View from the hill

JUNE 2020

Market update

The table below provides details of the movement in average investment returns from various asset classes for the period up to **31 May 2020.**

Asset class (% change)	1 month	3 months	1 year	3 years (%pa)
Australian shares	4.4	-9.9	-6.7	4.3
Smaller companies	10.6	-1.9	-2.9	7.5
International shares (unhedged)	3.4	-1.8	12.0	10.2
International shares (hedged)	4.8	1.1	7.2	6.1
Emerging markets (unhedged)	-0.6	-9.6	-0.2	3.7
Property – Australian listed	7.1	-21.1	-16.4	1.2
Property – global listed	0.2	-18.3	-17.9	-1.5
Australian fixed interest	0.3	0.0	4.9	5.1
International fixed interest	0.3	0.0	6.0	4.5
Australian cash	0.0	0.2	1.0	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

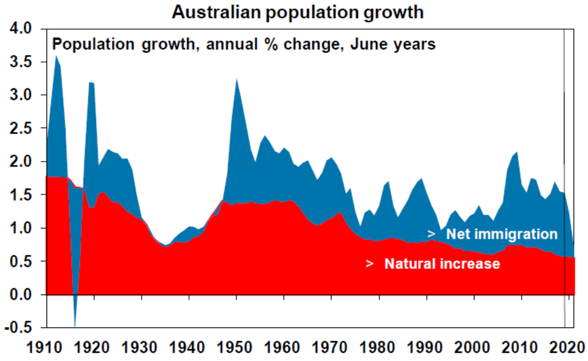
Overview & Outlook

Australia's economic growth phenomena of going without recession has finally ended after 29 years. The official GDP for the March quarter came in at -0.3%, the worst growth seen since the GFC. While technically recession is defined as two consecutive quarters of negative growth, due to the shutdowns to curtail Covid-19 economic growth in the June quarter will be far worse than what was experienced in the March quarter. Still with three months before the release of the June quarter GDP data the Australian treasurer has acknowledged we are in recession.

Despite the many challenges, there are signs of improvement in economic conditions. Given the extent to which the economy had been closed, improvement in activity was the likely outcome of relaxing some of the constraints. Unemployment is expected to increase to approx. 10% but with the JobKeeper wage subsidy keeping around 3.5 million people being paid until September we won't know how many of them have a job once the program ends. Thus, unemployment levels will be unclear until then.

Relative to the level of economic activity seen in 2019 activity is likely to be muted in the early phases of the restart given that social distancing measures do restrict activities where crowds would normally gather, further to that is the continued effective closure of our international border. The travel bans have resulted in a significant drop in immigration which has been one of the drivers of continued economic growth over the past 29 years. Population growth will, according to government expectations, slow to its lowest level since 1917 at just 0.7% or around 35,000 people in 2020-21 from 240,000 last financial year.

Australian population growth



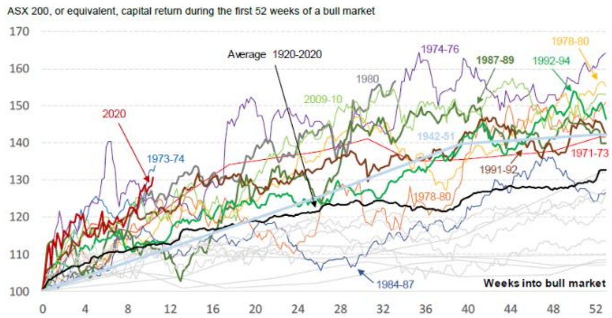
Source: ABS, AMP Capital

This slowdown will impact dwelling demand as well as all the goods and services that immigrants consume. This combined with significantly higher unemployment levels means economic activity can only recover to a certain extent in the short term.

Importantly a range of measures put in place have kept the economy ticking over and is providing much needed support to both the people and businesses within the economy. This stimulus, combined with action from the RBA, has enabled economic activity from falling further and now with the reopening of the economy occurring sooner than expected, the outlook while very challenging is much better than what was expected just a couple of months ago.

