

Market wrap

March 2020



Flight to safety globally

- **Global shares** fell -8.5% and -4.9% in hedged and unhedged terms, respectively. **Emerging markets** were relative outperformers (only down -1.6%) with COVID-19 (a.k.a. coronavirus) outbreaks outside of China and their economic impact a driving concern for global share markets.
- Domestically, **Australian shares** underperformed international markets falling -7.7% in February. This was driven by weakness in the Energy and Technology sectors with economic growth concerns seeing oil prices fall 13.1% during the month.
- The **Australian dollar (AUD)** fell against major currencies by -1.9% attributable to expectations of weaker Chinese growth from the coronavirus and weaker domestic economic data.
- **Fixed income** assets rallied with growth concerns from the virus outbreak outside of China the key driver.
- Another factor was expectations of further interest cuts domestically and internationally (if rates fall on cash in a savings account a bond offering a fixed rate becomes more attractive with investors buying and pushing its price higher. This saw a continuation of positive returns for both **domestic fixed income** and **international fixed income**.

As the coronavirus outbreak figured prominently on investor radars...

Globally

- Global business surveys softened with the JP Morgan Global Manufacturing PMI falling into contractionary territory (pointing to weaker economic growth).
- Spikes in COVID-19 notably appeared outside of China with South Korea, Italy and Iran now prominent hotspots.

Locally

- Australian economic growth for the December quarter surprised slightly at 0.5% (consensus: 0.4%) thanks to weaker import spending and stronger inventory and consumption (driven by sales events such as Black Friday).
- The RBA cut the cash rate by 0.25% to a new low of 0.5% citing concerns over the coronavirus economic impact.
- The virus outbreak is expected to have a notable impact on economic growth with Tourism Australia citing a 10% decline in bookings from China following Australian government travel bans until early March.
- The labour market disappointed with the unemployment rate rising to 5.3%, some 0.8% higher than the RBA target of 4.5%.

Major asset class performance

| Asset classes | 1 month % | 1 year % | 5 years (p.a.) % |
|------------------------------------|-----------|----------|------------------|
| Australian shares | -7.7 | 8.6 | 6.2 |
| Global shares (hedged) | -8.5 | 4.4 | 6.9 |
| Global shares (unhedged) | -4.9 | 15.6 | 10.2 |
| Global small companies (unhedged) | -6.3 | 6.5 | 8.8 |
| Global emerging markets (unhedged) | -1.6 | 8.3 | 6.8 |
| Global listed property (hedged) | -8.1 | 2.2 | 4.1 |
| Cash | 0.1 | 1.3 | 1.9 |
| Australian fixed income | 0.9 | 9.0 | 4.4 |
| International fixed income | 1.2 | 9.3 | 4.5 |

Source: Bloomberg & IOOF, 28 February 2020

Indices used: Australian Shares: S&P/ASX 200 Accumulation Index, Global shares (hedged): MSCI World ex Australia Net Total Return (in AUD), Global shares (unhedged): MSCI World ex Australia Hedged AUD Net Total Return Index; Global small companies (unhedged): MSCI World Small Cap Net Total Return USD Index (in AUD); Global emerging markets (unhedged): MSCI Emerging Markets EM Net Total Return AUD Index; Global listed property (hedged): FTSE EPRA/NAREIT Developed Index Hedged in AUD Net Total Return; Cash: Bloomberg AusBond Bank Bill Index; Australian fixed income: Bloomberg AusBond Composite 0+ Yr Index; International fixed income: Bloomberg Barclays Global Aggregate Total Return Index Value Hedged AUD

Please note: Past performance is not indicative of future performance

Currency markets

| Exchange rates | At close on 29/2 | 1 month change % | 1 year change % |
|----------------------|------------------|------------------|-----------------|
| USD/AUD | 0.65 | -2.6 | -8.2 |
| Euro/AUD | 0.59 | -2.1 | -5.4 |
| Yen/AUD | 70.4 | -3.0 | -11.0 |
| Trade weighted index | 57.0 | -1.9 | -6.1 |

Source: Bloomberg & IOOF, 28 February 2020. All foreign exchange rates are rounded to two decimal places where appropriate.

Please note: Past performance is not indicative of future performance.