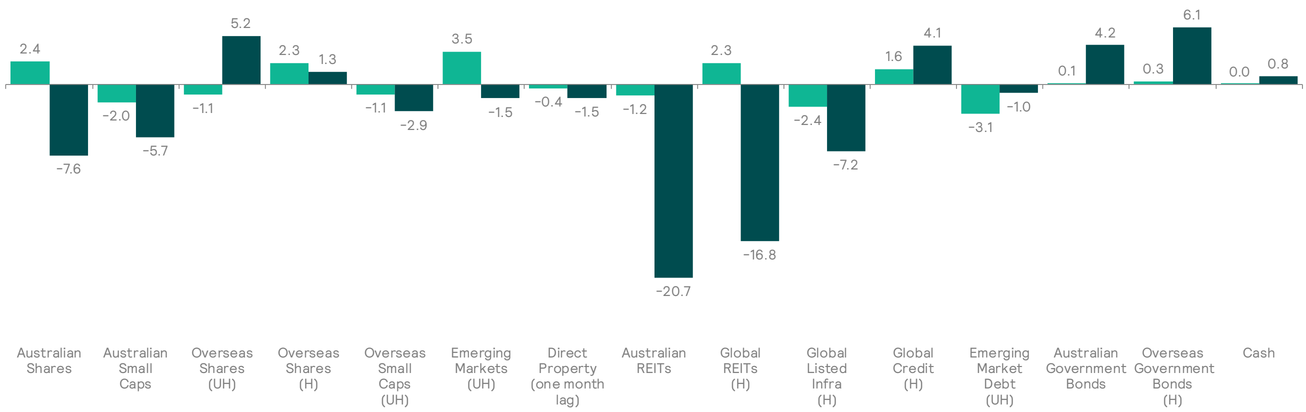
JUNE2020

AUSTRALIAN MONTHLY MARKET REVIEW

SELECTED MARKET INDICATORS COMMENTARY

ASSET CLASS RETURNS (%) AS AT 30 JUNE 2020



Data source: Thomson Financial Datastream; MSCI. Data provided 'as is'. Details on chart constituents can be found at the end of the commentary.

Growth assets continued to recover over June, but at a slower and more volatile pace than in May. Markets were encouraged by the gradual reopening across the developed world and by economic activity indicators, such as non-farm payrolls, but the optimism was tempered by evidence of the pandemic regaining pace in the US and some large emerging market countries such as India and Brazil. Whilst the sharp rebound in activity indicators exceeded market expectations, output and employment levels are not expected to return to pre-COVID levels until 2021 at least. Both the International Monetary Fund (IMF) and World Bank are now estimating global growth for 2020 to be around -5.0%.

Much of the growth will depend on whether the virus is contained or controlled, whether fiscal support remains in place, whether businesses will start investing again, and the extent to which permanent consumer behavioural changes challenge established business models and lead to a lengthy structural adjustment process. Whilst monetary and fiscal support remained highly accommodative, political tension kept up its momentum over June with China continuing to tighten its grip on Hong Kong, continued protests in the US and considerations of new tariffs being placed on the UK and Europe by the US.

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Overseas share returns were mixed over June with Developed Overseas Shares (UH) and Developed Overseas Small Caps (UH) both returning -1.1% and Emerging Markets Shares (UH) returning +3.5%. Strong emerging market share performance was led by China, Brazil and India, despite an increase in COVID-19 cases in the latter two countries. Growth stocks remained in favour outperforming value stocks, and technology and consumer discretionary stocks achieved strong positive returns in June.

Growth fixed income did well as credit spreads for investment grade, high yield and emerging markets continued to tighten. Whilst Global Credit (H) returned 1.6% in June, the strengthening of the Australian dollar affected the return for Emerging Markets Debt (UH). Defensive fixed income performed relatively flat, with Australian and Overseas Government Bonds, returning +0.1% and +0.3% respectively. Major developed market central banks have maintained their commitment to accommodative monetary policy with the Bank of England announcing an increase in its pace of quantitative easing.

Commodity markets also posted strong results in June, driven by expected rising demand as economies reopened. Oil prices rallied, increasing by another 16.4%, following the tremendous rally in May.

The Australian share market has had yet another positive month, with the S&P/ASX300 returning 2.4% over June, marginally outperforming its hedged international shares counterpart (2.3%). Both Consumer Staples (+4.8%) and Consumer Discretionary (+5.1%) were top performing sectors, whilst Energy was the worst performing sector, returning -2.1%.

