

THOUGHTS ON THE MARKET

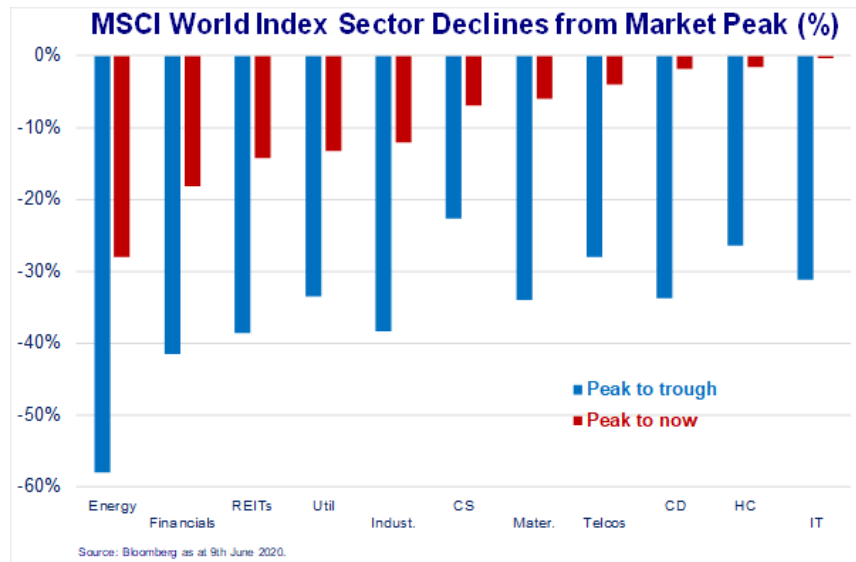
10th June 2020 - Concerns mount about the market rally

SUMMARY

- Global risk markets sold off overnight in a quiet session as concern mounted that the blistering rally in equity and credit markets in recent weeks had considerably overshot economic prospects. In the end, when you have an overbought market it does not take much to have a period of consolidation, but the selldown overnight was not large and was led by energy and industrial companies in both the equity and credit markets. In brighter news, the NASDAQ 100 briefly broke through the 10,000 level when Apple announced it is preparing to shift to its own main processors in Mac computers, instead of components from Intel.
- There was no significant economic data or policy announcements overnight although several wire services ran stories that US Republican members are not wanting another large stimulus round given last Friday's payrolls report which detailed improvements in US hiring. The modest decline followed the fact that the 10-week rally had 300 of the S&P 500 stocks trading ahead of their consensus 12-month target, relative to 2 in early March. The risk sell-off saw safe havens rally with the 10-year Treasury yield and the curve slope down -5 points to 0.83% and 0.67%, respectively. Gold rallied +0.9% to USD1715 per tor ounce, oil increased +0.5% to USD38.39 per barrel and G10 currencies rallied for the ninth straight day against the US dollar with the Yen (+1.5%), Sterling (+0.7% to a three month high) and Euro (+0.6% to a three-month high) all lifting, whereas the AUD slipped -0.2% (to USC69.60).
- Although final numbers are not in for another 5.5 hours, the number of global cases of COVID-19 stands at 7.2 million with another +67.5k cases so far overnight (before Brazil, Mexico and some US states report their numbers) which means that Tuesday is likely to be the 71st occasion in the past 72 days where daily increases have topped 70k). This means 3 countries have more than 400k cases, 7 countries have more than 200k cases, 16 countries have more than 100k cases, and 57 over 10k. It took 73 days to record 1 million cases, 13 days for the next million, 11 days for the third million, 12 days for the fourth million, ten for the fifth million, 11 for the six million and 8 days for the seventh million, and in the past 2 days another 185k cases have been confirmed. More importantly, the growth rate of daily confirmed cases (+1.8% since Saturday) has ceased declining having been close to 1.8% for the past 20 days. Meanwhile, deaths stand at 409.0k and the death rate dropped for a thirty-fourth straight day to 5.70%.

