Market Watch

April Review 2020

After the significant market decline in March, we saw equities rebound strongly in April. While the pandemic continues to spread, countries that have introduced effective measures in controlling the virus begun putting in place plans to gradually reopen their economies.

Governments and central banks continued to roll out stimulus measures to mitigate the damage caused by the economic shutdown providing support to markets over the month. However, depsite the market rebound, uncertainty remains over the pandemic's ongoing impact to societal aspects of how populations will live post COVID-19, and the trajectory of global growth over the coming quarters.

Developments in Global Economy

Australia

The latest NAB Monthly Business Survey indicated business confidence fell 64 points to -66 in March, its lowest level in the history of the survey (since 1997). The collapse in business sentiment was not unexpected given its already fragile footing preceding the pandemic, due to weak consumer demand and the impact of the 2019/2020 bushfires, and the unprecedented measures taken to control COVID-19 outbreaks. The scale of the drop and the significant impact on employment and forward-looking measures suggests that businesses may be bracing for a deep downturn.

The Westpac-Melbourne Institute Index of Consumer Sentiment similarly recorded the largest monthly decline in its 47-year history over April. Consumer sentiment fell 17.7% to 75.6 in April from 91.9 in March. The dramatic fall highlights the uncertainty facing households. April's survey included special questions around employment and working arrangements, which provided a stark warning for the labour market. Of the employed labour market in March, 7% reported losing their job and a further 14% reported being temporarily stood down without pay in April.

Chart 1: Australian Unemployment Rate

Source: BTIS/Bloomberg

The underemployment rate edged up from 8.7% to 8.8%, its highest level in nearly three years. The Federal Government's Job Keeper package will mean that those receiving the wage subsidy will be still counted as employed, even if they are not working any hours. The package aims to help limit job losses, but the scale of job losses is still expected to be significant.

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In its recent meeting the Reserve Bank of Australia (RBA) was dovish on GDP suggesting that it could "fall significantly in the June quarter and remain subdued in the September quarter". However, for retailers the RBA noted that there had been a larger shift in household spending in March, and a trend towards spending on grocery items (away from clothing and other services seen in February) The RBA noted there was a marked decline in spending in the cafes, restaurants & takeaway sector, as well as identified deferrals and cancellations of business investment plans The RBA highlighted weak demand for short-term rental accommodation, which would contribute to weakness in residential construction.

Data released by the Australian Bureau of Statistics (ABS) indicates that retail sales increased 8.2% in March compared with a final result of 0.5% in February. The monthly increase was the highest since the series began in 1982, beating the 8.1% increase recorded in June 2000 when households brought forward purchases ahead of the GST. Sales however, related to stockpiling and working from home led the increase.

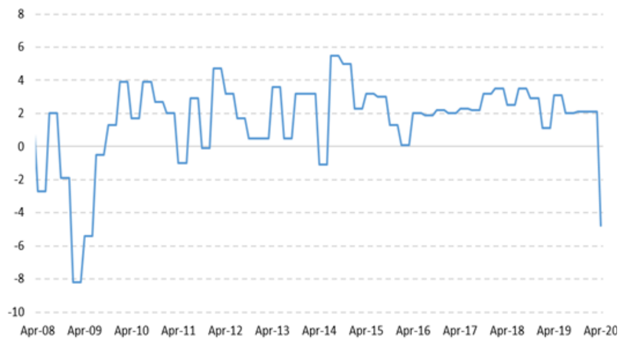
Food retailing rose 23.5% in March while the supermarket subgroup rose 22.4%. The ABS reported that monthly turnover doubled for toilet paper, flour and pasta while canned food, medicinal and cleaning products rose by 50%.There was a marked decline in spending in the cafes, restaurants & takeaway sector. Clothing & department store sales also decreased as social distancing protocols limited the operational capability of businesses.

