Market Watch

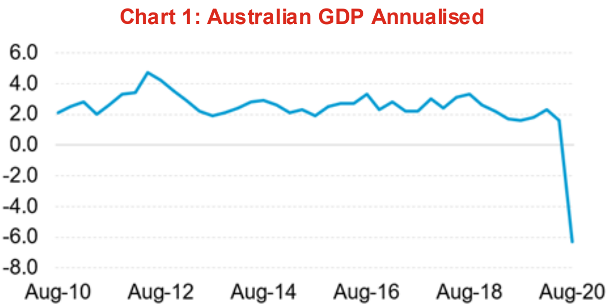
August Review 2020

In August, there were varied levels of confidence across economies globally. While there are positive signs of recovery, the fear remains as we continue to see a 'second wave' of COVID-19 cases. The effectiveness of new stimulus introduced by Governments and Central Banks will weigh heavily on the success of the global economic recovery going forward.

Development in Global Economy

Australia

Australian Treasurer Josh Frydenberg has commended the country's economic resilience throughout the COVID-19 pandemic during Question Time in Parliament. Frydenberg commented on the 'staggering' impact the virus has had on GDP around the globe, such as in the UK – where GDP fell by 20%. Despite the devastation seen across the global economy, Australia is expected to see a significantly smaller decrease in GDP compared to other countries. Even with Australia's stronger performance, the RBA have noted that the restrictions in Victoria are likely to offset any of the potential uplift in GDP growth over the next quarter.



Source: BTIS/Bloomberg

Uncertainty remains for the JobKeeper and JobSeeker "2.0" payment schemes as they are set to be the main topics of debate when parliament sits in September. Legislation is needed to pass through the senate prior to the current scheme's expiry at the end of the month. It is expected that employers will need to re-apply for the scheme, with the flat rate payments also being lowered. The RBA commented that the effect of a less supportive JobKeeper scheme will likely lead to job losses that weigh on the labour market and offset any potential employment growth across the country.

The Westpac-Melbourne Institute Index of Consumer Sentiment collapsed by 9.5% to 79.5 in August, a similar level to when Australia entered national lockdown in March. This fall is attributed to Victoria entering stage 4 lockdown restrictions, along with 'hot spots' appearing across the country. Interestingly, NSW's sentiment fell 15.5% alone, significantly higher than that of Victoria at 8.3%. These figures allude to a fear of a second wave outbreak across other states.

United States

The S&P500 Index saw its best August return since 1986, up 7%. Despite this rally, August saw the tensions between US and China escalate once again. President Trump has proposed tax incentives to bring U.S manufacturing jobs back onshore. Previously, the two countries have exchanged threats over the on- going trade war, however we are now seeing a change in strategy by the Trump administration to reach out directly to support US based businesses and encourage a separation of connections to China owned industries.

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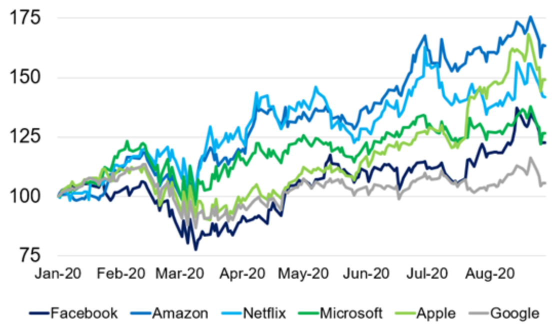
The primary driver of returns in the US, has again been the 'FANMAG' stocks – Facebook, Amazon, Netflix, Microsoft, Apple and Google (Alphabet). These stocks have collectively grown their market capitalisation to over 25% of the S&P 500 Index. Consequently, returns have been positive YTD for these companies as they benefit from the social and economic changes that COVID-19 has introduced across the world's economies.

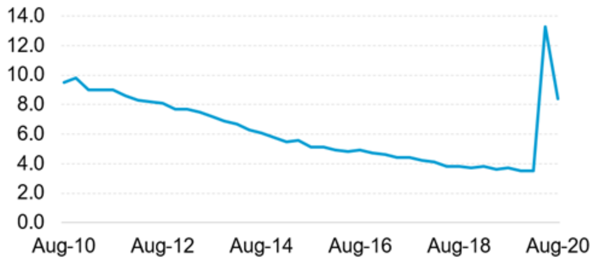
Elsewhere, the US non-farm payrolls or applications for unemployment benefits fell below 1 million – the first time since March. While positive news for the US economy, consumer spending was down over the month, along with consumer confidence.

