Monthly Economic Wrap

October 2020

Summary

- Market performance was mixed during October as developed markets including the US struggled.
- Coronavirus case growth accelerated especially in Europe and also in the USA. Both regions are seeing hospitalisations and fatalities on the rise, but these remain below prior peaks.
- The surge in cases has prompted new lockdown measures across Europe of varying levels of severity. We believe a measured approach will prevail with Germany an example of this.
- Joe Biden, the Democrat nominee has defeated incumbent President Trump in the US Presidential Election. Results in the Congressional races were tighter with a Republican Senate a likely outcome that would stifle Biden's legislative agenda.
- Promising vaccine trial results by a Pfizer joint-venture in November triggered dispersion in financial markets on the prospects of a viable solution to the pandemic and stronger economic growth.

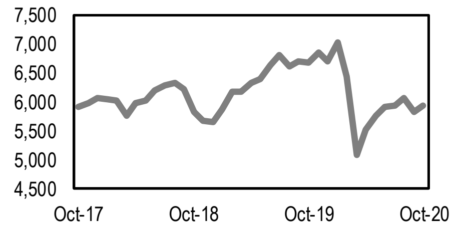
Markets

- Risk assets including equities and high-yield bonds were broadly positive however coronavirus fears weighed on global equity markets (see page 11).
- Australian equities outperformed vs global peers (see chart 2) while value stocks continued to falter (see chart 3). Emerging market strength has become more pronounced in recent months (see chart 4) after a strong month for Chinese equities, bolstered by the prospect of a Biden win and strong economic data.

Key economic news

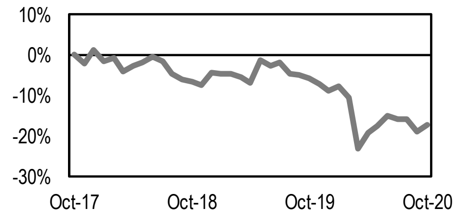
- The 2021 Australian Federal Budget targeted a business-led recovery from the recession caused by coronavirus lockdowns.
- The RBA launched a new series of measures to promote growth and weaken the Australian dollar.

1. S&P/ASX 200 Price Index



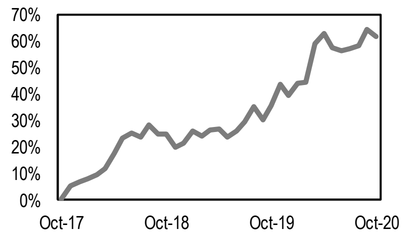
Source: Bloomberg, IOOF

2. ASX200 vs All-World, US$ terms



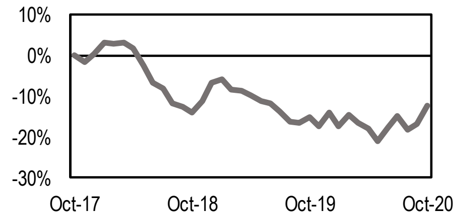
Source: Bloomberg, IOOF

3. Australia – Growth vs Value stocks



Source: Bloomberg, IOOF

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



Sources: Bloomberg, MSCI, S&P, IOOF

Key company news

Acquisition interest saw strong returns for Coca Cola Amatil, the target of a bid by Coca Cola European Partners while Link Administration Holdings also saw takeover interest with bidding by a Pacific Equity Partners and Carlyle Group consortium of investors. Mesoblast shares struggled after its disclosure that the US FDA had not approved its remestemcel-L treatment for paediatric patients dealing with steroid-refractory acute graft versus host disease (SR-aGVHD) with a class action by shareholders also weighing on the business.

Sector and stock returns

ASX/S&P 200 Sectors (GICS)				
	Monthly	**% Δ**	**Quarterly**	**% Δ**
▲	Consumer Discretionary	1.33	Consumer Discretionary	6.32
▲	Consumer Staples	4.75	Consumer Staples	-3.57
▼	Energy	-0.84	Energy	-9.96
▲	Financials ex Property	6.27	Financials ex Property	0.07
▲	Financials	6.27	Financials	0.07
▲	Health Care	1.17	Health Care	5.60
▼	Industrials	-3.92	Industrials	-0.45
▲	IT	8.96	IT	16.91
▼	Materials	-1.23	Materials	-4.62
▼	Property Trusts	-0.37	Property Trusts	5.60
▼	Telecommunications	-0.55	Telecommunications	-7.98
▼	Utilities	-1.49	Utilities	-10.70

Source: Bloomberg, IOOF

Best and Worst S&P/ASX 200 Performers			
Top five stocks		**Bottom five stocks**	
Monthly			
Coca-Cola Amatil Ltd	+30.8%	Mesoblast Ltd	-39.8%
Link Administration Holdings	+27.9%	Flight Centre Travel Group Ltd	-18.2%
Virgin Money UK Plc – CDI	+26.6%	Austal Ltd	-17.4%
Challenger Ltd	+25.6%	Regis Resources Ltd	-17.2%
Sims Ltd	+25.5%	Megaport Ltd	-16.3%
Quarterly			
Corporate Travel Group	+72.2%	Resolute Mining	-55.5%
ARB Corporation	+60.3%	IOOF Holdings Ltd	-54.7%
Nine Entertainment Co. Holdings Ltd	+53.5%	Bravura Solutions	-52.7%
Reliance Worldwide	+53.4%	The a2 Milk Company	-51.7%
Coca-Cola Amatil	+52.0%	Gold Road Resources Ltd	-48.0%

