Economic Wrap

April Monthly Wrap 2020

Summary

- April was marked by a relief rally in financial markets.
- One trigger was the increase in central bank stimulus efforts bearing fruit in credit markets which have gradually stabilised (seeing fixed interest sell spreads fall as markets normalise).
- Another was the declining growth rate in coronavirus cases particularly in developed economies (where most global financial assets reside).
- We also saw a deal announced with OPEC and non-OPEC members agreeing to cut production to stabilise oil prices. To date this has had limited impact with weak demand seeing a glut in oil supply and dwindling storage capacity. The combination of these in the US drove the May-20 futures contract price negative with traders desperate to avoid taking physical delivery.
- The combination of these shocks saw the J.P. Morgan Global Composite PMI remain in contractionary territory with a global recession underway.

Markets – Shift to "Risk-on" sentiment for most asset classes with cash and bonds lagging (see page 11).

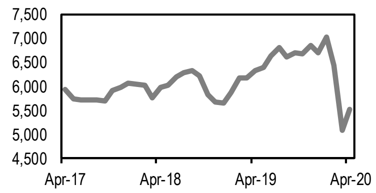
- Risk assets including equities and high-yield bonds clawed back some of the losses from the March quarter while safe havens such as the US dollar were under pressure.
- Australian equities outperformed vs global peers (see chart 2) while growth stocks continued to outperform value stocks (see chart 3). Emerging markets continued to struggle (see chart 4) with weaker currencies as coronavirus cases spike in economies such as Brazil.

Key economic news –

- Government stimulus programs have continued to be scaled up
- Lockdown restrictions are being increasingly eased as several countries including Australia and New Zealand get past the worst of the outbreak.

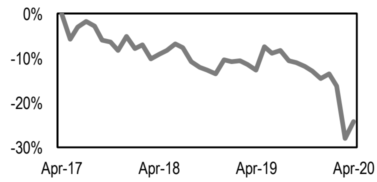
Key company news – Notable outperformers for April were, for the most part, some of the most substantially affected in the previous quarter and vice versa. Fisher & Paykel (ASX: FPH) shares struggled with the decline in coronavirus case growth seeing investors slightly fade its recent rally.

1. S&P/ASX 200 Price Index



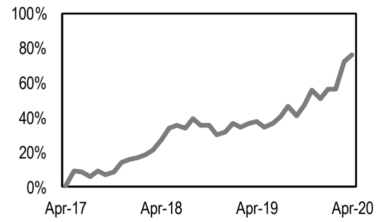
Source: Bloomberg, IOOF

2. ASX200 vs All-World, US$ terms



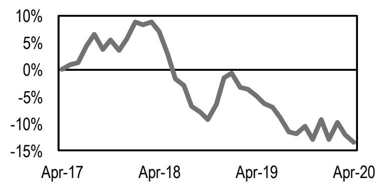
Source: Bloomberg, IOOF

3. MSCI Australia Growth relative to MSCI Australia Value



Source: Bloomberg, IOOF

4. Emerging markets vs Developed Markets, (In USD)



Sources: Bloomberg, MSCI, S&P, IOOF

Sector and stock returns

ASX/S&P 200 Sectors (GICS)

	Monthly	%∆	Quarterly	%∆
▲	Consumer Discretionary	15.95	Consumer Discretionary	-22.58
▲	Consumer Staples	2.39	Consumer Staples	-9.48
▲	Energy	24.80	Energy	-36.65
▲	Financials ex Property	2.83	Financials ex Property	-29.92
▲	Financials	2.83	Financials	-29.92
▲	Health Care	4.38	Health Care	-5.44
▲	Industrials	12.70	Industrials	-20.77
▲	IT	22.53	IT	-17.19
▲	Materials	14.21	Materials	-14.32
▲	Property Trusts	13.74	Property Trusts	-30.30
▲	Telecommunications	4.57	Telecommunications	-19.98
▲	Utilities	2.74	Utilities	-8.39

Best and Worst S&P/ASX 200 Performers

Top five stocks		Bottom five stocks	
Monthly			
Ap Eagers Ltd	+69.6%	Metcash Ltd	-21.0%
Afterpay Ltd	+66.0%	Fisher & Paykel Health	-12.3%
Ooh!Media Ltd	+61.7%	Avita Medical Ltd	-8.8%
Perenti Global Ltd	+49.2%	Insurance Australia Grp	-6.8%
Scentre Group	+48.9%	Mcmillan Shakespeare	-6.2%
Quarterly			
Evolution Mining Ltd	+37.7%	South. Cross Media Grp	-77.7%
A2 Milk Co Ltd	+25.6%	Flight Centre Travel Grp	-68.9%
Silver Lake Resources Ltd	+20.0%	Webjet Lt	-64.1%
NEXTDC Ltd	+16.9%	Ooh!media Ltd	-62.7%
Elders Ltd	+16.8%	Oil Search Ltd	-56.8%

Source: Bloomberg, IOOF

Equity review

Major Market Performance, April 2020

	Australian Indices	Apr-20 Price	1M return (%)	Jan-20 Price	3M return (%)
▲	S&P/ASX 200	5522	8.78	7017	-21.30
▲	All Ordinaries	5598	9.53	7121	-21.39
▲	Small Ordinaries	2405	14.26	2996	-19.70
	US Indices				
▲	S&P 500	2912	12.68	3226	-9.71
▲	Dow Jones	24346	11.08	28256	-13.84
▲	Nasdaq	8890	15.45	9151	-2.86
	Asia Pacific Indices				
▲	Hang Seng	24644	4.41	26313	-6.34
▲	Nikkei 225	20194	6.75	23205	-12.98
	UK & Europe Indices				
▲	FTSE 100	5901	4.04	7286	-19.01
▲	CAC40	4572	4.00	5806	-21.26
▲	DAX Index	10862	9.32	12982	-16.33

Sources: Bloomberg, MSCI, FTSE, S&P, IOOF

Note: return is reported on a price basis and in local currency terms e.g. S&P500 performance is in US dollars and excluding dividends.

