ECONOMIC AND MARKET COMMENTARY
MARCH QUARTER 2020

Australia:

Key points:

- **The Australian economy was buffeted in the quarter by COVID-19, initially through the impacts of a ban on travellers from China, followed by the more substantial impact of shutdowns to contain the local spread.**
- **The Reserve Bank of Australia (RBA) cut interest rates twice during the quarter, reducing the rate from 0.75% to 0.25%, and introduced quantitative easing for the first time.**
- **There was also a large fiscal response from the Federal Government headlined by the $130 billion wage subsidy package commonly referred to as JobKeeper.**

Australia’s March quarter was dominated by the coronavirus pandemic, as the parts of the Australian economy deemed ‘non-essential’ were shut down in order to contain the spread of the virus. As a result, Australian equity markets lost 23.4% over the quarter, reversing the gains made over the year to December 2019. Healthcare and consumer staples were the highest performing sectors over the quarter, returning 1.5% and -3.7% respectively, with the latter proving more resilient than the broader marked due to the increased demand for groceries and personal items during the quarter. The energy and consumer discretionary sectors were the worst performing sectors for the quarter, returning -48.2% and -30.0% respectively.

Both the Federal Government and the RBA have responded to the coronavirus pandemic with fiscal and monetary packages respectively. The Federal Government has committed to three packages totalling approximately $194 billion (~9.7% of GDP), which includes a $130 billion wage subsidy package (JobKeeper) and approximately $20 billion of cashflow support for small and medium sized businesses. The RBA cut interest rates by 0.50% during March, once by 0.25% at its March meeting and then by a further 0.25% at an emergency meeting in the middle of March, leaving rates at 0.25%. In addition to rate cuts, the RBA unveiled a quantitative easing program targeting a 0.25% yield on 3-year Government bonds. The RBA also indicated, during the unveiling of these measures, that they “will do whatever is necessary” to assist during this period. Both packages (fiscal and monetary) are intended to support the economy during the shutdown and help it recover quickly once the economy reopens. However, it is unclear at this time whether they will be enough to prevent a longer-term economic slowdown.

The economic data from the December quarter (which was released during the March quarter) was broadly neutral, with the economy growing 0.5% over the December quarter, above the expected growth of 0.3%, resulting in annual growth of 2.2%. Inflation increased by 0.7% over the December quarter, resulting in an annual inflation of 1.8%, still below the target of 2%-3% but above the annual inflation of 1.7% as at September 2019.

However, more recent economic data shows the negative impact of the coronavirus on the Australian economy. In particular, the manufacturing and services index dropped in January and February to 44.3 (from 48.3 in December 2019) before rebounding to 53.7 in March as a result of the demand for groceries and personal care items, partly due to panic buying. Services however, dropped sharply in March to 38.7 from 47.0 in February 2020, reflecting the shutdown of a significant number of businesses which were not deemed essential. Further, over the March quarter, business sentiment (as measured by the NAB Business Confidence survey) crashed, ending the quarter at -66 compared to 0 as at 31 December 2019. Similarly, consumer confidence sharply fell to 75.6 in April 2020 from 95.1 in December 2019 (as measured by the Westpac Bank Consumer sentiment Index), which is the largest monthly fall in the 47-year history of the survey.

Returns for period ending 31 March 2020	Month	1 Year
Australian Equities[1]	-20.8%	-14.5%
Consumer Discretionary	-26.4%	-17.2%
Consumer Staples	-3.5%	10.9%
Energy	-37.6%	-45.1%
Financials, ex Property Trusts	-27.7%	-22.8%
Health Care	-5.6%	37.9%
Industrials	-23.0%	-18.2%
Information Technology	-17.6%	-12.9%
Materials	-13.3%	-15.8%
Telecommunications Services	-15.4%	-9.9%
Utilities	-6.7%	-5.0%

[1] S&P/ASX 300. Below are sub-sectors.

The Australian Dollar (AUD) depreciated against the US Dollar, beginning the quarter at 70.21 US cents and finishing March at 61.35 US cents, after briefly falling below 56 US cents in March. The AUD also depreciated against other major currencies including the Chinese yuan, Japanese yen, euro and British pound. Overall, the AUD fell against a basket of major currencies over the March quarter, as measured by the Trade Weighted Index, which decreased from 60.3 at the end of December 2019 to 54.7 at the end of March 2020.

As a result of the RBA's actions, the Australian Government 10-year bond yield fell by 57 basis points to 0.81% over the quarter, down from 1.37% at the end of December. Australia's 10-year government bond yield ended the quarter above the US 10-year bond yield (0.70%) for the first time since January 2018. The Bloomberg AusBond Composite Index returned 3.0% for the quarter.

