

# Market Review

May 2020

How the different asset classes have fared:  
 (As at 31 May 2020)

Asset Class	10 Yr % p.a.	5 Yr % p.a.	3 Yr % p.a.	1 Yr % p.a.	YTD %	6 Month %	3 Month %	1 Month %
Cash <sup>1</sup>	2.72	1.77	1.58	0.97	0.31	0.39	0.16	0.01
Australian Bonds <sup>2</sup>	5.71	4.51	5.15	4.94	3.21	1.51	0.00	0.29
International Bonds <sup>3</sup>	6.09	4.44	4.49	6.03	3.07	2.78	0.02	0.27
Australian Shares <sup>4</sup>	7.25	4.56	4.72	-6.21	-12.47	-14.12	-9.04	5.04
Int. Shares Unhedged <sup>5</sup>	12.22	9.16	10.28	12.08	-2.47	-3.30	-1.74	3.40
Int. Shares Hedged <sup>6</sup>	11.40	6.37	5.60	4.97	-9.03	-6.95	-0.22	4.79
Emerging Markets Unhedged <sup>7</sup>	4.65	3.44	3.38	-0.38	-11.62	-7.98	-9.42	-0.01
Listed Infrastructure Unhedged <sup>8</sup>	12.12	8.19	7.10	1.58	-6.04	-6.09	-7.84	2.94
Australian Listed Property <sup>9</sup>	9.40	4.14	1.18	-16.39	-20.05	-23.43	-21.08	7.05
Int. Listed Pty Unhedged <sup>10</sup>	8.51	2.53	0.76	-15.06	-20.56	-23.87	-20.98	-1.16

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

Financial markets continued to rally in May, continuing on from the momentum seen in April. Share markets, both in Australia and internationally, rose and the Australian dollar appreciated as risk sentiment improved. Government bond yields largely moved sideways over the month, while credit markets gradually rallied as investor confidence rose and central banks continued their support.

## Cash and Fixed Income

Interest rates remained on hold in May, with central banks already having lowered rates as much as reasonably bearable. Bond markets generally traded sideways over the month. Credit markets rallied modestly particularly after the US Federal Reserve began buying credit exchange traded funds (ETF's). There remains an ongoing debate about how effective central bank intervention will be, in the short term central banks can help support confidence and liquidity. In the longer term its solvency that counts, which will be driven more by the state of the economy, and less by central bank intervention.

## Australian Shares

The Australian share market extended its rally with another gain of 5% in May which was welcome news by investors. To some extent this growth can be attributed to the Australian government getting the Covid-19 pandemic under control with markets looking forward to the prospects of a quick reopening of the economy.

We would offer some words of caution to those expecting significant additional gains in the near term from today's levels. The Australian share market is trading on a rich valuation multiple relative to its history. Additionally there remains considerable uncertainty about the scale and scope of the recovery in the economy, even with a promising beginning.

Within the share market we witnessed a shift from healthcare and tech and back to the banks as well as some of the more economically sensitive sectors.

## International Shares

International share markets continued to recover in May, supported by the substantial and coordinated fiscal and monetary response to the coronavirus globally and the prospect for social distancing measures to be eased in a number of countries.

As with the Australian share market, it should be noted that a lot of good news is already in the price with valuation levels high relative to longer term historical norms.

While Australia has handled the Covid-19 crisis reasonably well, the same cannot be said for America, home of the world's largest and most important share market. Unfortunately it seems likely that there will be a second wave of infections as the US economy opens up. This fact, along with the potential for volatility associated with the upcoming US elections is keeping us a little cautious about both US share market generally.

## The Australian Dollar

The Australian dollar continued to rally in May. The Australian dollar was also supported by resilient iron ore prices and a widening in the Australia/US interest rate differential (with the Australian 10-year

government bond yield now higher than the US 10-year government bond yield).

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