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Monthly Market Insights May 2020

Australia

GDP for the March quarter showed the economy contracted for the first time since 2011, falling by 0.3% as expected, with the yearly rate falling to 1.4%. The result captured the beginning of the effects from the coronavirus-driven restrictions, with household consumption falling for the first time in 32 years, down 1.1%, while both private and public investment also declined.

The Reserve Bank of Australia kept interest rates unchanged at its June meeting. The cash rate remains at a record low of 0.25%, in line with the board's rhetoric that rates will remain unchanged until progress is being made towards full employment. It noted, however, that an earlier than expected reopening of the economy may result in the economic downturn being less pronounced than initially thought.

The current account surplus widened sharply to $8.4 billion in the March quarter, ahead of the expected $6.3 billion. It was the fourth straight quarter of surplus and the largest since records started in 1959. Manufacturing couldn't stage a comeback in May but it did slow by less than the previous month reflected in a rise in the AIG Manufacturing Index.

Retail sales declined 17.9% in April. The monthly movement largely reflected the impact of stockpiling purchases, with food sales up 24.1% in March before falling 17.1% in April. Additionally, online retail surged, accounting for 10% of retail sales during the month. April's retail trade release revealed the extent of the damage caused by lockdown and social distancing. Total retail turnover fell 17.7%, with the largest falls in the clothing, footwear and personal accessory retailing group and cafes, restaurants and takeaway food services, while department stores were also hit hard.

Along with signs of a nascent economic recovery was the beginnings of a psychological recovery for consumers with the Westpac-Melbourne Institute Index of Consumer Sentiment rising 12.5 points to 88.1 in May. While not a complete turnaround, sentiment was clearly buoyed by Australia's success in containing the coronavirus, which has led the way to reopening and an easing in restrictions. Importantly, long-term views of the economy are far better compared to previous downturns, indicating that consumers see a way through the current pain.

Global

Key economies have so far avoided a resurgence in COVID-19 cases, but the World Health Organisation warned it continues to spread rapidly in some regions. The number of new COVID-19 cases appear to have passed their peak in many key economies, but health authorities continue to warn of a possible second wave.

There are early signs that the US economy is bouncing back, but there's a long road ahead. Easing of some restrictions led to a pick-up in in those sectors hit hardest by the virus, including leisure and hospitality, construction, and retail. While 2.5 million jobs were added in May – far better than the expected loss of 7.7 million – this only begins to make up for the 20.7 million jobs lost in April when lockdown measures were in full effect. The second estimate for US March quarter GDP showed the US economy contracted at an annualised 5.0% pace in the first quarter, the biggest quarterly fall since the December quarter of 2008.

Across Europe, COVID-19 restrictions are slowly being lifted as governments attempt to strike the right balance to avert the worst of the economic effects. The eurozone Markit Manufacturing PMI final reading came in as expected at 39.4, an increase from 33.4 in April. German GDP fell 2.2% in the March quarter, following a fall of 0.1% in the December quarter, marking the start of a recession.

In contrast to the US, the COVID-19 pandemic has made only a dent in China's official jobless rate, which has risen from 5.2% in January to just 6.0% in May. Factories have quickly restarted, but many workers may still be on reduced hours, while migrant workers are poorly represented in the official figures.

Amid rising diplomatic tensions, China warned its citizens not to travel to Australia, citing a "significant increase" in racist attacks, which the Australian government described as an "unhelpful statement". US-China tensions also re-emerged, this time over Beijing's introduction of national security laws in Hong Kong.

Commodities

Despite an OPEC+ agreement to cut supply by a record 9.7 million barrels per day in an effort to support prices, Saudi Arabia and other Gulf producers said they would not maintain supplemental reductions, saying the cuts had "served their purpose", as demand-side pressures begin to return to the market, helped by government support in major economies. The Brent crude oil spot price rose 88.6% in May. Metals and gold also rose over the month.

