

Market Update

SEPTEMBER 2020

- The global economic recovery continues, however growth is uneven across regions and there were signs of a loss of momentum in Europe through the September quarter.
- US President Trump stepped up his trade rhetoric ahead of the presidential election with talk of a “decoupling” from the Chinese economy amid a widening trade deficit.
- China is on track to be the first country to exit the pandemic and is the only G20 country with a positive GDP result, recording 3.2% year-on-year for the June quarter.
- The Reserve Bank of Australia kept rates on hold at 0.25% at its September meeting and extended the Term Funding Facility until the end of June 2021.
- From 28 September, Australia’s JobKeeper payments will fall from \$1500 per fortnight to \$1200, and \$750 for those working less than 20 hours per week.

August market performance

Equity Markets – Index Return*	Index	At Close 31/08/2020	% Return 1 Month	% Return 12 Months
Australia	S&P/ASX 200 Index	6060.46	2.83%	-5.08%
United States	S&P 500 Index	3500.31	7.19%	21.94%
Japan	Nikkei 225 Index	23139.76	6.63%	14.11%
Hong Kong	Hang Seng Index	25177.05	2.54%	1.20%
China	CSI 300 Index	4816.22	2.75%	29.39%
United Kingdom	FTSE 100 Index	5963.57	1.75%	-14.32%
Germany	DAX 30 Index	12945.38	5.13%	8.43%
Europe	FTSE Eurotop 100 Index	2698.61	2.04%	-5.15%

Property – Index Returns*	Index	At Close 31/08/2020	% Return 1 Month	% Return 12 Months
Listed Property	S&P/ASX 200 A-REIT Index	1310.80	7.89%	-17.69%

Interest Rates	At Close 31/08/2020	At Close 31/07/2020	At Close 31/08/2019
Australian 90 day Bank Bills	0.10%	0.10%	0.97%
Australian 10 year Bonds	0.98%	0.82%	0.89%
US 90 day T Bill	0.09%	0.08%	1.98%
US 10 year Bonds	0.71%	0.53%	1.50%

Currency**	At Close 31/08/2020	% Change 1 Month	% Change 12 Months	
US dollar	AUD/USD	0.74	1.95%	9.47%
British pound	AUD/GBP	0.55	0.27%	0.00%
Euro	AUD/EUR	0.62	1.83%	1.60%
Japanese yen	AUD/JPY	77.66	3.18%	8.68%
Australian Dollar Trade-weighted Index		62.6	1.13%	6.28%

* Closing index values are based on price indices. Index returns are expressed as total returns in local currency.

** All foreign exchange rates rounded to two decimal places.

Past performance is not a reliable indicator of future performance.

Global economies

The COVID-19 pandemic continues to spread, with data from the World Health Organisation showing confirmed cases were above 27 million at the end of August and rising. Globally, the economic recovery continues following severe contractions in the first half of 2020, but growth is uneven across countries and regions, with fears of

a larger second wave dampening hopes of a sustained rebound.

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US

Key indicators point to a strong rebound in economic activity, but the outlook remains uncertain with additional aid packages tied up with Congress, which is impacting on consumer sentiment. The unemployment rate fell from 10.2% in July to 8.4% in August, well below the expected 9.8% and marking the fourth consecutive monthly decline since the 14.7% all-time high recorded in April. Average weekly hours worked came in broadly as expected at 34.6 and average hourly earnings increased 0.4%, above expectations of no change. The ISM Manufacturing PMI rose to 56.0 in August, beating expectations for 54.5, pointing to the biggest expansion in the manufacturing sector since November 2018. August's ISM service PMI came in largely as expected at 55.0, up from 50.0 in July. Quarterly GDP improved 1.2% to -31.7% in Q2, exceeding expectations of -32.9%. Initial jobless claims for the week of 29th of August showed a drop in claims, coming in at 881,000 (950,000 expected), down from 1,011,000 in the previous week. Turning to the upcoming US presidential election, the majority of polls put to Democratic nominee Joe Biden in the lead nationally as well as in states that Trump won in 2016 like Michigan and Wisconsin. However, the polls failed to gauge Trump's support last time around, with some commentators claiming incumbency may favour Trump.

