Month in Review

Index returns at end April 2020 (%)

Australian Equities	1 mth	3 mth	6 mth	1 yr	3 yr	5 yr	10 yr
S&P/ASX 200 Accumulation Index	8.78%	-20.32%	-15.48%	-9.06%	1.92%	3.46%	5.96%
S&P/ASX Small Ordinaries Acc. Index	14.27%	-19.00%	-15.21%	-13.31%	3.25%	4.95%	2.46%
Global Equities							
MSCI World TR Index (AUD)	3.75%	-9.75%	-2.17%	3.79%	10.36%	9.52%	12.16%
S&P 500 TG Index (AUD)	5.47%	-7.21%	1.90%	8.44%	13.98%	13.26%	15.69%
FTSE 100 TR Index (AUD)	-1.20%	-19.89%	-15.07%	-13.82%	1.08%	0.50%	6.18%
MSCI Emerging Markets NR Index (AUD)	2.05%	-10.56%	-5.82%	-5.40%	5.13%	3.70%	5.08%
Real Estate Investment Trusts							
S&P/ASX 300 A-REIT Acc. Index	13.68%	-29.74%	-26.86%	-20.10%	-1.43%	3.28%	8.18%
FTSE EPRA/NAREIT Dev. NR Index (AUD Hgd)	6.14%	-25.24%	-25.14%	-18.99%	-2.31%	0.19%	6.88%
Fixed Interest							
Bloomberg Ausbond Composite 0+ Yr Index	-0.07%	0.57%	2.06%	6.42%	5.46%	4.46%	5.86%
Bloomberg Ausbond Bank Bill Index	0.05%	0.22%	0.46%	1.12%	1.63%	1.80%	2.76%
Barclays Global Aggregate TR Index (AUD Hgd)	1.50%	0.97%	2.30%	7.20%	4.62%	4.33%	6.19%

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

Despite the recovery in April, the magnitude and duration of the disruption remains uncertain and near-term expectations remain heavily discounted. Over half of ASX 200 companies have downgraded or withdrawn earnings guidance due to the lack of visibility in assessing the extent and severity of the COVID-19 outbreak. Dividends for banks, property and infrastructure shares are expected to decline as companies attempt to counter demand shocks through rapid cash conservation measures, while capital raisings have intensified as businesses move to strengthen balance sheets.

Coles Group (+2.3%) announced its March quarter results with Comparable Sales Growth (CSG) of 12.4%, benefitting from a shift in consumer behaviour following the outbreak. Likewise, JB Hi-Fi (+25.6%) reported it experienced an acceleration in sales in late March. Despite closing its three airport stores and seven CBD locations, sales grew 11.6% for the quarter, while all The Good Guys stores remained operational and delivered sales growth of 13.9%. Westpac (-1.3%) reported cash earnings (excluding notable items) of $2.3 billion, down 44% compared to the previous year, largely driven by a $2.2 billion impairment charge. The IT sector bounced back strongly in April, with key stocks AfterPay (+66.0%) and Appen (+31.2%) returning to their pre-outbreak levels.

Global equities

Based on broadly accepted measures, the US equity market has endured a bear market and a bull market in the space of two months. In price terms, the S&P 500 declined 34% from February's record high to its trough on 23 March, before rallying 32% to the end of April. The initial sharp sell-off partly reflected a 'rush for the doors' as many equity investment strategies were forced to sell down, while the prospect of a significant economic and earnings shock resulted in additional fundamental-based selling.

After turning negative for a few days, oil prices surged as investors speculated that demand would soon return with more countries announcing plans to reopen economies, bringing the WTI crude spot price to just above US$18 per barrel at the end of April, versus US$61 at the start of 2020. US oil producers bounced back in April but remain beaten down, with many now struggling to manage high levels of debt. Markets have stabilised significantly since March, with the CBOE Volatility Index falling from its March peak of 82.7 to 34.2 at the end of April, although it remains at an elevated level. In the UK, the FTSE 100 Index rose 3.9% in April and Germany's DAX 30 Index rose 9.3%. Across Europe, the hardest-hit sectors like travel and leisure bounced back but remain beaten down.

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Property

After being hit hard in March, Australian listed property was able to enjoy a recovery in April, with the S&P/ASX 200 A-REIT Index returning 13.7%. However, in price terms the index remains down 33% on its February high, and social distancing and other measures implemented to curb the spread of the coronavirus have hit the A-REIT market hard. Retail assets have been particularly impacted by the mandated closure of non-essential businesses, while some large national retail groups have been forced to temporarily reduce their bricks and mortar footprints.

Vicinity Centres (+44.0%) released its March quarterly update and response to COVID-19, which showed portfolio sales for the quarter down 16.5% on the previous year, with sales falling 35.1% in speciality stores and 19.9% in mini-majors. While initial government restrictions and voluntary store closures resulted in reduced trading, Vicinity reported that 50% of stores were now open, with 530 stores reopened in the week prior to its update. As the economic fallout from COVID-19 widens, other key sectors – including office and industrial – may increasingly feel the impact of falling business confidence and GDP. In April, global developed market REITs rose 5.9% in Australian dollar hedged terms and the MSCI US REIT Index rose 8.1% in US dollar terms.

