

MAY 2020

- Shutdowns, isolation, and social distancing measures have had a profound impact on consumer-facing sectors and have resulted in large spikes in unemployment.
- Central banks around the world have embarked on unprecedented emergency lending and bond buying programs to combat the economic effects of the coronavirus.
- The Bank of England forecasts UK GDP to contract by 14% in 2020, driven by a 25% decline in the June quarter, to be followed by a rapid recovery.
- The Reserve Bank of Australia kept rates on hold at 0.25% at its May meeting and continued targeting the 3-year government bond yield at the same rate.
- Growth in new coronavirus cases in Australia slowed significantly in April, although a second wave of infections could eventuate if restrictions are eased too quickly.

April market performance

Equity Markets – Index Return*	Index	At Close 30/04/2020	% Return 1 Month	% Return 12 Months
Australia	S&P/ASX 200 Index	5522.35	8.78%	-9.06%
United States	S&P 500 Index	2912.43	12.82%	0.86%
Japan	Nikkei 225 Index	20193.69	6.75%	-7.23%
Hong Kong	Hang Seng Index	24643.59	4.06%	-14.24%
China	CSI 300 Index	3912.58	6.17%	2.21%
United Kingdom	FTSE 100 Index	5901.21	3.90%	-17.14%
Germany	DAX 30 Index	10861.64	9.32%	-12.01%
Europe	FTSE Eurotop 100 Index	2564.64	5.10%	-10.86%

Property – Index Returns*	Index	At Close 30/04/2020	% Return 1 Month	% Return 12 Months
Listed Property	S&P/ASX 200 A-REITS	1162.40	13.73%	-20.32%

Interest Rates	At Close 30/04/2020	At Close 31/03/2020	At Close 30/04/2019
Australian 90 day Bank Bills	0.10%	0.36%	1.56%
Australian 10 year Bonds	0.89%	0.76%	1.79%
US 90 day T Bill	0.08%	0.06%	2.41%
US 10 year Bonds	0.64%	0.67%	2.50%

Currency**		At Close 30/04/2020	% Change 1 Month	% Change 12 Months
US dollar	AUD/USD	0.66	6.33%	-6.72%
British pound	AUD/GBP	0.53	5.09%	-3.31%
Euro	AUD/EUR	0.60	7.81%	-4.03%
Japanese yen	AUD/JPY	69.91	4.58%	-10.94%
Australian Dollar Trade-weighted Index		57.8	5.67%	-4.46%

* Closing index values are based on price indices. Index returns are expressed as total returns in local currency.

** All foreign exchange rates rounded to two decimal places.

Past performance is not a reliable indicator of future performance.

Global economies

The world economy remains in the grip of the COVID-19 shock. Governments are deploying stimulus measures, including extensive employment subsidies to retain worker-firm relationships. March quarter economic growth points to a sharp downturn globally, while the contraction could be more pronounced in the June quarter given lockdown measures were in full force in most regions by April.

US

March quarter GDP plummeted to an annualised 4.8% contraction, below expectations of a 3.7% fall, as the initial impact of COVID-19 filtered through the economy. Within the GDP report, consumer spending showed a sharp decline, falling 7.6% versus an expected 1.5% contraction. Estimates of the impact of the shutdowns and isolation initiatives on GDP centred around 7–10% in the June quarter alone. To put this in context, the 2008 recession saw a 4% contraction in US GDP over six quarters, while the 1929-30 depression saw a 26% contraction. After lowering the funds rate by a full percentage point in March, the US Fed confirmed the policy rate would stay unchanged at the target range of 0.00–0.25%, reiterating its commitment to use the full range of tools to support the economy for as long it takes to ensure the economy is “well on the road to recovery.” The ISM Manufacturing PMI was revised lower from a preliminary estimate of 36.9 to 36.1, down from March’s 48.5. The reading was the lowest since early 2009, with employment declining the most since March 2009 amid greater spare capacity. April’s ADP Employment Report showed 20.2 million jobs were lost over the month – the largest decline ever in employment. The services sector was the hardest hit, shedding 16.0 million jobs, mostly in leisure and hospitality (-8.6 million).

