View from the hill

MAY 2020

Market update

The table below provides details of the movement in average investment returns from various asset classes for the period up to **30 April 2020.**

Asset class (% change)	1 month	3 months	1 year	3 years (%pa)
Australian shares	8.8	-20.3	-9.1	1.9
Smaller companies	14.3	-19.0	-13.3	3.2
International shares (unhedged)	3.6	-9.6	3.5	10.0
International shares (hedged)	10.6	-11.3	-3.7	5.1
Emerging markets (unhedged)	2.0	-10.6	-5.4	5.1
Property – Australian listed	13.7	-29.7	-20.1	-1.4
Property – global listed	6.2	-25.0	-18.2	-1.4
Australian fixed interest	-0.1	0.6	6.4	5.5
International fixed interest	1.5	1.0	7.2	4.6
Australian cash	0.0	0.2	1.1	1.6

Past performance is not a reliable indicator of future performance. The Global Listed property reference index changed to FTSE EPRA/NAREIT Developed Rental NR Index (AUD Hedged) as of August 2019

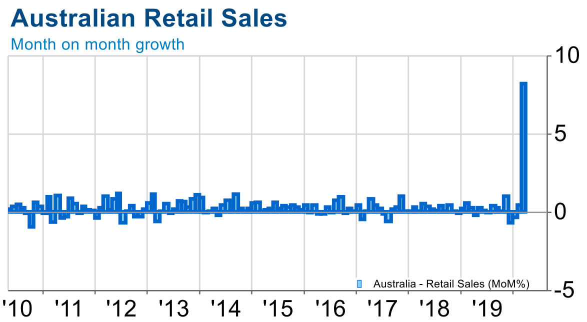
Overview & Outlook

Despite the severe isolation measures put in place in countries all over the world, markets were generally strong through April. The US weekly jobless claims come off the record set in late March however the number of claims each week through April was still staggeringly high with over 30 million Americans having lost their jobs in just six weeks. US unemployment data due on Friday is projected to surge to 16%, the highest since 1948.

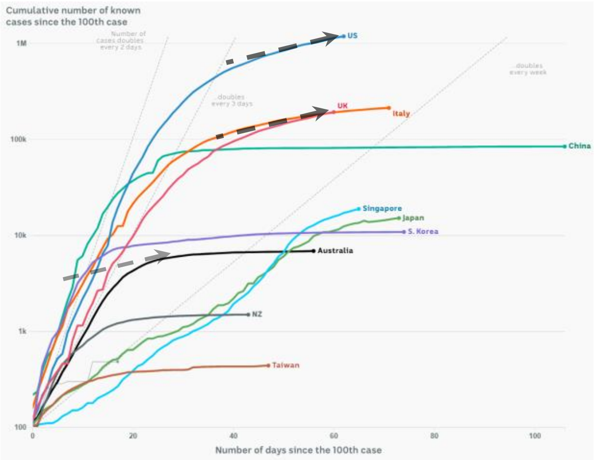
The impact to Australian unemployment is estimated to be 1 million people with almost 5 million more on the JobKeeper wage subsidy. Treasury has estimated Australia's economy will shrink by between 10 and 12 per cent by next month. In Europe with even harsher lock downs the contraction is expected to be worse.

There was a surge in retail spending which jumped a record 8.5% in March as consumers rushed to stock up on essential household items and food. The panic buying saw supermarkets and those that sell goods used for home office setups having to hire thousands of staff to manage customers and stock on the shelves. Supermarket and grocery store turnover rose 22.4 per cent, peaking in mid-March. The ABS said that while food and office goods performed well, "the biggest detractor was cafes, restaurants and takeaways (down around 20%), then clothing, footwear and personal accessories (also down around 20%)." The surge in retail spending is expected to quickly subside and with cafes, restaurants and many retailers closed this retail spending boost is likely to be short lived and now the supermarkets are cutting hours making things difficult for casual workers.

Source: FactSet, AMP



Pleasingly the efforts to “flatten the curve” have been largely successful and while countries such as the United States and the UK are experiencing severe impacts, they too are seeing rate of infection falling. The current slope of the curve however does suggest that both the UK and the US are over a month behind where Australia is. Importantly the level of testing is generally increasing as we move toward a reopening of the economy and a relaxing of the stay at home measures in place.



