ECONOMIC AND MARKET COMMENTARY
JUNE QUARTER 2020

Australia:

Key points:

- The Australian economy contracted in the March quarter and is expected to have gone into recession in the June quarter.
- Lockdown restrictions began to be lifted late in the quarter and equity markets strongly rebounded from March quarter 2020 losses.
- The JobKeeper package was implemented, with the first payments being made in May, and Australians could apply to have early access to their superannuation.

Australia's June quarter was again dominated by the coronavirus pandemic, where the focus was on 'flattening the curve' and then slowly rehabilitating the economy. As a result of a largely successful suppression of the virus (barring the recent outbreak in Melbourne) and significant Government stimulus, Australian equity markets strongly rebounded, returning 16.8% over the quarter, reversing most of the losses experienced in the March quarter. All sectors performed positively over the quarter, with Information Technology and Consumer Discretionary being the highest performing sectors returning a staggering 44.4% and 30.8% respectively. Health Care and Consumer Staples were the worst performing sectors for the quarter, returning 2.9% and 6.9% respectively.

Both the Federal Government and the Reserve Bank of Australia (RBA) have remained highly accommodative in their response to the coronavirus pandemic with fiscal and monetary packages respectively. The Federal Government made the first payments from its JobKeeper package on 4 May 2020 and also temporarily expanded the eligibility for income support payments. The early access to superannuation scheme was announced in late March was implemented - where individuals could apply to access up to $10,000 of their superannuation between May-June and another $10,000 in the first quarter of the new financial year. The RBA left interest rates unchanged at 0.25% throughout the June quarter. The RBA stated in its May economic outlook that the Australian economy is expected to record a contraction of around 10% over the first half of 2020, with unemployment expected to rise to 10% (last being reported at 7.1% in May). As Australia's economic growth contracted in the March quarter, the expected contraction in the June quarter puts Australia into an official recession. On a positive note, the RBA Governor Philip Lowe has recently stated that "the downturn has been less severe than earlier expected".

The economic data from the March quarter (which was released during the June quarter) was negative, with economic growth (GDP) contracting by -0.3% over the March quarter due to the Australian bushfires and COVID-19 – the first contraction in GDP since 2011. Annual GDP growth to March 2020 remained positive at 1.4%. Inflation was 0.3% over the March quarter, resulting in an annual inflation number of 2.2%, which is both the highest annual inflation rate since 2014 and the first time that the figure has been within the RBA's 2-3% target band since 2018.

The Australian economy experienced a significant downturn throughout April as lockdowns were strictly enforced. However, it had started to recover as restrictions were gradually lifted over May and June. In particular, the Australian manufacturing index (PMI) crashed in April 2020 to 35.8, down from 53.7 in March, before rebounding to 51.5 at quarter end as overall demand improved. The services PMI continued its decline, dropping from 38.7 in March 2020 to 31.5 in June 2020 – despite the economy beginning to open up from the COVID-19 lockdown. Business sentiment (as measured by the NAB Business Confidence survey) bounced back from its -65 low at the end of March, though the latest May 2020 reading remains negative at -20. Similarly, consumer confidence fell sharply from 91.9 in March 2020 to 75.6 in the following month, before rebounding to 88.1 in May 2020 (the latest reading, as measured by the Westpac Bank Consumer Sentiment Index).

Returns for period ending 30 June 2020	*Quarter*	*1 Year*
Australian Equities[1]	*16.8%*	*-7.6%*
Consumer Discretionary	*30.8%*	*2.2%*
Consumer Staples	*6.9%*	*12.0%*
Energy	*28.4%*	*-29.4%*
Financials, ex Property Trusts	*13.1%*	*-21.2%*
Health Care	*2.9%*	*27.3%*
Industrials	*15.3%*	*-13.6%*
Information Technology	*44.4%*	*19.7%*
Materials	*26.7%*	*-0.6%*
Telecommunications Services	*13.4%*	*-9.0%*
Utilities	*7.3%*	*0.0%*

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

The Australian Dollar (AUD) appreciated against the USD, gradually rallying from 61.75 US cents at the beginning of the quarter to end June at 69.02 US cents. The AUD also appreciated against other major currencies including the Chinese yuan, Japanese yen, euro and British pound. Overall, the AUD appreciated against a basket of major currencies over the June quarter, as measured by the Trade Weighted Index, which increased from 54.7 at the end of March 2020 to 60.0 at the end of June 2020.

The Australian Government 10-year bond yield rose by 8bps to 0.88% over the quarter, up from 0.80% at the end of March. Australia's 10-year government bond yield continued to be above the US 10-year bond yield (0.65%), which moved in the opposite direction to Australia by having a small 5bp fall in yield.

