Month in Review

Index returns at end March 2020 (%)

Australian Equities	1 mth	3 mth	6 mth	1 yr	3 yr	5 yr	10 yr
S&P/ASX 200 Accumulation Index	-20.65	-23.10	-22.57	-14.42	-0.56	1.39	4.92
S&P/ASX Small Ordinaries Accumulation Index	-22.38	-26.72	-26.17	-21.02	-1.33	2.52	1.10
Global Equities							
MSCI World TR Index (AUD)	-8.53	-9.19	-5.31	4.60	10.30	8.54	11.60
S&P 500 TG Index (AUD)	-7.67	-7.66	-3.36	7.96	13.11	11.56	15.10
FTSE 100 TR Index (AUD)	-11.45	-18.13	-13.28	-9.87	2.87	1.42	6.04
MSCI Emerging Markets NR Index (AUD)	-10.88	-12.25	-5.84	-4.47	5.87	4.15	4.85
Real Estate Investment Trusts (REITs)							
S&P/ASX 300 A-REIT Accumulation Index	-35.16	-34.31	-34.78	-31.33	-4.75	0.46	7.21
FTSE EPRA/NAREIT Dev. NR Index (AUD Hgd)	-23.36	-28.63	-28.19	-24.50	-3.89	-1.48	6.53
Fixed Interest							
Bloomberg Ausbond Composite 0+ Yr Index	-0.21	2.99	1.63	6.80	5.74	4.24	5.92
Bloomberg Ausbond Bank Bill Index	0.10	0.26	0.49	1.23	1.66	1.83	2.79
Barclays Global Aggregate TR Index (AUD Hgd)	-1.52	1.48	0.70	5.82	4.42	3.98	6.14

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 faced a very tough March as measures to combat the spread of the coronavirus, along with the economic dislocation globally, hit businesses hard. The only good news was sign of a relief rally late in the month as markets began pricing in stimulus measures announced by the government, but no sector has made it through this period unscathed. Measures such as travel bans and social distancing have taken a huge toll on airlines, travel, leisure, retail and hospitality businesses. Flight Centre (-69.6%) entered a trading halt in March while Qantas (-41.6%) has significantly reduced capacity and was forced to stand down two thirds of its workforce (around 20,000 people).

Social distancing measures have also hit entertainment businesses like Star Entertainment Group (-41.1%), which owns Sydney's Star casino, and care providers like G8 Education (-48.6%), which owns a portfolio of childcare and early learning centre brands. Winners amid the chaos include some consumer staples names including wholesale distributor Metcash (+27.5%) and Coles Group (+6.7%), which have seen a boost in sales due to consumers stocking up as they prepare for quarantine. Telstra (-10.5%), while it has also taken a hit, has stated it may meet the lower end of its guidance range and will maintain its dividend amid strong NBN demand.

Global equities

While the extent of the fall is not unprecedented, the speed at which the market is falling certainly is. The tightening of liquidity conditions across a range of markets was symptomatic of severe stresses in the financial system, raising the risk of a more disorderly and precipitous decline in economic activity. The behaviour of financial markets in the period ahead and the ultimate depth of the economic downturn is highly uncertain. Market moves are not only dependent on the rate at which the virus spreads, but the fiscal, monetary and liquidity support that is provided by governments and central banks.

The US share market tripped circuit breakers three times in two weeks (these are triggered by a sudden 7% drop in the market, resulting in a 15-minute pause in trading), while volatility, measured by the CBOE Volatility Index, hit 82.7 points mid-March. Adding to the global coronavirus situation is the rapid fall in oil prices precipitated by a price war between Russia and Saudi Arabia. The WTI crude oil price finished March at US $20.1 per barrel – the lowest price since February 2002. The collapse in prices threatens the US shale oil industry, which relies on prices sitting above US $40 per barrel. Emerging markets may get caught up in a flight to quality, although they have generally held up better than developed markets in the current crisis, due in part to the relative fast and organised response in Asia.

Property

Listed property has been dealt a severe blow by social distancing measures and the need for people only to venture out of their homes for essential shopping. The effects have been particularly acute for Australia's retail REITs, which have experienced a fall in foot traffic and will need to negotiate with distressed tenants who will be asking for rent relief. Scentre Group (-54.8%), which operates under the Westfield brand in Australia, was

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the worst performing of the S&P/ASX A-REIT Index in March, followed closely by Vicinity Centres (-52.1%), whose Chadstone shopping centre has seen major tenants like Kmart and Coles close or drastically reduce their opening hours. Now that listed market values have plummeted, pressure has mounted on investment managers and super funds to update values on their unlisted assets more regularly than the usual quarterly cycle. In Australia, AMP Capital is leading the way with valuers now being asked to revalue property assets in their flagship AMP Capital Shopping Centre Fund and AMP Capital Wholesale Office Fund. Globally, investors are cognisant that for sectors like Hotels, Offices and Shopping Centres, the impact of the virus could last six months or more due to physical distancing and working from home.

