



ASSET MANAGEMENT

The global economy - recovery or relapse?

Best Practice Forum
Managed Accounts

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The Reserve Bank concedes the economic outlook for Australia and the global economy has a “high degree of uncertainty”



*“Since around May, economic conditions have started to recover as containment measures have been eased and fiscal and monetary policies have provide significant support. But a **high degree of uncertainty** surrounds the outlook domestically and abroad. The main source of uncertainty is the evolution of the **pandemic** and medical developments*

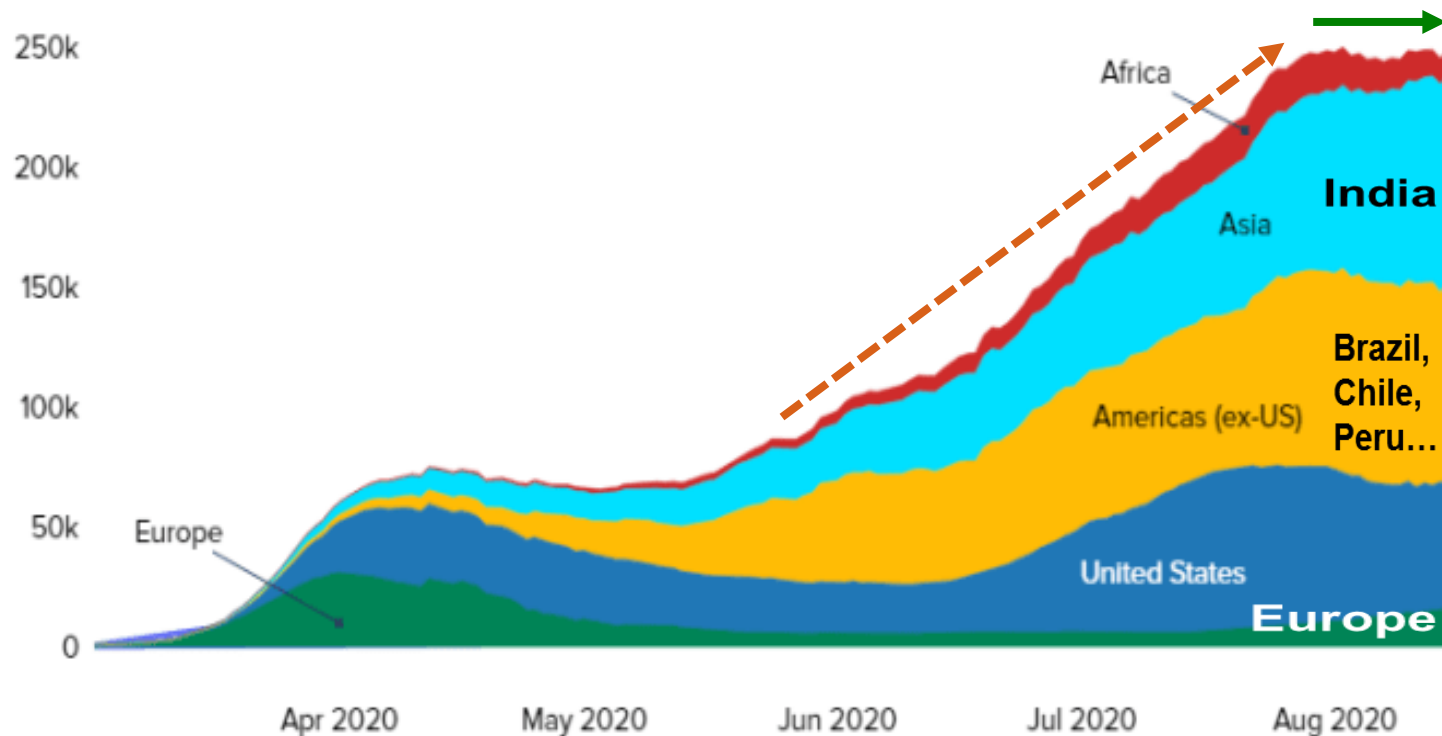
*Indeed, a **resurgence in new cases** has already led to the reinstatement of containment measures in some economies, which has slowed their recoveries, including in Australia.*

*Beyond the direct effects from reinstated containment measures, there is also considerable **uncertainty** over the **voluntary response from households and businesses.**”*

Reserve Bank’s Statement of Monetary Policy, August 2020, pg 89

Global coronavirus cases

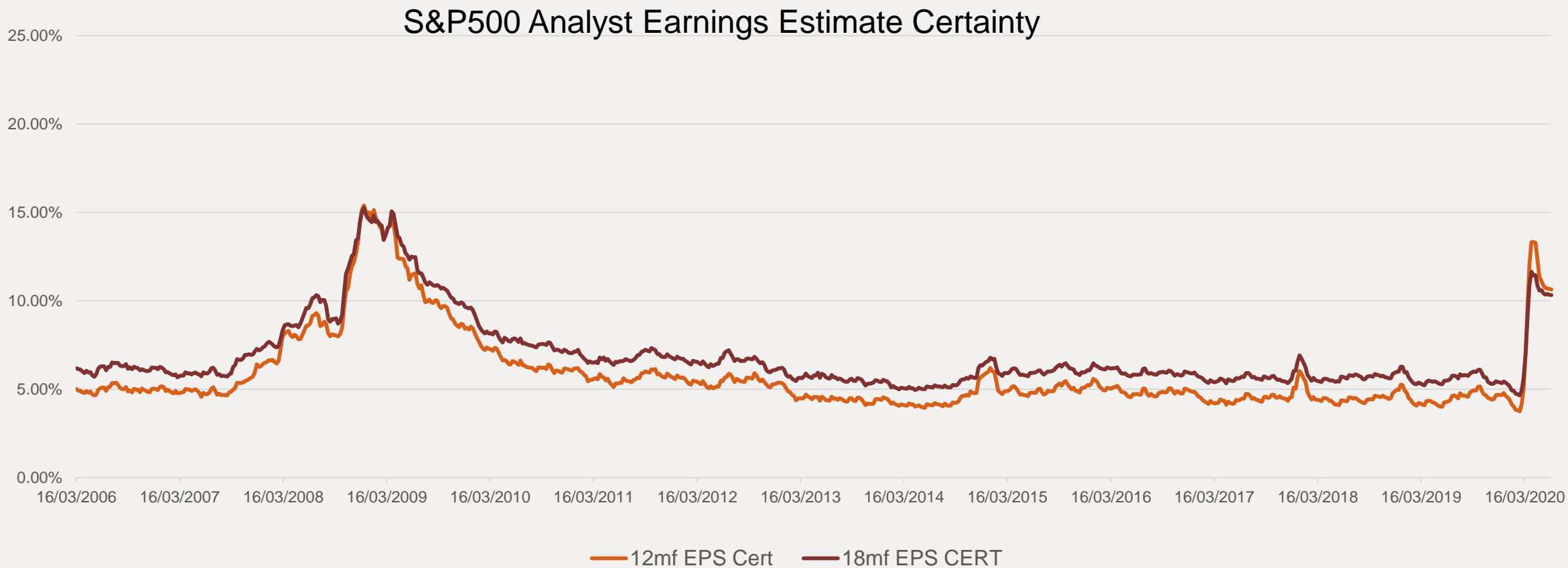
New reported cases daily, 7-day moving average



