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Your Money Weekly

Forecast 2020–21
Do the covid clouds have a silver lining or are we flying into a new storm front?

Introduction
This time last year, in Forecast 2019–20 of 4 July 2019, I opened with the following:

> One year on, the words of French writer Jean-Baptiste Alphonse Karr ring loudly—"plus ca change, plus c'est la meme chose"—"the more things change, the more they stay the same."

In *Forecast 2018–19* of 5 July 2018, the headings were:

> **Australia**: Households and RBA hold domestic attention.
>
> **United States**: Markets face the three Ts: Tariffs, Trade and Trump.

The more things change, the more they stay the same.

That was the situation a year ago.

This year the world has been turned upside down by the COVID-19 pandemic. The global economy has been dealt a sledgehammer blow with a force never previously encountered. Things have changed dramatically, and we are unlikely to return to pre-COVID environment any time soon.

Conditions facing financial markets today are very different to those of 12 months ago. But strangely enough there are close comparisons between what has happened since July 2019 with that of the previous year (2018–19).

Again, from Forecast 2019–20: "What a roller coaster ride financial markets have experienced since July last year. After a sharp selloff in the December quarter, which saw the Nasdaq Composite enter a bear market, down over 20% from its 2018 high and the S&P 500 not far behind, markets have recovered all the lost ground with the S&P 500 recently touching a new peak."

Since July 2019, financial markets have reached a new peak in roller-coasting. Peak to trough and

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Morningstar Rating for Stocks

Significantly overvalued	★
Overvalued	★★
Fairly valued	★★★
Undervalued	★★★★
Significantly undervalued	★★★★★

Any feedback on this week's Overview is always welcome. Send your comments to YMW@morningstar.com. We'd love to hear from you.

back to peaks, the ride has been violent and stomach-wrenching making a ride on the Big Dipper a mere walk in the park. Long-enduring records have been broken not only by the gyrations of financial markets but also by several critical economic benchmarks.

Coronavirus blew all forecasts for 2020 and beyond out the window. From the first news of its outbreak in Wuhan, financial markets have been on a tumultuous ride, hitting the depths of despair in late March and morphing into rays of sunshine a few weeks later, on hopes of a vaccine and a speedy economic recovery. We witnessed the most rapid slide into bear market territory since Black Monday 19 October 1987 in the US and Black Tuesday in Australia and New Zealand. The rebound into a bull market occurred at a similar break-neck speed.

More recently, the dreaded fear of a secondary wave has become a reality particularly in the US, with a new peak of over 57,718 cases recorded on 3 July, and four consecutive days over 50,000 compared with 13,284 on 17 May. This, together with social unrest in the aftermath of the George Floyd killing, unsettled markets. Despite the expected flow of positive economic data, uncertainty still prevails as the US economy re-opens and the country moves toward November's critical presidential election.

Behavioural patterns have been and continue to be reinvented. The reaction to COVID-19 cannot be compared to any previous pandemic. Global economies have been shaken to their foundations. Fiscal and monetary stimulus deployed on a scale never previously envisaged. (I'm tired of the word "unprecedented".) Nor was the degree of reliance on central banks and governments ever envisioned, not even during the global financial crisis (GFC). The difference being the GFC was a crisis within the global financial system, stemming predominantly from the US, which did have far-reaching implications. But many economies, including Australia, avoided a recession. Not so with COVID-19, which has impacted basically every economy and country to some degree and could also unwind some 25 years of globalisation and the intricate supply chains supporting the global economy. We sit in ringside seats, to witness perhaps the greatest transformation the world has seen.

It took many years for economies to fully recover from the GFC. The balance sheets of the major central banks, including the US Federal Reserve (the Fed), the European Central Bank (ECB), the Bank of Japan (BOJ), the Bank of England (BOE) and the People's Bank of China (PBOC) were still bloated from the stimulus packages and quantitative-easing programs associated with the GFC. New COVID-19-related stimulatory measures have further inflated these balance sheets, in some cases doubling the burden.

It will take several years for ravaged economies to recover from COVID-19. How central banks get their balance sheets back into some semblance of order after the COVID-19-inspired largesse is anybody's guess. Rest assured, Jerome Powell at the Fed and Christine Lagarde at the ECB will not be directing the tapering process even if they are still in office in five years.

Remain cautious and increasingly vigilant

Global equity markets have staged a V-shaped recovery since the panic sell-off in March which saw falls of well over 20% and the entry into a bear market. The strength of the subsequent reversal has ushered in a new bull market, with gains from the 23 March lows now well over 20%. The recovery was born on optimism global economies would stage a similar rebound and early data reflected such a bounce from historical lows. The easy yards have been taken, the hard yards will be much more difficult to achieve.

The secondary wave in coronavirus cases in June and July has taken many by surprise and is likely to dampen the path of the recovery. While the panic of March may not return, in the bear camp Guggenheim Partners' global chief investment officer Scott Minerd suggests the S&P 500 could fall by 50% to 1,600 over the next few months. Minerd is a member of the Federal Reserve Bank of New York's Investor Advisory Committee on Financial Matters and an advisor to the OECD.

If the economic recovery loses traction and the widely anticipated V-shape morphs into a much more conservative shape, the downside in the equity markets could be substantial. Risk asset valuations are being supported by record low risk-free bond yields. There is no guarantee corporate profits will recover as strongly as economic activity. Pandemic-related costs will become a fact of life. The long-term cost of doing business will increase and most will be absorbed rather than passed on. But if they are passed on it will have inflationary implications and bond yields will respond. As a recent example, despite soaring sales, operating margins of Woolworths and Coles have been impacted by rising pandemic-related costs. Others will benefit to a greater degree, but margin expansion is unlikely across the board. Recall Amazon's US$4bn increase in virus-related costs in the latest quarter.

Meanwile, the US presidential election is just four months away. The result could have a meaningful impact on financial markets. A re-elected Donald Trump is likely to cause tensions with China move to intensify even more an even more. On the other hand, a Joe Biden victory for the Democrats would usher in a complete change in domestic and international policies. Both outcomes would likely unsettle markets that are currently displaying an arrogant level of complacency.

Not surprisingly, the behaviour of financial markets over the next 18 months will be dominated by what occurs within and between the world's two largest economies — the US and China. At the forefront will be the strength and timing of the recovery in economic activity and confrontations over trade and other geopolitical tensions.

Further bouts of volatility are almost certain and at times are likely to be quite violent. Investors will have to remain both vigilant and prudent. Market reliance on central banks will remain at a high, and in my opinion, uncomfortable level. The swift and decisive action taken by the central banks has steeled investors to an unwarranted level whereby even if pressure re-emerges, they assume financial markets will be rescued no matter what happens. The mandate of central banks is specifically inflation and employment, but current decision-makers have widened it to almost guarantee and underwrite investor risk. It may be what is called Modern Monetary Theory, but as debt levels rise exponentially, social unrest is widespread and the gap between the haves and have nots ever-widening, is it any wonder I find myself humming Barry McGuire's epic *Eve of Destruction*.

Share prices will tend to reflect the liquidity-pumping of central banks rather than underlying fundamentals. Investors must beware, or at least be aware, of the risk involved in the widening gap and ensure there is an adequate margin of safety involved in all investment decisions. Remain with quality in both equities and bonds. Ensure investments are liquid. Shun unlisted vehicles. Do not leverage portfolios. No margin lending under any circumstances. There is no such thing as a free lunch or a risk-free investment.

A little bit of history

Daniel Defoe's *Robinson Crusoe* was first published on 25 April 1719, 301 years ago. It is probably the ultimate isolation and social-distancing novel as Crusoe and Man Friday were castaways on a desert island for eight and twenty years. Many believe Defoe "invented" the English novel and *Robinson Crusoe* became one of the most widely published books ever and is claimed to be second only to the Bible in its number of translations. Unbeknown to many, Defoe also wrote *A Journal of the Plague Year*.

In an opinion piece in the *New York Times* earlier this year entitled *What the Great Pandemic Novels Teach Us*, Turkish novelist and 2006 Nobel laureate, Orhan Pamuk revealed he has been writing a novel called *Nights of Plague*, set in 1901 during what is known as the third plague pandemic. Since the outbreak of coronavirus, friends, journalists and editors have questioned him on pandemics.

