

Market Review

February 2020

How the different asset classes have fared:
 (As at 29 February 2020)

Asset Class	10 Yr % p.a.	5 Yr % p.a.	3 Yr % p.a.	1 Yr % p.a.	YTD %	6 Mo %	3 Mo %	1 Mo %
Cash ¹	2.82	1.85	1.68	1.30	0.16	0.48	0.23	0.08
Australian Bonds ²	5.89	4.45	5.98	8.98	3.21	1.35	1.51	0.86
International Bonds ³	6.36	4.47	4.97	9.33	3.05	1.69	2.75	1.21
Australian Shares ⁴	7.90	6.37	8.54	8.24	-3.77	-0.99	-5.59	-8.08
Int. Shares Unhedged ⁵	12.60	10.29	13.95	15.73	-0.74	5.61	-1.60	-4.83
Int. Shares Hedged ⁶	11.31	6.95	7.12	4.54	-8.83	0.29	-6.74	-8.44
Emerging Markets Unhedged ⁷	6.32	6.35	10.72	7.76	-2.43	7.13	1.59	-1.91
Listed Infrastructure Unhedged ⁸	13.11	10.49	14.33	16.47	1.96	2.37	1.90	-5.56
Australian Listed Property ⁹	11.95	9.12	10.30	12.31	1.31	-2.17	-2.98	-4.69
Int. Listed Pty Unhedged ¹⁰	12.15	6.98	9.71	12.69	0.53	-0.41	-3.66	-5.01

1 Bloomberg AusBond Bank 0+Y TR AUD, 2 Bloomberg AusBond Composite 0+Y TR AUD, 3 Bloomberg Barclays Global Aggregate TR Hdg AUD, 4 S&P/ASX All Ordinaries TR, 5 Vanguard International Shares Index, 6 Vanguard Intl Shares Index Hdg AUD TR, 7 Vanguard Emerging Markets Shares Index, 8 FTSE Developed Core Infrastructure 50/50 NR AUD, 9 S&P/ASX 300 AREIT TR, 10 FTSE EPRA/NAREIT Global REITs NR AUD

Australian and global share markets plunged in February due to concerns about the coronavirus's impact on global growth and corporate profits. The US S&P 500 recorded its fastest correction since the Great Depression, falling by 12 per cent over six days from its record closing high on February 19. Australian and international bond yields fell, and the Australian dollar depreciated against the US dollar.

Cash and Fixed Income

Australian and international bond yields fell in February to record lows in many countries, including Australia, as investors flocked to safe-haven assets due to developments and risks associated with the coronavirus. Investors bought bonds, pushing bond prices up and bond yields down, as expectations for monetary easing increased due to concerns about the impact of the coronavirus on global growth.

Earlier in the month, the Reserve Bank of Australia (RBA) kept the cash rate unchanged at 0.75%. On February 28, following sharp falls in equity markets, the US Federal Reserve issued a press release stating that they will use their tools to act as appropriate to support the economy as the coronavirus poses evolving risks to economic activity. This statement signaled that the Federal Reserve would likely cut rates at its meeting in March.

Australian economic data was mixed over the month and was overshadowed by news about the coronavirus. Retail sales fell by more than expected in December after Black Friday sales pulled forward spending in November. Employment data was mixed; employment growth was stronger than expected (driven by part-time jobs) but the unemployment rate increased unexpectedly to 5.3%, underemployment rose, and wages growth remained subdued. House prices strengthened further in January and housing loan approvals also continued to increase, led by owner-occupiers. However, housing credit growth, which relates to the stock of housing debt, remained subdued because new lending has been offset by a faster repayment of existing mortgages.

Australian Shares

The Australian share market plunged by 8.1% in February, led by losses in the information technology, energy and materials sectors. Losses in the Australian share market were concentrated later in the month following a rapid escalation in new coronavirus cases outside China, notably in South Korea, Italy and Iran. This raised concerns that the coronavirus will disrupt economic activity more deeply and for longer than had been initially expected by the market. Australia's export earnings will be significantly impacted, particularly in the tourism, education and resources sectors, since China accounts for nearly one-third of Australia's exports. The uncertainty that the coronavirus creates will likely also negatively affect domestic spending. The Australian share market continues to face significant uncertainty and there is likely more volatility to come.

A number of Australian companies reported profit results in February for the half year to December 2019. Only 53% of companies reported an increase in profits compared to a year ago, and several companies issued profit downgrades related to the impact of the coronavirus.

International Shares

International share markets (hedged) fell sharply by 8.4% in February due to renewed concerns about the impact of the coronavirus on global growth following a large increase in new cases outside China. However, unhedged international shares were partly cushioned by a depreciation in the Australian

dollar, falling by 4.8%. The coronavirus is a fast-developing situation and it is too early to tell how persistent the effects of the coronavirus will be on global growth and at what point the global economy will return to an improving path. Chinese economic activity has experienced a severe decline, global supply chains and international travel have been disrupted and global consumer spending may start to be impacted as households become more cautious. The uncertainty created by the coronavirus will likely result in further volatility in financial markets.

The US profit reporting season for Q419 continued in February, with most companies surprising to the upside. However, a number of US companies, including Microsoft, Apple, Walmart and Nike, announced that their near-term revenues will likely fall short of guidance due to the fallout from the coronavirus outbreak.

The Australian Dollar

The Australian dollar depreciated by around 3% against the US dollar over the month to its lowest level since 2009 due to negative risk sentiment and increased concerns about the impact of the coronavirus on Australia's export earnings.

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