new loans (consensus: 1.8 trillion), an uptick on April and May's ~1.5 trillion in new issuance each. Overall loan growth picked up slightly to 12.3% year-on-year, still near record-low levels. Broad money supply also surprised with 8.6% annual growth (consensus: 8.1). Growth in total social financing maintained its 11% year-on-year pace, its slowest level February 2020. This slowing is in line with guidance by Chinese authorities that overall credit growth would be in line with nominal economic growth in 2021. We note some observers have flagged that this is an even faster contraction in credit than initially expected.

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. Arguably we have seen some signs of this with authorities trying to curb commodity prices and iron ore import volumes declining 12% year-on-year in May (against a 83% increase in prices over the same period). At present the economy has weathered this spell of slower credit growth well. However, its full impact will take time to materialise as earlier, approved projects run off.

Policy

The People's Bank of China (PBoC) announced a 50bps broad-based Reserve Rate Requirement (RRR) cut from mid-July. The RRR is the minimum amount of reserves that a bank must hold on to, rather than lend out or invest. The PBoC estimates this could release 1 trillion yuan in long-term liquidity to the market, which would be used to repay part of the maturing medium-term lending facility (MLF) and fill the liquidity gap induced by tax season in late July.

The announcement arguably marks a shift from counter cyclical tightening to an easing bias–in view of the recent growth hiccup amid COVID resurgence, further moderation in domestic consumption, and a contracting credit impulse. The cut could also facilitate a faster pace of local government bond issuance. However, some market commentors believe the cut should not be interpreted as the start of a new major easing cycle. To that line of reasoning it amounts to a policy fine-tuning to prevent downside risks to growth. This is particularly the case as a large portion of MLF will mature in coming months, which could offset the impact of the RRR cut if not fully rolled over.

Inflation

Chinese producer price inflation slowed in June with a 8.8% for the year (consensus: 8.8%), down from May's 9% result. Consumer prices continue to remain muted by comparison with a 1.1% rise (consensus: 1.3%), down from the 1.3% growth recorded in May.

Overall while there are some signs of rising inflation observed in producer prices there are substantial question marks in how sustained it will be given the backdrop of tighter credit activity and a lack of substantive pass-through to consumers.

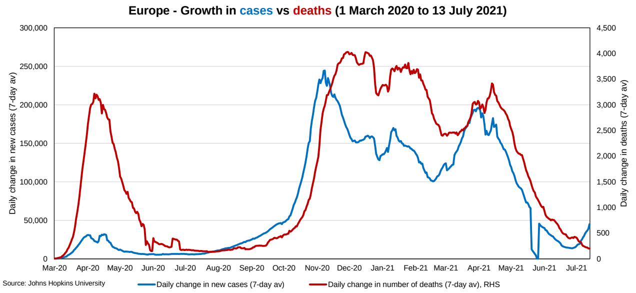
Europe

Lockdown restrictions have lifted materially, thanks to accelerating vaccine programs. New fiscal policy in Recovery Fund disbursements over the coming weeks combined with economic re-opening will likely see an economic recovery take firmer hold in the coming months.

Coronavirus pandemic

Vaccinations continued to rise with 41% of EU citizens fully vaccinated and a further 14% having the first dose as of mid-July. Over the June quarter, average daily cases fell from 195.9k/day to 15.2k/day while coronavirus-related deaths declined substantially from 3,078/day to 422/day.

7. Europe coronavirus case and fatality trends



The Delta variant in the UK may pose a near-term risk given the lower penetration of vaccines in Europe. As Chart 7 highlights we have seen an uptick in cases following quarter-end. However, the experience has been similar to the US with hospitalisations and fatalities suppressed thanks to vaccine effectiveness.

Fiscal Policy

The European Recovery Fund was ratified by all 27 EU members with disbursements looking set to hit national government accounts in the coming weeks. In its original format the key facility of €672.5bn was meant to be split between €360bn in loans and up to €312.5bn as grants. Given the liability at a national level presented by loans the entire facility may not be spent. This should still be an important forward in helping consolidate the economic recovery underway in Europe with 12 countries having their Recovery Plans approved by the European Commission.