"They are most curious about similarities between the current coronavirus pandemic and the historical outbreaks of plague and cholera," Pamuk writes. "There is an overabundance of similarities. Throughout human and literary history what makes pandemics alike is not mere commonality of germs and viruses but that our initial responses were always the same. The initial response to the outbreak of a pandemic has always been denial. National and local governments have always been late to respond and have distorted facts and manipulated figures to deny the existence of the outbreak."

In the early pages of *A Journal of the Plague Year*, the single most illuminating work of literature on contagion and human behaviour, Defoe reports that in 1664, local authorities in some neighbourhoods of London tried to make the number of plague deaths appear lower than it was by registering other, invented diseases as the recorded cause of death.

The most common rumours during outbreaks of plague were about who had brought the disease in, and where it had come from. Sounds familiar. History repeating itself. The blame game has begun and is far from over. The implications could be very significant and are discussed in the US section.

Exhibit 1: Markets snapshot 30 June 2020

Markets	30/06/19	31/12/19	% chg 1H	30/06/20	% chg 2H	% chg full year
Dow Jones	26,600	28,538	+7.3	25,813	-9.5	-3.0
S&P 500	2,942	3,231	+9.8	3,100	-4.1	+5.8
NASDAQ	8,006	8,973	+12.1	10,059	+12.1	+25.6
DJ Transport	10,462	10,901	+4.2	9,173	-15.9	-12.3
FTSE 100	7,426	7,542	+1.6	6,170	-18.2	-16.9
DAX	12,399	13,249	+6.9	12,311	-7.1	-0.7
Nikkei	21,276	23,657	+11.2	22,288	-5.8	+4.8
Shanghai	2,979	3,050	+2.4	2,985	-2.1	+0.2
CSI 300	3,826	4,096	+7.1	4,164	+1.7	+8.8
S&P/ASX 200	6,619	6,684	+1.0	5,898	-11.8	-10.9
S&P/ASX 200 Acc	70,292	72,445	+3.1	64,893	-10.4	-7.7
Commodities US$	30/06/19	31/12/19	% chg 1H	30/06/20	% chg 2H	% chg full year
Oil – WTI/bbl	58.12	61.26	+5.4	39.82	-35.0	-31.5
– Brent/bbl	64.37	66.20	+2.8	41.67	-37.1	-35.3
Iron Ore 62%/t	118.02	91.08	-22.8	99.85	+9.6	-15.4
Copper/lb	2.70	2.80	+3.7	2.73	-2.5	+1.1
Gold/oz	1,413.30	1,520.60	+7.6	1,798.10	+18.2	+27.2
Bond Yields	30/06/19	31/12/19	% chg 1H	30/06/20	% chg 2H	% chg full year
United States 2-year	1.76%	1.57%	-19bps	0.15%	-142bps	-161bps
10-year	2.10%	1.92%	-18bps	0.64%	-128bps	-144bps
30-year	2.53%	2.39%	-14bps	1.37%	-102bps	-112bps
Germany 2 year	-0.77%	-0.62%	+15bps	-0.70%	-8bps	+7bps
10 year	-0.33%	-0.19%	+14bps	-0.46%	-27bps	-13bps
30 year	0.26%	0.34%	+8bps	0.00%	-34bps	-26bps
Australia 2-year	0.97%	0.91%	-6bps	0.24%	-67bps	-73bps
10-year	1.32%	1.37%	+5bps	0.86%	-51bps	-46bps
15-year	1.54%	1.59%	+5bps	1.17%	-42bps	-37bps
Currencies	30/06/19	31/12/19	% chg 1H	30/06/20	% chg 2H	% chg full year
A$/US$	0.7018	0.7015	Steady	0.6902	-1.6	-1.7
US$/Yen	107.84	108.65	+0.8	107.94	-0.7	+0.1
£/US$	1.2693	1.3259	+4.6	1.2398	-6.5	-2.3
€/US$	1.1367	1.1211	-1.4	1.1232	+1.9	-1.2

Source: Morningstar

The point-to-point movement in the six months between 31 December 2019 and 30 June 2020 masks perhaps one of the most volatile periods in global financial markets history.

Central Banks—Money supply driving markets but not underlying economic growth

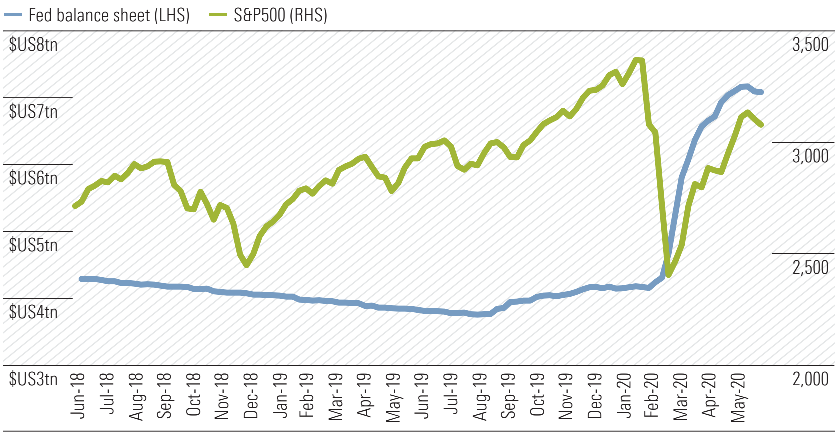
Central banks are now firmly in control of financial markets. They are collectively directing the traffic and the flow of funds into risk assets. The massive liquidity being injected is bypassing investment, production and services with just one destination, risk asset markets, with share markets being the main beneficiary, at least at this stage, but the likely fall guy down the track. By controlling the yield curve, the central banks are keeping interest rates in check and allowing the survival of zombie companies. In the real world the strong survive, the weak fall by the wayside. The animal kingdom is an excellent example of the cleansing process. But the financially weak have become a protected species in this new age monetary policy. One wonders how Paul Volcker would have handled the current situation. A kid gloves man he was not.

The asset-purchase programs, under the guise of injecting liquidity into the financial system allowing the banks to lend to business and households, are missing the target. Central banks can sit on the paper they purchase for as long as they like. Recall the problem in the GFC was the commercial banks held too much questionable paper, which strangled their ability to lend. So, the birth of quantitative easing saw central banks buying bonds from the commercial banks and reliquefying the banking system.

Now the central banks are buying government and corporate bonds from the secondary market, supporting prices and keeping a lid on yields and borrowing costs. But this is undermining the banking system. In the US, the bond market rather than banks has become the primary lender to the corporate sector. The central bank liquidity is misplaced. US corporations have raised over US$1 trillion ($1.4 trillion) so far in 2020, more than twice the pace in 2019. Corporations are restructuring older debt, paying down or off bank loans and/or raising cash to weather the recession and replace rapidly depleting cash flow. Some 75% of US$1 trillion-plus raised has occurred since 23 March when the Fed announced it would support the corporate bond market. Most of the funds have been raised by corporates with a credit rating of triple-B or below—the weaker end of the credit rating spectrum. In the animal kingdom these injured or weakened herd laggards would be eradicated so the herd remained strong. The central bank intervention is weakening the corporate herd by protecting its members while also inflating the risk-asset balloon. The alternative is clearly unpalatable, certainly in the near term given the weakness in the jobs market and the overall health of the economy.

The next move, which has already been discussed by members of the Federal Open Market Committee (FOMC) would be for the Fed to start buying equites or equities exchange-traded funds in the secondary market. This would not occur while markets are at current levels, but as a rescue program should markets slide to or below late March levels, which is a distinct possibility.

Exhibit 2: Federal Reserve balance sheet takes a breather



Source: FRED, BondAdviser

Quoting from my Overview in Your Money Weekly of 2 July: "the US Federal Reserve chairman Jerome Powell has reiterated the call for fiscal stimulus to continue. Withdrawing support could seriously hamper any recovery reminding Congress there were some 25 million people who have been dislodged from their jobs either in full or in part due to the pandemic.

FOMC members believe even with official interest rates at zero until end 2022 and asset purchases of US$120bn per month continuing, it will be years before unemployment falls sufficiently to see inflationary pressures build again. But even when unemployment was at a record low of 3.5% pre-COVID-19 there was little if any inflationary pressure.