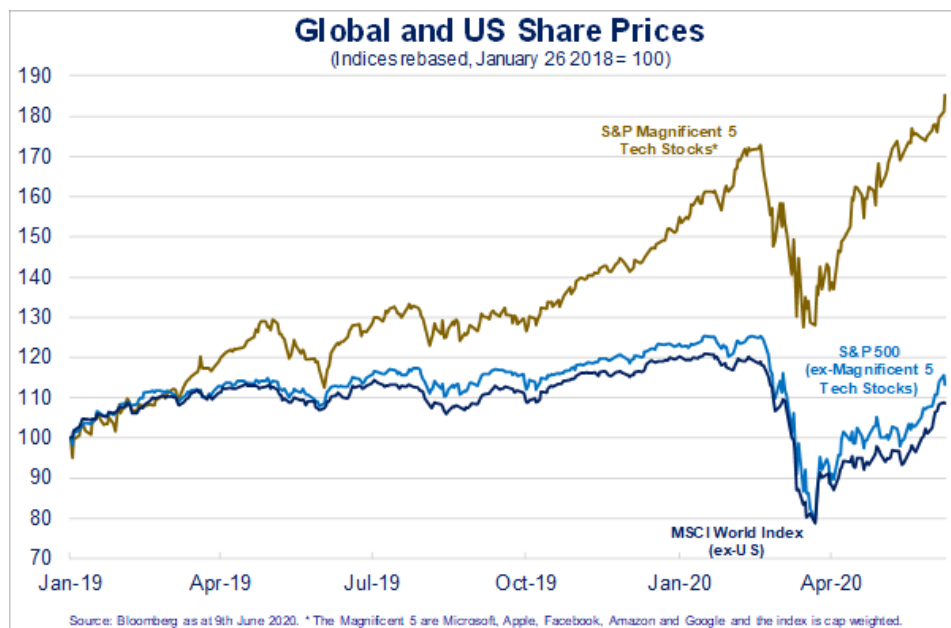
FINANCIAL MARKETS

- **EQUITIES**
 - The MSCI World Index closed -0.6% lower overnight. The decline was the largest in three weeks with 10 of the 11 sectors closing in the red. The largest losses were recorded in in value sectors which had rallied strong in recent weeks including energy (-3.1%), industrials (-1.6%) and financials (-1.6%), whereas tech (+0.3%) defied the broader market trend and closed high led by US names. The overnight movements had energy (-28.0% from its February price peak) the only sector in bear market territory, but financials (-18.7%) is not too far away, whereas IT (-1.3%) is potentially one day away from recovering all of its losses (see chart).



- Among the regions, Europe (-1.4%) led the pace of declines with not too many outliers on performance tables – the UK (-2.1%) and Spain were the largest drags, but Germany (-1.6%), France (-1.6%), Italy (-1.5%) and Belgium (-1.4%) were all quite bunched together. In the US the S&P 500 dropped -0.8%, but tech outperformed with the Magnificent 5 up +2.2% with Apple (+3.2%) leading the charge after announcing it was moving to drop its Intel components from main system and replace it with its own brand. This saw the NASDAQ 100 close +0.3% higher, but the Dow Jones dropped 300 points (-1.1%) to 27,272.

Earlier in Asian trade, markets were mixed with advances led by Australia (+2.4%) who returned from national holidays and caught up with Friday's surge on Wall Street. In other markets, Hong Kong (+1.1%) continued its recovery with geopolitical tensions pushed off the front pages and China increased +0.6% despite an absence of news, and Japan (-0.4%) fell back on the higher Yen.

