

May Market Update 2021

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The market's incredible run extended during May as inflationary fears were largely shrugged off by the bond market, where yields remained steady.

A pullback in iron ore prices and the announcement of yet another Victorian lockdown wasn't enough to stop the Australian share market from posting its eighth consecutive monthly gain. A strong pickup in company earnings in the US-led to Global Developed Markets ticking higher.

While easing concerns surrounding China's policy tightening contributed to a solid performance for Emerging Markets. [vc_column_text][vc_single_image image="6664" img_size="full" alignment="center"] [vc_column_text]

Property Boom

Shares haven't been the only asset class to experience extraordinary gains in recent times, with the Australian property market also booming. Driven mostly by ultra-low mortgage rates and the fear of missing out, property values have soared across all capital cities during the past three months and have increased a remarkable 7% nationwide. However, it is expected that these growth rates should soon start to normalise as fixed mortgage rates begin to increase, government home buyer incentives are cut back, and immigration continues to remain low, compared to historical levels. In Perth, the market gains are being welcomed by most people after 12 years of flat or negative growth after the mining construction boom petered out. [vc_column_text][vc_single_image image="6665" img_size="full" alignment="center"] [vc_column_text]

Crypto crash

One investment class that didn't fare so well in May was cryptocurrency, as a series of discouraging events led to a collapse in Bitcoin and most of the crypto market. Chinese authorities stated their intention to ban banks and payment firms from providing services relating to cryptocurrency transactions. While Elon Musk also decided to backflip on his initial pledge to allow Teslas to be purchased with Bitcoin. Unfortunately, these types of crashes are becoming familiar for the largest cryptocurrency. In fact, Bitcoin has now fallen by more than 40%, from peak to trough, on six separate occasions, quite a remarkable statistic given its relatively short existence. Widespread market adoption certainly remains the key to Bitcoin's future. However, the prospect of it becoming a portfolio staple or major currency still feels some way off given its current volatility. [vc_column_text][vc_single_image image="6666" img_size="full" alignment="center"] [vc_column_text]

Australia's "world-leading" recovery

The Australian economy has taken another step forward in its recovery, growing 1.8% during the March quarter and pushing the national GDP back above its pre-pandemic level. Boosted by government tax incentives, business spending on machinery and equipment rose by the biggest margin seen in over a decade. Consumer spending and dwelling investment also increased, with the latter supported by the government's HomeBuilder program. Australia's recovery since the outset of the pandemic has actually been one of the best in the world, as illustrated in the chart below. Targeted and accommodative policy measures combined with our ability to manage the virus via strict international borders has allowed for the swift recovery. [vc_column_text][vc_single_image image="6667" img_size="full" alignment="center"] [vc_column_text] Market exuberance supported by both the Government and RBA's policy settings should continue to drive growth in future periods. However, the recent virus outbreak in Victoria, which is now threatening to jump across to other states, will almost certainly be a setback. Unfortunately, the risk of further outbreaks occurring will remain until such a time where a sufficient proportion of the population has been vaccinated. As this is now not expected to occur until mid-way through next year, Australia's growth trajectory will also need to contend with international borders remaining closed, which will affect service exports and net immigration levels. [vc_column_text][vc_column][vc_row]



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As Capital Partners Investment Specialist, Luke does far more than simply identifying and recommending investments, Luke sees it as his role to help clients contemplate and answer life's big questions.

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