Market Watch

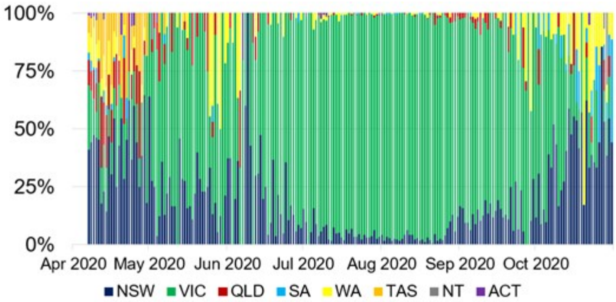
October Review 2020

With COVID-19 cases sparking renewed concerns for a number of nations worldwide, both corporates and governments continue to adjust their strategies to account for the persisting economic impact of the pandemic. Polling data predicted a victory for the Biden Administration in the US Presidential Election.

Development in Global Economy

COVID-19 Outlook

Chart 1: AU State and territory breakdowns of new daily cases



Source: BTIS/Bloomberg

Over October, Australian COVID-19 cases trended well in comparison to the spike seen in September. Community transmission has fallen across a key metric the 10-day rolling period sparking hopes that the nation may be in the clear over the short term. These positive infection numbers have led to improved market sentiment among investors, which has prompted outperformance in the travel sector over the month.

In the US, cases have plateaued despite an increase in hospitalisations being recorded. A sign that those that need medical assistance are increasingly able to access treatment. Fortunately, the mortality rate has fallen which is a welcome sign, particularly as the US shifted its focus to a hotly contested Presidential Election.

Across Europe, COVID-19 cases are also trending sideways, but the threat of an outbreak as they head into winter continues to raise concern. Whilst there is a view the UK is seeing cases stabilise, the numbers are still worrying as they sit at a higher level compared to previous outbreaks.

US Election

Polling data leading up to the election is predicting a strong victory in the for former Vice President Joe Biden. Biden is expected to take a less aggressive stance on trade and foreign policy issues. Additionally, if the Democrats take control of both houses of Congress, it is likely a further and greater value COVID-19 stimulus package will be released to the public within the new year.

As investors hunt for returns, conditions are pointing favourably to Emerging markets (EM). In this current economic environment, with high amounts of fiscal support and low interest rates, the backdrop has become favourable and market forces are weighing positively on EM.

[1]New daily cases include community transmission and returning travellers. For more information visit https://www.covid19data.com.au/data-notes

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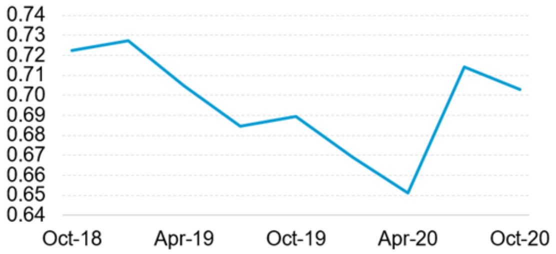
people's choice CREDIT UNION

If the Democrats succeed in winning the US election, it is expected that Joe Biden will employ a more moderate, however forceful approach toward China. This is a strong contrast to Trump's aggressive and spontaneous dealings that typically occurred over Twitter. Regardless of the overall election outcome, it is predicted that the White house will continue to alleviate the reliance of China in the nations supply chain.

Australia

The Reserve Bank of Australia (RBA) continues to maintain a record-low cash rate of 0.25%. The RBA has indicated it may expand its bond-buying program to include bonds with maturities longer than three years, to help weaken the Australian dollar exchange rate, and encourage further borrowing. Inflation is expected to average between 1% and 1.5% over the next few years while the economy is projected to contract by 6% this year. Unemployment is expected to peak at 10% owing to the degree of businesses impacted by COVID-19.

Chart 2: AUD/US



Source: BTIS/Bloomberg

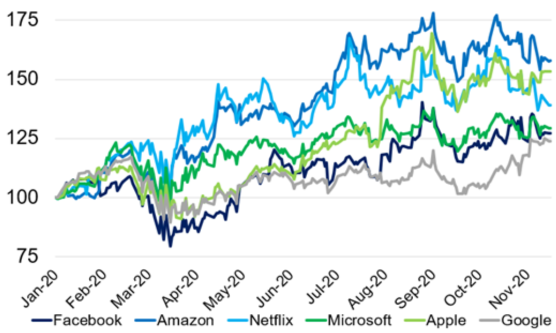
Australian shares recovered somewhat in the third quarter, though they continue to lag the returns of other developed equity markets, while bond yields remain at historically low levels. The Australian dollar has appreciated to its highest level in nearly two years as the US dollar has depreciated against most currencies.