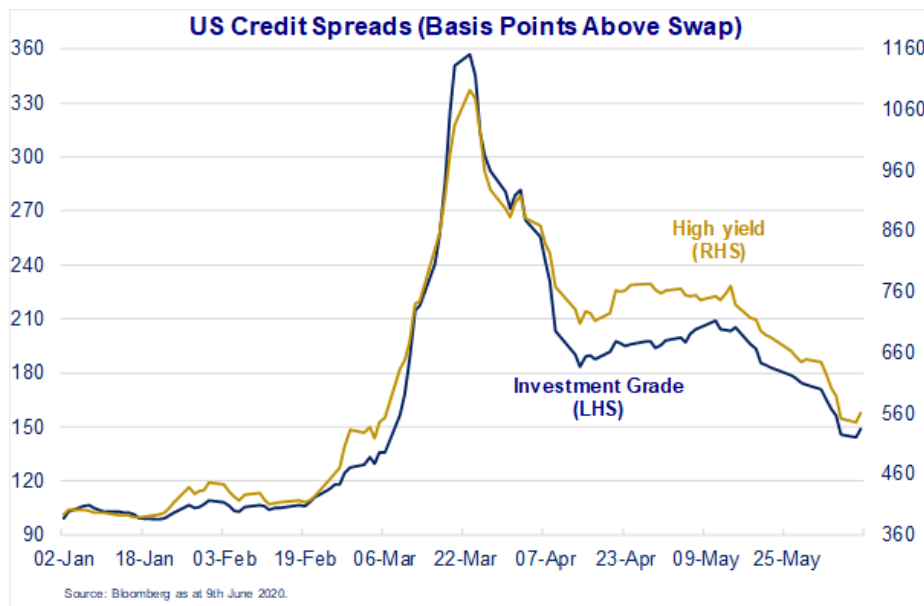


Futures markets suggest more losses at the opening bell in Australia (-1.5%) and Japan (-1.1%), a flat opening in Hong Kong and an increase in China (+0.6%).

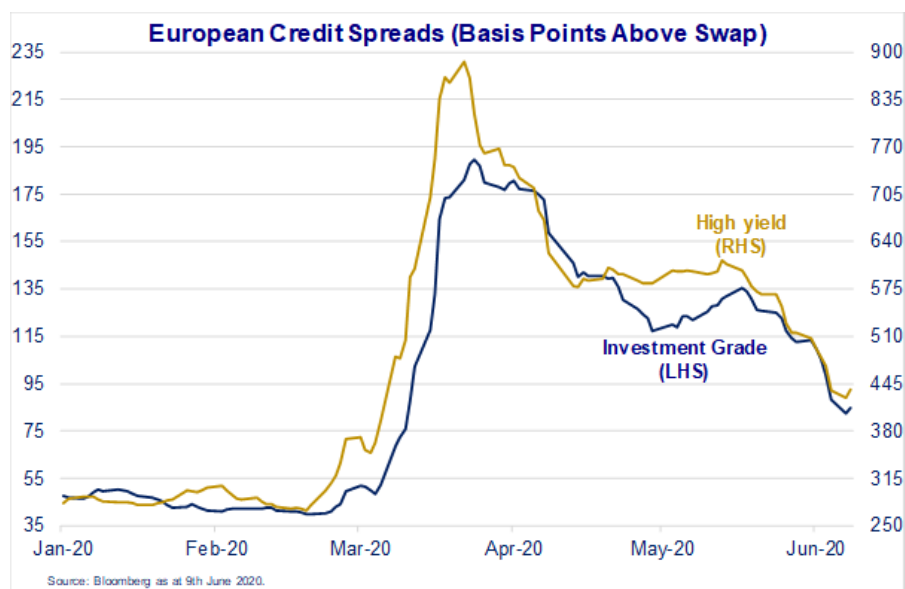
• CREDIT MARKETS

- Regional credit indices declined overnight for the first time in nearly three weeks. In the US investment grade space, spreads widened +5 points (7-week high) to +149 bps, which lowered the recovery rate to 82%. Spreads widened in every sub-sector led by energy (+7 points to +196 bpts, 90%) despite a modest rise in oil prices, with telcos (+7 points, +169 bpts, 84%) and industrials (+5 points, +164 bpts, 69%) also declining in

price. In the high yield space, spreads rose +15 points (two-week high) to +562 bpts (see chart), which lowered the recovery rate to 78% with increases in all sectors and double-digit rises in 10 of the 11 sectors. Among the sub-sectors, industrials (+21 bpts, +660 bpts, 54%) led the risk premium rises and was aided by healthcare (+20 points, +487 bps, 79%) and telcos (+16 bpts, +422 bpts, 93%).



- European credit markets closed lower although losses were modest relative to the US and the former had simply not recovered as much since the March peak in spreads. In the investment grade space spreads widened +2 points (3-week high) to +85 bps which reduced the recovery rate to 70%. There were higher risk premiums in all sub-sectors, but movements were modest overall led by consumer discretionary (+5 points, +104 bpts, 76%), healthcare (+3 points, 49 bpts, 75%) and industrials (+3 points +93 bpts, 55%). In the high yield space, spreads widened +11 points (4-week high), +437 bpts (see chart), 73%, with increases in all sub-sectors and double-digit widenings in 5 of the 11 market areas. Leading the increase in risk premiums were energy (+22 points +533 bpts, 74%), healthcare (+19 points to +296 bpts, 74%) and consumer discretionary (+14 points, +531 bpts, 75%).



