WHITEHELM ADVISERS

MONTHLY UPDATE ON THE INVESTMENT ENVIRONMENT

October 2020

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surprisingly straightforward

MARKET UPDATE

The past month was one of mixed fortunes for the global economy. A second wave of coronavirus cases, particularly in Europe, has prompted renewed lockdown restrictions and is likely to weigh heavily on economic data for the remainder of 2020. Tensions between China and its trade partners have also contributed to concerns. On the other hand, the US election has resulted in a split Congress that will likely preclude the passage of business-unfriendly legislation, while in Australia the containment of COVID-19 has nearly eradicated community transmissions of the virus. By early November, there have been over 50 million confirmed COVID-19 cases and 1.25 million deaths globally, although news of strong progress on a vaccine by Pfizer in early November triggered renewed optimism.

During October the IMF published its first set of five-year GDP and inflation forecasts since the onset of the pandemic. It encouraged governments to use fiscal stimulus to support economic recovery despite the potential impact on public finances. It also revised its global GDP growth forecast for 2020 upward from -5.2% to -4.4%, with the US economy recording the highest upward adjustment, rising 3.7% to -4.3%. The forecasts for Eurozone nations especially reliant on tourism (such as Spain) as well as the UK were less favourable, with minimal adjustments. The spread of the virus through developing economies is now expected to be more severe than previously anticipated; as a group, expected GDP was cut 0.2% to -3.3% in 2020, with India's forecast GDP contraction more than doubling in magnitude from -4.5% to -10.3%.

Despite an increasingly pessimistic global economic outlook, the Australian economy has remained relatively resilient. Consumer optimism has increased as the nation's active case count declined to two digits, and restrictions in the state of Victoria were progressively lifted. Sentiment was also buoyed by the RBA's November meeting decision, which saw cuts in the cash rate and yield curve control target, as well as further quantitative easing. The measures are designed in part to reduce the value of the Australian dollar, which has appreciated against other currencies in part due to strong investor demand for its higher-yielding assets.

The US Presidential election saw Democrat Joe Biden end the tumultuous and unconventional four-year presidency of Donald Trump, with a record voter turnout and tighter-than-expected results meaning the Republican Party will likely retain control of the US Senate. Biden's moderate platform and less isolationist geopolitical slant is likely to be a benefit for the US's economic allies, while the split Congress may actually prove a benefit for businesses concerned about tax hikes from a 'Blue Wave' Democrat government controlling both houses.

Having ostensibly contained the COVID-19 virus, the Chinese economy rebounded impressively over the third quarter, with GDP growth recovering to 4.9% year-on-year. The resurgent economy saw sentiment indicators soar to multi-year highs. While data improved, China's trade neighbours had less reason for optimism. A number of Australian imports appear to have been subject to punitive measures for geopolitical overtures, with timber, barley, coal, wine and lobsters among goods subject to Chinese import restrictions.

In Europe, a summer of relaxed restrictions has given way to an autumn of renewed virus outbreaks, triggering a renewal in lockdown measures to try to stem the spread of COVID-19. While the ECB made no changes to policy settings at its early November meeting, it has signalled that changes are looming next month, rendering the December meeting a "live" one. The Bank of England, meanwhile, expanded its bond purchase programme, and the UK government extended its job retention scheme through to early 2021. Trade negotiations between the UK and Eurozone continue to drag out, with limited time to strike a deal by the end-2020 deadline.

The rise in COVID-19 cases and US election uncertainty led to a sell-down of risk assets, with developed overseas equities posting a poor month on a fully hedged basis. Overseas fixed interest failed to offset equities losses, with US Treasury yields failing to decline amid inflationary concerns arising from the potential for an emphatic Democrat victory in the US elections. The suboptimal end to October for risk assets did, however, give way to a recovery in November following the US election result and positive news from vaccine trails.

Table: Index Returns to 31 October 2020

	MONTH (%)	THREE MONTHS (%)	FYTD (%)	ONE YEAR (%)
Australian Equities				
S&P/ASX 300 Accumulation Index	1.9	1.2	1.8	-7.9
S&P/ASX Small Ordinaries Accumulation Index	0.5	4.7	6.2	-2.4
International Equities				
MSCI World (ex Australia) Index (hedged A$)	-3.2	-0.3	3.0	1.1
MSCI World (ex Australia) Index (unhedged A$)	-1.1	2.0	2.6	2.7
MSCI Emerging Markets Index (unhedged A$)	4.2	4.8	9.6	6.2
Property				
S&P/ASX 200 A-REIT Accumulation Index	-0.4	5.9	6.6	-18.0
Australian Fixed Interest				
Bloomberg AusBond Composite Index	0.3	0.9	1.3	4.0
Global Fixed Interest				
FTSE WGBI ex-Aust (hedged A$)	-0.1	-0.3	0.6	4.4
Barclay's Global Capital Aggregate Bond Index (hedged A$)	0.0	-0.4	0.7	3.8
Cash				
Bloomberg AusBond Bank Bill Index	0.0	0.0	0.0	0.5
Commodities				
Gold (US$ per ounce)	-0.5	-5.0	6.0	24.7
Copper (US$ per metric tonne)	0.7	4.8	11.7	15.9
WTI Crude Oil (US$ per barrel)	-11.0	-11.1	-8.9	-33.9
RBA Index of Commodity Prices (A$)	2.8	4.2	2.9	-2.0

Table 1: Australian Dollar versus Foreign Currencies to 31 October 2020

AUSTRALIAN DOLLAR VERSUS	AS AT 31 OCTOBER 2020	MONTH (%)	THREE MONTHS (%)	FYTD (%)	ONE YEAR (%)
US Dollar	0.70	-1.1	-2.1	2.8	2.1
British Pound Sterling	0.54	-2.2	-0.9	-2.8	1.8
Euro	0.60	-0.8	-0.6	-1.3	-2.4
Japanese Yen	73.50	-2.3	-2.4	-0.4	-1.6