Month in Review

Index returns at end May 2020 (%)

Australian Equities	1 mth	3 mth	6 mth	1 yr	3 yr	5 yr	10 yr
S&P/ASX 200 Accumulation Index	4.36%	-9.92%	-14.60%	-6.70%	4.35%	4.27%	7.25%
S&P/ASX Small Ordinaries Acc. Index	10.58%	-1.91%	-7.67%	-2.92%	7.51%	6.59%	4.38%
Global Equities							
MSCI World TR Index (AUD)	3.46%	-1.82%	-3.36%	12.06%	10.64%	9.52%	12.49%
S&P 500 TR Index (AUD)	3.33%	0.62%	-0.24%	17.77%	14.52%	13.03%	15.95%
FTSE 100 TR Index (AUD)	-0.10%	-12.60%	-18.15%	-9.75%	-0.64%	-0.13%	6.45%
MSCI Emerging Markets NR Index (AUD)	-0.61%	-9.62%	-7.98%	-0.20%	3.74%	3.79%	4.89%
Real Estate Investment Trusts							
S&P/ASX 300 A-REIT Acc. Index	7.05%	-21.09%	-23.44%	-16.39%	1.18%	4.14%	9.40%
FTSE EPRA/NAREIT Dev. NR Index (AUD Hgd)	0.14%	-18.55%	-24.35%	-18.67%	-2.43%	0.28%	7.67%
Fixed Interest							
Bloomberg Ausbond Composite 0+ Yr Index	0.29%	0.00%	1.51%	4.94%	5.15%	4.51%	5.71%
Bloomberg Ausbond Bank Bill Index	0.01%	0.16%	0.39%	0.97%	1.58%	1.77%	2.72%
Barclays Global Aggregate TR Index (AUD Hgd)	0.27%	0.02%	2.78%	6.03%	4.49%	4.44%	6.09%

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

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.

Wesfarmers (+7.1%) announced the results of the first phase of its Target review, which will involve the closure of stores and, where suitable, the conversion of Target stores to Kmart stores. Blackmores (+8.2%) announced a $117 million equity raising to strengthen its balance sheet and accelerate Blackmores' growth in Asia. While COVID-19 had seen a sharp increase in demand for its immunity products, this is a small part of its portfolio and has been offset by a lag in non-immunity products due to lower shopping traffic. The government announced an extension of aid to the airlines to support a minimal domestic network as Qantas (+3.4%) CEO Alan Joyce said plane tickets would cost ten times as much if social distancing was enforced on flights, making it economically impossible to keep planes in the air.

Global equities

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.

US shares were boosted by mega-cap names like Apple (+9.8%) and Facebook (+10.0%), as concerns around valuations re-emerged. Of course, some companies have benefited from the change in work arrangements globally. Online video conferencing provider Zoom (+32.8%) saw a jump in revenue of 169% to US $328.2 million and doubled its revenue guidance for the year. Meanwhile, US airlines are still languishing, with American Airlines down 12.6% in May. Europe's share rally was supported by the European Central Bank's €750 billion Pandemic Emergency Purchase Programme, with European small cap shares performing especially well.

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 (+16.9%) and Charter Hall (+26.7%), with growing confidence that the sector

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can weather the storm. Vicinity Centres (+8.1%) announced its intention to raise $1.4 billion of equity via a $1.2 billion institutional placement and $200 million share purchase plan, at $1.48 per share. The funds will be used to strengthen the balance sheet and provide flexibility to respond to the uncertainties caused by COVID-19. Vicinity decided not to pay a distribution for the second half of 2020 and noted that preliminary draft valuations indicate a reduction in aggregate asset value as at 30 June 2020 of 11–13% or $1.8–2.1 billion.

Charter Hall and joint venture partner Allianz Real Estate sealed a $648 million deal to acquire four distribution centres owned by discount supermarket Aldi. The deal makes Charter Hall the largest industrial landlord to the four major supermarket operators in Australia. 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 following April's rise of 8.1%.

Fixed income

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. The US 10-year yield rose slightly over May from 0.64% to 0.65% before moving higher early in June to just under 0.90% on the back of positive jobs figures and service sector activity. The US Fed remains committed to buying Treasury securities and agency mortgage-backed securities in whatever amounts needed to support smooth market functioning. These purchases totalled more than $2 trillion at the end of May and are continuing, although at a reduced pace as the economy shows signs of improvement and liquidity returns to credit markets.

Since March, the Fed has announced the establishment of no fewer than nine new facilities to support the flow of credit to households and businesses, which has helped to restore confidence to financial markets. While the Fed has no explicit yield curve control measure in place, markets are banking on the Fed keeping yields low. 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% before rising to 1.09% early in June, while the 3-year bond yield held around the RBA's 0.25% target.