Chart 2: 'FANMAG' stocks—Historical Performance (CYTD)



Source: BTIS/Bloomberg

Chart 3: US Unemployment Rate (Seasonally adjusted)



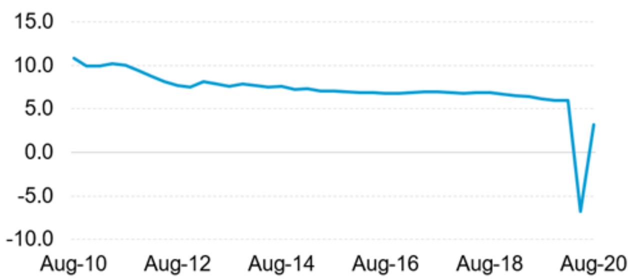
Source: BTIS/Bloomberg

The US Presidential race moves into its final stages prior to election day on the 3rd of November. Whilst the contest is tightening, Biden has a moderate lead in the national polls. There is still time for sentiment to change, particularly when considering that no Democratic candidate has earned higher than 52.9% of the votes since 1964.

Asia

China's Caixin manufacturing Purchasing Manager's Index (PMI) rose from 52.8 in July to 53.1 in August, which is the largest increase in just under a decade. This was likely fuelled by the substantial fiscal and private investment in real estate and infrastructure projects, alongside a large increase in new orders, particularly for pharmaceuticals and electrical equipment. Ultimately signalling a return-to-normality for Chinese consumer demand. The official Chinese PMI, which surveys a larger proportion of big businesses and state-owned enterprises, came in at 51 for August, down from 51.1 in July. This shows that although the country's manufacturing output is still increasing, it is at a slightly lower rate than previous months. This is not unexpected as manufacturing had an initially faster recovery rate than other industries following the COVID-19 lockdown, principally due to social distancing having a lesser effect on the sector's working environment.

Chart 4: China GDP (Annualised)



Source: BTIS/Bloomberg

The non-manufacturing (services) PMI increased to 55.2 in August from 54.2 in July, indicating that growth in services surpassed growth in industrials and manufacturing. The positive economic outlook in China is indicative of the importance of containment of COVID-19 in speeding up countries' productive capacity and recuperation. Over August, China also experienced its worst floods since 1981, with millions of people displaced and billions of dollars of monetary value being wiped out of the economy. The flooding has been worst along the Yangtze river, which houses more than 40% of China's population, which accounts for 45% of China's GDP, and is responsible for around 50% of China's exports.

In Japan, confidence, and business sentiment were slightly lower in August with business activity continuing to contract. The manufacturing PMI has eased over August, closing at 47.2 from a lower 45.2 in July. Output fell quicker in the service sector, with the Services Business Activity Index posting 45.0 in August, down from 45.4 in July. Some businesses surveyed reported restrictions on activity, while others mentioned a lack of clientele, of which both can be directly linked to the demand shock currently still being experienced by all countries due to COVID-19. Japan's markets have had a lack of inflationary pressure over August. Both input costs and output prices fell, which has been the trend for six months running, further exacerbating Japan's deflation concerns.

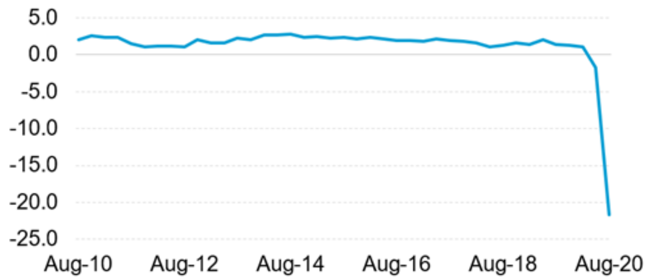
Elsewhere, the Indian economy is showing signs of a recovery after having the second highest number of active cases of COVID-19 worldwide. The manufacturing sector has experienced its first bout of growth since March, with the August manufacturing PMI posting 52, compared to 46 in July. The India Services Business Activity Index rose to 41.8 in August, up from 34.2 in July. The Composite PMI (inclusive of both manufacturing and services output) rose to 46 in August from 37.2 in July. It is evident that India's economy is still contracting, however it is doing so at a much slower rate. Notwithstanding the increase in sentiment, domestic activity, mobility, and new orders, the unemployment rate rose to 8.1% from 7.5%.