Global equity markets

The S&P 500 index rose 12.7% during the month while the tech-heavy NASDAQ index was up 15.5%. Key to the US case was the scale of government and central bank stimulus. This bolstered confidence that a "worst case" scenario for corporate profits had been avoided. In addition, the S&P 500 is now substantially focused on technology (~25% of the index). Technology stocks have not been as badly affected by the coronavirus shock with some in fact continuing to grow even stronger such as Microsoft or Amazon through this period.

European equities had a more parlous recovery by contrast. That is a reflection in part of the disjointed stimulus response within Europe. Stimulus at a regional level has been poorly coordinated with old debates being revisited over the "richer" Northern countries "bailing out" the "poorer" Southern nations. In addition, Europe is very dependent on exports and global trade. The hit to global demand in the near term should, all else being equal, hurt these economies more than those with greater domestic focus e.g. the US.

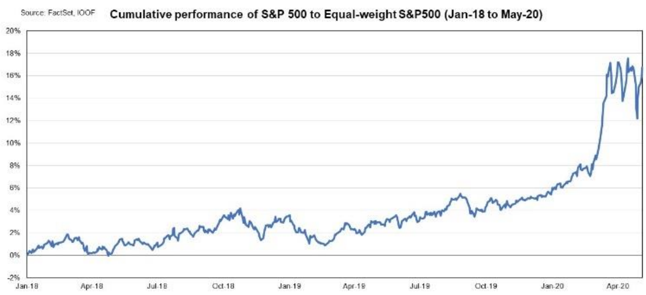
Could there be a second leg lower for markets?

The bounce back from lows on 23 March has been stark with several markets recovering over 20% in that period. What could it take for markets to experience another sharp correction? One driver could be markets begin pricing in a more severe scenario, for example:

- Coronavirus cases persist with second waves and major outbreaks in developing countries. Lockdown measures need to remain in place for most of 2020 not continuing into next year.
- Default cycle by struggling businesses is worse than expected putting strain on bank balance sheets and pushing unemployment even higher.

In addition, some short-term sentiment indicators are arguably becoming over-extended with over 80% of tech stocks in the US above their 50-day moving average (a sign of "overbought" conditions as of late April. We see below that the S&P 500 has substantially outperformed the S&P 500 (equally weighted) indicating smaller stocks have been relative "orphans" in this period. Much of this price action is reasonable with smaller businesses tending to have lower returns on capital and less diversified sources of revenue i.e. they should be valued lower given their higher risk.

5. Cumulative performance - market cap vs equal weight to May 2020



If this ratio were to break lower in sustained fashion, it would suggest equities are pricing in a recovery in the near-term as the macroeconomic risks for smaller businesses are being priced to fade. At present it still points to a risk-off environment. In addition, market volatility remains high. Annualised trailing volatility over recent months is still at near-GFC highs. This suggests caution is advised in the near-term as high levels of volatility are associated with clusters of extreme returns (both positive and negative).

Australian equity market

The S&P/ASX 200 index rose 8.8% during April with Energy the top performer (+24.8%) followed by the

Technology (+22.5%) and Consumer Discretionary (+15.9%) sectors.

Work from MSCI and other providers would suggest an expectation of Value stocks (cyclicals in this case) outperforming coming out of a sharp market correction.

The signs of a better scenario domestically with the decline in coronavirus case growth and signs of lockdown easing early than had been previously given. This supported more cyclical exposures from a sentiment perspective.

Oil stocks benefitted more from global factors with the agreement of a new deal to reduce production. Significantly this was not just amongst OPEC members with Russia agreeing to participate and even countries such as Norway taking part. This would be the first time in almost 20 years that Norway has scaled back its production for context.

Fixed Income

	Fixed Income	Apr-20 yield	1M mvt (bps)	Jan-20 yield	3M mvt (bps)
	Australian Cash rate	0.25	--	0.75	-0.50
▲	10-year Bond Yield	0.89	0.13	0.95	-0.06
▲	3-year Bond Yield	0.25	0.02	0.62	-0.37
▼	90 Day Bank Accepted Bills SFE-Day	0.10	-0.26	0.88	-0.78
▼	US 10-year Bond Yield	0.64	-0.03	1.51	-0.87
▼	US 3-year Bond Yield	0.24	-0.05	1.29	-1.05
▼	US Investment Grade spread	2.18	-0.59	1.32	0.86
▼	US High Yield spread	7.43	-1.36	4.01	3.42

Source: Bloomberg, IOOF

Australian bond market

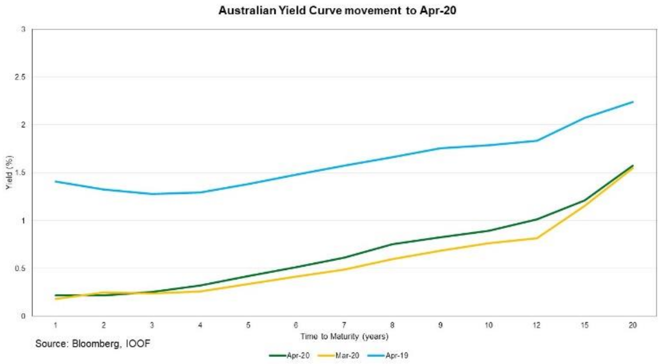
The Australian yield curve steepened during April with long-term rates rising more than short-term rates. This reflected two factors.

- First, the RBA success in keeping shorter-term rates contained near its 0.25% target by purchasing bonds to that effect.
- Second, the effectiveness of lockdown measures raises the prospect of earlier relaxation, a net positive for growth prospects with investors factoring this in for longer-term bond prices.

The RBA has purchased a total of $50 billion in bonds on the secondary market to achieve this goal as of 5 May. It has however flagged much lower spending going forward as its intervention has succeeded in supporting market liquidity and is no longer required to the same level of volumes.

There is no change to our near-term view that the Bank will keep rates low for a prolonged period and only slowly unwind the impact of these changes given how disruptive a sudden readjustment could be for the economy. This will benefit borrowers at the cost of savers and investors in the near term with some shorter-term cash accounts and term deposits offering negative (after-inflation) interest rates.