THE GLOBAL ECONOMY

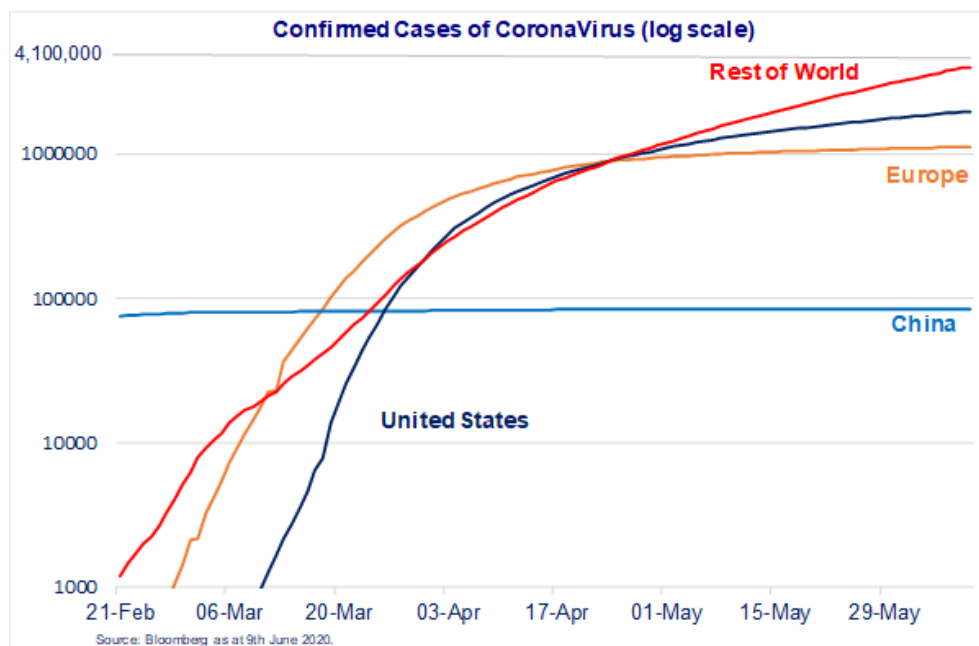
- There were no major data releases overnight.

POLICY

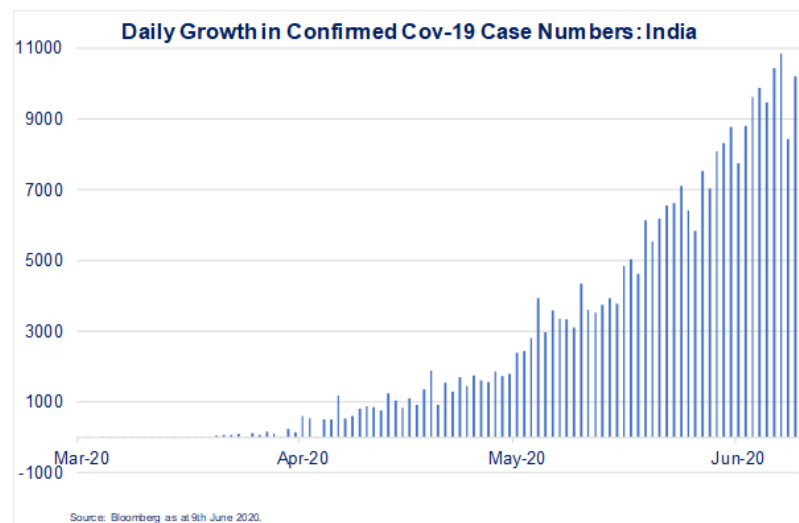
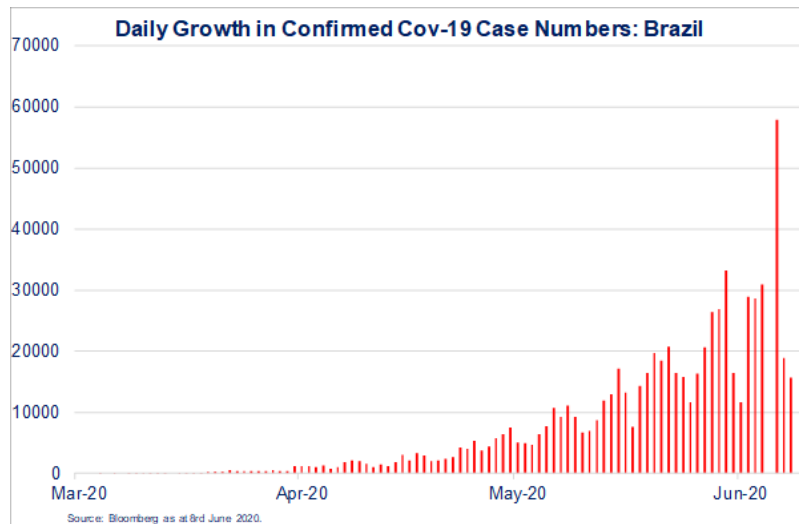
- There were no major policy announcements overnight. That said, the FOMC meets tonight with no large policy changes expected, yet there will be a lot of attention on whether the Fed signals it will soon issue state-based forward guidance (i.e. they will keep rates low until the economy hits pre-determined benchmarks). There is likely also to be focus around the Fed's thinking on using its unlimited purchasing power to cap Treasury yields. While these moves are possible in June, they are more likely to wait until July or September to see how the economy evolves before delivering further policy guidance. In the meantime, investors will get a look at the Fed's 'Statement of Economic Projections' and dot plot for the first time since December.