International:

Key points:

- Many countries began to ease their COVID-19 restrictions over the quarter.
- The US has the highest number of recorded cases and deaths, with unemployment finishing the quarter at 11.1%.
- Most governments and central banks have continued being highly accommodative in their policy responses to the pandemic in attempting to stimulate the economy and mitigating the spread of COVID-19. The US Federal Reserve left its target rate range unchanged at 0.00% to 0.25%.

The coronavirus continued to spread across the globe, with over 12 million people infected and 500,000 deceased. By country, the US and Brazil account for nearly half of global infections and just over a third of the death toll to date. Highly accommodative fiscal and monetary policy remained in place in response to the pandemic, and economies began to ease their COVID-19 restrictions to help with the recovery effort. As a result, most global equity markets rebounded, with the MSCI World Index ex Australia (hedged to AUD) rising by 17.8% over the quarter.

The US Federal Reserve left interest rates unchanged over the June quarter at a target range of 0.00%-0.25%, with US$2.3 trillion being pumped into the system in April. The Federal Reserve has indicated that it will maintain the current low interest rate levels for an extended period until they are "confident that the economy has weathered recent events". The prospect of negative interest rates remains an unlikely proposition for the Fed, unlike many other central banks. On fiscal policy, the US Federal Government approved a COVID-19 relief package totalling US$483 billion in April, following the US$2.2 trillion package approved in March. In May, the Democrat-led House of Representatives passed a further US$3 trillion package, though this is not expected to be approved by the US Senate.

The US equity market ended the quarter 20.5% higher, as measured by the S&P 500 Composite in local currency terms. This is despite the US economy shrinking in Q1 due to COVID-19, where annual GDP growth was -5.0%. This represents the largest contraction since the 2008 Global Financial Crisis. The National Association of Home Builders/Wells Fargo Housing Market Index (HMI) fell sharply from 72 in March to 58 in June – where a number over 50 indicates more builders view sales conditions as good rather than poor. While the end of quarter value was above 50, the index did experience a crash in April – falling to 30. Activity in the US manufacturing sector, as measured by the US Markit Manufacturing PMI, began the quarter at 48.5 before crashing to 36.1 in April. However, as businesses began to reopen, the demand for manufactured goods stabilised – with the US PMI ending the quarter at 49.8. The 4.4% March US unemployment rate substantially increased to 11.1% in June 2020, after being as high as 14.7% in April. Consumer sentiment, as measured by the University of Michigan Consumer Sentiment Index, has steadily fallen from 89.1 in March to 72.3 in May (the latest figure available at the time of writing). US annual core inflation was reported at 1.2% in May 2020, down from 2.1% in March 2020.

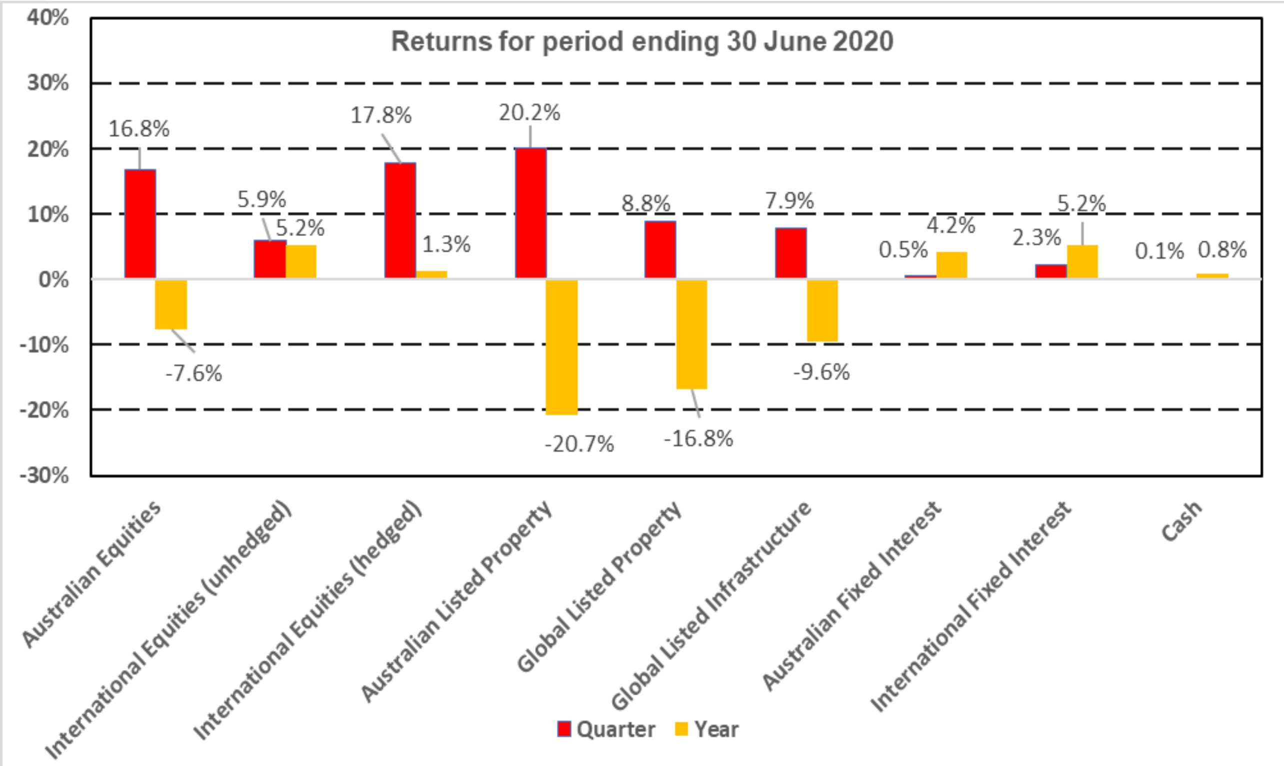
European equities rose by 17.4% over the quarter (in local currency terms). In response to the coronavirus pandemic, the European Central Bank (ECB) announced that it was expanding its quantitative easing program by a further €600b, increasing the total to €1.35t, but continued to leave rates unchanged at -0.5%. The EU's manufacturing industry experienced a volatile quarter with the Markit Eurozone Manufacturing PMI falling from 44.5 to 33.4 in April, but then recovering over the remainder of the quarter to reach 47.4. Euro area headline inflation is expected to continue slowing down to 0.3% year-on-year in June 2020 from 0.7% in March 2020. Annual European core inflation (which excludes prices of volatile items such as food and energy) decreased to 0.8% in June 2020, from 1.0% in March over the same month in the previous year.