Source: Bloomberg, IOOF

Share Markets, October 2020

	Australian Indices	Oct-20 Price	1M return (%)	Jul-20 Price	3M return (%)
▲	S&P/ASX 200	5928	1.92	5928	0.00
▲	All Ordinaries	6133	2.06	6058	1.24
▲	Small Ordinaries	2736	0.34	2634	3.90
US Indices					
▼	S&P 500	3270	-2.77	3271	-0.04
▼	Dow Jones	26502	-4.61	26428	0.28
▼	Nasdaq	10912	-2.29	10745	1.55
Asia Pacific Indices					
▲	Hang Seng	24107	2.76	24595	-1.98
▼	Nikkei 225	22977	-0.90	21710	5.84
UK & Europe Indices					
▼	FTSE 100	5577	-4.92	5898	-5.43
▼	CAC40	4594	-4.36	4784	-3.96
▼	DAX Index	11556	-9.44	12313	-6.15

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

Chinese equities were a notable source of strength during October with the Hang Seng Index one of the few in positive territory. Emerging markets more broadly benefited from expectations of more stable trade relations under a Biden presidency.

For developed markets price action was driven by:

- increased concerns over escalation in coronavirus cases in both Europe and the US. New lockdown restrictions with businesses consequently forced to shut down weighed especially on European indices with the German DAX Index falling 9.4%.
- In the US uncertainty over the presidential election and a lack of progress on further fiscal stimulus weighed on the market.

	1-mth	3-mth	6-mth	1-yr	3-yr	5-yr
MSCI World	-1.1%	2.0%	5.0%	2.4%	9.1%	8.5%
Value	-0.7%	0.2%	-2.9%	-14.4%	0.6%	3.2%
Value-Weighted	-0.2%	1.2%	-0.3%	-10.9%	2.7%	5.1%
Momentum	-1.5%	2.4%	10.3%	15.5%	15.7%	14.3%
Growth	-1.2%	2.9%	11.8%	20.3%	17.5%	13.5%
Quality	-1.6%	2.3%	5.2%	12.6%	15.8%	12.6%
Low volatility	-0.5%	-0.2%	-2.2%	-6.4%	7.5%	#N/A
Equal weight	2.6%	2.6%	11.2%	-7.4%	4.7%	8.6%
Small caps	2.1%	5.3%	9.7%	-1.9%	4.8%	7.1%

Source: Bloomberg, IOOF, MSCI

At a style level, October showed some signs of a rotation-trade away from Momentum and Quality towards both value and small caps which showed strong relative outperformance especially the latter. Stronger economic growth expectations in the US were a factor following positive economic data. This weakened the duration trade that had arguably benefitted growth stock valuations. Given US dominance in global and growth-style indices, this drove overall benchmark returns lower.

Australian equity markets

The Australian market defied trends in global equities with a 1.9% rise for the benchmark S&P/ASX 200 Price Index. At a sector level, the benchmark was driven higher by the banking (up 6.3%) and technology sectors (up 9.0%). The Budget was well-received as a sign that the Coalition was committed to support the economy. This supported bank stocks in anticipation of an earlier economic recovery.

	1-mth	3-mth	6-mth	1-yr	3-yr	5-yr
MSCI Australia	2.1%	0.5%	7.3%	-10.9%	3.4%	6.4%
Value	3.0%	-0.6%	8.1%	-17.7%	-3.6%	1.7%
Value-Weighted	3.2%	0.3%	7.0%	-17.1%	-0.3%	4.3%
Momentum	2.4%	1.6%	14.5%	4.0%	7.7%	10.2%
Growth	-1.2%	3.0%	12.0%	21.2%	18.0%	14.0%
Quality	-2.0%	2.4%	4.5%	12.2%	15.9%	12.6%
Low volatility	1.4%	-1.1%	5.6%	-12.6%	3.0%	6.0%
Equal weight	2.6%	2.6%	11.2%	-7.4%	4.7%	8.6%
Small caps	0.5%	4.7%	15.1%	-2.4%	4.6%	8.6%

Source: Bloomberg, IOOF, MSCI

At a style level, Australia differed slightly to global share markets. Small caps underperformed in October, but this view needs to acknowledge the outperformance they enjoyed since the March lows with smaller Australian companies rerating faster than global peers. Australian small caps beat large caps in the year to October in contrast to the global trend.

Geopolitical risks also reappeared following month-end in stocks with exposure to Chinese exports such as Treasury Wine Estates. The wine producer, maker of brands such as Penfolds, saw itself the subject of anti-dumping investigation by Chinese authorities with potential tariff hikes as a result. It remains unclear how much these measures are legitimate as opposed to punishment over strained Australian-Chinese relations regarding Hong Kong and Chinese handling of the coronavirus pandemic. The result is a net negative regardless. More crucial exports, particularly iron ore have remained unaffected to date.

