View from the hill

SEPTEMBER 2020

Market update

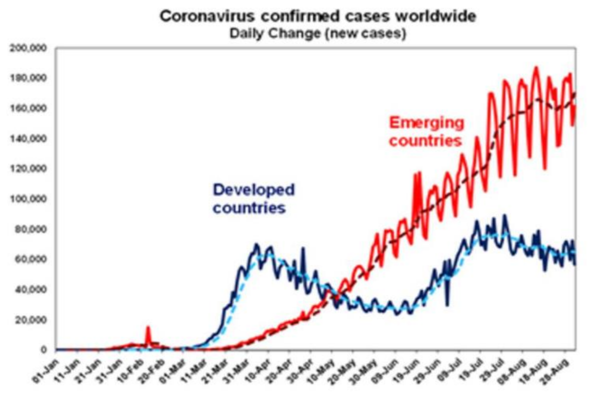
The table below provides details of the movement in average investment returns from various asset classes for the period up to **31 August 2020.**

Asset class (% change)	1 month	3 months	1 year	3 years (%pa)
Australian shares	2.8	6.0	-5.1	6.1
Smaller companies	7.2	6.6	2.1	8.0
International shares (unhedged)	3.5	2.9	6.7	12.6
International shares (hedged)	6.4	12.6	14.9	9.8
Emerging markets (unhedged)	-0.9	7.3	4.3	5.3
Property – Australian listed	7.9	7.3	-17.2	4.7
Property – global listed	2.1	5.8	-16.6	-0.3
Australian fixed interest	-0.4	0.3	1.6	5.5
International fixed interest	-0.7	0.8	2.5	4.4
Australian cash	0.0	0.0	0.7	1.4

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

Overview & Outlook

The majority of markets showed positive signs of recovery from the economic impact of Covid-19 despite some countries showing signs of a second wave during the month. The expectation of a Coronavirus vaccine is driving a bullish market sentiment.



Source: ourworldindata.org, AMP Capital

Economies seem to be adjusting to a Coronavirus environment as there has been minimal economic impact of the second wave when compared to the first despite similar levels in new cases. Whilst US and Australia tensions with China seemed to have reached its peak, border disputes between India and China have escalated which saw the Indian equity market drop by -2.6% on the last day of August.

In the US, elections are likely to add volatility to the market as the gap between the two candidates changes in the polls. Trade tensions with China have also eased as the Phase One trade deal has been reaffirmed to prevent any negative impacts on Trump's campaign and the US economic recovery. Employment in the US has continued its positive trend as 1.4 million jobs were added and unemployment fell to 8.4%. The US composite business conditions PMI rose strongly in August to 54.7 suggesting future growth and that the worst of the pandemic is over.

Eurozone business conditions PMI fell in August to 51.6 due to an increase of 13,000 coronavirus cases over the month, with UK being an outlier as its PMI increased to 60.3. There is some uncertainty towards Japan's economic outlook as Prime Minister Abe Shinzo resigns due to health reasons but there is no expected change to their ultra-easy monetary policy.

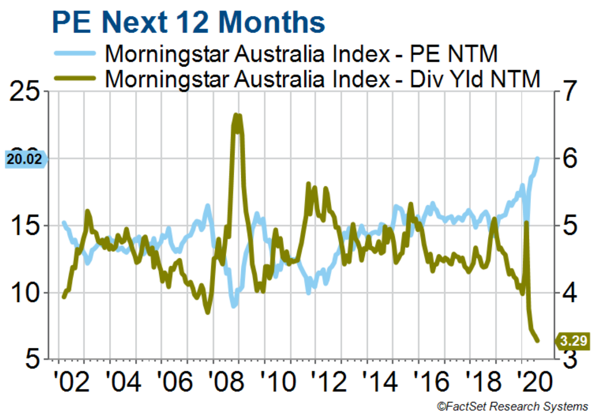
In Australia, the fear of a September fiscal cliff has largely subsided and turned into a fiscal slope as the government announced extensions to the JobKeeper Payment until the end of the first quarter next year. Tensions with China have increased due to multiple tariffs and investigations on Australian exports such as barley and wine. A planned proposal to allow the federal government to intervene in state agreements with China would also slow down economic recovery.