The Chinese equity market returned 8.5% as measured by the Shanghai Composite Index (in local currency terms). Given COVID-19, the Chinese quarterly GDP significantly contracted by 9.8% in the March quarter. China's manufacturing industry continued to recover from its record low in February 2020, with the China Caixin Manufacturing PMI increasing from 50.1 in March to 51.2 in June.

Japanese equities underperformed most other equity markets, but still returned 11.5%, as measured by the MSCI Japan (in local currency terms)). The Markit/Nikkei Final Japan Manufacturing PMI continued its sharp decline, decreasing from 44.2 in March 2020 to 40.1 in June 2020, signalling a significant deterioration in manufacturing conditions. In late April, the Bank of Japan (BoJ) pledged that it would buy an unlimited amount of bonds in response to worsening economic conditions resulting from COVID-19. The BoJ also left its interest rate unchanged at -0.1% for another quarter. Japanese year-on-year inflation fell to a three year low of 0.1% in May 2020 from 0.4% in March 2020.

Unlike Australia, most major global bond yields fell over the quarter. The US 10-year government bond yield fell by 5bps to 0.65%, the UK 10-year government bond yield fell by 18bps to 0.17%, and the 10-year German and Japanese government bond yields were flat at -0.46% and 0.03% respectively.

Global listed infrastructure and global listed property both rebounded from their heavy losses in the March quarter, returning 7.9% and 8.8% over the June quarter - 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 30 June 2020	Quarter	1 Year
International Equities (unhedged) [1]	**5.9%**	**5.2%**
North America	8.0%	9.0%
UK	-4.2%	-16.3%
Europe (ex UK)	4.6%	-1.3%
Japan	-0.8%	5.1%
Asia Pacific (ex-Japan)	3.7%	3.4%
Emerging Markets	5.0%	-1.5%
China A Shares	3.1%	14.1%
International Equities (hedged) [3]	**17.8%**	**1.3%**
Australian Listed Property [4]	**20.2%**	**-20.7%**
Global Listed Property [5]	**8.8%**	**-16.8%**
Global Listed Infrastructure[6]	**7.9%**	**-9.6%**
Australian Fixed Interest[7]	**0.5%**	**4.2%**
International Fixed Interest[8]	**2.3%**	**5.2%**
Cash[9]	**0.1%**	**0.8%**

1. *S&P/ASX 300 Accumulation Index*
2. *MSCI World ex-Australia Index (with net dividends reinvested in A$)*
3. *MSCI World ex-Australia Index (with net dividends reinvested hedged in A$)*
4. *S&P/ASX 300 A REIT Accumulation Index*
5. *FTSE EPRA/NAREIT Developed Net TRI Index (Net Total Return hedged in A$)*
6. *FTSE Developed Core Infrastructure 50/50 Index (Net Total Return hedged in A$)*
7. *Bloomberg AusBond Composite Index*
8. *Barclays Global Aggregate Hedged in AUD Index*
9. *Bloomberg AusBond Bank Bill Index*

All returns are based on accumulation indices. Data sourced from eVestment Alliance, Datastream and Thomson Reuters

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