

# Market Wrap

## The recovery rally marches on

- **Global shares** rose 4.7% and 3.4% in hedged and unhedged terms, respectively.
- **Emerging markets** continued to struggle (down -0.6%) with political tension within Hong Kong and heightened US tensions driving Chinese equities lower for the month (China accounts for ~40% of the benchmark index making a major driver).
- **Australian shares** underperformed hedged global shares slightly, rising 4.4% in May. The Technology sector was the most notable performer (up 14.5%) after continued strength from Afterpay following strong user growth in the US and the announcement that Chinese tech giant Tencent had taken a 5% stake in the firm.
- The **Australian dollar (AUD)** continued its climb from late March lows with an 1.7% rise against major currencies. Coronavirus outbreaks continued to disrupt Brazilian iron ore supply, supporting iron ore prices and boosting Australia's current account surplus. This spurred AUD higher.
- **Fixed income** returns were positive with both Australian and international bond benchmarks rising 0.3% during May. Domestic and US government bond yields were broadly unchanged while credit spreads continued to contract on following purchases by central banks and further stimulus announcements.

## As leading data begins to improve?

### Globally

- Global business surveys suggest continued weakness in the near term with the JP Morgan Global Manufacturing PMI remaining in contractionary territory but rising slightly.
- The improvement in these and other leading indicators however suggest the pace of the contraction is slowing and growth is beginning to improve particularly as countries exit lockdown measures.
- We note rising tensions between China and other countries over new national security laws in Hong Kong and a proposed coronavirus inquiry. To date these measures have had limited impact but if they continue to escalate, may exacerbate economic weakness.
- Riots erupted across the US sparked by the death of African American George Floyd. We continue to monitor the situation which may have political and economic implications as it progresses.

### Locally

- The RBA continued to leave rates on hold in line with its guidance and expectations.
- Australia's first recession began during the March quarter as a -0.3% fall saw government spending and exports being offset by weaker private sector demand.

## Major asset class performance

Asset classes	1 month %	1 year %	5 years (p.a.) %
Australian shares	4.4%	-6.7%	4.3%
Global shares (hedged to AUD)	4.7%	4.9%	6.3%
Global shares (unhedged)	3.4%	12.0%	9.0%
Global small companies (unhedged)	5.2%	2.1%	6.5%
Global emerging markets (unhedged)	-0.6%	-0.2%	3.8%
Global listed property (hedged to AUD)	0.1%	-18.7%	0.3%
Cash	0.0%	1.0%	1.8%
Australian fixed income	0.3%	4.9%	4.5%
International fixed income	0.3%	6.0%	4.4%

Source: Bloomberg & IOOF, 31 May 2020

Indices used: Australian Shares: S&P/ASX 200 Accumulation Index, Global shares (hedged): MSCI World ex Australia Net Total Return (in AUD), Global shares (unhedged): MSCI World ex Australia Hedged AUD Net Total Return Index; Global small companies (unhedged): MSCI World Small Cap Net Total Return USD Index (in AUD); Global emerging markets (unhedged): MSCI Emerging Markets EM Net Total Return AUD Index; Global listed property (hedged): FTSE EPRA/NAREIT Developed Index Hedged in AUD Net Total Return; Cash: Bloomberg AusBond Bank Bill Index; Australian fixed income: Bloomberg AusBond Composite 0+ Yr Index; International fixed income: Bloomberg Barclays Global Aggregate Total Return Index Value Hedged AUD

Please note: Past performance is not indicative of future performance

## Currency markets

Exchange rates	At close on 31/5	1 month change %	1 year change %
USD/AUD	0.67	2.4%	-3.9%
Euro/AUD	0.60	1.1%	-3.3%
Yen/AUD	71.9	3.0%	-4.3%
Trade weighted index	58.8	1.7%	-2.0%

Source: Bloomberg & IOOF, 31 May 2020. All foreign exchange rates are rounded to two decimal places where appropriate.

Please note: Past performance is not indicative of future performance.