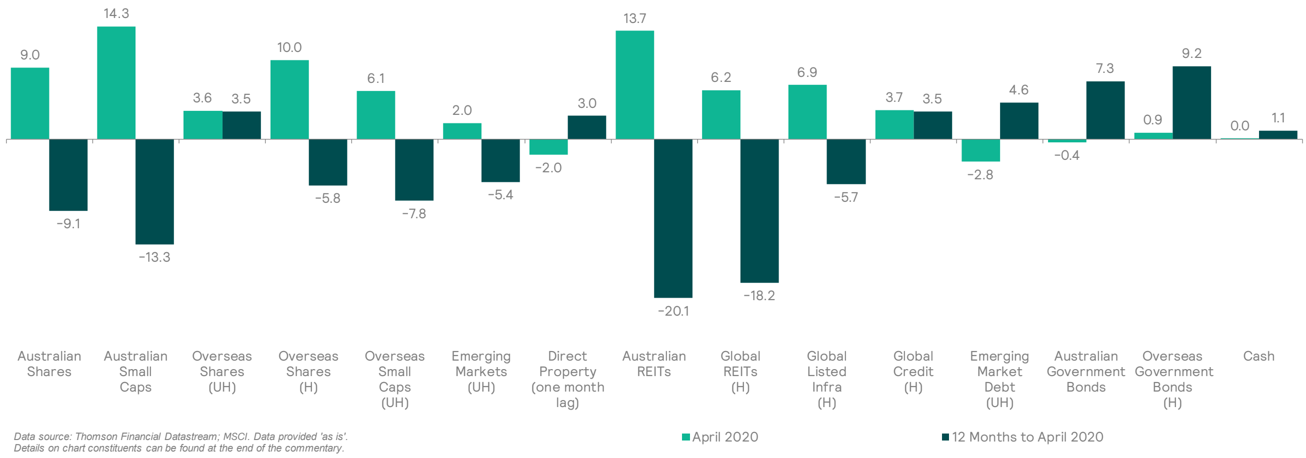
APRIL 2020

AUSTRALIAN MONTHLY MARKET REVIEW

SELECTED MARKET INDICATORS COMMENTARY

ASSET CLASS RETURNS (%) AS AT 30 APRIL 2020



Data source: Thomson Financial Datastream; MSCI. Data provided 'as is'. Details on chart constituents can be found at the end of the commentary.

The fiscal and monetary stimulus packages implemented by governments and central banks globally have helped markets rebound fairly strongly over the month of April. Central bank interventions and massive asset purchase programs, including high yield bonds and direct lending to companies, helped restore liquidity in the global financial system. Nearly all markets managed to achieve positive returns over the month, which is a stark contrast from the month prior and evidenced the improving market sentiment, as daily new cases of COVID-19 appears to have peaked in Europe and lockdown restrictions are gradually being lifted in many countries. The shutdowns used as a measure to control the spread will lead to a downturn that is expected to be much more severe than the Global Financial Crisis. The IMF forecasts that developed economies will contract by 6% this year, compared to the 3% decline in 2009.

Equities and other risky assets rebounded over the month, with Hedged Overseas Shares returning 10.0% whilst its Unhedged counterpart returned 3.6%. The Australian dollar appreciated against most major currencies and ended the month at US$0.65, which benefitted hedged Australian investors. Small cap shares led the rally, along with shares in Australia, India and North America, and the growth style continued to outperform value. Energy stocks continued their volatility and went from large negative returns to large positive returns in the matter of a month, both domestically and globally. On a year to date basis, technology stocks are the only sector to have delivered positive returns in US markets. Emerging markets rose 2.0% over April, but continue to trail developed markets with significant dispersion of returns between emerging nations.

Whilst still down for the year and despite ongoing concerns of non-performing leases in the commercial real estate sector, domestic REITs (+13.7%) and hedged global REITs (+6.2%) managed to rebound relatively strongly over the month.

In terms of traditional defensive asset classes, yields on treasury bonds moved modestly lower and investment grade credit spreads tightened sharply over April in response to coordinated global efforts to maintain market liquidity and reduce financial tensions. Hedged global credit increased 3.7% and global government bonds increased 0.9% over the month, whilst domestic government bonds fell slightly. The Australian quarter end inflation saw a modest uptick in April (+0.3%), however expectations remain well below year-end levels due to declining oil prices and the global recession.

Commodities have experienced quite a bit volatility since the beginning of 2020. In particular, oil prices have experienced wild swings in April. Plunging demand and an over supply has caused a price collapse, with a slight recovery towards the end of April. Falling oil prices have benefited importers in Asia, but has a larger negative impact on exporters in the Middle East, Russia and Latin America. In contrast, Gold has gained over the month and whilst exhibiting volatility from mid-February, the commodity has performed well as a safe-haven asset for investors.