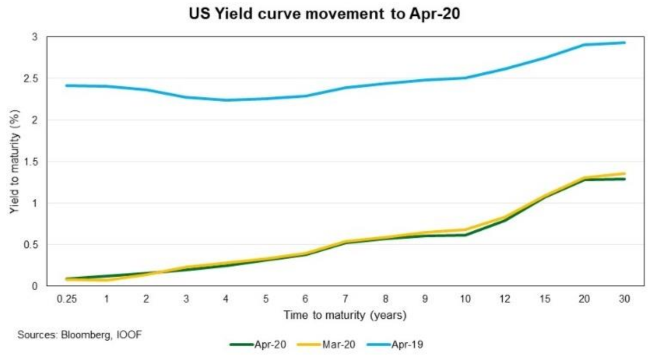
6. Australian yield curve movements to April 2020



US bond market

The U.S. yield curve was largely flat. Sizeable bond purchasing by the Federal Reserve helped offset expectations of improving growth on the back of fiscal stimulus.

7. US yield curve movement to April 2020



Global bond markets

Credit spreads tightened during April as investors bid up riskier bond prices. Two factors helped contribute to this.

- First the sizeable increase in central bank purchasing on secondary markets with the US Federal Reserve establishing policies to expand this program into corporate bonds (this contributed to some "front-running" by other players in the market moving ahead of anticipated Fed buying in May).

- Second was the scale of confirmed fiscal stimulus during the month which acted to support businesses and increased their chances of survival making their bonds comparably more attractive.

Outlook

The outlook for fixed income globally sees a lower rate environment persisting for a longer period. Credit risk is elevated in the near term because we are likely to see a rise in defaults even with government support to date. However even with that caveat it remains more attractive for longer-term holders able to weather the greater volatility.

The other danger to be wary of for "safer" assets like government bonds or term deposits (within the statutory guarantee) is that of inflation. The latest annual CPI for Australia was 2.2%. According to the RBA, 1-year term deposit rates being offered in March last year was ~2.3%. Your after-inflation return in that case was only 0.1% i.e. just barely increasing your wealth in real-terms. It is likely, given what the RBA and other central banks have guided to, that we will see subdued fixed income returns, especially in the less-risky options outside of credit for several years or more.

Currencies

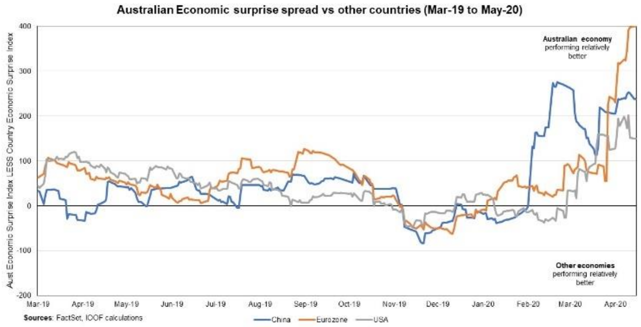
	Currencies	Apr-20 Price	1M return (%)	Jan-20 Price	3M return (%)
▲	$A vs $US	65.12	6.21	66.92	-2.69
▲	$A vs GBP	51.70	4.69	50.68	2.03
▲	$A vs YEN	69.79	5.83	72.51	-3.75
▲	$A vs EUR	59.44	6.91	60.30	-1.43
▲	$A vs $NZ	106.29	3.23	103.48	2.72
▲	$A TWI	57.80	5.67	58.10	-0.52
▲	$US vs EUR	91.31	0.74	90.15	1.29
▼	$US vs CNY	7.06	-0.27	6.94	1.74
▼	$US vs GBP	79.40	-1.44	75.72	4.86
▼	$US vs JPY	107.18	-0.33	108.35	-1.08
▲	$US vs CHF	96.53	0.44	96.34	0.20
▼	US Dollar Index	99.02	-0.03	97.39	1.67
▼	JPM EM Currency Index	52.97	-0.76	59.80	-11.42

Source: Bloomberg, IOOF

The Australian dollar (AUD) rose 6.2% against the US Dollar (USD) during April, from USD 0.6131 to USD 0.6512. Drivers included:

- **Economic surprises**: Data released since late March has seen the Australian economy offering more positive surprises than other major countries. This can be seen in the upward trend of Chart 8.
- **Investment sentiment**: Greater success in containing virus growth improved risk appetite.

8. Australian economic surprise outperformance (Mar-19 to May-20)



We note weakness in coal prices may pose some near-term risks to the Australian dollar as well as heightened rhetoric between Beijing and Canberra.

The swap lines for US dollars continued to see improved stability in currency markets. However emerging market currencies remain stressed due to a weaker economic environment and struggles to contain their own domestic outbreaks. This can be seen in the continued decline of the JPM EM Currency Index. If these levels persist it may contribute to further EM weakness in the near term.

Commodities

	Commodities	Apr-20 Price	1M return (%)	Jan-20 Price	3M return (%)
▼	Aluminium	1467	-3.14	1727	-15.07
▲	Copper	234	4.95	253	-7.35
▲	Nickel	12138	5.87	12869	-5.68
▲	Zinc	1935	1.71	2199	-12.00
▲	Crude Oil - Brent	25.27	11.13	58.16	-56.55
▲	Natural Gas	1.95	18.84	1.84	5.87
▼	Metallurgical Coal	143	-4.01	149	-4.01
▼	Thermal Coal	49	-28.93	67	-26.55
▼	Iron Ore	83.84	-4.75	92.44	-9.30
▲	Gold	1694	6.11	1594	6.30
▲	Silver	15	5.51	18	-17.57

Source: Bloomberg, IOOF

Commodity prices were mixed during April with most recovering from the March quarter although coal and iron ore were notable exceptions.

Gold prices rallied on the back of falling (after-inflation) bond yields globally. While not always a 1-1 relationship, gold has typically benefitted in this kind of environment where offering a zero yield is seen as better than negative yields on bonds that are guaranteed to lose capital if held to maturity.