Monetary Policy

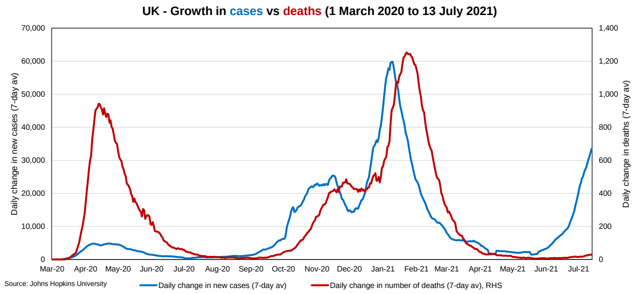
The European Central Bank (ECB) maintained its accommodative monetary policy setting at its June meeting, with the ECB outlining it expects net purchases under the Pandemic Emergency Purchase Programme (PEPP) over the coming quarter to be conducted at a significantly higher pace than during the first months of the year. The ECB also revised up its GDP projections for 2021 and 2022 to 4.6% and 4.7%, respectively. In its July meeting the ECB shifted to a 2% inflation target instead of the prior “below but close to 2%”. While Governor Lagarde denied this amounted to average inflation targeting she did acknowledge the potential for allowing inflation to exceed this level for short periods. The ECB noted that it will consider introducing climate change criteria in governing its asset purchase choices.

These are important shifts at a policy level. Federal fiscal spending is a material improvement over the previous recession policy response. Softening the hawkish bias at the ECB should reduce the risk of repeating mistakes such as the post-GFC rate hikes.

United Kingdom

The UK saw a marked relaxation of coronavirus restrictions since March. Unfortunately, the decline in cases has reversed since mid-May. This has been due to a new Delta strain of coronavirus. Thankfully however the vaccinations already undertaken appear to be curbing fatalities (the latter have continued to fall over the past month). Despite a material uptick in cases from 4.7k/day to 19k/day over the quarter, daily deaths continued to fall from 48/day to 16/day reducing the need for further lockdown measures.

8. UK coronavirus case and fatality trends



Business activity and sentiment

The Eurozone Manufacturing PMI rose to 63.4, up from 62.5 in March, its highest level in the series’ 24-year history and a fourth-consecutive peak. The services sector rose strongly to 58.3 in June and entered expansionary territory, up from 49.6 in March. This was a welcome reprieve from the lockdowns to begin the year, indicating the services sector recovery is gathering momentum. Given current coronavirus cases this recovery should be sustained as lockdown disruption risk fades as a consideration.

Company news - best and worst performers for the June quarter 2021

Megaport Ltd (MP1, +66.2%)

Megaport (MP1) provided investors with a reason to be optimistic after presenting on the next evolution of their connectivity technology called Megaport Visual Edge (MVE). MVE is a hybrid network and compute service that hosts “Network Function Virtualisation” that essentially allows clients to integrate their cloud computing with compute/software capabilities from 3rd party providers. This essentially allows clients to outsource compute power in addition to cloud and represents a new vertical for MP1.

Uniti Group Ltd (UWL, +43.9%)

Uniti Group (UWL) continued its upward momentum after it was admitted to the ASX200 in June. UWL continues to outperform peers and win market share from NBN for it’s Wholesale & Infrastructure business – the design, construction, operation, and maintenance of Fibre-to-the-Premise (FTTP) infrastructure. UWL 1H21 results show that it now has an annual revenue run rate of $200m, underlying EBITDA of $116m, and FCF of $72m.

Chalice Mining Ltd (CHN, +43%)

Chalice Mining (CHN) extended its rally after being admitted to the ASX200 in June. CHN has experienced significant upward momentum over the past 12 months after a series of drill results indicated the existence of high-grade nickel-copper-PGE deposits. The latest drilling results from its Gonneville Discovery show the existence of 3.0g/t palladium, 1.4g/t platinum, 0.2g/t gold, 0.3% nickel, 0.3% copper, 0.03% cobalt from 25m of surface drills.

