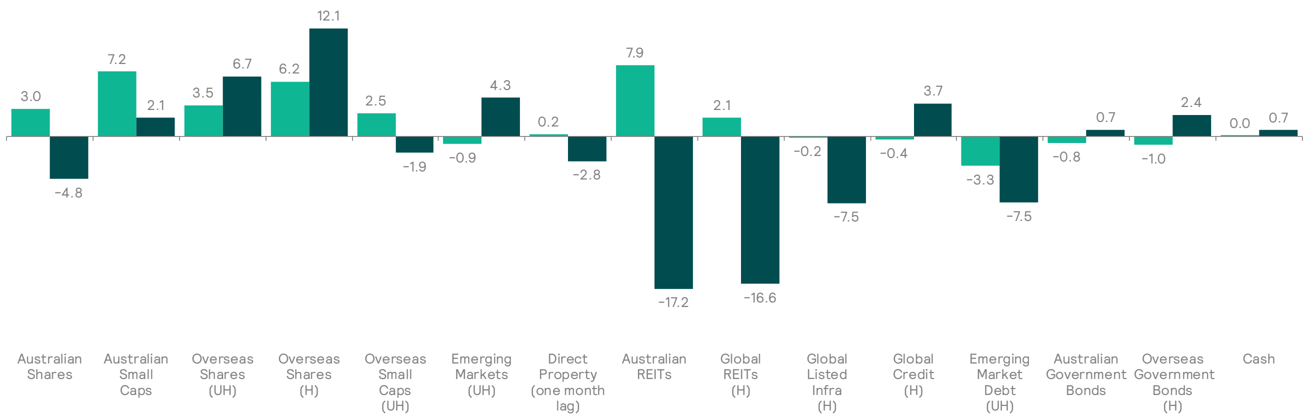
AUGUST 2020

AUSTRALIAN MONTHLY MARKET REVIEW

SELECTED MARKET INDICATORS COMMENTARY

ASSET CLASS RETURNS (%) AS AT 31 AUGUST 2020



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

For the month of August, growth assets performed well as investor momentum remained strong. Economic data continued to be encouraging with another strong set of US nonfarm payrolls. As the world continues to open up, retail sales for the US, UK and Eurozone are now back at pre-COVID-19 levels, following the worst quarterly GDP declines on record for most countries. Purchasing manager indices remain in expansionary territory. Australian small caps was the strongest performing equity market, returning 7.2% over August whilst overseas hedged investors realised greater relative gains from the continued appreciation of the Australian Dollar.

Monetary and fiscal policies remain supportive of the global economy, as the Federal Reserve formally announced its switch to an average inflation targeting regime, with 2% average inflation targeted. The US fiscal program was partially extended by executive order as Congress continued to negotiate a new fiscal package. Australia rolled out a new assistance scheme amid the lockdown in Victoria and Germany is considering extending its own support scheme through to 2022. In addition to global COVID news, Japan's Prime Minister Shinzo Abe announced his retirement on health grounds with his successor expected to continue with the same monetary and fiscal policy.

Political tensions between the US and China remain prominent. The US administration has mandated that Chinese start-up TikTok divest from its US operations on national security grounds; a US government undersecretary urged university endowments to divest from certain Chinese companies that could be delisted in the US by 2022, and US sanctions against Hong Kong's leader were met with tit-for-tat Chinese sanctions against a number of US senators.

Within the equities space, global large and small cap equities continued to post solid returns in August, led by developed markets. The US outperformed the rest of the world, whilst the broad MSCI World ex Australia (NR) Index increased 3.5% in unhedged terms and 6.2% in hedged terms over the month. The growth factor has also continued to outperform value.

The Australian share market has maintained its positive returns, with the S&P/ASX300 returning 3.0% over August, but once again lagged its hedged overseas counterpart. Information Technology (+15.2%) and Consumer Discretionary (+9.7%) were the top performing sectors, whilst Utilities (-4.8%) and Communication Services (-3.8%) were the worst performing sectors.

Within the fixed income space, the spread between Treasuries and global investment-grade corporate bonds fell. Credit spreads for high yield bonds narrowed further than higher investment grade bonds leading to higher yield bonds outperforming.

SIGNIFICANT DEVELOPMENTS

- During its early September meeting, the 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. It also decided to increase the size of the Term Funding Facility and make the facility available for longer. Governor Philip Lowe noted that the global economy is experiencing an uneven economic recovery after a very severe contraction in the first half of 2020. The future path of that recovery is highly dependent on containment of the virus. High or rising infection rates have seen a recent loss of growth momentum in some economies. In financial markets, volatility is low and the prices of many assets have risen substantially despite the high level of uncertainty about the economic outlook. Bond yields remain at historically low levels. The US dollar has depreciated against most currencies over recent months. Given this and higher commodity prices, the Australian dollar has appreciated, to be around its highest level in nearly two years. The recovery in Australia is likely to be both uneven and bumpy, with the coronavirus outbreak in Victoria having a major effect on the Victorian economy. Employment increased in June and July, although unemployment and underemployment remain high. The virus outbreak in Victoria and subdued growth in aggregate demand more broadly mean that it is likely to be some months before a meaningful recovery in the labour market is underway. The Board has stated that it 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 increased by 114,700 in July, above the expectations for 30,000, while June figures were revised to an increase of 228,400. The unemployment rate increased to 7.5% for July, below expectations for 7.8%. The participation rate increased to 64.7%, above expectations for 64.4%. Part time jobs increased by 71,200 and full time jobs increased by 43,500.
- Australian building approvals increase 12.0% month-on-month to July, compared to the previous level of -4.2% (revised) for period ending June.
- The Institute for Supply Management (ISM) Manufacturing Index recorded 56.0 in August, above consensus for 54.8, and above the 54.2 recorded in July. Of the 18 manufacturing industries, Wood Products and Plastics & Rubber Products were the industries that reported the highest growth. Printing & Related Support Activities and Petroleum & Coal Products were the largest detractors over the month. The ISM Non-Manufacturing Index recorded 56.9 in August, below consensus for 57.0 and below the 58.1 recorded in July. Of the 18 non-manufacturing industries, the top performers in August were Arts, Entertainment & Recreation, Health Care & Social Assistance and Retail Trade. Mining and Other Services were the two industries, which reported the largest decreases over the month.

