Market Watch

September Review 2020

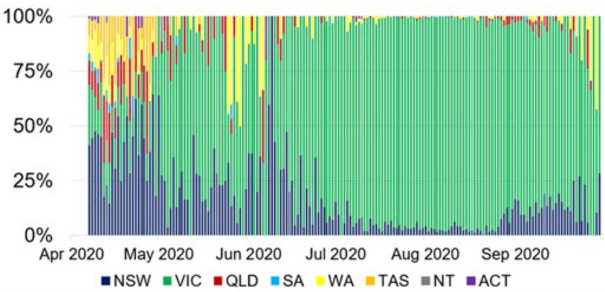
Global markets reacted negatively to the continued uncertainty sparked by the COVID-19 pandemic. Australian's eagerly awaited the upcoming Federal Budget, which will weigh heavily on the strength of the economy as it recovers. The race for the US Presidental election is 'heating up', with investors bracing for the eventual economic impact.

Development in Global Economy

Australia

With the Federal Government announcing its' budget on the 6th of October, negative sentiment surrounds the financial deficit – which is feared to be the worst in history by dollar amount. The budget is expected to be centred on the prevention of joblessness, which could see significant stimulus to support investment into infrastructure projects, and tax cuts for everyday Australians. It is hoped that this flow of cash by means of tax cuts into Australian households, will stimulate the economy through the purchase of goods and services.

Chart 1: State and territory breakdowns of new daily cases



Source: BTIS/Bloomberg

September brought further news of the Federal Government's planned cuts to the JobKeeper wage subsidies. NSW/ACT workers are set to have their payments cut by $581m a fortnight, which is the highest in the country. In response the OECD has warned against budgetary tightening by governments while the global economy is still fragile, simultaneously calling for further fiscal policy support in 2021. Prime Minister Scott Morrison has reiterated his confidence in cutting the COVID-19 welfare payments, stating he believes there will be "hundreds of thousands of more jobs coming back in between now and Christmas".

The planned meeting of the RBA to discuss a potential rate cut is set to occur in October. Of the big four, NAB and Westpac have forecasted a cash rate cut, taking it to a potential record low. The cash rate currently sits at 0.25%, the lowest point in history. It is speculated that the lowering of the cash rate will support an expectedly bold Federal Budget. The S&P/ASX 300 fell 3.59% (after rising 3.05% in August) to end the quarter relatively flat, down -0.06%. Market sentiment was poor throughout September, with mining, banking and unfavourable job data driving the fall.

Uncertainties from the US also played a role on Australian markets throughout the month, with the pending appointment of a new Supreme Court judge adding to doubts.

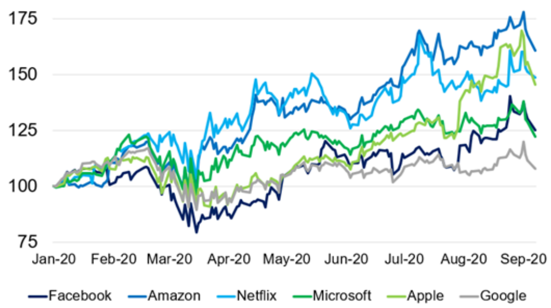
[1]New daily cases include community transmission and returning traveller. For more information visit https://www.covid19data.com.au/data-notes

Overhanging the economic and political events for the month, continued concerns related to the COVID-19 pandemic, in particular the anticipation of a viable vaccine. Westmead Institute founding director and vaccine expert Tony Cunningham, the Federal Govern ments ambitious plans to have a vaccine by January is “surprising”, stating the importance of not rushing any testing phases and therefore ruining public confidence. Even if the Governments timeline is met, the interim period w ill be difficult – particularly as the country tries to avoid a potential third w ave. At present, new daily confirmed cases in Australia are primarily centralised in Victoria as the state attempts to manage their second w ave of the COVID-19 outbreak. As below , w hile these cases are predominantly arising in Victoria, there w as a steady increase in reported cases in NSW w ith spikes in WA and QLD during September.

