RESEARCH UPDATE

Market Update

6 July 2020

This market update contains:

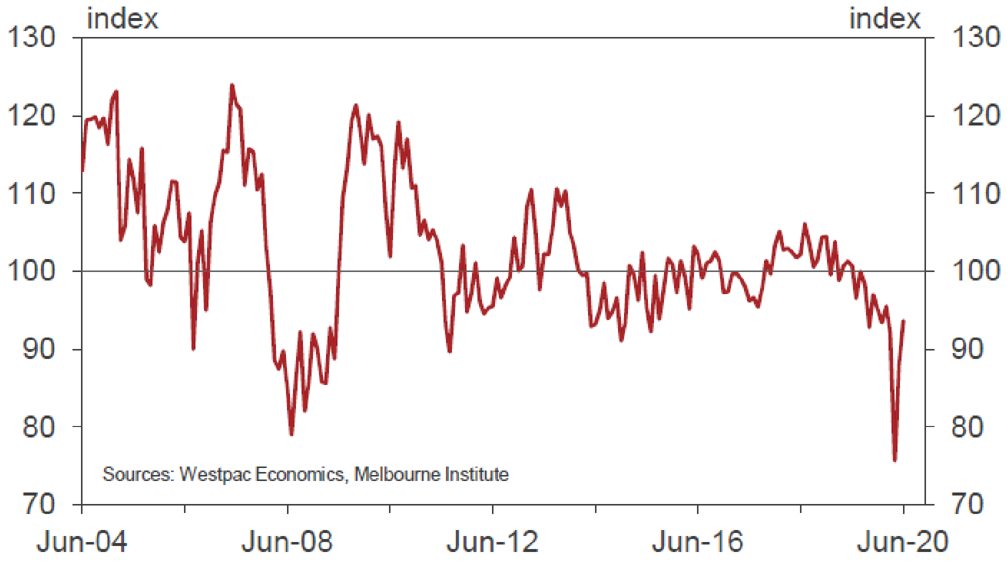
- COVID-19 economic update.
- COVID-19 investment implications.
- How investors should respond.
- Conclusion.

COVID-19 economic update

The effects of COVID-19 and associated lock down measures are being felt around the globe with unemployment at levels last seen during the 1930s. However, equity markets have rebounded, predominantly due to the significant global fiscal and monetary stimulus, investor optimism of the development of a vaccine and the easing of quarantine restrictions. There are also some tentative signs of an economic recovery.

The Westpac-Melbourne Consumer Sentiment Index measures how consumers feel about the overall state of the economy and their personal financial situation and consequently their willingness to spend. As shown in Graph 1, the Consumer Sentiment Index recovered to 88.1 in May from the low of 75.6 in April and is only marginally below pre-COVID-19 levels, driven by the containment of the virus and the significant fiscal stimulus.

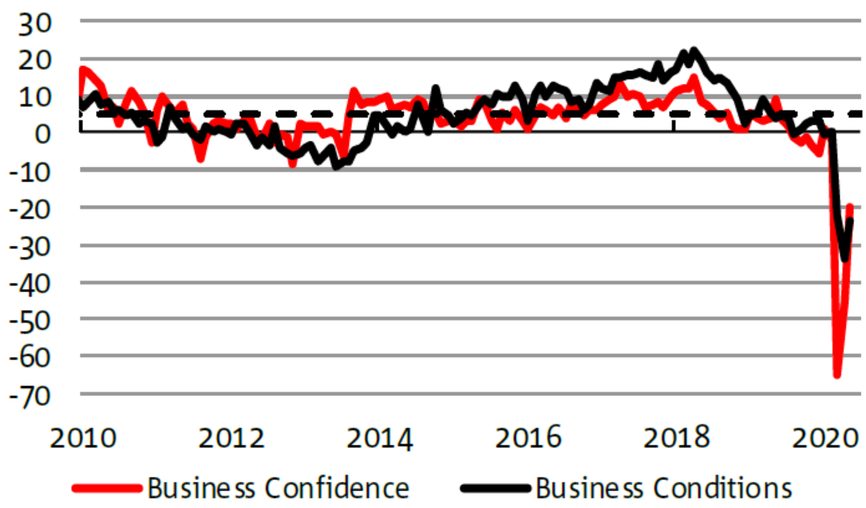
Graph 1: Westpac-Melbourne Consumer Sentiment Index



Source: Westpac Consumer Sentiment Bulletin, 10 June 2020.

