

Monthly Market Insights

October 2020

Australia

With a string of zero daily cases, the Victorian Premier, Daniel Andrews, announced an easing of restrictions, including the removal of the 25km 'ring of steel' around Melbourne and a further relaxing of rules around social gatherings and businesses. NSW Premier Gladys Berejiklian announced the reopening of the NSW/Victoria border on 23 November, with all requirements for border permits and quarantine removed. South Australia is also set to open its border with Victoria, allowing Victorians to travel into the state after self-isolating for two weeks.

The Australian economy is expected to contract by 4.0% in 2020 before increasing by around 5.0% in 2021 and 4.0% in 2022. Retail sales fell 1.1% in September, following a 4.0% fall in August, while headline inflation jumped 1.6% in the September quarter, largely in line with expectations of a 1.5% rise. The key driver of the increase was the ending of free childcare in all states except Victoria, however childcare is still 26% below pre-COVID levels, meaning further inflation pressures are expected in the coming quarters.

Labour force data showcased a resilient jobs market, despite the stage four restrictions imposed in Victoria. Employment rose 111,000 against expectations of a fall of 45,000, with the unemployment rate falling from 7.5% to 6.8%. The AiG Performance of Manufacturing Index rose 9.6 points to 56.3, hitting the first expansion reading since July.

In early November, the RBA lowered interest rates to an all-time low of 0.10% and committed to the purchase of \$100 million worth of 5- and 10-year government bonds over the next six months.

Global

Data from the World Health Organisation showed confirmed COVID-19 cases worldwide were above 45 million at the end of October and global deaths were 1.2 million. According to the IMF, the global growth rate is forecast to be a significantly negative figure of -4.4% for 2020, bouncing back to 5.2% in 2021, although recovery is expected to be "uneven and uncertain".

Economic data points to ongoing strength in the US recovery but record daily cases of COVID-19 are dragging on sentiment. US GDP growth was 33.1% in the September quarter, the biggest expansion ever recorded, beating expectations and rebounding strongly from the 31.4% contraction in the previous quarter.

New coronavirus cases continued to rise across Europe, prompting countries to implement new restrictions. The UK broadened the number of cities under the highest tier restrictions, while Germany and France announced heightened restrictions to prevent an uncontrolled outbreak. Eurozone GDP for the September quarter came in stronger than expected at 12.7%, the steepest pace of expansion on record as activity rebounded following the easing of lockdown restrictions. The unemployment rate across the eurozone was unchanged at 8.3% in September, while the year-on-year core inflation rate held steady at 0.2%.

China unveiled its 14th five-year plan, outlining its economic and social priorities for 2021-25. The plan is centred around maintaining economic growth, with technology and innovation again a key focus, especially strategic emerging sectors like biotechnology, semiconductors and new energy vehicles. China aims to be a "moderately developed" country by 2035, which would mean a GDP per capita of around US\$30,000 (nearly three times its current level).

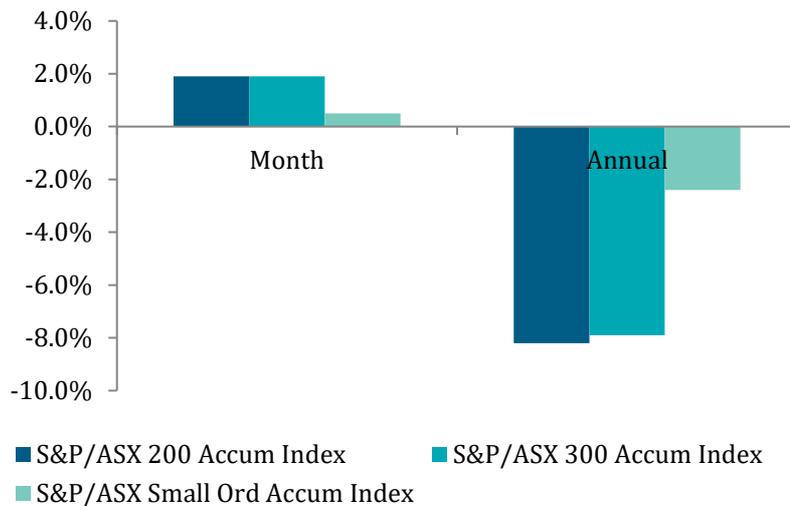
The Chinese economy continues to bounce back from the pandemic-induced slump. Compared to the same quarter last year, GDP rose 4.9% in Q3 2020, lagging the 5.2% growth expected, but still leading the world in terms of the strength of the recovery. Yearly industrial production surpassed expectations of 5.8% in September, rising 1.3% to 6.9%, while yearly retail sales improved to 3.3% in September (versus 1.8% expected).

