

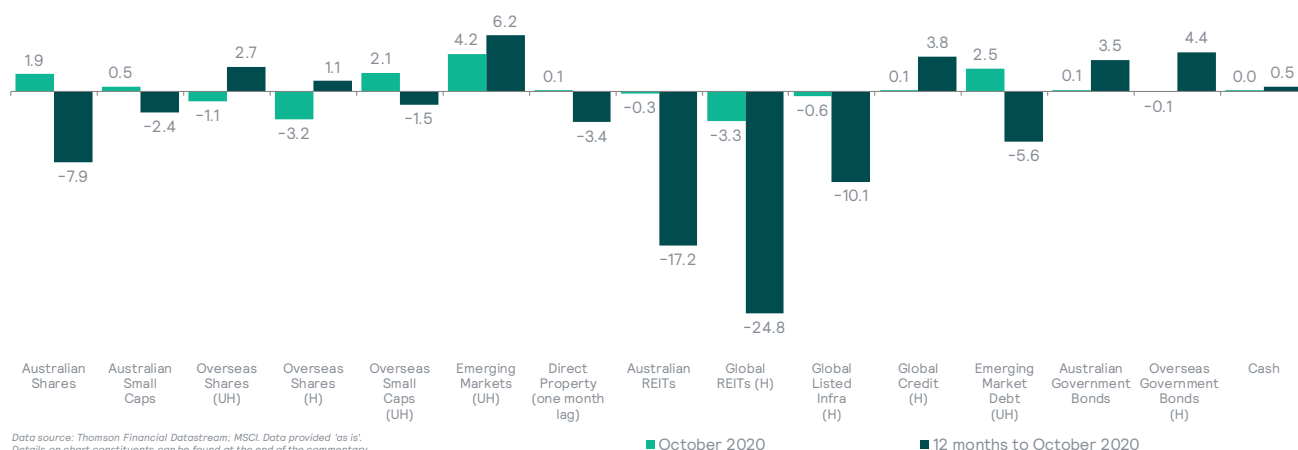
OCTOBER 2020

# AUSTRALIAN MONTHLY MARKET REVIEW

SELECTED MARKET INDICATORS COMMENTARY



## ASSET CLASS RETURNS (%) AS AT 31 OCTOBER 2020



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

Overseas shares posted negative returns in October 2020 as fears of a slowdown in the recovery materialised with onerous restrictions being re-imposed amid resurgence in COVID-19 cases. Overseas shares fell back into negative territory returning -3.2%, in hedged terms, over October. Global economic data for Q3 is showing a rebound from a similar sized economic collapse but forward looking data is already indicating another slowdown ahead, especially in Europe and the United Kingdom (UK) as further cases have brought back restrictions. The United States (US) has also returned to records highs of coronavirus cases. China stood out for having returned to solid economic growth and is expected to be the only major economy this year to see positive year-on-year (YoY) gross domestic product (GDP) growth.

The US election was at the forefront of global news in October. Uncertainties surrounding the Brexit negotiations added to the unsettled global markets over October.

The US dollar again strengthened against most developed currencies except the Japanese yen and was flat against sterling. Whilst the US dollar weakened against most emerging market currencies. The CBOE VIX volatility index increased considerably over the month and gold suffered declines even though the stock market had negative returns.

Oil also entered into correction territory as the prospect of renewed severe restrictions in developed countries led to downward revision in demand expectations.

Despite the heightened volatility over the month, bonds remained relatively flat, as credit returned 0.1% for the month. However, Emerging Market Debt posted modest gains returning 2.5% for the month, as the Far East countries led by China, South Korea, Taiwan, and Singapore continued to enjoy a strong recovery, further boosted by export demands. Broadly, government bond income remained relatively flat, with domestic government bonds gaining 0.1% for the month, and hedged overseas government bonds returning -0.1%. US inflation expectations moved slightly higher in October in line with an uptick in Consumer Price Index (CPI).

The Australian share market has posted a solid return with the S&P/ASX300 returning 1.9% and S&P/ASX Small caps returning 0.5% over October. Australian Shares outperformed its hedged international counterpart. IT (+8.6%) and Financials (+6.3%) were the best performing sectors, while the weakest performing sectors were Industrials (-3.5%) and Utilities (-1.5%).

