Paradigm
Group

Monthly Market Insights

June 2020

Australia

The Australian economy contracted by a relatively mild -0.3% in the March quarter but given the full impact of shutdowns likely to be felt in the June quarter, it is almost certain that the Australian economy is in its first recession in 29 years. Australia's relatively successful containment of the COVID-19 virus has allowed an earlier-than-expected easing in lockdown conditions, although some states are faring better than others.

Businesses and households have received significant government support such as the JobKeeper and JobSeeker programs. However, retailers are looking nervously ahead to September when the JobKeeper payments are scheduled to end. The scheme, which has benefitted around 3.5 million employees, is being reviewed by Treasury, which will report its findings later in July.

The Australian labour report showed employment fell by 227,700 in May, worse than the expected drop of 125,000. Total employment has fallen by 835,000 since the coronavirus outbreak began in March. The unemployment rate lifted to 7.1%. Retail sales rebounded strongly in May, reversing most of the April fall. Sales of basic food and household goods continues to strengthen with sales well above pre-COVID levels. While sales in clothing and cafes and restaurants saw a mild recovery in May they are still significantly down on pre-COVID levels.

The AIG Manufacturing PMI moved into positive territory in June, increasing to 51.5. While the result is the largest ever monthly rise, it was narrowly focused on some sub sectors and indicates an improvement from recent depths rather than a recovery to buoyant conditions. Almost all of the improvement was concentrated in the large food & beverages sector, with new orders from food wholesale distributors improving with the relaxation of trading restrictions.

The Reserve Bank of Australia's outlook for the economy and interest rates was recently described by Governor Lowe as a world "where there'll be a shadow from the virus for quite a few years", causing "deflationary forces" and "large output gaps." The RBA kept rates on hold at 0.25% at its July meeting and is prepared to scale up bond purchases if needed.

Global

The rise in the number of COVID-19 cases globally continues to create uncertainty about the shape of economic recovery. An important factor in coming months will be the extent to which governments continue with fiscal measures to support businesses and households. Meanwhile, tensions between the US and China are elevated, and the outcome of the US presidential election in November remains unclear.

In the US, economic data for June saw some upside surprises as a gradual reopening of the economy clawed back job losses resulting from the lockdown. The ISM Manufacturing Index beat expectations in June, however, it is not yet clear what the longer-term impact on labour markets will be, or how many of the temporary job losses will become permanent if lockdown measures persist. The risk of a second wave of infections remains, while further deterioration in US-China trade relations and other geopolitical events are creating additional uncertainty. Some US states reversed course in late June to reimpose social distancing and shelter in place warnings as a result of a rise in new confirmed cases.

The European Commission's economic sentiment index fell short of expectations in June. As expected, May's retail sales showed a sharp rebound, while the unemployment rate rose to 7.4% in May, slightly below expectations of 7.7%.

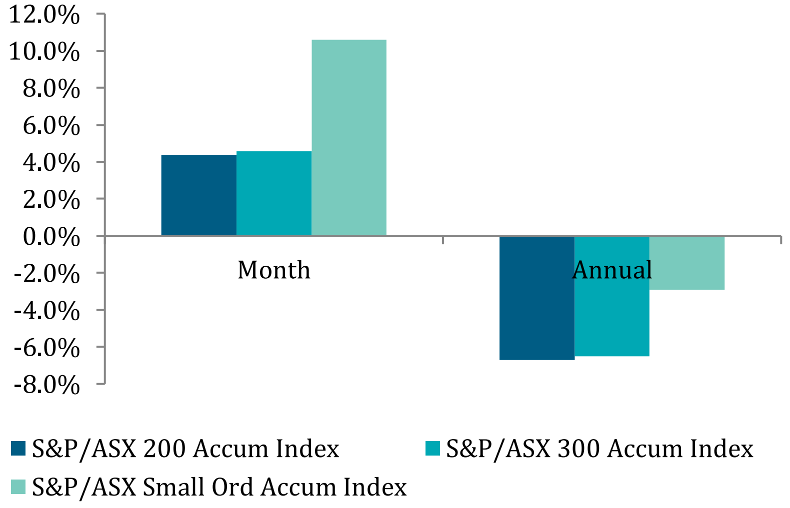
Economic data from China indicates that it's economy is also gradually recovering from the pandemic.

