

# Market & Economic Update

March 2021



## General Economic and Market Update

- March was a volatile month with pressure from rising bond yields offset by positive economic data. Major indices finished up in March.
- A new research shows the number of active online investors in Australia increased by 435k to 1.25m in the past 12 months. The amount of active traders jumped 35%. Of the new-to-market traders, 18% were found to be younger than 25 years of age and 49% were between 25 and 39, indicating an unprecedented spike in activity by Millennial and Gen Z Australians.
- OPEC has downgraded the outlook for demand for its crude over the next two quarters as economic activity continued to be weighed by COVID-19 related restrictions. The setback in Europe's vaccination program also weighed heavily on oil price.
- China's industrial output grew 35.1% between Jan and Feb YoY, faster than the 7.3% gain in Dec, adding further momentum to a recovery that is set to underpin solid economic growth. Retail sales increased 33.8% from a year earlier in the first two months while fixed asset investment increased 35% YoY during the same period.
- A pollution crackdown in China started to weigh on iron ore price. China is working on new policy measures to clean up its vast steel-making industry and clamp down on excess capacity. Beijing is aiming for peak emissions by 2030 before hitting carbon neutral by 2060.
- China's barriers to trade imposed on barley and other Australian products are expected to continue, after a Chinese official shrugged off comments from the White House for China to drop the tariffs.

## Australian Economy

- Company operating profits fell 6.6% in the fourth quarter, below expectations of a 1.3% rise and below the third quarter's 3.2% increase. Inventories were flat for the quarter, below forecasts for a 0.1% increase but up on the 0.5% fall in the previous quarter.
- Australia's current account surplus has lifted for the 7th consecutive quarter, rising by \$3.8bn to \$14.5bn in the December quarter. The increase was broadly attributable to an increase in the goods and services surplus, which lifted \$4.4bn to \$18.1bn.
- Australia's GDP has grown by 3.1% during the fourth quarter on a quarter-on-quarter basis, smashing consensus forecasts for a 2.5% increase. On a year-on-year basis, the nation's GDP is down 1.1%. This is the first time in the over sixty year history of the national accounts that GDP grew by more than 3 per cent in two consecutive quarters.
- Retail sales fell 1.1% in February, a big miss on the 0.6% rise expected. The snap lockdown in VIC and WA drove the fall. VIC fell 4% while WA fell 6%
- Home loan values climbed 10.5% in January, smashing expectations for a 2% increase on the back of December's 8.6% rise. Investor loan value rose 9.4% while Owner-occupier loan value soared 10.9%, both ahead of expectations.
- The unemployment rate fell to 5.8% in February vs 6.4% in January. The economy added 88.7k jobs in February, far above expectations of 30k. The participation rate held steady at 66.1%.

Market performance as at 28/2/21	1 month %	1 year %
ASX100 Accumulation Index	2.53%	36.76%
All Ordinaries Accumulation Index	1.84%	41.14%
S&P500	4.24%	53.71%
NASDAQ Composite Index	0.41%	72.04%

  

Key Indicators	28/2/21	31/3/21
AUD/USD	0.7710	0.7591
Brent Crude Oil (US\$)	64.42	63.54
Gold (US\$)	1,734.04	1,707.50
Iron Ore (US\$)	172.00	162.00

All Ords Accum. Index	1 Month Perf %	1 Year Perf %
Communication Services	3.79%	37.60%
Consumer Discretionary	6.40%	80.89%
Consumer Staples	3.10%	10.66%
Energy	-0.27%	46.84%
Financials	4.08%	47.38%
Health Care	2.29%	2.73%
Industrials	2.88%	23.84%
Information Technology	-3.25%	83.36%
Materials	-3.51%	61.89%
Real Estate	5.57%	44.51%
Utilities	7.03%	-5.70%

## Sector Review

- **The Consumer Discretionary sector (+6.4%)** was an outperformer in the month of March. Retail sales rose 8.8% YoY in Feb. Retailers with online sales presence outperformed pure online retailers as more COVID restrictions eased. Australia and New Zealand forming a quarantine-free travel bubble added fuel to travel stocks' rally. During the month, **Crown resort (CWN)** received a takeover bid from Black Stone, valuing the company at \$6b.
- **Financial stocks (+4.08%)** also outperformed the market in March with the fund managers leading the pack, e.g. **Platinum (PTM)**, **Perpetual (PPT)** and **Janus Henderson (JHG)**. Majority of the banks (ex. BOQ) finished the month higher as the housing market recorded the fastest growth in 32 years. **ANZ, NAB** and **WBC** will provide their half-yearly results in early May. Insurance companies however were under pressure as the flood in NSW weighed on earnings.
- The **Material sector** declined **3.51%** in March as iron ore prices drifted from record highs. The trio mining giants RIO, BHP and FMG all traded lower, offsetting gains from gold miners (**RMS, SLR**) and companies in the construction industry (**BSL, BKW, CSR**).
- **Technology stocks (-3.51%)** continued to be the victims of rising Treasuries. **Afterpay (APT)** led the decline; stock was down 15%. **Nearmap (NEA)** drifted from recent highs though the share price slightly recovered towards the end of the month as the Founder bought \$1m worth of shares on market.

## Stock Review

- US payments giant **PayPal (PYPL)** will make its new "pay in four" instalment option available to its 9m Australian customers in early June. Entering the Buy-Now-Pay-Later space, **CBA's** CommBank BNPL will allow up to 4m of its retail customers to pay in 4 instalments.
- **BWX** has issued its first tranche of BWX shares to Chemist Warehouse as part of its five-year equity-linked strategic partnership. As part of the agreement, BWX will become a platinum supplier in exchange for an initial equity stake of 0.6% in BWX.
- Accounting software **Xero (XRO)** announced it would acquire workforce management platform Planday for \$285m, suggesting it will add 3% to total annual sales.
- **Adairs (ADH)**, **HomeCo (HMC)** and **Marley Spoon (MMM)** are amongst a few new entries to the ASX300 at the upcoming Index Rebalance, replacing the likes of **Elmo (ELO)**, **Kathmandu (KMD)** and **Superloop (SLC)**. In top 200, **HUB24 (HUB)** and **Nickel Mines (NIC)** will replace the likes of **Tassal (TGR)** and **Service Stream (SSM)**.
- **5G Network (5GN)** is looking to buy Intergrid Group for \$3m on 4x EBITDA of \$800k (\$2.5m in cash and \$0.5m in script). Intergrid is a cloud hosting service within 40 data centres.
- **REA** announced a \$1.95/share offer (\$224m EV) to acquire **Mortgage Choice (MOC)** in a strategy to add scale to its existing broker footprint. It also offers the opportunity to leverage REA's digital presence and its large audience to harness lead generation. The MOC transaction is evidence of further industry consolidation, albeit more of a case of vertical integration.

## About Armytage

Armytage Private is a boutique investment specialist majority owned by members of its investment team and key executives. Founded in 1995, Armytage is a pioneer in Australia's investment industry, offering a suite of actively managed IMAs and managed funds.

Armytage is a Value manager with a fundamental investment approach designed to identify quality businesses trading at a considerable discount to valuation. The process is guided by three fundamental beliefs:

- Markets are not perfectly efficient and the true value of a business is not always reflected in its share price;
- Undervalued companies can be identified through detailed and intensive research; and
- Capital preservation is critical to wealth creation.

## Products & Services

Investment strategies offered by Armytage include:

- [Armytage Australian Equity Income Fund](#)
- [Armytage Strategic Opportunities Fund](#)
- [Armytage Micro Cap Activist Fund](#)
- [Armytage Individually Managed Account](#)

## For Further Information

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