Member update December 2019

Macquarie ADF Superannuation Fund

Economic commentary

Global

The latter part of 2019 saw 'green shoots' beginning to appear in the global economy as the major drags to growth and sentiment abated. Policy easing, a 'truce' in the US-China 'trade war', and a bottoming in the global manufacturing downturn all pointed to a modest pick-up in economic growth for 2020.

However, the past month has seen a dramatic change in the outlook for the global economy as COVID-19 spread rapidly outside China, and the oil price tumbled in response to the breakdown in supply agreements in OPEC+.

It's likely that the global economy is already in deep recession, as governments implement a sudden economic stop in a desperate effort to contain the virus. Quantifying the magnitude of the near-term hit with any certainty isn't possible. Partial data to February has shown that the hit to the Chinese economy is unprecedented. In the rest of the world, the maximum hit will lag China by one quarter. Global growth in the second quarter is likely to be the worst quarterly contraction on record in the modern era.

In response there's been a tsunami of policy coming from governments and central banks. From the US Fed, which cut rates to 0% and restarted its Quantitative Easing (QE) program, to the European Central Bank (ECB) which announced a €750 billion asset purchase program, to the Bank of England which also announced bond purchases and cut interest rates to 0.1%. Additionally, governments were not to be left behind with proposals by the Trump administration totalling more than $1tn and including 'helicopter money' (cheques mailed to every individual). We think the last option isn't off the cards for many other governments should the crisis intensify.

Moving beyond the initial shock, the outlook is reliant on assumptions about the path of the virus, the policy response (both in terms of stimulus and efforts to slow the spread) and, more broadly, human behaviour.

The containment efforts in China has seen the number of new cases of the virus slow to a trickle. The recovery is already underway and likely to speed up in Q2. Consequently, Macquarie's economists expect to see strong growth in Chinese GDP in Q2, albeit off a very low base. In the rest of the world, it's expected that there will be a peak in the number of new cases of the virus in late April/early May. This should see social activities gradually resume in Q3, which in conjunction with massive fiscal stimulus should see output begin to stabilise. The current base case sees growth resuming in Q4, although it's likely to take some time for economic activity to normalise.

Australia

The second half of 2019 showed Australian economic growth stabilising but ultimately hamstrung by weak consumer and business sentiment, exacerbated by the bushfires at the start of the year. Housing and the unemployment rate were the key bright spots of the economy.

Macquarie's economists believe it's likely that the Australian economy will experience a recession driven largely by the unavoidable drop in demand due to necessary containment efforts. The unemployment rate is set to increase substantially and as a consequence, we have seen a raft of policy actions announced in response to the crisis in an attempt to soften the impact. The expectation is that as new measures to contain the spread of the virus are enacted, we'll see corresponding policy adjustments and announcements.

The RBA has implemented a "whatever it takes" approach to keep the financial sector functioning and to ensure the cost of funding is kept as low as possible for as long as necessary. This includes cutting the cash rate by 25bp twice to a record low of 0.25%, announcing government bond purchases to anchor the 3-year government bond yield at 0.25%, and supporting lending to the real economy by providing cheap funding to Australian banks.

On the fiscal side, within a few days the Federal Government announced two packages, initially $17 billion then subsequently increased to $66 billion, designed to alleviate the burden on individuals and small businesses.

The total consolidated Coronavirus package of fiscal spending, cheap funding and loan guarantees amounts to $189bn by 2023-24 or 9.7% of annual GDP.

The latest fiscal and monetary policy initiatives is a sign that policymakers are unified in doing “whatever it takes” to get Australia over the chasm the coronavirus is creating.

The AUDUSD has fallen 17% year-to-date to as low as US$0.57, the lowest level since early 2003, falling victim to the sharp rise in risk aversion (which has seen the USD rally against most major currencies) and the RBA reaching its ‘zero bound’ cash rate of 0.25% and announcing QE.

Performance as at 31 December 2019 (per annum)

Macquarie ADF Superannuation Fund[1]	1 year to Dec 19 (%)	2 years to Dec 19 (%)	3 years to Dec 19 (%)	4 years to Dec 19 (%)	5 years to Dec 19 (%)	Since inception to Dec 19 (%)	Fund size ($A million)
Fixed Pension Plan	0.73	0.76	0.73	0.79	0.87	3.22	0.175
Superannuation/Rollover Plan	0.51	0.55	0.52	0.58	0.64	5.08	0.228

If you have any questions, please contact your financial adviser, call us on 1800 801 651, or visit macquarie.com.au/yourwrap

1 Macquarie ADF Superannuation Fund is closed to new applications.

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