United States

Over the month, the Federal Reserve (Fed) announced it would commit to unlimited government bond purchases. The Fed surprised the market by saying it would also buy investment grade corporate bonds and high yield bonds (provided that the issuer had an investment grade rating prior to 22 March). In addition, the Fed will purchase corporate bond exchange-traded funds (ETFs), including some high yield ETFs. The impact of this move kept yields low despite the degree of fiscal stimulus being injected into the economy.

April saw jobless claims hit 30 million in the United States – an increase of alarming proportions in comparison to January, during where weekly claims were around 220,000. This unprecedented surge in layoffs as businesses shutdown to combat the pandemic has pushed the unemployment rate to the highest levels since the Great Depression of the 1930s. In support of the newly unemployed, the US government has boosted aid and loosened eligibility standards to help more Americans whose finances have been impacted by widespread business closures and stay-at-home orders.

Chart 2: US GDP (Annualised)



Source: BTIS/Bloomberg

U.S. gross domestic product (GDP), fell at a 4.8% annualised rate in the first quarter of the year, which is the first decline since 2014, and the worst quarterly contraction since 2008, when the country was in a deep recession as a result of the GFC.

Over the month Consumer spending fell at a 7.6% rate. Business investment, which had already been struggling in part because of the trade war, fell for the fourth straight quarter. Imports and exports both declined sharply as the pandemic brought global trade to a near standstill.

Asia

Factory output across several Asian countries slumped to record lows in April, signalling a deeper contraction in the world's manufacturing hub even as China begins restarting some operations. Over April, China announced that its economy will be gradually reopening. First-quarter real GDP declined by 6.8% year on year (-5.2% for the service sector). It has been reported however that since March, there has been a recovery in production, retail sales and investment. The China Urban Survey unemployment rate fell to 5.9% in March from 6.2% in February.

The People's Bank of China increased its monetary stimulus, cutting the one-year targeted medium-term lending facility (TMLF) rate by 20 basis points (bps) to below 3% and the one-year and five-year prime rate loans (PRL) by 20bps and 10bps respectively. Social financing data showed an acceleration in loan issuance, reducing liquidity risks.

Purchasing managers indexes (PMI's) across Southeast Asia slumped further below 50, the dividing line between contraction and expansion, to post their weakest readings since the series began, according to data released by IHS Markit on Monday. Taiwan, Japan and South Korea dropped to their lowest levels since 2009. The slump in South Korea, a bellwether of global trade, shows that even as China re-emerges from its lockdown, it isn't yet offering enough demand to jumpstart output, according to IHS Markit.

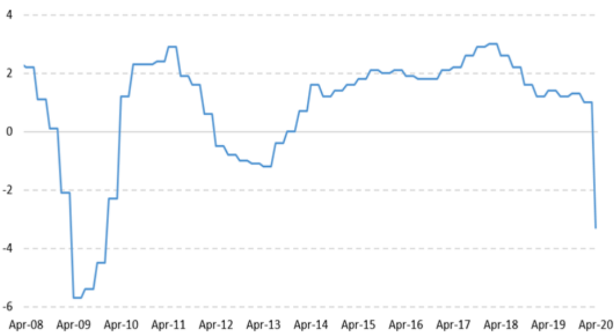
Consumer prices in Japan's capital Tokyo fell for the first time in three years, slipped by 0.1% in April from a year earlier, government data showed, against expectations for a 0.1% rise and following a 0.4% increase in March.

Europe

Over April reports emerged that Europe experienced a downturn not seen since the end of World War II, with potentially the worst is yet to come, according to Christine Lagarde, president of the European Central Bank (ECB). Lagarde warned that the eurozone economy could shrink by as much as 12 percent over 2020. This bleak assessment of the economic impact of the coronavirus crisis was delivered following the European Union's statistics agency estimations that economic output in the eurozone fell 3.8% in the first three months of the year, the region's worst performance since the common currency was introduced in 1999.

In a bid to prevent another financial crisis that would generate years of economic woe, the ECB's Governing Council announced that it would in effect pay banks to lend money, and vowed to "do whatever was necessary" to counteract the economic impact of the coronavirus pandemic. The ECB continued, stating it was prepared to further increase its purchases of government and corporate bonds, a form of money printing intended to keep market interest rates low and make it easier for businesses and consumers to get credit. The central bank had previously earmarked more than €1 trillion for asset purchases. But announced over April that it was prepared to raise that sum "as much as necessary and for as long as needed."