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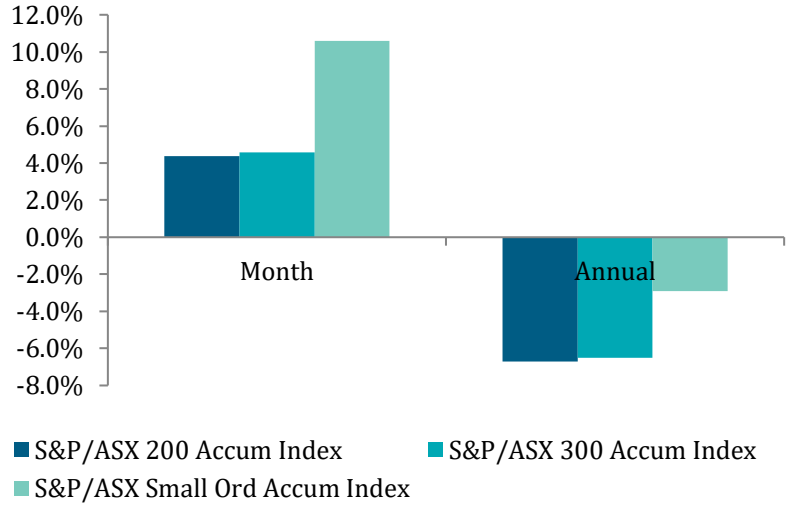
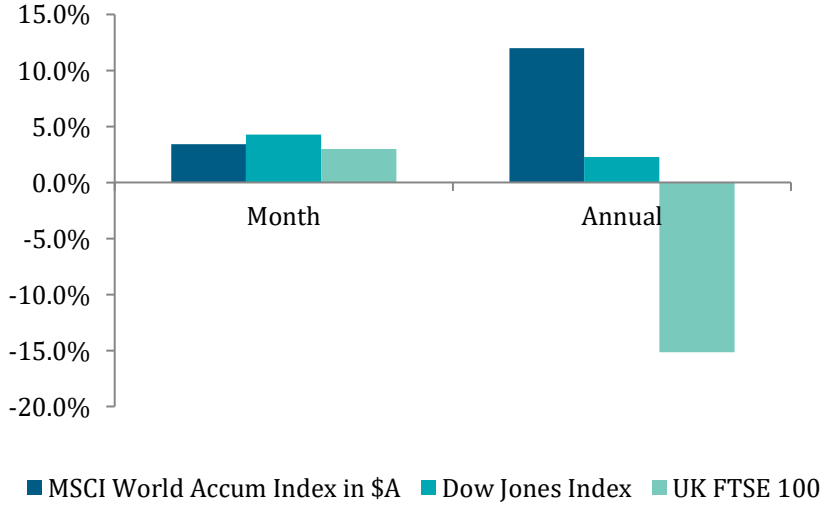
Australian Shares



Amid heightened volatility and ongoing uncertainty around how governments will manage the reopening of the economy, Australian shares were able to maintain momentum through May, posting a return of 4.4%. In the first week of May the ASX 200 Index briefly reclaimed the 6,000 mark but wasn't quite able to hold it.

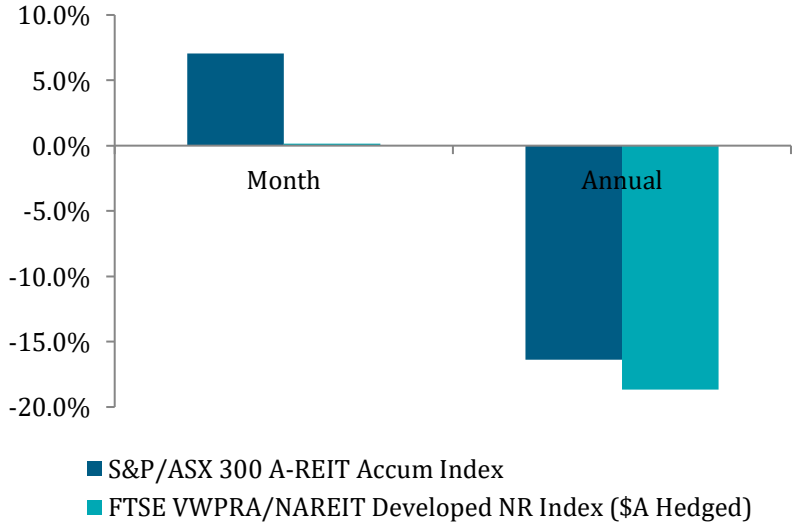
While confidence returned, investors were still coming to grips with the disruption caused to a number of sectors, with consumer facing and export-reliant businesses the hardest hit by the pandemic.