While the chair urges Congress to stay the distance, the vice-chair Richard Clarida reinforced the Fed's position. "We've taken very aggressive, proactive action" and "there's more we can do, and we will." When asked if he saw unintended consequences or new bubbles stemming from past and possible future action, Clarida sternly replied: "I certainly don't." It was unlikely he would agree with the proposition, but when the Fed has effectively underwritten investor risk on a wide scale, the reality is yes.

It seems the chairman is at odds with the vice-chair. Powell has made it clear nothing would prevent the Fed from pursuing its dual policy mandate, including the risk of fuelling asset price bubbles. "If we were to hold back because we think asset prices are too high, what would happen to the people we're legally serving," Powell asked. "We're supposed to be pursuing maximum employment and stable prices."

The "very aggressive, proactive action" is certainly evident in the Fed's balance sheet, with assets increasing, reflecting purchases of US Treasuries, mortgaged-backed securities and other corporate bonds, from a pre-COVID-19 US$4.16 trillion on 27 February to US$7.08 trillion on 24 June. However, what is interesting is that over the past six weeks total assets have stabilised; in fact, they have declined slightly since 10 June. Is the Fed jawboning financial markets?"

In a recent interview, the President and CEO of the Federal Reserve Bank of San Francisco, Mary Daly, made some interesting points on the Fed's strategy. "We want to make sure the financial markets work, and we provide liquidity. So, we started asset purchases and we also asked what else is not working and how do we treat those. So, going into the corporate bond market is really about ensuring the large businesses have the liquidity they need to fund themselves so we don't lose another group of jobs that we could save simply by providing liquidity."

It was therefore surprising to see the Fed's purchases of corporate bonds included the likes of Apple Inc, Microsoft Corp, AT&T Inc, and Verizon Communications. Surely these companies and their cash flows don't need the support of the Fed. If they do, then some hard questions must be asked about the level of the share market.

Stating the obvious, Daly concluded, "the health crisis is absolutely the biggest risk to the economy."

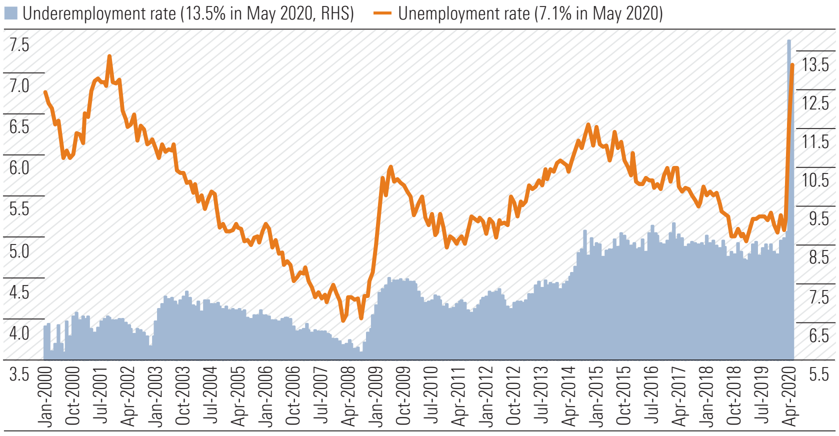
At some stage the Fed will have to pursue financial stability, but it is unlikely Powell will be the chair when that time comes. At present the Fed seems hell-bent on encouraging further price gains as curbing the asset bubble they are creating will hurt sentiment, confidence and the recovery. Watch this space as the bubble inflates.

Australia facing challenges on several fronts

Australia, along with many other countries, finds itself in a deep hole. Thankfully it was not of its own making, but the country will take years to dig its way out. The financial toll so large grandchildren will be paying off the nation's debt long after we have departed this world.

The economy was struggling before the outbreak of coronavirus and is now deeply recessed. It will rebound, but the damage has been so extensive and invasive the recovery is likely to be prolonged.

Exhibit 3: Unemployment and underemployment rates at sky-high levels (%, seasonally adjusted)



Source: Australian Bureau of Statistics

Exhibit 4a: Financial aggregates—credit growth...

	Monthly		Year-ended	
Percentage change	Nov 2019	Dec 2019	Dec 2018	Dec 2019
Total Credit	0.2	0.2	4.3	2.4
Housing	0.3	0.3	4.7	3.1
Personal	-0.5	-0.5	-2.1	-5.1
Business	0.2	0.2	4.7	2.5
Broad Money	0.4	0.1	2.4	4.3

Exhibit 4b: Financial aggregates—...still falling

	Monthly		Year-ended	
Percentage change	Apr 2020	May 2020	May 2019	May 2020
Total Credit	0.0	-0.1	4.3	2.4
Housing	0.2	0.2	4.7	3.1
Personal	-3.2	-1.2	-2.1	-5.1
Business	0.2	-0.6	4.7	2.5
Broad Money	2.9	0.2	2.4	4.3

Source: Reserve Bank of Australia

While fiscal and monetary stimulatory and supportive programs have provided a safety net, they are not open-ended. Both JobKeeper and JobSeeker programs have a finite life, although they may be extended from initial target ending dates. Job creation rather than wages support is the key. But while intentions are resolute, the likelihood that all jobs lost during the enforced shutdown will be reinstated is debatable. Given many labour-intensive industries including hospitality, tourism, entertainment and retail have been severely affected, it is unlikely they will recover to the pre-pandemic levels of employment in the next five years.

The eventual impact on unemployment, total hours worked, and average wages will be reflected in household income, the engine room of GDP growth. Wages growth could match official inflation but is likely to continue to lag unofficial inflation: the price rises households confront daily, which are meaningfully higher than core inflation. Consequently, the economy can't fire on all cylinders and achieve near full capacity for many years. While infrastructure spending is a high priority, it is capital rather than labour intensive, although any new jobs created will be a positive. The economic benefits will accrue over longer term.

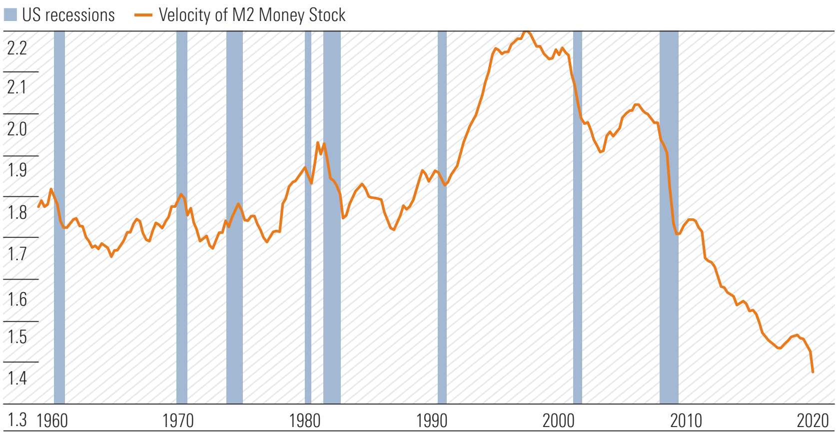
The underutilisation rate in the labour market is likely to remain elevated for years. In May the rate was 20.6% (unemployment 13.5% and underemployment 7.1%). The likely trend going forward will see falling unemployment offset by rising underemployment particularly when the support programs of JobKeeper and JobSeeker are curtailed (Exhibit 3).

Currently the economy is in no shape for support programs to be withdrawn at end September. Household consumption has been supported meaningfully by these programs and by banks deferring commitments. Without them the rebound in economic activity would reverse, making the recovery back into positive territory more prolonged. Consequently, large government budget deficits will be the result. Westpac has revised estimates upward for 2019/20 and 2020/21 to $95bn and $240bn respectively as cyclical deficits rise due to a collapse in revenue and increasing expenditure as economic activity contracts and stimulus measures due to the pandemic kick in. Gross debt of just shy of $1 trillion is forecast in mid-2021 from around an estimated $685bn at June 2020.

Credit growth remains a concern. Total credit growth declined marginally from 0% in April to -0.1% in May, pulled down by a 0.8% decline in the business sector. Housing, representing over 65% of total credit, flat-lined at growth of just 0.2% month-on-month and up 3.1% year ended May.

