Transcript

2020-21 financial year in review

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How did the global economy perform?

The financial year to 30 June was a remarkable year of economic and market recovery, even though COVID-19 remained a serious global health issue.

Assertive support measures from central banks and governments around the world helped the global economy turn quickly from deep recession to recovery as the year progressed. In the United States, the economy grew at an annual rate of 6.4% in the March quarter and the unemployment rate fell from a pandemic high of 14.8% to 5.8% by May 2021. In China, the strength of the recovery has been so great that stimulus measures have been reduced or withdrawn.

The recovery in Europe and the UK lagged other developed countries due to rising infection rates. However, the acceleration in the vaccination programs which has allowed for the progressive reopening of economies is expected to result in much stronger economic conditions in the second half of 2021. In Japan, similar issues with rising infection rates and a comparatively low vaccination rate has constrained the economic revival.

Did Australia's economy improve as well?

Australia's economy has returned to pre-pandemic levels thanks to substantial government support and the Reserve Bank of Australia reducing the official cash rate to just 0.1%. The number of people employed has recovered to pre-pandemic levels with unemployment falling from 7.5% in mid-2020 to 5.1%. Consumer and business sentiment surveys have rebounded strongly and record low interest rates contributed to a substantial rise in housing construction approvals while prices for dwellings increased across the country. However, some sectors remain adversely impacted by the virus.

How did the global and Australian share markets respond to the economic recovery?

Despite the ongoing presence of COVID-19, share markets responded positively to the economic recovery. Confidence in the longevity of the recovery received a boost in November when Pfizer, Moderna and AstraZeneca confirmed they had developed vaccines with encouraging trial results. The global shares index returned 35.3% on an Australian dollar hedged basis.

The US market was a standout performer with the S&P 500 Index rising 40.1% in local currency terms. European markets also strengthened with the German and French markets rising 26.2% and 35.5% respectively. Japan's Nikkei Index gained 31.3% as the global economic recovery benefited manufacturing export companies. China's 16.8% market rise contributed to the 29.2% unhedged return of the MSCI Emerging Markets Index.

Australia's S&P/ASX 200 Accumulation Index returned 27.8%, the highest financial year return for more than three decades. A key contributor to its return was the revival in performance of the four large banks who suffered sharply lower profits last year which resulted in markedly lower dividends. The banks have been significant beneficiaries of the economic recovery in Australia and New Zealand with profits and dividends resuming an upward trend. Elsewhere in the market, miners such as BHP, Rio Tinto and Fortescue Metals Group benefited from the 108% rise in the price of iron ore.

What was the impact of rising inflation?

A consequence of the economic recovery has been the emergence of inflation pressures, which hurt the performance of long duration fixed income securities. In contrast, the economic recovery and subsequent lower than expected corporate defaults were very positive for both investment grade and lower quality corporate bonds. Most central banks believe current price pressures to be "transitory" and eventually recede as supply side disruptions abate.

How have the MLC multi-asset portfolios been positioned?

Despite the welcome economic and share market recovery, the investment environment is complex. The ongoing presence of COVID-19 and new variants are concerning. Share market valuations are elevated and the return potential of cash and fixed income assets are low. That's why we continue to apply our 'participate and protect' approach to managing MLC's multi-asset portfolios. We continue to employ innovative derivative strategies that allow us to take on market risk but buffer the portfolios should markets fall. We are also researching candidate asset classes for inclusion in our portfolios to provide further diversification and help meet fund objectives for clients.