Fixed Income

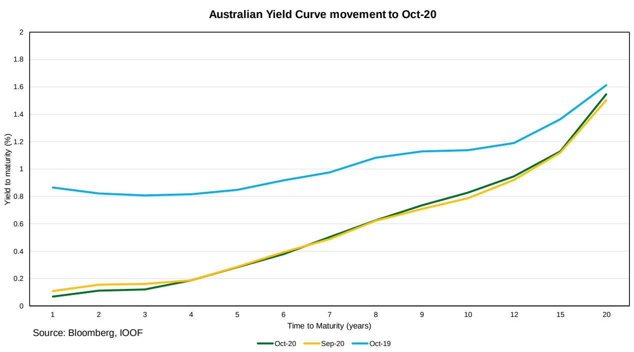
	Fixed Income	Oct-20 yield	1M mvt (bps)	Jul-20 yield	3M mvt (bps)
	Australian Cash rate	0.25	--	0.25	--
▲	10-year Bond Yield	0.83	0.04	0.82	0.01
▼	3-year Bond Yield	0.12	-0.04	0.27	-0.15
▼	90 Day Bank Bill yield	0.06	-0.03	0.11	-0.05
▲	US 10-year Bond Yield	0.87	0.19	0.53	0.35
▲	US 3-year Bond Yield	0.20	0.04	0.11	0.08
▼	US Investment Grade spread	1.41	-0.11	1.46	-0.05
▼	US High Yield spread	4.91	-0.17	4.84	0.07

Source: Bloomberg, IOOF

Australian bond market

The Australian yield curve steepened slightly during October but was largely unchanged across most of the term structure (different years of maturity).

5. Australian yield curve changes to October 2020



This reflected increased speculation of another RBA rate cut which was subsequently delivered on 3 November, leaving the cash rate at 0.10%. In addition, the RBA announced additional bond purchases to the tune of $100bn in a bid to lower longer-term borrowing costs and separately purchases would be made to maintain its (now) lower target for the 3-year bond yield of 0.1%.

Who wins from the latest RBA changes?

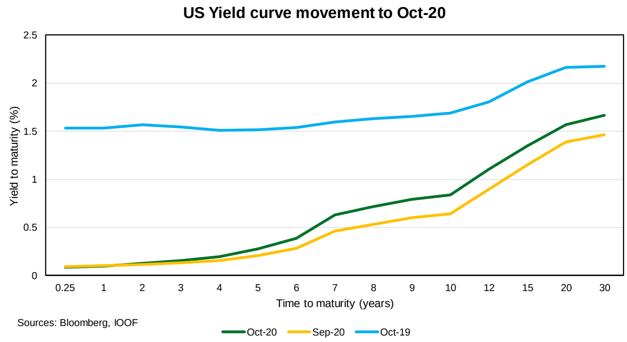
- State and Federal governments will gain from lower borrowing costs which will support the sizeable budget deficits in the years ahead.
- Borrowers benefit, to the extent that banks, pass on lower mortgage rates (this has mainly been done by changing fixed rate offers).
- Australian exporters should benefit, is the theory, from a lower Australian dollar as the RBA policy removes bonds and adds dollars from markets while the rate cut makes our dollar less attractive to speculators (because they now earn a lower interest rate on it).

As noted in prior updates, these moves exacerbate the pain for savers with shorter-term cash accounts and even some term deposits offering negative real (after-inflation) interest rates.

US bond market

US Treasury yields rose during October particularly for longer-dated bonds. This reflected strong US economic data with solid labour market reports and continued strength in the manufacturing sector despite a rise in coronavirus cases as the country headed into winter (when economic growth is typically weaker).

6. US yield curve movement to October 2020



US credit spreads fell during the month in contrast with the weakness seen in equity markets. This reflects continued improvement in economic data notwithstanding additional coronavirus cases with less concern over corporate bankruptcy risk by investors.

We expect the surge in coronavirus cases to weigh on both the growth and inflation outlook in the near term, supporting bond returns. However new developments on the vaccine front by a Pfizer joint venture suggest we could be closer to the end of the pandemic. Further news flow here has the potential to trigger a violent market reaction as it did on 9 November.

Currencies

	Currencies	Oct-20 Price	1M return (%)	Jul-20 Price	3M return (%)
▼	$A vs $US	70.28	-1.87	71.43	-1.61
▼	$A vs GBP	54.27	-2.11	54.59	-0.59
▼	$A vs YEN	73.56	-2.63	75.59	-2.68
▼	$A vs EUR	60.35	-1.24	60.65	-0.49
▼	$A vs $NZ	106.25	-1.86	107.75	-1.39
▼	$A TWI	59.50	-1.98	61.90	-3.88
▲	$US vs EUR	85.86	0.63	84.90	1.13
▼	$US vs CNY	6.69	-1.46	6.98	-4.07
▼	$US vs GBP	77.22	-0.21	76.42	1.05
▼	$US vs JPY	104.66	-0.78	105.83	-1.11
▼	$US vs CHF	91.70	-0.42	91.29	0.45
▲	US Dollar Index	94.04	0.16	93.35	0.74
▼	EM Currency Index	54.29	-0.42	55.60	-2.36

Source: Bloomberg, IOOF

The Australian dollar (AUD) fell 1.9% against the US Dollar (USD) during October, from USD 0.7162 to USD 0.7028. Drivers included:

- Growth in coronavirus cases in developed markets such as Europe and the US triggered a shift to “risk off” sentiment in currency markets. Such changes adversely affect the Australian dollar which, due to our commodity export exposure, is seen as leveraged on global economic growth. Weaker global growth expectations, all else being equal, weakens our currency.
- Another factor was the extent that the market had “priced in” expectations of RBA policy prior to their announcement in early November. Speculation was rife amongst market observers over what the RBA would do exactly with their policies broadly in line with market consensus.