Australia-China relations, which were already fraying, deteriorated further in November when Chinese authorities ordered traders to stop purchasing certain Australian commodities, including coal, barley, copper ore and concentrate, sugar, timber, wine and lobster. The move came shortly after Beijing imposed tariffs on Australian barley. China's Foreign Ministry spokesman said China hoped that Australia would "do more to enhance mutual trust and bilateral cooperation".

Commodities

Oil markets moved lower through October on the back of back of surging coronavirus cases globally and the impact on demand as many nations moved to impose tighter restrictions once again. Metals moved higher in October, while the Gold spot price was down over the month.

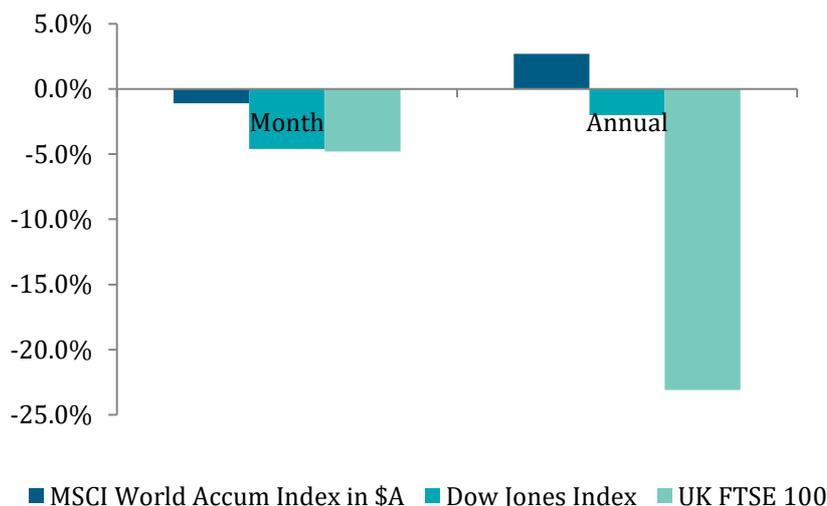
Australian Shares



Australian shares bucked the global trend to post a 1.9% return in October as easing restrictions, low case numbers, and a highly supportive federal budget bolstered confidence.

Information Technology was the top performing sector, followed by Financials. Even the beaten-down banks enjoyed a reprieve having been impacted by provisions, a rise in customer deposits, and contracting net interest margin.

