

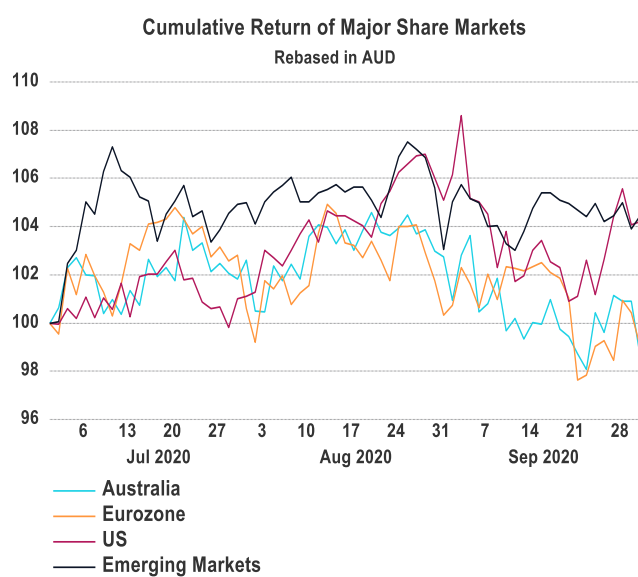
MARKET & ECONOMIC UPDATE

September 2020 Quarter

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MARKETS IN REVIEW

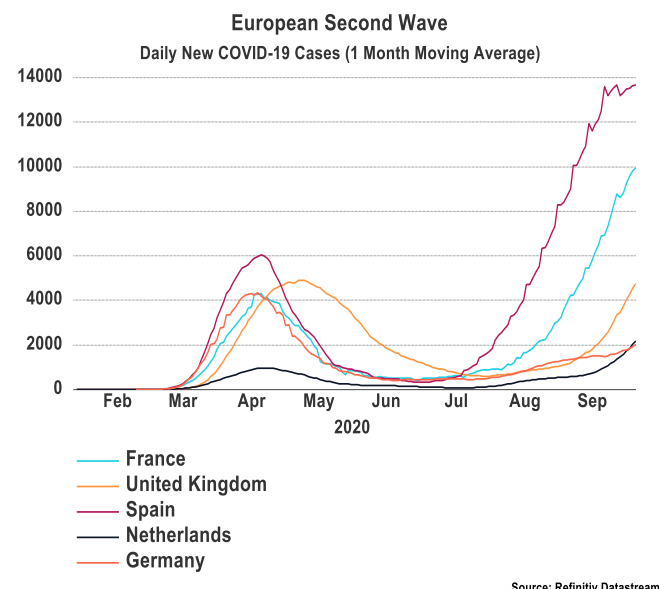
Global share index performance in the quarter ending September 2020 reflected the uncertainty in the global economic and political landscape as markets signalled mixed signs of recovery. The first months of the quarter saw a general improvement in global markets. However, in late August markets began to price in a slower recovery on the back of COVID second-waves and the political uncertainty surrounding the United States presidential election.



While Australia and Europe were the best performing markets at the end of the June quarter, this has now faded. The United States, largely on the back of the IT and Consumer Discretionary sectors, and Emerging Markets realised gains for the end of the September quarter with 4.2% and 4.5% returns respectively. Australia and Europe were slightly negative, rebased in Australian dollars with -0.95% and -1.4% respectively.¹

A resurgence of COVID cases in Victoria throughout the quarter dimmed Australia's prospects of emerging out of the recession quickly as new lockdown restrictions were implemented in Melbourne, one of Australia's largest cities. In Europe several major economies have been

affected by a large second-wave of infections. COVID had been a major driver in the sub-optimal performance of the share markets in these regions.



RESERVE BANKS & GOVERNMENTAL PRESSURES

During the September quarter the Reserve Bank of Australia (RBA) was under pressure to do more for a faster economic recovery, with speculation that cash rates would be lowered from the current 0.25% down to 0.1%. The RBA requested the government to implement larger fiscal spending to aid economic recovery. *Note: As at the time of writing the cash rate remains at 0.25% and the government has released stimulus measures in budget.*

The Federal Reserve Bank in the United States indicated that rates will be staying low for years to come. Assurance that they have got tools to use in case of further economic and market turmoil was provided as well as continued pressure on

¹ Reuters 2020

government to pass more fiscal stimulus. The Federal Reserve made a significant change to their inflation target, stating that they will tolerate higher price gains to offset the falls in inflation that have been exacerbated since the global economy fell into recession. This was seen as a significant change in policy.²