- New Coronavirus infection cases appear to have peaked in Europe
- The US appears to be suffering a second wave
- Case are accelerating in India, South America and Africa

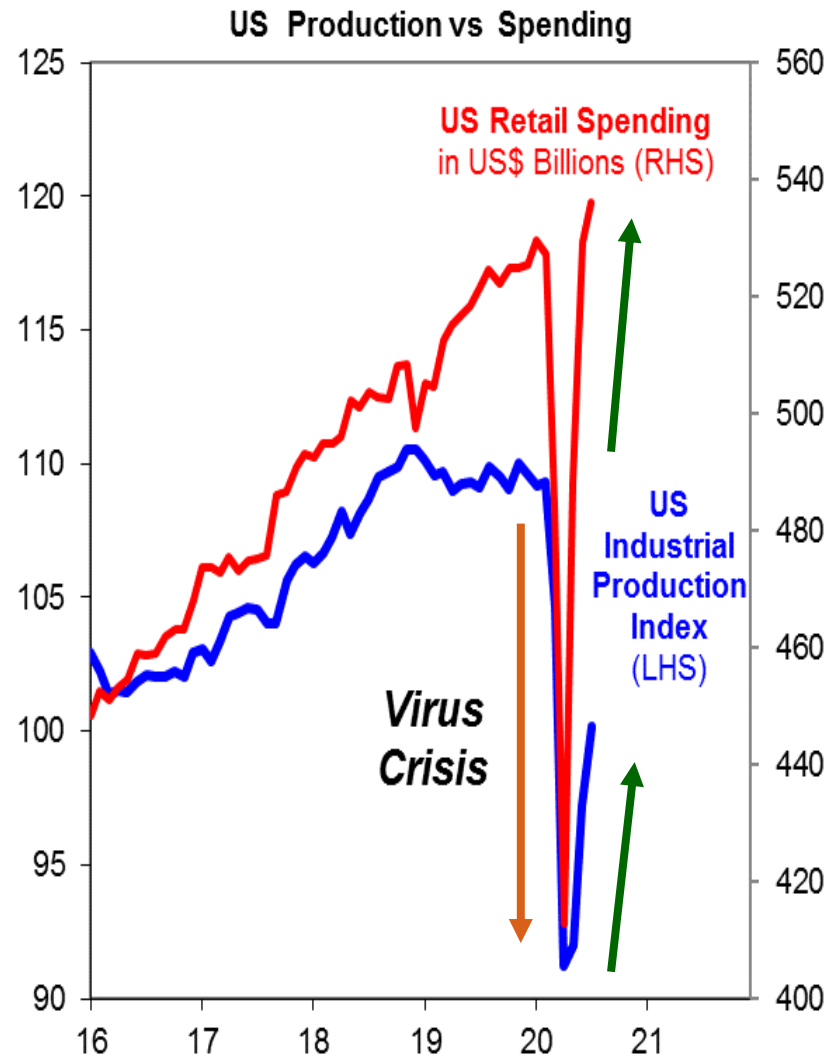
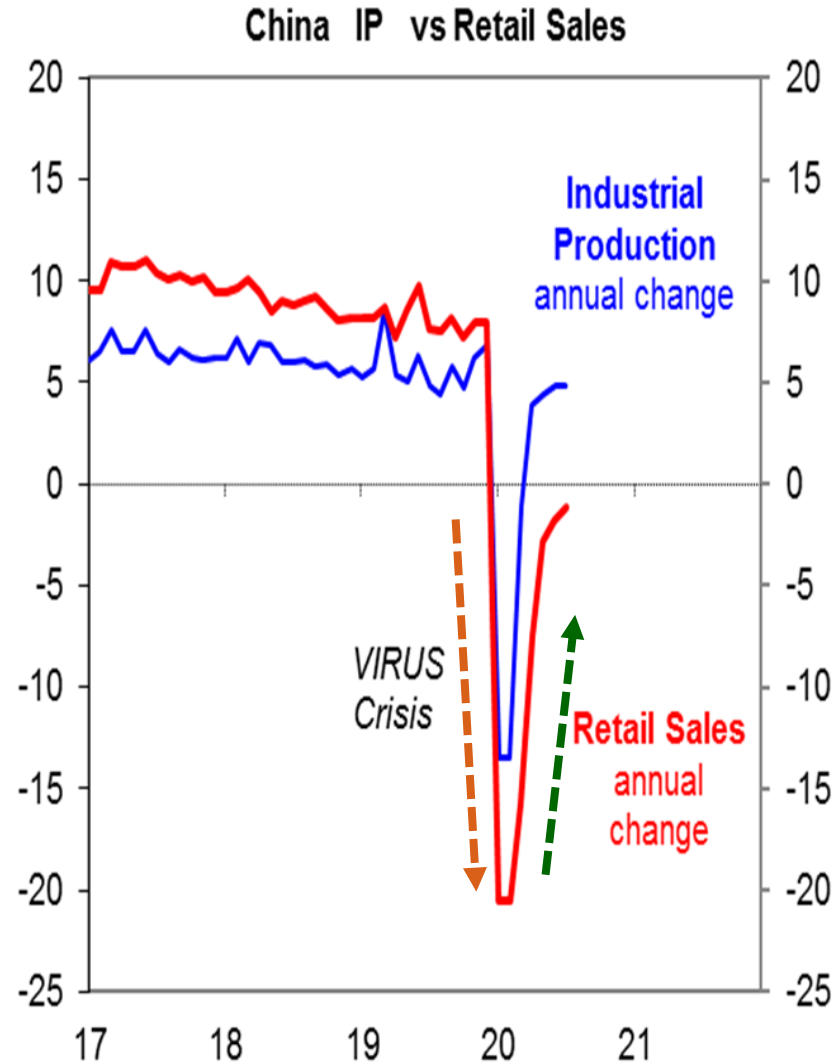
Source: John Hopkins University

Uncertainty - there is no consensus



Source: IBES. S&P500 Aggregated standard deviation of analyst forecasts compared to the aggregated mean.