Nuix Ltd (NXL, -57.2%)

Nuix (NXL) continued to receive negative press and further scrutiny as the company comes under attack on multiple fronts. Former CEO, Eddie Sheehy, is suing NXL for damages in relation to diluted options granted to him during his tenure as CEO, an investigation by the AFP over tax evasion by former NXL director Tony Castagna, a senate enquiry on improper NXL prospectus disclosures, and an ASIC accusation of inside trading by the CFO and related persons.

EML Payments Ltd (EML, -29%)

EML Payments (EML) suffered from a material drawdown after it was revealed that the Irish Central Bank highlighted regulatory concerns relating to Prepaid Financial Services, a subsidiary EML acquired in 2019. The regulator flagged low level of compliance with AML laws and anti-competitive conduct in selling pre-paid cards. The regulatory concerns come from PFS operations that came into Irish jurisdiction after Brexit and a heightened attention on AML and fraud after the German company, Wirecard, collapsed several months prior.

Costa Group Holdings Ltd (CGC, -28.9%)

Costa Group (CGC) was negatively impacted by weak performance in mushrooms, citrus and tomato segments, offsetting strong international performance in berries and avocados. Although domestic demand for mushrooms remained strong, a lack of labour supply has impacted on CGCs volumes, while the citrus harvest was negatively impacted by hail damage, and tomatoes faced difficult pricing pressure.

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

Movers and Shakers for June 2021

ASX Code	Company Name	Closing price ($)	Month ago, close ($)	Month price return (%)	Quarter ago close ($)	Quarter Price return (%)	Year ago, close ($)	Annual Price Return (%)
MP1	Megaport Ltd	18.43	14.99	22.9	11.09	66.2	12.08	52.6
UWL	Uniti Group Ltd	3.31	2.99	10.7	2.30	43.9	1.42	133.1
CHN	Chalice Mining Ltd	7.42	8.78	-15.5	5.19	43.0	1.00	645.7
PME	Pro Medicus Ltd	58.72	46.11	27.3	41.33	42.1	26.46	121.9
MIN	Mineral Resources Ltd	53.73	45.38	18.4	38.02	41.3	21.17	153.8
IRE	Iress Ltd	12.91	10.69	20.8	9.18	40.6	10.95	17.9
PLS	Pilbara Minerals Ltd	1.45	1.24	17.4	1.05	38.8	0.23	522.6
ALU	Altium Ltd	36.69	28.27	29.8	26.47	38.6	32.48	13.0
REH	Reece Ltd	23.61	20.48	15.3	17.14	37.7	9.19	156.9
HUB	Hub24 Ltd	28.51	26.83	6.3	20.76	37.3	9.30	206.6

Source: Bloomberg, IOOF

ASX Code	Company Name	Closing price ($)	Month ago, close ($)	Month price return (%)	Quarter ago close ($)	Quarter Price return (%)	Year ago, close ($)	Annual Price Return (%)
NXL	Nuix Ltd	2.21	2.77	-20.2	5.16	-57.2	#N/A	#N/A
EML	EML Payments Ltd	3.48	3.32	4.8	4.90	-29.0	3.34	4.2
CGC	Costa Group Holdings Ltd	3.31	3.35	-1.1	4.65	-28.9	2.85	16.0
RBL	Redbubble Ltd	3.61	3.43	5.2	5.01	-27.9	2.06	75.2
BPT	Beach Energy Ltd	1.24	1.27	-2.4	1.72	-27.7	1.52	-18.4
NWH	NRW Holdings Ltd	1.47	1.62	-9.3	1.97	-25.4	1.87	-21.4
A2M	A2 Milk Co Ltd	6.00	5.52	8.7	7.83	-23.4	18.66	-67.8
NIC	Nickel Mines Ltd	0.99	1.03	-3.9	1.23	-19.2	0.58	70.4
IPL	Incitec Pivot Ltd	2.38	2.28	4.4	2.91	-18.2	1.88	26.9
FLT	Flight Centre Travel Group Ltd	14.85	15.23	-2.5	17.99	-17.5	11.12	33.5

