Month in Review

Index returns at end September 2020 (%)

Australian Equities	1 mth	3 mth	6 mth	1 yr	3 yr	5 yr	10 yr
S&P/ASX 200 TR Index	-3.67%	-0.44%	15.96%	-10.21%	4.80%	7.31%	6.93%
S&P/ASX Small Ordinaries TR Index	-2.82%	5.67%	30.93%	-3.33%	6.53%	9.97%	3.53%
Global Equities							
MSCI World TR Index (AUD)	-0.34%	3.79%	10.29%	4.44%	11.64%	10.64%	13.34%
S&P 500 TR Index (AUD)	-0.74%	4.64%	12.12%	8.35%	15.71%	13.68%	17.21%
FTSE 100 TR Index (AUD)	-2.12%	-3.54%	-6.73%	-19.13%	-1.82%	-0.25%	5.52%
MSCI Emerging Markets NR Index (AUD)	1.53%	5.24%	10.47%	4.02%	5.55%	8.52%	5.63%
Real Estate Investment Trusts							
S&P/ASX 300 A-REIT TR Index	-1.15%	7.38%	29.09%	-15.81%	4.12%	5.99%	9.75%
FTSE EPRA/NAREIT Dev. NR Index (AUD Hgd)	-2.57%	0.62%	9.26%	-21.55%	-2.03%	1.80%	6.77%
Fixed Interest							
Bloomberg Ausbond Composite 0+ Yr Index	1.08%	1.02%	1.55%	3.21%	5.96%	4.53%	5.58%
Bloomberg Ausbond Bank Bill Index	0.01%	0.03%	0.09%	0.58%	1.40%	1.63%	2.56%
Barclays Global Aggregate TR Index (AUD Hgd)	0.37%	0.68%	2.96%	3.47%	4.66%	4.52%	5.72%

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 followed global markets down through September as the focus shifted to the uncertain path of recovery and the ongoing public health risks due to the pandemic. The IT sector (-6.8%) was hit by the risk-off wave, with buy now pay later fintech Afterpay trimming 12.5% from a $26 billion market cap, while Consumer Staples (-6.6%) also took a sizeable hit during the month. A2 Milk (-17.4%) noted the company has experienced additional disruption to the corporate daigou / reseller channel, which has been impacted by the prolonged lockdown in Victoria. A2 expects Australia and New Zealand revenue to be materially below expectations for 1H21, with sales in the daigou channel representing a significant portion of infant formula sales in the segment.

Harvey Norman (+2.5%) released a sales update for the period 1 July 2020 to 17 September 2020 showing revenue up 30.6% on the prior corresponding period. Sydney Airport's traffic performance for August showed total passenger numbers for the month down 96.5% on the prior corresponding period. Domestic passengers totalled 91,000 for the month, down 96.1%, and year to date total domestic passengers of 3.63 million, down 67.5%.

Global equities

Global shares were down in September as rising infections in Europe and uncertainty around further fiscal support in the US dampened the outlook. In the US, the S&P 500 Index fell 3.8% in US dollar terms as air was taken out of extended valuations. The Nasdaq Composite Index dropped 5.1% following an incredible rally, and markets seemed to be in a range-trading pattern. In early October, President Trump walked back his pledge of no additional stimulus cash before the presidential election, giving the market hope for further support.

The White House and Congress are negotiating standalone legislation to support the airline industry, which could involve as much as US$25 billion for carriers, which have announced plans to furlough thousands of workers in the absence of federal aid. In Europe, the STOXX Europe 600 Index fell 3.3% in euro terms in September, with banks and insurance sectors down, while retail and health care were positive. The German DAX Index fell 1.4%, with online food delivery service Delivery Hero gaining as fears of a second wave of infections intensified. The MSCI World Ex-Australia Index fell 0.3% in Australian dollar terms and the MSCI Emerging Markets Index rose 1.5%. In Asia, Hong Kong's Hang Seng Index fell 6.4% and China's CSI 300 Index fell 4.7%, while Japan's Nikkei 225 Index rose 0.8%.

Property

The Australian property securities market saw most prices continue to recover in the September quarter with a better than expected reporting season. Several A-REITs have embarked on capital raisings during 2020, so

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balance sheets are well-positioned with average gearing around 27%. At the same time the cost of debt has reduced with interest costs for new debt down from around 3.0–3.5% to 2.0–2.5% over the last 12 months. However, the bifurcation between sub-sectors is similar to that seen in the global property securities markets. Industrial and logistics, specialist, large format, and non-discretionary retail sectors have outperformed in calendar 2020, while discretionary retail and office sectors have underperformed.

