View from the hill

AUGUST 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 July 2020.**

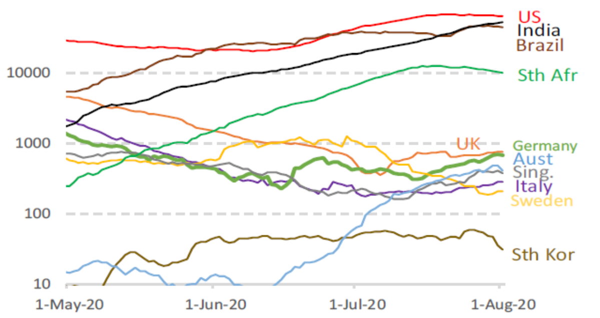
Asset class (% change)	1 month	3 months	1 year	3 years (%pa)
Australian shares	0.5	7.6	-9.9	5.4
Smaller companies	1.4	9.9	-8.5	6.5
International shares (unhedged)	0.6	2.9	3.4	11.6
International shares (hedged)	3.5	10.9	5.9	7.6
Emerging markets (unhedged)	4.6	7.6	2.4	6.6
Property – Australian listed	0.6	6.4	-22.2	2.6
Property – global listed	1.3	3.8	-16.6	-0.8
Australian fixed interest	0.4	1.0	3.6	5.6
International fixed interest	1.0	1.8	5.5	5.0
Australian cash	0.0	0.0	0.7	1.5

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

Markets were all positive as the economic impact of the Covid-19 pandemic appeared to be waning. A vast array of economic data points saw meaningful recovery which coincided with the US seeing its daily new cases plateauing at around 65,000 per day.

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

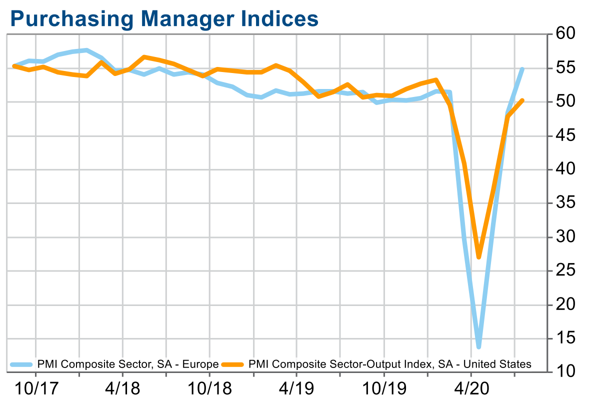


Source: MST Marquee

Brazil, South Africa, South Korea all saw their 7-day average new Covid-19 cases fall in late July. We also saw a range of companies progressing potential vaccines with some moving to stage 3 trials. There has never been such a focus to find a vaccine for a virus. With the support from Governments and the amount of money and effort going into this perhaps there is reason to believe a positive result will eventuate.

GDP data released for the June quarter confirmed a significant economic contraction with preliminary data showing US GDP plunged 9.5% year on year, the worst contraction on record. The Eurozone saw GDP falling 15.0% year on year with the falls being broad based. However, more contemporaneous and forward-looking data continue to improve from the lows seen in March

Both in Europe and the US PMIs continued to improve suggesting recovery is likely to continue. There is a range of data reflecting some recovery however certain sectors such as travel and tourism and other areas which involve the gathering of people remain very restricted, which makes full recovery very difficult in the short term.



Source: FactSet, AMP

In Australia, the stage four restrictions in Melbourne and stage three restrictions across the rest of Victoria in conjunction with border closures are likely to be a meaningful drag on the economy with estimates up to $10bn being lost. This is likely to be compounded by the changes to JobKeeper and JobSeeker which could result in a $70 billion fiscal cliff at the end of September when the existing rules end. Recovery therefore is likely to continue but the pace will be determined by policy and the public's response to further outbreaks of the virus.