Source: Bloomberg, IOOF

Asset class performance to June 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)	2.3%	8.3%	12.9%	27.8%	9.6%	11.2%	8.8%	9.3%	6.9%	8.2%
Australian equities - Mid caps	3.7%	10.1%	10.3%	35.6%	12.2%	13.9%	13.9%	11.7%	7.8%	11.0%
Australian equities - Small caps	3.1%	8.5%	10.8%	33.2%	8.6%	11.2%	10.1%	6.0%	4.4%	7.1%
Australian equities - Micro caps	-1.2%	8.3%	11.8%	59.2%	14.9%	12.7%	12.4%	4.2%	5.0%	#N/A
International equities	4.7%	9.3%	16.3%	27.5%	14.5%	14.7%	14.0%	14.8%	7.7%	5.1%
International equities (Hedged)	2.4%	7.6%	14.2%	35.8%	13.5%	14.4%	11.5%	12.8%	9.1%	8.1%
International equities - Small caps	3.4%	6.7%	17.9%	40.5%	11.6%	14.2%	13.4%	14.6%	8.4%	7.9%
Emerging Markets equities	3.3%	6.6%	10.4%	29.2%	10.7%	12.8%	9.9%	8.1%	6.5%	8.0%
Australian REITs	5.5%	10.5%	9.9%	33.2%	7.7%	5.8%	10.3%	11.8%	4.0%	6.9%
Global REITs	3.9%	10.8%	18.7%	22.5%	5.8%	4.8%	8.6%	10.2%	4.4%	#N/A
Global REITs (Hedged)	1.8%	9.0%	17.0%	30.2%	4.9%	4.7%	6.3%	8.3%	5.2%	#N/A
Global Infrastructure	2.0%	4.4%	10.1%	8.7%	7.4%	7.1%	9.4%	12.2%	6.4%	#N/A
Global Infrastructure (Hedged)	-0.2%	2.5%	7.7%	14.9%	6.9%	7.0%	7.5%	10.6%	9.4%	#N/A
Trend following (USD)	-1.7%	3.2%	9.2%	14.2%	5.2%	0.6%	3.8%	1.9%	3.8%	5.7%
Australian bonds	0.7%	1.5%	-1.7%	-0.8%	4.2%	3.2%	4.1%	4.9%	5.5%	5.6%
Australian bonds - government	0.8%	1.7%	-2.0%	-1.4%	4.3%	3.1%	4.1%	4.9%	5.5%	5.5%
Australian bonds – corporate	0.3%	1.1%	-0.4%	2.5%	4.8%	4.2%	4.5%	5.4%	5.9%	5.9%
Australian bonds - floating rate	0.1%	0.2%	0.3%	1.4%	2.1%	2.5%	2.6%	3.3%	4.1%	4.5%
Global bonds (Hedged)	0.5%	0.9%	-1.6%	-0.2%	4.0%	2.9%	4.2%	5.3%	6.3%	6.6%
Global bonds - government (Hedged)	0.4%	0.6%	-2.1%	-1.4%	3.6%	2.4%	4.1%	5.2%	6.2%	6.4%
Global bonds - corporate (Hedged)	1.2%	2.4%	-1.0%	3.3%	6.0%	4.4%	5.0%	6.3%	6.9%	7.2%
Global bonds - High Yield (Hedged)	0.8%	2.9%	2.6%	12.8%	5.5%	6.1%	5.5%	7.7%	8.8%	#N/A
Emerging Market bonds (Hedged)	0.9%	4.4%	-1.1%	6.7%	5.8%	4.2%	4.9%	6.5%	8.1%	9.7%
Cash (AUD)	0.0%	0.0%	0.0%	0.1%	1.0%	1.3%	1.6%	2.2%	3.3%	3.8%

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

Appendix – Index sources

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

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