Month in Review

Index returns at end June 2020 (%)

Australian Equities	1 mth	3 mth	6 mth	1 yr	3 yr	5 yr	10 yr
S&P/ASX 200 Accumulation Index	2.61%	16.48%	-10.43%	-7.68%	5.19%	5.95%	7.80%
S&P/ASX Small Ordinaries Acc. Index	-1.95%	23.90%	-9.21%	-5.67%	6.10%	7.90%	4.57%
Global Equities							
MSCI World TR Index (AUD)	-1.00%	6.27%	-3.50%	5.39%	11.22%	9.89%	12.85%
S&P 500 TR Index (AUD)	-1.67%	7.16%	-1.05%	9.57%	14.79%	13.19%	16.34%
FTSE 100 TR Index (AUD)	-2.04%	-3.31%	-20.84%	-14.71%	0.29%	0.26%	6.37%
MSCI Emerging Markets NR Index (AUD)	3.50%	4.97%	-7.89%	-1.53%	5.63%	5.15%	5.40%
Real Estate Investment Trusts							
S&P/ASX 300 A-REIT Acc. Index	-1.22%	20.22%	-21.02%	-20.71%	2.33%	4.73%	9.37%
FTSE EPRA/NAREIT Dev. NR Index (AUD Hgd)	2.17%	8.59%	-22.51%	-17.63%	-1.89%	1.62%	8.14%
Fixed Interest							
Bloomberg Ausbond Composite 0+ Yr Index	0.31%	0.53%	3.53%	4.18%	5.57%	4.77%	5.60%
Bloomberg Ausbond Bank Bill Index	0.01%	0.06%	0.32%	0.85%	1.53%	1.73%	2.68%
Barclays Global Aggregate TR Index (AUD Hgd)	0.48%	2.27%	3.57%	5.18%	4.73%	4.76%	6.01%

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

It is apparent that many investors were 'voting' for a sharp rebound once the dark COVID-19 clouds cleared. The S&P/ASX 200 Index ticked past 6,000 points in early July and is once again in bull market territory. Stocks that are leveraged to online retail activity have been standout performers during this isolation period, including Kogan, Temple & Webster, and City Chic. The past three months of hyper growth rates in online sales have been the equivalent of the past three years of cumulative growth.

Afterpay (+28.6%) announced an $800 million capital raising and co-founder sell down, while Qantas Airways (-5.3%) provided a post-COVID recovery plan, which focuses on rightsizing the workforce, along with a planned equity raising of up to $1.9 billion. For many, capital raisings have been necessary to bolster solvency and near-term operational liquidity. For some other companies, it has been an opportune time to strengthen balance sheets and thus provide a layer of insurance if the economic malaise continues. Given APRA's written guidance to the banks that they should be limiting discretionary dividend payments, boards are likely to be conservative with payout ratios. For the banks, the key headwinds are the ultra-low interest rate environment and the risk of impairments.

Global equities

US equities bounced back strongly in the June quarter on the back of better than expected economic data and re-openings across the country. The S&P 500 Index rose 20.5% over the quarter and is up 7.5% over the year (in US dollar terms). The technology and healthcare sectors led the charge, best illustrated by the performance disparity between the 'old economy' Dow Jones Industrial Index and 'new economy' NASDAQ Composite Index—up 17.8% and 30.6% respectively during the quarter (in price terms).

However, there are concerns about a disconnect between markets and the economy, with earnings for the S&P 500 estimated to have declined by 43.9% during the June quarter—on track to record its largest decline since the December quarter 2008 (-69.1%)—while unemployment remains high and some job losses may end up being permanent. Since reaching their March low, the rebound in global equities has been led by large cap growth companies. While these companies are expected to continue benefiting from persistent low interest rates, in a low growth environment, small cap and value companies are looking more attractive on a relative valuation basis. In contrast to developed markets, emerging market equities have seen less of a bounce back, rising 5.0% in the June quarter and falling -1.5% over the year.

Property

As global markets steadied, Australian listed property securities also bounced back over the June quarter, but remain down -21.3% for the year to date, significantly worse than Australian equities (-7.7%). The pandemic has exacerbated and accelerated structural shifts that have been underway in Australian property over the

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past few years, with different ramifications for each sector. Shopping mall and retail strip landlords have been most affected, with grocery-anchored centres the best placed to weather the storm.

Grocery and hardware sales actually increased as consumers stocked up on staples and other household items during the lockdowns. As Australian states progressively emerge from lockdown, it is anticipated that retail rents will come under pressure as tenants demand either significant rent reductions or incentives. Leading the A-REIT index in June was Cromwell Property Group, which received an "unsolicited and opportunistic" takeover bid from ARA Asset Management. Meanwhile, retail property giant Vicinity Centres (-11.2%) continued to raise money, completing its non-underwritten share purchase plan in July, which fell well short of its targeted $200 million, raising just $32.6 million.