Oil and **Natural gas** prices rallied following a new OPEC+ deal to curtail oil production. This saw countries outside the cartel such as Russia and Norway agree to production cuts, Norway's first in almost two decades. However, this has been insufficient to counteract the general economic slowdown the coronavirus shock has created. This still sees oil prices at uneconomic levels for much of global production with increasing capital spending cuts by producers. China's three largest state-owned producers have cut back their overall capital expenditure by US$19bn this year as an example. This is a repeat of previous commodity cycles where excess supply relative to demand sows the seeds of eventual price weakness and production cutbacks. The timing and extent of the recovery remains an unknown here particularly given the time it will take for existing inventories to be exhausted.

Coal prices were under pressure from reduced energy demand amongst emerging markets such as Malaysia and India. In addition, falling domestic prices in China saw an increase in import restrictions that exacerbated the weakness in international prices. **Iron ore** prices may see some further weakness in the near-term given rising Chinese steel inventories (meaning less iron needed to create steel) and rising Australian and Brazilian supply as noted by Westpac Economics.

Australia

Fiscal and monetary policy moves will help soften the blow sparked by coronavirus shutdowns and hasten the eventual recovery but are unlikely to save us from a recessionary outcome. Earlier-than-expected relaxation of lockdown rules will assist the economic recovery with consumer confidence also recovering.

Policy

The RBA has signalled keeping the cash rate at current levels of 0.25% for a prolonged period of time. Absent a much faster-than-expected economic recovery it is likely to stay near these levels for the next three years. This is also because of the yield curve targeting it has implemented to keep the 3-year government bond yield at 0.25%. Any departure from that target will need to be gradual to avoid a potentially damaging hike in borrowing costs.

We note that Jobkeeper payments have commenced during May (backdated until April). In addition, there is renewed discussion of what policies will be once these emergency measures expire. This potentially includes bringing forward infrastructure spending or renewed focus on structural reform including labour market deregulation. We will suggest caution however as we may require further direct support such as the increases to welfare payments for longer than governments currently realise. This is particularly so if speculation about wage cuts by some public sector employers such as state governments were to occur. Wage cuts at this time would exacerbate the economic damage already underway.

Business sector

Business sentiment and activity continued to worsen during April. The CBA Composite PMI dipped further into contractionary territory at 21.7, down from 39.4 in April (readings < 50 are contractionary). This reflects the negative impact of the shutdown on consumer spending and overall business confidence and sales with April being the first month that saw its full impact being felt. The NAB Monthly Business Survey did show a slight improvement in business confidence to -46, (twice its weakest level in the 90s recession) but business conditions worsened to -34. It suggests the depth of this recession will exceed that experienced in the early 90s. Mining remains one of the strongest sectors in terms of better business conditions.

Consumer sector

The Westpac-Melbourne Institute Index of Consumer Sentiment improved to 88.1 in May, up from 75.6 in April. An important driver of this improvement relative to the 90s recession was increased anticipation of better long-term prospects i.e. consumers are more willing today to look past this weakness. There was also a rebound in expectations for the economy over the next 12 months driven by the earlier-than-expected relaxation of lockdown measures. Overall, this points to a still challenging retail environment and corroborates the weakness seen in the business surveys discussed earlier. We will follow these “green shoots” of optimism however to see if they play out further.

Labour market

As we have been highlighting in recent reports, job losses have eventuated with some 594,000 lost during April and the unemployment rate rising to 6.2%. This equates to 4.6% of the total employed as of March, a sharper decline than we saw in the last recession of the early 1990s. In addition, this data has been clouded by the exclusion of Jobkeeper recipients from unemployment figures by the ABS even where these workers have been stood down with recent remarks by the Treasurer noting that 5.5m workers were benefitting from these payments. Other measures of labour market health such as monthly hours worked highlight underlying weakness during April with an 8% decline compared to 2019. Recovery from any recession can be a mixed endeavour. In the early 80s it took almost 3 years to regain the jobs lost and almost 4 years in the 90s recession. We may require further government support including extending Jobkeeper and Jobseeker initiatives to foster a faster recovery.

Inflation

Headline inflation for the March quarter surprised expectations at 2.2% Y/Y, 0.3% Q/Q (consensus: 0.15%). Key drivers included the impact of the drought and changes to subsidies for pharmaceutical products. However, that strength appears unlikely to persist. Corelogic monthly data highlights a collapse in rent yields during April with a -0.6% move (an important contributor to inflation). Lower average oil prices will affect the whole quarter rather than the collapse from early-March. Lastly a weak jobs market suggests limited wage inflation. Taken together we are likely to see weaker inflation over the next year.

Economic growth

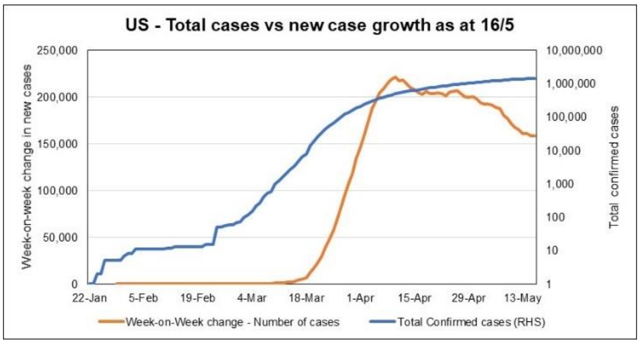
The Westpac-MI Leading Index slipped to -2.47% for March in February suggesting a sharper decline in growth over the next 3-9 months. This has been supported in the RBA *Statement on Monetary Policy* which anticipates -6% growth for calendar year 2020 before a 6% recovery in 2021.

United States

The coronavirus outbreak in addition to the shock to energy prices sees the US economy now at recessionary levels with Q1 GDP contracting 4.8% Q/Q. Government spending and monetary policy will help recover from this period, and, given their scale should help in avoiding a prolonged economic downturn.