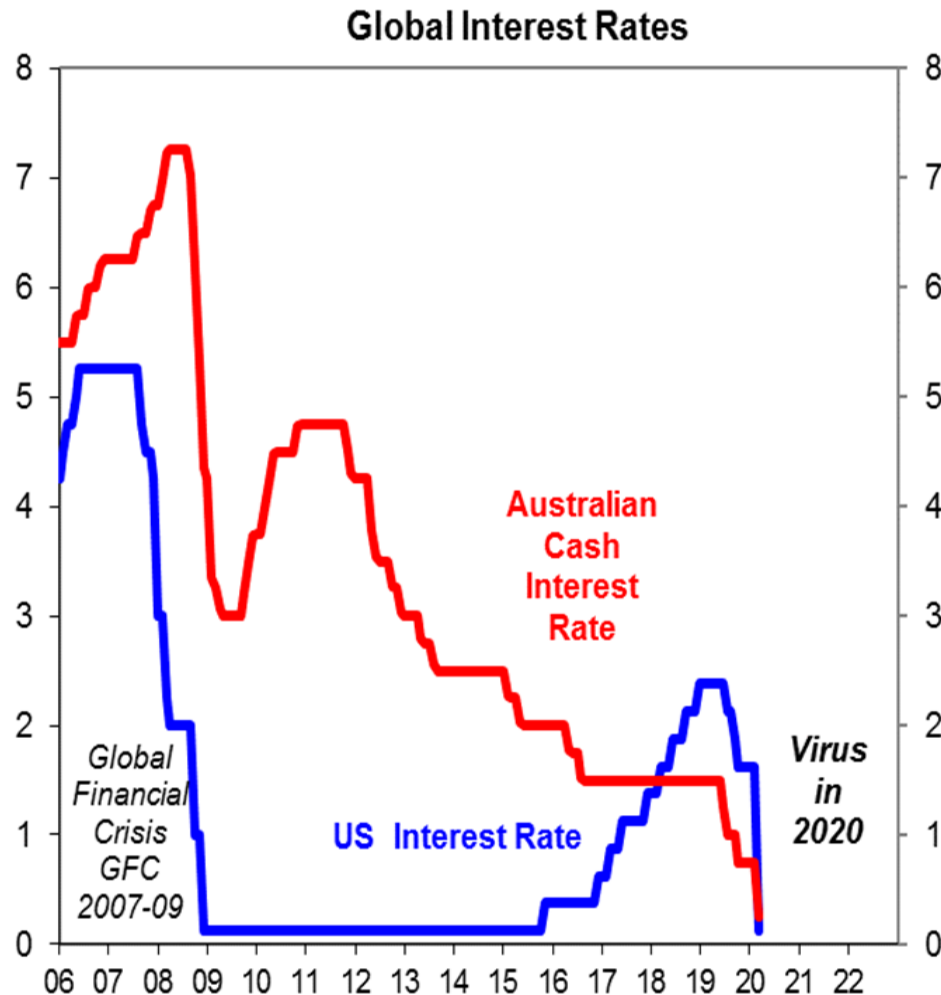
China and the US economy are showing recovery signs in recent months but performance is mixed



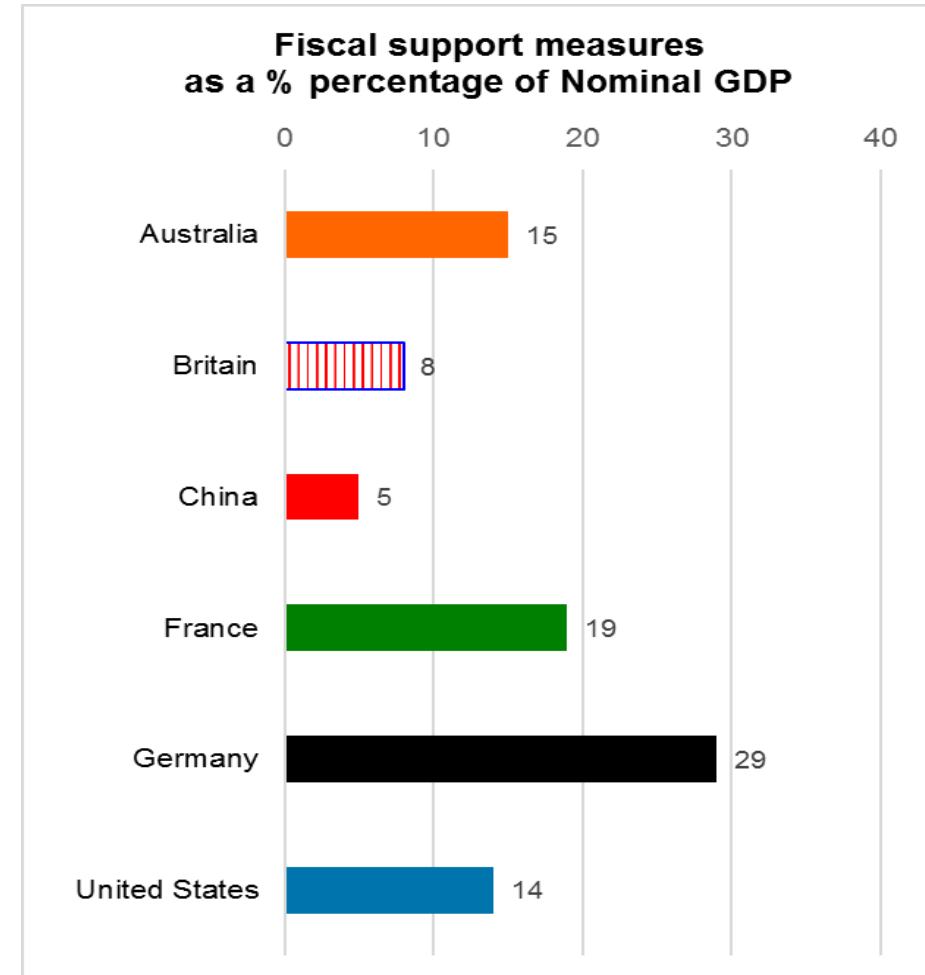
Source: Refinitiv Datastream, NBS(China) and FED St Louis