With the economy is facing a historically difficult period, through the experiencing of the deepest contraction since the 1930s. Australia's largest businesses are set to drastically cut dividend pay-outs due to the economic contraction resulting from COVID-19. Typically, Australian companies are among the world's highest dividend payers, the economic climate has seen the pace of dividend cuts intensify as COVID-19 lockdowns, social restrictions, and travel freeze's impact profits.

United States

US economic growth continued to recover over the month of October, after dropping by nearly a third on an annualised basis. This recovery highlights sentiment that the country is beginning to regain some economic normality. The National Bureau of Economic Research, who officially call US recessions, has not yet announced an end to the recession and it is unknown when this will occur.

Chart 3: 'FANMAG' stocks—Historical Performance (CYTD)



Source: BTIS/FactSheet

The month of October saw a mix of strong and poor performers. The technology and consumer discretionary sectors have contributed strongly to the market averages, whilst energy and financials have underperformed dramatically.

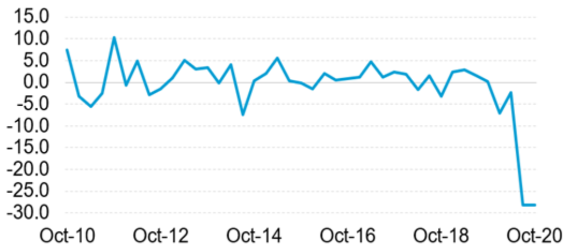
The US economic climate has weighed heavily on the energy sector due to its capital-intensive nature and lower overall demand, linked solely to COVID-19. The sector also may need to deal with stiffening regulatory changes, particularly if the Democrats take both houses of Congress.

Banks may also face increased loan defaults as small-medium businesses struggle to pay back their loans. A low interest rate environment has also contributed to the squeezing of net interest margins for the banks.

Asia

Japan has seen an influx of monetary and fiscal support, although COVID-19 has severely affected Japans Economy. Q2 GDP fell 28%, however economists predict a 15% rebound in Q3. Expectations are then for a slower Q4. This would mean the full-year GDP is expected to fall approximately 5.5%.

Chart 4: Japan GDP



Source: BTIS/Bloomberg

In China, the economy has recovered by a significant degree, that has erased most of the losses seen during the start of the COVID-19 pandemic. Softening global demand creates difficulty for the export sector and those countries that make up the China's supply chain. There has also been a strong rally in Chinese equities which is attributed to retail investors.

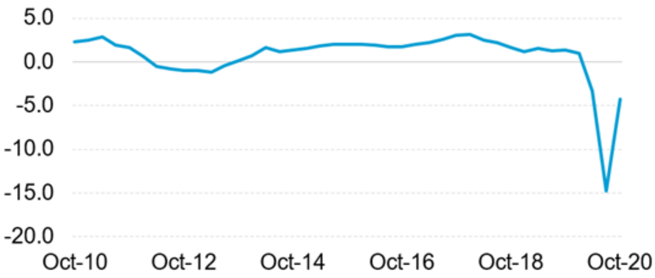
The sentiment in India was a stark contrast compared to majority of their Asian counterparts in October. India's retail inflation is expected to stay above 7% for a consecutive month as vegetable prices soared due to a lack of supply as excessive rainfall swept the nation. Overall, demand does remain weak in India, as the nation recovers from its sharpest retraction on record during in the April-June quarter. India is also dealing with millions of individuals currently unemployed directly resulting from the COVID-19 pandemic. India also has the second-highest total infections in the world at more than 8.5 million cases.

Europe

Europe has seen a slow economic recovery from COVID-19, with the pro-longed Brexit trade negotiations significantly affecting UK shares throughout the year. The STOXX Europe 600 Total Return fell -13.71% over the year, having recovered less than half what was lost when the pandemic first plagued markets in March.

Weaker global demand, particularly due to COVID-19 has created a strong decrease in European exports and industrial production compared to pre-pandemic levels. Additionally, the lack of tourism has been catastrophic for a select few countries. Greece, Italy, and Spain have been experienced significant decreases in their GDP, not seen since the GFC.