The retail sector has dealt with forced store closures (excluding supermarkets and essential provisions), with prolonged lockdowns in Victoria adding to the pressure. The government mandated Leasing Code of Conduct has shared the pain of reduced revenues for eligible SMEs, although some larger retailers have been attempting to withhold rents and renegotiate based on a revenue-linked model. In the US, REITs fell 3.2%, with the biggest losses coming from office property (-6.9%) and manufactured homes (-6.5%).

Fixed income

The market volatility throughout the pandemic has seen global sovereign bond yields rally lower in yield. Governments have embarked on a series of large-scale fiscal programs that have resulted in substantial sovereign bond issuance. Yet all this issuance has been soaked up by massive central bank bond buying, which has reduced the cost of funding for governments and their banking systems.

In Australia, the RBA flagged that the high rate of unemployment was now a national priority and would keep interest rates at the record low of 0.25% and continue to buy government bonds and provide banks with cheap credit for quite some time in order to stimulate the economy out of recession. Financial markets continue to speculate that the RBA may have to consider a further interest rate cut to 0.10% alongside additional quantitative measures to help lower the unemployment rate and support the economic recovery. In the US, minutes from the September FOMC meeting revealed members were pricing in additional fiscal stimulus from Congress. The staff projections “assumed the enactment of some additional fiscal policy support this year,” adding “without that additional policy action, the pace of the economic recovery would likely be slower.”

ASX 200 share movements

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

Best performers		Worst performers	
SkyCity Entertainment Group	21.15%	Zip Co	-32.64%
CSR	16.67%	IOOF Holdings	-27.77%
Boral	13.72%	Unibail-Rodamco-Westfield	-26.89%
Whitehaven Coal	12.37%	Virgin Money UK	-24.93%
Washington H. Soul Pattinson	12.33%	Origin Energy	-23.31%

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

Best performers		Worst performers	
Silver Lake Resources	147.06%	Unibail-Rodamco-Westfield	-77.28%
Mesoblast	137.38%	Flight Centre Travel Group	-67.86%
Afterpay	123.00%	Whitehaven Coal	-66.40%
Nextdc	99.35%	Oil Search	-62.99%
Perseus Mining	95.00%	G8 Education	-59.46%

Economic News

Australia

The federal budget has allayed fears that fiscal policy will be doing too little lifting in the face of the pandemic, with a singular focus on supporting incomes and employment. On the spending side, the government has put in place significant stimulatory measures, including $120 billion over 2019-20 and 2020-21, primarily for the JobKeeper payment. Other measures include $46 billion, mainly for the Coronavirus Supplement, economic support payments to households and an expansion in the JobSeeker payment, and $40 billion to provide further support for apprentices, trainees, hospitals, aviation and infrastructure. Treasury forecasts economic activity to pick up from late 2020 and into early 2021, driven by a further easing of restrictions and improvements in business and consumer confidence. The RBA has also hinted at further easing, with another rate cut or announcement of further QE widely expected at its November meeting. On the data front, retail sales slumped 4.0% in August,

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led by a sharp 12.6% drop in Victoria. Labour force data showcased a resilient jobs market, despite the stage four restrictions continuing in Victoria.

The Australian labour market saw further improvement in August, with the seasonally adjusted **unemployment rate** falling from 7.5% to 6.8%, despite the participation rate lifting from 64.7% to 64.8%. Employment rose 111,000 against expectations of a fall of 45,000, supporting the 'better-than-expected' recovery narrative. Full-time employment increase by 36,200 and part-time employment increased by 74,800.

The **AiG Performance of Manufacturing Index** fell 2.6 points to 46.7 in September. Victoria reported the weakest result, down 6.4 points to 37.6 due to stage four restrictions. The production sub-index slipped 3.3 points to 50.1, while employment fell 2.5 to 47.7, new orders dropped 1.5 to 45.1, and exports fell 5.7 to 46.5. The federal budget unveiled a $1.5 billion initiative to boost the manufacturing sector, providing priority funding for six select industries.

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 four restrictions, but an improvement in new cases of COVID-19 have helped ease concerns.

Global

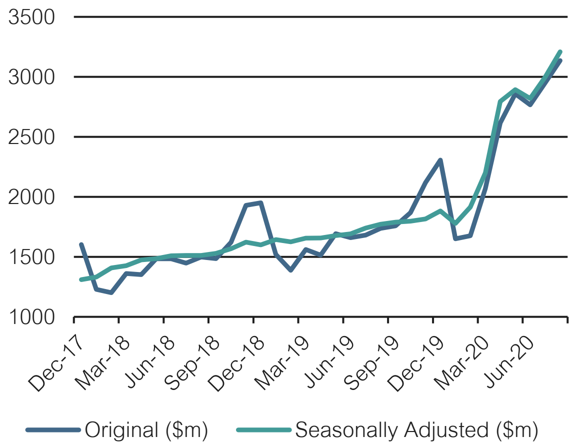
Data from the World Health Organisation showed confirmed cases worldwide were above 33 million at the end of September and rising. The global recovery is taking hold as economies gradually emerge from lockdown, however significant uncertainty remains about the possible path the pandemic could take and the timeline for vaccines to be made available to the public.

