

Market Review

July 2020

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

Asset Class	10 Yr % p.a.	5 Yr % p.a.	3 Yr % p.a.	1 Yr % p.a.	YTD %	6 Mth %	3 Mth %	1 Mth %
Cash ¹	2.64	1.70	1.49	0.73	0.33	0.25	0.03	0.01
Australian Bonds ²	5.61	4.58	5.62	3.58	3.91	1.55	0.97	0.37
International Bonds ³	6.00	4.72	4.96	5.54	4.64	2.77	1.79	1.03
Australian Shares ⁴	7.43	5.54	5.70	-9.02	-9.57	-13.62	8.51	0.95
Int. Shares Unhedged ⁵	12.43	8.23	11.70	3.50	-2.97	-6.96	2.87	0.64
Int. Shares Hedged ⁶	11.82	7.58	7.00	3.58	-3.85	-3.45	10.75	3.38
Emerging Markets Unhedged ⁷	5.46	6.19	6.11	1.80	-4.71	-4.20	7.81	4.46
Listed Infrastructure Unhedged ⁸	11.16	6.04	6.44	-9.39	-12.68	-19.12	-4.34	-1.06
Australian Listed Property ⁹	9.32	3.71	2.60	-22.24	-20.52	-25.23	6.41	0.63
Int. Listed Pty Unhedged ¹⁰	8.40	1.28	1.57	-19.17	-22.10	-26.39	-3.07	-0.81

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 were mixed in July as a sell-off in the US dollar and promising earnings reports from US technology giants fueled investor enthusiasm, however new COVID-19 outbreaks across the world undermined faith in the economic recovery. The Australian dollar surged to US 72c by month-end as bearish sentiment drove the US dollar to multi-year lows. International shares also rose strongly in July but gains for unhedged investors were offset by a rise in the Australian dollar. As in June, emerging markets also enjoyed robust gains as a sell-off in the US dollar eased financial conditions in developing countries and investors bought into Chinese technology companies that are likely to benefit from changes to commerce during the global pandemic. Government bonds largely traded sideways as central banks around the world maintained ultra-low interest rates, although yields fell (and prices therefore rose) in international bonds in large part because new viral outbreaks dampened faith in the economic recovery from COVID-19. Small gains in listed infrastructure and global listed property were offset for unhedged investors by the rising Australian dollar.

Cash and Fixed Income

Interest rates remained fixed near zero in July and central banks continued to use their balance sheet to hold down bond yields. International and Australian international bonds rallied as a resurgence of COVID-19 cases in Australia and overseas renewed fears of deflation and a prolonged downturn. The RBA kept rates fixed close to zero but allowed rates on 3-year Australian Government Securities to float above their target of 0.25% during July (rates peaked at 0.28% in the middle of the month). The RBA has subsequently pledged to restart its purchases as a new lockdown in Victoria and the closure of state borders placed new pressure on the Australian economy.

Australian Shares

The Australian share market was relatively subdued in July, returning 0.95% for the month. New restrictions on domestic movement following the outbreak in Victoria (and new clusters in NSW) have set back the clock for the economic recovery. The RBA has revised its estimates for the Australian economy and now expects unemployment to peak at around 10%.

An increase in the ASX 200 index was largely driven by mining and technology stocks. Mining stocks outperformed as Chinese stimulus buoyed prices in international markets and the IT sector strengthened as investors gain faith in the long-term beneficial impact of COVID-19 on e-commerce providers. Healthcare and bank stocks dragged in July as a second wave of infections in Victoria and NSW undermined recent gains and undermined faith in the recovery.

International Shares

International share markets gained momentum in July as strong earnings reports from US technology companies fueled a surge in prices and renewed investor optimism in the so-called FAANGM (Facebook, Apple, Amazon, Netflix, Google, Microsoft) universe of consumer technology stocks. The S&P 500 finished the month strongly enough to offset falls in Europe and Japan's equity markets.

Emerging Markets

Emerging markets were also supported by new inflows and an investors' growing appetite for risk. As in developed markets, Chinese technology stocks like Tencent and Alibaba have attracted significant new investment as investors look for companies that are likely to gain from the global pandemic.

The Australian Dollar

The Australian dollar rose to 72c in July in large part driven by a sell-off in the US dollar. A worsening COVID-19 outbreak in Victoria and news that Australian consumer prices had fallen at the fastest quarterly rate since 1931 failed to dampen investor sentiment. Iron ore prices climbed more than 10% as Chinese stimulus fueled new demand for Australian bulk commodities.

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