Antipodean Advisory

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June 2020 Market Wrap Wednesday 1 July 2020

The best quarter for US stock since 1998, and the best quarter in a decade for the Australian benchmark. Just three months ago, investors were lamenting the end of the bull market—and the longest economic expansion on record—after major U.S. stock indexes lost about 35% of their value in less than six weeks. The subsequent rebound has been nearly as brisk.

Partly thanks to an unprecedented $1.6 trillion stimulus package from the US Federal Reserve and Congress. "Massive stimulus by the Fed and on the fiscal side has propelled the stock market's recovery at a speed unlike we've ever seen.

In Australia, the government bond markets are operating effectively and the yield on 3-year Australian Government Securities (AGS) is at the target of around 25 basis points. The Reserve Bank has purchased government bonds on only one occasion, with total purchases of around $50 billion. The Reserve Bank is prepared to scale-up its bond purchases again and will do whatever is necessary to ensure bond markets remain functional and to achieve the yield target for 3-year AGS. The target will remain in place until progress is being made towards the goals for full employment and inflation. The Bank's market operations are continuing to support a high level of liquidity in the Australian financial system.

The Australian economy is going through a very difficult period and is experiencing the biggest economic contraction since the 1930s. Notwithstanding these developments, it is possible that the depth of the downturn will be less than earlier expected.

However, the outlook, including the nature and speed of the expected recovery, remains highly uncertain and the pandemic is likely to have long-lasting effects on the economy. In the period immediately ahead, much will depend on the confidence that people and businesses have about the health situation and their own finances.

What does it all mean?

- Interest rates are on hold at near zero rates and will not change for a long period of time
- Governments and Reserves Banks are committed to do what it can to support jobs, income and business, keeping funding costs low and supporting the supply of credit to households and business
- This accommodative approach will be maintained as long as it is required
- Market appear to reaffirm the view that the global economy bottomed in April
- Besides vaccine developments, global and quick coordination of fiscal & monetary policy actions has helped 'cure' the financial markets

What are the implications for investors?

- The path to recovery is uncertain: Consumer behaviour is unlikely to normalize anytime soon as the trauma of the pandemic and lockdown is likely to persist in an unanticipated way. Execution risks around the delivery of de-containment plans, which will create

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uncertainty and thus bouts of market volatility, whilst unprecedented employment loss will generate durable 'slack'.

- We have passed the worst in terms of economic data and have thus started the repair phase of the cycle, which is traditionally a period of strong returns for growth assets. Also, a Covid-19 vaccine could create upside risk.
- Short term equity market direction remains uncertain, but ever-growing monetary and policy stimuli; and/or a quicker than expected recovery could cause markets to overshoot. The opportunity cost of being underinvested in the early stages of the recovery can be massive and I continue to recommend gradually rebuilding growth assets within portfolios. Heightened volatility will provide opportunities to average in.

On a personal note, be safe and enjoy the simple things.

Summary of Major share indices

Index	1 Month	52 Weeks	YTD
DJIA	+0.27%	-3.64%	-9.55%
Nasdaq	+4.69%	+24.04%	+12.11%
S&P 500	+0.63%	+4.28%	-4.04%
Russel 2000	+1.63%	-7.64%	-13.61%
Europe 600 Index	+0.16%	-7.44%	-13.35%
UK FTSE 100 Index	+5.44%	-5.07%	-15.75%
Hong Kong Hang Seng	-0.81%	-18.38%	-18.20%
Japan Nikkei 225	-1.38%	+3.06%	-5.72%
China Shanghai Composite	+2.49%	-0.61%	-1.75%
ASX 200 (Australia)	+2.61%	-11.06%	-10.42%

Australian Dollar

	Close	52 week Range
AUD	0.6910%	0.5512-0.7082%

Government Bonds

	Close	52 week Range
US 3 Month	0.144%	-0.076-2.264%
US 10 Years	0.681%	0.380 – 2.148%
US 30 Years	1.435%	0.692 – 2.678%
Australia 10 years	0.932%	0.570-1.717%

Source: Wall Street Journal.