Central banks have cut cash interest rates and made asset purchases to support economic and credit activity

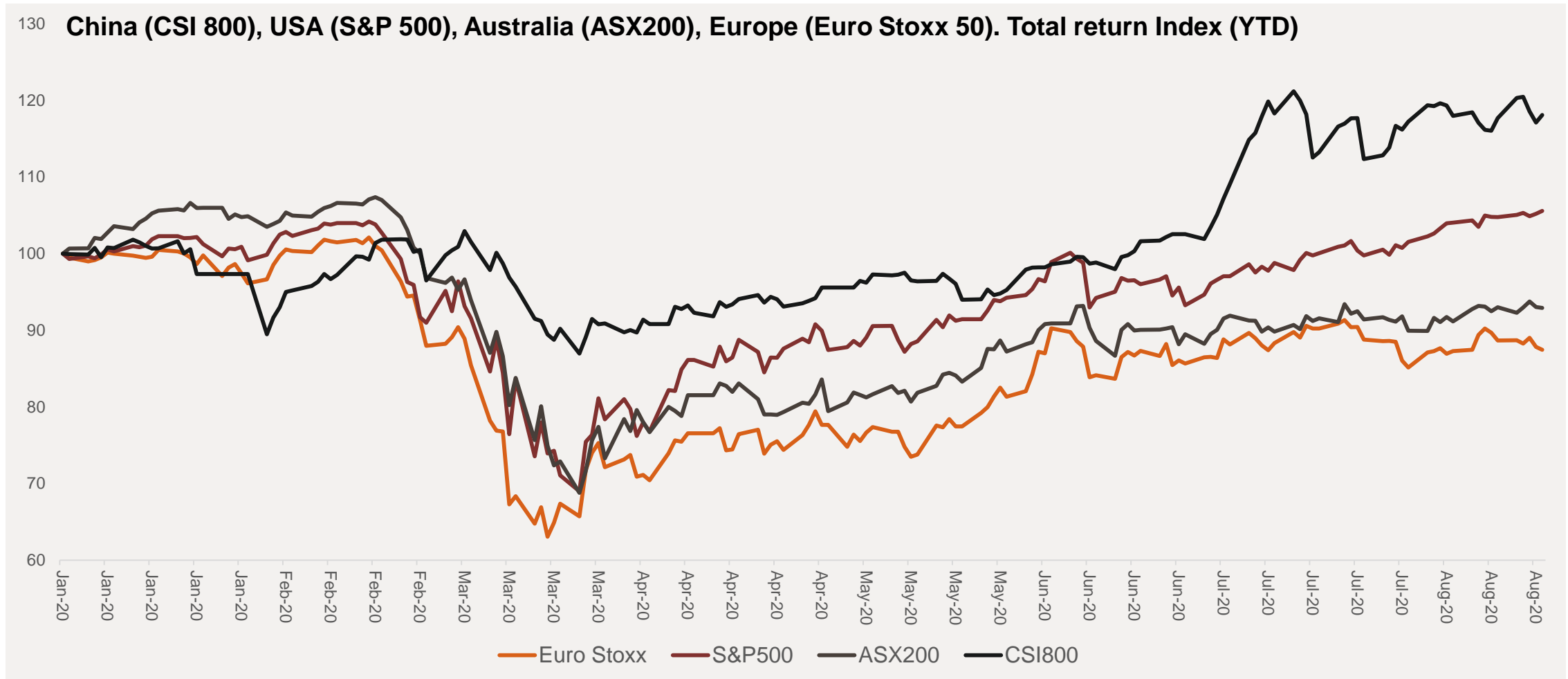
Governments have pledged large fiscal packages as well