Europe

Key economic indicators suggest that Europe's recovery is losing momentum through the September quarter. Fears of resurgent COVID-19 infection rates, most notably in Spain and Italy, is leading to greater caution from consumers, while the spectre of deflation is re-emerging for the first time since the euro crisis. The European Centre for Disease Prevention and Control (ECDC) warned EU members of the risk of shortening the quarantine length as Germany informed EU authorities that it planned to follow the Netherlands and Norway in reducing the quarantine period for people returning from high risk countries to five days. The Markit Composite PMI for the eurozone slipped from 54.9 to 51.9 in August, with the services PMI falling from 54.7 to 50.5, with both measures still in expansion but slowing on the previous month. The key concern for the European Central Bank is the fall in consumer prices. Inflation in the eurozone is estimated to be -0.2% year-on-year in August, missing against the expected positive 0.2% rate and down from 0.4% in the previous month. Germany's unemployment rate was unchanged at 6.4% in August. However, employment fell by 9,000 against expectations for a gain of 1,000. In the UK, while August's Markit Composite PMI came in at a healthy 59.1, it missed expectations of 60.3, largely due to the services PMI which came in at 58.8, below expectations of 60.1.

China

With only sporadic outbreaks across the country, China is on track to be the first country to emerge from the COVID-19 crisis, and the only G20 country to post a positive GDP result in the June quarter. Despite mis-managing the initial outbreak in Wuhan—the original epicentre of the virus—China has been successful in implementing targeted lockdowns and compulsory smartphone tracking to avoid escalating outbreaks. Economic data shows inflation is lifting while trade figures came in strongly, with exports rising 9.5%. The NBS Manufacturing PMI was 51.0 in August, slightly lower than the 51.2 expected and down from 51.1 in the previous month. It also showed the sixth straight month of expansionary factory activity since the coronavirus outbreak in February. The Trump administration added 24 new Chinese companies to its sanctions list, this time for their involvement in helping the Chinese military build artificial islands in the South China Sea. With further developments on a US-China trade deal on hold until after the US election, Trump upped his rhetoric of a potential “decoupling” from the Chinese economy. The US trade deficit with China remains stubbornly high, with the latest figures showing an increase of US \$1.6 billion to \$28.3 billion in July

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Asia region

Japan's GDP fell 7.9% in the June quarter, slightly less than the -8.1% expected, marking the third consecutive quarter of contraction and the steepest on record following impacts from COVID-19. Getting the economy back on a sustainable footing will be the first priority for whoever takes over from Prime Minister Shinzo Abe, who announced he will step down for health reasons. Japan's 'Abenomics' has been centred on monetary easing to combat deflation, although the targeted rates of growth were never achieved. Hong Kong has begun a mass coronavirus testing programme, where it is offering free tests to millions of citizens as it attempts to stamp out a third wave of infections. The programme has been hampered by the limited response so far due to the involvement of mainland Chinese testing firms and doctors over fears of personal data collection by China. India has been among the hardest hit by COVID-19, with cases rising from 1.64 million at the end of July to 3.62 million at the end of August. However, the Indian government is intent on keeping its fiscal powder dry, an approach seemingly at odds with advice from Prime Minister Modi's economic team. GDP in the first quarter (covering the intense lockdown period from April to June) contracted 23.9% year-on-year, while the government is insistent that the economy will rebound strongly in the unlock phase.

Australia

The Australian economy officially entered a recession for the first time since 1991 as the national accounts showed June quarter GDP fell 7.0% in the June quarter, following a 0.3% fall in the March quarter. The fall was weaker than the expected 6.0% fall, led by a 9.8% reduction in hours worked. Consumer spending, which accounts for 56% of the economy, contracted 12.1% over the quarter, largely as anticipated, while business investment was weaker than expected at -3.5%. The federal government extended the JobSeeker and JobKeeper programs, but will cut back payments, sparking fears of further economic pain. From 28 September, JobKeeper payments will fall from \$1500 per fortnight to \$1200, and \$750 for those working less than 20 hours per week. While the downturn has not been as severe as originally expected, the recovery will likely be uneven across the country and extended lockdowns in Victoria will take a major toll on the state's economy. The federal government is becoming critical of Victoria's approach, claiming contact tracing capabilities need to improve. Unemployment nationally is improving but along with underemployment remains high, while wage and price pressures remain subdued. According to the Reserve Bank of Australia, inflation is expected to average between 1.0% and 1.5% over the next two years.

