WHITEHELM ADVISERS

MONTHLY UPDATE ON THE INVESTMENT ENVIRONMENT

April 2020

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MARKET UPDATE

The COVID-19 pandemic and its social and economic impact – dubbed 'The Great Lockdown' by the IMF – is continuing to have a devastating impact on global economies. April saw a raft of negative economic data as well as unprecedented policy stimulus from major central banks.

By early May, there were over 3.9 million confirmed cases globally, with the death toll more than doubling month-on-month to over 270,000. The US has by far the highest number of cases, while in Europe, the United Kingdom has now eclipsed Spain and Italy in lives lost. Although cases are starting to peak in highly developed countries they are, unsettlingly, starting to spike in developing nations such as Brazil and India, which are generally far less equipped to handle the health and economic impacts of the virus.

The IMF provided revised global growth forecasts in April; their first since the pandemic commenced. Global GDP growth for 2020 was revised to -3.0%; by contrast, global GDP growth for 2009 (during the GFC) was -0.1%. Advanced economies are expected to experience the sharpest contractions, with the Eurozone – currently the hardest hit region – forecast to contract 7.5%, while the US is expected to decline 5.9%. Emerging markets had similarly severe forecast growth reductions for 2020, although major economies such as India and China are still forecast to record positive growth. The IMF's forecasts did however, suggest a sharp rebound in 2021 - although considerable uncertainty remains about the extent and timing of the recovery.

Global equities markets recovered from their initial pandemic-driven nadir in March, with Australian equities posting their best month since 1988. Safe haven currencies such as the US dollar and Japanese yen also fell from their March highs, hurting Australian dollar returns on unhedged investments.

Fixed interest markets benefitted from central bank intervention, with prices rising as a result of asset purchase programs driving down government bond yields, as well as helping credit spreads narrow.

Australia has thus far been spared the worst of the pandemic, with a relatively low number of active cases owing in part to effective border controls and social distancing. Nonetheless, the global scale of the disaster means it will not be immune to the economic fallout in its trading partners.

The RBA's first-ever quantitative easing program started to taper in late April, with over $50 billion in federal and semi-government bonds purchased in an attempt to stimulate market liquidity and implement short-end yield curve control. To date the central bank has succeeded on both counts. However, it will have to contend with a surge in Commonwealth bond issuance in coming months as the government tries to fund its enormous pandemic fiscal response.

Despite the pandemic, Australia's housing sector remained relatively robust, with prices across the five major capital cities recording positive price growth in April, albeit with lower volumes. Meanwhile, retail sales surged 8% over March as consumers stockpiled essential items. Consumer and business sentiment paints a particularly bleak picture, with readings falling to historic lows.

Unsurprisingly, US first quarter GDP recorded an annualised 4.8% decline as economic activity ground to a halt. In a telling sign of the scale of the lockdown impact, weekly initial US jobless claims for the six weeks to the end of April exceeded 30 million; 15% of the US's entire working age population.

In further attempts to mitigate the virus's impact, the US Federal Reserve announced additional stimulus measures on 9 April, increasing the size of existing bond purchase programs and expanding its scope to include securities such as 'fallen angels' (investment grade credit downgraded to high yield) and high yield credit ETFs. The measures have so far helped normalise market liquidity and support prices.

The US was also at the epicentre of an historical first in oil markets in April. Despite Russia and Saudi Arabia agreeing to curb global oil production, the economic slowdown has seen oil overproduction, pushing US storage facilities to capacity. As a result, potential oil purchasers tried to avoid taking physical delivery, pushing West Texas Intermediate futures briefly into negative territory (effectively meaning market participants were paid to receive oil), falling to -US$40 per barrel before recovering.

In Europe, Eurozone GDP declined -3.8% quarter-on-quarter, led by record-breaking contractions in France, Spain and Italy. Sweden, meanwhile, which did not implement strict lockdown measures, only contracted 0.3%; albeit at the cost of a relatively high mortality rate. European leaders endorsed a collective €540 billion in fiscal support to combat the virus, with details yet to be confirmed.

Table: Index Returns to 30 April 2020

	MONTH (%)	THREE MONTHS (%)	FYTD (%)	ONE YEAR (%)
Australian Equities				
S&P/ASX 300 Accumulation Index	9.0	-20.4	-13.8	-9.1
S&P/ASX Small Ordinaries Accumulation Index	14.3	-19.0	-13.0	-13.3
International Equities				
MSCI World (ex Australia) Index (hedged A$)	10.0	-12.8	-5.4	-5.8
MSCI World (ex Australia) Index (unhedged A$)	3.6	-9.6	2.9	3.5
MSCI Emerging Markets Index (unhedged A$)	2.0	-10.6	-4.3	-5.4
Property				
S&P/ASX 200 A-REIT Accumulation Index	13.7	-29.8	-25.4	-20.3
Australian Fixed Interest				
Bloomberg AusBond Composite Index	-0.1	0.6	3.6	6.4
Global Fixed Interest				
FTSE WGBI ex-Aust (hedged A$)	0.9	2.5	6.0	9.2
Barclay's Global Capital Aggregate Bond Index (hedged A$)	1.5	1.0	4.4	7.2
Cash				
Bloomberg AusBond Bank Bill Index	0.0	0.2	0.8	1.1
Commodities				
Gold (US$ per ounce)	7.2	8.6	21.3	33.5
Copper (US$ per metric tonne)	4.8	-6.8	-13.4	-19.1
WTI Crude Oil (US$ per barrel)	-8.0	-63.5	-67.8	-70.5
RBA Index of Commodity Prices (A$)	-0.3	6.4	-2.9	2.2

Table 1: Australian Dollar versus Foreign Currencies to 30 April 2020

AUSTRALIAN DOLLAR VERSUS	AS AT 30 APRIL 2020	MONTH (%)	THREE MONTHS (%)	FYTD (%)	ONE YEAR (%)
US Dollar	0.65	7.5	-2.2	-6.6	-7.2
British Pound Sterling	0.52	6.2	2.4	-5.3	-3.5
Euro	0.60	8.2	-0.8	-2.2	-4.3
Japanese Yen	69.78	5.5	-4.3	-7.5	-11.1