Source: RBA, FED and IMF

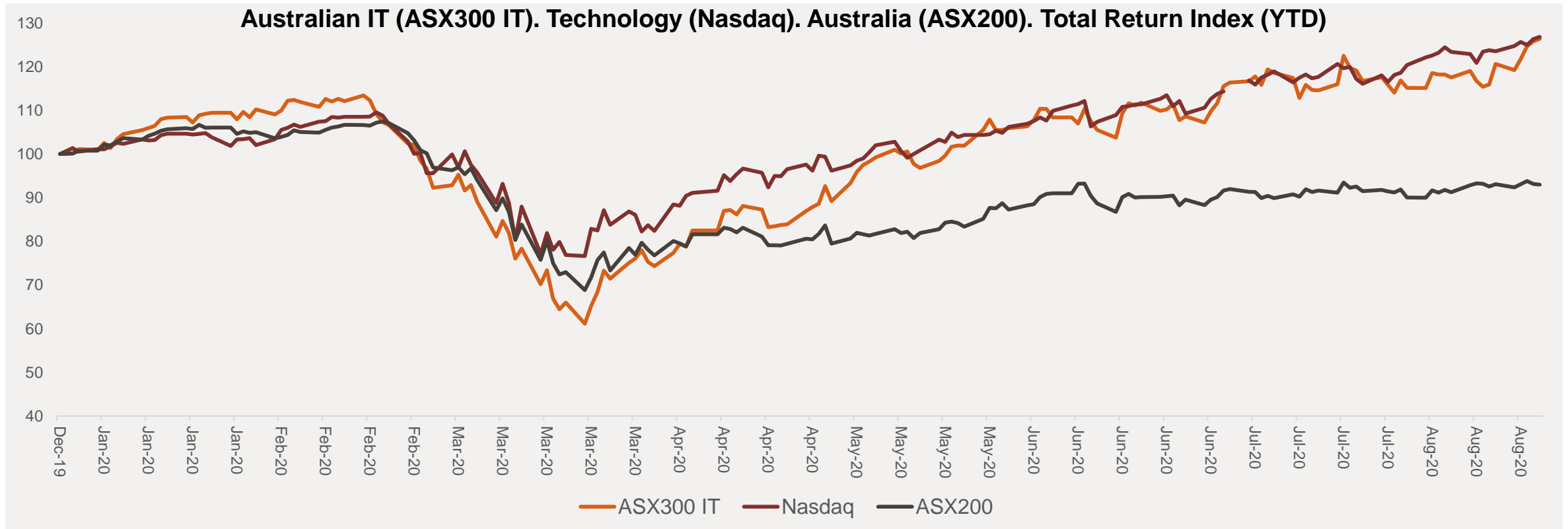


Markets appear to be disconnecting from the economy



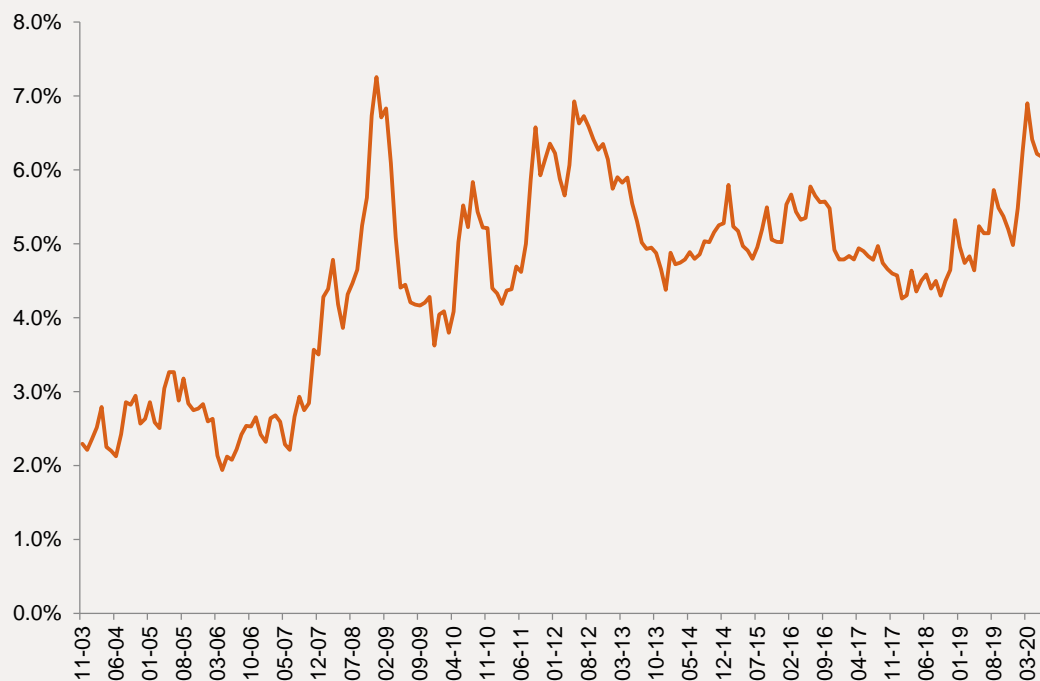
Source: Bloomberg

Is this time different?

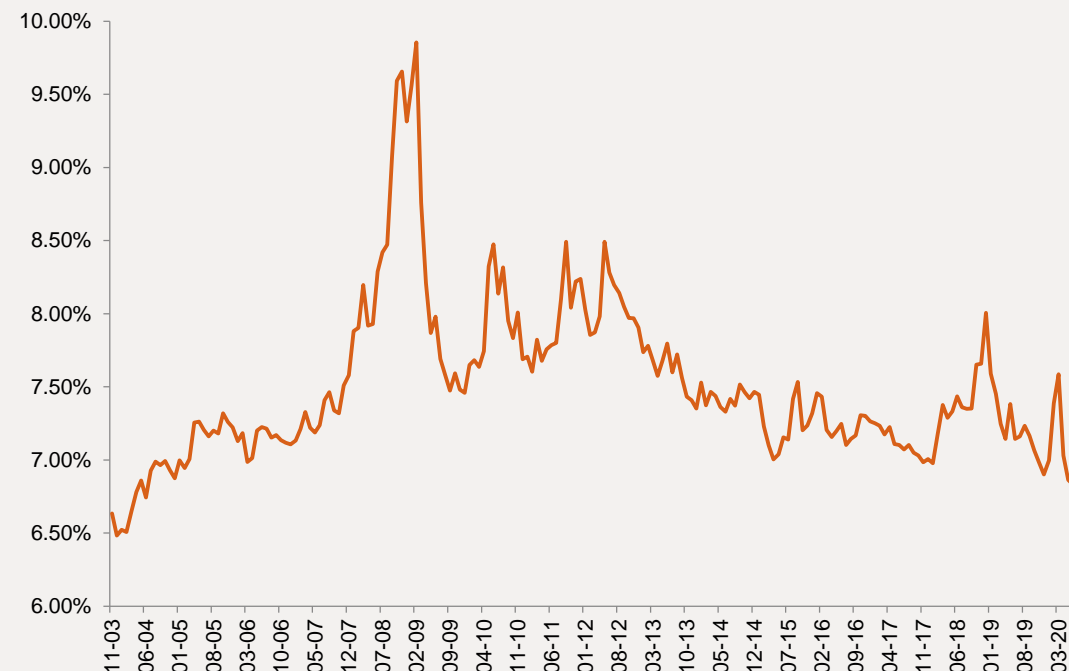


Extortionary low rates challenge asset allocation

S&P500 – Equity Risk Premium



S&P500 – Internal Rate of Return (Earnings Yield)