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EQUITY MARKETS

- Australia's S&P/ASX 200 Index rose 2.8% in August with solid gains from the information technology and consumer discretionary sectors.
- The US S&P 500 Index rose 7.2% in August in US dollar terms while the NASDAQ Composite Index rose 11.2% with large-cap technology stocks centre stage.
- In Europe, the UK FTSE 100 Index rose 1.8%, France's CAC 40 Index rose 3.4%, and Germany's DAX 30 Index gained 5.1% over the month.
- In Asia, Japan's Nikkei 225 Index rose 6.6%, Hong Kong's Hang Seng Index rose 2.5% and China's CSI 300 Index rose 2.8%.
- Global developed market shares rose 3.5% in Australian dollar terms and emerging market shares fell 0.9%.

Australian equities

	Index/Benchmark (% pa)	1 Month	1 Year	3 Years	5 Years	7 Years
Australian	S&P/ASX 200 Acc. Index	2.83%	-5.08%	6.10%	7.47%	6.83%
	S&P/ASX 50 Acc. Index	1.80%	-7.72%	5.44%	6.51%	6.04%
	S&P/ASX Small Ordinaries Acc. Index	7.24%	2.07%	8.02%	10.48%	6.94%

Australian shares rose 2.8% in August. IT and Consumer Discretionary were the top returning sectors. Once again earnings season was dominated by the dire effects of COVID-19 as companies cut dividends and increased cash holdings. Appen (-2.6%) reported 1H20 results in September, with revenue growth of 25% on the same quarter last year. Relevance was the largest contributor, with revenue growth of 24%, however Speech and Image revenue fell 20% following a breakout result in 1H19. IOOF Holdings (+1.5%) announced the acquisition of MLC for \$1.44 billion, which will be partially funded via an entitlement offer and placement. A2 Milk Company (-11.8%) reported revenue and EBITDA growth of 33% on the prior corresponding period. Infant formula was the main driver of the result, supported by a 65.1% increase in Chinese sales. CSL (+5.9%) announced in September it has signed Heads of Agreements with the Australian Government and AstraZeneca to supply two potential COVID-19 vaccines within Australia following successful clinical trials. The agreement is to supply approximately 30 million doses of the Oxford University vaccine candidate AZD1222. The first doses are scheduled for release early 2021, however AstraZeneca has halted the trial to investigate an adverse reaction from a study participant in the UK.

Investment Index/Benchmark returns*

S&P/ ASX 200 Index

Sector	1 Month	3 Months	1 Year
Information Technology	15.47%	28.03%	37.14%
Consumer Discretionary	8.66%	17.60%	9.24%
Property	7.89%	7.04%	-17.69%
Industrials	4.60%	-0.78%	-12.89%
Health Care	3.96%	3.44%	16.00%
Energy	3.36%	-5.36%	-28.23%
Materials	1.17%	9.47%	13.48%
Financials ex-Property	1.04%	4.33%	-20.76%
Consumer Staples	-0.43%	8.15%	5.78%
Communications	-3.77%	-0.37%	-7.78%
Utilities	-4.82%	-5.34%	-5.79%

*Total returns based on GICS sector classification

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BIG MOVERS THIS MONTH

Going up

↑	Information Technology	+15.5%
↑	Consumer Discretionary	+8.7%
↑	Property	+7.9%

Going down

↓	Utilities	-4.8%
↓	Communications	-3.8%
↓	Consumer Staples	-0.4%

Global Equities

	Index/Benchmark (% pa)	1 Month	1 Year	3 Years	5 Years	7 Years
Global	MSCI World Ex Australia Index (AUD)	3.47%	6.73%	12.58%	9.55%	12.78%
	MSCI World Ex Australia Index (LCL)	6.35%	14.90%	9.82%	10.23%	10.49%
	MSCI World Ex Australia Small Cap Index (AUD)	2.34%	-2.59%	6.77%	6.47%	10.62%
Emerging	MSCI Emerging Markets Index (AUD)	-0.89%	4.30%	5.26%	7.74%	7.75%
	MSCI AC Far East Index (AUD)	1.96%	7.51%	7.83%	7.76%	9.94%