International:

Key points:

- Economies and markets were hit hard by the rapid spread of COVID-19 and the resulting lockdowns to try to contain this spread.
- While China, where the outbreak originated, was hardest hit initially, its containment efforts proved more successful than many countries in Europe and the Americas.
- Most governments and central banks announced significant fiscal and monetary packages in response to the necessary economic shutdowns to mitigate the spread of coronavirus, with the US Federal Reserve cutting the federal funds rate by 1.5% over the quarter, now targeting a range of 0.00% to 0.25%.

Uncertainty increased over the quarter as the coronavirus, which initially impacted Hubei province in China, spread globally, resulting in most countries implementing some version of shut down measures. As a result, markets fell sharply, with the MSCI World Index ex Australia (hedged to AUD) falling by 21.1% over the quarter. Most equity markets ended the quarter in negative territory.

The US Federal Reserve cut interest rates over the March quarter by 1.50%. The federal funds target range now sits at 0.00% - 0.25% down from 1.50% - 1.75% as at 31 December 2019. In addition, the Federal Reserve announced a quantitative easing program. The US Federal Government also announced a fiscal stimulus package which is estimated at US$2.3 trillion (~ 11% of US GDP), which includes increased welfare funding and support for businesses.

The US equity market ended the quarter 19.7% lower as measured by the S&P 500 Composite in local currency terms. While the US started the quarter on a solid note, with annual GDP growth at 2.3% as at 31 December 2019, the March quarter economic data has been largely negative, reflecting the start of the deterioration of the US economy, albeit many of these numbers don't yet reflect the full impact of COVID-19. The National Association of Home Builders/Wells Fargo Housing Market Index (HMI) decreased to 72 over the quarter, from 76 at the end of December (a number over 50 indicates more builders view sales conditions as good than poor). Activity in the US manufacturing sector, as measured by the US Markit Manufacturing PMI, dropped sharply over the quarter, closing at 48.5, down from 52.4 in December 2019. This signalled the worst contraction in the manufacturing sector since 2009. The contraction in the manufacturing industry was accompanied with a sharp increase in the US's unemployment rate, increasing to 4.4% in March 2020 from 3.5% in December 2019, with expectations for this to rise substantially higher. Consumer sentiment, as measured by the University of Michigan Consumer Sentiment Index, fell sharply to 71 in March 2020 from 99.3 in December 2019. Annual core US inflation also fell to 1.5% in March 2020, from 2.3% in December 2019.

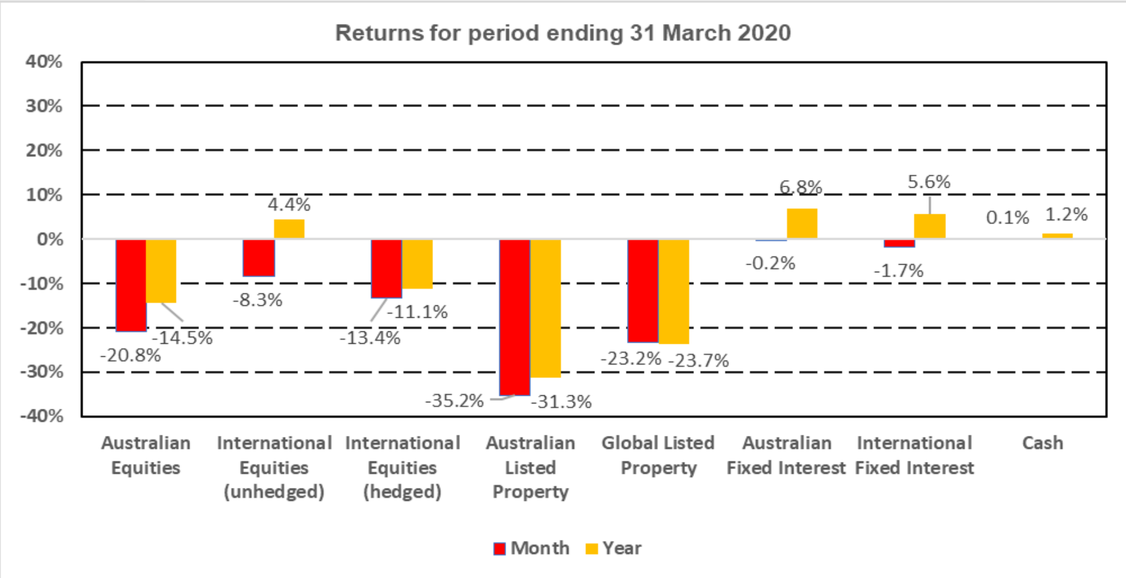
European equities, as measured by the Euro Stoxx 50 Index, fell by 25.3% In response to the coronavirus pandemic, the European Central Bank (ECB) announced quantitative easing worth approximately €750 billion, in addition to its current quantitative easing program of €20 billion per month, but left rates unchanged at -0.5%. The EU's manufacturing industry experienced a volatile quarter with the Markit Eurozone Manufacturing PMI reaching a 1 year high of 49.2 in February before sharply falling to 44.5, the lowest value since 2012. Euro area headline inflation is expected to slow to 0.7% year-on-year in March 2020 from 1.3% in December 2019. Annual European core inflation (which excludes prices of volatile items such as food and energy) is expected to decrease to 1.0% in March 2020, from 1.3% in December over the same month in the previous year.