Inflationary pressures could eventually build as supply chains are restructured and Australia tries to re-build a meaningful manufacturing base, reducing its reliance on Chinese imports of manufactured goods. Rising trade tensions in a tit-for-tat world, could see tariffs increased or quotas introduced. Imported prices will rise. Domestic prices will also reflect a higher wage structure, lower productivity and smaller production runs. Bond yields will eventually respond, pushing higher. This would eventually see discount rates, which track the risk-free rate, also increase putting downward pressure on equity valuations.

Exhibit 5: Velocity of M2 Money Stock (ratio)



Source: Federal Reserve Bank of St. Louis

Lower immigration over the next few years should assist the recovery in unemployment with less competition for new positions. But this will also impact on residential construction as demand from this source slackens.

Retail sales rebounded strongly in May, a 16.9% recovery reversing the 17.7% slump in April. Initial re-opening of the economy saw physical sales soar, while online sales consolidated the large gains of March and April. Anecdotal evidence and credit card transaction data suggests the rebound consolidated in June. July is likely to reflect a slowing in household goods consumption as remote working-related purchases roll off. The key will be the trend once support programs of JobKeeper and JobSeeker are curtailed while the jobs market remains soft and household income pressures continue. Settling credit card and buy-now, pay-later commitments are likely to slow retail activity. Sales have also been boosted by the access to superannuation to cushion the financial impact of the pandemic. This, like other support programs drives a one-off spike rather than a sustainable underlying trend. Unfortunately, online gambling has spiked, wasting valuable scarce resources.

Beyond a recovery from 2020's contraction in GDP in 2021, economic growth is likely to remain subdued. Reserve Bank governor Philip Lowe conceded as much in his monetary policy decision statement on 7 July: "The substantial, coordinated and unprecedented easing of fiscal and monetary policy in Australia is helping the economy through this difficult period. It is likely that fiscal and monetary support will be required for some time."

Unemployment and household income hold the key. Residential investment will remain under pressure as demand for high-rise apartments slows in a post-COVID-19 environment. Commercial real estate will struggle with uncertainty in both office and retail segments. While public demand, driven by infrastructure will remain a solid contributor, it can't offset stagnant household consumption, impacted by subdued wages growth, declining hours worked and falling immigration and lack of growth in business investment.

United States—Record-breaking improvements are easy when coming off historical lows

While money supply has exploded the velocity of circulation continues to fall. There is an almighty arm wrestle between money supply and velocity and at present money supply is winning. Growth in US money supply for 3Q is on track at an annualised rate of 30% and highly reflationary near four times the neutral rate. At some stage, the lack of velocity or circulation will need to be recognised. Liquidity in the banking system is of little use if circulation is low. Circulation requires a loan to be profitable to both the lender and the borrower. At present credit demand is low and so are interest margins. In today's uncertain environment the key to velocity is whether a new loan generates an income stream that can repay the principal and pay the interest, in addition to a profit margin. Business investment is subdued and unlikely to recover until a vaccine is widely available and some sense of normality returns. Velocity of circulation is a key driver of GDP growth and until it recovers growth is likely to remain below the long-term trend. The emergency liquidity-pumping of the Fed is designed to save companies and jobs but will do little to boost underlying economic growth until circulation improves markedly (Exhibit 5).

While the big end of town, particularly in the FAANG community and the healthcare space, have been almost unaffected by the pandemic, the US small-to medium-size business sector is gasping for survival. Over 70% of these businesses have relied on emergency benefits since the start of the pandemic. These benefits ended on 30 June and the Paycheck Protection Program reverts to pre-COVID-19 levels at the end of July.

This sector represents 50% of employment across the country, far more than the S&P 500 companies, which account for just 10% of non-farm payrolls. With lower unemployment benefits, the collective impact on consumer spending should not be underestimated. Over 40% of all Americans have less than US$400 in savings.

Exhibit 6: Durable goods orders ($bn)

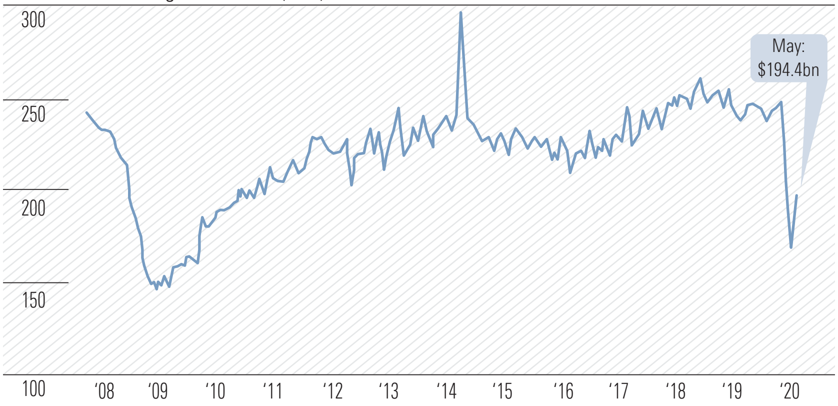
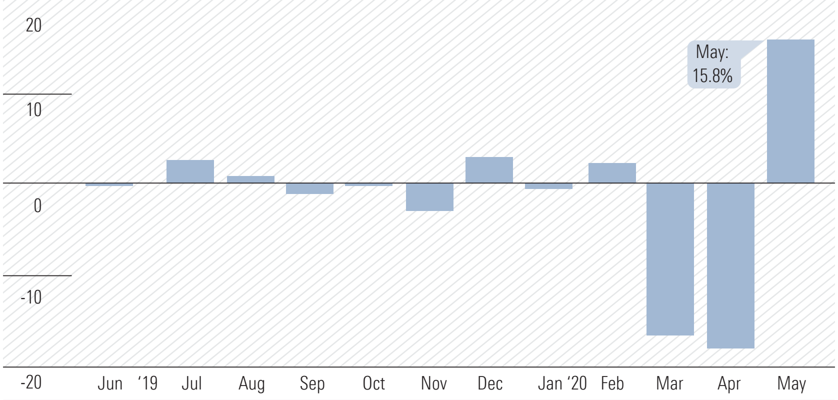


Exhibit 7: Durable goods orders — monthly change (%)



Source: Investors Business Daily (paywall)

The employment-to-population ratio shows at the end of May only 52.8% of Americans had a job. This was the second-lowest level, April was the lowest at 51.8%, since the Bureau of Labor Statistics (BLS) began tracking the figure since 1948. This ratio is not manipulated like some of the data in the monthly jobs report. It simplistically captures those with a job and those without. According to Deutsche Bank's chief economist, to return to the historical peak in 2000 of 64.7%, some 30 million jobs need to be created. At the robust 2019 job creation rate, this would take 14 years. These people are not beneficiaries of Wall Street's wealth creation. They are being marginalised by the Fed's endless liquidity supply, which underwrites almost every risk asset, except this important business sector. They don't issue bonds the Fed could buy; most have only enough cash to survive a month without revenue.

The May and June jobs reports have shown a total of 7.5 million non-farm jobs of the 22.2 million lost since February have been regained — just one third, with another two thirds to get back to square one. It is most unlikely to ever happen. Of the 4.8 million regained in June, 2.1 million or almost 44% were in the leisure and hospitality sector, retail 740,000, education and health services 568,000 and health care 358,000. These service sectors represent almost 80% of regained jobs in June. Construction (158,000) and manufacturing (356,000) saw improvements but lag the rebound in services while mining and logging continued to lose jobs. There is plenty of hard work ahead.

Unemployment fell to 11.1% in June, while U-6 unemployment (un and under employed) was down from 20.7% in May to 18.3%. This is the key figure to monitor and stood at 7.4% in February. I suggest it will remain above 10% through 2022. New unemployment claims have stubbornly stagnated between 1.4–1.5 million a week in June, twice the pre-pandemic rate. Continuing claims remain elevated near 19 million, having retreated from the mid-May peak of 25 million. The improvement reflects the 7.5 million non-farm jobs added in May and June.

New durable goods orders increased by 15.8% in May to US$194.4bn following declines of 16.7% and 18.1% in March and April. Despite the biggest percentage gain since July 2014, the level remains below US$200bn, a level not seen since September 2010. Orders fell to US$167.8bn in April. The February level was US$249.2bn. Capital goods orders, which are a proxy for business investment, rose a modest 2.3% after declining for three consecutive months — February to April.