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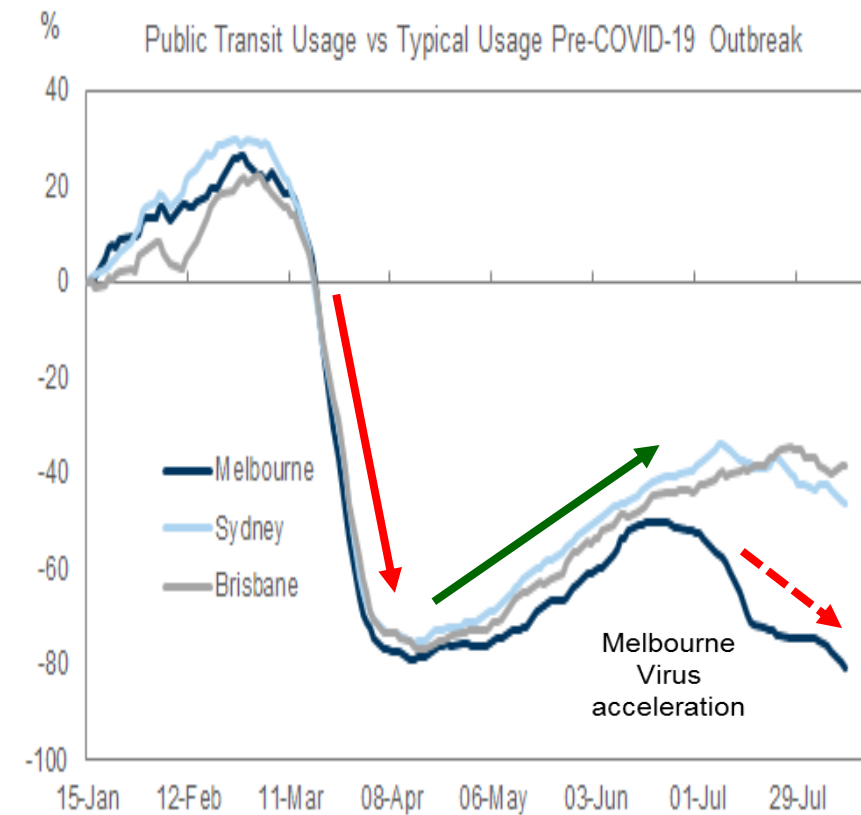
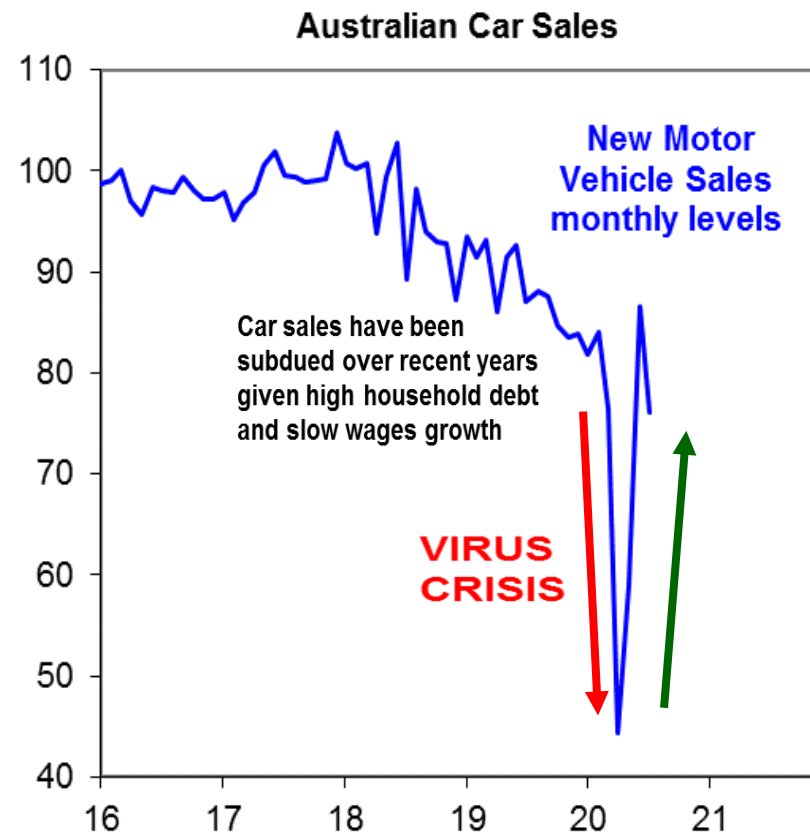
A challenge for the role of fixed interest

Focus on its ability to provide liquidity and seek other defensive assets

Australia's economic activity measures showed some signs of recovery in May and June...

However, this data is prior to the Melbourne virus outbreak

Australia's economic activity came to a 'sudden stop' in March and April as seen in car sales and public transport usage collapsing. Recent data shows a rebound in May & June but renewed slide in July



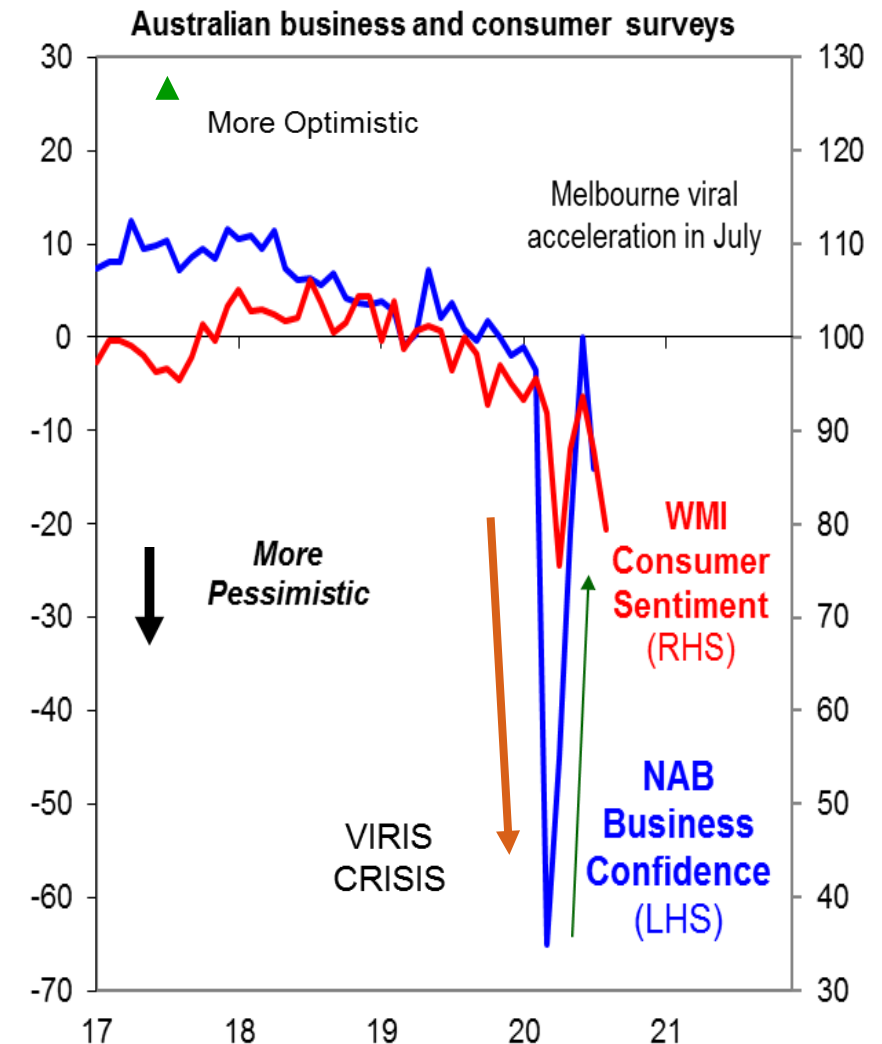
Are policy measures enough to turn the Australian economy from recession to recovery?

