Antipodean Advisory

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2021 February Market Wrap Monday 1 March 2021

Equity markets made gains in February as they zig-zagged higher despite a ramp up in longer dated yields. The Australian dollar broke out of it 52 week range to trade as high as 0.80 cents, only to settle back at 0.77 cents. We are in the midst of a rate-fuelled pullback causing some pain, February was a strong month for global equities. All this despite a 37bp rise in the US 10 years.

New daily cases and hospitalisation rates continue to fall in the US, UK and Europe. Vaccination rates stalled a little, due to poor weather. With the involvement of pharmacies it is possible to see vaccinations in the US continue to accelerate into Spring.

We finally saw a crack in the bond market with sentiment around vaccines improving, cases continuing to fall, increased fiscal stimulus size increasing and central banks determined to hose down any suggestions of tightening.

The Australian 10 year Government bond sold off 79bpts to close at 1.894 as inflation risk are priced in. The ten year yield was 0.57% (market low) 3-Nov-2020, today's close is a 232% sell off in yield since the low.

Equity markets want to rally on the back of strong macro backdrop supported by fiscal and monetary policy. At the same time back end rates are trying to put a damper on the moves.

Higher rates had always been a risk to contend but only recently came into the forefront of investors' minds as the speed of the move upward has been jarring. The US Equity Risk Premium (MSRPSPX) was already in the lower quintile on a 10yr range, starting the month at ~350bps. With the move higher in the 10y this month, the ERP is now even lower, closing at ~320bps. This begs the question of whether equities still have yet to adjust to a higher rate environment, which could indicate there is more pain ahead if rates continue moving upward as violently.

All eyes will remain on rates for the foreseeable future, but the macro backdrop remains constructive as we continue to re-open. While we continue to contend with higher rates, fiscal and monetary support remains strong. Furthermore, Reserve banks commentary may look to assuage the bond market, as a rapid rise may endanger the recovery in the real economy.

If you have any questions do not hesitate to contact me.

Stay Safe, Happy and Healthy

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Summary of Major share indices

Index	1 Month	52 Weeks	YTD
DJIA	+3.17%	+21.74%	+1.06%
Nasdaq	+0.93%	+53.98%	+2.36%
S&P 500	+2.61%	+29.01%	+1.47%
Russel 2000	+6.14%	+49.08%	+11.45%
Europe 600 Index	+2.31%	+7.81%	+1.49%
UK FTSE 100 Index	+1.19%	-1.48%	+0.35%
Hong Kong Hang Seng	+2.46%	+10.91%	+6.42%
Japan Nikkei 225	+4.71%	+37.00%	+5.50%
China Shanghai Composite	+0.75%	+21.83%	+1.04%
India S&P BSE Sensex	+6.08%	+28.21%	+2.82%
ASX 200 (Australia)	+0.31%	-3.11%	+0.31%

Australian Dollar

	Close	52 week Range
AUD	0.7712%	0.5512-0.8008%

Government Bonds

	Close	52 week Range
US 3 Month Bill	0.041%	0.041-1.295%
US 10 Years Note	1.415%	0.380 – 1.556%
US 30 Years Bond	2.152%	0.692 – 2.354%
Australia 10 years	1.894%	0.570-1.919%

Source: Wall Street Journal.