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MONTHLY UPDATE ON THE INVESTMENT ENVIRONMENT

July 2020

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surprisingly straightforward

MARKET UPDATE

Signs of economic improvement continued to emerge over July as a number of countries recorded declining daily cases and eased lockdown measures. Nonetheless, significant uncertainty about the health and economic impacts of the pandemic remains, with the likelihood of a sharp 'V shaped' economic recovery looking increasingly unlikely.

Despite ongoing economic concerns, unprecedented policy stimulus continued to propel both equities and fixed interest to strong returns in July, with pundits labelling the upswing the 'everything rally'. Equities indices have continued to surge, volatility gauges have declined almost to pre-crisis levels, and credit spreads and yields have narrowed significantly. Heightened concerns that stimulus will generate inflation and that the rally may reverse contributed to a rally in the price of gold over July, which hit a record high of over US$2,000 per troy ounce in early August. While the pandemic responses of governments have dulled COVID-19's economic impact so far, questions remain about how long they can be maintained. The uncertain public health and economic outlook is expected to be an ongoing source of market volatility.

By early August there had been over 20 million confirmed cases of COVID-19 worldwide, with nearly 750,000 deaths. While the US remains the nation with the highest number of confirmed cases, Brazil, Mexico and India are all recording comparably high daily deaths, and the virus's impact continues to increase in severity across developing nations. Australia has also experienced a worsening in pandemic cases, with a significant outbreak in Victoria leading to strict lockdown measures.

The worsening outbreak in the state of Victoria will likely prove a major factor in the evolution of COVID-19 in Australia, with risks of a spread to other parts of the country heightened. Victorian visitors to Sydney in July have led to clusters emerging in the nation's largest city, however the introduction of strict border closures and robust contact tracing have staved off the spread of the virus so far. Nonetheless, the nation finds itself in a precarious position, with an increasing risk of heading down the path of most other countries and battling a fully-fledged pandemic.

In an attempt to continue mitigating the fallout from the virus, the Australian Government announced the extension of its JobKeeper and JobSeeker payment programs beyond their original September end dates. While the federal government extended fiscal stimulus, the RBA kept the cash rate at 0.25% into August and recommenced bond purchases to contain yields, which had started to rise. The July meeting minutes suggest that the RBA has considered alternative policy tools going forward – including negative rates – but has dismissed them for now.

While Australian unemployment increased moderately (due in part to a higher participation rate) and the nation's house prices edged downwards for a third straight month, inflation in the June quarter fell to 1.9%; the lowest in the CPI's 74-year history. That said, the low print was exacerbated by temporary, pandemic-driven government subsidies for childcare and education.

In the US, there was renewed focus on monetary and fiscal policy. The Federal Reserve announced extensions to its stimulus programmes to at least year-end. Chair Powell has presented a dovish tone, noting ongoing economic uncertainty. In Congress, focus centred on negotiations on extensions to existing pandemic welfare programmes, although as at early August no agreement had been reached. Fiscal stimulus has caused the US Government's budget to spiral further into deficit, with one ratings agency, Fitch, shifting the US's sovereign rating to a negative outlook. Indeed, data from the US was mixed in July, with unemployment unexpectedly increasing mid-month before improving.

The Chinese economy seems to have sharply recovered from the pandemic. Second quarter GDP nearly recouped all of the first quarter's contraction, lifting the annual rate to 3.2%. That said, China-US tensions remain elevated, with a number of tit-for-tat consulate closures and sanctions.

The key development in Europe was the agreement between EU members to a pandemic fiscal package. Despite reservations from the bloc's more frugal member states, an impressive €750 billion package was agreed, to be split between €390 billion in grants and €360 billion in loans to fund investment and jobs growth. With further approvals required, implementation is likely in late 2020.

Table: Index Returns to 31 July 2020

	MONTH (%)	THREE MONTHS (%)	FYTD (%)	ONE YEAR (%)
Australian Equities				
S&P/ASX 300 Accumulation Index	0.6	7.8	0.6	-9.7
S&P/ASX Small Ordinaries Accumulation Index	1.4	9.9	1.4	-8.5
International Equities				
MSCI World (ex Australia) Index (hedged A$)	3.3	10.6	3.3	3.5
MSCI World (ex Australia) Index (unhedged A$)	0.6	2.9	0.6	3.4
MSCI Emerging Markets Index (unhedged A$)	4.6	7.6	4.6	2.4
Property				
S&P/ASX 200 A-REIT Accumulation Index	0.6	6.1	0.6	-22.8
Australian Fixed Interest				
Bloomberg AusBond Composite Index	0.4	1.0	0.4	3.6
Global Fixed Interest				
FTSE WGBI ex-Aust (hedged A$)	1.0	1.1	1.0	6.4
Barclay's Global Capital Aggregate Bond Index (hedged A$)	1.0	1.8	1.0	5.5
Cash				
Bloomberg AusBond Bank Bill Index	0.0	0.0	0.0	0.7
Commodities				
Gold (US$ per ounce)	11.5	15.1	11.5	37.9
Copper (US$ per metric tonne)	6.6	23.6	6.6	8.2
WTI Crude Oil (US$ per barrel)	2.5	113.7	2.5	-31.3
RBA Index of Commodity Prices (A$)	-0.2	-4.6	-0.2	-12.1

Table 1: Australian Dollar versus Foreign Currencies to 31 July 2020

AUSTRALIAN DOLLAR VERSUS	AS AT 31 JULY 2020	MONTH (%)	THREE MONTHS (%)	FYTD (%)	ONE YEAR (%)
US Dollar	0.72	5.0	9.9	5.0	4.3
British Pound Sterling	0.55	-1.9	4.7	-1.9	-3.4
Euro	0.61	-0.6	0.8	-0.6	-1.9
Japanese Yen	75.28	2.0	7.9	2.0	0.6