Monthly Market Insights August 2020

Australia

The Australian economy officially entered a recession for the first time since 1991 as the national accounts showed June quarter GDP fell 7.0% in the June quarter, following a 0.3% fall in the March quarter. The fall was weaker than the expected 6.0% fall, led by a 9.8% reduction in hours worked. Consumer spending, which accounts for 56% of the economy, contracted 12.1% over the quarter, largely as anticipated, while business investment was weaker than expected at -3.5%. The federal government extended the JobSeeker and JobKeeper programs, but will cut back payments, sparking fears of further economic pain.

While the downturn has not been as severe as originally expected, the recovery will likely be uneven across the country and extended lockdowns in Victoria will take a major toll on the state's economy. The federal government is becoming critical of Victoria's approach, claiming contact tracing capabilities need to improve.

Unemployment nationally is improving but along with underemployment remains high, while wage and price pressures remain subdued. The unemployment rate rose 0.1 points to 7.5% in July, while the participation rate lifted to 64.7%.

Retail sales rose 3.2% in July. Clothing, footwear and personal accessory retailing gained 7.1% and has come back strongly after collapsing 53% in April. Cafes, restaurants and takeaway rose 4.9% and department stores rose 4.0%. Australia's trade surplus narrowed from $8.1 billion to $4.6 billion in July, lower than the expected surplus of $5.4 billion. Exports declined by 4.4%, led by a 12.0% drop in service exports, while imports rose by 6.9%.

The AIG Performance of Manufacturing Index fell 4.2 points to 49.3, slipping back into contraction as extended lockdown measures, especially in Victoria, took their toll. There was large divergence between larger manufacturing states, with Victoria back into contraction at 44.0, while NSW remained in expansion at 51.0.

Global

The COVID-19 pandemic continues to spread, with data from the World Health Organisation showing confirmed cases were above 27 million at the end of August and rising. Globally, the economic recovery continues following severe contractions in the first half of 2020, but growth is uneven across countries and regions, with fears of a larger second wave dampening hopes of a sustained rebound.

In the USA, key indicators point to a strong rebound in economic activity, but the outlook remains uncertain with additional aid packages tied up with Congress, which is impacting on consumer sentiment. The unemployment rate fell to 8.4% in August, marking the fourth consecutive monthly decline. The ISM Manufacturing PMI rose to 56.0 in August, beating expectations, pointing to the biggest expansion in the manufacturing sector since November 2018. Quarterly GDP improved 1.2% in Q2, exceeding expectations.

Key economic indicators suggest that Europe's recovery is losing momentum through the September quarter. Fears of resurgent COVID-19 infection rates, most notably in Spain and Italy, is leading to greater caution from consumers, while the spectre of deflation is re-emerging for the first time since the euro crisis. The Markit Composite PMI for the eurozone slipped from 54.9 to 51.9 in August, with the services PMI falling from 54.7 to 50.5, with both measures still in expansion but slowing on the previous month. The key concern for the European Central Bank is the fall in consumer prices. Inflation in the eurozone is estimated to be -0.2% year-on-year in August.

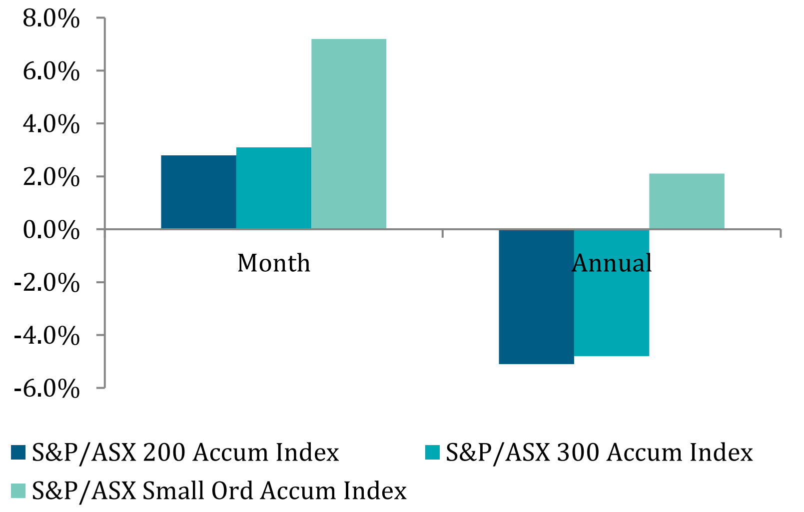
With only sporadic outbreaks across the country, China is on track to be the first country to emerge from the COVID-19 crisis, and the only G20 country to post a positive GDP result in the June quarter. Despite mismanaging the initial outbreak in Wuhan—the original epicentre of the virus—China has been successful in implementing targeted lockdowns and compulsory smartphone tracking to avoid escalating outbreaks. Economic data shows inflation is lifting while trade figures came in strongly, with exports rising 9.5%.