The World Health Organisation (WHO) is sending a team to China to investigate the origins of the COVID19 virus. The team's objective is to "advance the understanding of animal hosts of COVID-19 and ascertain how the disease jumped between animals and humans", according to the WHO. Adding to geopolitical tension was Beijing's decision to push ahead with new anti-sedition laws in Hong Kong, which sparked protests and subsequent crackdowns. The US Senate voted in July to finalize the Hong Kong Autonomy Act, which places sanctions on individuals, banks and other entities that enable China's new security laws.

Commodities

Oil prices pushed higher in June despite record high inventory levels and concerns of the impact of a potential second wave of coronavirus infections on economic activity. Metals also continued their gains over the month, with an increase in the price of Copper, Tin, Lead, Aluminium, Nickel and Zinc. Gold rose to US$1,783.68 per ounce.

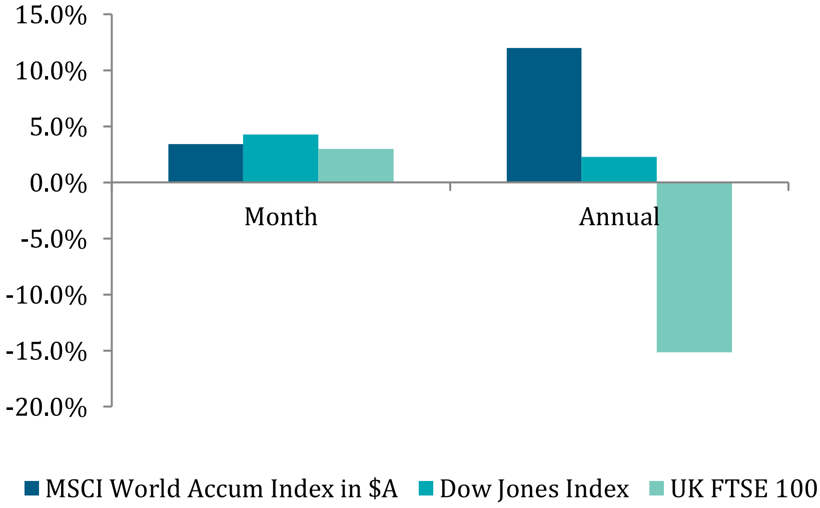
Australian Shares



It is apparent that many investors were 'voting' for a sharp rebound once the dark COVID-19 clouds cleared. The S&P/ASX 200 Index ticked past 6,000 points in early July and is once again in bull market territory.

For many companies, capital raisings have been necessary to bolster solvency and near-term operational liquidity. For some other companies, it has been an opportune time to strengthen balance sheets and thus provide a layer of insurance if the economic malaise continues.

International Shares

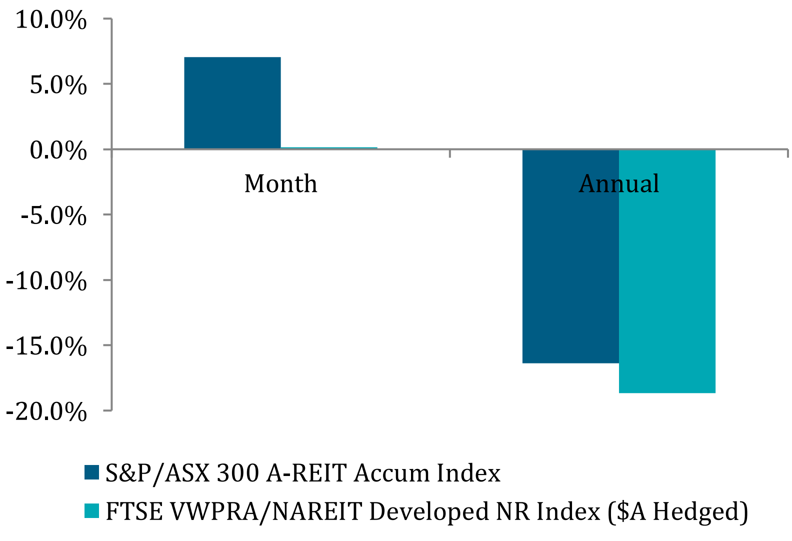


US equities bounced back strongly in the June quarter on the back of better than expected economic data and re-openings across the country. The S&P 500 Index rose 20.5% over the quarter and is up 7.5% over the year (in US dollar terms).

