Monthly Market Insights April 2020

Australia

The Australian economy is expected to contract by at least 5% in the June quarter after a smaller contraction in the March quarter, thereby meeting the technical definition of a recession. However, no data is needed to confirm what has already been observed: shutdowns, isolation, and social distancing measures in the fight against the spread of COVID-19 have virtually closed large sections of the economy, causing a surge in unemployment not seen since the Great Depression. The good news is that the lockdown measures appear to have been effective, and in early May attention turned to re-starting the economy.

The Reserve Bank of Australia kept the cash rate on hold at its May meeting at 0.25% and maintained its yield target for 3-year government bonds at the same rate. The Bank reported that its bond purchases have so far totalled around $50 billion and that, in light of improving conditions in bond markets, has begun scaling it back with a view to increasing it again if the situation requires.

Payroll data showed a fall in employee jobs of 7.5% nation-wide (around 975,000 employees) between mid-March and mid-April. Hopes of a swift recovery in the manufacturing economy were dashed in April as the AIG Manufacturing Index recorded a drop of 17.9 points to 35.8, which was the worst month-to-month fall the index has seen. With the temporary spike in demand for manufactured food and groceries now subsided, widespread disruption to supply chains and freight movements were reported by respondents. Consumer confidence plunged in April to its lowest level in the 47-year history of the survey. The 'economy, next 12 months' sub-index recorded a spectacular 31% drop, however it seems most feel the effects will be temporary.

Global

The world economy remains in the grip of the COVID19 shock. Governments are deploying stimulus measures, including extensive employment subsidies to retain worker-firm relationships. March quarter economic growth points to a sharp downturn globally, while the contraction could be more pronounced in the June quarter given lockdown measures were in full force in most regions by April.

In the US, March quarter GDP plummeted to an annualised 4.8% contraction as the initial impact of COVID-19 filtered through the economy. Estimates of the impact of the shutdowns and isolation initiatives on GDP centred around 7–10% in the June quarter alone. To put this in context, the 2008 recession saw a 4% contraction in US GDP over six quarters, while the 1929-30 depression saw a 26% contraction. After lowering the funds rate by a full percentage point in March, the US Fed confirmed the policy rate would stay unchanged at the target range of 0.00–0.25%, reiterating its commitment to use the full range of tools to support the economy for as long it takes to ensure the economy is "well on the road to recovery."

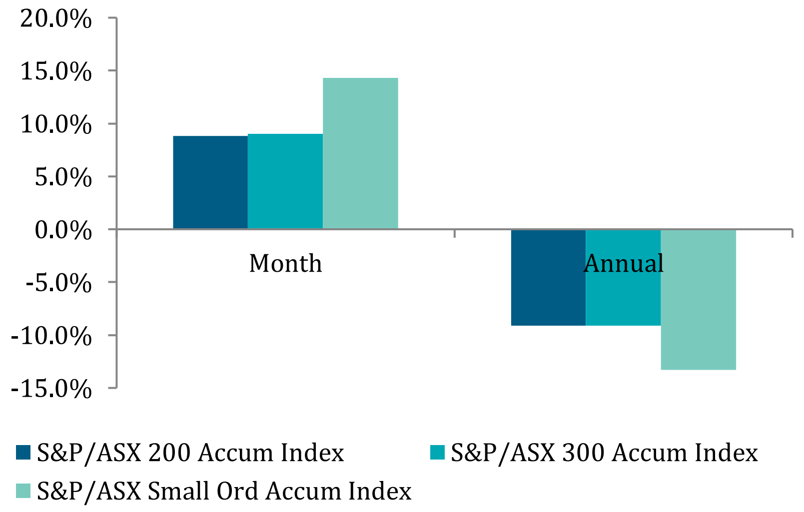
Even before the pandemic hit, the eurozone story was one of mediocre economic growth, with a modest expansion in the services sector been offset by a contraction in manufacturing. The coronavirus pandemic undercuts even this lacklustre narrative by hitting services extremely hard. The preliminary estimate shows eurozone GDP down 3.8% year-on-year for the March quarter – the sharpest decline observed since the series started in 1995. Since the end of March, the ECB has been buying assets as part of the new Pandemic Emergency Purchase Programme, which allows the ECB to make up to €750 billion of purchases across all asset classes. This will be augmented by additional long-term refinancing operations to support liquidity across the eurozone.