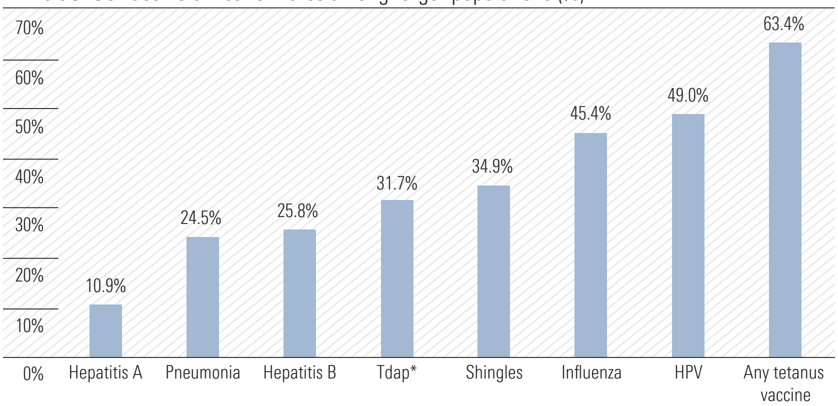
As with unemployment, the road back to circa US$250bn will take time. It took nearly a decade for new orders to fully recover from the fall from the pre-GFC peak in December 2007 (Exhibits 6 and 7).

Will a vaccine be the answer?

As the search for a COVID-19 vaccine intensifies markets are very sensitive to any news, positive or negative. Recall the share price of Moderna surged 60% from US$50 to US$80 on a seemingly positive announcement. It is now US$58. The most recent share price rise was a 20% spike in Pfizer's German partner BioNTech, before closing the day down 4%. Similar moves will be repeated in coming months. It seems Gilead's remdesivir trials show promise.

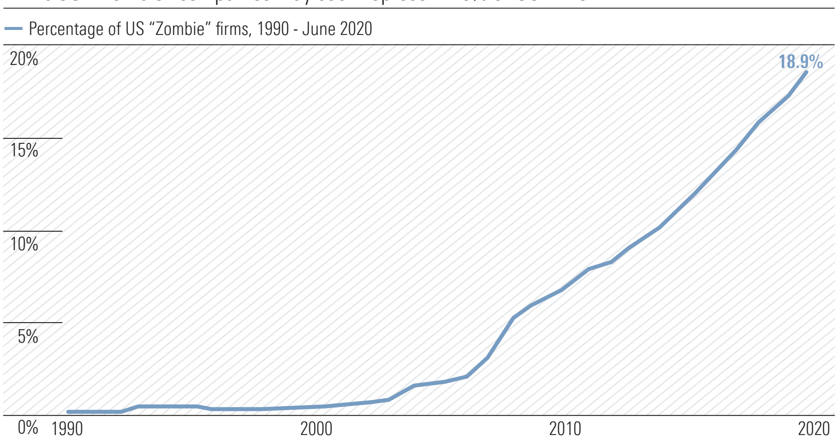
But once a vaccine is available, how many will be vaccinated? One shouldn't assume the uptake rate will stop the virus in its tracks. The anti-vaccers will say No, and many will need to be convinced the vaccine is safe before getting a jab. History reveals the challenge to convince could be as great as inventing the vaccine. It may be many years before the world is COVID-19 safe. The secondary wave

Exhibit 8: US vaccine utilisation rates among target populations (%)



Note: *Tetanus - Diphteria - Pertussis
Source: Vaccination Coverage among adults in the United States, National Health Interview Survey, 2017, Hill HA, Singleton JA, Yankey D, Elam-Evans LD, Pingali SC, Kang Y. Vaccination Coverage by age 24 months among children born in 2015 and 2016 - National Immunisation Survey-Child, United States, 2016-2018. https://www.cdc.gov/hpv/partners/outreach-hcp/hpv-coverage.html

Exhibit 9: "Zombie" companies may soon represent 20% of US firms



Source: Satastream, Worldscope, DB Global Research, Axios, US Global Investors

currently sweeping the US in summer is proving coronavirus is not confined to colder weather.

Despite Donald Trump's 4 July reassertion there would be a vaccine available "well before the end of the year", the US Federal Drugs & Administration has strict safety protocols on the steps new drugs must go through before they can be used by the general public. The FDA has already authorised the use of COVID-19 treatments, but the trade-offs are different when treating an infected patient versus a non-infected one. "It's one thing to give a dying patient an unapproved drug to try and save them, and very different to give an unapproved vaccine to a healthy person", says Holly Fernandez, a medical ethics professor at the University of Pennsylvania.

In 2014, an experimental vaccine was given to healthcare workers and their families in West Africa as part of phase two and three trials for an Ebola vaccine. The vaccine was being tested for efficacy, as it was used in an emergency. A vaccine was formally approved in 2019.

Secondary wave to cloud 3Q performance

The dramatic surge in new COVID-19 cases, eclipsing previous record daily levels in late June and early July, will impact the 3Q economic data as renewed shutdowns are enforced. This was exactly the situation authorities dreaded. Hopes were high 3Q would extend the early signs of a recovery into something more durable.

With the re-opening of the economy and government relief measures still in place, high-profile wellness indicators, including consumer confidence, retail sales and job creation all turned sharply for the better in May and June. The secondary wave now brings the sustainability into question. We are already conditioned for the largest contraction in GDP on record in 2Q.

Re-openings are being reversed in differing degrees in over 40 states, flattening the improving trends of May and June. This will likely see downward revisions to 3Q estimates and push out the economic recovery. V-shapers are now moving toward a square root-variety just as relief measures are scheduled to fade. With many balance sheets already stretched and cash flows strained further, corporate bankruptcies in the rapidly growing zombie population could surge, with potentially dire consequences for long-term unemployment.

GDP is expected to contract by 6% plus in 2020, helped by an improving second half. Growth in 2021 will rely on growth in household demand and government spending, with business investment remaining subdued. Much will depend on the recovery in the labour market with the advent of virtual jobs making it increasingly difficult to make significant inroads into the U-6 unemployment rate. GDP will fall well short of 2019 levels. Subsequent growth is also likely to be subdued and below long-term trend (1947–2020) of 3.2%.

The likelihood of a synchronised global recovery is now in jeopardy. China is well on the way, other developed economies lagging significantly. Whether this reflects a much sterner approach to virus spread and containment is moot. But it is clear there must be a meaningful change in behaviour and policy that underpins a sustainable re-opening of activity to drive the economic recovery in 2021 and beyond.

Presidential election — A possible game-changer

November's presidential election could easily be the single biggest influence on global financial markets in the December quarter. Democrat Joe Biden is currently ahead in the polls as President Trump's handling of the coronavirus pandemic and the social unrest in the aftermath of the killing of George Floyd has been regarded as poor on both accounts. History shows elections are usually lost by the incumbent rather than won by the challenger. Hillary Clinton lost the election. Bill Shorten lost the election.

Trump is a strong campaigner. A re-elected Trump would likely up the anti-China ante, if that is possible. It would likely be a negative for financial markets with global economies still early in the COVID-19 recovery process.

The coronavirus blame game is likely to be reignited. Trade wars, supply chain upheaval and the possible the undoing of globalisation may follow. A greater emphasis on self-sufficiency and less reliance on China would increase prices. None of the cheap labour countries—Vietnam, Thailand, Bangladesh or even India—has the capacity to replace China. Nor does the US have the manpower to increase onshoring meaningfully. Increased automation will result in higher unemployment over time. Inflation could re-emerge, bond yields in step would follow. Higher discount rates on corporate cash flows would drive valuations lower.

Geopolitical tensions would escalate. With Vladimir Putin now in control of Russia until 2036, when he would be 84 and Xi Jinping similarly in for the long haul, Trump would most likely want to make a mark early in his second term. That in itself should raise concerns and shake investor apathy.

Should Biden become president and the Democrats control both houses, US domestic and foreign policy could change markedly. It is unlikely financial markets would fully embrace the change. Hold on, the ride could be bumpy, and volatility potentially turned up a notch, if that is possible.

Is market concentration a concern?