- US Non-Farm Payrolls increased by 1,371,000 in August, below the 1,734,000 increase (revised) recorded for July. The unemployment rate decreased to 8.4% over August, below expectations for 9.8%.
- US gross domestic product (GDP) second estimate for Q2 2020 is -31.7% quarter on quarter (QoQ) annualised, below expectations for -32.5%.
- The Caixin Manufacturing PMI in China recorded 53.1 in August, above expectations for 52.5, as solid improvement in the health of China's manufacturing sector continues.
- A preliminary estimate of the European Core Consumer Price Index (CPI) recorded 0.4% over the year to August, below expectations for 0.8%.
- The Eurozone composite PMI increased to 51.9 in August, slightly above expectations for 51.6. Eurozone operating conditions have improved considerably from earlier in the year.
- The final estimate recorded for Q2 2020 Eurozone seasonally adjusted GDP is -11.8% quarter-on-quarter (QoQ) and -14.7% year-on-year (YoY).

AUSTRALIAN EQUITIES

The Australian share market underperformed its hedged overseas counterpart over the month, as the S&P/ASX 300 Index returned 3.0%. The S&P/ASX Small was the strongest relative performer, increasing 7.2%, while the S&P/ASX 50 was the weakest, returning 1.8% over the month.

The best performing sectors were Information Technology (+15.2%) and Consumer Discretionary (+9.7%), while the weakest performing sectors were Utilities (-4.8%) and Communication Services (-3.8%). The largest positive stock contributors to the index return were Afterpay, CSL and Stockland Stapled Units with absolute returns of 33.4%, 6.0% and 24.8% respectively. In contrast, the most significant detractors were CBA, Telstra and Newcrest Mining with absolute returns of -2.8%, -13.5% and -9.1%, respectively.

GLOBAL EQUITIES

The broad MSCI World ex Australia (NR) Index increased 3.5% in unhedged terms and 6.2% in hedged terms over the month, as the Australian dollar (AUD) appreciated against all major developed market currencies.

In AUD terms, the strongest performing sectors were Consumer Discretionary (+8.8%) and Information Technology (+7.3%), while Utilities (-4.4%) and Energy (-1.6%) were the weakest performers. In AUD terms, the Global Small Cap index was also up 2.5% and Emerging Markets index was down -0.9% over August.

Over August, the NASDAQ increased 9.6%, the S&P 500 Composite Index increased 7.2% and the Dow Jones Industrial Average increased 7.9%, all in USD terms. In local currency terms, major European share markets experienced positive returns as the CAC 40 (France) increase 3.4% and FTSE 100 (UK) increase 1.8%, the DAX 30 (Germany) increase 5.1%. Returns were mostly positive in Asia also, as the Indian S&P BSE 500 (+3.8%), Hong Kong Hang Seng (+2.5%), Chinese SSE Composite (+2.6%) and the Japanese TOPIX (+8.2%) all increased.

REAL ASSETS

The Real Assets sector achieved broadly positive returns over August. The Global Real Estate Investment Trusts (REITs) Index increased by 2.1% over the month whilst the FTSE Global Core Infrastructure 50/50 Index returned -0.2% (both in AUD hedged terms). Domestic REITs increased 7.9% over August and the Australian Direct Property (NAV) returned 0.2% on a one-month lagged basis.

FIXED INTEREST

Global bond markets were broadly negative over August, with the Barclays Capital Global Aggregate Bond Index (Hedged) and the FTSE World Government Bond (ex-Australia) Index (Hedged) returning -0.7% and -1.0% respectively. Ten-year bond yields increased in most markets including the US (+15bps to 0.68%), Japan (+3bps to 0.05%), Germany (+13bps to -0.43%) and the UK (+20bps to 0.27%). Two-year bond yields were also positive over the month, increasing in the US (+2bps to 0.13%), Germany (+5bps to -0.66%), the UK (+2bps to -0.05%) and Japan (+3bps to -0.11%).

Returns for Australian bondholders were mixed over August, with 10-year (+17bps to 0.98%) and five-year yields increasing (+5bps to 0.46%) and two-year yields decreasing (-1bp to 0.27%). Of the Bloomberg Ausbond indices, the Bloomberg Ausbond Semi-Government and Bloomberg Ausbond Credit produced the highest return, increasing 0.1% over the month.

CURRENCY MARKETS

The AUD Trade Weighted Index increased to 62.6 over August, up by 1.1% from July. The AUD appreciated against most major currencies, the US Dollar (+3.1%), Japanese Yen (+3.2%), Pound Sterling (+0.3%) and the Euro (+1.8%).

COMMODITIES

Iron Ore increased by 14.2%, finishing the month at US$125.0 per metric tonne. The S&P GSCI Commodity Total Return Index increased 1.4% over the month. Gold prices decreased slightly from July finishing the month at US$1,967.9 per ounce and the oil price increased 4.6% to US$45.1 per barrel over August.

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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