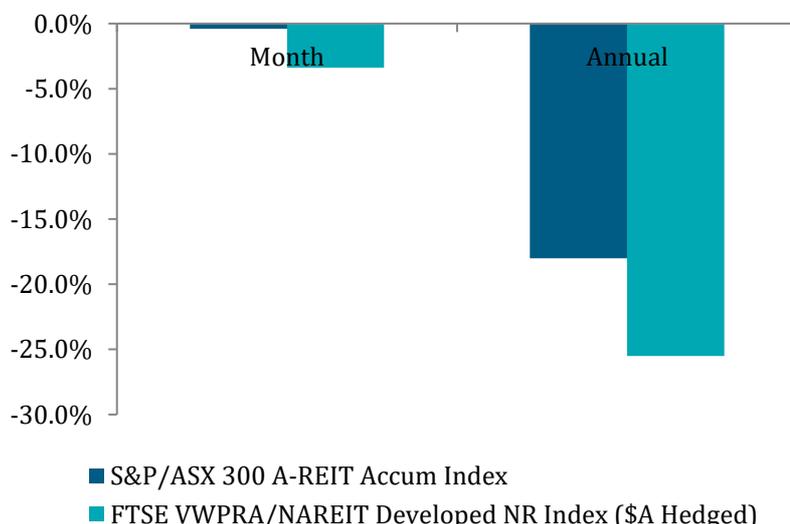
International Shares



In contrast to the Australian experience, global markets were down in October due to resurgent COVID-19 cases in Europe and the US, while an uncertain presidential election added to volatility in US shares. Markets responded favourably to news in November of the Pfizer/BioNtech vaccine, which saw a rotation back into cyclicals and value.

While earnings were largely overshadowed by politics, reporting is on track to soundly beat expectations.

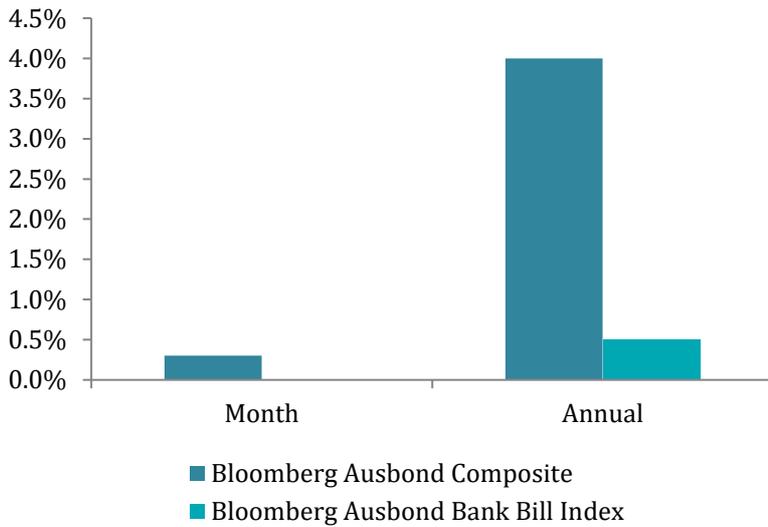
Property



Australian listed property could not match the positive month for local shares, sliding 0.4% in October as the effects of the pandemic threw up mixed results from the A-REIT index.

The office sector has continued to collect a high level of rents, and valuations have seen limited reductions given the level of local investor interest in high quality Australian property. However, rental incentives are rising and sub-lease space in Sydney and Melbourne is increasing.

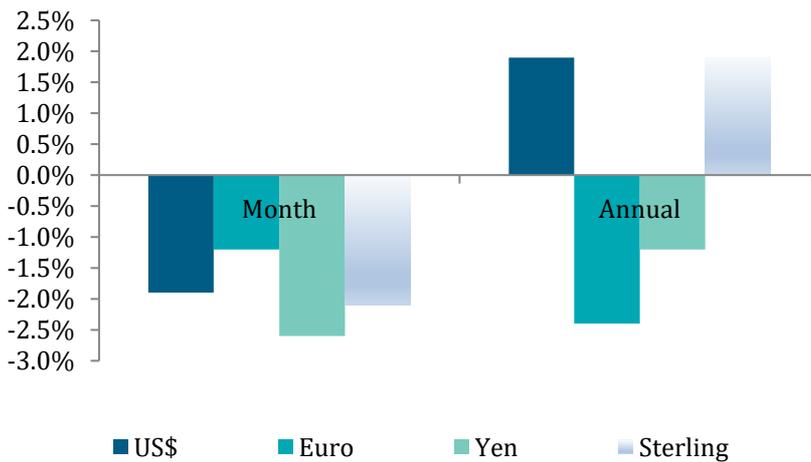
Fixed Interest



In November the RBA delivered largely as expected, reducing the cash rate to 0.10% and introducing additional policy measures, including \$100 billion in additional outright bond purchases in the 5-10-year maturity buckets. The target for the three-year bond remains in place, meaning the RBA will be combining yield curve control at the short end with quantitative easing at the middle to long end of the curve.

