



2021 June Market Wrap

Thursday 1 July 2021

In 2019/20 Australia experienced its first recession in 28 years – impacted by the COVID-19 coronavirus as well as drought, bushfires, and storms. But over 2020/21 the Australian economy has experienced the sharpest recovery since the 1970s due to the relative success in suppressing the COVID-19 virus as well as the speed and size of economic stimulus and support supplied by all levels of government and the Reserve Bank.

The cash rate ended 2020/21 at a record low 0.1 per cent; the Aussie dollar stands near US75 cents; unemployment stands at 5.1 per cent; annual inflation is 1.1 per cent; the S&P/All Ordinaries lifted 26.4 per cent over the year – the biggest gain in 34 years; and the S&P/ASX 200 index lifted by 24 per cent for the year. Total returns on shares (includes dividends) grew by 30.2 per cent in 2020/21.

The Year Ahead 2021/22

- Covid 19
 - COVID-19 still dominates the landscape.
 - New variants of Covid-19 and new outbreaks are a risk to growth and full recovery.
 - The good news is that effective vaccines are being distributed across the globe, with the magic number being 75% Vaccination for herd immunity.
 - Pace, timing, and delay will be watched closely by financial markets.
- Global Growth
 - After contracting an estimated 2.3 per cent in 2020, the global economy is tipped to rebound by 6.8 per cent in 2021.
 - Australian economy is tipped to grow 5.1% in 2021 after contracting 2.4% in Calendar 2020.
- Reserve Banks
 - Reserve Banks have cut rates, purchased bonds, and printed money to aid the recovery.
 - The Reserve Bank (RBA) does not expect to start lifting the cash rate until 2024 at the earliest.
 - The Reserve Bank wants to see annual inflation sustainably between 2-3 per cent; it wants to see growth in annual wages lifting to 3 per cent; and the RBA is aiming for full employment – targeting a jobless rate near 4 per cent.
 - Unemployment is the focal point of all monetary and fiscal policy actions.
 - Forecasts are for the jobless rate to ease to 4.5 per cent by the end of 2021 and ease further to the 'full employment' level of 4.0 per cent by the end of 2022.
- Fiscal Policy – Government Spending
 - Government Fiscal action has been swift and targeted to aid the recovery.
 - Government debt level have increased, promising many new projects to get the World economies back on track.

What to watch

- Federal Reserve and Reserve Bank of Australia increase rate sooner than expected.
 - The risk to interest rates is up.
- Inflation is seen as mostly transitory. Risks to this view:
 - Consumer inflation expectation change,



- Companies finally appear to have pricing power; this has not been the case for many years.
- Supply chain issues and product shortage is constant chat at CEO briefings.
- Company earnings are the key to stock prices.
 - Miss earnings and your stock prices gets punished.
- Government and Consumer Debt
 - Debt always has sting in its tail.
 - Higher debt load change behaviour in the future
 - Lower growth, less spending, higher taxes

The challenge moving forward is reducing bond purchases (QE), increasing interest rates, and balancing Government books. Get the pace and timing wrong the financial markets will have a sugar Tantrum and World Growth will stale and derail the recovery.

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

Stay Safe, Happy and Healthy

Summary of Major share indices

Index	1 Month	52 Weeks	YTD
DJIA	-0.28%	+34.07%	+12.73%
Nasdaq	+2.12%	+37.92%	+14.41%
S&P 500	+5.43%	+38.10%	+11.93%
Russel 2000	+0.55%	+61.88%	+17.00%
Europe 600 Index	+0.33%	+25.37%	+13.49%
UK FTSE 100 Index	-0.99%	+14.28%	+8.83%
Hong Kong Hang Seng	+1.58%	+18.02%	+5.86%
Japan Nikkei 225	-0.92%	+30.01%	+4.91%
China Shanghai Composite	-0.17%	+18.68%	+3.40%
India S&P BSE Sensex	+1.22%	+48.20%	+9.91%
ASX 200 (Australia)	+2.26%	+21.09%	+12.90%

Australian Dollar

	Close	52 week Range
AUD	0.7491%	0.6902-0.8008%

Government Bonds

	Close	52 week Range
US 3 Month Bill	0.046%	0.003-0.163%
US 10 Years Note	1.466%	0.502 – 1.778%
US 30 Years Bond	2.084%	1.169 – 2.515%
Australia 10 years	1.536%	0.734-1.919%

Source: Wall Street Journal.