The top 10 stocks are responsible for most of the performance in the rally since 23 March lows. The FAANGS, Microsoft and some pandemic-related health care stocks have led the Nasdaq Composite to new highs, with the S&P 500 breathing down its neck. The market capitalisations of the big three alpha stocks—Apple, Amazon and Microsoft—now average just over US$1.6 trillion from US$1.3 trillion, US$950bn and US$1.2 trillion respectively on 2 January. Collectively, they have added US$1.35 trillion in six months, with Amazon responsible for 44% of the gains. These three companies represent almost 20% of the market capitalisation of the S&P 500.

Eurozone—Recovering but still far from unified

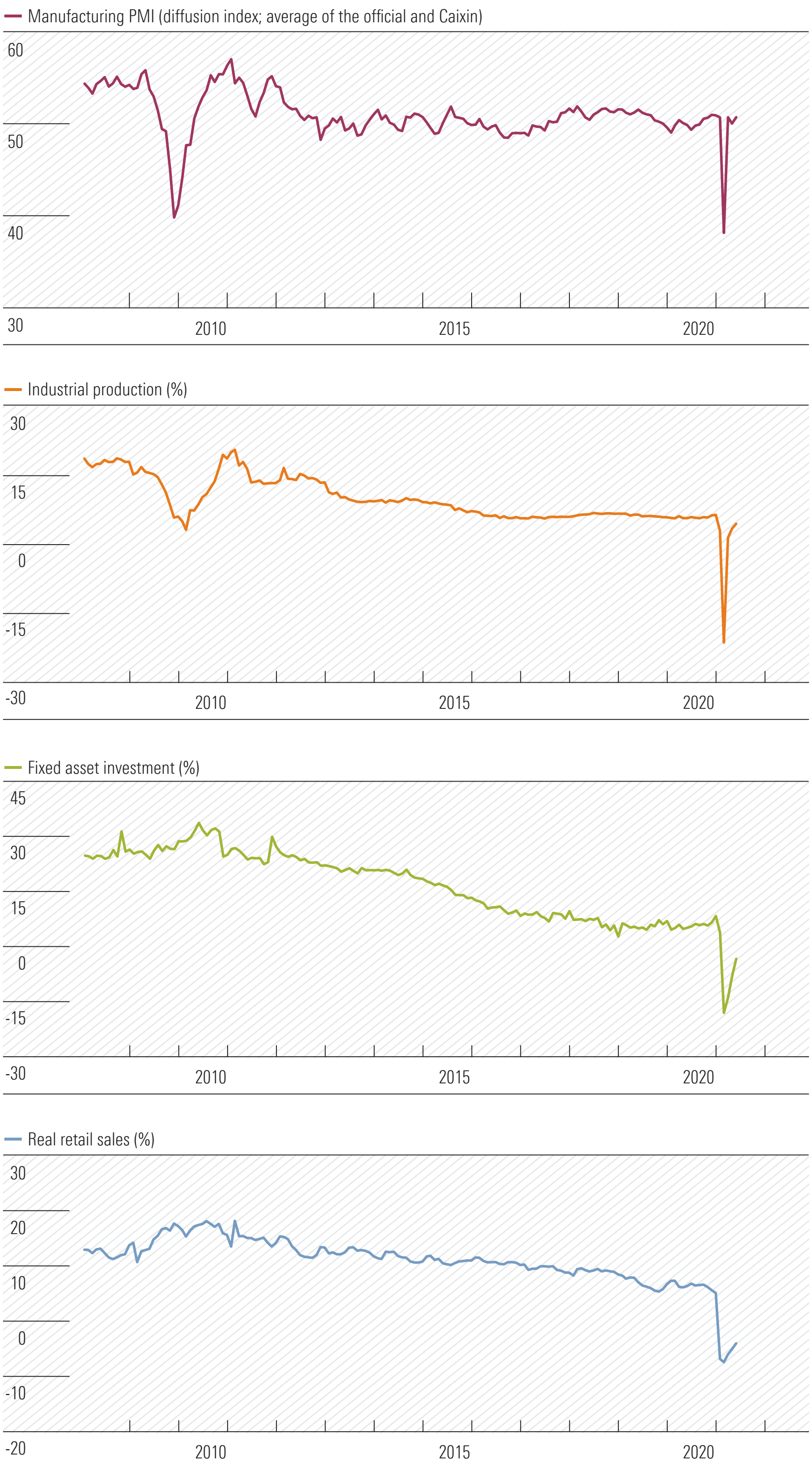
The ECB has poured €1.35 trillion (US$1.5 trillion) into its Pandemic Emergency Purchase Program (PEPP) and extended the horizon for net purchases until at least June 2021. The ECB is facing a potential rift over how much of the PEPP should be weighted toward supporting weaker countries such as Italy. A self-imposed rule, the capital key rule, concerns the composition of bond purchases, which are linked to the relative size of each economy, but recent purchases show a bias toward Italy. The ECB has broken its own rules and purchases have driven up Italian bond prices with a negative yield on the 2-year bond.

The Brussels-based European Commission, the executive arm of the European Union (EU), has proposed a €750bn fiscal stimulus program by selling bonds that would be backed by all 27 members of the EU. But little progress has been made, with EU members still unable to agree on the terms of the Recovery Fund and the funding of it by individual members. The more things change, the more they stay the same in this untenable union.

German economic data indicates a strong rebound in activity, with retail sales up 13.9% month-on-month in May after a 6.5% decline in April. This reflected the easing of lockdown measures, with year-on-year sales up 3.8%. The Purchasing Managers Index (PMI) increased from a depressed 36.6 in May to 44.6 in June, remaining below 50 indicting manufacturing activity is still contracting. A gradual recovery above 50 is expected to take up to a year. Unemployment has not spiked to anywhere near the degree of the US thanks to the introduction of Kurzarbeit, where the government directly subsides employers' payrolls along similar lines to Australia's JobKeeper program. Over 10 million workers benefited from the program. Unemployment increased from 5% in March to 5.8% in April.

In 2020, eurozone GDP is forecast to contract by 8%–9%. While a solid recovery is expected in 2021, GDP will be well below 2019 levels as an unwieldly group struggles to find a unified approach to fiscal policy.

Exhibit 10: China — activity indicators



Sources: CEIC Data; Markit Economics; RBA

China rebounds strongly

China has bounced back stronger than any developed economy. This has and will continue to add to the angst between Washington and Beijing. The control of coronavirus within the country has resulted in a faster recovery in production activity to pre-virus levels than in any developed economy. In addition, infrastructure and real estate investment has rebounded as authorities and the PBOC have provided stimulus through lower interest rates, reduced taxation and substantial government spending initiatives. Domestic demand has also recovered strongly, while exports have struggled as developed economies hit a wall in 2Q.

After contracting at an annualised rate of 6.8% in 1Q20, June's manufacturing PMI increased from 50.6 in May to 50.9, reflecting expansion in activity while the non-manufacturing (services) sector was also back above 50 in May. China is on track to post a strong 2H20 performance and possibly closing out 2020 with a marginally positive reading. That cannot be said or forecast for any developed economy.

Looking to 2021, growth will depend on the level of private sector investment. Government stimulus and infrastructure spending is already encountering diminishing returns, and this is unsustainable. The private sector will need to grow both domestic and international markets and it is in the latter where problems could arise. Rising tension between the two major powers could dampen export growth and international opportunities. US allies are also likely to look for alternatives as supply chains are restructured and dependence on Chinese imports is curtailed. In 2021, GDP will recover to levels comfortably above those of 2019, something developed countries will dream about. On an annual basis, growth, could near double digits from 2020 levels. Longer-term China's growth is likely to comfortably exceed that of developed nations.

TECHNICAL ANALYSIS

Situation vulnerable

There have been strong rebounds here and in the US but more volatility likely.

