Monthly Market Insights   March 2020

Australia

As the COVID-19 pandemic sweeps across the globe, shutting down countries and closing borders, the Australian government had to quickly come to terms with the severity of the health crisis and the inevitability of an economic recession. A series of economic measures has been announced since early March to mitigate the impact on the local economy and people's lives. The usual May federal budget was delayed to October 2020, while the uncertainty makes formulating reliable economic and fiscal estimates an impossible task.

The government is providing up to $100,000 to eligible small- and medium-sized businesses and not-for-profits (including charities) that employ people, with a minimum payment of $20,000. Employers with turnover less than $1 billion who have experienced a 30% reduction in revenue will receive payments of $1500 per fortnight per eligible employees for up to six months.

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There are signs in early employment data that the coronavirus is having a significant impact on the Australian jobs market. The number of job advertisements dropped by 10.3% in March on the previous month, falling by an even steeper 18.2% when compared to the same period last year. According to an ABS survey on the effects of the coronavirus, two thirds (66%) of Australian businesses reported that their turnover or cash flow had reduced as a result. Nearly half (47%) of businesses had been forced to make changes to work arrangements and for some businesses this included temporarily reducing or increasing staff working hours.

Global

Governments around the world have implemented extreme measures including social distancing, partial shutdowns, and full lockdowns in order to prevent the spread of the coronavirus. With consumer-facing sectors essentially shut down and global supply chains in disarray, economic activity is rapidly falling, and a recession has most likely already begun.

On 15 March the Federal Reserve cut the funds rate by a full percentage point from 1.25% to 0.25% and announced that it would embark on unlimited bond purchases in an unprecedented move that aims at keeping Treasury yields and mortgage rates low. The US appears set to pass a US $2 trillion fiscal stimulus package in response to the coronavirus. This amounts to around 10% of GDP. The key for any fiscal response is size, speed of implementation, and the ability to target the measures to those most exposed. The extent of the economic damage to date has been most clearly evident in the unemployment data. Non-farm payrolls showed a reduction of 701,000 jobs in March, while initial jobless claims made an extraordinary leap to 6.6 million according to the 2 April release, up from 281,000 in the 19 March release.

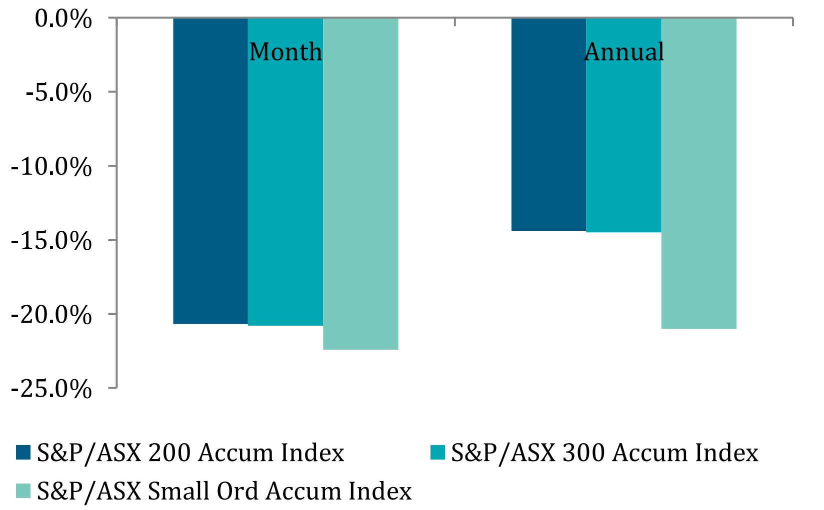
EU leaders continue to disagree on a fiscal response to the coronavirus. While there were signs of some early support for so-called 'corona-bonds', which would take the form of jointly-issued debt by EU member states, the idea was ultimately rejected by Germany and the Netherlands. The most likely solution will involve providing credit via the European Stability Mechanism (ESM) bailout fund, which could be up to 2% of the requesting country's GDP with a maturity of 5-10 years. At a national level, Germany announced a fiscal stimulus worth €756 billion, or 10% of annual GDP. The UK announced a £350 billion package of loans and grants to help British businesses pay the bills, while those businesses in sectors such as retail and hospitality will receive a year-long holiday from paying business rates.