The NAB Monthly Busines Survey measures both business confidence and business conditions and indicates the likelihood of businesses to invest in expansion by hiring employees or spending on new equipment. As shown in Graph 2, the Business Confidence index increased 25 points to -20 in June and the Business Conditions Index rose 10 points to -24. The increases were broad-based, spanning across several sectors of the economy, although many businesses remain cautious as to any further improvement.

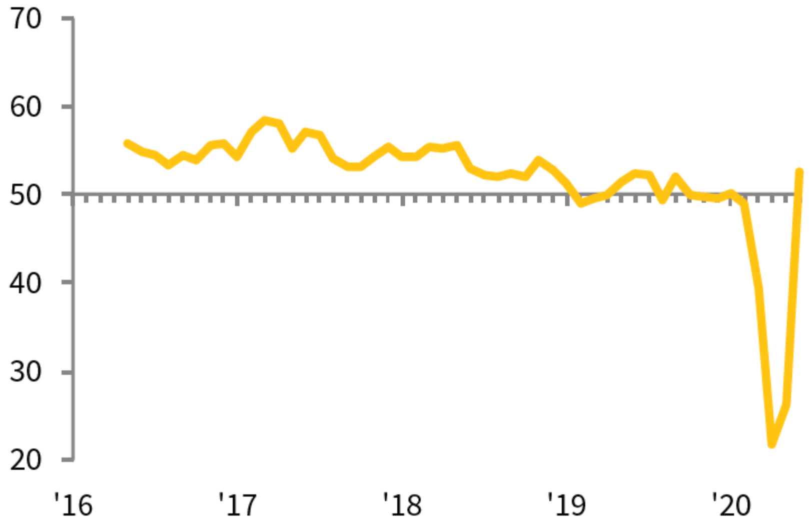
Graph 2: NAB Monthly Business Survey



Source: NAB Monthly Busines Survey, 9 June 2020.

The Commonwealth Bank Flash Composite Purchasing Managers' Index (PMI) is a monthly survey that measures the expected output of the Australian Manufacturing and Services sector. A reading above 50.0 signals an improvement in business activity on the previous month while readings below 50.0 indicate a deterioration. As shown in Graph 3, the PMI recovered to 52.6 in June from 28.1 in May. Companies remained cautious as to new hiring's but the rate of job cuts easing.

Graph 3: Commonwealth Bank Flash Composite PMI



Source: Commonwealth Bank Purchasing Managers' Index Report, 23 June 2020.

The three indices mentioned above are leading indicators, which means they are meant to assist in predicting what is expected to occur in the economy. Two of the three indicators remain below normalised levels, however, all three indicators are showing an improvement following the apparent containment of the virus in Australia and the easing of quarantine restrictions. Similar leading indicators have also shown an improvement in China, the Eurozone and the United States.

There is still uncertainty as to whether other countries will be able contain COVID-19, whether there will be secondary outbreaks, the timing of a vaccine and the real impact on the economy as fiscal stimulus is withdrawn. Markets have rebounded strongly, however, sentiment towards each of these factors can change quickly and there is a significant risk of another market decline. The timing or likelihood of a market downturn is difficult to determine and investors are better placed to remain focused on the long-term goal, take the opportunity to raise cash if needed, whilst being prepared to take advantage of investment opportunities that any further market volatility may present.