Europe

Even before the pandemic hit, the eurozone story was one of mediocre economic growth, with a modest expansion in the services sector being offset by a contraction in manufacturing. The coronavirus pandemic undercuts even this lacklustre narrative by hitting services extremely hard. The preliminary estimate shows eurozone GDP down 3.8% year-on-year for the March quarter – the sharpest decline observed since the series started in 1995 and sharper than the 3.0% fall forecast by the European Central Bank (ECB). Economic sentiment fell sharply to 67.0 in April, missing expectations of 74.0 and down from March’s downwardly revised level of 94.2, which doesn’t bode well for June quarter economic growth. Unsurprisingly, jobs in accommodation and food services (-33.4%) and arts and recreation services (-27.0%) continue to bear the brunt of the COVID-19 recession. Since the end of March, the ECB has been buying assets as part of the new Pandemic Emergency Purchase Programme (PEPP), which allows the ECB to make up to €750 billion of purchases across all asset classes. This will be augmented by additional long-term refinancing operations to support liquidity across the eurozone.

China

The Chinese economy contracted by 9.8% in the March quarter compared to the December 2019 quarter, taking the annual growth rate to -6.8%, down from positive growth of 6.0% in the December 2019 quarter. According to the IMF, growth is forecast to recover, but only to 1.2% for the whole of 2020. China was the first economy to be hit by the coronavirus, and after a lockdown lasting more than two months, the economy is beginning to open up, although neighbourhood-level monitoring and testing remain in place. The economy is estimated to be running at around 80% capacity, and while many restrictions have been eased, others have been tightened, including restrictions on international flights, in a bid to prevent a second wave of imported infections. Chinese policymakers have pledged to combat the economic damage caused by the pandemic. There were 2.85 trillion yuan in new loans in March – far exceeding market expectations of 1.8 trillion, and three times more than February’s 905.7 billion – which lifted bank lending in the first quarter to a record 7.1 trillion. While the Chinese central bank has stressed its intention to avoid the size and scope of stimulus packages adopted in previous downturns due to high levels of debt, there will likely be growth in lending over coming months as key government-backed projects restart and pent-up consumer and real estate demand picks up.

Asia region

According to the IMF, Japan's GDP is forecast to contract 5.2% in 2020 on the previous year. The economy was already on a precarious footing, with GDP shrinking by an annualised 7.1% in the December quarter, hit by the rise in the consumption tax and a devastating typhoon – the strongest in decades to hit mainland Japan. The unemployment rate rose 0.1% in March to 2.5%, in line with expectations. The government announced emergency stimulus packages worth ¥108.2 trillion (US\$1 trillion), which Prime Minister Abe believes will boost the economy by up to an annualised 3.8%. April's Manufacturing PMI was revised lower to an eleven-year low of 41.9, down from 44.8, as the worsening coronavirus situation forced the country into a state of emergency with strict lockdown measures imposed. The Jibun Bank of Japan services index fell a stunning 13 points from 46.8 to 33.8, a low not seen since the GFC. Likewise, the PMIs for South Korea, Thailand, the Philippines, Indonesia, Malaysia and Vietnam all point towards recession. India's unemployment rate is now at a record high of 27.1%, according to the Centre for Monitoring the Indian Economy (CMIE), a sharp spike from 8.7% in March. Meanwhile the HIS Markit Services PMI plunged 43.9 points to 5.4 – the lowest in the world.

Australia

The Australian economy is expected to contract by at least 5% in the June quarter after a smaller contraction in the March quarter, thereby meeting the technical definition of a recession. However, no data is needed to confirm what has already been observed: shutdowns, isolation, and social distancing measures in the fight against the spread of COVID-19 have virtually closed large sections of the economy, causing a surge in unemployment not seen since the Great Depression. The good news is that the lockdown measures appear to have been effective, and in early May attention turned to re-starting the economy and putting in place the measures and safeguards required to avoid a second wave of cases. The Reserve Bank of Australia kept the cash rate on hold at its May meeting at 0.25% and maintained its yield target for 3-year government bonds at the same rate. The Bank reported that its bond purchases have so far totalled around \$50 billion and that, in light of improving conditions in bond markets, has begun scaling it back with a view to increasing it again if the situation requires. Payroll data showed a fall in employee jobs of 7.5% nation-wide (around 975,000 employees) between mid-March and mid-April, and a drop in total wages paid of 8.2%. Retail turnover rose 8.5% in March as consumers stockpiled ahead of lockdown measures, but cafés and restaurants didn't fare so well, experiencing a 22.9% fall in sales.

