Janus Henderson INVESTORS

2020/21 FINANCIAL YEAR IN REVIEW

AUSTRALIAN FIXED INTEREST

As FY21 commenced, Australia was still very much in the grip of the COVID-19 pandemic, with international travel restrictions, rolling state border closures and greater Melbourne announcing the commencement of lockdowns that would go on for 15 weeks. While it wasn't until September that official data confirmed it, it was clear that Australia had suffered its first recession in three decades as the economy ground to a halt.

In response, the Reserve Bank of Australia (RBA) cut rates to an all-time low of 0.10% and committed to maintaining them there for several years. It also followed its central bank peers by commencing Quantitative Easing (QE), or buying bonds in order to manipulate interest rates lower. Monetary support was complemented by government stimulus, which worked to keep businesses alive and staff employed through the worst of it.

Despite ongoing COVID-19 outbreaks, the commencement of vaccination programs and fiscal easing helped buoy investor sentiment. Equity and credit markets performed strongly on these accommodative policy settings. The Australian economy boomed over the second half of the financial year as it continued to make up for the lost lockdown time.

Indicators of future activity, such as new orders, capital expenditure plans and hiring intentions are now at historically high levels and point to strong momentum going into the new financial year. Our expectation is for the Australian economy to expand by around 4.75% over the 2021 calendar year, before growth moderates to 3% the year after. We believe monetary policy settings will only change once unemployment rates are close to 4%, actual inflation is at 2% or above and wages growth is at least 3%. Our view is that these conditions will be met by mid-2024.

In a late development, the financial year ended how it started, with the country rushing to contain the highly contagious COVID-19 'Delta' variant. The degree to which this latest outbreak affects the economy will only become clear once the timeline to unrestricted economic activity and scale of additional government support are known.

> "The Australian economy boomed over the second half of the financial year as it continued to make up for the lost lockdown time."
>
> **Jay Sivapalan, Head of Australian Fixed Interest**

We are actively managing our portfolios in this environment where risk-free assets, like government bonds, are providing very low yields and the prospect of rising inflation is on the minds of market participants. By taking a selective approach to corporate debt and taking advantage of market mis-pricings when they arise, we are seeking opportunities for additional yields for our investors, while balancing risk. As central banks start communicating the eventual normalisation of policy, markets are likely to be volatile. Active management of interest rate risk (as bond values decline in rising interest rate environments) will be vital. We also believe any break outs in inflation to be short term and therefore look to benefit from opportunities where inflation-linked bonds are profitable to sell, or cheap to buy. Experience has taught us that the best time to hold inflation protection is when no one else wants it.

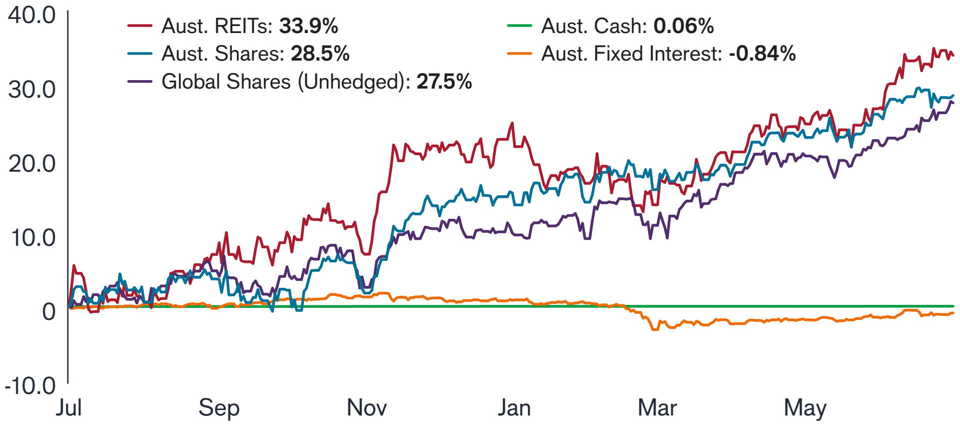
Jay Sivapalan, CFA
Head of Australian Fixed Interest

Key takeaways

- Despite ongoing COVID-19 outbreaks, the commencement of vaccination programs and fiscal easing helped buoy investor sentiment.
- Equity and credit markets performed strongly on these accommodative policy settings.
- Our expectation is for the Australian economy to expand by around 4.75% over the 2021 calendar year.
- We are actively managing our portfolios in this environment where risk-free assets, like government bonds, are providing very low yields and the prospect of rising inflation and the eventual normalisation of monetary policy settings is on the minds of market participants.

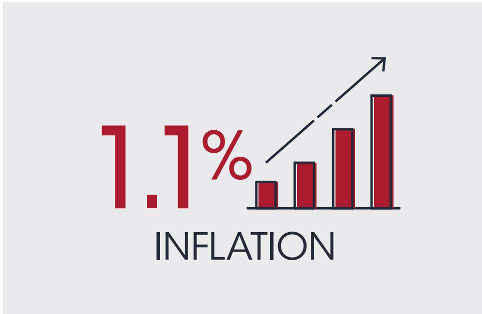
FY21 in numbers

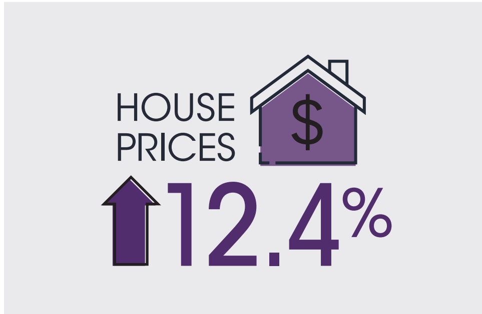
Asset class returns (%)



Note: Past performance is not a guide to future performance. Source: Bloomberg. Daily cumulative returns to 30 June 2021. Note: Aust. shares = S&P/ASX 300 Accum Index; Global shares = MSCI World (ex Aust.) Accum Index – unhedged; Aust. REITs = S&P/ASX 300 Property Accum Index; Aust. Fixed Interest = Bloomberg AusBond Composite Bond Index (All Maturities); Aust. Cash = Bloomberg AusBond Bank Bill Index.

'Australian Economy' = Australian Bureau of Statistics Gross domestic product, chain volume measures, seasonally adjusted 1 July 2020 to 31 March 2021 (latest available). 'Inflation' = Consumer Price Index, Australia 1 April 2020 - 31 March 2021 (latest available). 'House Prices' Australia CoreLogic House Price Index, Capital City Aggregate, 1 July 2020 – 30 June 2021.





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The views expressed in this report are those of the Janus Henderson Australian Fixed Interest team.