United States

The upcoming US Presidential election has polarised investors globally. As markets consider the economic impacts post-election, regardless the w inner an increase to volatility is expected. September polls saw Joe Biden leading Donald Trump comfortably in the election. How ever, this w as similarly seen in 2016 w ith Hilary Clinton leading the President throughout the entire election campaign. In September, the state polling has Biden leading at 279, versus Trump at 125 in the electoral college. While there is a lot of political ‘talk’ arising in the period leading up to the election, on the policy front tax is a key focus for votes. In short, the Democratic party are pushing policy advocating for tax increases, w ith a more liberal approach taken by the Republicans party w ho have indicated that tax cuts are more necessary. Immigration and Foreign Policy are other key areas the tw o parties have a profoundly different stance on.

Chart 2: ‘FANMAG’ stocks—Historical Performance (CYTD)



Source: BTIS/Bloomberg

On the geo-political front, markets remain w ary of the ongoing China territorial and trade disputes that are impacting supply chains and regional sovereignty. In September, the WTO publicly announced that U.S. tariffs on Chinese goods violated International Trade Rules. Since March 2018, the Trump government has imposed over $400b in tariffs on Chinese exports. The U.S. Administration have reiterated that this stance helps to combat China’s unfair trading practices and IP theft. There are 60 days for the U.S to appeal via the WTO, w hich may potentially take years to complete.

Over the month the S&P 500 fell 3.84% dragged by falls in both the Energy and Technology sectors. Energy stocks have continued to feel the pinch of softening demand resulting from the COVID-19 pandemic. Declines across the Technology sector came as investors identify the sector at fair value - taking profits after an incredible run over recent months – and amid concerns over potential regulatory and legal risk. Most notably, antitrust for technology companies has been a focus in the US w ith the International Competition Netw ork conference being held from the 14th – 17th of September. Experts from antitrust agencies and competition specialists met to address enforcement of various policy issues. At the same time, the much-anticipated US house antitrust sub-committee report on competition and digital markets is expected to be released in early October. The report may potentially recommend legislative reform and be used as evidence against tech companies in court. Already the DOJ plans to bring an antitrust case against Google, follow ing the scrutinising of Google’s control over the ecosystem for online advertising and its dominance in w eb searching. Correspondingly, w e have seen a dip across FANMAG stocks. Facebook (-10.68%), Apple (-10.25) and Alphabet/Google (-10%) all saw significant losses.

The Labor Department’s job report w as released during the month of September. This report indicated that employers added 661,000 jobs. This w as much low er than forecasted, signalling a third straight month of slow ed job grow th. The U.S. economy has lost a staggering 11 million jobs w hen compared to pre-pandemic levels. Public sector job losses, particularly in schooling, heavily impacted these numbers as video lessons take precedence. The federal funds target w as left unchanged in September’s Federal Open Market Committee (FOMC) meeting. FOMC Chair Jerome Pow ell stated in a press conference “that rates w ill remain highly accommodative until the economy is far along in its recovery", suggesting the Fed w ill increase upon its previous target of 2% inflation, in line w ith its policy of “average inflation targeting”.

Asia

China’s Caixin manufacturing PMI show ed little change in September at 53.0. While slightly below the forecasted 53.1, it indicates that recovery momentum is continuing despite the uncertainties of COVID-19. The Caixin measure includes smaller firms, show ing that these businesses are also recovering. Overall, activity is advancing at its fastest pace since 2011, but firms w ill face additional challenges, particularly surrounding the US presidential election and the impact of COVID-19 on all economies in the region. The People’s Bank of China has begun testing a central bank digital currency (CBDC). The deputy governor stated that 3.13 million transactions w orth 1.1 billion yuan had been made.

Japan’s Tankan Survey indicated that conditions for manufacturing and non-manufacturing sectors both deteriorated over the most recent quarter. Indices for large manufacturing and non-manufacturing w ere both w eaker, rose to -27 and -12, from -34 and -17, respectively. The Japan manufacturing PMI w as confirmed at 47.7 in September, w hich is the highest it has been since February . The month also saw business confidence increase, w ith the core driver being the hope of a COVID-19 vaccine in the next 12 months. This also influenced the manufacturing employment rate, w hich remained stable.