However, there are concerns about a disconnect between markets and the economy, with earnings for the S&P 500 estimated to have declined by 43.9% during the June quarter.

In contrast to developed markets, emerging market equities have seen less of a bounce back, rising 5.0% in the June quarter and falling - 1.5% over the year.

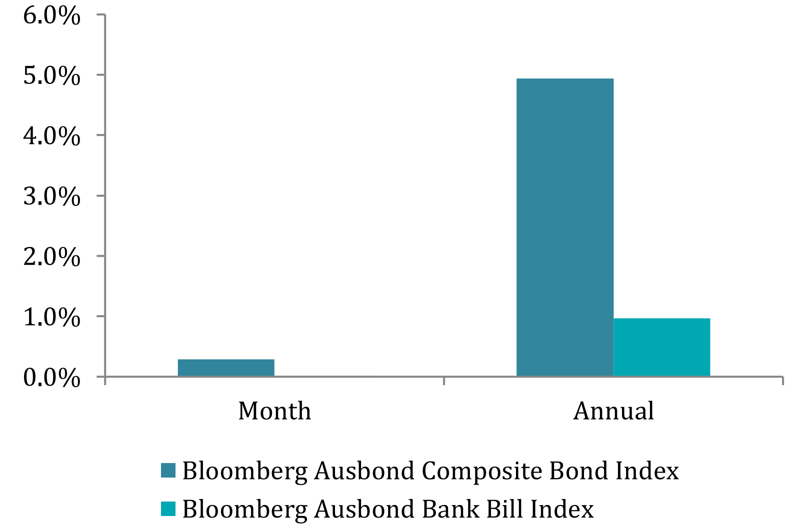
Property



Australian listed property securities also bounced back over the June quarter, but remain down -21.3% for the year to date, significantly worse than Australian equities.

The pandemic has exacerbated and accelerated structural shifts that have been underway in Australian property over the past few years. Shopping mall and retail strip landlords have been most affected, with grocery-anchored centres the best placed to weather the storm. As Australian states progressively emerge from lockdown, it is anticipated that retail rents will come under pressure as tenants demand either significant rent reductions or incentives.

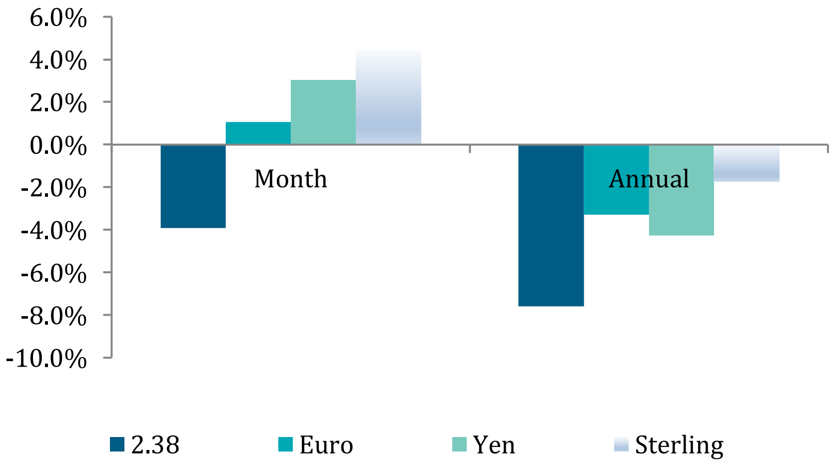
Fixed Interest



As a result of the excess liquidity in the money market system, the unofficial cash rate fell to 0.14% at the end of June, compared to the official cash rate of 0.25%. The 10-year Commonwealth Government bond yield rose from 0.77% to 0.87% over the same period. The newly targeted three-year bond has been mostly steady around the target rate of 0.25%.