Europe

In the UK, economic activity rebounded, with the help of the UK government's accommodative fiscal policy, although August data from the Office for National Statistics confirmed that the UK had entered a recession during Q2. This was contrasted by the UK's GDP strong 8.7% growth in June, paving the way for a similar result in Q3.

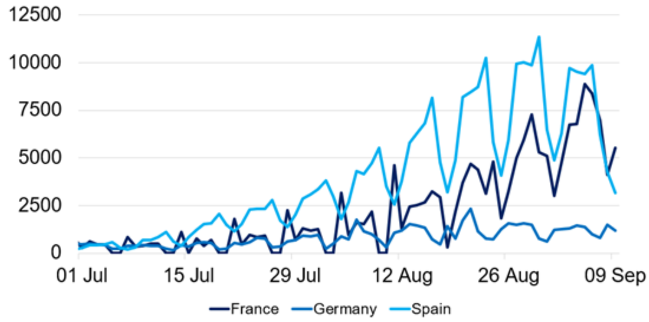
Furthermore, British house prices hit a record high, increasing 5.2% compared to the same time last year. This is a result of the short-term support mechanisms, including tax cuts which have worked to provide a stimulus boost due to COVID-19. Halifax, the house price reporting agency stated that they do expect greater downward pressure on house prices in the medium-term, particularly as the government slows down its job retention scheme. Across the Eurozone, the broad economy contracted by -10.1% in Q2. The unease caused by the COVID-19 pandemic is still affecting confidence, particularly in countries such as Spain and France where the infection rate is rising. Throughout this period, Germany has also extended its payments to workers effected by COVID-19 to the end of 2021.

Chart 5: UK GDP (Annualised)



Source: BTIS/Bloomberg

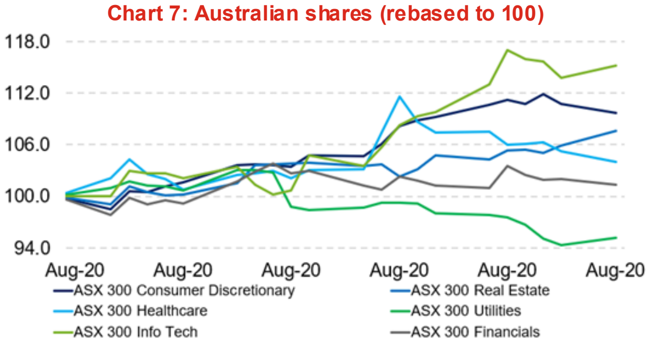
Chart 6: Newly responded COVID-19 cases



Source: BTIS/Bloomberg

Development in Financial Markets

Chart 7: Australian shares (rebased to 100)



Source: BTIS/Bloomberg

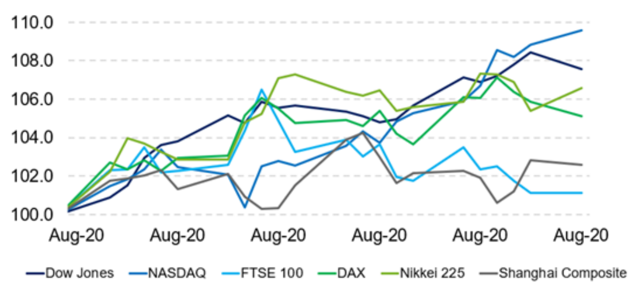
Australian shares

The recovery in Australian financial markets continued over the month of August, acting as a sign of consumer and business sentiment beginning the path towards normalised conditions. The ASX All Ordinaries rose +3.10% over August; with the ASX300 Accumulation rising +3.05%. over the month, the Information Technology sector led the charge with a +15.28% lift, followed by Consumer Discretionary, +7.80%, A-REITs, +7.71%, Real Estate, +7.34%, Health Care, +3.93%, and Industrials, +3.63%. All other sectors closed in the red, with the harshest results being Communications (-5.16%) and Utilities (-5.85%).