Chart 5: Eurozone GDP Annualised



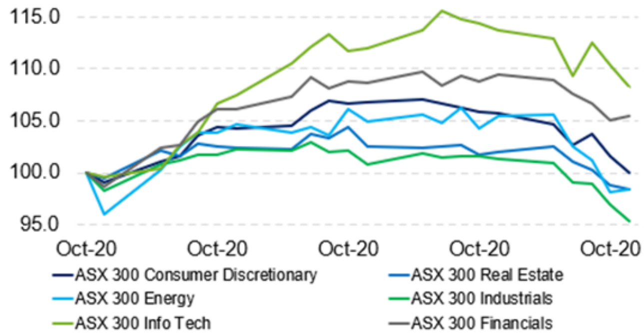
Source: BTIS/Bloomberg

Development in Financial Markets

Australian shares

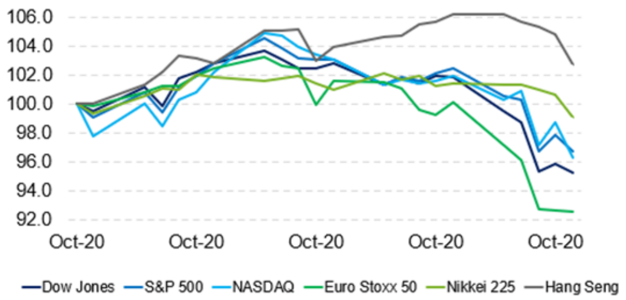
Australian financial markets returned mixed results over the course of October. The ASX Small Ordinaries Accumulation rose 0.46% over the month; with the ASX300 Accumulation returning 1.89%. This marked the beginning of a recovery after a prior poor month for the index. The strongest performers throughout the month were Info Tech (+6.56%) and Financials (+3.90%), with the worst sector performers being Industrials (-5.98%) and Energy (-5.07%).

Chart 6: Australian Shares (rebased to 100)



Source: BTIS/Bloomberg

Chart 7: Major Market Indices (rebased to 100)



Source: BTIS/Bloomberg

International shares

International markets saw negative results throughout the month. The MSCI World ex Australia Unhedged declined 1.13% from August. The United States also produced poor results, as the uncertainties of the presidential election weighed on the market. The DOW closed at -4.52% and the S&P 500 was down 2.66%. European shares failed at bringing investors greater results, with the Euro STOXX falling 5.19%. France's CAC 40 and Germany's DAX Index, recent strong performers in European markets where down 4.36% and 9.44% respectively.

Asia's markets saw a return to stronger performance throughout the month. Japan's Nikkei was an outlier, returning a poor -0.88%. China's Shanghai Composite finished the month up 0.20% and the Hang Seng closed +2.76%.

Fixed interest

In Australia, fixed interest performed strongly in comparison to other asset classes – particularly commodities. The Bloomberg AusBond Composite (0+Y) increased 0.28%, a continued increase when comparing to the +1.08% return seen in the previous month.

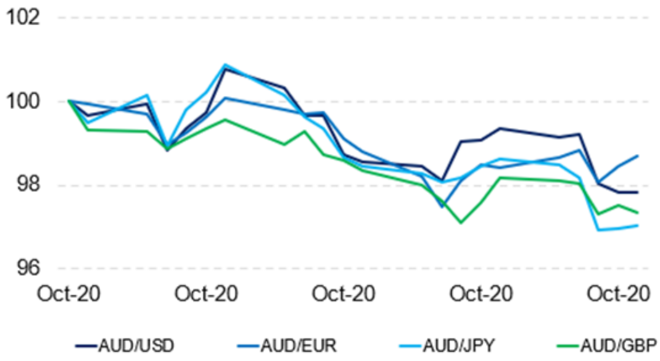
Over in Europe, the Barclays Global Aggregate TR Hedged trended sideways as it is one-month numbers closed at 0.00%.

Longer term bond yields generally traded in a downtrend over the month. 10-year Treasury bond yields in Australia were down 1bps to 0.83%, while the US saw an increase 20bps to 0.88%.

Currencies

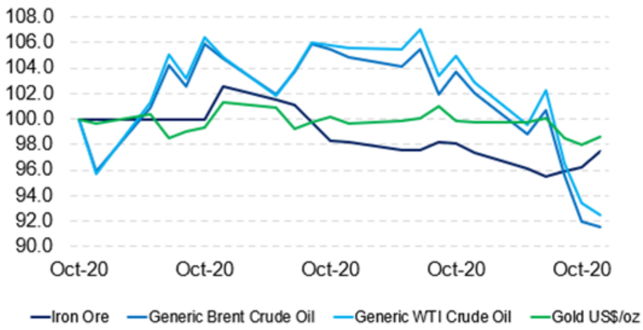
The AUD/USD has seen further weakening over October. Finishing at 0.7028, the AUD/USD experienced a 1.87% fall this month. Additionally, the Euro pulled back against the USD, with a-0.63% drop to 1.1647. Moreover, the GBP saw a slight increase against the USD, up 0.21% to 1.2947.

Chart 8: Major Currencies (rebased to 100)



Source: BTIS/Bloomberg

Chart 9: Major Commodities (rebased to 100)



Source: BTIS/Bloomberg

Commodities

Commodities saw negative returns across October. Iron ore saw a further drop in value, as it decreased 2.55% to a month end price of US$117.15. Gold also saw a slight drop, falling 0.37% to US$1878.81.

Oil experienced a consecutive month of negative results after a strong rally earlier in the year. Over October, Brent Crude Oil was down 8.52% to US$37.46 while WTI Oil also decreased 11.01% to US$35.79. Despite this, the Bloomberg Commodity Index which saw a decline of 3.36% in the previous month, returned +1.40% to 71.436.