COVID-19 investment implications

COVID-19 and Government restrictions have altered both consumer and business behaviour, which can impact existing investments whilst also creating new investment opportunities. Some of the short-term beneficiaries are:

- *Youth Fashion retailers*: the 'JobKeeper' program has resulted in a wage increase for many younger workers which has resulted in increased sales for youth fashion retailers.
- *Hardware retailers*: quarantine measures have resulted in increased sales for hardware retailers due to the increase in 'DIY' projects being undertaken.
- *Electronic retailers*: the transition to home offices due to quarantine restrictions resulted in increased demand for home office and computer accessories.
- *Supermarkets:* panic buying resulted in households stocking up on pantry and toiletry supplies. As schools and offices were shut the number of meals eaten at home increased leading to demand for different goods within supermarkets.
- *Automotive retailers*: the economic uncertainty has resulted in a decline in new motor vehicle purchases. As older motor vehicles are retained this will increase demand for replacement automotive parts.
- *Energy and gas retailers:* charge more for retail gas and electricity usage than large scale commercial offices. As commercial offices were closed there was an increase in retail usage as more time was spent at home.
- *Telecommunications:* as workforces transitioned online there has been increased demand for internet and IT services.
- *Private health insurers*: the closure of health clinics, chiropractors and dentists resulted in fewer claims on health insurance policies which will result in lower expenses for insurers.
- *Toll roads*: as quarantine restrictions are eased there is likely be an avoidance of public transport resulting in increased toll road revenue.
- *Crash repairers*: an increase in private vehicle usage will result in an increase in traffic and demand for crash repairs.

This is not an exhaustive list and it is important to consider that some of these trends may only be temporary or may not be investable. If there is another market decline, it may present another opportunity to purchase quality assets that undervalues an asset that is only temporarily impacted. The Apt Wealth Partners investment team and your adviser are regularly reviewing your portfolio in light of changing trends to assist you in meeting your long-term objectives and to take advantage of any opportunities that may be presented.

How Investors should respond

Actions that have already been taken

1. *Regularly rebalance the portfolio back to your risk profile:* to ensure that the portfolio is not exposed to unwanted risks and to also lock in profits.

2. *Maintain a buffer of safety:* despite the low interest rate environment, holding a buffer of cash and term deposits has been a key strategy for client portfolios to provide a cushion against market downturns and to protect capital.

3. *Focus on quality investments:* that generate stable cash flows to support distributions, which are not connected to the movements in asset prices.

4. *Diversification:* across assets classes, industries, sectors and geographies.

Actions to take

1. *Remain calm, speak to your Apt adviser*: it is important that you speak to us before making any financial moves. Your adviser understands your long and short-term goals and will have been planning for these types of scenarios already, so they are best placed to explain any impact and discuss the best options and opportunities for you personally.

2. *Don't try and time the market. Stay invested:* the equity market bull run has been running for over 10 years. Markets do not always go up. It will be volatile and even a well-constructed portfolio will not be immune to a market downturn. However, history shows that equity markets will recover strongly from sudden drawdown events. The low interest rate environment driven by Central Bank monetary stimulus and Government fiscal stimulus provides support for a market recovery.

3. *Stick to the plan:* focus on your long-term goals. Our investment approach is focused on the long term and designed so that your portfolio can ride out any downturns – including this one. Stay the course, despite how uncomfortable it may feel right now, it will prove to be the better option when looking back five years from now.

4. *Take advantage of the weakness:* market downturns provide buying opportunities to invest in long term, quality investments.

Conclusion

Market volatility may return in the short term which may present opportunities to purchase attractive assets at discounted prices or raise any required cash during periods of strength. The Apt Wealth investment team, along with your adviser, have an action plan to navigate through the current investment environment to ensure we continue to meet your long-term objectives.

The Apt team are monitoring COVID-19's impact on the market. We are here to help you navigate the current investment environment and keep you on track to achieve your financial goals. We have developed specific resources to help you financially navigate COVID-19. Please feel free to share this resource with your family and friends.

https://aptwealth.com.au/coronavirus-and-your-finances/