Month in Review

Index returns at end August 2020 (%)

Australian Equities	1 mth	3 mth	6 mth	1 yr	3 yr	5 yr	10 yr
S&P/ASX 200 TR Index	2.83%	6.04%	-4.48%	-5.08%	6.10%	7.47%	7.81%
S&P/ASX Small Ordinaries TR Index	7.24%	6.61%	4.58%	2.07%	8.02%	10.47%	4.73%
Global Equities							
MSCI World TR Index (AUD)	3.49%	3.10%	1.23%	6.96%	13.02%	10.10%	13.44%
S&P 500 TR Index (AUD)	3.94%	3.66%	4.30%	11.08%	17.21%	13.49%	17.31%
FTSE 100 TR Index (AUD)	0.87%	-3.46%	-15.63%	-14.00%	0.36%	-0.31%	5.78%
MSCI Emerging Markets NR Index (AUD)	-0.89%	7.29%	-3.03%	4.30%	5.26%	7.74%	5.70%
Real Estate Investment Trusts							
S&P/ASX 300 A-REIT TR Index	7.95%	7.30%	-15.33%	-17.16%	4.72%	6.17%	9.78%
FTSE EPRA/NAREIT Dev. NR Index (AUD Hgd)	2.02%	5.51%	-14.06%	-17.42%	-1.21%	2.61%	7.71%
Fixed Interest							
Bloomberg Ausbond Composite 0+ Yr Index	-0.42%	0.26%	0.26%	1.61%	5.47%	4.36%	5.37%
Bloomberg Ausbond Bank Bill Index	0.01%	0.03%	0.18%	0.66%	1.44%	1.66%	2.60%
Barclays Global Aggregate TR Index (AUD Hgd)	-0.71%	0.79%	0.82%	2.52%	4.38%	4.60%	5.70%

Data source: Bloomberg & Financial Express. Returns greater than one year are annualised.
Commentary regarding equity indices below references performance without including the effects of currency (unless specifically stated).

Australian equities

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. Appen (-2.6%) reported 1H20 results in September, with revenue growth of 25% on the same quarter last year. Relevance was the largest contributor, with revenue growth of 24%, however Speech and Image revenue fell 20% following a breakout result in 1H19.

IOOF Holdings (+1.5%) announced the acquisition of MLC for $1.44 billion, which will be partially funded via an entitlement offer and placement. A2 Milk Company (-11.8%) reported revenue and EBITDA growth of 33% on the prior corresponding period. Infant formula was the main driver of the result, supported by a 65.1% increase in Chinese sales. CSL (+5.9%) 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.

Global equities

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. However, the start of September saw some pressure taken out of extended valuations, especially among US technology shares. In the first week, the NASDAQ fell 6.4% in price terms from Wednesday's record high. Electric car manufacturer Tesla gained 74.2% in August and fell 16.1% in the first week of September but was still 400% higher on the start of 2020.

One of the heroes of remote work, Zoom Communications, released its June quarter results at the end of August, which included a 355% rise in revenue on the prior corresponding period, soundly beating expectations. Zoom's share price rose 28.0% in August but fell 19.2% in the first week of September. 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, with the STOXX Europe 600 Index posting a 4.2% gain. In Asia, Japan's Nikkei 225 Index rose 6.6%, Hong Kong's Hang Seng Index rose 2.5%, and China's CSI 300 Index rose 2.8%.

Property

Australian listed property gained 7.9% in August but remains down 17.7% over the past 12 months. Scentre Group (+10.8%) announced 1H20 results, reporting a statutory loss of $3.6 billion, largely due to property devaluations of $4.1 billion. Excluding devaluations, EBIT fell 32.7% to $637.4 million after accounting for an expected credit charge of $232.1 million in relation to likely uncollectable rents and additional credit risk

Month in Review

associated with tenants due to COVID-19. While not in a position to provide guidance, Scentre outlined trading activity is showing signs of recovery, with 93% of stores trading and customer visits up to 84% on the prior corresponding period (both figures excluding Victoria).

Charter Hall Group (+18.9%) was another of the top gainers in August, reporting a jump in operating earnings of 46.3% to $322.8 million with net profit climbing 47% and distributions up 6% to 35.7 cents per share. Globally, developed market REITs returned 1.8% in Australian dollar hedged terms. In the US, REITs were flat over August, with hotels (+10.8%) and regional malls (+6.7%) the biggest gainers. Despite near-perfect rent collection through the pandemic, office property (-3.1%) is battling the 'work from home' paradigm, which is putting pressure on the long-term outlook.

Fixed income

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 (TFF) to $200 billion and extended its availability until the end of June 2021. The TFF was established in March to provide up to $90 billion of credit to banks at a fixed rate of 0.25%. Commenting on the outlook, the RBA noted the government has balance sheet scope for continued fiscal support while also stating it is considering further monetary policy measures to support the economy.

The US Federal Reserve issued a revised Statement on Longer-Run Goals and Monetary Policy Strategy, which introduces flexible average inflation targeting (coined FAIT by some) to compensate for periods where inflation runs below the 2 percent target (such as following an economic downturn). Yield curve targeting, which is used by some central banks including the RBA, went unsupported, with the consensus view that it "would likely provide only modest benefits in the current environment."