Coronavirus outbreak and policy response

9. Total US cases vs 7-day change (Jan-20 to May-20)



In the US we saw substantial growth in coronavirus cases continue to over 1.47m **confirmed** and over 86,000 deaths as at 16 May. However, as we can see above the **7-day change in new cases** has continued to fall from a peak of over 221k new cases a week to 158k new cases as at 16 May. The official response has been more uncoordinated than other countries. At the time of writing, different US states are proceeding at their own paces to ease lockdown measures. The picture has been complicated further by substantial anti-lockdown protests in several US States posing a real challenge to authorities. While case growth has been slowing it remains relatively high with concern that some States are relaxing prematurely, heightening the risk of subsequent waves of new cases. This will be a point we follow closely. Any new series of shutdowns or new waves of infection pose a material economic challenge in getting normal consumption and business activity to resume.

The Federal Reserve has also begun purchasing corporate bonds via the US Treasury stabilising corporate financing costs and supporting credit market stability.

US politicians are actively debating further stimulus with State governments likely targets. This follows collapses in state government revenues with the goal here to stabilise the states and prevent further job losses from budget cuts particularly in essential services such as health care. A new $3tn stimulus bill has been passed in Congress which will if legislated alleviate these concerns and include further direct payments to households. As of early May, US fiscal policy accounts for $US2.9tn or 14% of GDP according to remarks by Fed Chairman Powell. Estimates by Goldman Sachs suggest US fiscal stimulus will more than offset the hit to worker incomes in aggregate. This will be borne out in the weeks ahead by upcoming data releases. If this plays out however it adds support to the case for a nearer-term recovery (and shorter recession duration).

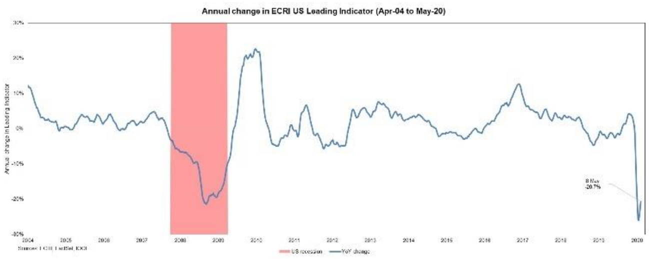
Politics update

Joe Biden will be the Democrat Presidential Candidate in November this year. As we highlighted last month he appears to be seen as a "safer" candidate by markets given his moderate political stance and years of experience at the highest levels of government. We continue to monitor this space as it may contribute to market volatility later this year depending on how the situation evolves. Arguably his ascension has been another factor contributing to stronger US markets given it removes the prospect of more extreme, "anti-business" policies such as those of Bernie Sanders.

Economic growth and business sentiment

The Markit Composite PMI which fell to 27 in April, down from 40.9 in March (readings below 50 point to contracting economic activity). This confirms what we are seeing in other datasets and reflects the impact of a full month of harsher lockdown measures on economic growth.

10. US Leading Indicator YoY vs US recessions (Apr-04 to May-20)



In chart 10 we track the annual change of the ECRI Leading Economic Index. The latest reading of -20.7% is consistent with recessionary levels. This is one of the factors we drew upon in making our recession assessment in recent months. Another is the sharp rise in initial jobless claims with over 36m recorded since mid-March. Continued jobless claims are at 22.8m pointing to a sizeable uptick in unemployment partly reflected in the unemployment rate at 14.7%. However, the bottoming of the ECRI indicator suggests some short-term recovery in economic growth is underway with 3 consecutive weeks of consecutive improvement. We will see in the weeks ahead if other data confirms this as an inflection point justifying the rally in markets since 23 March.

China

Judging by official estimates the coronavirus outbreak has been brought under control. Economic recovery has begun after a record fall in economic growth for the March quarter and renewed calls for fiscal stimulus persist to offset weaker external demand.

Coronavirus outbreak and policy response

While the coronavirus outbreak has been largely contained according to official reports with negligible growth, we are still seeing renewed calls for more proactive fiscal policy. The annual National People's Congress will begin in late May and is expected to see further stimulus measures announced. These include a higher fiscal deficit target and additional corporate tax cuts. Missing in this piece is perhaps a deeper discussion of the personal tax and social security system and the arguable need for reform there given China is substantially more regressive than we see elsewhere. At present this appears to be a moot point even though it would help the country on its path to adjusting to a higher mix of consumption and weaning itself off the reliance on higher debt and state capitalism.

Business activity and sentiment

The Caixin China Services PMI rose to 44.4 in April, up from 43 in March and a sign of continued recovery from the record low February result of 26.5, the first recorded contraction for services activity since the survey began 14 years ago. The coronavirus outbreak continued to weigh on business performance with new export orders falling at the second-quickest pace on record. In addition, the labour market remained under pressure with further falls in employment. On the positive side was an ongoing increase in business confidence over the 12-month outlook which rose to a three-month high despite this backdrop suggesting businesses are seeing much of the disruption as temporary in nature.

The Manufacturing PMI slipped to a slightly contractionary reading of 49.4, down from 50.1 in March. Total new business contracted slightly largely due to weaker foreign demand with new export orders falling at the steepest rate since December 2008. The business outlook for the next 12 months slipped to a 4-month low as the weak external picture forced reassessment by producers.

The combination of results saw the Chinese Composite PMI rise to 47.6 in April, up from 46.7 in March. However, the outlook as discussed in the individual sub-components suggests more stimulus is required.

Economic growth

The Chinese economy fell by 6.8% during the March quarter (consensus: 6.5%) confirming the depth of the coronavirus-induced damage and slightly surprising analyst expectations. Industrial output was better-than-expected with a -1.1% fall over the year whilst fixed asset investment fell 16.1%. Per capita real disposable income also fell by 3.9% for the year to March suggesting a weaker domestic consumer in the first quarter which was reflected in a 15.8% decline in retail sales.

There have been some signs of a bounce back with auto sales in China growing 4.4% year-on-year to April led by strong commercial vehicle demand (growing over 30%). We also note strong growth in the M2 money supply reflecting a bounce back in credit growth which should also support the economic recovery in the near term. M2 grew 11.1% year-on-year to April (consensus: 10.3%).