The situation in China appears to be stabilising, with the rate of infection slowing in recent weeks while the rest of the world takes action to prevent the spread. China has begun easing restrictions in Hubei with some travel permitted and some industries restarting approximately two months since the region was locked down. After recording GDP growth of 6.1% in 2019, the World Bank now estimates that growth will fall to 2.3% in 2020 (and that's a best-case scenario). The market is expecting some form of stimulus to be forthcoming, but few expect the measures to be of the same magnitude as previous packages

Commodities

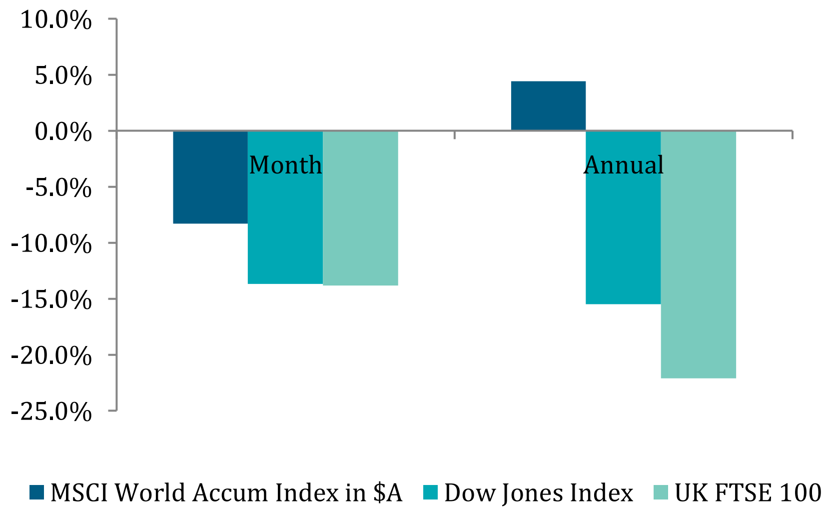
Oil markets have compounded the drama of the coronavirus, moving lower in February and then falling dramatically through March following a spectacular falling out between Saudi Arabia and Russia over how to manage global supply. Both are now engaged in a price war that is threatening US shale producers, some of which are highly leveraged.

Australian Shares



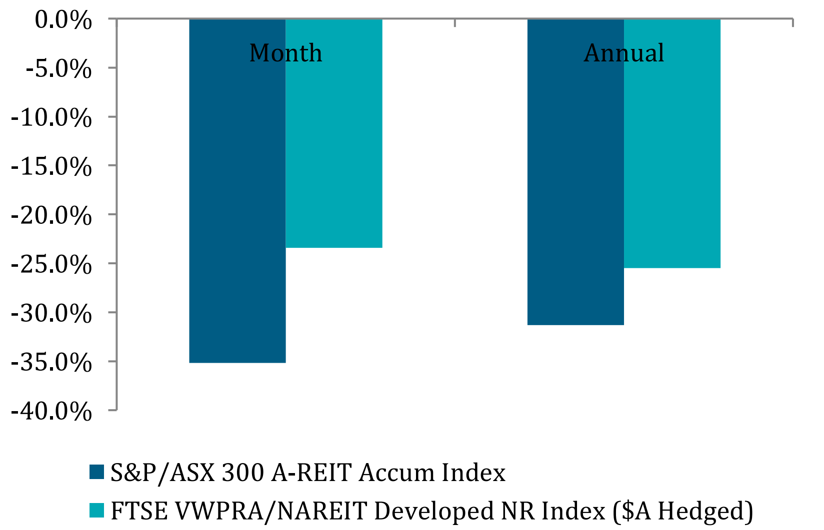
Australian shares faced a very tough March as measures to combat the spread of the coronavirus, along with the economic dislocation globally, hit businesses hard. Measures such as travel bans and social distancing have taken a huge toll on airlines, travel, leisure, retail and hospitality businesses. Winners amid the chaos include some consumer staples, which have seen a boost in sales due to consumers stocking up as they prepare for quarantine.