Share markets

The government stimulus, lowering of interest rates and the move to quantitative easing both here and abroad has led to one of the fastest recoveries ever seen in equity markets.



Source: MST Marquee

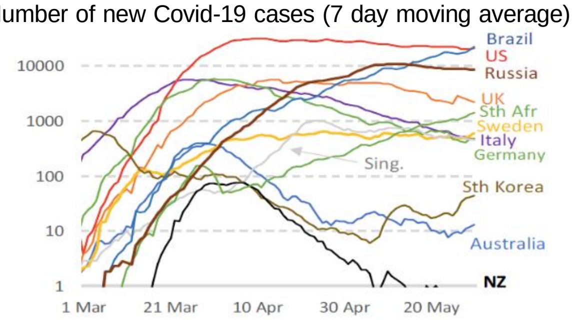
The Australian share market (4.4%) continued the strong bounce back from the low seen on the 23rd of March. Small companies (10.6%) again outperformed larger companies assisting the broader market's performance. Volatility has continued to fall and is now back at levels seen just after the market peaked in February.

Most sectors gained strongly except for Healthcare (-5.3) with CSL falling over 10% for the month. The best performing sectors were Info Tech (14.5%), Materials (8.1%) and A-REITs (7.0%). Along with Health Care, Consumer Staples (-0.4%) lost ground over the month while the next weakest sector, Utilities (3.1%) still saw good returns for the month.

International shares (4.8%) on a currency hedged basis again outperformed the local market. On a 10-year basis currency hedged International shares (12.7% pa) has outperformed Australian shares (7.3% pa) by over 5% per annum. Further strength in the Australian dollar led to unhedged international shares (3.4%) underperforming. We continue to see the risk return characteristics as favourable to international shares.

Emerging markets (-0.6%) were weaker as Covid-19 infection rates remain elevated in Brazil, South Korea, Russia and others. Brazil (8.5%) was a standout performer in Emerging Markets despite these challenges. The discount of EM versus developed markets is also not as attractive as it had been in 2019 and may be another cause for the underperformance of emerging markets.

Number of new Covid-19 cases (7 day moving average)



Source: MST Marquee

Interest Rates

Fixed interest markets experienced positive returns with domestic and international fixed interest (0.3%) moving together. Central bank QE is assisting this, although we have seen the RBA all but halt its buying program as the three-year yield has remained steady around 0.25%.

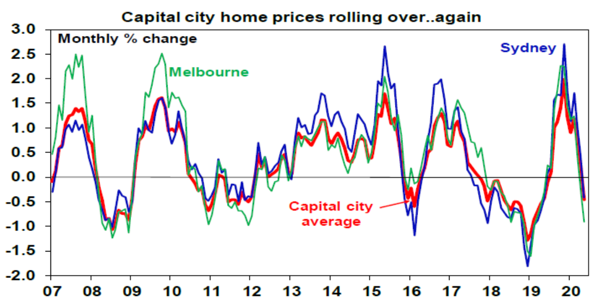
Bond yields were generally steady with the US 10-year government bond yield moving less than 1 basis points to 0.65% while in Australia the government 10-year yield fell 3.3 basis points to 0.89%.

Weak yields from bonds are likely having a positive impact on both domestic and international shares due to the significant spread in favour of dividend yield.

Property

The Australian listed property market (7.1%) was particularly strong and has rebounded more than the broader Australian equity market. Despite that, from the peak of the market they are still behind. International REITs (0.2%) weren't as strong as investors continued to favour growth opportunities. Challenges remain in retail and office as social distancing rules restrict the number of people going into stores and as corporates realise that perhaps they don't need 100% of their staff in an office.

In the Aussie residential market, we have seen a decline in property prices of 0.5% driven by job losses and the uncertainty around future job prospects as well as the significant decline in immigration. These factors are likely to weigh on the market for the foreseeable future.



Source: CoreLogic, AMP Capital