Given the RBA expects the three-year yield to remain around this level for quite some time, returns from the bond market will be increasingly reliant on maturities longer than three years to provide yield enhancement.

Australian Dollar



The economically sensitive Australian dollar is expected to continue strengthening relative to the US dollar as the global recovery continues. In June the Australian dollar rose from US$0.67 to $0.69 as positive economic data sustained the market's hopes for a swift recovery from the COVID-19 lockdowns, although further outbreaks in the US and other parts of the world weighed on risk sentiment late in the month.

Key Investment Indices

As at 30 June 2020		1 month	3 months	6 months	1 year	5 years
Australian Shares		%	%	%	%	%
S&P/ASX 200 Accumulation Index		2.6	16.5	-10.4	-7.7	6.0
S&P/ASX 300 Accumulation Index		2.4	16.8	-10.6	-7.6	6.0
S&P/ASX Small Ordinaries Accumulation Index		-2.0	23.9	-9.2	-5.7	7.9
S&P/ASX 300 Industrials Index		2.7	14.2	-11.2	-7.8	5.0
S&P/ASX 300 Resources Index		1.6	27.9	-7.9	-7.0	10.3
International Shares	**Value**	%	%	%	%	%
MSCI World Accumulation Index in $A		-1.1	5.9	-3.6	5.2	9.4
MSCI World Accumulation Index ($A hedged)		2.3	17.8	-7.0	1.3	7.3
MSCI Emerging Markets Index in $A		3.5	5.0	-7.9	-1.5	5.2
Dow Jones Index in $US	25,813	1.7	17.8	-9.6	-3.0	7.9
S&P 500 Index in $US	3,100	1.8	20.0	-4.0	5.4	8.5
FTSE 100 Index in £	6,170	1.5	8.8	-18.2	-16.9	-1.1
Deutsche Boerse DAX Index in €	12,311	6.3	23.9	-7.1	-0.7	2.4
Nikkei 225 Index in ¥	22,288	1.9	17.8	-5.8	4.8	2.0
Hang Seng Index in HKD	24,427	6.4	3.5	-13.4	-14.4	-1.4
Shanghai Shenzhen CSI 300 Index in RMB	4,164	7.7	13.0	1.6	8.8	-1.4
Property		%	%	%	%	%
S&P/ASX 200 A-REIT Accumulation Index		-1.4	19.9	-21.3	-21.3	4.4
S&P/ASX 300 A-REIT Accumulation Index		-1.2	20.2	-21.0	-20.7	4.7
FTSE EPRA/NAREIT Developed NR Index ($A Hedged)		2.2	8.6	-22.5	-17.6	1.6
Fixed Interest		%	%	%	%	%
Bloomberg Ausbond Bank Bill Index		0.0	0.1	0.3	0.9	1.7
Bloomberg Ausbond Composite Bond Index		0.3	0.5	3.5	4.2	4.8
Barclays Global Aggregate Index ($A Hedged)		0.5	2.3	3.6	5.2	4.8
Currencies (relative to $A)	**Value**	%	%	%	%	%
$US	0.6903	3.5	12.6	-1.7	-1.7	-2.2
Japanese ¥	74.5050	3.6	13.0	-2.3	-1.6	-4.6
Euro €	0.6145	2.3	10.5	-1.8	-0.4	-2.3
Sterling £	0.5567	3.1	12.7	5.2	0.7	2.6
Commodities	**Value**	%	%	%	%	%
S&P Goldman Sachs Commodity Index ($US)		6.0	27.4	-25.4	-23.5	-5.9
Oil ($US/barrel)	41.15	10.7	91.8	-35.7	-32.8	-8.0
Gold ($US/ounce)	1,780.96	2.9	12.9	17.4	26.4	8.7
Iron Ore ($US/tonne)	98.45					
Inflation		%	%	%	%	%
Australia CPI		0.2	0.4	0.9	2.1	1.8

Sources: Lonsec

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