Conversely the US Dollar was supported by a flight to safety which saw the DXY index rise. Separately we note since month-end with both the vaccine news and Biden election victory, a stronger global growth scenario was expected prompting a month-to-date surge in the AUD of 3% (as of 12 November).

Commodities

	Commodities	Oct-20 Price	1M return (%)	Jul-20 Price	3M return (%)
▲	Aluminium	1854	5.78	1713	8.23
▲	Copper	305	0.49	289	5.43
▲	Nickel	15128	4.32	13797	9.65
▲	Zinc	2515	4.93	2322	8.35
▼	Crude Oil - Brent	37.5	-8.52	43.30	-13.49
▲	Natural Gas	3.35	32.73	1.80	86.44
▼	Coking Coal	129	-1.07	130	-1.07
▲	Thermal Coal	60	4.00	51	19.26
▼	Iron Ore	120.2	-3.06	108.9	10.37
▼	Gold	1880	-0.82	1986	-5.34
▲	Silver	24	0.65	24	-3.36

Source: Bloomberg, IOOF

Oil prices weakened substantially in October driven by expectations of tighter lockdown restrictions in Europe. Some of these had already begun in October for smaller countries such as Ireland. New lockdown measures restrict people’s mobility lowering demand for automotive fuel and crimp what had been a nascent recovery in travel, lowering jet fuel usage. A faster-than-expected return to production from Libyan fields also pressured prices by increasing oil supply.

Natural Gas (an important Australian export) prices surged. This continued their recovery from March and was driven by ongoing speculation over weaker US production with US firms cutting capital spending and on track for production substantially below Winter 2019/20 levels.

Precious metals specifically gold struggled against a stronger real yield (bond yield after inflation) environment following rising US bond yields.

Aluminium prices continued to be supported by demand from China and resilience in global manufacturing with the Markit Global Aluminium Users PMI now at 55.6, its highest since Dec-10. **Iron ore prices** were also supported by Chinese demand, with the Markit Steel PMI also at its highest since Dec-10.

Australia

The FY21 Federal Budget was well-received with consumer and business confidence recovering strongly. RBA policy measures will be supportive of the necessary deficit spending at a State and Federal level while stronger volumes suggest the retail environment (and consumer spending) remain favourable even with the drag of Victorian lockdowns. As noted by the RBA, it likely the economy exited recession with positive growth during the September quarter.

Policy

As mentioned earlier the RBA has cut the cash rate by 0.15% to a record low of 0.1% in line with our remarks for the September quarterly. This move also coincided with a lowering of its target for 3-year government bond yields over the next few years with a return to higher rates only expected with a materially tighter labour market (i.e. unemployment below 5%) and sustained inflation in its target band, an outcome we are some years from realising.

The Jobseeker payment at a lower rate of $715 per fortnight has been extended until March 2021. Initially the coronavirus supplement payment was $550, currently $250 and will fall to $150 for the March quarter. This is supportive for the economy as it supports consumers with a higher tendency to spend.

Business sector

Business sentiment and activity improved into October. According to the NAB Monthly Business Survey, confidence rose to 5 points, its highest since mid-2019 with business conditions entered positive territory for the first time in several months. Further increases in trading and profitability drove the business conditions higher as Victoria exiting lockdown restrictions served as a notable tailwind. However, the employment index continues to suggest pressure on jobs growth in the near term. As noted in our previous update, capacity utilisation below its pre-Covid or long-term average levels suggests the investment spending boom the government was hoping for may take more time to be realised (if it ultimately occurs).

Growth outlook

The Westpac-Melbourne Institute Leading Index rose to -0.48% in September, up from -2.28% in August. Stronger US industrial production, rising hours worked domestically and improvements in consumer confidence were all notable drivers of this recovery. It is expected to improve further in the months ahead following recent stimulus announcements with the bringing forward of personal income tax cuts expected to support consumer spending in Westpac's view.

Inflation

Headline inflation rose 1.6% in the September quarter or 0.7% for the year to September. This was a notable recovery from the deflation in the June quarter which had been driven by lockdown restrictions and the temporary government offer of free childcare.

Results from the NAB Monthly Business Survey suggest subdued inflationary pressures from businesses while wage inflation is also subdued given the backdrop of higher unemployment.

Retail sales

Retail sales for the September quarter showed a marked recovery as consumer spending, supported by stimulus, rose strongly following the lifting of lockdown restrictions. On a volume basis, retail turnover rose 6.5% for the quarter and 4.2% for the year to September. This came against a backdrop of a second wave of cases within Victoria and the need for a severe lockdown particularly in Melbourne. Strong levels of consumer confidence noted in our last update should support consumer spending as will the lifting of Victorian restrictions.

Coronavirus pandemic

Containment of coronavirus cases continued to improve domestically during October and into November. NSW has seen 6 consecutive days of no locally transmitted cases and Victoria 14 consecutive days of no new cases or deaths, a material improvement from the situation in the September quarter. Border restrictions are also being lifted with all States and Territories excluding Western Australia agreeing to reopen their borders to internal travel by Christmas. The government has also announced a prioritisation of the elderly and other vulnerable groups once a coronavirus vaccine becomes more widely available. The focus now is on gradual normalisation of internal economic activity which we expect to continue seeing and acting as an economic tailwind in the months ahead.