The Australian share market rebounded from the economic fallout witnessed last month, with the S&P/ASX300 returning 9.0% over April. On a global front, Australian shares have performed relatively well compared to other developed nations and has only marginally underperformed its hedged international counterpart. Sentiment reversed from last month as investors favoured domestic small caps, which outperformed domestic large caps by 5.3%. Energy (+25.2%) and IT (+21.8%) were the top performing sectors, whilst Consumer Staples was the bottom performing sector, returning 2.6%.

Mercer's most recent views and commentary regarding the Coronavirus can be found through the following link: Coronavirus Outbreak Investment Implications Update.

SIGNIFICANT DEVELOPMENTS

- The Reserve Bank of Australia (RBA) decided to maintain the current policy settings, including the target cash rate at 0.25% per annum (pa) during April and the target for the yield on 3-year Australian Government bonds at 0.25%. Governor, Philip Lowe, noted that the global economy is experiencing a severe downturn as countries seek to contain the coronavirus. Many people have lost their jobs and a sharp rise in unemployment is occurring. At the same time, the containment measures have reduced infection rates in a number of countries. If this continues, a recovery in the global economy will start later this year, supported by both the large fiscal packages and the significant easing in monetary policies. Globally, financial markets are working more effectively than they were a month ago, although conditions have not completely normalised. This improvement reflects both the decline in infection rates and the substantial measures undertaken by central banks and fiscal authorities. Credit markets have progressively opened to more firms and long-term bond rates remain at historically low levels. In Australia, the functioning of the government bond markets has improved. Given these developments, the Bank has scaled back the size and frequency of bond purchases, which to date have totalled around $50 billion. The Bank is prepared to scale-up these purchases again and will do whatever is necessary to ensure bond markets remain functional and to achieve the yield target for 3-year Australian Government bonds. The target will remain in place until progress is being made towards the goals for full employment and inflation. The Bank's daily open market operations are continuing to support credit and maintain low funding costs in the economy.
- Australian seasonally adjusted employment increased by 5,900 in March, above expectations for a -30,000 fall, while February figures were revised to a decrease of 12,000. The unemployment rate increased to 5.2% for March, below expectations for 5.4%. The participation rate remained at 66.0%, above expectations for 65.9%. Part time jobs increased by 6,400 and full time jobs decreased by 400.
- Australian building approvals decreased 4.0% month-on-month to March, compared to the previous level of 19.4% (revised) for period ending February.

- The Institute for Supply Management (ISM) Manufacturing Index recorded 41.5 in April, above consensus for 36.0, and below the 49.1 recorded in March. Of the 18 manufacturing industries, Paper Products and Food, Beverage & Tobacco Products were the only industries that reported growth. Printing & Related Support Activities, Furniture & Related Products and Transportation Equipment were the largest detractors over the month. The ISM Non-Manufacturing Index recorded 41.8 in April, above consensus for 38.0 and below the 52.5 recorded in March. Of the 18 non-manufacturing industries, the top performers in April were Public Administration and Finance & Insurance. Arts, Entertainment & Recreation and Agriculture, Forestry, Fishing & Hunting were the two industries, which reported the largest decreases over the month.
- US Non-Farm Payrolls decreased by 20,537,000 in April, below the 881,000 decrease (revised) recorded for March. The unemployment rate increased to 14.7% over April.
- US gross domestic product (GDP) advanced estimate for Q1 2020 is -4.8% quarter on quarter (QoQ) annualised, below expectations of -4.0%.
- The Caixin Manufacturing PMI in China recorded 50.8 in April, slightly below expectations for 51.0. After broadly stabilising in March, operating conditions across China's manufacturing sector weakened slightly in April.
- A preliminary estimate of the European Core Consumer Price Index (CPI) recorded 0.9% over the year to April, above expectations for 0.7%.
- The Eurozone composite PMI decreased to 13.6 in April, above expectations for 13.5.
- The advanced estimate recorded for Q1 2020 Eurozone seasonally adjusted GDP is -3.8% for quarter-on-quarter (QoQ) and -3.3% for year-on-year (YoY).

AUSTRALIAN EQUITIES

The Australian share market underperformed its hedged overseas counterpart index over the month, as the S&P/ASX 300 Index returned 9.0%. The S&P/ASX mid 50 was the strongest relative performer, increasing 16.1%, while the S&P/ASX 50 was the weakest, returning 7.2% over the month.

The best performing sectors were Energy (25.2%) and IT (21.8%), while the weakest performing sectors were Consumer Staples (2.6%) and Financials (2.9%). The largest positive stock contributors to the index return were Scentre Group, Afterpay and Macquarie Group with absolute returns of 50.3%, 66.0% and 20.4% respectively. In contrast, the most significant detractors were Commonwealth Bank, CSL and Westpac with absolute returns of 1.4%, 4.4% and -0.4%, respectively.