The European Central Bank (ECB) remained cautious with their comments as they expect further downside risks from the pandemic. The recent rise in cases continue to hurt business and consumer activity.³ Again, stimulus is being requested from governments to aid the recovery. The Bank of England is having increasingly positive attitudes towards negative interest rates.⁴

THE UNITED STATES PRESIDENTIAL ELECTION

The United States presidential election remains the largest source of political uncertainty weighing on markets. As political division continues within the US, markets are attempting to understand the differences between a Donald Trump and Joe Biden election result. A Biden administration has been perceived to be generally negative for markets with a Trump victory positive. It is hard to determine if this is accurate as both candidates will likely implement the continued trend of high levels of fiscal spending which markets are likely to see as highly favourable. A victory by either opponent without winning both Congress and The Senate is also possible, meaning the winning party will have issues passing bills such as more fiscal stimulus, as has been seen recently.

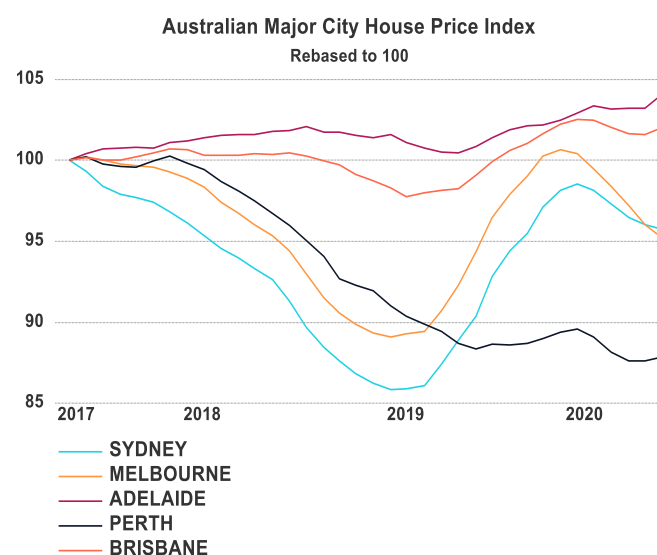
² Bloomberg 2020

³ Reuters 2020

⁴ Reuters

AUSTRALIAN PROPERTY

Australian property in major cities, such as Sydney, Melbourne and Perth, continues to be impacted by the current economic environment. However, Adelaide and Brisbane don't appear to be as affected as the other cities. House prices in Sydney and Melbourne have increased by approximately 100% since 2006.⁵ A fall from current prices in a recessionary environment is reasonable. Understanding how long they will continue to fall is difficult to determine in incredibly uncertain times. Housing in Sydney and Melbourne have not yet hit their three-year lows reached in early 2019. This will be an important level to watch over the next quarter.

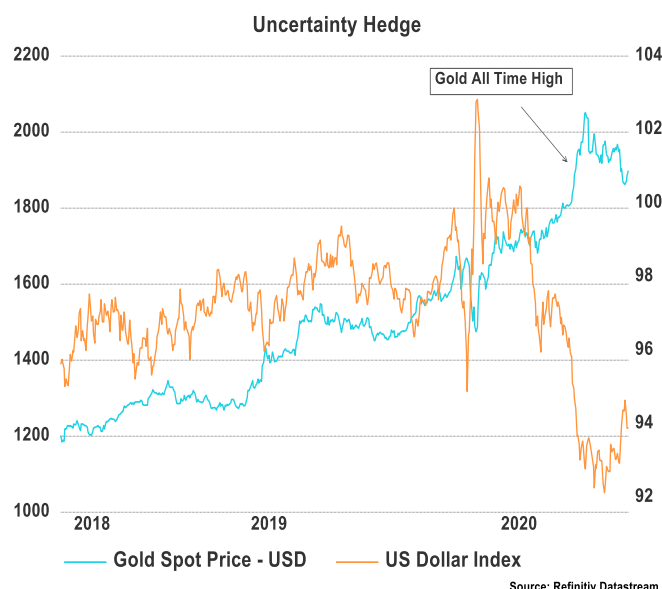


UNCERTAINTY HEDGE

The COVID-19 global recession has forced the governments and central banks around the world to conduct unprecedented levels of debt expenditure to fight the crisis. As with the Global Financial Crisis (GFC) of 2008, gold is being used as a hedge against uncertainty and fiat currency devaluation.

⁵ Reuters 2020

Surpassing its all time highs of the GFC, gold has been a source of positive returns, returning ~25% as at the end of the September quarter year to date (USD). A break down of the positive correlation between the US dollar and gold appeared after the



stock market meltdown in March. Gold will likely continue to perform well if governments continue to delve deeper into debt as a response to the COVID crisis. With the persistence of negative real yields, gold may continue to benefit.

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