United States

Democrat nominee Joe Biden was elected as the 46th President of the United States with incumbent President Trump refusing to concede amidst legal and other challenges to the outcome. The coronavirus pandemic has continued to grow in the US and begun to see lockdown restrictions reappear while economic data has remained broadly positive.

US Elections

On 3 November we saw races for both the Presidency and US Congress. Joe Biden appears likely to have exceeded the 270 Electoral College votes needed to win the election. Races in North Carolina and Georgia remain unclear, but Biden may expand his total votes to over 300 when the voting is finalised. President Trump is contesting the outcome, but we believe the margin of Biden's lead in several close States is large enough that a recount will not materially change the outcome while allegations of electoral fraud remain unsubstantiated.

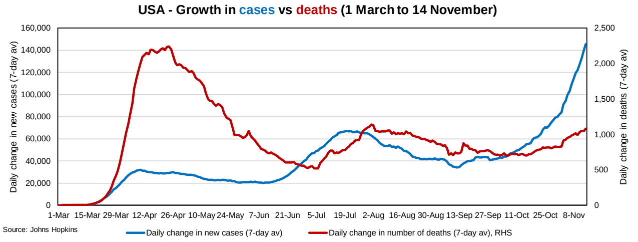
The Democrats have retained control of the US House of Representatives and may still claim the Senate depending on the outcome in Georgia. There the votes were sufficiently close to trigger runoff elections on 5 January 2021 for both Senate seats. If the Democrats were to win both they would be able to control both the Presidency and Congress.

Without Senate control a Biden Presidency would be limited in its ability to deliver campaign promises, assuming a Republican Senate is unwilling to negotiate (as it was in the later years of the Obama Presidency). He will still be able, however, to promote better diplomatic relations relative to President Trump's unilateral trade actions and trade war saga. He would also via appointments to key Federal agencies be able to promote a stronger environmental protection agenda and potentially tougher corporate regulation. It remains unclear exactly if or when President Trump will concede the defeat.

Coronavirus outbreak

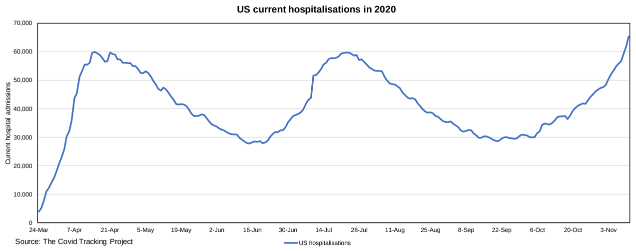
In chart 7 we can see a sharp rise in US coronavirus cases and coronavirus deaths since bottoming around 13 September. This case growth has been led by States such as Illinois and Texas. This has prompted at a State-level the introduction of new restrictions to limit public gatherings and in some cases quarantine internal travel.

7. US coronavirus case and fatality growth



Thankfully the new escalation has not been met with a matching rise in fatalities at present with levels highlighted in Chart 7 still well below the earlier phase of the pandemic in April. However, per chart 8 below we can see hospitalisations for coronavirus rising to a new peak. This suggests that fatalities will continue rising in the near term but also that levels are not so extended to overwhelm the healthcare system at present. There is potential for more Federal leadership with a Biden Administration outlining key steps such as wider mask usage that should, if implemented help contain the pandemic sooner.

8. US coronavirus current hospitalisations



Growth and growth outlook

The US economy grew at an annualised 33.1% pace in the September quarter (consensus: 32%). A surge in both business and residential investment and stronger household spending supported by government stimulus were key drivers of the result. This came even following the expiration of the *CARES Act* stimulus payments.

Leading indicators including the Conference Board Leading Economic Index and the ECRI Weekly Leading Index suggest growth momentum should continue improving in the near term. The Weekly Economic Index from the NY Fed suggesting the December quarter should show a continued uptick in growth. In addition, the Markit Composite PMI rose to 56.3 in October, up from 54.3 in September, a 29-month high. Even amidst the pandemic both manufacturing and services activity improved although the rise in coronavirus infections may slow or even arrest this momentum in the near term.

China

The Chinese economic recovery has continued this year with further expansion recorded for the September quarter. Business surveys suggest continued improvement into October although geopolitical risks in Hong Kong and trade remain a feature, clouding the outlook potentially.

Economic growth

The Chinese economy grew 4.9% in the year to September, slightly below expectations (consensus: 5.2%). The recovery was business-led with services a point of weakness only growing 0.4% for the first three quarters of the year in contrast to 2.3% for the agriculture and resources sector and 0.9% for the manufacturing sector. Retail sales continued to struggle with only a 0.9% rise during the September quarter. There are signs of a gradual recovery in employment which should boost consumption spending and there are some positive signs with tech firms Alibaba and JD seeing a combined $115bn in sales on Single's Day (an annual sales event in China) and Alibaba more than doubling its total sales over that period (sales here referring to transactions on the platform rather than revenue to the firm itself).