This depends on our resilience

The NAB business survey shows confidence slumped in March with the virus:

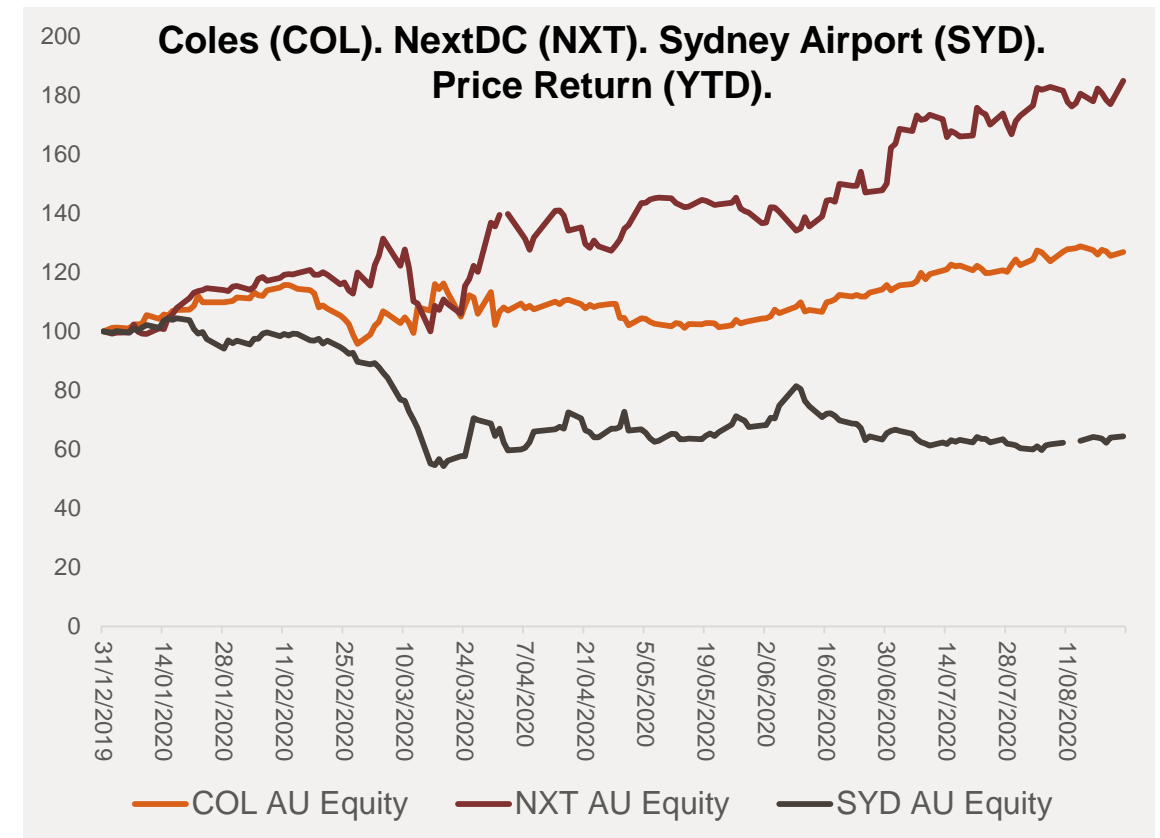
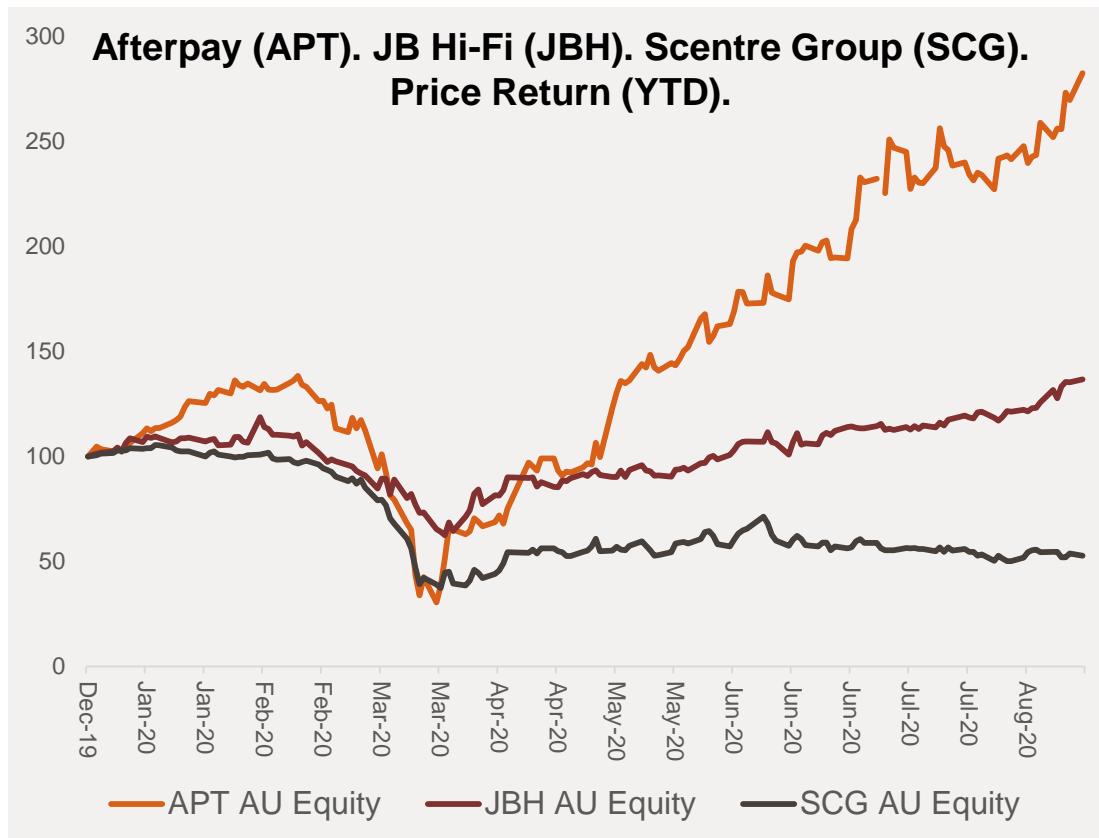
- “Business confidence saw its largest decline on record(to) its weakest level in the history of the NAB business survey”
- **Business confidence** has partly rebounded from March’s grim reading of -65 to July’s -14.
- **Consumer sentiment** also recorded its sharpest ever monthly decline in April to 75.6. There had been a modest revival with **consumer sentiment** managing to climb to 87.9 in July.