Regina Meani
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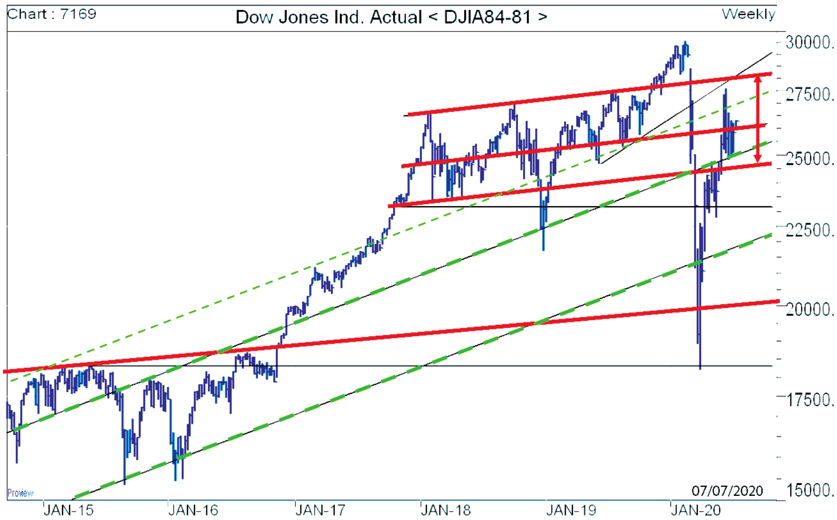
Back in March and April we watched the markets here, and in the US, rebound strongly from deeply oversold positions not seen for more than five years. We commented in April on the positives building for a continued recovery but warned the situation was fragile and the oversold register came from the shorter-term positioning and we needed to see the markets rebalance. We have seen some of this occur, but the situation remains vulnerable and the volatility remains high.

Looking at the United States, the 4th July holiday may bode well for the Dow (26,287) closing close to it highs on the next trading day. In April we were looking for resistance to be tackled around 23,000 which was easily overcome with the next barrier around 24,600 taking through to mid-May for a breakthrough. When this occurred, it saw the index pulse higher to achieve a more critical barrier to the upward path between 27,500 and 28,000.

Exhibit 1: So far, so good



Source: © Regina Meani, Your Technical Analyst, www.yourtechnicalanalyst.com

At this point, in the second week in June an Island Reversal formed and signaled the return to support around 25,000. The index has bounced from this area twice during June and more churning in the 25,000–27,000 may take place as the market attempts to regain the momentum to push higher but with the zone between 27,500 and 28,500 continuing to present a major hurdle. The risk going forward, although not signaled at this time, would be failure to push towards the barrier and a breakdown through 24,500.

Turning to the Australian market, we find we have followed a similar recovery path to the US. Following the reversal pivot in late March the All Ordinaries (6,126) paused below the 5,600 resistance through May, with the breakaway producing a strong rally through 6,000 to meet higher resistance located in the 6,200–6,300 area. The pause and pullback from this area is still influencing the market but a resemblance to the 2008–2009 reversal and some aspects of the 2016 phase suggests a push towards 6,500–6,600 is possible but that more volatility could impact a test of the peak at this time.

At the time of writing the short-term uptrend was still intact but threatened and a break below 5,830 could signal a return to lower support and a delay to the upward path.

The price for Gold (Comex Spot US$1,788) has been moving along a strong but jagged upward path since the mid-2018 turning point. The six-year basing phase was completed in June 2019 and supplied the power for a continued rise dotted with several interim pause/pullback actions. The most remarkable of these was experienced during the global markets sell-off in March. During this event the price whipsawed between $1,700 and $1,450 within a few days, to then resume its path higher. From April through to June the price consolidated between $1,660 and $1,775 to break higher in late June, but the move is showing some signs of exhaustion and there may be the need for more churning in the $1,700–1,800 area if the price is to reach the $1,911 all-time high and move beyond in

Exhibit 2: Betwixt and between

Source: © Regina Meani, Your Technical Analyst, www.yourtechnicalanalyst.com

Exhibit 3: Golden heights

Source: © Regina Meani, Your Technical Analyst, www.yourtechnicalanalyst.com

Exhibit 4: Which zone?

Source: © Regina Meani, Your Technical Analyst, www.yourtechnicalanalyst.com

a move similar to that experienced between 2008 and 2011. The risk to the upward path would be a fall below $1,660 indicating a deeper pullback and more extensive consolidation to support the extended upswing.

When the WTI Crude Oil price (US$40.59) plunged below $20 in April it returned to a zone it had not visited in nearly 20 years. The downward draft drove the price to support initiated in 1974 and holding the dips in 1986 and 1998. When observing the long-term chart, it should be noted the price held a range between $10 and $40 for 30 years between 1974 and 2004. In mid-2004 a strong up thrust powered the price into a new zone largely encapsulating the price between $40 (turning into support) and around $110 in what appeared to be a doubling of its previous range. The overshoot to $145 in July 2008 produced a 30-year peak in momentum and triggered the rapid sell-off and the reactive penetration of the support level in December of that year.

The next downswing commencing in mid-2014 pressured the price lower to pierce support in 2016. The subsequent recovery into 2018 lacked the momentum of its previous runs with the price halting around $75 and rolling into decline. The decline turned precipitous with the price reaching $9 on 21 April.

From its pivotal $9 low the price rallied strongly into reversal which has carried to its former barrier around $40. Has the oil price returned to its previous range and will it continue its swings roughly between $10 and $40? The longer-term momentum suggests there is more upward potential on the horizon, but the shorter-term picture is a bit overdone and the rise is rolling over in the face of the major obstacle. However, while the momentum is softening, there is still the possibility within the roll the price has a push towards $50 before either needing to further consolidate or to pullback in exhaustion. A fall into the $30–34 area would be cause for concern.

ENERGY MARKETS

Demand for oil trickles back to life but the spigots are turning slowly

But as some of the lowest cost producers globally, Australian companies are well placed to sail through oil's slump.

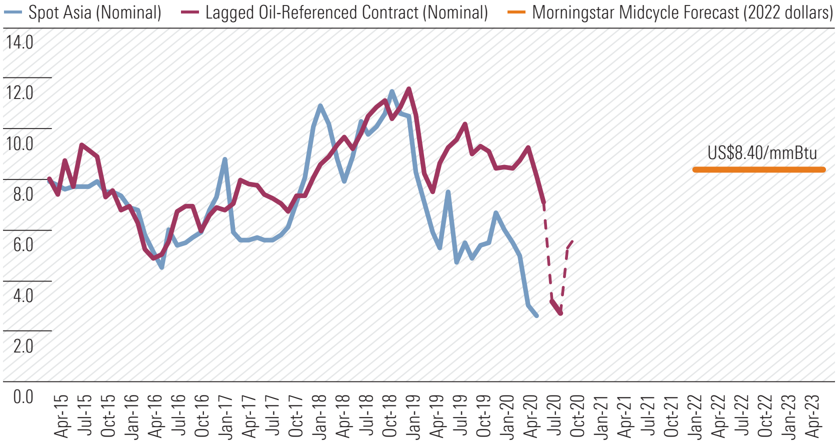
Mark Taylor
Senior Equity Analyst
Energy and
Mining Services

Brent crude has staged a partial recovery from sub US$17 per barrel lows in April, up 150% to US$43.30 as we write. In June oil cartel OPEC, Russia and allies agreed to extend a 9.7 million barrels of oil per day or 10% of global oil supply oil production cut until the end of July. A deal to taper the cuts to 7.7 million barrels per day was due to kick in from July. Demand is slowly returning from oil consuming economies as they emerge from lockdown. But there is considerable way to go, particularly while most of the world's airliners remain on the tarmac.

While Brent is back above US$40, this is still well below levels needed to incentivise investment into the growth projects required to sate global demand once coronavirus has passed. We still see the required midcycle Brent price as US$60 per barrel in 2022 dollars from 2022. We see this as the sweet spot where enough of the world's producers move to reinvest, but not so much as to drive oversupply through a second wave of excess shale oil.

As some of the lowest cost producers globally, Australian companies are well placed to sail through oil's slump. Free cash flow break-evens are in the region of just US$20 per barrel, half levels for an average shale producer, and cash operating costs are considerably lower again. Expansion plans are on hold, but operations are not under threat.

