View from the hill

OCTOBER 2020

Market update

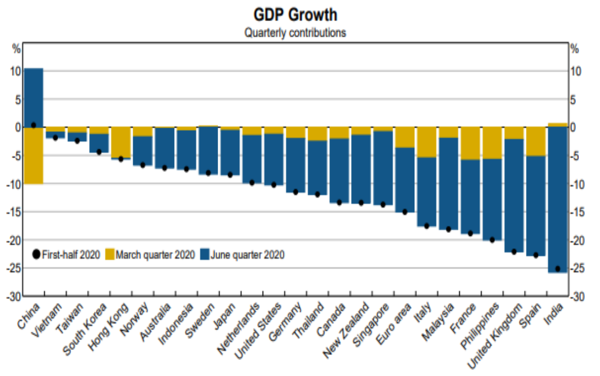
The table below provides details of the movement in average investment returns from various asset classes for the period up to **30 September 2020.**

Asset class (% change)	1 month	3 months	1 year	3 years (%pa)
Australian shares	-3.7	-0.4	-10.2	4.8
Smaller companies	-2.8	5.7	-3.3	6.5
International shares (unhedged)	-0.3	3.8	4.3	11.2
International shares (hedged)	-2.9	6.9	9.0	7.9
Emerging markets (unhedged)	1.5	5.2	4.0	5.6
Property – Australian listed	-1.1	7.4	-15.8	4.1
Property – global listed	-2.5	0.9	-20.8	-1.1
Australian fixed interest	1.1	1.0	3.2	6.0
International fixed interest	0.4	0.7	3.5	4.7
Australian cash	0.0	0.0	0.6	1.4

Past performance is not a reliable indicator of future performance.

Overview & Outlook

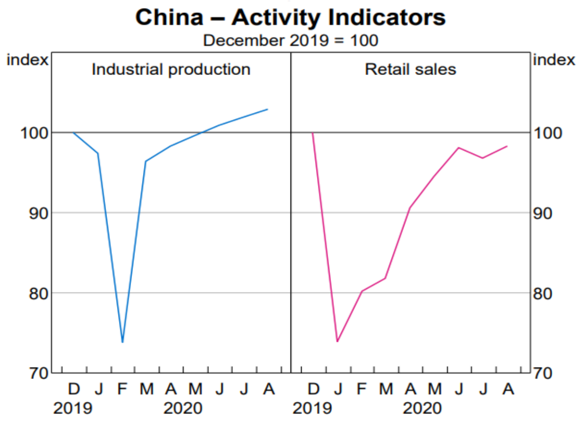
Historically September has often been the month for corrections, and we have observed this both internationally and domestically as markets contracted. Australia entered its first recession in 29 years with the largest GDP contraction on record of -7% for the June quarter.



Source: ABS, RBA, Refinitiv

Mobility restrictions reached a peak during the June quarter which saw decreased spending in the services sector which fell by 17.6%. Notable were transportation (-88%) and accommodation (-78%) which were the sectors affected the most by the lockdown as demand for these services decreased dramatically. Household savings (19.8%) increased due to increased savings by employees as job certainty fell away and also assisted by government stimulus, early super withdrawals and loan deferrals.

Whilst the contraction in GDP is synchronised with other countries, the variation in outcomes is correlated with Covid-19 management and mobility restrictions. Countries with major services sectors were most affected by shutdowns such as France and Spain which is largely dependent on tourism. The notable exception is China, which had a positive GDP growth in the June quarter due to earlier relaxations of lockdown and fiscal policies directly bolstering production rather than income support, resulting in industrial production recovery over retail.



Source: CEIC Data, RBA

The Australian unemployment data has been distorted by the ongoing pandemic and the subsequent government employment schemes. The headline data showed a decrease in unemployment down to 6.8% in August, but realistically this should be much higher as people on JobKeeper payments who are unemployed are inflating the employment figures. As a result of the recession and high unemployment rate, subdued wage growth is likely.

CPI declined by 2% in the June quarter, mainly driven by childcare costs and petrol. This is expected to reverse over the September quarter as the economy begins to recover and government assistance for childcare fees falls away. The Australian composite PMI, which indicates the economic health for manufacturing and services sector, remained strong at 51.1 despite the contraction and indicates the potential for recovery in the coming months.

Eurozone (50.4) and US (54.3) composite PMI both remained steady compared to the previous month and still show signs of expansion. Renewed talks of Brexit conditions and increased Covid-19 cases have stalled the European business conditions. The US data was generally strong with improvements in home sales and house prices along with a continuing recovery in underlying capital goods orders and business conditions.

Share markets

The Australian share market (-3.7%) and small companies (-2.8%) both underperformed as the cyclical sectors weighed on performance due to the recession. Healthcare (0.91%) was the only sector with positive gains as all other areas showed a decline with Energy (-11.1%) being the major detractor as gas (-3.9%) and oil prices (-5.6%) fell on the back of reduced economic growth.

The strong share price performance of companies in the Info Tech sector (-6.8%) is now slowing down as corrections across both local and global markets took place in the first week of September. Financials (-6.1%) and Consumer Discretionary (-2.6%) both declined due to a contraction in the economy. Iron ore prices remained strong overall but fell during the last week of September as port stocks in China weighed on investor sentiment.

Source: FactSet

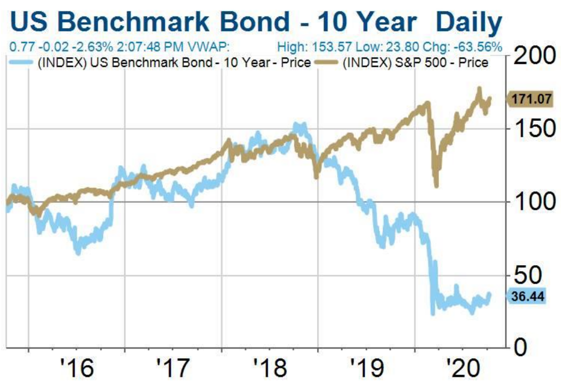
International shares (-2.9%) on a currency hedged basis was ahead of the local share market. The combination of increased Covid-19 cases in the US and Europe as well as the political uncertainty of the presidential election have caused the markets to fall. During the month global markets corrected as large tech companies such as Apple (-10.3%) and Amazon (-8.8%) all fell which dragged down the US market. The Japanese market (0.8%) delivered relatively strong gains due to stronger dividends and the continuation of 'Abenomics' under the new Prime Minister.

Unhedged emerging markets (1.5%) performed strongly against Australian and international equities. China (-4.4%) fell as the US continues to crack down on Chinese tech companies such as Huawei over national security concerns. Brazil (-4.5%) was also a major detractor as Covid-19 cases continues to rise which affected their global trade. The AUD (-3.1%) to the USD in September may give the impression that the emerging market shares may be performing better than reality and it is important to account for currency movements.

Interest Rates

The Australian 10-year government bond yield fell 19bps to 0.79% driven by quantitative easing and expectations of a rate cut to 10 bps in the short term. International fixed interest (0.4%) remained steady as US 10-year bond yield fell by 2bps to 0.68% indicating a disconnect between the bond and equity market.

The Australian dollar (-3.1%) fell over the month as monetary policy is expected to ease, and the US Fed was less dovish than expected. This was furthered weakened by the fall in commodity prices.



Source: FactSet

Property

Australian property (-1.1%) suffered due weakness in retail and office markets driven by continued constraints to combat the pandemic. In residential property, home prices and auction clearance rates (60%) remained steady. Global property (-2.5%) decreased as the second wave in Europe and US is causing a negative outlook for accommodation services.