Share markets

While one may have thought that shutting down around 25% of the Australian economy which Victoria represents would cause the Australian share market to pull back meaningfully that hasn't been the case. The Australian share market (0.5%) was able to move ahead in July. Small companies (1.4%) assisted the positive return and may reflect that second wave impacts are being considered in the pricing of Australian companies.

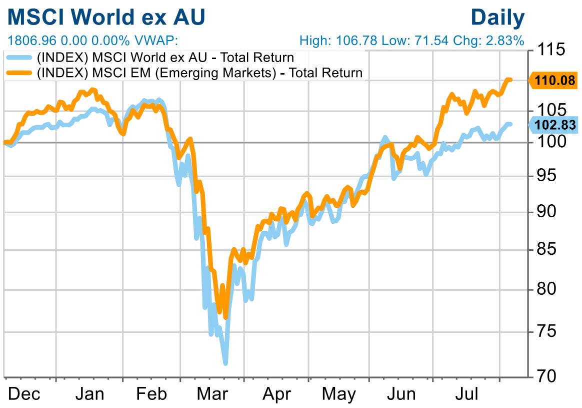
The strongest performing sector, Materials (5.8%) was supported by strength in gold, the resilient iron ore prices as well as improved conditions for building and economic activity more broadly. Telecom services (5.2%) and Information Technology (4.6%) also performed well due to the lower impact that Covid-19 restrictions are expected have. The weakest sector was Energy (-6.6%) as underlying commodity (oil, gas, coal) prices continue to be challenged due to supply and demand issues. Health Care (-3.9%) still remains one of the strongest sectors in the last 12 months but with Covid-19 infections impacting Aged care facilities, front line doctors and nurses and elective surgeries in Victoria, weakness was experienced in July. Industrials (-3.9%) also suffered due to further impacts from the pandemic.

The reporting season that has now commenced will be important in respect to how companies articulate the current conditions and how they see the future. With dividends expected to come down in aggregate by around 30%, the focus on total return of assets is increasingly important.

International shares (3.5%) on a currency hedged basis was stronger than the local market, as developed economies generally saw improvements in Covid-19 infection rates. This was supported by improvement in the US which resulted in the S&P 500 (5.6%) gaining strongly.

The current position of the Australian dollar and recent moves has seen hedged global shares outperform on a currency hedged basis. There is potential for this to continue. So, while the currency exposure does add benefits of diversification, having some of the global growth exposure hedged is a sensible approach at this point.

Emerging Markets (4.6%) were strong, outperforming both the local and broader developed markets index as Covid-19 infection rates improved in some countries. Brazil (8.6%), China (8.0%) and India (7.2%) were all strong performers. Emerging Markets have now seen a full recovery on a total return basis from pre-pandemic levels and continues to provide benefits to portfolios in terms of diversification and potential return outcomes.



Source: FactSet, AMP

Interest Rates

Fixed interest markets also saw positive returns over the month. Australian fixed interest (0.4%) was a little behind the broader international market (1.0%) as has been the case over the last 12 months and in June.

The Australian 10-year bond yield was down 5bps to 0.836% and is sitting close to the historic low. The US 10-year bond yield fell 16bps to 0.53% with the US Fed maintaining a very loose policy. While not uncommon in recent times we are seeing bond yields moving down suggesting some concern with future conditions, in contrast to equities gaining on improvements being observed. This may reflect differing time horizons or a move out of cash into both equities and bonds due to the near zero return of cash, or a combination of the two.

Property

The Australian listed property market (0.6%) was slightly ahead of the broader Australian share market. Industrial REITs was a significant outperformer with Goodman Group (14.0%) a major driver. Retail was among the detractor with Vicinity Centres (-8.7%) having another difficult month. International REITs (1.3%) on a currency hedged basis outperformed the local market. International exposure to Industrial and Hotel & Resorts were positive contributors. We expect more clarity around the impact the restrictions and government policy has had on the ability for landlords to collect rent, with the outlook statements likely to drive shorter term performance.