Australian credit spreads are expected to continue to remain well bid as issuance by financial institutions remains subdued thanks to strong growth in bank deposits with negligible interest rates.

Australian Dollar



The Australian dollar weakened slightly against the US dollar in October, falling to US\$0.70 as the RBA hinted strongly at more easing. If additional US fiscal spending occurs in coming months, this will likely see the US dollar depreciate due to the widening fiscal deficit.

Over October the Australian dollar was down against other major currencies including the British pound, euro and Japanese yen.

Key Investment Indices

As at 31 October 2020		1 month	3 months	6 months	1 year	5 years	
Australian Shares		%	%	%	%	%	
S&P/ASX 200 Accumulation Index		1.9	1.0	8.7	-8.2	6.8	
S&P/ASX 300 Accumulation Index		1.9	1.2	9.1	-7.9	6.9	
S&P/ASX Small Ordinaries Accumulation Index		0.5	4.7	15.1	-2.4	8.6	
S&P/ASX 300 Industrials Index		2.7	3.0	9.2	-9.0	5.7	
S&P/ASX 300 Resources Index		-1.2	-5.5	8.6	-3.2	12.7	
International Shares		Value	%	%	%	%	
MSCI World Accumulation Index in \$A			-1.1	2.0	4.9	2.7	8.5
MSCI World Accumulation Index (\$A hedged)			-3.2	-0.3	10.4	1.1	8.0
MSCI World Small Cap Index			2.0	5.6	10.0	-1.9	7.1
MSCI Emerging Markets Index in \$A			4.2	4.8	12.8	6.2	8.3
Dow Jones Index in \$US			-4.6	0.3	8.9	-2.0	8.5
S&P 500 Index in \$US			-2.8	-0.0	12.3	7.7	9.5
FTSE 100 Index in £			-4.8	-5.4	-5.5	-23.1	-2.6
Deutsche Boerse DAX Index in €			-9.4	-6.2	6.4	-10.2	1.3
Nikkei 225 Index in ¥			-0.9	5.8	13.8	0.2	3.8
Hang Seng Index in HKD			2.8	-2.0	-2.2	-10.4	1.3
Shanghai Shenzhen CSI 300 Index in RMB			2.4	0.0	20.0	20.8	5.9
Property			%	%	%	%	
S&P/ASX 200 A-REIT Accumulation Index			-0.4	5.9	12.4	-18.0	4.5
S&P/ASX 300 A-REIT Accumulation Index			-0.3	6.4	13.2	-17.2	4.9
FTSE EPRA/NAREIT Developed NR Index (\$A Hedged)			-3.4	-4.0	-0.5	-25.5	0.0
Fixed Interest			%	%	%	%	
Bloomberg Ausbond Bank Bill Index			0.0	0.0	0.1	0.5	1.6
Bloomberg Ausbond Composite Bond Index			0.3	0.9	1.9	4.0	4.5
Barclays Global Aggregate Index (\$A Hedged)			0.0	-0.4	1.4	3.8	4.4
Currencies (relative to \$A)		Value	%	%	%	%	
\$US	0.7028		-1.9	-1.6	7.9	1.9	-0.3
Japanese ¥	73.5570		-2.6	-2.7	5.4	-1.2	-3.1
Euro €	0.6035		-1.2	-0.5	1.5	-2.4	-1.4
Sterling £	0.5427		-2.1	-0.6	5.0	1.9	3.3
Commodities		Value	%	%	%	%	
S&P Goldman Sachs Commodity Index (\$US)			-2.7	0.3	32.6	-16.4	-1.3
Oil (\$US/barrel)	37.46		-11.0	-11.1	90.0	-33.9	-5.1
Gold (\$US/ounce)	1,878.81		-0.4	-4.9	11.4	24.2	10.5
Iron Ore (\$US/tonne)	120.19						
Inflation			%	%	%	%	
Australia CPI			0.1	1.1	0.4	0.5	1.5

Sources: Lonsec