International Shares



Despite the remarkable comeback, many are warning against complacency given the threat of a second wave. of COVID-19 infections, which could be highly disruptive to markets and forestall the 'V'-shaped recovery investors are hoping for. Positive economic news and unprecedented easing measures from central banks and governments have helped boost confidence, but further negative news from companies could see some bearish sentiment return. Another complicating factor is the rise in US-China tensions and the political climate in the US, which remains uncertain leading up to the presidential race in November.

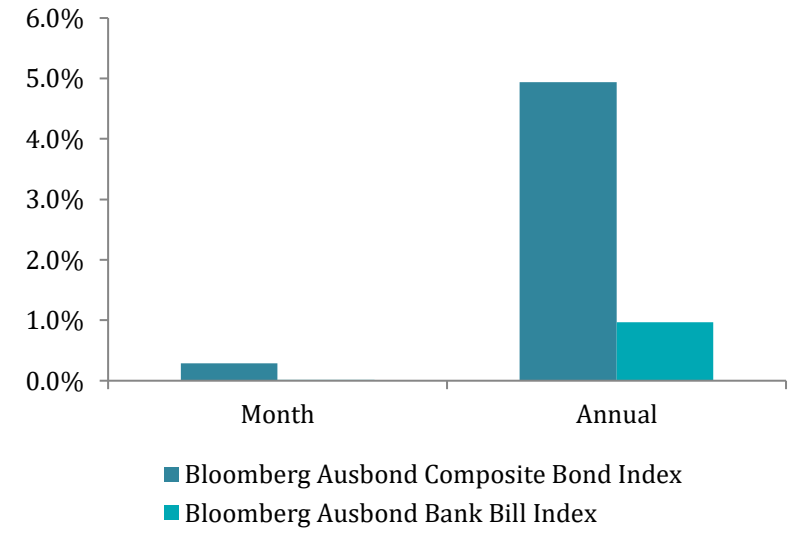
Property



The A-REIT sector came back strongly in May, extending April's gains but still down nearly 40% on February's high in price terms. Investors took heart from earnings and distribution guidance from major companies like Goodman Group and Charter Hall, with growing confidence that the sector can weather the storm.

Global developed market REITs were flat in May in Australian dollar hedged terms and the MSCI US REIT Index moved sideways in US dollar terms

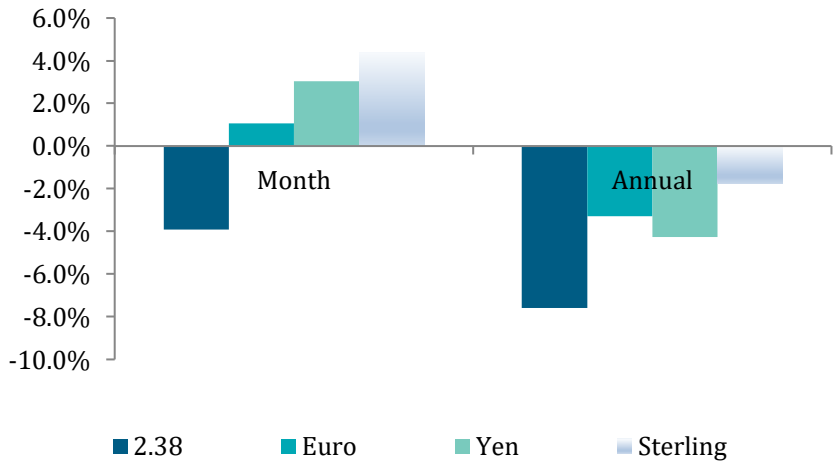
Fixed Interest



After reaching record lows in April, unprecedented action from central banks has helped restore order to credit markets, while positive economic news saw an uplift in yields.