VIRUS UPDATE

- Although final numbers are not in for another 6.5 hours, the number of global cases of COVID-19 stands at 7.1 million with another +67.5k cases so far overnight (before Brazil, Mexico and some US states report their numbers) which means that Tuesday is likely to be the 71st occasion in the past 72 days where daily increases have topped 70k). This means 3 countries have more than 400k cases, 7 countries have more than 200k cases, 16 countries have more than 100k cases, and 57 over 10k. It took 73 days to record 1 million cases, 13 days for the next million, 11 days for the third million, 12 days for the fourth million, ten for the fifth million, 11 for the sixth million and 8 days for the seventh million, and in the past 2 days another 185k cases have been confirmed. More importantly, the growth rate of daily confirmed cases (+1.8% since Saturday) has ceased declining having been close to 1.8% for the past 20 days. Meanwhile, deaths stand at 409.0k, with the US now over 110k (27.3% of global deaths even though they have only 4% of the global population), the UK, Italy and Brazil over 30k, with Spain and France over 25k, and the death rate dropped for a thirty fourth straight day to 5.70%.

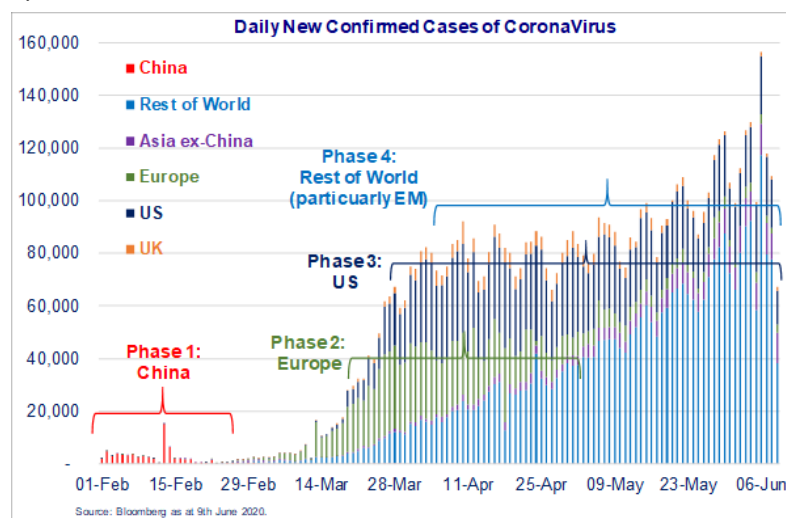


- We break the infections into four groups – the US, Europe, China and 'others' and the rest of the world outside the G3 economies now has the most total cases (+38.2k to 4.0 million) and highest daily new cases (and by a considerable margin) followed by the US (+12.9k (11-week low, but not all states have reported) to 1.97 million) and Europe (+3.1k to 1.12 million), with the latter's daily increases, in terms of percentages, grinding lower which shows that social isolation works to reduce the spread of the virus, even though it comes at an enormous economic cost. In the rest of the world, the three concerns here are Brazil (not reported, +707kk, which is the second highest in the world), Russia (+8.6k to 484.6k, third highest) and India (+10.2k to 276.1k, fifth highest).

