



**WHITEHELM**  
ADVISERS

**MONTHLY UPDATE ON THE INVESTMENT ENVIRONMENT**

May 2020



**primesuper**  
surprisingly straightforward



## MARKET UPDATE

The effects of the COVID-19 pandemic continue to be the focus for global economic analysis. Total cases now exceed seven million, with over 400,000 deaths. Over May 'The Great Lockdown' started to ease in a number of developed economies, with social isolation rules relaxed and new cases starting to fall. However, the number of new daily cases has started to soar in emerging economies; Brazil, Russia, India and Peru all have over 100,000 active cases; levels exceeded only by the US.

Nonetheless, unprecedented central bank and government stimulus has been highly effective thus far in mitigating the economic fallout of the pandemic. Much of the economic data remains weak globally, however some activity-based gauges have started to recover, and risk assets rallied in May.

Australia's economic outlook improved over May, although data remains poor. First quarter GDP growth was -0.3%; the first negative quarter since 2011, with consensus forecasts anticipating a much more severe decline over the second quarter. If so, Australia will officially enter its first recession since 1993. The RBA's May Statement of Monetary Policy forecasts a 10% GDP contraction over the first half of 2020, with a recovery in the second half of the year expected to shore up the annual GDP growth figure to -6%.

Australian employment data worsened, with April's unemployment rate rising 1.0% to 6.2%. Meanwhile, underemployment soared nearly 5% higher to 13.7%, and the participation rate declined as fewer adults sought employment. By contrast, the nation's housing sector continued to prove resilient, with prices falling only marginally nationwide over May, and sentiment indicators overall stabilising.

As the number of active cases in the US eclipsed one million, civil tensions have escalated, with protests against government-imposed lockdowns giving way to unrest following the death of African-American George Floyd in Minneapolis at the hands of local police officers. While the economic impact of nationwide protests may be minimal, it suggests growing levels of public disaffection with the current state of the US economy and political leadership.

While the April US unemployment rate saw an increase from 4.4% to a record 14.7%, the May rate surprised with a fall to 13.3%, suggesting a gain of

2.5 million jobs versus forecasts of 7.5 million further losses. Weekly jobless claims have tapered to 1.9 million, with the number of overall jobless claims falling from 25 million to 'only' 21.5 million by late May. Meanwhile inflation worsened, with headline CPI falling below 1.0%, helped by plummeting oil prices.

Tensions between the US and China have again escalated, this time over Hong Kong. First Chinese and then Hong Kong officials approved new security laws for the special region in late May, placing curbs on individual freedoms and foreign involvement. The move was met with protests in Hong Kong, while the US threatened to withdraw Hong Kong's special preferential trading status. Nonetheless, conditions in mainland China seem to have improved; PMI measures have returned to an overall optimistic outlook; the Caixin Services PMI reading hit its highest level in nearly a decade.

As with the US, lockdown restrictions eased in Europe and the United Kingdom, providing some hope for their respective economies. The European Central Bank announced a €600 billion expansion to its pandemic bond purchase programme, taking its total size to €1.35 trillion. The scale of support has been criticised in some quarters; German courts have ruled the programme unconstitutional due to the excessive risk it entails without due consultation or consideration of member states. While not binding on the ECB, the legal decision presents an ominous sign regarding support for the ECB's policy stimulus from its largest member state.

The European Union has also proposed a €750 billion recovery fund, although it too has been criticised by the EU's more frugal member states.

While the economic impact of the pandemic remains severe and significant concerns remain, May proved to be an excellent month for risk assets, with central bank support and easing lockdown measures helping buoy equities markets both in Australia and overseas. The S&P/ASX 200 Index is now up over 30% from its late-March low, while in the US the S&P 500 Index is back over 3,000 points. Major technology stocks have performed well during the pandemic, with the likes of Amazon and Netflix catapulting the Nasdaq Composite to a record high in early June. Market volatility gauges also normalised, while oil prices recovered following significant cuts in supply. The Australian dollar also rallied, rising from 65 to 70 US cents by early June.



**Table: Index Returns to 31 May 2020**

	<b>MONTH (%)</b>	<b>THREE MONTHS (%)</b>	<b>FYTD (%)</b>	<b>ONE YEAR (%)</b>
<b>Australian Equities</b>				
S&P/ASX 300 Accumulation Index	4.6	-9.7	-9.8	-6.5
S&P/ASX Small Ordinaries Accumulation Index	10.6	-1.9	-3.8	-2.9
<b>International Equities</b>				
MSCI World (ex Australia) Index (hedged A\$)	4.7	-0.3	-1.0	4.9
MSCI World (ex Australia) Index (unhedged A\$)	3.4	-1.8	6.4	12.0
MSCI Emerging Markets Index (unhedged A\$)	-0.6	-9.6	-4.9	-0.2
<b>Property</b>				
S&P/ASX 200 A-REIT Accumulation Index	7.0	-21.1	-20.2	-16.8
<b>Australian Fixed Interest</b>				
Bloomberg AusBond Composite Index	0.3	0.0	3.9	4.9
<b>Global Fixed Interest</b>				
FTSE WGBI ex-Aust (hedged A\$)	-0.1	0.7	5.8	7.2
Barclay's Global Capital Aggregate Bond Index (hedged A\$)	0.3	0.0	4.7	6.0
<b>Cash</b>				
Bloomberg AusBond Bank Bill Index	0.0	0.2	0.8	1.0
<b>Commodities</b>				
Gold (US\$ per ounce)	0.7	6.0	22.2	33.2
Copper (US\$ per metric tonne)	3.6	-4.6	-10.3	-7.8
WTI Crude Oil (US\$ per barrel)	88.4	-20.7	-39.3	-33.7
RBA Index of Commodity Prices (A\$)	-1.7	2.5	-3.7	-2.5

**Table 1: Australian Dollar versus Foreign Currencies to 31 May 2020**

<b>AUSTRALIAN DOLLAR VERSUS</b>	<b>AS AT 31 MAY 2020</b>	<b>MONTH (%)</b>	<b>THREE MONTHS (%)</b>	<b>FYTD (%)</b>	<b>ONE YEAR (%)</b>
<b>US Dollar</b>	0.67	1.7	2.2	-5.0	-3.6
<b>British Pound Sterling</b>	0.54	3.3	6.9	-2.2	-1.6
<b>Euro</b>	0.60	-0.6	1.3	-2.8	-3.5
<b>Japanese Yen</b>	71.38	2.3	0.9	-5.4	-5.0