SIGNIFICANT DEVELOPMENTS

- During its early July meeting, the Reserve Bank of Australia (RBA) decided to maintain its current policy settings, including maintaining the target cash rate at 0.25% per annum and the targeted 0.25% yield on 3-year Australian Government bonds. Governor Philip Lowe noted that the global economy is experiencing a severe downturn as countries seek to contain the coronavirus.

  Many people have lost their jobs and there has been a sharp rise in unemployment. Over the past month, infection rates have declined in many countries but they are still quite high and rising in other countries. Globally, conditions in financial markets have improved with a decline in volatility and large raisings of both debt and equity. In Australia, the government bond markets are operating effectively. The Bank's market operations are continuing to support a high level of liquidity in the Australian financial system. Whilst the Australian economy is going through a very difficult period, conditions have stabilised recently and the downturn has been less severe than initially expected. Although there has been signs of a gradual improvement, the nature and speed of the economic recovery is still largely unknown. It is likely that fiscal and monetary support will be required for some time. The Board will not increase the cash rate target until progress is made towards full employment, and it is confident that inflation will be sustainably within the 2-3% target band.
- Australian seasonally adjusted employment decreased by 227,700 in May, above expectations for a 78,800 fall, while April figures were revised to a decrease of 607,400. The unemployment rate increased to 7.1% for May, above expectations for 6.9%. The participation rate decreased to 62.9%, below expectations for 63.6%. Part time jobs decreased by 138,600 and full time jobs decreased by 89,100.
- Australian building approvals decreased 16.4% month-on-month to May, compared to the previous level of -2.1% (revised) for period ending April.
- The Institute for Supply Management (ISM) Manufacturing Index recorded 52.6 in June, above consensus for 49.8, and above the 43.1 recorded in May. Of the 18 manufacturing industries, Textile Mills and Wood Products were the industries that reported the highest growth. Transportation Equipment and Primary Metals were the largest detractors over the month. The ISM Non-Manufacturing Index recorded 57.1 in June, above consensus for 50.2 and above the 45.4 recorded in May. Of the 18 non-manufacturing industries, the top performers in June were Agriculture, Forestry, Fishing & Hunting and Accommodation & Food Services. Mining and Other Services were the two industries, which reported the largest decreases over the month.

- US Non-Farm Payrolls increased by 4,800,000 in June, above the 2,699,000 decrease (revised) recorded for May. The unemployment rate decreased to 11.1% over June, below expectations of 12.5%.
- US gross domestic product (GDP) third estimate for Q1 2020 is -5.0% quarter on quarter (QoQ) annualised, in line with expectations.
- The Caixin Manufacturing PMI in China recorded 51.2 in June, above expectations for 50.5 as manufacturing sector conditions continued to strengthen.
- A preliminary estimate of the European Core Consumer Price Index (CPI) recorded 0.8% over the year to June, in line with expectations.
- The Eurozone composite PMI increased to 48.5 in June, above expectations for 47.5. Eurozone operating conditions has improved considerably relative to May.
- The final value recorded for Q1 2020 Eurozone seasonally adjusted GDP is -3.6% for quarter-on-quarter (QoQ) and -3.1% for year-on-year (YoY).

AUSTRALIAN EQUITIES

The Australian share market marginally outperformed its hedged overseas counterpart over the month, as the S&P/ASX 300 Index returned 2.4%. The S&P/ASX Mid 50 was the strongest relative performer, increasing 4.2%, while the S&P/ASX Small Ordinaries was the weakest, returning -2.0% over the month.

The best performing sectors were Consumer Discretionary (+5.1%) and Consumer Staples (+4.8%), while the weakest performing sectors were Energy (-2.1%) and Industrials (-1.6%). The largest positive stock contributors to the index return were CBA, Wesfarmers and Afterpay with absolute returns of 8.9%, 11.4% and 28.6% respectively. In contrast, the most significant detractors were Telstra, Brambles and Goodman Group with absolute returns of -3.1%, -6.4% and -3.2%, respectively.

GLOBAL EQUITIES

The broad MSCI World ex Australia (NR) Index increased 2.3% in hedged terms and decreased 1.1% in unhedged terms over the month, as the Australian dollar (AUD) appreciated against most major currencies.