International Shares



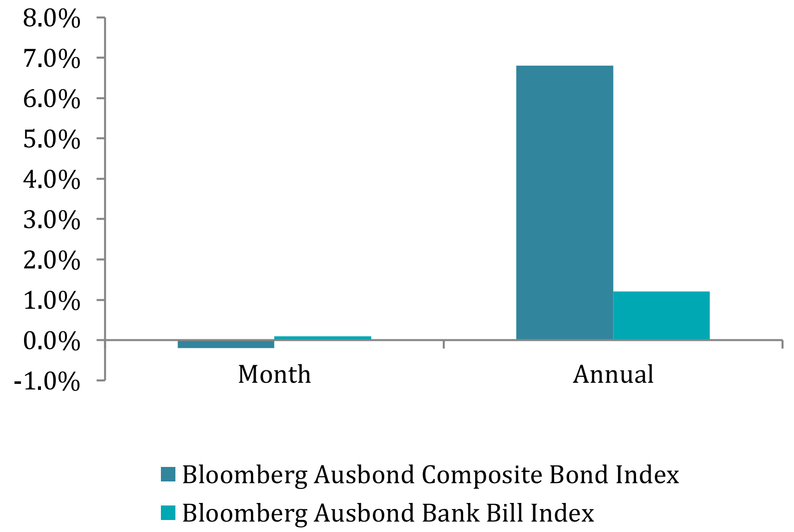
While the extent of the fall is not unprecedented, the speed at which the market is falling certainly is. The tightening of liquidity conditions across a range of markets was symptomatic of the stresses in the financial system, raising the risk of a more precipitous decline in economic activity. The behaviour of financial markets in the period ahead and the ultimate depth of the economic downturn is highly uncertain. Market moves are not only dependent on the rate at which the virus spreads, but the fiscal, monetary and liquidity support that is provided by governments and central banks.

Property



Listed property has been dealt a severe blow by social distancing measures and the need for people only to venture out of their homes for essential shopping. The effects have been particularly acute for Australia's retail REITs, which have experienced a fall in foot traffic and will need to negotiate with distressed tenants who will be asking for rent relief.

Fixed Interest

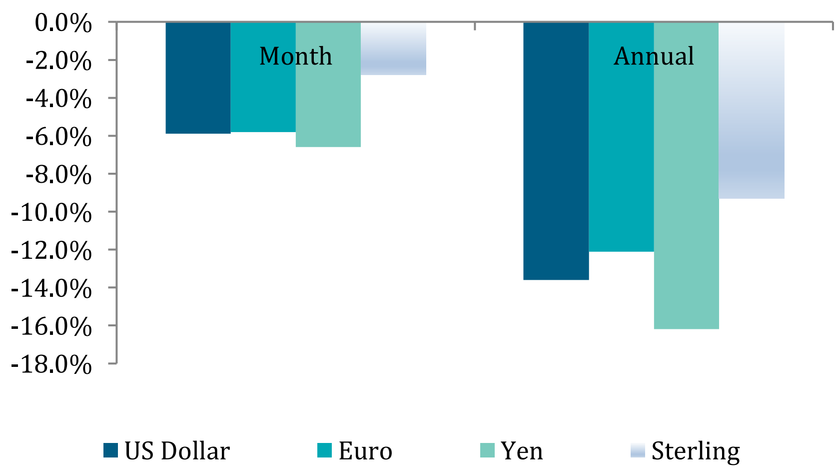


Credit markets came under stress in March with little interest from market participants except in the highest quality names.

Government bond markets also appear to be under stress with Australian government bonds seeing a 10–20 basis point bid/ask spread, which has not been experienced in over 30 years.

The RBA cut rates to 0.25% in March and announced a policy of yield curve control, targeting 3-year bond yields at 0.25%. As many loans are priced off the 3-year bond, this indicates that the RBA will purchase government bonds and semi-government securities across the yield curve.