However July’s virus acceleration in Melbourne shows that Australia is still in a precarious position. The recent progress in virus containment and rebound in business and consumer confidence is now at risk.



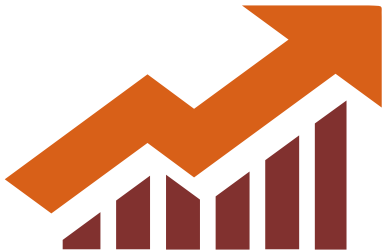
Online transition accelerated

Defensive challenge



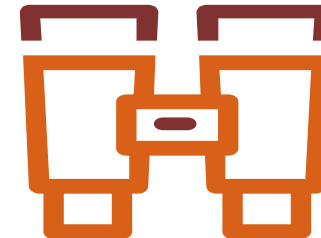
Recovery signals to watch for

Financial signs that risk taking is improving



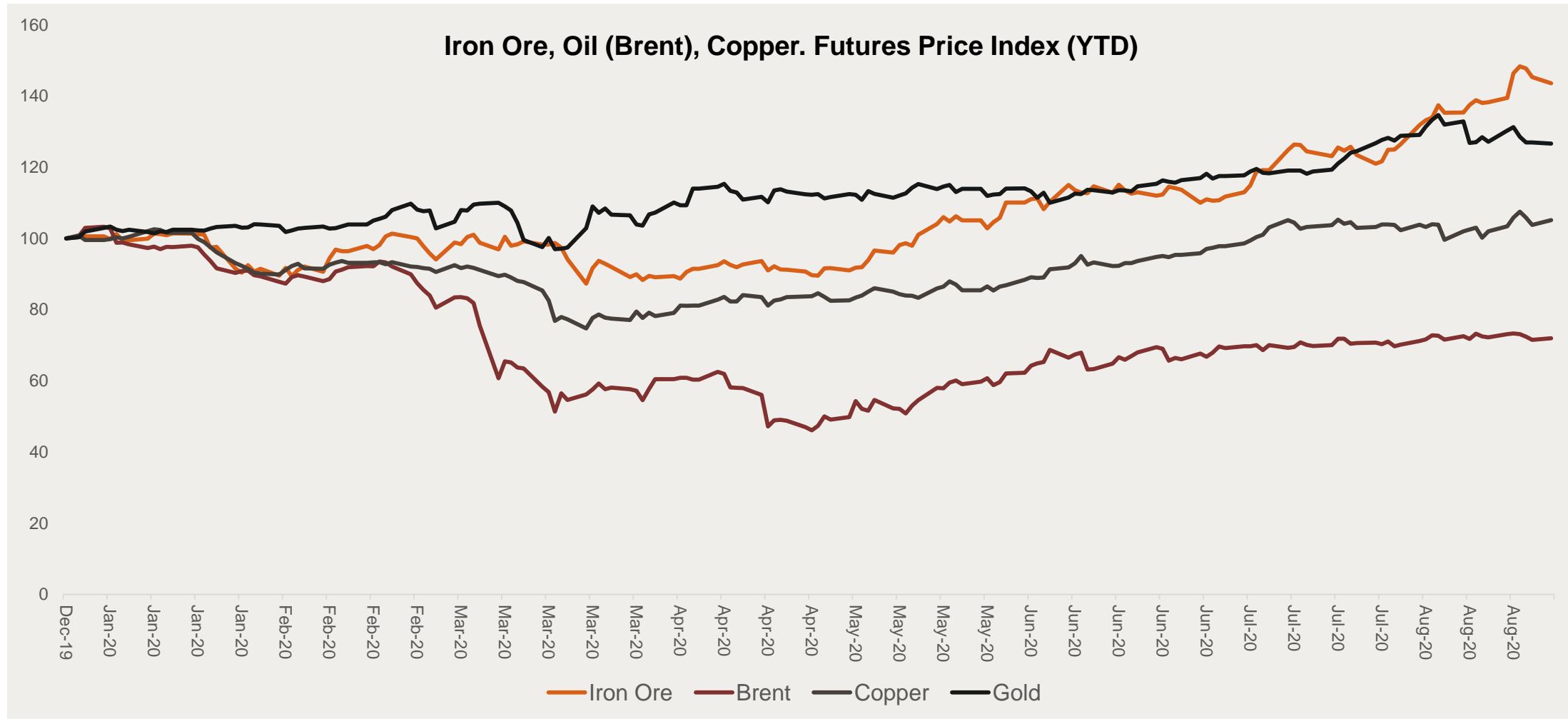
- **Credit spreads start to fall** e.g. Investment Grade and High Yield
- **Commodity prices rise** e.g. Copper and Oil
- **Longer duration Government Bond Yields rise** and the Yield Curve sharply steepens (longer term bonds see yields rise faster than shorter bonds)
- **Share markets making solid monthly gains** with VIX volatility falling

Leading economic indicators that could signal the worst is over



- **Global business surveys stabilise** – *Australia's NAB, Global PMIs...*
- **Consumer surveys are resilient** – *Melbourne Institute, US Michigan ...*
- **New car sales and house building approvals increase...**
- **Anecdotal signs ... cafes are open and busy, traffic volumes pick up**

Different commodities tell very different stories



**Any questions?
Please feel free to make contact at**

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Thank You. Please stay safe and sane.