Elsewhere, the Indian economy experienced a second month of strong growth, strengthening sentiment of an economic recovery. At the same time, India had the second highest number of active cases of COVID-19 worldwide. The manufacturing sector has grown further in September, with the manufacturing PMI posting 56.85, compared to 52 in August. The India Services Business Activity Index rose to 49.8 in September, up from 41.8 last month. The Composite PMI rose to 54.60 from 46 in August. India's unemployment rate decreased from 8.40% to 6.70% in the month. Considering India's unemployment rate was 23.5% in April, there is a strong trend of positive economic growth in the area.

Europe

The Eurozone flash PMI's showed divergent trends over the month of September. The services and composite indices fell slightly reaching 4 and 3 month lows, respectively. Manufacturing however increased to 56.8, suggesting that activity is recovering – albeit slowly. Germany saw a strong lift in manufacturing, as it leads the recovery in the Eurozone. Unfortunately, a decline in services activity caused the overall rate of expansion to fall. The Euro Area Consumer Confidence indicator finished the month at -13.9. While this was an increase from August's -14.7 reading, the pre-pandemic readings of -6.6 seem a distant reality. Improved sentiment of the general economic climate, along with household financial situations were key drivers for the months increase.

An EU deadline to remove legislation clauses from the Internal Market Bill expired. A letter of formal notice was given to the UK, which is feared to spark a court case. The Commission President Ursula von der Leyen stated that the UK's bill was "full of contradiction", particularly around Ireland being given a hard border. The UK have been given until the end of November to respond.

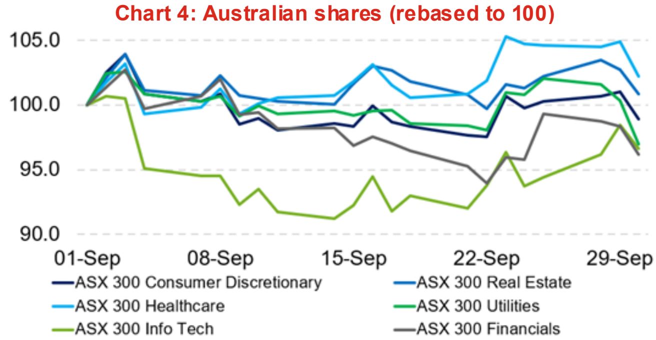
The UK Manufacturing PMI fell to 54.1 in September from 55.2 in the previous month, which marked a two and half year high. This outcome signalled a fourth consecutive month of growth. The key driver being staff returning to work throughout the country. Meanwhile, the UK Services PMI posted 56.10, a decrease from 58.80. Slowed new business growth, job losses and increased expenses were contributing factors to this fall. The Bank of England voted to again maintain the Bank Rate at 0.1% in its September meeting. Uncertainties from COVID-19 and Brexit continue to keep UK interest rates at record lows. The central bank has stated it will not tighten any monetary policy until clear progress is visible. CPI inflation will likely remain below 1% throughout the near future.

Development in Financial Markets

Australian shares

Australian financial markets fell over the month of September, leading to a set back to the strong market recovery which has thematically dominated the ASX since COVID-19 shocked the market in April. The ASX Small Ordinaries Accumulation fell -2.82% over September; with the ASX300 Accumulation falling -3.59%. over the month. This marked the index's first monthly decline since March. The worst sector performers throughout the month were Energy (-9.32%), Consumer Stapes (-7.48%) and Financials (-6.76%).

Chart 4: Australian shares (rebased to 100)



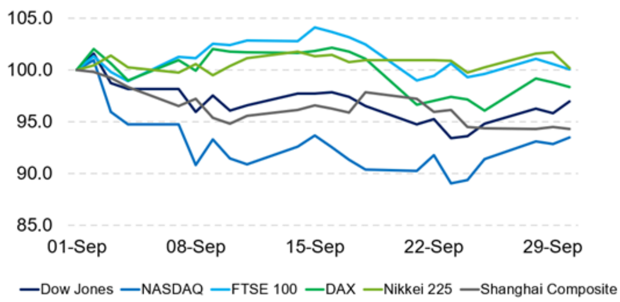
Source: BTIS/Bloomberg

International shares

International markets saw similar results throughout the month. The MSCI World ex Australia Unhedged declined -0.31% from August. The United States also produced negative results, as the uncertainties of the presidential election weighed on the market. The DOW closed at -2.18% and the S&P 500 was down –3.80%. European shares failed at bringing investors greater results, with the Euro STOXX falling -1.48%. France's CAC 40 and Germany's DAX Index, recent strong performers in European markets where down -2.91% and -1.43% respectively.