Business activity and sentiment

Chinese economic activity continued to strengthen at the start of the fourth quarter with the Composite PMI rising from 54.5 in September to 55.7 in October. This was supported by strength across both the manufacturing and services sectors with new business expanding and job growth also improving, a marked change from the contraction seen earlier in the year. The overall composite output was the second highest in a decade while new business made a decade-high and business expectations also continued to strengthen as in previous updates the domestic situation stood in contrast to that of overseas demand. The acceleration in new coronavirus cases in Europe and the US saw the new business gauge for the services sector remain in contractionary territory but domestic strength helped to offset this impact.

Inflation

Inflationary pressures remained subdued in the year to October with consumer inflation tracking at 0.5% growth (down from 1.7% in September) and producer inflation unchanged at 2.1% for the year to October. The drop in consumer inflation was heavily influenced by the improving pork supply after disease drove sizeable price inflation at the beginning of the year. The core inflation rate (stripping out volatile price effects) was unchanged at 0.5% with inflation remaining well below the 3.5% target that was set for 2020 by authorities.

As with other countries, deflationary pressures remain the more pressing concern compared to rising inflation.

Geopolitics

In Hong Kong the legislature passed a new law that, amongst other features, saw several members of the democratic Opposition lose the seats. This move has sparked international outcry with the UK reportedly planning sanctions against China whilst Australian authorities have also condemned the action. We also saw President Trump sign a new Executive Order forbidding US firms from investing in firms owned or substantially controlled by the Chinese military.

The month was also marked by increased speculation of further punitive measures against Australian exports using a mix of investigations and outright bans. The lack of substantiated reasoning suggests a punitive component to the exercise, one unlikely to end until Chinese authorities deem Australia sufficiently punished. Australian authorities have steered clear of any direct countermeasures, preferring instead to weather the damage in the near term, likely a reflection of China's greater importance to Australian resource and agricultural exports.

Trade balance

Chinese exports grew 11.4% in the year to October (consensus: 9.3%) driving the trade surplus for the month to $58.44bn (consensus: $46bn). Strong demand for medical supplies and challenges to manufacturing elsewhere amidst the pandemic have supported sales of Chinese manufactured goods. Imports rose 4.7% over the same period (consensus: 9.5% increase), a second straight month of growth but lagging expectations. While this is supportive of the Chinese recovery, we note that this may lead to trade becoming a contentious issue given China is benefitting more from other countries' stimulus efforts. US. Much will depend on the stance of the incoming Biden Administration with campaign promises suggesting it will not be an "easy" path for China necessarily.

Europe

An acceleration of coronavirus infections prompted tighter lockdown restrictions across Europe, beginning in October and escalating further in November. These raise the risk of a negative growth quarter to end 2020. Brexit negotiations remain inconclusive and pose another near-term risk to the regional outlook.

United Kingdom

The UK saw an extension of its wage-subsidisation scheme for furloughed workers until March 2021with support also being extended to self-employed workers from November until January 2021.

It comes as the UK entered a second national lockdown (due to end in early December) as coronavirus case growth soared during October and November. As many as 2 million jobs were still being protected by the existing scheme in mid-October with the Bank of England estimating that as many as 5.5 million people could be added following the November extension. The new UK lockdown restrictions resemble those we saw in Australia earlier this year with non-essential services including restaurants closed and a general direction to remain home unless necessary for education or work reasons. One difference is that schools and universities have remained open (a process replicated in Continental Europe as well).

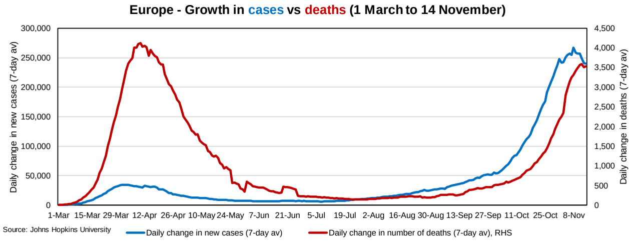
Lastly, we note that Brexit negotiations have remained inconclusive even as the 31 December deadline is rapidly approaching. Difficult sticking points on both sides including fishery access and state subsidies are amongst the main sticking points.

A lack of a finalised deal will compound the difficult economic situation of the region and appears to be growing more likely unless as has occurred in the past, some last-minute pragmatism emerges.

Coronavirus pandemic

October and, subsequently November saw a pronounced surge in both cases and fatalities in Europe with deaths rapidly approaching the April peak (unlike the US experience). This triggered widespread lockdowns across the continent albeit less severe than we saw during April. While it remains early as we can see in Chart 9, case growth while elevated has begun to flatline with some countries still seeing an increase whilst others such as France are now seeing case growth decline. Lockdowns will eventually halt further case growth but in the meantime, they will materially detract from economic activity, raising the risk of another contraction in European growth.

9. Eurozone coronavirus current hospitalisations



An earlier-than-expected vaccine such as the success of the recent Pfizer joint venture solution in medical trials would be a welcome boost for Europe especially as it grapples with the impact of the pandemic.

Eurozone growth

The Eurozone economy grew by 12.1% in the September quarter (-3.9% for the year to September) according to Eurostat. Strength in France, Italy and Spain was key to driving the overall regional result. The impact of new restrictions particularly on Southern Europe which is more reliant on tourism exports is expected to be substantial. As noted above there is a reasonable chance of another quarter of negative growth in December.

Policy

The European Central Bank is expected to introduce additional monetary stimulus in December with a mix of cheaper bank funding and additional bond purchases likely tools. As discussed in prior updates there are limitations in how much these policies can realistically achieve given the already low borrowing costs prevailing across Europe.