EQUITY MARKETS

- Australia's S&P/ASX 200 Index rose 8.8% in April with all sectors gaining, while small cap shares bounced back 14.3%.
- The US S&P 500 Index pushed beyond the 2,900 mark at the end of April, up 675 points since the market bottom on 23 March.
- In Europe, the UK FTSE 100 Index rose 3.9%, Germany's DAX 30 Index rose 9.3%, and France's CAC 40 Index rose 4.1%.
- In Asia, Japan's Nikkei 225 Index rose 6.8%, Hong Kong's Hang Seng Index rose 4.1%, and China's CSI 300 Index rose 6.2%.
- Global developed market shares rose 3.6% in Australian dollar terms, while emerging market shares rose 2.1%.

Australian equities

	Index/Benchmark (% pa)	1 Month	1 Year	3 Years	5 Years	7 Years
Australian	S&P/ASX 200 Acc. Index	8.78%	-9.06%	1.92%	3.46%	5.38%
	S&P/ASX 50 Acc. Index	7.18%	-8.52%	1.72%	2.93%	4.96%
	S&P/ASX Small Ordinaries Acc. Index	14.27%	-13.31%	3.25%	4.95%	4.58%

Despite the recovery in April, the magnitude and duration of the disruption remains uncertain and near-term expectations remain heavily discounted. Over half of ASX 200 companies have downgraded or withdrawn earnings guidance due to the lack of visibility in assessing the extent and severity of the COVID-19 outbreak. Dividends for banks, property and infrastructure shares are expected to decline as companies attempt to counter demand shocks through rapid cash conservation measures, while capital raisings have intensified as businesses move to strengthen balance sheets. Coles Group (+2.3%) announced its March quarter results with Comparable Sales Growth (CSG) of 12.4%, benefitting from a shift in consumer behaviour following the outbreak. Likewise, JB Hi-Fi (+25.6%) reported it experienced an acceleration in sales in late March. Despite closing its three airport stores and seven CBD locations, sales grew 11.6% for the quarter, while all The Good Guys stores remained operational and delivered sales growth of 13.9%. Westpac (-1.3%) reported cash earnings (excluding notable items) of \$2.3 billion, down 44% compared to the previous year, largely driven by a \$2.2 billion impairment charge. The IT sector bounced back strongly in April, with key stocks AfterPay (+66.0%) and Appen (+31.2%) returning to their pre-outbreak levels.

Investment Index/Benchmark returns*

S&P/ ASX 200 Index

Sector	1 Month	3 Months	1 Year
Energy	24.93%	-35.38%	-31.73%
Information Technology	22.52%	-16.75%	-4.65%
Consumer Discretionary	15.92%	-21.50%	-7.94%
Materials	14.23%	-12.34%	-1.68%
Property	13.73%	-29.82%	-20.32%
Industrials	12.70%	-20.10%	-9.89%
Communications	4.55%	-18.44%	-6.30%
Health Care	4.38%	-4.90%	39.91%
Financials ex-Property	2.83%	-29.23%	-23.97%
Utilities	2.74%	-7.14%	-2.26%
Consumer Staples	2.39%	-8.35%	6.28%

*Total returns based on GICS sector classification

BIG MOVERS THIS MONTH

Going up

↑	Energy	24.9%
↑	Information Technology	22.5%
↑	Consumer Discretionary	15.9%

Going down

N/A

Global Equities

	Index/Benchmark (% pa)	1 Month	1 Year	3 Years	5 Years	7 Years
Global	MSCI World Ex Australia Index (AUD)	3.62%	3.50%	9.96%	9.05%	14.43%
	MSCI World Ex Australia Index (LCL)	10.56%	-3.68%	5.06%	5.37%	8.16%
	MSCI World Ex Australia Small Cap Index (AUD)	5.75%	-8.12%	4.05%	6.36%	12.68%
Emerging	MSCI Emerging Markets Index (AUD)	2.05%	-5.39%	5.13%	3.70%	7.60%
	MSCI AC Far East Index (AUD)	0.06%	2.61%	7.92%	5.96%	10.92%

Based on broadly accepted measures, the US equity market has endured a bear market and a bull market in the space of two months. In price terms, the S&P 500 declined 34% from February's record high to its trough on 23 March, before rallying 32% to the end of April. The initial sharp sell-off partly reflected a 'rush for the doors' as many equity investment strategies were forced to sell down, while the prospect of a significant economic and earnings shock resulted in additional fundamental-based selling. After turning negative for a few days, oil prices surged as investors speculated that demand would soon return with more countries announcing plans to reopen economies, bringing the WTI crude spot price to just above US\$18 per barrel at the end of April, versus US\$61 at the start of 2020. US oil producers bounced back in April but remain beaten down, with many now struggling to manage high levels of debt. Markets have stabilised significantly since March, with the CBOE Volatility Index falling from its March peak of 82.7 to 34.2 at the end of April, although it remains at an elevated level. In the UK, the FTSE 100 Index rose 3.9% in April and Germany's DAX 30 Index rose 9.3%. Across Europe, the hardest-hit sectors like travel and leisure bounced back but remain beaten down.