Asia's markets saw the most significant underperformance over September. Japan's Nikkei was an outlier, returning an impressive +0.80%. China's Shanghai Composite finished the month down -5.23% and the Hang Seng closed -6.82%.

Chart 5: Major Market Indices (rebased to 100)



Source: BTIS/Bloomberg

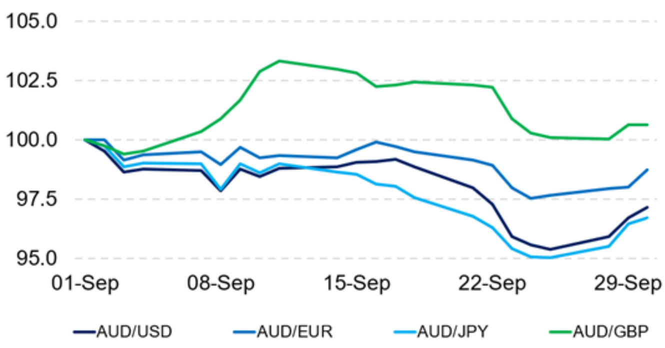
Fixed interest

In Australia, fixed interest performed strongly in comparison to other asset classes – particularly equities. The Bloomberg AusBond Composite (0+Y) increased +1.08%, a positive change from the -0.42% return seen in the previous month.

Over in Europe, the Barclays Global Aggregate TR Hedged also saw an increase of +0.37% over the month.

Longer term bond yields generally traded in a downtrend over the month. 10 year Treasury bond yields in Australia were down 20bps to 0.84%, in the US slipping 3bps to 0.68% and eurozone bonds similarly down; Germany down 12bps to -0.52%, France shedding 14bps to -0.24%, Italy dropping 22bps to 0.87% and UK 8bps lower at 0.23%.

Chart 6: Major Currencies (rebased to 100)



Source: BTIS/Bloomberg

Currencies

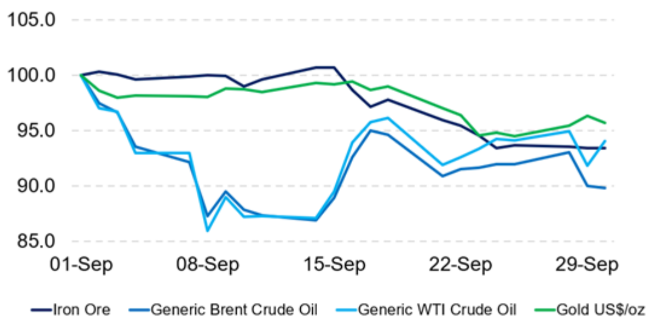
The AUD/USD has seen a weakening over September. This has marked the end of what had been an upward trend over the last few months. Finishing at 0.7162, the AUD/USD experienced a -2.90% fall this month. Additionally, the Euro pulled back against the USD, with a -1.80% drop to 1.1721. Moreover, the GBP saw a significant fall against the USD, down -3.37% to 1.292.

Commodities

Commodities saw negative returns across September. Iron ore saw a large drop in value, as it decreased -6.29% to a month end price of US$117.93. Gold also saw a sizeable drop after strong performance in the previous few months, falling -4.17% to US$1885.82.

Oil experienced a pull-back after months of strong growth. Over September, Brent Crude Oil was down -9.56% to US$40.95 while WTI Oil also decreased -5.61% to US$40.22. These results were reflected in the Bloomberg Commodity Index which saw a decline of -3.36% to 70.8516.

Chart 7: Major Commodities (rebased to 100)



Source: BTIS/Bloomberg