

Market Commentary. October 2020

October started as a “risk on” month for equities however from the 19th October onwards markets started turning downwards. Australian equities ended the month slightly positive whereas international equities ended the month in the red. The rationale for this disparity is twofold. Firstly, COVID-19 daily cases in the northern hemisphere accelerated into the end of the month to a point of hitting record daily rates of infection in the US and in some European countries. Investors also looked to reduce risk ahead of the US Presidential Election in November. Conversely, Australian COVID-19 cases appear well under control with Victoria emerging from lockdown towards the end of October and state borders starting to open. Importantly, Australia’s major trading partners in the Asian region are also doing relatively well in managing COVID-19 allowing their economies to sustain economic recovery.

In early October Australia’s delayed Federal Budget was delivered by Treasurer Josh Frydenberg. Key features of the budget included Australia’s net debt to peak in 2024 at \$966 billion – around 44% of Australia’s GDP – and the bringing forward of second stage personal tax cuts to bolster consumer confidence. The improvement in unemployment will be relatively slow with unemployment forecast to peak in December at 8%.

On November 3rd the RBA, as highly anticipated, cut the Australian cash rate to a new record low of 0.1%, additionally the RBA announced further Quantitative Easing by committing to purchase A\$100 bn of government bonds with a maturity date of between 5- and 10-years maturity over the next six months, this equates to the RBA owning ~15% of Australian government bonds on issue. The RBA also noted that it is unlikely that an interest rate rise will occur within the next three years.

The Australian equity market rose 1.9% in October with Information Technology (+11%) and Consumer staples (+5%) doing the heavy lifting whilst Industrials (-4%) were the main detractor. Overseas International equities fell by 3.2% on a currency-hedged basis while a lower AUD (down 2% against the USD to close at US\$0.7028) helped lessen the losses for unhedged investors to -1.1% for the month.

In anticipation of an RBA rate cut on Melbourne Cup Day the Australian yield curve steepened in October with the 10-year government bond yield rising by 4bps to 0.78% whilst the 2-year government bond yield fell by 5bps to 0.11%. In the US the 10-year government bond rose 19 bps to close at 0.87% and the 2-year government bond yield rose by 2bps to close at 0.15%.

Benchmark Returns 30 October 2020

Period Ended: 30 October 2020	1 Month	3 Months	6 Months	1 Year	3 Years	5 Years	10 Years
	%	%	%	%	% (pa)	% (pa)	% (pa)
Australian Shares							
S&P / ASX 100 - Accumulation	2.09	0.78	8.36	-8.58	4.17	6.72	7.17
S&P / ASX 300 - Accumulation	1.89	1.22	9.09	-7.91	4.22	6.89	6.86
S&P / ASX Small Ordinaries - Accumulation	0.46	4.69	15.10	-2.40	4.63	8.56	3.24
International Shares							
MSCI World ex-Australia in AUD Hedged (Net)	-3.19	-0.25	10.36	1.12	4.90	7.98	10.99
MSCI World ex-Australia in AUD unhedged (Net)	-1.13	1.99	4.90	2.70	9.25	8.52	12.49
Australian Cash and Bonds							
Bloomberg AusBond Bank Bill Index	0.01	0.03	0.05	0.51	1.35	1.59	2.52
Bloomberg AusBond Composite Bond Index	0.28	0.93	1.91	4.00	5.67	4.53	5.61
Australian Property							
S&P / ASX 300 A.REIT - Accumulation	-0.28	6.41	13.24	-17.18	3.26	4.93	9.76

Important Information

This article is a publication of Australian Unity Personal Financial Services Limited ABN 26 098 725 145 (AUPFS), AFSL 234459. Its contents are current to the date of publication only, and whilst all care has been taken in its preparation, AUPFS accepts no liability for errors or omissions. The application of its contents of specific situations (including case studies and projections) will depend upon each particular circumstance. This publication is general in nature and has been prepared without taking into account the objectives or circumstances of any particular individual or entity. It cannot be relied upon as a substitute for personal financial, taxation, or legal advice. This article was produced on 09 November 2020. © Copyright 2020

 November 9, 2020