ASX 200 share movements

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

Best performers		Worst performers	
Southern Cross Media Group	67.86%	Incitec Pivot	-15.90%
Afterpay	51.96%	Alumina	-14.41%
nearmap	50.16%	Unibail-Rodamco-Westfield	-14.29%
Janus Henderson Group	35.90%	New Hope Corp	-12.62%
Webjet	35.29%	CSL	-10.74%

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

Best performers		Worst performers	
Silver Lake Resources	173.75%	Southern Cross Media Group	-72.58%
PolyNovo	129.17%	oOh!media	-67.51%
Afterpay	96.31%	Flight Centre Travel Group	-65.99%
Fisher & Paykel Healthcare Corp	94.29%	Pilbara Minerals	-63.89%
Fortescue Metals Group	92.53%	Webjet	-60.21%

Economic News

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 from an upwardly revised $1.7 billion in the December quarter

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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. Retail sales declined 17.9% in April, falling sharply from 8.5% growth in March. 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 (-53.6%) and cafes, restaurants and takeaway food services (-35.4%), while department stores were also hit hard, with sales down 14.9%.

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** of 5.8 points to 41.6. Key sub-indices saw some improvement, with Production rising 7.1 points to 42.4, Employment rising 6.4 points to 40.7, and New Orders rising 2.4 to 35.1. However, the Exports sub-index dropped 11.5 points to 31.1, hitting a new record low.

Along with signs of a nascent economic recovery was the beginnings of a psychological recovery for consumers. The Westpac-Melbourne Institute **Index of Consumer Sentiment** rose 12.5 points to 88.1 in May from the extremely weak 75.6 read in April. 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

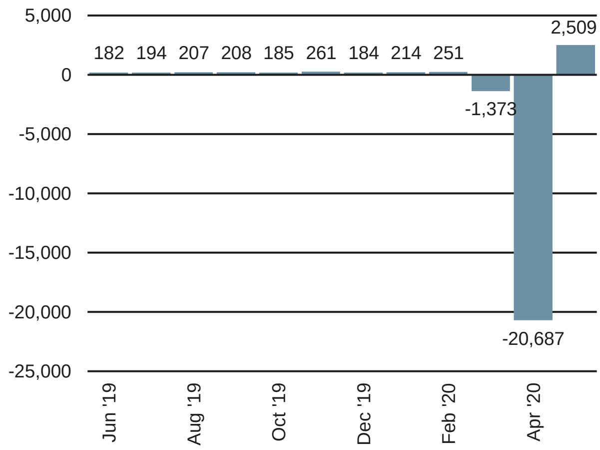
Key economies have so far avoided a resurgence in COVID-19 cases, but the World Health Organisation warned it continues to spread rapidly in some regions. The number of new COVID-19 cases appear to have passed their peak in many key economies, but health authorities continue to warn of a possible second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

The **ISM Manufacturing Index** came in slightly better than expected at 43.1 versus an expected 42.7, up from 41.5 in April. Construction spending fell 2.9% in April, well ahead of the expected 5.5% fall. April's durable goods orders fell 17.2%, slightly better than the -19.0% expected, while ex-transportation orders showed surprising strength to only fall 7.4% against expectations for a 14.0% fall. Personal income rose 10.5% in April, well ahead of the expected 6.5% fall, held up by federal stimulus payments, while personal spending fell 13.6%, in line with an expected 12.6% fall.

US Non-farm Payrolls ('000)



Source: Bureau of Labor Statistics

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. Schools, restaurants, hospitals and hotels are gradually reopening in many countries, and Germany is even set to remove its travel restrictions for 31 countries on 15 June.

In the **UK**, Prime Minister Johnson announced that up to six people are able to meet outside, while secondary schools in England will reopen from 15 June, although with only a quarter of students allowed at school at any one time. On the data front, the unemployment rate in the eurozone rose less than expected, from a prior revised 7.1% to 7.3% in April (versus 8.2% expected).

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. It was the steepest contraction since the March quarter of 2009, led by household consumption slumping 3.2% and fixed investment in machinery plunging 6.9%. The Ifo

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Business Climate Index rebounded from an all-time low of 74.2 in April to 79.5 in May, ahead of expectations of 78.3. The European Commission's economic sentiment index lifted marginally to 67.5 in May from a downwardly revised 64.9 in April.

In contrast to the US, which saw the largest rise in unemployment in the post-war period, 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.

The **Caixin Manufacturing PMI** for May came in at 50.7, slightly ahead of the 49.6 expected and up from 49.4 in April. Industrial profits fell 27.4% year-on-year, largely as expected, and improved from -36.7% in March, with industrial activity regaining momentum as lockdown measures eased throughout the country. 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 re-emerged, this time over Beijing's introduction of national security laws in Hong Kong. President Trump responded by saying he would remove some policy agreements with Hong Kong, including an extradition treaty, commercial relations and export controls. Chinese exports and imports both fell in May due to the COVID-19 pandemic, with exports down 3.3% and imports down 16.7% on the previous year, resulting in a rise in the trade surplus of US $62.9 billion.

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 to US $34.15 per barrel and the WTI spot price rose 85.0% to US $35.57 per barrel. Metals gained over the month, with rises in the price of Copper (+3.6%), Aluminium (+3.6%), Lead (+2.3%), Zinc (+2.5%), Tin (+1.4%) and Nickel (+1.1%). Gold rose 2.5% to US $1,730.27 per ounce.

Currencies

The Australian dollar continued its rally through May, ending the month at US $0.67 and pushing to $0.70 early in June, 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 2.1% against the US dollar, 0.3% against the Japanese yen, 1.1% against the euro, and 6.5% against the British pound.

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