International shares

International markets saw a larger rebound, with the MSCI World ex Australia Unhedged up +3.47% from July. Our New Zealand counterparts had a disappointing result, with a drop of -1.79% over August, compared with their +2.42% July rally. The United States trumped other countries' performance over August, once again lead by tech stocks (the Nasdaq Composite), which rallied +9.59%. The DOW is up +7.57% and the S&P 500 closed at +7%. European shares have a new-found energy, with the Euro STOXX rising +2.52%. The strongest contender was once again the German DAX index, which rose +5.14%, followed by France's CAC All Share Index up +3.42%, and Italy's FTSE MIB at +2.84%. The UK's FTSE 100 bounced back from their disappointing -4.41% drop in July to close +1.12% up in August. Asia's markets showed some stirring performance over August. Japan's Nikkei had an impressive rebound from their -2.60% slump over July to leading Asia with a +6.59% result in August. The Korean KOPSI was up +3.41%, followed by China's Shanghai Composite up +2.59% and the Hang Seng index up +2.37%.

Chart 8: Major Market Indices (rebased to 100)



Source: BTIS/Bloomberg

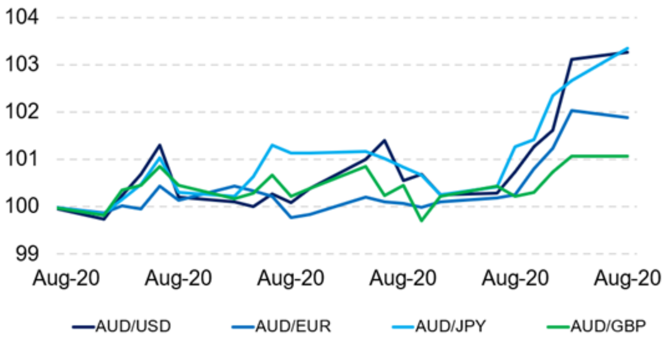
Fixed interest

In Australia, long-term Treasury yields increased noticeably, signalled by the steepening of the yield curve. August ended with the 3-year/10-year spread widening from 15bps to 68bps. Respectively, the 3-year/20-year spread was 15bps higher at 126bps.

Additionally, the Bloomberg AusBond Composite (0+Y) fell -0.42%, a negative change from the +0.18% return seen in the previous month.

Over in Europe, the Barclays Global Aggregate TR Hedged also saw a significant fall of -0.71%.

Chart 9: Major Currencies (rebased to 100)



Source: BTIS/Bloomberg

Currencies

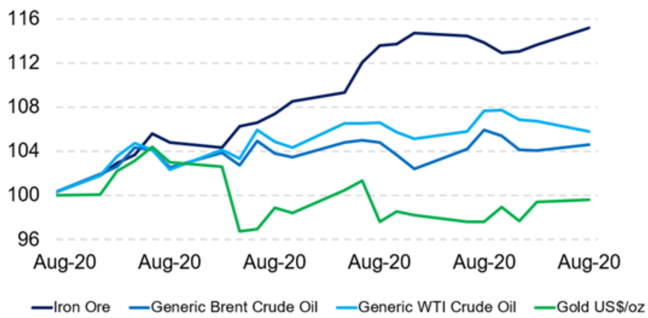
The AUD/USD has continued to increase throughout August, continuing its upward trend over the last few months. Finishing at 0.7376, the AUD/USD experienced a +3.26% increase this month. The Euro has once again performed well against the USD, with a +1.34% rise to 1.1936. Moreover, the GBP similarly strengthened against the USD again, increasing by +2.18% to 1.337.

Commodities

Commodities saw strong returns throughout August. Iron ore was a significant outperformer, as it increased +15.19% to a month end price of US$125.84. Gold saw a slight drop after strong performance in the previous month, falling -0.41% to US$1967.8.

Oil has continued to bring investors sizeable returns. Over August, Brent Crude Oil was up +4.57% to US$45.28 while WTI Oil increased +5.81% to US$42.61. These results were reflected in the Bloomberg Commodity Index which increased +6.75% to 73.3150.

Chart 10: Major Commodities (rebased to 100)



Source: BTIS/Bloomberg