Another concern is the progress on the fiscal policy front. There are some divisions that still need to be reconciled. The European Recovery Fund is intended to offer a mix of grants (money not needing to be repaid) and loans (money that would be repaid) to EU members. Remarks by ECB Board member Yves Mersch suggested the ECB should act to prevent governments' avoiding the use of the loans by withdrawing its support in bond purchase programs. This is not official policy, but it points to a potential repeat of past mistakes where European governments engaged in austerity early and contributed to a second recession after the financial crisis.

Company news - best and worst performers during October 2020

Coca Cola Amatil (+30.8%)

Coca-Cola Amatil (CCA) received a takeover from its European counterpart Coca-Cola European Partners (CCEP) for $12.75 per share, valuing the company at $9bn, and propping up the share price toward the end of the month. The deal is set to provide CCEP further growth opportunities outside its core European market while also providing geographic diversification. The deal which has the blessing of the board and CCA's majority shareholder, The Coca-Cola Company (TCCC), has already agreed to sell CCEP it's 30.8% stake in CCA, however several shareholders (Pendal, Martin Currie, and Antares) oppose the takeover, saying the deal is opportunistic and undervalues CCA's post-pandemic potential.

Link Administration Holdings (+27.9%)

Link Administration Holdings (LNK) received a joint takeover bid by private equity groups, The Carlyle Group and Pacific Equity Partners, for $5.20 per share which valued the company at $3.8bn. The deal places significant value on LNK's 44% holding of PEXA, an e-conveyancing software with a market leading position in the fast-growing market for electronic settlement of property. The offer was subsequently rejected by the board with subsequent talks of an IPO of PEXA as a possibility for LNK to realise its investment in the software.

Virgin Money UK (+26.6%)

Virgin Money UK (VUK) is undergoing an aggressive cost cutting and integration program with 400 jobs set to be cut as part of a plan to reduce its workforce by 16% to increase efficiencies within the bank. The former NAB subsidiary, Clydesdale Bank, rebranded Virgin Money UK after a successful takeover by Virgin Money, is set to continue to undergo a period of restructuring as its new owner seeks to produce an estimated £200m in cost savings by 2022 and turn around the underperforming bank.

Mesoblast (-39.8%)

Mesoblast (MSB) reported a disappointing October after the FDA unexpectedly rejected MSBs Ryoncil Remestemcel-L and demanded further randomised controlled studies in adults and children to provide more evidence of effectiveness. The news came as a shock to the market which was expecting a smooth approval process given that the FDA Oncologic Drugs Advisory Committee (ODAC) voted 9-1 in favour of the drug's efficacy given existing data. Although MSBs treatment could still get Ryoncil approved within 3-6 months under an accelerated approval process, the setback produced a high level of uncertainty around the future of the drug.

Flight Centre (-18.2%)

Flight Centre (FLT) continued its slide downwards as a resurgent second wave took hold in Europe and the Americas, dampening hopes for a fast recovery in airline travel. The announcement of a pause in Oxford-AstraZeneca's Phase III trial due to an unknown sickness produced in one of its participants and the cancellation of a "trans-Tasman" travel bubble before Christmas also added pressure on FLTs share price.

Austal (-17.4%)

Austral Boats (ASB) was caught up in a corruption investigation after the Australian Border Force (ABF) was alleged to have improperly funnelled $39m from a national security project to ASB to prop up its financial position. The allegations state that ASB was improperly paid out $39m that was part of a contingent "success" fee on the condition that it delivered patrol boats (used for targeting contraband smugglers and illegal fishing) with no mechanical problems, which were not met but paid after intense lobbying. The investigation is currently ongoing.

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

Movers and Shakers for month of October 2020

ASX Code	Company Name	Closing price ($)	Month ago, close ($)	Month price return (%)	Quarter ago close ($)	Quarter Price return (%)	Year ago, close ($)	Annual Price Return (%)
CCL	Coca-Cola Amatil Ltd	12.43	9.50	30.8	8.18	52.0	10.15	22.5
LNK	Link Administration Holdings	4.77	3.73	27.9	3.98	19.8	5.60	-14.8
VUK	Virgin Money UK Plc – CDI	1.64	1.30	26.6	1.63	0.9	2.59	-36.7
CGF	Challenger Ltd	4.81	3.83	25.6	4.34	10.8	7.96	-39.6
SGM	Sims Ltd	9.51	7.58	25.5	7.95	19.6	9.35	1.7
LYC	Lynas Corp Ltd	2.83	2.32	22.0	2.20	28.7	2.45	15.7
APT	Afterpay Ltd	96.69	79.99	20.9	68.54	41.1	28.86	235.0
URW	Unibail-Rodamco-Westfield	2.90	2.42	19.8	3.62	-19.9	11.10	-73.9
PME	Pro Medicus Ltd	32.39	27.07	19.7	23.92	35.4	26.66	21.5
NEC	Nine Entertainment Co Hldgs	2.08	1.75	19.2	1.36	53.5	1.84	13.0