In AUD terms, the strongest performing sectors were IT (+3.4%) and Consumer Discretionary (+1.0%), while Healthcare (-4.9%) and Utilities (-4.8%) were the worst performers. In AUD terms, the Global Small Cap index was down 1.1% and Emerging Markets index was up 3.5% over June.

Over June, the NASDAQ increased 6.0%, the S&P 500 Composite Index increased 2.0% and the Dow Jones Industrial Average increased 1.8%, all in USD terms. In local currency terms, major European share markets experienced positive returns as the CAC 40 (France) increased 5.5%, the DAX 30 (Germany) increased 6.2% and the FTSE 100 (UK) increased 1.7%. Returns were mostly positive in Asia as the Indian S&P BSE 500 (+8.2%), Hang Seng (+7.4%) and Chinese SSE Composite (+4.6%) all increased, whilst the Japanese TOPIX (-0.2%) decreased over June.

REAL ASSETS

The Real Assets sector returns were mixed over June. The FTSE Global Core Infrastructure Index returned -2.4% and the Global Real Estate Investment Trusts (REITs) Index increased by 2.3% over the month (both in AUD hedged terms). Domestic REITs decreased -1.2% over June, while Australian Direct Property (NAV) returned -0.4% on a one-month lagged basis.

FIXED INTEREST

Global bond markets were broadly positive over June. The Barclays Capital Global Aggregate Bond Index (Hedged) increased 0.5% over the month, whilst the FTSE World Government Bond (ex-Australia) Index (Hedged) returned 0.3%. Ten-year bond yields increased in the US (+2bps to 0.65%) and Japan (+2bps to 0.03%), whilst bond yields decreased in Germany (-5bps to -0.50%) and remained flat in the UK (0.12%). Two-year bond yields were mixed over the month, as they decreased in the UK (-4bps to -0.08%) and Germany (-6bps to -0.69%), whilst increased in Japan (+2bps to -0.14%) and remained flat in the US (0.17%).

Returns for Australian bondholders were positive over June, with 10-year yields decreasing (-2bps to 0.87%), five-year yields remaining flat (0.41%) and two-year yields decreasing (-2bps to 0.27%). Of the Bloomberg Ausbond indices, the Inflation Index produced the highest return, increasing 1.4% over the month.

CURRENCY MARKETS

The AUD Trade Weighted Index increased to 60.0 over June, up by 2.0% from May. The AUD appreciated against the major currencies, including the US Dollar (+3.7%), Japanese Yen (+3.7%), Pound Sterling (+3.6%) and the Euro (+1.9%).

COMMODITIES

Iron Ore remained flat over June, finishing the month at US$101.5 per metric tonne. The S&P GSCI Commodity Total Return Index increased 1.3% over the month. Gold prices finished the month at US$1,783.7 per ounce, increasing 3.0% over the month, and the oil price increased 16.4% to US$41.3 per barrel over June.

CHART CONSTITUENTS

Notes

- *Currency: AUD.*
- *UH: Unhedged.*
- *H: Hedged.*
- *Net Index: Total Return (Net Dividends Reinvested).*
- *Total Return: Total Return Index with Gross Dividends.*
- *Where a lag exists, the performance period start and end dates are shifted accordingly.*

ASSET CLASS	BENCHMARK	DATA TYPE
Australian Shares	S&P/ASX 300	Total Return
Australian Small Caps	S&P/ASX Small Ordinaries	Total Return
Overseas Shares (UH)	MSCI World ex Australia	Net Index
Overseas Shares (H)	MSCI World ex Australia 100% Hedged	Net Index
Overseas Small Caps (UH)	MSCI World Small Cap	Total Return
Emerging Markets (UH)	MSCI Emerging Markets	Net Index
Direct Property (one month lag)	MSCI/Mercer Australia Core Wholesale Monthly PFI	NAV Post Fee
Australian REITs	S&P/ASX 300: Industry Group: A-REIT	Total Return
Global REITs (H)	FTSE EPRA/NAREIT Developed Hedged	Total Return
Global Listed Infrastructure (H)	FTSE Global Core Infrastructure 50/50 Hedged	Total Return
Global Credit (H)	Bloomberg Barclays Global Credit	Hedged Return
Emerging Market Debt (UH)	JP Morgan GBI EM Global Diversified Composite	Total Return
Australian Government Bonds	Bloomberg AusBond Treasury 0+ year	Total Return
Overseas Government Bonds (H)	FTSE WGBI Non Australia	Hedged Return
Cash	Bloomberg AusBond Bank Bill	Total Return

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