## SIGNIFICANT DEVELOPMENTS

- During its early November 2020 meeting, the Reserve Bank of Australia (RBA) decided to reduce its current policy settings, including reducing the target cash rate to 0.10% per annum and the targeted yield on 3-year Australian Government bonds to 0.10%. Governor Philip Lowe noted that the economic recovery in Australia is underway, however it will take some time to reach the pre-pandemic level of output. In the central scenario, GDP growth is expected to be around 6% over the year to June 2021 and 4% in 2022. The unemployment rate is expected to remain high, but to peak at a little below 8%, rather than 10% as previously expected. Given the outlook for employment and inflation, monetary and fiscal support will be needed for some time. The Board has noted that it will not increase the cash rate until inflation sits sustainably within the 2% to 3% target range. For this to occur, wages growth will have to be materially higher than it is at present. This will require significant gains in employment and a return to a tight labour market.
- Australian seasonally adjusted employment decreased by 29,500 in September, above the expectations for a fall of 40,000, while August figures were revised to an increase of 129,100. The unemployment rate increased to 6.9% for September, below expectations for 7.0%. The participation rate remained at 64.8%, in line with expectations. Part time jobs decreased by 9,400 and full time jobs decreased by 20,100.
- Australian building approvals increased 15.4% month-on-month to September, compared to the previous level of -2.3% (revised) for period ending August.
- The Institute for Supply Management (ISM) Manufacturing Index recorded 59.3 in October, above consensus for 56.0, and above the 55.4 recorded in September. Of the 18 manufacturing industries, Apparel, Leather & Allied Products and Fabricated Metal Products were the industries that reported the highest growth. Textile Mills and Printing & Related Support Activities were the two industries that reported a contraction in October. The ISM Services (previously Non-Manufacturing) Index recorded 56.6 in October, below consensus for 57.5 and below the 57.8 recorded in September. Of the 18 services industries, the top performers in October were Transportation & Warehousing and Construction. Arts, Entertainment & Recreation and Public Administration were the two industries that reported a decrease over the month.
- US Non-Farm Payrolls increased by 638,000 in October, below the 672,000 increase (revised) recorded for September. The unemployment rate decreased to 6.9% over October, below expectations for 7.6%.
- US GDP advanced estimate for Q3 2020 is 33.1% quarter on quarter (QoQ) annualised, above expectations for 32.0%.
- The Caixin Manufacturing PMI in China recorded 53.6 in October, above expectations for 52.8, as firms recorded sharper rises in both output and total new work.
- The preliminary estimate of the European Core CPI recorded 0.2% over the year to October, in line with expectations.
- The Eurozone composite PMI decreased to 50.0 in October, above expectations for 49.4. The Eurozone's private sector economy stagnated during October and ended a three-month period of growth.

- The advanced estimates recorded for Q3 2020 Eurozone seasonally adjusted GDP is 12.7% QoQ and -4.3% YoY.

## AUSTRALIAN EQUITIES

The Australian share market outperformed its hedged overseas counterpart over the month, as the S&P/ASX 300 Index returned 1.9%. The S&P/ASX Mid 50 was the strongest relative performer, increasing 6.1%, while the S&P/ASX Small Ords was the weakest, returning 0.5% over the month.

The best performing sectors were IT (+8.6%) and Financials (+6.3%), while the weakest performing sectors were Industrials (-3.5%) and Utilities (-1.5%). The largest positive stock contributors to the index return were CBA, Afterpay and ANZ with absolute returns of 8.5%, 20.9% and 9.7% respectively. In contrast, the most significant detractors were BHP, Transurban and CSL with absolute returns of -4.7%, -4.3% and 0.3%, respectively.

## GLOBAL EQUITIES

The broad MSCI World ex Australia (NR) Index decreased 1.1% in unhedged terms and -3.2% in hedged terms over the month, as the Australian dollar (AUD) depreciated against most major developed market currencies. In AUD terms, the strongest performing sectors were Utilities (+4.0%) and Communication Services (+3.2%), while Energy (-3.5%) and IT (-3.2%) were the weakest performers. In AUD terms, the Global Small Cap index was up 2.1% and Emerging Markets index was also up 4.2% over October.

Over October, the NASDAQ decreased 2.3%, the S&P 500 Composite Index decreased 2.7% and the Dow Jones Industrial Average decreased 4.5%, all in USD terms. In local currency terms, major European share markets experienced negative returns as the CAC 40 (France) decreased 4.4% and FTSE 100 (UK) decreased 4.7%, the DAX 30 (Germany) decreased 9.4%. However, returns were broadly positive in Asia, as the Indian S&P BSE 500 (+2.5%), Hong Kong Hang Seng (+2.8%) and Chinese SSE Composite (+0.2%) all increased, whilst the Japanese TOPIX decreased 2.8%.

## REAL ASSETS

The Real Assets sector achieved broadly negative returns over October. The Global Real Estate Investment Trusts (REITs) Index decreased by 3.3% over the month and the FTSE Global Core Infrastructure 50/50 Index returned -0.6% (both in AUD hedged terms). Domestic REITs decreased 0.3% over October, whilst the Australian Direct Property (NAV) returned 0.1% on a one-month lagged basis.

## FIXED INTEREST

Global bond markets were broadly negative over October, with the Barclays Capital Global Aggregate Bond Index (Hedged) returning flat and the FTSE World Government Bond (ex-Australia) Index (Hedged) returning -0.1%. Ten-year bond yields increased in most markets including Japan (+1bp to 0.03%), US (+18bps to 0.86%) and the UK (+3bps to 0.22%), whilst German bond yields decreased (-10bps to -0.62%). Two-year bond yields were mixed over the month, decreasing in Germany (-11bps to -0.79%) and the UK (-1bp to -0.02%), whilst increasing in the US (+3bps to 0.16%) and Japan (+1bp to -0.12%).

Returns for Australian bondholders were positive over October, with 10-year (-1bp to 0.83%), five-year (-6bps to 0.28%) and two-year bond yields decreasing (-6bps to 0.12%). Of the Bloomberg Ausbond indices, the Bloomberg Ausbond Credit Index produced the highest return, increasing 0.6% over the month.

## CURRENCY MARKETS

The AUD Trade Weighted Index decreased to 59.5 over October, down by 2.0% from September. The AUD depreciated against most major developed market currencies, including the US Dollar (-2.0%), Japanese Yen (-2.0%), Euro (-0.5%) and Pound Sterling (-1.5%).

## COMMODITIES

Iron Ore decreased by 1.7%, finishing the month at US\$118.0 per metric tonne. The S&P GSCI Commodity Total Return Index decreased 1.6% over the month. Gold prices decreased from September finishing the month at US\$1,880.8 per ounce and the oil price decreased 8.4% to US\$37.5 per barrel over October.

## 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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