A challenging backdrop for a Chinese recovery will be on the international front with strong export growth (3.5% year-on year vs consensus -16.6%) in April arguably attributable to a backlog in orders that might not persist given the challenges elsewhere globally as discussed in the PMI surveys earlier in this piece.

Lastly, we note the concerning tone of rhetoric between Chinese and US authorities in particularly but also more broadly the defensive position being taken by China on calls for a coronavirus inquiry. Australia has already been a victim on this front with Chinese authorities considering punitive tariffs on barley exports as well as suspending meat exports from several Australian abattoirs. Ostensibly these measures are for other reasons, but the timing appears suspect. We will continue following this space as a drive to higher trade tensions will not only pose challenges for China but also the rest of the world.

Europe

The coronavirus outbreak appears to be on the mend however that belies the long road to recovery ahead for Europe. We have seen new monetary policy responses but still mixed news on the fiscal front. Growth conditions were already weak heading into this period and a European recession is now likely underway with concerns that this trough will be worse than the experience during the global financial crisis.

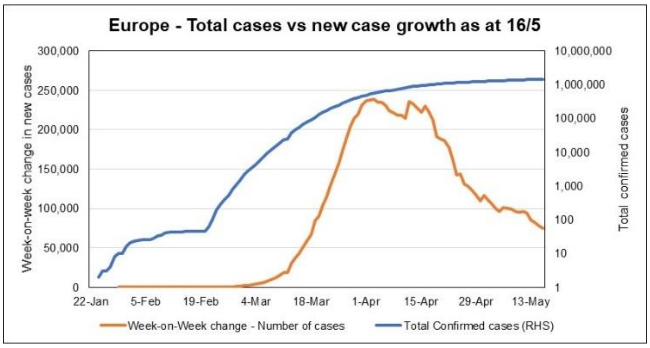
United Kingdom

The UK has continued to struggle to get its outbreak under control with over 241,000 confirmed cases and over 34,000 deaths as of 16 May suggesting a death rate of 14.4% up there with some of worst-affected countries. PM Johnson himself had a concerning brush with the virus but has since recovered. The UK trend in new cases has improved since peaking in early April but remains high relative to other European countries suggesting more caution is advised there in unwinding lockdown restrictions and a longer delay in resuming economic activity.

On the positive side, government support is stronger than elsewhere in Europe with Chancellor Sunak announcing that the government wage subsidy scheme will be extended into October with some 7.5m workers now covered, He also stated the government plans to get companies to share the costs from August. The UK has seen strong investor support for new bond issuance alleviating any concerns about funding its larger deficit with twice the volume of the previous record British debt syndication as it sold a new 10-year bond with a yield of 0.3539%.

Coronavirus update

11. Total Europe (incl UK) cases vs 7-day change as at 8 April



Europe (including UK) has been one of the major regions seeing an outbreak over the course of the March quarter. The above chart shows total **confirmed cases** of over 1.44m and pleasingly the **7-day change in cases** has declined substantially to the point where only 75,000 cases were added in the 7 days to 16 May vs a peak of 238,000 new cases each week in early April. This is welcome news especially as several countries including Austria began to relax restrictions during the month. Concerns about second waves will play a part in lagging this process with Spain, a country reliant on tourism revenue, imposing a new 14-day quarantine restriction on tourists even as the country starts to relax its own restrictions.

Policy

The European Central Bank (ECB) left its interest rate settings unchanged as expected during April. It did however announce more attractive rates for its targeted long-term financing operations designed to encourage banks to continue lending by offering a more attractive spread between the cost of the funds and what they charge end-borrowers. This will be offset however by pressure on bank balance sheets from rising bad debts and a lack of demand for more credit. In addition, and controversially there was a new non-targeted lending facility announced that would expire by September 2021. The controversy here is that European banks could use this facility (as they did in the past) in an arbitrage to finance government deficits by purchasing short-term government debt. If the cost of these funds is lower than the potential return on short-term debt it could be an attractive trade and also an indirect way of the ECB financing government deficits. We also saw a controversial German court ruling against its bond purchasing activity that ruled parts of the program were illegal which we continue to follow to see if it leads to any material policy shifts. We note that further news flow on this could contribute to market volatility.

Fiscal policy at present remains inconclusive at a regional level. There are tentative plans by the European Commission to have a €100bn loan package jointly funded by countries that could be extended to businesses to prevent any further staff redundancies. This remains an area to follow as further delays and scattered fiscal responses will likely see a weaker recovery for Europe.

Business Activity and Economic growth

European PMI surveys continued to weaken substantially. The IHS Markit Eurozone Composite fell to 13.6 in April, down from 29.7 in March, while the Manufacturing PMI fell to 33.4, down from 44.5 in March. The composite result implies a -7.5% fall in GDP according to IHS Markit economists. This follows a -2.7% y/y decline for the March quarter suggesting this this will be an even worse economic recession than the global financial crisis.

Company news (best and worst performers during the month of April 2020)

Ap Eagers (+69.6%)

AP Eagers (APE) experienced a recovery from the drawdown in March as the flattening curve eased investor fears of a protracted outbreak. A dire economic outlook in conjunction with a lower discretionary spend outlook is expected to impact APE's earnings significantly, however APE have taken several measures in response: a workforce reduction of 1,200 roles, saving $6m per month, a 50% reduction in remuneration packages for all senior executives, and the successful negotiation with landlords to secure a 50% reduction in rent. These will stabilise the cost base and reduce the near-term business risks of the lockdown period and were well-received by the market.