GLOBAL EQUITIES

The broad MSCI World ex Australia (NR) Index increased 10.0% in hedged terms and increased 3.6% in unhedged terms over the month, as the Australian dollar (AUD) appreciated against most major currencies. In AUD terms, the strongest performing sectors were Consumer Discretionary (+9.4%) and Energy (+8.6%), while Utilities (-3.6%) and Consumer Staples (-0.9%) were the worst performers. In AUD terms, the Global Small Cap index was up 6.1% and Emerging Market index was up 2.0% over April.

Over April, the NASDAQ increased 15.4%, the S&P 500 Composite Index increased 12.8% and the Dow Jones Industrial Average increased 11.2%, all in USD terms. In local currency terms, major European share markets experienced positive returns as the CAC 40 (France) increased 4.1%, the DAX 30 (Germany) increased 9.3% and the FTSE 100 (UK) increased 3.9%. Returns were also positive in Asia, as the Japanese TOPIX (+4.3%), the Indian S&P BSE 500 (+14.6%), Hang Seng (+4.1%) and the Chinese SSE Composite (+4.0%) all increased over April.

REAL ASSETS

The Real Assets sector experienced positive returns over April. The FTSE Global Core Infrastructure Index returned 6.9% and the Global Real Estate Investment Trusts (REITs) Index increased by 6.2% over the month (both in AUD hedged terms). Domestic REITs increased 13.7% over April, while Australian Direct Property (NAV) returned -2.0% on a one-month lagged basis.

FIXED INTEREST

Global bond markets were broadly positive over April, as yields decreased across most major regions. The Barclays Capital Global Aggregate Bond Index (Hedged) increased 1.5% over the month and the FTSE World Government Bond (ex-Australia) Index (Hedged) returned 0.9%. Ten-year bond yields decreased in the US (-2bps to 0.65%), the UK (-12bps to 0.19%), Japan (-6bps to -0.04%) and Germany (-13bps to -0.59%). Two-year bond yields also decreased over the month in the US (-5bps to 0.21%), the UK (-12bps to 0.01%), Japan (-4bps to -0.18%) and Germany (-5bps to -0.76%).

Returns for Australian bondholders were mixed over April, with 10-year yields (+13bps to 0.89%), increasing, whilst five-year yields (-1bp to 0.41%) and two-year yields (-2bps to 0.23%) decreased. Of the Bloomberg Ausbond indices, the Semi-Government Index produced the highest return, increasing 0.3% over the month.

CURRENCY MARKETS

The AUD Trade Weighted Index increased to 57.8 over April, up by 5.7% from the previous month. The AUD appreciated against most major currencies, including the Euro (+7.8%), Japanese Yen (+4.6%), US dollar (+7.0%) and Pound Sterling (+5.1%).

COMMODITIES

Iron Ore decreased 0.6% over April, finishing the month at US$83.5 per metric tonne. The S&P GSCI Commodity Total Return Index decreased 15.6% over the month. Gold prices finished the month at US$1,704.81 per ounce, increasing 5.8% over the month, and the oil price increased 12.9% to US$25.52 per barrel over April.

CHART CONSTITUENTS

Notes

- *Currency: AUD.*
- *UH: Unhedged.*
- *H: Hedged.*
- *Net Index: Total Return (Net Dividends Reinvested).*
- *Total Return: Total Return Index with Gross Dividends.*
- *Where a lag exists, the performance period start and end dates are shifted accordingly.*

ASSET CLASS	BENCHMARK	DATA TYPE
Australian Shares	S&P/ASX 300	Total Return
Australian Small Caps	S&P/ASX Small Ordinaries	Total Return
Overseas Shares (UH)	MSCI World ex Australia	Net Index
Overseas Shares (H)	MSCI World ex Australia 100% Hedged	Net Index
Overseas Small Caps (UH)	MSCI World Small Cap	Total Return
Emerging Markets (UH)	MSCI Emerging Markets	Net Index
Direct Property (one month lag)	MSCI/Mercer Australia Core Wholesale Monthly PFI	NAV Post Fee
Australian REITs	S&P/ASX 300: Industry Group: A-REIT	Total Return
Global REITs (H)	FTSE EPRA/NAREIT Developed Hedged	Total Return
Global Listed Infrastructure (H)	FTSE Global Core Infrastructure 50/50 Hedged	Total Return
Global Credit (H)	Bloomberg Barclays Global Credit	Hedged Return
Emerging Market Debt (UH)	JP Morgan GBI EM Global Diversified Composite	Total Return
Australian Government Bonds	Bloomberg AusBond Treasury 0+ year	Total Return
Overseas Government Bonds (H)	FTSE WGBI Non Australia	Hedged Return
Cash	Bloomberg AusBond Bank Bill	Total Return

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IMPORTANT NOTICES

MARSH & McLENNAN COMPANIES