The Chinese economy contracted by 9.8% in the March quarter, taking the annual growth rate to -6.8%. According to the IMF, growth is forecast to recover, but only to 1.2% for the whole of 2020. China was the first economy to be hit by the coronavirus, and after a lockdown lasting more than two months, the economy is beginning to open up, although neighbourhood-level monitoring and testing remain in place. Chinese policymakers have pledged to combat the economic damage caused by the pandemic. While the Chinese central bank has stressed its intention to avoid the size and scope of stimulus packages adopted in previous downturns due to high levels of debt, there will likely be growth in lending over coming months as key government-backed projects restart and pent-up consumer and real estate demand picks up.

Commodities

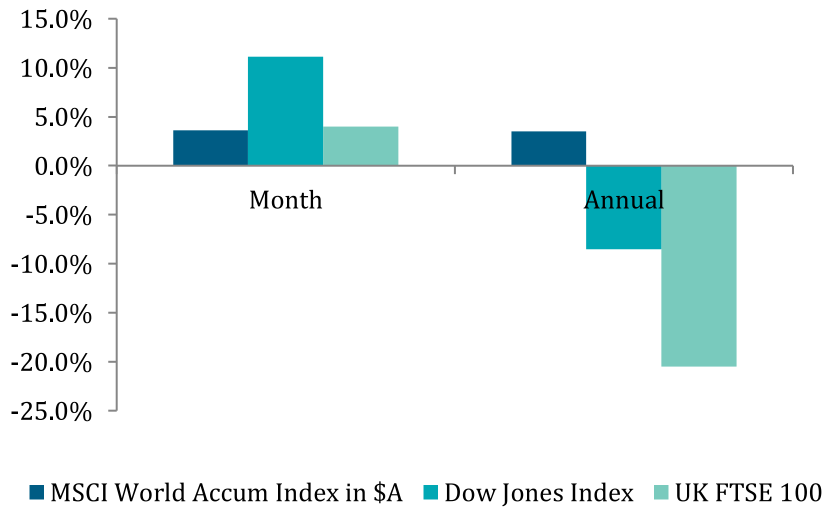
Oil markets began looking more stable in the latter part of April as crude inventory built up slightly less than estimated markets anticipated a lift in demand as economies reopen. Metals were mixed, with gains from Copper, Nickel, Tin and Zinc and falls in Lead and Aluminium. Gold rose to US$1,686.50 per ounce.

Australian Shares



Despite the recovery in April, the magnitude and duration of the disruption remains uncertain and near-term expectations remain heavily discounted. Over half of ASX 200 companies have downgraded or withdrawn earnings guidance due to the lack of visibility in assessing the extent and severity of the COVID-19 outbreak. Dividends for banks, property and infrastructure shares are expected to decline as companies attempt to counter demand shocks through rapid cash conservation measures, while capital raisings have intensified as businesses move to strengthen balance sheets.