Fixed income

As a result of the excess liquidity in the money market system, the unofficial cash rate fell to 0.14% at the end of June, compared to the official cash rate of 0.25%. This ultra-low interest rate also caused the 90-day bank bill rate to fall from 0.36% at the end of March, following the RBA's emergency rate cut, to 0.10% at the end of June. The 10-year Commonwealth Government bond yield rose from 0.77% to 0.87% over the same period. The newly targeted three-year bond has been mostly steady around the target rate of 0.25%.

Given the RBA expects the three-year yield to remain around this level for quite some time, returns from the bond market will be increasingly reliant on maturities longer than three years to provide yield enhancement, while superior security selection will be needed to add value above benchmark returns and fees. The US 10-year Treasury Note, which had ended calendar year 2019 at 1.92%, finished the March quarter at 0.67%, and experienced material variations over the course of the June quarter to finish at 0.66%. Globally both investment grade and high yield spreads tightened over the June quarter as central bank monetary intervention had a positive impact on credit spreads.

ASX 200 share movements

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

Best performers		Worst performers	
Afterpay	28.64%	Southern Cross Media Group	-25.53%
Healius	25.51%	Nufarm	-24.26%
Boral	21.86%	Whitehaven Coal	-20.99%
Fisher & Paykel Healthcare Corp	18.51%	Webjet	-19.81%
Collins Foods	17.75%	Corporate Travel Management	-19.18%

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

Best performers		Worst performers	
Afterpay	143.28%	Southern Cross Media Group	-80.30%
Fisher & Paykel Healthcare Corp	121.44%	oOh!media	-71.39%
Domino's Pizza Enterprises	82.49%	Flight Centre Travel Group	-70.27%
Silver Lake Resources	69.72%	G8 Education	-68.22%
Gold Road Resources	68.69%	Webjet	-66.38%

Economic News

Australia

The Australian economy contracted by a relatively mild -0.3% in the March quarter but given the full impact of shutdowns likely to be felt in the June quarter, it is almost certain that the Australian economy is in its first recession in 29 years. Australia's relatively successful containment of the COVID-19 virus has resulted in health outcomes overall tracking better than initially estimated. This has allowed an earlier-than-expected easing in lockdown conditions, although some states are faring better than others. Businesses and households have received significant government support from the JobKeeper and JobSeeker programs, the launch of the $25,000 Homebuilder program, and other incentives by state governments. Further easing of lending criteria by APRA in addition to loan repayment deferrals by the major banks has lent further support. However, retailers are looking nervously ahead to September when the JobKeeper payments are scheduled to end. The scheme, which has benefitted around 3.5 million employees, is being reviewed by Treasury, which will report its findings later in July. The Reserve Bank of Australia's outlook for the economy and interest rates was recently described by Governor Lowe as a world "where there'll

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be a shadow from the virus for quite a few years", causing "deflationary forces" and "large output gaps." The RBA kept rates on hold at 0.25% at its July meeting and is prepared to scale up bond purchases if needed.

The Australian **labour report** showed employment fell by 227,700 in May, worse than the expected drop of 125,000. Total employment has fallen by 835,000 since the coronavirus outbreak began in March. The **unemployment rate** lifted to 7.1% (7.0% expected) with the participation rate falling from 63.6% to 62.9%. However, if the participation rate had held steady at 63.6% the unemployment rate would have been 8.1% in May.

Retail sales rebounded strongly in May, jumping 16.9% (16.3% expected), reversing most of the 17.7% fall in April. Sales of basic food and household goods continues to strengthen with sales well above pre-COVID levels in March, April, and May. While sales in clothing and cafes and restaurants saw a mild recovery in May they are still significantly down on pre-COVID levels, with comparisons to February sales of -35% and -17.7%, respectively.

The **AIG Manufacturing PMI** moved moved into positive territory in June, increasing by 9.9 points to 51.5. While the result is the largest ever monthly rise, it was narrowly focused on some sub sectors and indicates an improvement from recent depths rather than a recovery to buoyant conditions. Almost all of the improvement was concentrated in the large food & beverages sector, with new orders from food wholesale distributors improving with the relaxation of trading restrictions.

Global

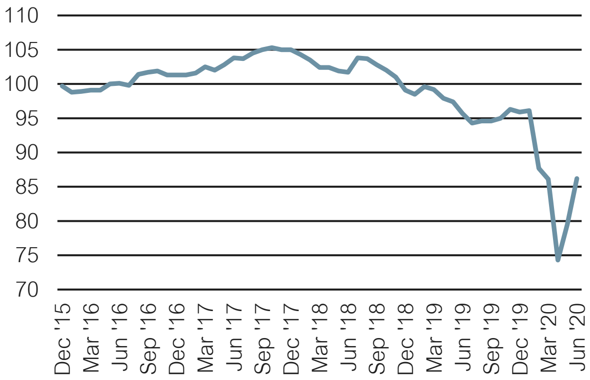
The rise in the number of COVID-19 cases globally continues to create uncertainty about the shape of economic recovery. An important factor in coming months will be the extent to which governments continue with fiscal measures to support businesses and households. Meanwhile, tensions between the US and China are elevated, and the outcome of the US presidential election in November remains unclear.

