

Flight to safety globally escalated

- **Global shares** fell -13.4% and -8.3% in hedged and unhedged terms, respectively. **Emerging markets** were relative underperformers (down -10.9%) as they were caught up in a flight to liquidity (cash) by investors seeking safe-haven assets instead. An oil price war triggered by Saudi Arabia also impacted emerging markets with their greater dependence on energy and other commodity exports.
- **Australian shares** underperformed global shares, falling -20.7% in March. This was driven by weakness in the Energy (down 38%) and Property (down 35.3%) sectors due to the fall in oil prices and the expected cost of the coronavirus-induced lockdown for landlords respectively.
- The **Australian dollar (AUD)** fell against major currencies by -4% attributable to expectations of weaker global growth from the coronavirus as well as the two interest rate cuts by the RBA. Rate cuts make our currency less attractive to hold due to the lower interest income.
- **Fixed income** assets struggled with the sell-off in corporate bonds offset the gains in government bonds. This saw slightly negative returns for **Australian and international fixed income**.
- The weakness in corporate bonds was due to the fears of economic recession and a flight to safety response among investors. This saw prices of corporate bonds fall substantially (global corporate bonds hedged to AUD fell 7.2% during March) dragging overall benchmark returns lower.

Major asset class performance

| Asset classes | 1 month % | 1 year % | 5 years (p.a.) % |
|--|-----------|----------|------------------|
| Australian shares | -20.7 | -14.4 | 1.4 |
| Global shares (hedged to AUD) | -13.4 | -11.1 | 3.9 |
| Global shares (unhedged) | -8.3 | 4.4 | 8.1 |
| Global small companies (unhedged) | -15.7 | -9.7 | 4.6 |
| Global emerging markets (unhedged) | -10.9 | -4.5 | 4.2 |
| Global listed property (hedged to AUD) | -23.4 | -24.5 | -1.5 |
| Cash | 0.1 | 1.2 | 1.8 |
| Australian fixed income | -0.2 | 6.8 | 4.2 |
| International fixed income | -1.7 | 5.6 | 3.9 |

Source: Bloomberg & IOOF, 31 March 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

As the likelihood of a coronavirus-induced recession increased...

Globally

- Global business surveys softened with the JP Morgan Global Manufacturing PMI remaining in contractionary territory (pointing to weaker economic growth).
- Coronavirus cases continued to grow substantially particularly in Europe and the USA with Italy, Spain and New York City now prominent hotspots.
- Major stimulus programs accounting for trillions of dollars have been enacted across the world to counter the likely recessionary impact.

Locally

- The RBA cut the cash rate by 0.5% from 0.75% to a new low of 0.25% by month-end citing concerns over the coronavirus outbreak's recessionary implications.
- The Australian government has committed to tens of billions in stimulus through increased welfare payments and a new business support payment to cover wage costs from May.

Currency markets

| Exchange rates | At close on 29/2 | 1 month change % | 1 year change % |
|----------------------|------------------|------------------|-----------------|
| USD/AUD | 0.61 | -5.9 | -13.6 |
| Euro/AUD | 0.56 | -5.8 | -12.1 |
| Yen/AUD | 65.9 | -6.3 | -16.2 |
| Trade weighted index | 54.7 | -4.0 | -9.6 |

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

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