Australian Dollar



The Australian dollar fell from to US$0.6102 in March as coronavirus fears took hold in markets, but a weaker dollar may act as a shock absorber and hold off the very worst of the economic impact. However, exports, especially travel and education related, will still be highly constrained due to the global travel lockdown.

Over the March 2020 quarter, the Australian dollar fell against the US dollar, the Japanese yen, the euro, and the British pound.

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Key Investment Indices

As at 31 March 2020	Value	1 month	3 months	6 months	1 year	5 years
Australian Shares		%	%	%	%	%
S&P/ASX 200 Accumulation Index		-20.7	-23.0	-22.6	-14.4	1.4
S&P/ASX 300 Accumulation Index		-20.8	-23.4	-22.9	-14.5	1.4
S&P/ASX Small Ordinaries Accumulation Index		-22.4	-26.7	-26.2	-21.0	2.5
S&P/ASX 300 Industrials Index		-21.6	-22.2	-22.4	-12.1	0.8
S&P/ASX 300 Resources Index		-17.5	-28.0	-24.6	-23.6	4.0
International Shares	**Value**	%	%	%	%	%
MSCI World Accumulation Index in $A		-8.3	-9.0	-5.1	4.4	8.1
MSCI World Accumulation Index ($A hedged)		-13.4	-21.1	-15.2	-11.1	3.9
MSCI Emerging Markets Index in $A		-10.9	-12.3	-5.8	-4.5	4.2
Dow Jones Index in $US		-13.7	-23.2	-18.6	-15.5	4.3
S&P 500 Index in $US		-12.5	-20.0	-13.2	-8.8	4.6
FTSE 100 Index in £		-13.8	-24.8	-23.4	-22.1	-3.5
Deutsche Boerse Index in €		-13.4	-25.0	-20.0	-13.8	-3.7
Nikkei 225 Index in ¥		-10.5	-20.0	-13.1	-10.8	-0.3
Hang Seng Index in HKD		-9.7	-16.3	-9.5	-18.8	-1.1
Shanghai Shenzhen CSI 300 Index in RMB		-6.4	-10.0	-3.4	-4.8	-1.9
Property		%	%	%	%	%
S&P/ASX 200 A-REIT Accumulation Index		-35.1	-34.4	-35.0	-31.7	0.2
S&P/ASX 300 A-REIT Accumulation Index		-35.2	-34.3	-34.8	-31.3	0.5
FTSE EPRA/NAREIT Developed NR Index ($A Hedged)		-23.4	-28.6	-28.2	-24.5	-4.5
Fixed Interest		%	%	%	%	%
Bloomberg Ausbond Bank Bill Index		0.1	0.3	0.5	1.2	1.8
Bloomberg Ausbond Composite Bond Index		-0.2	3.0	1.6	6.8	4.2
Barclays Global Aggregate Index ($A Hedged)		-1.5	1.5	0.7	5.8	4.0
Inflation		%	%	%	%	%
Australia CPI		0.2	0.5	1.2	2.2	1.8
Currencies (relative to $A)	**Value**	%	%	%	%	%
$US	0.6131	-5.9	-12.7	-9.2	-13.6	-4.2
Japanese ¥	65.9450	-6.3	-13.5	-9.6	-16.2	-6.3
Euro €	0.5560	-5.8	-11.2	-10.2	-12.1	-4.7
Sterling £	0.4939	-2.8	-6.7	-10.1	-9.3	-0.8
Chinese Yuan		-3.8	-12.8	-10.9	-10.0	-1.8
Commodities	**Value**	%	%	%	%	%
S&P Goldman Sachs Commodity Index ($US)		-28.7	-41.4	-36.7	-41.1	-8.4
Oil ($US/barrel)	22.74	-54.2	-66.5	-62.1	-66.0	-15.5
Gold ($US/ounce)	1,577.18	-0.5	4.0	7.1	22.0	5.9
Iron Ore ($US/tonne)	82.69					

Sources: Lonsec, Atchison Consulting