The Trump administration added 24 new Chinese companies to its sanctions list, this time for their involvement in helping the Chinese military build artificial islands in the South China Sea. With further developments on a US-China trade deal on hold until after the US election, Trump upped his rhetoric of a potential "decoupling" from the Chinese economy.

Commodities

Oil prices rose through August with most metals also positive over the month. However, gold softened, falling from US$1,971.90 after pushing above $2,000 earlier in the month.

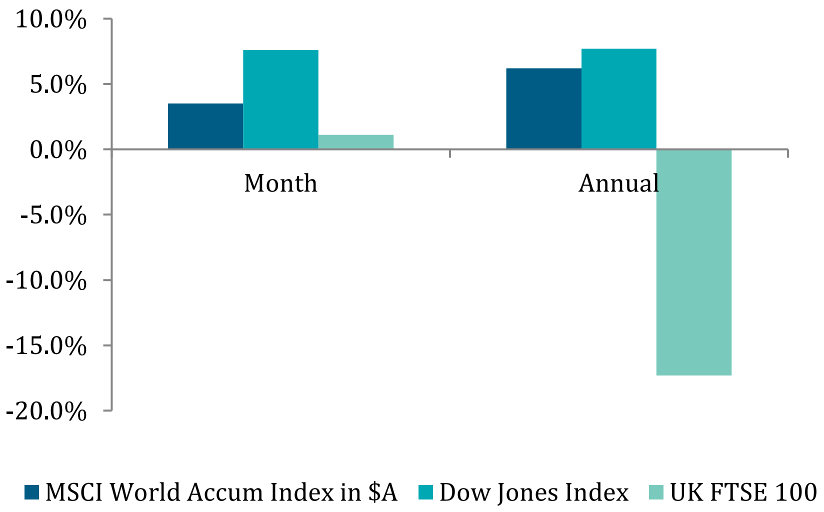
Australian Shares



Australian shares rose 2.8% in August. IT and Consumer Discretionary were the top returning sectors. Once again earnings season was dominated by the dire effects of COVID-19 as companies cut dividends and increased cash holdings.

CSL announced in September it had signed Heads of Agreements with the Australian Government and AstraZeneca to supply two potential COVID-19 vaccines within Australia following successful clinical trials, however AstraZeneca has halted the trial to investigate an adverse reaction from a study participant in the UK.