ASX 200 share movements

S&P/ASX 200 share performance for the month to August

Best performers		Worst performers	
Corporate Travel Management	83.16%	Whitehaven Coal	-32.85%
IDP Education	50.90%	Resolute Mining	-15.00%
Reliance Worldwide Corp	42.54%	Gold Road Resources	-14.99%
Mesoblast	40.48%	Treasury Wine Estates	-14.35%
oOh!media	37.33%	ResMed	-13.86%

S&P/ASX 200 share performance for the year to August

Best performers		Worst performers	
Mesoblast	270.03%	Southern Cross Media Group	-81.55%
Afterpay	195.16%	Whitehaven Coal	-71.46%
Mineral Resources	120.73%	Flight Centre Travel Group	-68.40%
Fortescue Metals Group	117.75%	Unibail-Rodamco-Westfield	-67.06%
Fisher & Paykel Healthcare Corp	115.41%	oOh!media	-58.86%

Economic News

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. From 28 September, JobKeeper payments will fall from $1500 per fortnight to $1200, and $750 for those working less than 20 hours per week.

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

Month in Review

underemployment remains high, while wage and price pressures remain subdued. According to the Reserve Bank of Australia, inflation is expected to average between 1.0% and 1.5% over the next two years.

The **unemployment rate** rose 0.1 points to 7.5% in July, while the participation rate lifted from 64.0% to 64.7%. Employment increased 114,700 to 12,460,800 people. Full-time employment increased 43,500 to 8,547,100 people and part-time employment increased 71,200 to 3,913,600 people. Monthly hours worked in all jobs increased 21.7 million hours to 1,681.3 million hours.

Retail sales rose 3.2% in July (versus 3.3% expected). 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% (-3.0% expected), led by a 12.0% drop in service exports, while imports rose by 6.9% (+6.0% expected).

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. The production sub-index fell 3.0 points to 53.4 and employment fell 3.2 points to 50.2, while new orders dropped 6.1 points to 46.6. There was large divergence between larger manufacturing states, with Victoria's PMI down 9.3 points and back into contraction at 44.0, while NSW dropped 5.2 points but remained in expansion at 51.0.

The **Westpac-Melbourne Institute Index of Consumer Sentiment** jumped by 18% from 79.5 in August to 93.8 in September. While the mood is still fairly negative, the improvement comes despite news that Australia officially entered recession, meaning consumers may be looking ahead rather than back at the previous quarter. August's slump was due in part to Victoria entering stage 4 restrictions, but an improvement in new cases of COVID-19 have helped ease concerns.

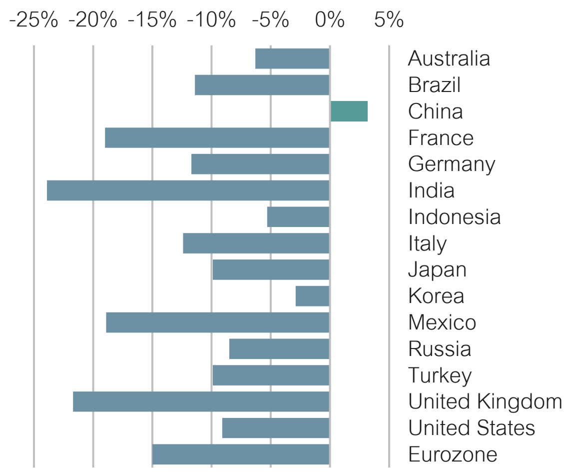
Global

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.

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 from 10.2% in July to 8.4% in August, well below the expected 9.8% and marking the fourth consecutive monthly decline since the 14.7% all-time high recorded in April. Average weekly hours worked came in broadly as expected at 34.6 and average hourly earnings increased 0.4%, above expectations of no change. The ISM Manufacturing PMI rose to 56.0 in August, beating expectations for 54.5, pointing to the biggest expansion in the manufacturing sector since November 2018. August's ISM service PMI came in largely as expected at 55.0, up from 50.0 in July.

Quarterly GDP improved 1.2% to -31.7% in Q2, exceeding expectations of -32.9%. Initial jobless claims for the week of 29th of August showed a drop in claims, coming in at 881,000 (950,000 expected), down from 1,011,000 in the previous week. Turning to the upcoming US presidential election, the majority of polls put to Democratic nominee Joe Biden in the lead nationally as well as in states that Trump won in 2016 like Michigan and Wisconsin. However, the polls failed to gauge Trump's support last time around, with some commentators claiming incumbency may favour Trump.

GDP growth (year-on-year) Q2 2020



Source: National accounts, Bloomberg

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 European Centre for Disease Prevention and Control (ECDC) warned EU members of the risk of shortening the quarantine length as Germany informed EU authorities that it planned to follow the Netherlands and Norway in reducing the quarantine period for people returning from high risk countries to five days. 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

Month in Review

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, missing against the expected positive 0.2% rate and down from 0.4% in the previous month.

Germany's unemployment rate was unchanged at 6.4% in August. However, employment fell by 9,000 against expectations for a gain of 1,000. In the UK, while August's Markit Composite PMI came in at a healthy 59.1, it missed expectations of 60.3, largely due to the services PMI which came in at 58.8, below expectations of 60.1.

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 mis-managing 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 NBS Manufacturing PMI was 51.0 in August, slightly lower than the 51.2 expected and down from 51.1 in the previous month. It also showed the sixth straight month of expansionary factory activity since the coronavirus outbreak in February. 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. The US trade deficit with China remains stubbornly high, with the latest figures showing an increase of US $1.6 billion to $28.3 billion in July.

Commodities

Oil prices rose through August with the Brent crude spot price rising 4.9% to US $45.22 per barrel and the WTI crude sport price rising 6.3% to US $42.61. However, oil prices came under pressure in early September as coronavirus cases continued to rise globally and threaten demand for oil.

Metals were positive over the month, with increases in Nickel (+11.5%), Zinc (+8.5%), Aluminium (+5.0%), Lead (+4.9%) and Copper (+4.0%), while Tin (-0.3%) was flat. Gold softened over August, falling from US $1,975.86 per ounce to $1,971.90 after pushing above $2,000 earlier in the month.

Currencies

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.

Month in Review