Chart 3: Eurozone GDP (Annualised)



Source: BTIS/Bloomberg

Despite this display of monetary firepower, which could see the ECB pump more than $4 trillion into the economy, many economists and government leaders agree it will not be enough to guarantee the survival of the eurozone without help from governments. With March quarter data available, the French economy declined by 5.8 percent, Spain's by 5.2 percent and Italy's by 4.7 percent, their steepest downturns in the post-war period.

Unemployment in the Eurozone however rose modestly in March, to 7.4 percent from 7.3 percent in February, interrupting a jobs recovery that had been underway since the low point of the eurozone debt crisis in 2013.

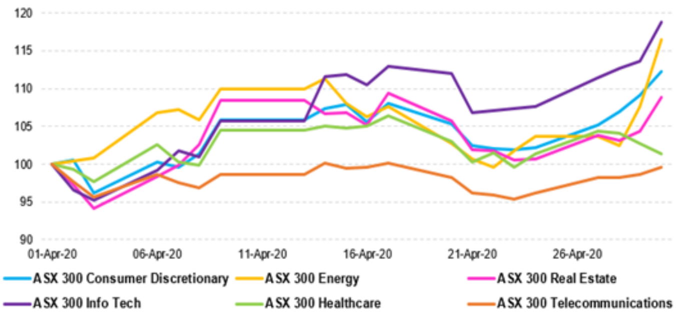
PMI indicators for the UK for April followed a similar trajectory to Europe, with the composite business survey falling to 12.9. Retail sales in March fell by 5.1% month on month (-19.4% excluding food).

Development in Financial Markets

Australian shares

In a complete turn-around, the Australian share market (ASX 300) posted a strong, but bumpy (+9%) gain, led by the Energy sector (+25%), and Consumer Services (+23%). The AREIT sector, one of the hardest sectors hit as a result on the pandemic, recovered somewhat with a (+13.7%) gain in April. The Small Ordinaries Index also rose strongly with a (+14.3%) gain. Both sectors still remain down -29.7% and -19.0%, respectively, over the last 3 months to end -April. The ASX300 index was also solidly in the red at -20.4% over the last 3 months.

Chart 4: Australian shares (rebased to 100)

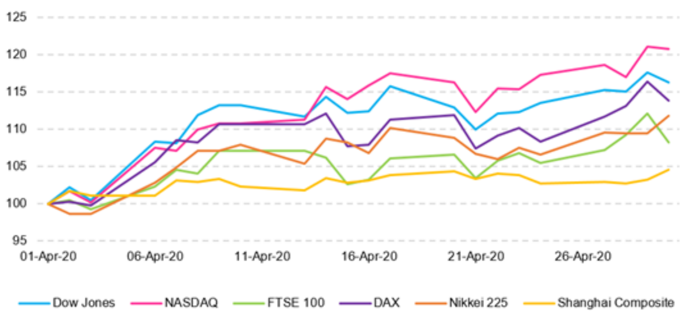


Source: BTIS/Bloomberg

International shares

Global share markets rebounded in April from the lows reached in the previous month. Record levels of monetary and fiscal stimulus drove the gains, with Investors being encouraged by the supportive nature of fiscal stimulus towards company profits and a decline in new virus infections.

Chart 5: Major Market Indices (rebased to 100)



Source: BTIS/Bloomberg

Recovery of global markets was spearheaded by the US, the Dow Jones posting the strongest monthly performance since 1987. At close of the month of April, the US Dow Jones rose by 11.1% the S&P 500 lifted 12.8%, and the Nasdaq was up by 15.5%. European shares, not to be outdone, had their best month since October 2015, led by the German DAX index up 9.3%, the UK FTSE index rose 4.0%, and the broad based European STOXX 600 rising +6.2%.