Afterpay Ltd (+66%)

Afterpay (APT) rebounded significantly from the lows reached in March after a business update showed that APT's earnings remained largely sheltered from the COVID-19 outbreak and investors regained confidence in the stock. COVID-19 sparked a move from physical to online shopping, making March-20 the 3rd largest sales month on record (behind Nov-19 and Dec-19) for APT, while other metrics remained strong across the board: underlying sales increased 105% YTD (compared to the prior comparison period (pcp)) to $7.3bn, 3Q20 underlying sales recorded an increase of 97% pcp, while Net Transaction Margin (2%) remained steady. The mature Australian market continued to show a 40% improvement in underlying sales for 3Q20 while the US saw a 263% increase. 88% of APTs transactions during March were online, showing significant exposure to online and benefitting from the sudden change in lifestyle brought about by lockdown restrictions. APT continues to have a strong balance sheet and does not see the need for a capital raise with the firm raising capital several months prior to fund future growth.

Ooh!Media Ltd (+61.7%)

Ooh!Media (OML) rallied during April on little news, however the continued flattening of the curve and an increasingly positive outlook for lockdown restrictions to be eased seemed to be the main contributors for OML over April. OML as an outdoor advertising business stands to benefit if lockdown restrictions are ended earlier than previously expected. In addition, the firm had taken survival risk off the table by raising capital during March albeit at dilutionary prices that contributed to weakness during the quarter. Rival Here, There & Everywhere (HTE) also increased its stake in OML to 4.2% in April, providing a sign of confidence in its outlook post-outbreak while also fuelling speculation of a possible takeover.

Metcash Ltd (-21.3%)

Metcash (MTS) benefited from COVID-19 and performed well over March from consumer stockpiling and panic buying, however, the market reacted negatively to MTS's $330m capital raising (at $2.80 per share) which was seen as opportunistic as MTS did not face liquidity concerns like other businesses hit hard by COVID-19. The capital raise, in conjunction with an additional $180m of short term debt from existing facilities and cash of $342m, provides MTS with a war chest of $852m which is likely to be used for an acquisition in the near term, however the market remains unconvinced by MTS's past acquisition track record and the ability of any bolt-on acquisitions to provide meaningful margin uplift.

Fisher & Paykel Healthcare (-12.3%)

Fisher & Paykel Healthcare (FPH) retracted from its highs after a spectacular rally in March. Acting as a hedge for COVID-19 with increased orders for its ventilators, FPH's share price faltered as the market became increasingly optimistic about the flattening curve and revised assumptions on FPH's future ventilator sales and earnings. FPH still trades on a hefty premium of 49.5x forward earnings.

Avita Medical Ltd (-8.8%)

Avita Medical (AVH) also declined on little news over April. An announcement was made to redomicile the company from Australia to the United States, which will involve a physical move of staff and office, which is projected to save the company $400,000 annually and assist the company in rolling out its burns-wound treatment currently in the early commercialisation phase.

Sources: ASX company announcements, Bloomberg, Fund manager disclosures, *Australian Financial Review*, *Sydney Morning Herald*

Movers and Shakers for month of April 2020

ASX Code	Company Name	Closing price ($)	Month ago, close ($)	Month Δ (%)	Quarter ago close ($)	Quarter Δ (%)	Year ago, close ($)	Year Δ (%)
APE	Ap Eagers Ltd	5.14	3.03	69.6	8.92	-42.4	8.68	-40.8
APT	Afterpay Ltd	31.20	18.80	66.0	38.55	-19.1	25.59	21.9
OML	Ooh!Media Ltd	1.04	0.64	61.7	2.77	-62.7	3.07	-66.3
PRN	Perenti Global Ltd	0.91	0.61	49.2	1.54	-40.7	1.64	-44.5
SCG	Scentre Group	2.33	1.57	48.9	3.86	-39.6	3.82	-39.0
BLD	Boral Ltd	3.02	2.05	47.3	4.98	-39.4	4.85	-37.7
WOR	Worley Ltd	9.00	6.15	46.3	15.24	-40.9	14.32	-37.2
CTD	Corporate Travel Management	12.70	8.72	45.6	17.81	-28.7	26.65	-52.3
STO	Santos Ltd	4.94	3.42	44.4	8.69	-43.2	7.19	-31.3
VCX	Vicinity Centres	1.49	1.04	44.0	2.54	-41.3	2.54	-41.3

Source: Bloomberg, IOOF

ASX Code	Company Name	Closing price ($)	Month ago, close ($)	Month Δ (%)	Quarter ago close ($)	Quarter Δ (%)	Year ago close ($)	Year Δ (%)
MTS	Metcash Ltd	2.49	3.15	-21.0	2.62	-5.0	2.87	-13.2
FPH	Fisher & Paykel Healthcare	25.30	28.84	-12.3	22.33	13.3	14.98	68.9
AVH	Avita Medical Ltd	0.47	0.51	-8.8	0.68	-31.1	0.39	20.8
IAG	Insurance Australia Group	5.78	6.20	-6.8	7.08	-18.4	7.88	-26.6
MMS	Mcmillan Shakespeare Ltd	6.67	7.11	-6.2	12.89	-48.3	13.27	-49.7
HVN	Harvey Norman Holdings Ltd	2.78	2.95	-5.8	4.23	-34.3	4.07	-31.7
WHC	Whitehaven Coal Ltd	1.82	1.93	-5.5	2.51	-27.5	4.20	-56.7
RMD	Resmed Inc – CDI	23.40	24.69	-5.2	25.05	-6.6	14.67	59.5
NHF	NIB Holdings Ltd	4.92	5.13	-4.1	5.41	-9.1	5.75	-14.4
UMG	United Malt Grp Ltd	4.26	4.40	-3.2	N/A	N/A	N/A	N/A

Source: Bloomberg, IOOF

Long-term asset class performance to April 2020 (Total returns in AUD)