Source: Bloomberg, IOOF

ASX Code	Company Name	Closing price ($)	Month ago, close ($)	Month price return (%)	Quarter ago close ($)	Quarter Price return (%)	Year ago, close ($)	Annual Price Return (%)
MSB	Mesoblast Ltd	3.06	5.08	-39.8	3.78	-19.0	1.79	71.4
FLT	Flight Centre Travel Grp Ltd	11.26	13.77	-18.2	10.59	6.3	38.34	-70.6
ASB	Austal Ltd	2.71	3.28	-17.4	3.30	-17.9	4.18	-35.2
RRL	Regis Resources Ltd	4.15	5.01	-17.2	5.63	-26.3	4.90	-15.3
MP1	Megaport Ltd	13.47	16.09	-16.3	13.15	2.4	9.28	45.2
CTD	Corporate Travel Management	14.60	17.23	-15.3	8.48	72.2	17.13	-14.7
AVH	Avita Therapeutics Inc CDI	5.93	6.90	-14.1	6.07	-2.3	11.90	-50.2
RSG	Resolute Mining Ltd	0.80	0.93	-14.0	1.30	-38.5	1.21	-33.9
BVS	Bravura Solutions Ltd	2.93	3.40	-13.8	4.18	-29.9	4.11	-28.7
OBL	Omni Bridgeway Ltd	3.45	3.93	-12.2	4.58	-24.7	3.41	1.2

Source: Bloomberg, IOOF

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

				Annualised					
Asset class	**1-mth**	**3-mth**	**6-mth**	**1-yr**	**3-yr**	**5-yr**	**7-yr**	**10-yr**	**15-yr**	**20-yr**
Australian equities (S&P/ASX 200)	1.9%	1.0%	8.7%	-8.1%	4.1%	6.8%	5.6%	6.9%	6.4%	7.5%
Australian equities - Mid caps	6.1%	9.3%	25.2%	8.9%	8.2%	11.8%	11.9%	9.8%	7.5%	10.5%
Australian equities - Small caps	0.5%	4.7%	15.1%	-2.4%	4.6%	8.6%	5.9%	3.2%	3.8%	5.7%
Australian equities - Micro caps	1.3%	15.0%	41.5%	6.4%	8.3%	10.6%	6.6%	1.4%	4.3%	#N/A
International equities	-1.1%	2.0%	4.9%	2.7%	9.2%	8.5%	12.1%	12.5%	7.0%	3.3%
International equities (Hedged)	-3.2%	-0.3%	10.4%	1.1%	4.9%	8.0%	9.0%	11.0%	7.9%	#N/A
International equities - Small caps	2.1%	5.3%	9.7%	-1.9%	4.8%	7.1%	10.5%	12.0%	7.4%	6.5%
Emerging Markets equities	4.2%	4.8%	12.8%	6.2%	5.0%	8.3%	7.9%	5.9%	6.9%	#N/A
Australian REITs	-0.4%	5.9%	12.4%	-18.0%	2.8%	4.5%	8.0%	9.6%	3.4%	6.3%
Global REITs	-1.3%	-1.9%	-5.4%	-24.4%	0.5%	0.5%	6.2%	7.5%	4.2%	#N/A
Global REITs (Hedged)	-3.4%	-4.0%	-0.5%	-25.5%	-3.2%	0.0%	3.3%	6.0%	4.5%	#N/A
Global Infrastructure	1.4%	0.5%	-3.6%	-11.4%	5.0%	6.0%	10.0%	10.9%	#N/A	#N/A
Global Infrastructure (Hedged)	-0.6%	-1.2%	1.4%	-10.8%	1.9%	5.8%	7.4%	9.9%	#N/A	#N/A
Trend following (USD)	-1.5%	-4.2%	-5.3%	-1.4%	-0.6%	-2.0%	2.1%	0.4%	3.3%	5.4%
Australian bonds	0.3%	0.9%	1.9%	4.0%	5.7%	4.5%	5.1%	5.6%	5.8%	6.0%
Australian bonds - government	0.2%	0.9%	1.7%	4.0%	5.9%	4.6%	5.2%	5.6%	5.8%	5.9%
Australian bonds – corporate	0.6%	1.2%	3.6%	4.3%	5.3%	4.8%	5.1%	5.9%	6.1%	6.2%
Australian bonds - floating rate	0.3%	0.4%	1.4%	1.9%	2.4%	2.8%	2.9%	3.7%	4.3%	4.7%
Global bonds (Hedged)	0.0%	-0.4%	1.4%	3.8%	4.5%	4.4%	5.0%	5.7%	6.5%	7.0%
Global bonds - government (Hedged)	-0.1%	-0.4%	0.4%	3.6%	4.7%	4.3%	5.1%	5.7%	6.4%	6.9%
Global bonds - corporate (Hedged)	0.1%	-0.7%	4.8%	4.7%	5.0%	5.5%	5.7%	6.6%	6.9%	7.5%
Global bonds - High Yield (Hedged)	0.2%	0.0%	10.7%	-0.3%	1.9%	5.5%	5.4%	7.5%	8.5%	#N/A
Emerging Market bonds (Hedged)	0.0%	-1.7%	12.2%	-0.6%	2.3%	5.3%	5.5%	6.4%	7.9%	10.0%
Cash (AUD)	0.0%	0.0%	0.1%	0.5%	1.4%	1.6%	1.9%	2.5%	3.6%	4.0%

Sources: Bloomberg, IOOF calculations
* AUD total returns as at Oct-20 assuming reinvestment of dividends unless otherwise specified
** 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 (USD)
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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