Fixed income

The dislocation in the credit markets was pronounced through March and April, with market stress also spreading to sovereign bonds, which are typically immune from indiscriminate selling. Action from central banks helped restore order, with the US Federal Reserve committed to purchasing not only government bonds and agency mortgage-backed securities, but also corporate bond ETFs, including sub-investment grade bonds. It remains to be seen if the Fed will follow through on this commitment, but words alone may be powerful enough to restore confidence.

Given the recent improvement in markets in late April and early May, the Fed began slowing the pace of government bond purchases. The US budget deficit is expected to expand to around US$4 trillion in 2020, prompting the US Treasury to boost the size of bond auctions to record amounts, and revive the 20-year bond, which was last issued some 30 years ago. In Australia, the RBA has embarked on its own bond-buying program, which totalled around $50 billion at the time of its May meeting. The Australian 10-year government bond yield rose in April from 0.76% to 0.89%, while the 3-year bond yield was steady at 0.25% in line with the RBA's target.

ASX 200 share movements

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

Best performers		Worst performers	
AP Eagers	69.64%	Metcash	-20.95%
Afterpay	65.96%	Fisher & Paykel Healthcare	-12.27%
oOh!media	61.72%	Avita Medical	-8.82%
Perenti Global	49.18%	Insurance Australia Group	-6.77%
Scentre Group	48.88%	McMillan Shakespeare	-6.19%

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

Best performers		Worst performers	
Silver Lake Resources	148.41%	Southern Cross Media Group	-83.86%
PolyNovo	109.66%	Webjet	-74.10%
Fortescue Metals Group	99.83%	Flight Centre Travel Group	-67.56%
Gold Road Resources	72.73%	G8 Education	-66.78%
Fisher & Paykel Healthcare	71.35%	oOh!media	-65.07%

Economic News

Australia

The Australian economy is expected to contract by at least 5% in the June quarter after a smaller contraction in the March quarter, thereby meeting the technical definition of a recession. However, no data is needed to confirm what has already been observed: shutdowns, isolation, and social distancing measures in the fight against the spread of COVID-19 have virtually closed large sections of the economy, causing a surge in unemployment not seen since the Great Depression. The good news is that the lockdown measures appear to have been effective, and in early May attention turned to re-starting the economy and putting in place the measures and safeguards required to avoid a second

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wave of cases. The **Reserve Bank of Australia** kept the cash rate on hold at its May meeting at 0.25% and maintained its yield target for 3-year government bonds at the same rate. The Bank reported that its bond purchases have so far totalled around $50 billion and that, in light of improving conditions in bond markets, has begun scaling it back with a view to increasing it again if the situation requires.

Payroll data showed a fall in employee jobs of 7.5% nation-wide (around 975,000 employees) between mid-March and mid-April, and a drop in total wages paid of 8.2%. Retail turnover rose 8.5% in March as consumers stockpiled ahead of lockdown measures, but cafés and restaurants didn't fare so well, experiencing a 22.9% fall in sales.

Hopes of a swift recovery in the manufacturing economy were dashed in April as the **AIG Manufacturing Index** recorded a drop of 17.9 points to 35.8, which was the worst month-to-month fall the index has seen. With the temporary spike in demand for manufactured food and groceries now subsided, widespread disruption to supply chains and freight movements were reported by respondents. New orders fell 25.2 points to 32.7 and production fell 16.5 points to 35.3, while input prices rose 7.6 points to 71.6.

Consumer confidence plunged in April to its lowest level in the 47-year history of the survey. The Westpac-Melbourne Institute **Index of Consumer Sentiment** showed a 16.3-point drop to 75.6 as markets were saturated with negative economic news and workers were faced with an uncertain job environment. The 'economy, next 12 months' sub-index recorded a spectacular 31% drop, however it seems most feel the effects will be temporary, with the 'economy next 5yrs' sub-index down just 3.8% in the month.

Global

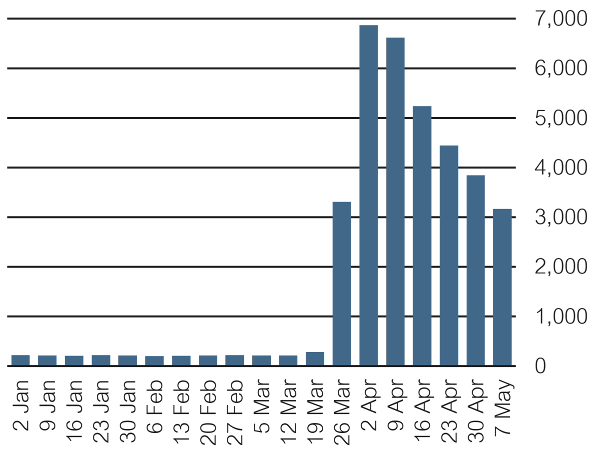
The world economy remains in the grip of the COVID-19 shock. Governments are deploying stimulus measures, including extensive employment subsidies to retain worker-firm relationships. March quarter economic growth points to a sharp downturn globally, while the contraction could be more pronounced in the June quarter given lockdown measures were in full force in most regions by April.