Asset class	1-mth	3-mth	6-mth	Annualised 1-yr	3-yr	5-yr	7-yr	10-yr	15-yr	20-yr
Australian equities (S&P/ASX 200)	8.8%	-20.3%	-15.5%	-9.1%	1.9%	3.5%	5.4%	6.0%	6.8%	7.4%
Australian equities - Mid caps	16.1%	-19.0%	-13.0%	-8.7%	2.9%	6.7%	9.1%	7.3%	7.1%	9.5%
Australian equities - Small caps	14.3%	-19.0%	-15.2%	-13.3%	3.2%	4.9%	4.6%	2.5%	4.0%	5.1%
Australian equities - Micro caps	25.8%	-25.2%	-24.8%	-13.4%	1.0%	4.5%	2.7%	-0.7%	3.3%	#N/A
International equities	3.6%	-9.6%	-2.1%	3.5%	10.0%	9.0%	14.4%	11.7%	7.5%	3.3%
International equities (Hedged)	10.0%	-12.8%	-8.4%	-5.8%	4.5%	5.6%	9.0%	10.0%	8.0%	#N/A
International equities - Small caps	6.1%	-16.2%	-10.5%	-7.7%	4.1%	6.4%	12.5%	10.6%	7.8%	6.7%
Emerging Markets equities	2.0%	-10.6%	-5.8%	-5.4%	5.1%	3.7%	7.6%	5.1%	7.5%	#N/A
Australian REITs	13.7%	-29.8%	-27.0%	-20.3%	-1.8%	3.0%	5.9%	8.1%	3.1%	5.9%
Global REITs	0.1%	-22.4%	-20.1%	-11.3%	2.5%	3.4%	7.6%	8.6%	5.5%	#N/A
Global REITs (Hedged)	6.1%	-25.2%	-25.1%	-19.0%	-2.3%	0.2%	2.7%	6.9%	5.4%	#N/A
Global Infrastructure	1.0%	-15.0%	-8.0%	0.4%	7.9%	7.9%	12.1%	11.7%	#N/A	#N/A
Global Infrastructure (Hedged)	6.8%	-16.5%	-12.0%	-6.4%	3.5%	5.1%	7.5%	10.5%	#N/A	#N/A
Trend following	-7.7%	7.8%	9.9%	14.6%	5.1%	1.7%	9.1%	4.9%	5.2%	5.3%
Australian bonds	-0.1%	0.6%	2.1%	6.4%	5.5%	4.5%	4.8%	5.9%	5.8%	6.1%
Australian bonds - government	-0.2%	0.8%	2.3%	7.0%	5.7%	4.6%	4.9%	5.9%	5.9%	6.1%
Australian bonds – corporate	0.1%	-0.8%	0.7%	4.4%	4.8%	4.4%	4.9%	5.9%	6.0%	6.3%
Australian bonds - floating rate	0.8%	0.0%	0.5%	1.6%	2.5%	2.7%	3.0%	3.9%	4.4%	4.8%
Global bonds (Hedged)	1.5%	1.0%	2.3%	7.2%	4.6%	4.3%	4.8%	6.2%	6.5%	7.2%
Global bonds - government (Hedged)	0.8%	2.1%	3.1%	8.3%	5.0%	4.5%	5.0%	6.2%	6.5%	#N/A
Global bonds - corporate (Hedged)	4.4%	-2.4%	-0.1%	5.7%	4.4%	4.5%	4.9%	6.8%	6.7%	#N/A
Global bonds - High Yield (Hedged)	4.1%	-12.3%	-10.0%	-8.3%	-0.2%	3.2%	4.3%	7.4%	8.2%	#N/A
Emerging Market bonds (Hedged)	2.3%	-14.0%	-11.4%	-6.6%	-0.3%	2.8%	3.1%	6.5%	7.7%	9.6%
Cash (AUD)	0.0%	0.2%	0.5%	1.1%	1.6%	1.8%	2.1%	2.8%	3.8%	4.2%

Sources: Bloomberg, IOOF calculations

* AUD total returns as at Apr-20 assuming reinvestment of dividends
** Returns reflect index performance excluding any fees; Actual ETF/managed fund performance will vary due to both fees and tracking error.

Appendix – Index sources

Asset class	Index
Australian equities (S&P/ASX 200)	S&P/ASX 200 Accumulation Index
Australian equities - Mid caps	S&P/ASX Accumulation Midcap 50 Index
Australian equities - Small caps	S&P/ASX Accumulation Small Cap Ordinaries Index
Australian equities - Micro caps	S&P/ASX Emerging Companies Total Return Index
International equities	MSCI World ex Australia Net Total Return (in AUD)
International equities (Hedged)	MSCI World ex Australia Hedged AUD Net Total Return Index
International equities - Small caps	MSCI World Small Cap Net Total Return USD Index (in AUD)
Emerging Markets equities	MSCI Emerging Markets EM Net Total Return AUD Index
Australian REITs	S&P/ASX 200 A-REIT Accumulation Index
Global REITs	FTSE EPRA/NAREIT Developed Index Net Total Return (in AUD)
Global REITs (Hedged)	FTSE EPRA/NAREIT Developed Index Net Total Return (Hedged to AUD)
Global Infrastructure	FTSE Global Core Infrastructure 50/50 Net Total Return in AUD
Global Infrastructure (Hedged)	FTSE Global Core Infrastructure 50/50 100% Hedged to AUD Net Tax Index
Trend following	SGI Cross Asset Trend Following Index (AUD)
Australian bonds	Bloomberg AusBond Composite 0+ Yr Index
Australian bonds - government	Bloomberg AusBond Govt 0+ Yr Index
Australian bonds – corporate	Bloomberg AusBond Credit 0+ Yr Index
Australian bonds - floating rate	Bloomberg AusBond Credit FRN 0+ Yr Index
Global bonds (Hedged)	Bloomberg Barclays Global Aggregate Total Return Index Value Hedged AUD
Global bonds - government (Hedged)	Bloomberg Barclays Global Aggregate Treasuries Total Return Index Hedged AUD
Global bonds - corporate (Hedged)	Bloomberg Barclays Global Aggregate Corporate Total Return Index Hedged AUD
Global bonds - High Yield (Hedged)	Bloomberg Barclays Global High Yield Total Return Index Hedged AUD
Emerging Market bonds (Hedged)	J.P. Morgan EMBI Global Core Hedged Index Level AUD
Cash (AUD)	Bloomberg AusBond Bank Bill Index

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I, Cameron Curko, hereby certify that all the views expressed in this report accurately reflect my personal views about the subject investment theme and/or company securities. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

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