In the US, economic data for June saw some upside surprises as a gradual reopening of the economy clawed back job losses resulting from the lockdown. **Nonfarm payrolls** jumped 4.8 million in June, surpassing expectations of a rise of 3 million. Jobless claims continue to fall, coming in at 1.427 million for the week of 27 June, slightly above expectations of 1.4 million.

The **ISM Manufacturing Index** jumped from 43.1 in May to 52.6 in June, beating expectations of 49.0 (results over 50.0 indicate expansion). However, it is not yet clear what the longer-term impact on labour markets will be, or how many of the temporary job losses will become permanent if lockdown measures persist. The risk of a second wave of infections remains, while further deterioration in US-China trade relations and other geopolitical events are creating additional uncertainty. Some US states reversed course in late June to reimpose social distancing and shelter in place warnings as a result of a rise in new confirmed cases.

The Federal Reserve's **FOMC minutes** discussed policy tools, including forward guidance, asset purchases, and yield curve control (YCC). At this stage, the FOMC appears to prefer to focus on forward guidance and large-scale asset purchases, although the possible design and implementation of YCC, as well as the economic and financial effects, is being considered.

Germany Ifo Business Climate Index



Source: Ifo Institute

As European Union nations began reopening their borders to other EU members, debate continued regarding when the borders should be reopened to non-EU countries. The European Commission, the EU's executive body, recommended that people from outside the region be allowed in if they are arriving from approved nations where the health situation, measured by the number of COVID-19 cases per 100,000 people in the past 14 days, is equal to or lower than the EU average. This would include countries like Australia, Canada, Japan, and possibly China if Beijing decides to reciprocate, but will likely not include the United States.

Looking at the data, the European Commission's **economic sentiment index** came in at 75.7 in June, falling short of expectations of 80.0. As expected, May's retail sales showed a sharp rebound, rising 17.8% in the month (15.0% expected), with the year-on-year fall in sales improving from -7.5% to -5.1%, while the unemployment rate rose 0.1% to 7.4% in May, slightly below expectations of 7.7%.

In Germany, a useful indicator of industrial production is the truck toll mileage index, which fell 12.2% in April due to the lockdown, but bounced back 8.2% in May as activity resumed across the country. However, a more mixed picture was presented by electricity

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consumption, which has failed to pick up significantly since the lockdowns began, remaining around 8–12% below normal levels.

Economic data indicates that the world's second-largest economy is gradually recovering from the pandemic. The **Caixin General Services PMI** rose from 55.0 in May to 58.4 in June, helped by new orders growing the most in nearly a decade as companies reported a return to more normal business operations. China's **official Manufacturing PMI** was broadly unchanged at 50.9 in June, following May's level of 50.6, while the Caixin Manufacturing PMI, which measures predominately smaller, private operators, rose modestly from 50.7 to 51.2.

The World Health Organisation (WHO) is sending a team to China to investigate the origins of the COVID-19 virus. Starting in Wuhan, the virus epicentre, the team's objective is to "advance the understanding of animal hosts of COVID-19, and ascertain how the disease jumped between animals and humans", according to the WHO. The investigation was instigated by the EU, with the motion receiving unanimous support at the World Health Assembly, although Chinese President Xi Jinping said it should be delayed until after the pandemic is over.

Adding to geopolitical tension was Beijing's decision to push ahead with new anti-sedition laws in Hong Kong, which sparked protests and subsequent crackdowns. The US Senate voted in July to finalize the Hong Kong Autonomy Act, which places sanctions on individuals, banks and other entities that enable China's new security laws.

Commodities

Oil prices pushed higher in June despite record high inventory levels and concerns of the impact of a potential second wave of coronavirus infections on economic activity. The Brent crude oil spot price rose 21.9% to US$41.64 per barrel and the WTI price rose 10.4% to US$39.27 per barrel.

Metals continued their gains over the month, with an increase in the price of Copper (+11.9%), Tin (+.6%), Lead (+6.0%), Aluminium (+4.6%), Nickel (+3.9%) and Zinc (+3.0%). Gold rose 3.1% in June to US$1783.68 per ounce.

Currencies

The economically sensitive Australian dollar is expected to continue strengthening relative to the US dollar as the global recovery continues. In June the Australian dollar rose from US$0.67 to $0.69 as positive economic data sustained the market's hopes for a swift recovery from the COVID-19 lockdowns, although further outbreaks in the US and other parts of the world weighed on risk sentiment late in the month.

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