Fixed income

Credit markets came under stress in March with little interest from market participants except in the highest quality names. There were concerns that default rates could rise broadly across multiple sectors, with services industries such as airlines (without sovereign backing) and hotels at a high risk of bankruptcy. Government bond markets also appear to be under stress with bid/ask spreads for US Treasuries stretched to 5–10 basis points (these are normally around 0.25 basis points or less).

Australian government bond markets saw a 10–20 basis point bid/ask spread, which has not been experienced in over 30 years. US Libor rates (the rate at which banks lend to each other) also rose, while corporate credit spreads spiked higher as a wave of selling exposed a lack of liquidity in that market. A combination of corporates drawing down credit lines to build cash reserves, banks becoming more cautious in lending, and investors seeking to redeem investments across all asset classes led to acute liquidity concerns. This in turn raised the risk of a more severe downturn in financial markets and an even more significant decline in economic activity.

ASX 200 share movements

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

Best performers		Worst performers	
Metcash	27.53%	Southern Cross Media Group	-75.91%
Fisher & Paykel Healthcare	17.28%	oOh!media	-71.97%
Blackmores	13.40%	Flight Centre Travel Group	-69.62%
WiseTech Global	13.25%	AP Eagers	-65.88%
Bega Cheese	13.09%	Webjet	-60.67%

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

Best performers		Worst performers	
PolyNovo	114.00%	Southern Cross Media Group	-85.90%
Fisher & Paykel Healthcare	93.30%	oOh!media	-79.82%
Avita Medical	78.95%	Pilbara Minerals	-78.48%
ResMed	70.87%	Flight Centre Travel Group	-76.43%
Silver Lake Resources	68.29%	Webjet	-74.16%

Economic News

Australia

As the COVID-19 pandemic sweeps across the globe, shutting down countries and closing borders, the Australian government had to quickly come to terms with the severity of the health crisis and the inevitability of an economic recession. A series of economic measures has been announced since early March to mitigate the impact on the local economy and people's lives. The usual May federal budget was delayed to October 2020, while the uncertainty makes formulating reliable economic and fiscal estimates an impossible task.

The government is providing up to $100,000 to eligible small- and medium-sized businesses and not-for-profits (including charities) that employ people, with a minimum payment of $20,000. Employers with turnover less than $1 billion who have experienced a 30% reduction in revenue will receive payments of $1500 per fortnight per eligible employees for up to six months.

The RBA cut rates to 0.25% in March and left rates on hold at its April meeting. The RBA also announced a policy of yield curve control, targeting 3-year bond yields at 0.25%. Many loans are priced off the three-year bond and this guidance indicates that the RBA will purchase government bonds and semi-government

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securities across the yield curve to help achieve this target, as well as to address market dislocations.

There are signs in early employment data that the coronavirus is having a significant impact on the Australian jobs market. The number of **job advertisements** dropped by 10.3% in March on the previous month, falling by an even steeper 18.2% when compared to the same period last year.

According to an ABS survey on the effects of the coronavirus, two thirds (66%) of Australian businesses reported that their turnover or cash flow had reduced as a result. Nearly half (47%) of businesses had been forced to make changes to work arrangements and for some businesses this included temporarily reducing or increasing staff working hours.

Contrary to expectations, the **AIG Manufacturing Index**, which measures manufacturing activity, saw a rebound in March from 44.3 to 53.7, re-entering expansion territory since the previous month's shock decline. This was due almost entirely to the short-term need for food, groceries and personal care products due to quarantine measures, which has resulted in huge lifts in new orders and sales.

Less surprising was March's decline in consumer sentiment due to the worsening COVID-19 situation and disruption in financial markets. The Westpac Melbourne Institute **Index of Consumer Sentiment** fell from 95.5 to 91.9, hitting a five-year low. Promisingly, consumers still see the virus as a short-term phenomenon, reflected in the 'finances, next 12 months' sub-index, which was down only 1.7%. Overall, consumers appear less perturbed by the outbreak than during the GFC period.

Global

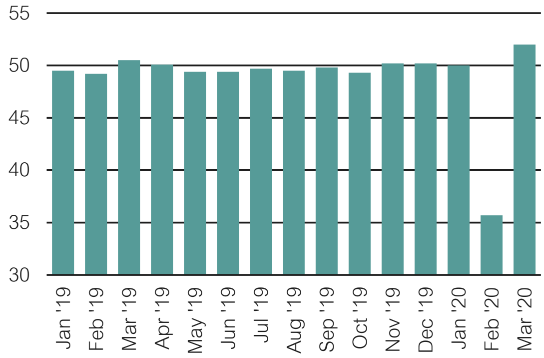
Governments around the world have implemented extreme measures including social distancing, partial shutdowns, and full lockdowns in order to prevent the spread of the coronavirus. With consumer-facing sectors essentially shut down and global supply chains in disarray, economic activity is rapidly falling, and a recession has most likely already begun.