Share markets

Despite Victoria going into stage four lockdown, the Australian share market (2.8%) has shown recovery in the August period mostly driven by small companies (7.2%) and a positive outlook on potential Covid-19 vaccines. The combination of low interest rates and government support has also helped minimise economic damage supporting the rally in the Australian share market.

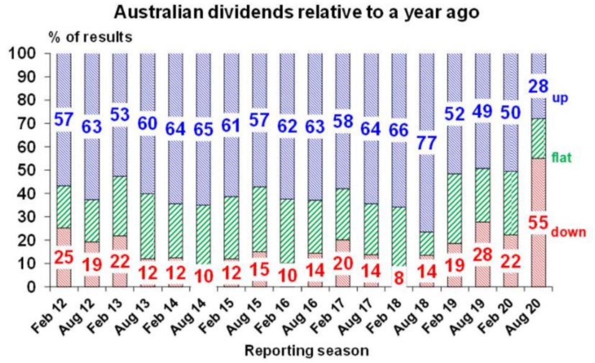
Top performing sectors included Information Technology (15.2%) driven by the trending 'Buy Now Pay Later' companies such as Afterpay and Sezzle. Consumer Discretionary (8.7%) performed well as they continue to benefit from home-office equipment purchases. REITs (7.9%) have shown strong recovery from the Covid-19 crisis in August. Telecom Services (-8.6%) and Utilities (-4.8%) were the weakest sectors holding the market back from even greater gains.

The reporting season has now finished, with a majority of company earnings affected by the coronavirus and 55% of companies cutting dividends. The last financial year has shown the biggest earnings slump since the 1990's recession. Australian EPS fell by around 20%, which is on par with the GFC. The Financials sector (-30.9%) was hit the hardest as bad debts continue to subdue bank earnings. Due to isolation policies, disruption in supply chains and falling commodity prices over the period, Industrials (-17.8%) and Resources (-14.7%) earnings also fell. Companies within Consumer Discretionary were the only ones to see an increase in earnings due to higher levels of spending.



Source: FactSet

The market appears expensive from a PE perspective (20.2x), but this is impacted by the significant growth shown through the Info Tech sector and as such it is important to look beyond overall figures. With dividend cuts across the market, strong income generating companies will be much rarer, but they can still be found. Certain companies, such as FMG and Charter Hall have increased dividend payouts despite the poor performance of their industry peers.



Source: AMP Capital

International shares (6.4%) on a currency hedged basis outperformed the Australian share market due to favourable trends in the number of Covid-19 cases. Reported corporate earnings for the season were above expectations lending support to investor optimism. The US market S&P500 (7.2%) continues to perform strongly as the Fed renewed its commitment in supplying stimulus to help the economy restart.

Emerging markets (-0.9%) were weaker than the local markets and lagged behind the international market. China (3.6%) and India (3.4%) contributed positively in line with international markets but this was offset by the bearish sentiments in Brazil and Turkey due to increased Covid-19 cases. Brazil (-3.5%) was also a major detractor as the government debates on lifting the spending cap.

Interest Rates

As anxiety in the markets wavered, Australian fixed interest (-0.4%) fell towards the end of the month. International fixed interest (-0.7%) fell over the month as there was increased volatility in the market.

The Australian 10-year bond yield was up 15bps to 0.986% while the US 10-year bond yield was up 18bps to 0.706%. This was due to the US Federal Reserve announcing a major policy shift to allow inflation to run above its targeted 2% goal and a change to its maximum employment definition to allow the benefits from a low unemployment rate to run for longer.

The Australian dollar has also continued to climb, reaching a high of US$0.74 during August. This can be attributed to the US expanding its quantitative easing policies and China's increased demand for Australian raw materials.

Property

The Australian listed property market (7.9%) was among the top performing asset classes with Charter Hall Group (18.9%) and Stockland (24.0%) leading the REITs due to above expected financial results. Attractive yields and economic recovery allowed International REITs (2.1%) to show a modest return.