In the US, **March quarter GDP** plummeted to an annualised 4.8% contraction, below expectations of a 3.7% fall, as the initial impact of COVID-19 filtered through the economy. Within the GDP report, consumer spending showed a sharp decline, falling 7.6% versus an expected 1.5% contraction. Estimates of the impact of the shutdowns and isolation initiatives on GDP centred around 7–10% in the June quarter alone. To put this in context, the 2008 recession saw a 4% contraction in US GDP over six quarters, while the 1929-30 depression saw a 26% contraction.

After lowering the funds rate by a full percentage point in March, the **US Fed** confirmed the policy rate would stay unchanged at the target range of 0.00–0.25%, reiterating its commitment to use the full range of tools to support the economy for as long it takes to ensure the economy is "well on the road to recovery."

The **ISM Manufacturing PMI** was revised lower from a preliminary estimate of 36.9 to 36.1, down from March's 48.5. The reading was the lowest since early 2009, with employment declining the most since March 2009 amid greater spare capacity. April's **ADP Employment Report** showed 20.2 million jobs were lost over the month – the largest decline ever in employment. The services sector was the hardest hit, shedding 16.0 million jobs, mostly in leisure and hospitality.

US initial jobless claims ('000)



Source: Department of Labor

Even before the pandemic hit, the eurozone story was one of mediocre economic growth, with a modest expansion in the services sector been offset by a contraction in manufacturing. The coronavirus pandemic undercuts even this lacklustre narrative by hitting services extremely hard. The preliminary estimate shows **eurozone GDP** down 3.8% year-on-year for the March quarter – the sharpest decline observed since the series started in 1995 and sharper than the 3.0% fall forecast by the European Central Bank (ECB).

Economic sentiment fell sharply to 67.0 in April, missing expectations of 74.0 and down from March's downwardly revised level of 94.2, which doesn't bode well for June quarter economic growth. Unsurprisingly, jobs in accommodation and food services (-33.4%) and arts and recreation services (-27.0%) continue to bear the brunt of the COVID-19 recession. Since the end of March, the ECB has been buying assets as part of the new **Pandemic Emergency Purchase Programme** (PEPP), which allows the ECB to make up to €750 billion

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of purchases across all asset classes. This will be augmented by additional long-term refinancing operations to support liquidity across the eurozone.

The **Chinese economy** contracted by 9.8% in the March quarter compared to the December 2019 quarter, taking the annual growth rate to -6.8%, down from positive growth of 6.0% in the December 2019 quarter. According to the IMF, growth is forecast to recover, but only to 1.2% for the whole of 2020. China was the first economy to be hit by the coronavirus, and after a lockdown lasting more than two months, the economy is beginning to open up, although neighbourhood-level monitoring and testing remain in place.

The economy is estimated to be running at around 80% capacity, and while many restrictions have been eased, others have been tightened, including restrictions on international flights, in a bid to prevent a second wave of imported infections. Chinese policymakers have pledged to combat the economic damage caused by the pandemic. There were 2.85 trillion yuan in new loans in March – far exceeding market expectations of 1.8 trillion, and three times more than February's 905.7 billion – which lifted bank lending in the first quarter to a record 7.1 trillion.

While the **Chinese central bank** has stressed its intention to avoid the size and scope of stimulus packages adopted in previous downturns due to high levels of debt, there will likely be growth in lending over coming months as key government-backed projects restart and pent-up consumer and real estate demand picks up.

Commodities

Oil markets began looking more stable in the latter part of April as crude inventory built up slightly less than estimated markets anticipated a lift in demand as economies reopen. In may, Western Europe's biggest oil producer, Norway, joined international efforts to cut supply for the first time in almost two decades.

The Brent crude oil spot price rose 22.0% in April to US$18.11 per barrel and the WTI price fell 6.2% to US$19.23 per barrel. Metals were mixed, with gains from Copper (+4.8%), Nickel (+6.2%), Tin (+4.1%) and Zinc (+1.8%), and falls in Lead (-6.1%) and Aluminium (-2.1%). Gold rose 5.6% to US$1,687.67 per ounce.

Currencies

The Australian dollar rallied into May, helped by stronger than expected Chinese trade data and news that Chinese factories are re-opening. The dollar rally began in mid-March after bottoming at under US $0.58 to find resistance at around $0.65, down from its $0.70 level at the start of January.

Over the three months to April, the Australian dollar fell 2.4% against the US dollar, 4.7% against the Japanese yen, and 0.9% against the euro. It rose 2.5% against the British pound.

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