Property

	Index/Benchmark (% pa)	1 Month	1 Year	3 Years	5 Years	7 Years
Australian	S&P/ASX 200 A-REIT Acc. Index	13.73%	-20.32%	-1.79%	3.00%	5.95%
Global	FTSE EPRA/NAREIT Developed Ex Australia Index (AUD Hedged)	5.87%	-18.75%	-2.25%	0.09%	2.57%

After being hit hard in March, Australian listed property was able to enjoy a recovery in April, with the S&P/ASX 200 A-REIT Index returning 13.7%. However, in price terms the index remains down 33% on its February high, and social distancing and other measures implemented to curb the spread of the coronavirus have hit the A-REIT market hard. Retail assets have been particularly impacted by the mandated closure of non-essential businesses, while some large national retail groups have been forced to temporarily reduce their bricks and mortar footprints. Vicinity Centres (+44.0%) released its March quarterly update and response to COVID-19, which showed portfolio sales for the quarter down 16.5% on the previous year, with sales falling 35.1% in speciality stores and 19.9% in mini-majors. While initial government restrictions and voluntary store closures resulted in reduced trading, Vicinity reported that 50% of stores were now open, with 530 stores reopened in the week prior to its update. As the economic fallout from COVID-19 widens, other key sectors – including office and industrial – may increasingly feel the impact of

falling business confidence and GDP. In April, global developed market REITs rose 5.9% in Australian dollar hedged terms and the MSCI US REIT Index rose 8.1% in US dollar terms.

Fixed Interest

	Index/Benchmark (% pa)	1 Month	1 Year	3 Years	5 Years	7 Years
Australian	Bloomberg AusBond Composite 0+ Yr Index	-0.07%	6.42%	5.46%	4.46%	4.82%
	Bloomberg AusBond Bank Bill Index	0.05%	1.12%	1.63%	1.80%	2.06%
Global	Bloomberg Barclays Global Aggregate Index (AUD)	-4.68%	14.56%	8.54%	6.72%	8.61%
	Bloomberg Barclays Global Aggregate Index (AUD Hedged)	1.50%	7.20%	4.62%	4.33%	4.81%

The dislocation in the credit markets was pronounced through March and April, with market stress also spreading to sovereign bonds, which are typically immune from indiscriminate selling. Action from central banks helped restore order, with the US Federal Reserve committed to purchasing not only government bonds and agency mortgage-backed securities, but also corporate bond ETFs, including sub-investment grade bonds. It remains to be seen if the Fed will follow through on this commitment, but words alone may be powerful enough to restore confidence. Given the recent improvement in markets in late April and early May, the Fed began slowing the pace of government bond purchases. The US budget deficit is expected to expand to around US\$4 trillion in 2020, prompting the US Treasury to boost the size of bond auctions to record amounts, and revive the 20-year bond, which was last issued some 30 years ago. In Australia, the RBA has embarked on its own bond-buying program, which totalled around \$50 billion at the time of its May meeting. The Australian 10-year government bond yield rose in April from 0.76% to 0.89%, while the 3-year bond yield was steady at 0.25% in line with the RBA's target.

Australian dollar

The Australian dollar rallied into May, helped by stronger than expected Chinese trade data and news that Chinese factories are re-opening. The dollar rally began in mid-March after bottoming at under US\$0.58 to find resistance at around US\$0.65, down from its US\$0.70 level at the start of January.

The information in this Market Update is current as at 12/05/2020 and is prepared by Lonsec Research Pty Ltd ABN 11 151 658 561 AFSL 421445 on behalf of National Australia Bank and its subsidiaries. Any advice in this Market Update has been prepared without taking account of your objectives, financial situation or needs. Before making any decisions based on the content of this document, the reader must consider whether it is personally appropriate in light of his or her financial circumstances or should seek independent financial advice on its appropriateness. Past performance is not a reliable indicator of future performance. Before acquiring a financial product, you should obtain and read the corresponding Product Disclosure Statement (PDS) and consider the contents of the PDS before making a decision about whether to acquire the product.