
MACQUARIE

# Member update June 2020

## Macquarie Allocated Annuity and Flexible Rollover Fund

## Economics commentary

### Global

The first six months of FY20 saw the global economy struggling with a manufacturing downturn exacerbated by US-China trade tensions, culminating in the U.S. Treasury Department designating China as a ‘currency manipulator’ in August. However, at the end of the calendar year we saw the beginnings of an economic turnaround as central banks enacted a ‘U-turn’ on monetary policy and US-China trade tensions eased. The recovery received a further boost in early January when the US and China negotiated a ‘Phase 1’ trade deal, seemingly reducing the risk of a trade war.

Unfortunately, the nascent recovery came to an end in March as the outbreak of COVID-19 escalated into a global pandemic, with one country after another effectively shutting down large parts of their economies with lockdowns in order to contain the virus. What followed was the sharpest economic downturn since the Great Depression, exemplified by staggering declines in economic activity and massive increases in unemployment rates. China’s GDP in the first quarter of CY20 fell an unprecedented 10% on the previous quarter, while nearly 50 million people in the United States filed claims for unemployment benefits from mid-March to the end of June.

Governments and central banks responded with unprecedented fiscal and monetary measures: Governments announced several rounds of progressively larger fiscal spending initiatives and central banks enacted Quantitative Easing measures and sharply slashed policy rates to near zero. The measures eventually appeared to ‘staunch the bleeding’ and restore some semblance of confidence in the economy and financial system. Equity markets bottomed in late March and then began a very sharp rally that gathered momentum as the intensity of the virus dissipated and economies opened-up as lockdowns eased. Illustrative of the recovery was China’s GDP for the second quarter of 2020 rising an unprecedented 11.5% on the previous quarter.

However, the recovery appeared to lose some steam in June as a ‘second wave’ of the virus, particularly in many U.S. states, prompted reversals of lockdowns, prompting questions about whether the much hoped-for ‘V-shaped’ recovery would be under threat. Additionally, late in the financial year, political risk flared up again after China approved a national security law for Hong Kong and the United States retaliated by sanctioning Chinese officials and revoking the special treatment extended by law to Hong Kong.

### Australia

For most of the first half of the financial year, the Australian economy battled its way through a ‘soft patch’, weighed down by a global economic downturn. In response, the RBA cut the official cash rate in early July and again in early October in an effort to stimulate the economy. House prices were one of the few areas of strength. As was the case globally, the Australian economy began to see signs of recovery towards the end of the calendar year, despite the impact of devastating bushfires on the east coast.

Australia was hit by COVID-19 in March and responded with lockdowns and travel bans. This helped restrain the spread of the virus but nevertheless had a major impact on the economy, with the unemployment rate immediately rising to levels not seen for decades.

In response, extraordinary fiscal and monetary support measures were rolled out to cushion the economic fallout and limit the downturn. The Federal Government announced three major stimulus packages, the last one of which included the ‘JobKeeper’ subsidy to employers affected by lockdowns and the ‘JobSeeker’ subsidy to unemployed people. The Australian government’s fiscal response as a percentage of GDP was one of the largest in the world, helping to ease the pain on the economy. The RBA slashed the cash rate to a record low of 0.25% with forward guidance for no interest rate hikes until progress is made towards full employment and inflation returns to its 2-3% target. Additionally, the RBA began the unprecedented step of purchasing government bonds and semi-government bonds in the secondary market with the goal of keeping yields on bonds of up to three years in maturity at close to 0.25%.

The progression of the virus was relatively well contained in Australia, which meant that the Australian economy, while not unscathed, was hit relatively less than other major Western economies. As the country slowly lifted social restrictions, consumer spending picked up over the last two months of FY20, with mobility data improving and government support measures and early superannuation withdrawals providing a boost to household cash flow and spending capacity.

The Australian Dollar had a wild ride during the financial year, starting at US $0.70 then plummeting to US $0.57 – its lowest level since January 2003 – at the height of the crisis in March, then rallying to finish the financial year at US $0.69.

## Performance as at 30 June 2020 (per annum)

| | 1 year to Jun 20 (%) | 2 years to Jun 20 (%) | 3 years to Jun 20 (%) | 4 years to Jun 20 (%) | 5 years to Jun 20 (%) | Since inception to Jun 20 (%) | Fund size ($A million) |
|---|---|---|---|---|---|---|---|
| **Macquarie Allocated Annuity[1]** | | | | | | | |
| Australian Equities | -3.32 | 2.88 | 5.92 | 8.86 | 9.63 | 7.74 | 0.310 |
| Balanced | 3.66 | 5.26 | 6.05 | 6.38 | 6.08 | 6.80 | 4.879 |
| Capital Stable | 5.88 | 5.90 | 5.03 | 4.51 | 4.23 | 5.27 | 0.805 |
| Colonial Wholesale Diversified | -0.75 | 3.54 | 4.82 | 5.71 | 5.20 | 4.63 | 0.028 |
| Deposit | 0.59 | 1.27 | 0.96 | 0.71 | 0.65 | 2.99 | 0.135 |
| Fixed Interest | 3.75 | 6.02 | 4.63 | 3.33 | 3.85 | 5.17 | 0.034 |
| Property Securities | -23.16 | -2.68 | 2.10 | 0.46 | 4.53 | 5.53 | 0.218 |
| World Equities | -1.67 | 2.15 | 5.20 | 8.63 | 6.22 | 7.13 | 0.219 |
| **Macquarie Flexible Rollover Funds[1]** | | | | | | | |
| Balanced | 3.06 | 4.82 | 5.41 | 5.67 | 5.47 | 6.23 | 5.055 |
| Capital Stable | 5.20 | 5.67 | 4.92 | 4.29 | 3.99 | 4.83 | 0.823 |
| Deposit | -0.16 | 0.46 | 0.44 | 0.44 | 0.50 | 3.10 | 0.887 |

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

[1] Macquarie Allocated Annuity and Macquarie Flexible Rollover Funds are closed to new applications.

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