

Market Review

August 2020

How the different asset classes have fared:
(As at 31 August 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	2.60	1.66	1.44	0.66	0.34	0.18	0.03	0.01
Australian Bonds ²	5.37	4.36	5.47	1.61	3.48	0.26	0.26	-0.42
International Bonds ³	5.70	4.60	4.38	2.52	3.89	0.82	0.79	-0.71
Australian Shares ⁴	7.90	7.94	6.71	-3.51	-6.22	-2.54	7.14	3.71
Int. Shares Unhedged ⁵	13.06	9.67	12.68	6.83	0.40	1.15	2.94	3.47
Int. Shares Hedged ⁶	12.84	10.34	9.06	12.23	2.02	11.90	12.15	6.11
Emerging Markets Unhedged ⁷	5.39	7.23	4.78	3.67	-5.58	-3.23	6.84	-0.91
Listed Infrastructure Unhedged ⁸	10.70	5.84	4.73	-14.15	-14.49	-16.14	-9.00	-2.08
Australian Listed Property ⁹	9.78	6.17	4.72	-17.16	-14.21	-15.32	7.30	7.95
Int. Listed Pty Unhedged ¹⁰	8.12	1.51	0.92	-24.03	-23.31	-23.72	-3.46	-1.56

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 gained in August as US shares recovered their losses and soared to new highs. The Australian dollar surged to nearly 74c by month-end as bearish sentiment drove the US dollar to multi-year lows. International shares also rose strongly in August but gains for unhedged investors were offset by a rise in the Australian dollar. Unlike July, emerging markets retraced some of their gains as fresh tensions between the United States and China sent Chinese stocks tumbling. Government bonds also gave back some of their gains as faith in vaccine trials fueled investor optimism and a rise in bond yields. Listed property and infrastructure also gained on rising optimism about the path of economic recovery but the rising Australian dollar offset gains for unhedged investors.



Cash and Fixed Income

Interest rates remained fixed near zero in August and central banks continued to use their balance sheet to hold down bond yields. The RBA also restarted its purchases of 3-year Australian Government Securities as Stage 4 restrictions in Victoria and new cases in NSW and Queensland impacted economic activity. The central bank has also revised its forecasts for the impact of COVID-19 and now predicts that unemployment will peak at 10%. At the same time, though, pharmaceutical companies and leading universities have now advanced vaccine trials to their third and final stage before potential approval. Bond yields rose moderately (and prices therefore fell) as investors priced in a potential resolution to the global pandemic that has sent yields tumbling across the fixed-income complex.

Australian Shares

The Australian share market gained in August as investors continued to crowd into IT and consumer discretionary stocks. Mining and healthcare stocks largely tracked the index. Unlike in July, though, mining stocks fell and listed property rose on investor optimism that a vaccine for COVID-19, which has seen valuations for shopping centres and office towers fall substantially, might be approved before the end of the year.

International Shares

International share markets soared in August as US shares recovered their losses from earlier in 2020 and closed at all-time highs. International shares continue to be led by US shares, especially investor optimism in the so-called FAANGM (Facebook, Apple, Amazon, Netflix, Google, Microsoft) universe of consumer technology stocks. Unlike in July, Japanese stocks rose strongly as a second wave appeared to gradually subside throughout the month. European stocks continued to underperform – the divergence between valuations in European and US shares is now at its highest level in almost a century.

Emerging Markets

Emerging markets experienced a mild sell-off in July as tensions between the US and China led to new measures from the United States. US President Donald Trump issued an executive order forcing Chinese technology company Bytedance to divest or sell its US operations, leading to a bidding war between US technology companies for its popular app Tiktok. As in developed markets, Chinese technology stocks dominate the emerging markets index. Tencent, Alibaba and Meituan now constitute 38% of the Chinese index and Chinese stocks make up a majority of the emerging markets index. Efforts by the US and other developed countries like Australia and the UK to restrict Chinese technology companies' access to their markets has therefore had a negative effect on EM valuations.

The Australian Dollar

The Australian dollar rose to almost 74c in August driven mostly by a sell-off in the US dollar. Iron ore prices climbed to \$120/ tonne as Chinese appetite for iron ore continued to grow. COVID-19 is still causing issues with supply chain issues in Brazil and other emerging-market iron ore producers, further supporting the price of the bulk commodity. The spread between Australian and US Government, 10-year securities also climbed to 28 basis points by the end of the month, further supporting the Australian dollar (because offshore investors can gain a secure income by exchanging US dollars for Australian dollars and buying local government securities).

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