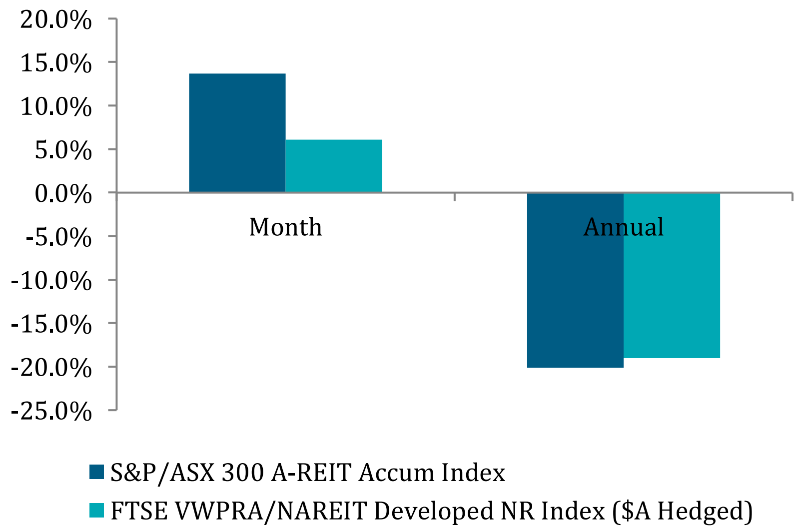
International Shares



Based on broadly accepted measures, the US equity market has endured a bear market and a bull market in the space of two months. In price terms, the S&P 500 declined 34% from February's record high to its trough on 23 March, before rallying 32% to the end of April.

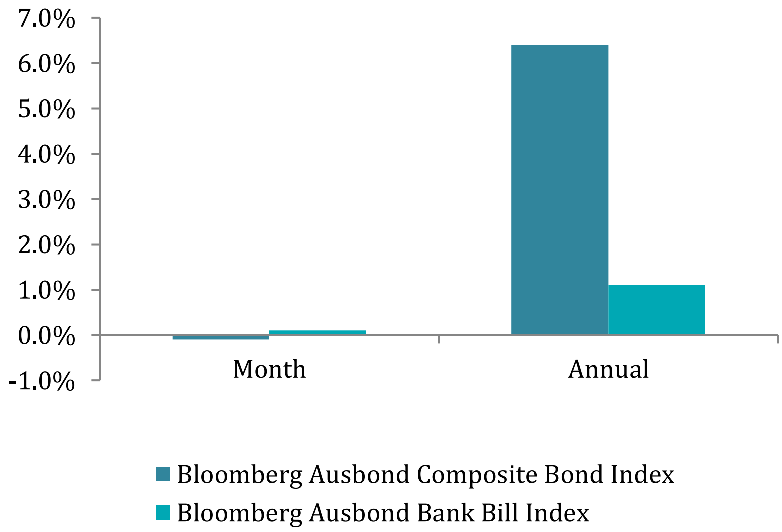
The initial sharp sell-off partly reflected a 'rush for the doors' as many equity investment strategies were forced to sell down, while the prospect of a significant economic and earnings shock resulted in additional fundamental-based selling.

Property



After being hit hard in March, Australian listed property was able to enjoy a recovery in April, with the S&P/ASX 200 A-REIT Index returning 13.7%. However, in price terms the index remains down 33% on its February high, and social distancing and other measures implemented to curb the spread of the coronavirus have hit the A-REIT market hard. Retail assets have been particularly impacted by the mandated closure of non-essential businesses, while some large national retail groups have been forced to temporarily reduce their bricks and mortar footprints.

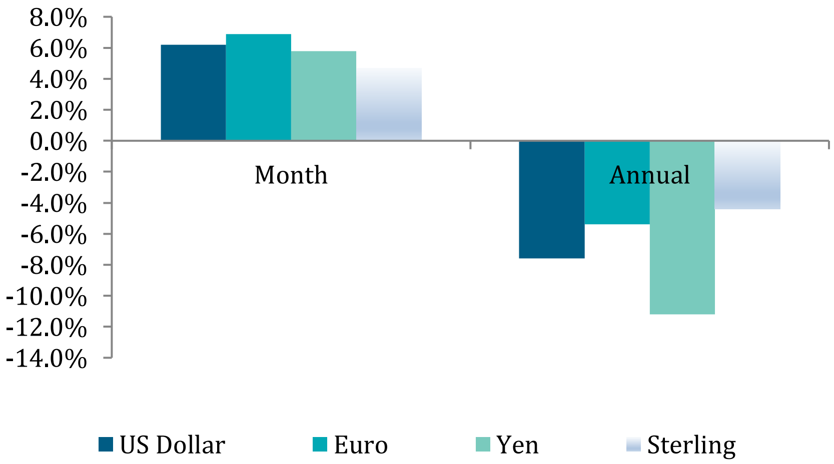
Fixed Interest



The dislocation in the credit markets was pronounced through March and April, with market stress also spreading to sovereign bonds, which are typically immune from indiscriminate selling. Action from central banks helped restore order.