In Asia, Korea led performance its Korea KOSPI up 10.99%, followed by Japan's Nikkei index lifted 6.7%. The Hang Seng and Shanghai Composite also posted positive returns up 4.41% and 4.0%, respectively.

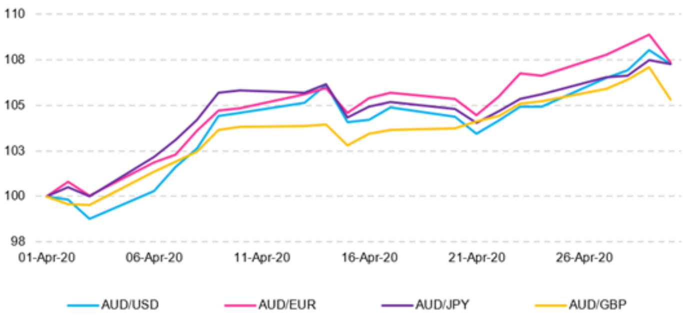
Fixed interest

Over April Fixed Income yields fell across most major markets, with Australia an exception. The spread between US and Australa 10-year bond yields widened from 8bps to 25bps as the Australian yield increased while its US counterpart fell. At month end, the 3-year Exchange-traded Australian Commonwealth Government Bond (ACGB) yield had eased 0.25% (the RBA's target rate), 10-year yield had gained 15bps to 0.89%, and 20-year yield finished 7bps higher at 1.51%. The Federal Reserve kept its historic-low interest rate held at 0.25% and extended its $600 billion small business lending programme to larger and riskier borrowers. Ratings agency Fitch lowered Italy's debt rating one level above "junk". This increased pressure on the European Central Bank to further ramp up its bond buying programme.

Currencies

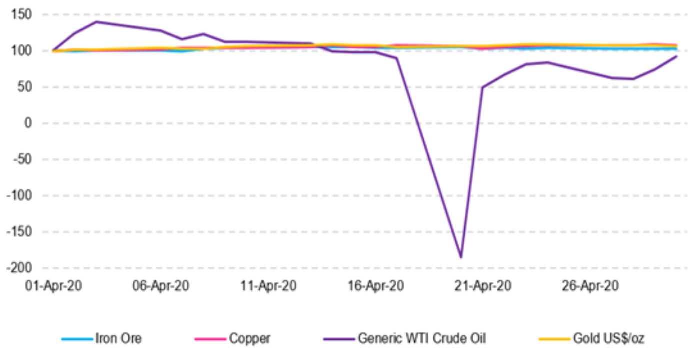
The USD was volatile over April, the US Dollar Index ending the month roughly flat after a volatile month. The index swung as risk sentiment seesawed throughout the month, seeing the AUD rally over (+9%) from a low during the month of 59.83 to a high of 65.54. Economic activity in the US continued to decline, confirmed by the sharp contraction of GDP in Q1 2020. The Fed kept the policy rate target range at 0.00 – 0.25%. The EUR was down just (-0.7%) versus the USD in April, but it was the weakest G10 currency of the month. EUR-USD also oscillated with risk sentiment and broad USD moves. The GBP was very much a risk-on currency in April, and swung wildly with risk sentiment, despite ending roughly unchanged against the USD.

Chart 6: Major Currencies (rebased to 100)



Source: BTIS/Bloomberg

Chart 7: Major Commodities (rebased to 100)



Source: BTIS/Bloomberg

Commodities

Oil markets saw some positive signs over April that the pace of inventory increase may be slowing, with some commodity markets such as copper, which tends to be seen as an important barometer of the global economy, hit 6 week highs. While the improved tone has extended to some commodities including copper up (+5%) in April, the commodities that Australia specialises in exporting have not fared as well. Thermal coal lost (-20%) of its value in April, with metallurgical coal used in blast furnaces lost (-25%) of in April, along with Asian liquid natural gas prices dropping to fresh record lows. Iron ore prices held up better, the weakness in Australia commodities has focussed attention on the current strength of the Australian dollar.