Source: ABC News

Governments around the world are now looking to relax the restrictions put in place and get people back to work. This shift while a positive for the economy comes with the risk of a surge in covid-19 infections. In Australia the government is looking to take a measured approach to reopening the economy. The US has acknowledged that more people will contract the virus and there will be more deaths, but remaining shut down is unsustainable. Clearly any significant increased infection rates pose a risk to markets particularly if further shutdowns become required.

Share markets

The Australian share market (8.8%) continued an aggressive bounce back from the low seen on the 23rd of March. Small companies (14.3%) assisted the broader market's performance. While volatility remains elevated it has fallen sharply. The market seems to be factoring in a reasonably quick economic recovery and those areas of the market that fell the most are generally those that have bounced back the most as the table below shows quite clearly.

Sector	Sector Fall 20/2 - 23/3	Sector recovery 23/3 - 6/5	Ranked fall	Ranked Recovery
Consumer Discretionary	-45.00%	37.98%	3	3
Consumer Staples	-13.30%	2.35%	11	11
Energy	-52.91%	45.28%	1	2
Financials	-42.45%	17.60%	4	6
Health Care	-20.33%	15.02%	8	7
Industrials	-39.60%	26.73%	6	4
Information Technology	-41.20%	85.91%	5	1
Materials	-26.76%	14.68%	7	9
Real Estate	-47.75%	23.30%	2	5
Telecommunication Services	-19.30%	5.73%	10	10
Utilities	-19.55%	14.70%	9	8

Sector Fall/Recovery equals company's weight of the sector times the % Fall/recovery to/since 23 March

Source: FactSet, AMP

All sectors saw recovery in April with Energy (24.9%) the strongest, information tech (22.5%) which had been hit hard was the second strongest and consumer discretionary (15.9%) was next. Telecom services struggled to post a positive return (0.8%) while other defensive sectors including consumer staples (2.4%) and utilities (2.7%) were the worst performing sectors in April.

International shares (10.6%) on a currency hedged basis continues to outperform the local market. On a 10-year basis currency hedged International shares (9.1% pa) has outperformed Australian shares (6.0% pa) by over 3% per annum. We continue to favour better balance between domestic and international shares than historically has been allocated. A recovery in the Australian dollar saw unhedged international shares (3.6%) underperform substantially.

Emerging markets (2.0%) also suffered from currency movements and underperformed developed market shares. India (14.7%) was a standout performer in the EM world.

Interest Rates

As the anxiety in markets subsided, Australian fixed interest (-0.1%) slipped a little over the month. International fixed interest (1.5%) performed better. This was impacted by the deluge in bond issuance and the QE measures taken by central banks.

Bond yields were generally steady with the US 10-year government bond yield moving less than 3 basis points to 0.646% while in Australia the government 10-year yield rose 7.6 basis points to 0.903%.

The liquidity issues of March subsided to some degree and spreads narrowed as the panic subsided. As markets began to normalise, fund managers who had increased buy/sell spreads have begun to reduce them.

Property

The Australian listed property market (13.7%) was among the best performing asset classes as investors bought into the most sold off parts of the market. International REITs (6.2%) failed to generate the returns achieved in the broader market with international investors being more selective about where they invest.

In the residential market analysts are suggesting the worst is ahead of us in terms of the surge in unemployment taking its effect on the market.

Change in dwelling values as at Apr 30, 2020

	% MoM	% QoQ	% YoY	Total return (%)	Median value ($)
Sydney	+0.4	+3.2	+14.3	+17.8	889,992
Melbourne	-0.3	+1.4	+12.4	+16.0	695,761
Brisbane	+0.3	+1.5	+3.8	+8.0	507,982
Adelaide	+0.4	+0.8	+1.5	+6.0	439,397
Perth	+0.2	+1.0	-2.5	+1.6	448,355
Hobart	-0.1	+0.5	+5.0	+10.7	484,645
Darwin	+1.7	+2.3	-2.7	+5.2	402,225
Canberra	+0.0	+1.4	+4.3	+9.3	626,997
Combined capitals	+0.2	+2.1	+9.7	+13.4	647,414
Combined regional	+0.5	+1.8	+3.2	+8.1	396,070
National	+0.3	+2.1	+8.3	+12.3	557,739

Source: ABC News

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