WHITEHELM ADVISERS

MONTHLY UPDATE ON THE INVESTMENT ENVIRONMENT

August 2020

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surprisingly straightforward

MARKET UPDATE

The global economy continued to recover over August, as a number of countries further eased lockdown measures and maintained stimulus – including a significant monetary policy framework change by the US Federal Reserve. Equities hit new record highs overseas despite heightened tail risks arising from second and third waves of the COVID-19 virus, the potential for more prolonged lockdowns and the uncertainty around the search for a vaccine. Geopolitical risks are also continuing to intensify.

By early September, the number of confirmed cases hit 27.5 million globally, with 900,000 deaths. Cases have surged considerably in Latin America and India, while the US – despite still having over 2.5 million active cases – is at last recording a steady decline in daily new cases.

August saw further improvement in equities markets, with hedged developed overseas equities the star performers for the month, rallying to post a 6.2% gain. The S&P 500 index hit a new record high, joining the Nasdaq Composite index in recouping all its pandemic-period losses. Technology stocks were major drivers behind the performance. Unhedged currency exposures fared poorly however, with the Fed's new inflation targeting seeing the US dollar fall and the Australian dollar hit 74 US cents by end-August; its highest value since late 2018. Fixed interest recorded a negative month as longer dated yields increased

In Australia, lockdown measures introduced in Victoria in an attempt to stem a major outbreak remain ongoing, with their economic impact expected to be significant, given the Victorian economy accounts for approximately 25% of the nation's GDP. Second quarter GDP, released in August, revealed that the Australian economy contracted by 7% - by far the worst quarterly print since records started in 1959. The print also means a second straight quarter of contraction and, therefore, the nation's first recession in nearly 30 years. Unsurprisingly, services spending was the main detractor, with hotels, restaurants and transport all falling sharply. Interestingly, while hours worked fell by 10% over the quarter, wages only declined 2.5% with incomes increased due to government support measures. While a severe contraction, the second quarter GDP figure was stronger than that for major developed economies, and a recovering Chinese economy will likely support Australia's commodities sector in the months to come.

The RBA made no changes to its interest rate, however did expand its low-rate funding facility for the nation's banks, which is likely to shore up liquidity and contain borrowing costs – much to the chagrin of the nation's depositors.

In the US, the Federal Reserve announced a significant shift in its policy approach, changing its focus to an average inflation rate of 2% rather than a static target. The move means it will allow inflation to run above 2% to compensate for bouts of low inflation, and will likely see a more relaxed approach to rate tightening in future. The move is perhaps a concession by the Fed that it may have over-tightened rates recently. Meanwhile, US fiscal policy remains uncertain, with President Trump having to sign an executive order to implement further support for households while Congress continues to negotiate a new relief package.

In more positive news, US unemployment declined from 10.2% to 8.4%, over 1.3 million jobs were added in August, and average hourly wages have lifted, helping support a rise in personal spending.

China's economy continues to recover, with exports rising by an annual 9.5% in US dollar terms, however households remain cautious, leading to a decline in retail sales. Geopolitical tensions also remain heightened, with India and the US both clamping down on the availability of smartphone apps suspected of being used by the Chinese government for spying. Chinese authorities also continued to clamp down on anti-government activists in Hong Kong, while tensions with Australia also escalated.

In the UK, second quarter GDP contracted by over 20%, with a key driver being the UK's relatively large services sector, which was significantly impacted by falling individual consumption during the lockdown. Otherwise, Brexit uncertainty continues to cause concern both in the UK and Europe, with the 31 December deadline for an EU trade deal now approaching with the risk of no deal being reached in time. Negotiations in early September will hope to make some headway to resolve the impasse.

Table: Index Returns to 31 August 2020

	MONTH (%)	THREE MONTHS (%)	FYTD (%)	ONE YEAR (%)
Australian Equities				
S&P/ASX 300 Accumulation Index	3.0	6.2	3.7	-4.8
S&P/ASX Small Ordinaries Accumulation Index	7.2	6.6	8.7	2.1
International Equities				
MSCI World (ex Australia) Index (hedged A$)	6.2	12.2	9.6	12.1
MSCI World (ex Australia) Index (unhedged A$)	3.5	2.9	4.1	6.7
MSCI Emerging Markets Index (unhedged A$)	-0.9	7.3	3.7	4.3
Property				
S&P/ASX 200 A-REIT Accumulation Index	7.9	7.0	8.6	-17.7
Australian Fixed Interest				
Bloomberg AusBond Composite Index	-0.4	0.3	-0.1	1.6
Global Fixed Interest				
FTSE WGBI ex-Aust (hedged A$)	-1.0	0.2	-0.1	2.4
Barclay's Global Capital Aggregate Bond Index (hedged A$)	-0.7	0.8	0.3	2.5
Cash				
Bloomberg AusBond Bank Bill Index	0.0	0.0	0.0	0.7
Commodities				
Gold (US$ per ounce)	-0.4	13.8	11.1	28.9
Copper (US$ per metric tonne)	4.0	24.0	10.8	18.0
WTI Crude Oil (US$ per barrel)	5.8	20.1	8.5	-22.7
RBA Index of Commodity Prices (A$)	-0.4	-4.7	-1.4	-12.2

Table 1: Australian Dollar versus Foreign Currencies to 31 August 2020

AUSTRALIAN DOLLAR VERSUS	AS AT 31 AUGUST 2020	MONTH (%)	THREE MONTHS (%)	FYTD (%)	ONE YEAR (%)
US Dollar	0.74	2.3	10.5	7.4	9.3
British Pound Sterling	0.55	0.9	2.3	-1.0	0.0
Euro	0.62	1.7	3.2	1.0	1.3
Japanese Yen	77.90	3.5	9.1	5.6	8.8