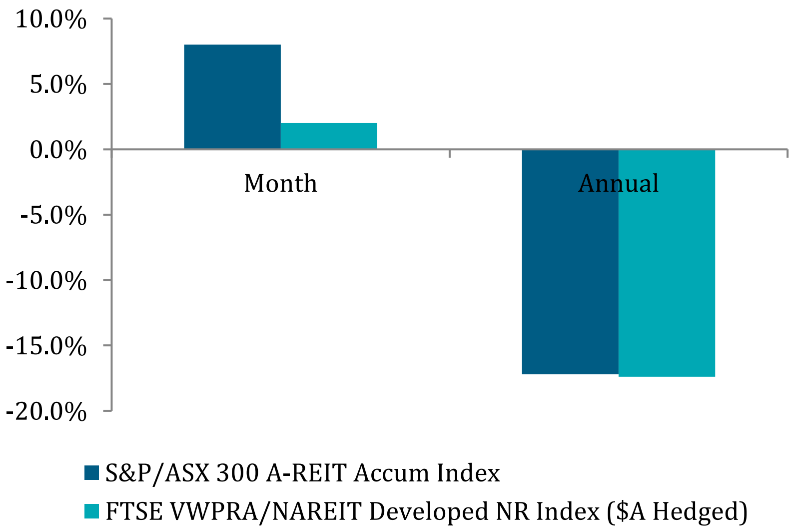
International Shares



The S&P 500 Index rose 7.2% in US dollar terms, ending August at record highs and fully recovered from its March low. The rebound in global equities has been led by large cap growth companies, which have benefitted from the persistent low rate, low growth environment.

The MSCI World Ex-Australia Index gained 3.5% in Australian dollar terms in August, while the MSCI Emerging Markets Index fell 0.9%. European shares pushed higher, albeit not as strongly as their US counterparts.

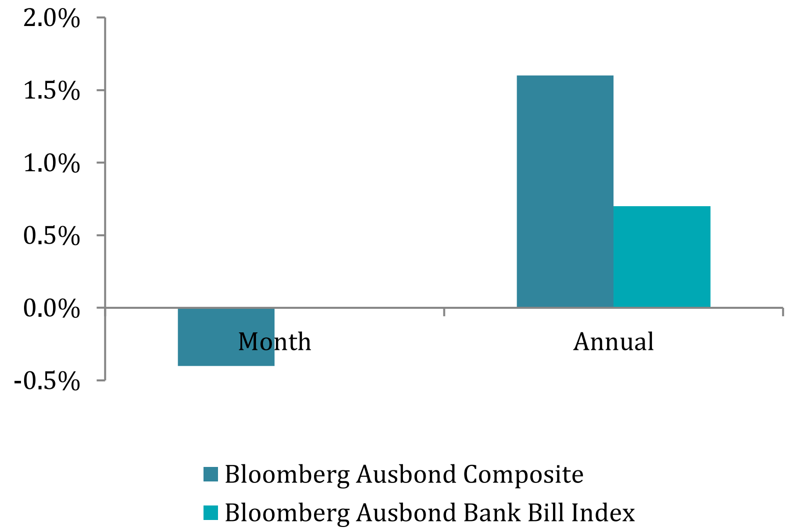
Property



Australian listed property gained 7.9% in August but remains down 17.7% over the past 12 months.

Globally, developed market REITs returned 1.8% in Australian dollar hedged terms. In the US, REITs were flat over August. Despite near-perfect rent collection through the pandemic, office property is battling the 'work from home' paradigm, which is putting pressure on the long-term outlook.

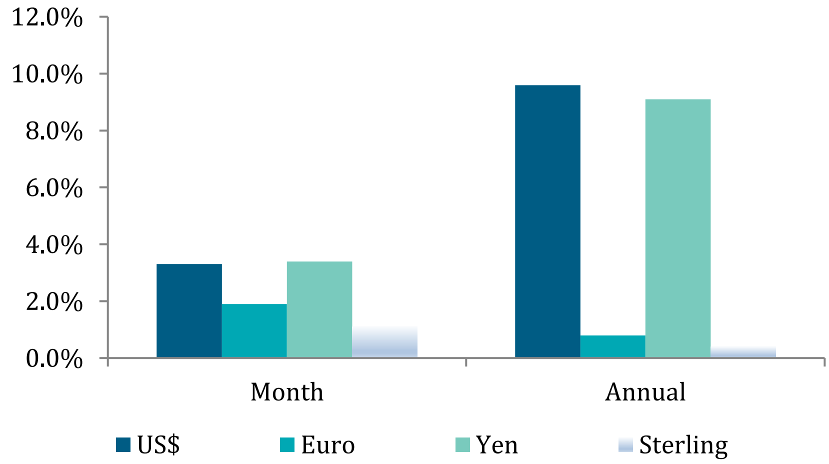
Fixed Interest



Yields rebounded from fresh record lows in August as risk-on sentiment prevailed over the month. The US 10-year Treasury yield hit a low of 0.51% before rising to end the month at 0.71%, while Australia's 10-year yield rose from its low of 0.82% at the start of August to 0.98% at month end.