Recent data suggests the US recovery lost some steam in September with key releases falling short of expectations. **Nonfarm payrolls** disappointed, with 661,000 jobs added, well short of the consensus 859,000. The unemployment rate fell from 8.4% to 7.9%, although this was partially due to the fall in the participation rate from 61.7% to 61.4%. Another concerning figure came from **durable goods orders**, which rose a meagre 0.4% in August, missing expectations of 1.5%, a significant reversal from the previous month's result of 11.7%.

June quarter GDP shrank by an annualised 31.4%, slightly better than the preliminary reading which indicated a 31.7% decline. The **US Federal Reserve** held the funds rate unchanged within the 0.00–0.25% range and is set to maintain rates at this current low level for the next few years, aiming to keep inflation moderately above 2% so that inflation averages the Fed's target over time.

On the property front, new home sales rose unexpectedly in August from a revised annual rate of 965,000 units to 1,011,000 units, the highest since September 2006. The presidential race is fuelling uncertainty, with polls still pointing to a Biden victory. Days after a fiery debate between President Trump and Vice President Biden, Trump was rushed to Walter Reed hospital after contracting COVID-19, only adding to the sense of drama.

Total online sales in Australia ($m)



Source: ABS

Most EU member economies remain under pressure from COVID-19 containment measures as governments fear a new wave of infections could forestall the recovery. Across the euro area, GDP fell 11.8% in the June quarter, a larger drop than the 9.1% quarter-on-quarter fall experienced in the US. Economic sentiment improved 3.6 points to 91.1 in September, coming in ahead of expectations of 89.5.

Europe's **PMI Composite Flash Index** surprisingly fell in September, falling from 51.6 to 50.1 (versus the expected rise to 51.7). The manufacturing index beat the consensus, increasing from 51.7 to 53.7 (51.9 expected), however the services index fell from 50.1 to 47.6, a stark contrast to the 50.5 expected. In the UK, final **June quarter GDP** came in at -19.8%, an improvement on the -20.4% expected. The recovery in GDP continued into July, lifting 6.6% for the month and largely in line with expectations of 6.7%, underpinned by the reopening of schools, pubs, and hairdressers, while car sales saw a noticeable improvement, lifting above pre-crisis levels.

As expected, the **Bank of England** left its policy settings unchanged, with the bank rate at 0.10% and the QE ceiling at £745 billion. The Bank noted that it does not intend to tighten monetary policy until there is significant progress towards eliminating spare capacity in the labour market and achieving the 2% inflation target.

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China has largely contained the COVID-19 virus with just over 91,000 confirmed cases and an official death toll of 4,700 at the time of writing. China's recovery is well under way, although consumers remain cautious and there is still potential for further outbreaks. The Australian government forecasts China's growth to be 1.75% in 2020 and to reach 8.0% in 2021.

Chinese industrial production and infrastructure spending are supporting the recovery, along with liquidity measures funded by a record bond issuance. However, the scale and speed of infrastructure spending has not been on par with previous years as the authorities struggle to find projects with an adequate return. Meanwhile, China is hoping its consumers will make up for lost time, especially over the 'Golden Week' national holiday period. China's ministry of culture and tourism expects around 550 million people will shop, travel, and gather with families during the eight-day public holiday, helping to jump start China's retail economy.

In other data news, China's **manufacturing PMI** rose 0.5 points to 51.5 in September, beating expectations of 51.2. The **unemployment rate** fell to 5.6% in August as expected, while retail sales year-on-year growth came in at a surprisingly strong 0.5%, up from -1.1% in July. Industrial production yearly growth also came in ahead of expectations, rising to 5.6% versus the expected 5.1% rise.

Commodities

Oil markets were under pressure through September with the Brent crude spot price falling 10.9% to US $40.30 per barrel and the WTI crude spot price falling 6.0% to US $42.61 amid concerns about the outlook for fuel demand as Europe and the US contend with a surge in new coronavirus cases.

Metals were down over the month, with falls in Lead (-7.5%), Nickel (-5.5%), Zinc (-4.5%), Tin (-2.0%) and Aluminium (-1.9%) while Copper (+0.1%) was flat. The Gold spot price eased over the month, falling 3.4% from US $1,964.83 to $1,897.90 per ounce.

Currencies

The Australian dollar fell 3.4% in September to US$0.71 as risk sentiment returned to markets. Both the US and Australian central banks have emphasised a "lower for longer" approach to interest rates, but there is speculation that the RBA could cut to 0.10% at its November meeting, pushing up against the 'zero' lower bound. The Australian dollar was also down against the Japanese yen (-3.4%) and euro (-1.9%).

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