On 15 March the **Federal Reserve** cut the funds rate by a full percentage point from 1.25% to 0.25% and announced that it would embark on unlimited bond purchases in an unprecedented move that aims at keeping Treasury yields and mortgage rates low. The **US 10-year Treasury yield** spiked to 1.2% from 0.5%, while mortgage rates had crept up to 4.0%, undermining efforts to support housing and equity markets.

The US appears set to pass a **US $2 trillion fiscal stimulus package** in response to the coronavirus. This amounts to around 10% of GDP, while the current fiscal deficit is around 5%. Given an expected contraction of GDP in the vicinity of 10% in the June quarter, this stimulus package seems appropriate. There is, however, considerable uncertainty over the extent and duration of the damage to GDP.

The key for any fiscal response is size, speed of implementation, and the ability to target the measures to those most exposed. The extent of the economic damage to date has been most clearly evident in the unemployment data. **Non-farm payrolls** showed a reduction of 701,000 jobs in March, while **initial jobless claims** made an extraordinary leap to 6.6 million according to the 2 April release, up from 281,000 in the 19 March release.

China Manufacturing PMI



Source: Bloomberg

EU leaders continue to disagree on a fiscal response to the coronavirus. While there were signs of some early support for so-called 'corona-bonds', which would take the form of jointly-issued debt by EU member states, the idea was ultimately rejected by Germany and the Netherlands. The most likely solution will involve providing credit via the **European Stability Mechanism** (ESM) bailout fund, which could be up to 2% of the requesting country's GDP with a maturity of 5-10 years.

Most Europe-wide economic data thus far pertains to February, before containment measures were introduced by national governments, making the full impact on jobs and economic activity difficult to determine. However, all agree that swift action is required from the EU in order to forestall the worst effects from the virus. At a national level**, Germany announced a fiscal stimulus worth €756 billion**, or 10% of annual GDP. This includes a €600 billion bailout fund to take stakes in stricken companies, while the government will also add €156 billion in additional debt and extend borrowing above the 'debt brake' limit of 0.35% of GDP.

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The **UK announced a £350 billion package** of loans and grants to help British businesses pay the bills, while those businesses in sectors such as retail and hospitality will receive a year-long holiday from paying business rates.

The situation in China appears to be stabilising, with the rate of infection slowing in recent weeks while the rest of the world takes action to prevent the spread. China has begun easing restrictions in Hubei with some travel permitted and some industries restarting approximately two months since the region was locked down. This followed a visit from President Xi Jinping to the region as a show of confidence in his government's efforts.

The broader impact on the **Chinese economy** is most clearly seen from the PMI numbers, which gauge manufacturing activity. February's result saw a drop from 50.0 to 35.7, indicating a very significant contraction. After recording **GDP growth** of 6.1% in 2019, the World Bank now estimates that growth will fall to 2.3% in 2020 (and that's a best-case scenario).

The market is expecting some form of stimulus to be forthcoming, but few expect the measures to be of the same magnitude as previous packages. This time around, China has less room to move given high levels of debt and the diminishing returns on large-scale infrastructure projects. That's not to say there will be no response – Chinese authorities are considering spending up to RMB 2.8 trillion (US $394 billion) in local government special bonds to boost infrastructure, which, while smaller than previous programs, would be significant.

Commodities

Oil markets have compounded the drama of the coronavirus, moving lower in February and then falling dramatically through March following a spectacular falling out between Saudi Arabia and Russia over how to manage global supply. Both are now engaged in a price war that is threatening US shale producers, some of which are highly leveraged.

The Brent oil spot price fell 63% over March from US $51.31 per barrel to $19.19 while WTI crude fell 54% from $44.83 to $20.51. Base metals were also down in March, with falls in Copper (-12.1%), Tin (-10.4%), Aluminium (-9.9%), Nickel (-6.3%), Lead (-5.8%) and Zinc (-5.7%). Gold was mostly steady, moving from US $1,585.7 per ounce to $1,597.9.

Currencies

The Australian dollar fell from US $0.6515 to $0.6102 in March as coronavirus fears took hold in markets, but a weaker dollar may act as a shock absorber and hold off the very worst of the economic impact. However, exports, especially travel and education related, will still be highly constrained due to the global travel lockdown.

Over the March 2020 quarter, the Australian dollar fell 12.7% against the US dollar, 13.5% against the Japanese yen, 11.2% against the euro, and 6.7% against the British pound.

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March 2020

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