The S&P 500 Index rose 7.2% in US dollar terms, ending August at record highs and fully recovered from its March low. The rebound in global equities has been led by large cap growth companies, which have benefitted from the persistent low rate, low growth environment. However, the start of September saw some pressure taken out of extended valuations, especially among US technology shares. In the first week, the NASDAQ fell 6.4% in price terms from Wednesday's record high. Electric car manufacturer Tesla gained 74.2% in August and fell 16.1% in the first week of September but was still 400% higher on the start of 2020. One of the heroes of remote work, Zoom Communications, released its June quarter results at the end of August, which included a 355% rise in revenue on the prior corresponding period, soundly beating expectations. Zoom's share price rose 28.0% in August but fell 19.2% in the first week of September. The MSCI World Ex-Australia Index gained 3.5% in Australian dollar terms in August, while the MSCI Emerging Markets Index fell 0.9%. European shares pushed higher, albeit not as strongly as their US counterparts, with the STOXX Europe 600 Index posting a 4.2% gain. In Asia, Japan's Nikkei 225 Index rose 6.6%, Hong Kong's Hang Seng Index rose 2.5%, and China's CSI 300 Index rose 2.8%.

Property

	Index/Benchmark (% pa)	1 Month	1 Year	3 Years	5 Years	7 Years
Australian	S&P/ASX 300 A-REIT Acc	7.89%	-17.69%	4.42%	5.82%	8.88%
Global	FTSE EPRA/NAREIT Developed Ex Australia Index (AUD Hedged)	1.83%	-16.85%	-1.29%	2.60%	5.29%

Australian listed property gained 7.9% in August but remains down 17.7% over the past 12 months. Scentre Group (+10.8%) announced 1H20 results, reporting a statutory loss of \$3.6 billion, largely due to property devaluations of \$4.1 billion. Excluding devaluations, EBIT fell 32.7% to \$637.4 million after accounting for an expected credit charge of \$232.1 million in relation to likely uncollectable rents and additional credit risk associated with tenants due to COVID-19. While not in a position to provide guidance, Scentre outlined trading activity is showing signs of recovery, with 93% of stores trading and customer visits up to 84% on the prior corresponding period (both figures excluding Victoria). Charter Hall Group (+18.9%) was another of the top gainers in August, reporting a jump in operating earnings of 46.3% to \$322.8 million with net profit climbing 47% and distributions up 6% to 35.7 cents per share. Globally, developed market REITs returned 1.8% in Australian dollar hedged terms. In the US, REITs were flat over August, with hotels (+10.8%) and regional

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retail malls (+6.7%) the biggest gainers. Despite near-perfect rent collection through the pandemic, office property (-3.1%) is battling the 'work from home' paradigm, which is putting pressure on the long-term outlook.

Fixed Interest

	Index/Benchmark (% pa)	1 Month	1 Year	3 Years	5 Years	7 Years
Australian	Bloomberg AusBond Composite 0+ Yr Index	-0.42%	1.61%	5.47%	4.36%	4.99%
	Bloomberg AusBond Bank Bill Index	0.01%	0.66%	1.44%	1.66%	1.92%
Global	Bloomberg Barclays Global Aggregate Index (AUD)	-3.18%	-3.85%	6.36%	3.23%	5.59%
	Bloomberg Barclays Global Aggregate Index (AUD Hedged)	-0.71%	2.52%	4.38%	4.60%	5.28%

Yields rebounded from fresh record lows in August as risk-on sentiment prevailed over the month. The US 10-year Treasury yield hit a low of 0.51% before rising to end the month at 0.71%, while Australia's 10-year yield rose from its low of 0.82% at the start of August to 0.98% at month end. As widely expected, the Reserve Bank of Australia left the cash rate and yield curve control target unchanged at 0.25% at its September meeting, but increased its Term Funding Facility (TFF) to \$200 billion and extended its availability until the end of June 2021. The TFF was established in March to provide up to \$90 billion of credit to banks at a fixed rate of 0.25%. Commenting on the outlook, the RBA noted the government has balance sheet scope for continued fiscal support while also stating it is considering further monetary policy measures to support the economy. The US Federal Reserve issued a revised Statement on Longer-Run Goals and Monetary Policy Strategy, which introduces flexible average inflation targeting (coined FAIT by some) to compensate for periods where inflation runs below the 2 percent target (such as following an economic downturn). Yield curve targeting, which is used by some central banks including the RBA, went unsupported, with the consensus view that it "would likely provide only modest benefits in the current environment."

Australian dollar

The Australian dollar rose 2.0% in August to US\$0.74 and may move higher thanks to the US Federal Reserve's pivot to a more flexible inflation target and robust demand for Australian iron ore. However, the US dollar returned as the preferred safe haven currency in early September following Trump's comments about a "decoupling" with China.

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