The Chinese equity market outperformed the global equity market, returning -9.8% as measured by the Shanghai Composite Index (in local currency terms). Chinese quarterly GDP expanded 1.5% in the December quarter, increasing from the 1.4% growth recorded in the previous quarter. China's manufacturing industry experienced a volatile quarter as a result of the economic shutdown, with the China Caixin Manufacturing PMI falling sharply in February to 40.3 (a record low) before ending the quarter at 50.1.

Japanese equities performed marginally better than most other markets, returning -17.3%, as measured by the MSCI Japan (in local currency terms). The Markit/Nikkei Final Japan Manufacturing PMI fell sharply in March 2020 to 44.2 from 48.4 in December 2019, signalling a significant deterioration in manufacturing conditions. In response to weaker market conditions, the Bank of Japan (BoJ) announced a comprehensive set of measures, including additional quantitative easing (via bond purchases) in respond to the market uncertainty. The BoJ also left its interest rate unchanged at -0.1% for another quarter. Japanese February 2020 year-on-year inflation fell to 0.4% from 0.8% in December 2019.

Most major global bond yields fell over the quarter. The US 10-year government bond yield fell by 121 bps to 0.70%, the UK 10-year government bond yield fell by 47 bps to 0.36% and the 10-year German government bond yield fell by 27 bps to end the quarter at -0.46%. Conversely, both the Japanese and Italian 10-year government bond yields rose, by 4 bps and 11 bps respectively, to end at 0.02% and 1.53% respectively.

Global listed infrastructure outperformed global listed property for the March quarter, returning -20.3% versus -28.4% as measured by the FTSE Developed Core Infrastructure 50/50 Index (AUD hedged) and the FTSE EPRA/NAREIT Developed ex-Australia Rental Index (AUD hedged) respectively.



Returns for period ending 31 March 2020	Month %	1 Year %
International Equities (unhedged) [1]	**-8.3%**	**4.4%**
North America	*-8.5%*	*6.4%*
UK	*-10.8%*	*-10.9%*
Europe (ex UK)	*-8.7%*	*0.9%*
Japan	*-2.2%*	*8.3%*
Asia Pacific (ex-Japan)	*-9.3%*	*-2.6%*
Emerging Markets	*-10.9%*	*-4.5%*
International Equities (hedged) [2]	**-13.4%**	**-11.1%**
Australian Listed Property	**-35.2%**	**-31.3%**
Global Listed Property [3]	**-23.2%**	**-23.7%**
Australian Fixed Interest [4]	**-0.2%**	**6.8%**
International Fixed Interest [5]	**-1.7%**	**5.6%**
Cash[6]	**0.1%**	**1.2%**

[1] MSCI World ex-Australia Index (with net dividends reinvested in AUD)

[2] MSCI World ex-Australia Index (with net dividends reinvested hedged in AUD)

[3] FTSE EPRA/NAREIT Developed Ex Aus Rental Index (Net TRI Hedged in AUD)

[4] Bloomberg AusBond Composite Index

[5] Barclays Global Aggregate Hedged in AUD Index

[6] Bloomberg AusBond Bank Bill Index

All returns are based on accumulation indices.

FACTUAL INFORMATION AND GENERAL ADVICE WARNING

This commentary is jointly issued by Profile Financial Services Pty Ltd. (ABN 32 090 146 802), holder of AFSL and Australian Credit Licence 226238 and Willis Towers Watson (Profile's asset consultant). It contains information and general advice only and does not consider any investor's individual objectives, financial situation or needs. It should not be relied on by any individual. Before making any decision about the information provided, investors should consider its appropriateness having regards to their personal objectives, situation and needs, and consult their financial planner. Past performance is no guarantee of future performance.