In Australia, the RBA paused its bond buying as order returned to markets, having made around $50 billion in purchases. The Australian 10-year yield was flat over May, ending the month at 0.89%, while the 3-year bond yield held around the RBA's 0.25% target.

Australian Dollar



The Australian dollar continued its rally through May, ending the month at US $0.67, underpinned by rising confidence domestically and upbeat news globally, including trade data from China. The Australian dollar has rallied more than 20% from its March low of around US $0.57 but may find some upward resistance at current levels.

Over the three months to May, 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 May 2020		1 month	3 months	6 months	1 year	5 years
Australian Shares		%	%	%	%	%
S&P/ASX 200 Accumulation Index		4.4	-9.9	-14.6	-6.7	4.3
S&P/ASX 300 Accumulation Index		4.6	-9.7	-14.4	-6.5	4.4
S&P/ASX Small Ordinaries Accumulation Index		10.6	-1.9	-7.7	-2.9	6.6
S&P/ASX 300 Industrials Index		3.7	-12.7	-16.0	-7.5	3.5
S&P/ASX 300 Resources Index		8.2	3.8	-7.8	-2.7	7.8
International Shares	**Value**	%	%	%	%	%
MSCI World Accumulation Index in $A		3.4	-1.7	-3.3	12.0	9.0
MSCI World Accumulation Index ($A hedged)		4.7	-0.3	-7.0	4.9	6.3
MSCI Emerging Markets Index in $A		-0.6	-9.6	-8.0	-0.2	3.8
Dow Jones Index in $US	25,383	4.3	-0.1	-9.5	2.3	7.1
S&P 500 Index in $US	3,044	4.5	3.1	-3.1	10.6	7.6
FTSE 100 Index in £	6,077	3.0	-7.7	-17.3	-15.2	-2.8
Deutsche Boerse Index in €	11,587	6.7	-2.6	-12.5	-1.2	0.3
Nikkei 225 Index in ¥	21,878	8.3	3.5	-6.1	6.2	1.25
Hang Seng Index in HKD	22,961	-6.8	-12.1	-12.9	-14.6	-3.5
Shanghai Shenzhen CSI 300 Index in RMB	3,867	-1.2	-1.9	1.0	6.5	-4.4
Property		%	%	%	%	%
S&P/ASX 200 A-REIT Accumulation Index		7.0	-21.1	-23.7	-16.8	3.8
S&P/ASX 300 A-REIT Accumulation Index		7.1	-21.1	-23.4	-16.4	4.1
FTSE EPRA/NAREIT Developed NR Index ($A Hedged)		0.1	-18.6	-24.4	-18.7	0.3
Fixed Interest		%	%	%	%	%
Bloomberg Ausbond Bank Bill Index		0.0	0.2	0.4	1.0	1.8
Bloomberg Ausbond Composite Bond Index		0.3	0.0	1.5	4.9	4.5
Barclays Global Aggregate Index ($A Hedged)		0.3	0.0	2.8	6.0	4.4
Inflation		%	%	%	%	%
Australia CPI		0.2	0.4	0.9	2.1	1.8
Currencies (relative to $A)	**Value**	%	%	%	%	%
$US	0.6667	2.4	2.3	-1.4	-3.9	-2.7
Japanese ¥	71.9160	3.1	2.2	-2.9	-4.3	-5.4
Euro €	0.6007	1.1	1.7	-2.1	-3.3	-2.9
Sterling £	0.5398	4.4	6.3	3.2	-1.7	1.5
Commodities	**Value**	%	%	%	%	%
S&P Goldman Sachs Commodity Index ($US)		19.5	-14.3	-25.0	-24.7	-6.9
Oil ($US/barrel)	35.33	88.4	-20.7	-35.7	-33.7	-10.1
Gold ($US/ounce)	1,730.27	2.6	9.1	18.2	32.5	7.8
Iron Ore ($US/tonne)	99.50					

Sources: Lonsec