In Australia, the RBA has embarked on its own bond-buying program, which totalled around $50 billion at the time of its May meeting. The Australian 10-year government bond yield rose in April from 0.76% to 0.89%, while the 3-year bond yield was steady at 0.25% in line with the RBA's target.

Australian Dollar



The Australian dollar rallied into May, helped by stronger than expected Chinese trade data and news that Chinese factories are re-opening. The dollar rally began in mid-March after bottoming at under US $0.58 to find resistance at around $0.65, down from its $0.70 level at the start of January.

Over the three months to April, the Australian dollar fell against the US dollar, the Japanese yen, and the euro. It rose against the British pound.

Key Investment Indices

As at 30 April 2020	Value	1 month	3 months	6 months	1 year	5 years
Australian Shares		%	%	%	%	%
S&P/ASX 200 Accumulation Index		8.8	-20.3	-15.5	-9.1	3.5
S&P/ASX 300 Accumulation Index		9.0	-20.4	-15.6	-9.1	3.5
S&P/ASX Small Ordinaries Accumulation Index		14.3	-19.0	-15.2	-13.3	5.0
S&P/ASX 300 Industrials Index		7.3	-21.2	-16.7	-9.1	2.9
S&P/ASX 300 Resources Index		16.3	-16.8	-10.9	-8.9	6.3
International Shares	**Value**	%	%	%	%	%
MSCI World Accumulation Index in $A		3.6	-9.6	-2.1	3.5	9.1
MSCI World Accumulation Index ($A hedged)		10.0	-12.8	-8.4	-5.9	5.6
MSCI Emerging Markets Index in $A		2.1	-10.6	-5.8	-5.4	3.7
Dow Jones Index in $US		11.1	-13.8	-10.0	-8.5	6.4
S&P 500 Index in $US		12.7	-9.7	-4.1	-1.1	6.9
FTSE 100 Index in £		4.0	-19.0	-18.6	-20.5	-3.3
Deutsche Boerse Index in €		9.3	-16.3	-15.6	-12.0	-1.1
Nikkei 225 Index in ¥		6.8	-13.0	-11.9	-9.3	0.7
Hang Seng Index in HKD		4.4	-6.3	-8.4	-17.0	-2.6
Shanghai Shenzhen CSI 300 Index in RMB		6.1	-2.3	0.7	0.0	-3.8
Property		%	%	%	%	%
S&P/ASX 200 A-REIT Accumulation Index		13.7	-29.8	-27.0	-20.3	3.0
S&P/ASX 300 A-REIT Accumulation Index		13.7	-29.7	-26.9	-20.1	3.3
FTSE EPRA/NAREIT Developed NR Index ($A Hedged)		6.1	-25.2	-25.1	-19.0	0.2
Fixed Interest		%	%	%	%	%
Bloomberg Ausbond Bank Bill Index		0.1	0.2	0.5	1.1	1.8
Bloomberg Ausbond Composite Bond Index		-0.1	0.6	2.1	6.4	4.5
Barclays Global Aggregate Index ($A Hedged)		1.5	1.0	2.3	7.2	4.3
Inflation		%	%	%	%	%
Australia CPI		0.2	0.4	1.0	2.2	1.8
Currencies (relative to $A)	**Value**	%	%	%	%	%
$US	0.6512	6.2	-2.7	-5.5	-7.6	-3.8
Japanese ¥	69.7880	5.8	-3.8	-6.3	-11.2	-5.9
Euro €	0.5944	6.9	-1.4	-3.9	-5.4	-3.3
Sterling £	0.5170	4.7	2.0	-2.9	-4.4	0.1
Commodities	**Value**	%	%	%	%	%
S&P Goldman Sachs Commodity Index ($US)		0.6	-33.9	-36.9	-42.4	-10.4
Oil ($US/barrel)	25.27	-8.0	-63.5	-65.2	-70.5	-20.6
Gold ($US/ounce)	1,686.50	6.9	6.1	11.5	31.4	7.3
Iron Ore ($US/tonne)	82.37					

Sources: Lonsec, Atchison Consulting

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