As widely expected, the Reserve Bank of Australia left the cash rate and yield curve control target unchanged at 0.25% at its September meeting, but increased its Term Funding Facility to $200 billion and extended its availability until the end of June 2021.

Australian Dollar



The Australian dollar rose 2.0% in August to US$0.74 and may move higher thanks to the US Federal Reserve's pivot to a more flexible inflation target and robust demand for Australian iron ore. However, the US dollar returned as the preferred safe haven currency in early September following Trump's comments about a "decoupling" with China.

Key Investment Indices

As at 31 August 2020		1 month	3 months	6 months	1 year	5 years
Australian Shares		%	%	%	%	%
S&P/ASX 200 Accumulation Index		2.8	6.0	-4.5	-5.1	7.5
S&P/ASX 300 Accumulation Index		3.1	6.2	-4.1	-4.8	7.6
S&P/ASX Small Ordinaries Accumulation Index		7.2	6.6	4.6	2.1	10.5
S&P/ASX 300 Industrials Index		3.6	6.0	-7.5	-7.0	6.3
S&P/ASX 300 Resources Index		0.9	7.1	11.2	4.6	13.6
International Shares	**Value**	%	%	%	%	%
MSCI World Accumulation Index in $A		3.5	2.9	1.1	6.7	9.6
MSCI World Accumulation Index ($A hedged)		6.2	12.2	11.8	12.1	10.3
MSCI Emerging Markets Index in $A		-0.9	7.3	-3.3	4.3	7.7
Dow Jones Index in $US	28,430	7.6	12.0	11.9	7.7	11.5
S&P 500 Index in $US	3,500	7.0	15.0	18.5	19.6	12.2
FTSE 100 Index in £	5,964	1.1	-1.9	-9.4	-17.3	-0.9
Deutsche Boerse DAX Index in €	12,945	5.1	11.7	8.9	8.4	4.8
Nikkei 225 Index in ¥	23,140	6.6	5.8	9.4	11.8	4.1
Hang Seng Index in HKD	25,177	2.4	10.0	-3.7	-2.1	3.0
Shanghai Shenzhen CSI 300 Index in RMB	4,816	2.6	24.6	22.2	26.8	7.4
Property		%	%	%	%	%
S&P/ASX 200 A-REIT Accumulation Index		7.9	7.0	-15.5	-17.7	5.8
S&P/ASX 300 A-REIT Accumulation Index		8.0	7.3	-15.3	-17.2	6.2
FTSE EPRA/NAREIT Developed NR Index ($A Hedged)		2.0	5.5	-14.1	-17.4	2.6
Fixed Interest		%	%	%	%	%
Bloomberg Ausbond Bank Bill Index		0.0	0.0	0.2	0.7	1.7
Bloomberg Ausbond Composite Bond Index		-0.4	0.3	0.3	1.6	4.4
Barclays Global Aggregate Index ($A Hedged)		-0.7	0.8	0.8	2.5	4.6
Currencies (relative to $A)	**Value**	%	%	%	%	%
$US	0.7376	3.3	10.6	13.2	9.6	0.7
Japanese ¥	0.5090	3.4	8.6	11.0	9.1	-2.0
Euro €	0.6179	1.9	2.9	4.6	0.8	-0.5
Sterling £	0.5517	1.1	2.2	8.6	-0.4	3.5
Commodities	**Value**	%	%	%	%	%
S&P Goldman Sachs Commodity Index ($US)		5.4	16.7	-0.1	-9.8	-1.2
Oil ($US/barrel)	45.28	5.8	20.1	-4.8	-22.7	-2.8
Gold ($US/ounce)	1,967.80	-0.4	13.7	24.1	29.4	11.6
Iron Ore ($US/tonne)	122.19					
Inflation		%	%	%	%	%
Australia CPI		-0.0	-0.7	-1.9	-0.8	1.2

Sources: Lonsec

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