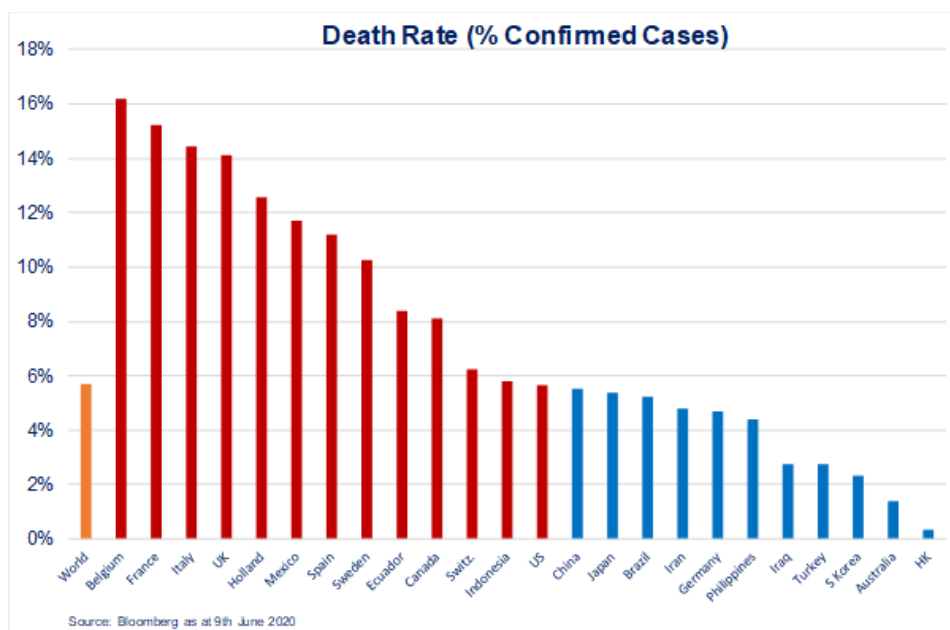


- Among countries, the most cases are in the US (+12.9k (so far) to 1.97 million), Brazil (not reported, 707.4k), Russia (+8.6k to 484.6k), the United Kingdom (+1.7k (5-day high) to 290.6k), India (+10.2k (third highest) to 276.1k), Spain (+0.2k to 242.0k), Italy (+0.3k to 235.6k), Peru (+0.2k to 199.7k), France (+0.6k to 191.5k), Germany (+0.4k to 186.5k), Iran (+2.1k to 175.9k) and Turkey (+1.0k to 172.1k). Australia reported no new cases yesterday at 7,267 which placed us 66th in terms of total infections.

Elsewhere, Singapore recorded +0.2k new cases to 38.5k most of which are linked to foreign workers who are forced to live in crowded dormitories, with the countries having the largest case numbers in South East Asia after overtaking Indonesia (+1.0k (record high) to 33.1k) and the Philippines (+0.5k to 23.0k). Note final numbers for yesterday at not in yet so these numbers can rise.



- Although final numbers are not in until 11am AEST, the global death rate declined for a thirty fourth straight day to 5.70% with the global total to 409.0k. The US (+0.8k) has the most deaths at +111.8k, with the UK (+0.3k to 41.0k), Italy (+0.1k to 34.1k), France (+0.1k to 29.3k) and Spain (steady at 27.1k) all over +25k. The death rate is highest in European countries where the health systems have collapsed led by Belgium (steady at 16.2%), France (steady at 15.2%), Italy (+0.1% to 14.5%), the UK (steady at 14.1%), the Netherlands (steady at 12.6%), Sweden (-0.1% to 10.3%) and Spain (-0.1% to 11.2%). However, several emerging markets are now on the leader board including Mexico (steady at 11.7%), Ecuador (steady at 8.4%), Indonesia (-0.1% to 5.8%) and Brazil (steady at 5.3%).



Yours sincerely,



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