Exhibit 1: Contract versus Asia spot LNG pricing (US$ per mmBtu)



Source: Meti; investing.com; Morningstar

And of course, Australian companies are very gas-exposed with gas volumes substantially underwritten by contracts. Those with large domestic gas businesses like Santos (STO) and Beach Energy (BPT) enjoy somewhat more stable pricing as domestic gas contracts don't move with oil prices with the same one-quarter's urgency that LNG export contracts do. In fact, BPT's domestic gas contracts underwrite operating costs for the entire business in FY20. But for the most part, export LNG contracts move in step with the oil price at an approximate 14% slope. That is, our midcycle Brent price forecast will deliver a US$ 60/bbl * 14% = U$ 8.40/mmBtu LNG price at a one-quarter lag.

LNG contracts have served Australian producers well with the June 2020 quarter to deliver a price around US$8.20/mmBtu, near our midcycle price forecast, and well above an average US$3.00/mmBtu Asia spot price for the quarter. Some of this reflects the lagged link to oil, but even unwinding that lag, the contract has been 50% above spot. We can expect a considerably lower US$3.70/mmBtu September quarter contract price, based on the average US$32.70/bbl June quarter Brent price. And then potential for recovery if current Brent price is anything to go by.

It is a notable truncation of logic that the share prices many companies in non-energy related sectors have recovered or even exceeded ground lost at coronavirus lows, yet energy company share prices remain comparatively unmoved, in the doldrums. Energy is at the root of all, and hydrocarbons remain the predominant primary energy source. Lest we forget also that hydrocarbons underpin petrochemicals including the plastic wrap around fresh food. It requires considerable cognitive dissonance to on the one hand credit a Woolworths share price near $38, while Woodside wallows not much above $20.

But it wouldn't be the first time. And oil could just as easily overshoot to the upside once the current underinvestment chickens come home to roost. Normalised global oil demand is at around 100

Exhibit 2: Select Australian energy company data

Company	Code	Segment	Mkt Cap (A$bn)	Price (A$ps)	Fair Value (A$ps)	Price/Fair Value	Analyst Rating	1Yr Yield %	Franking %
Woodside	WPL	Upstream	20.78	21.56	44.60	0.48	★★★★★	3.1	100
Santos	STO	Upstream	11.17	5.30	10.30	0.51	★★★★★	2.3	100
Oil Search	OSH	Upstream	6.82	3.19	5.50	0.58	★★★★★	1.3	—
Beach Energy	BPT	Upstream	3.55	2.65	1.53	1.73	★★★★★	1.3	100
Origin Energy	ORG	Upstream	10.60	5.93	7.00	0.85	★★★	4.2	100
Ampol Limited	ALD	Downstream	7.23	28.42	32.50	0.87	★★★	2.1	100
Viva Energy	VEA	Downstream	3.52	1.78	2.90	0.61	★★★★	2.7	100
Z Energy	ZEL	Downstream	1.33	2.64	6.00	0.44	★★★★★	—	—
WorleyParsons	WOR	Downstream	4.64	8.80	12.50	0.70	★★★★	5.5	—

Source: Company filings; Morningstar

million barrels per day and growing, versus coronavirus-stricken expectations nearer 90 million barrels of oil per day for 2020. The lack of investment will bite when the demand spicket is turned to full again. We've had US$150 oil prices just on a decade ago, a cheery thought when you can buy Australian oil and gas companies at well below fair value, assuming a far less optimistic US$60 midcycle. Patience remains a useful trait. That said, posturing of the likes of Xi Jinping, Putin, Trump, the Saudis princes and Rouhani could easily make it obsolete. M

– Mark Taylor

Due to the sharp fall in oil prices in 2020 producers are already scrapping big exploration projects and reducing investment in new supply. Energy Aspects forecasts capex for exploration and production will be over US$120bn below previous guidance, a fall of 27%. Over 60% of the cuts are in the US and Asia-Pacific.

JP Morgan suggest the oil market could move into a "fundamental supply deficit" by 2022. If it does, analysts suggest it could push the price of oil to US$190 a barrel by 2025. Wishful thinking. Perhaps, but the law of supply and demand is a powerful one. M

– Peter Warnes

Australia and New Zealand equities research coverage

Morningstar covers about 200 companies in Australia and New Zealand as part of our global stock coverage of more than 1,500 companies. Below is our current coverage, with analyst ratings as at 8 July 2020.

Name	Ticker	Analyst Rating
Abacus Property Group	ABP	★★★
ADBRI Limited	ABC	★★★★
Afterpay Limited	APT	★★
AGL Energy Limited	AGL	★★★★
Ainsworth Game Technology	AGI	★★★★★
Air New Zealand Limited	AIZ	★★★★
Air New Zealand Limited	AIR-NZ	★★★★
ALE Property Group	LEP	★★★
ALS Limited	ALQ	★
Alumina Limited	AWC	★★
Amcor Plc	AMC	★★★
AMP Limited	AMP	★★★
Ampol Limited	ALD	★★★
Ansell Limited	ANN	★★
AP Eagers Limited	APE	★★★★
APA Group	APA	★★
ARB Corporation Limited	ARB	★★★
Ardent Leisure Group	ALG	★★★★

Name	Ticker	Analyst Rating
Arena REIT	ARF	★★★★
Aristocrat Leisure Limited	ALL	★★★
Asaleo Care Limited	AHY	★★
ASX Limited	ASX	★
Atlas Arteria	ALX	★★★
Auckland International Airport	AIA	★★★
Auckland International Airport	AIA-NZ	★★★
Aurizon Holdings Limited	AZJ	★★
AusNet Services	AST	★★★
ANZ Banking Group Ltd	ANZ	★★★★
Australian Pharma. Industries	API	★★★★★
AVITA Therapeutics, Inc	AVH	★★★★★
Bank of Queensland Limited	BOQ	★★★
Bapcor Limited	BAP	★★★★
Beach Energy Limited	BPT	★★★★★
Bendigo and Adelaide Bank	BEN	★★★★
BHP Group Limited	BHP	★★
Bingo Industries Limited	BIN	★★★★

Name	Ticker	Analyst Rating
Blackmores Limited	BKL	★★★
BlueScope Steel Limited	BSL	★★★
Boral Limited	BLD	★★★★
Brambles Limited	BXB	★★★
Breville Group Limited	BRG	★★
Brickworks Limited	BKW	★★★
BWP Trust	BWP	★★★
Carsales.com Limited	CAR	★★★
Challenger Limited	CGF	★★★★★
Charter Hall Group	CHC	★★
Charter Hall Retail REIT	CQR	★★★
Charter Hall Social Infra. REIT	CQE	★★★★
Chorus Limited	CNU	★★
Chorus Limited	CNU-NZ	★★
CIMIC Group Limited	CIM	★★★★
Cleanaway Waste Mgmt	CWY	★★
Coca-Cola Amatil Limited	CCL	★★★
Cochlear Limited	COH	★

Name	Ticker	Analyst Rating
Coles Group Limited	COL	★
Commonwealth Bank	CBA	★★★
Computershare Limited	CPU	★★★★
Contact Energy Limited	CEN-NZ	★★★
Costa Group Holdings Limited	CGC	★★★
Cromwell Property Group	CMW	★★★
Crown Resorts Limited	CWN	★★★★
CSL Limited	CSL	★★★
CSR Limited	CSR	★★★
Dexus	DXS	★★★
Domain Holdings Australia	DHG	★★
Domino's Pizza Enterprises	DMP	★★
Downer EDI Limited	DOW	★★★★
EBOS Group Limited	EBO-NZ	★★★
EBOS Group Limited	EBO	★★★
Event Hospitality and Ent.	EVT	★★★★
Fisher & Paykel Healthcare	FPH-NZ	★
Fisher & Paykel Healthcare	FPH	★
Fletcher Building Limited	FBU-NZ	★★★★
Fletcher Building Limited	FBU	★★★★
Flight Centre Travel Group	FLT	★★★★
Fortescue Metals Group Ltd	FMG	★
G8 Education Limited	GEM	★★★★★
Genesis Energy Limited	GNE	★★
Genesis Energy Limited	GNE-NZ	★★
Genworth Mortgage Insurance	GMA	★★★★
Goodman Group	GMG	★★
GPT Group	GPT	★★★★
Graincorp Limited	GNC	★★★
Growthpoint Properties	GOZ	★★★
GUD Holdings Limited	GUD	★★
GWA Group Limited	GWA	★★★
Harvey Norman Holdings Ltd	HVN	★★★
Healius Limited	HLS	★★★
Hotel Property Investments	HPI	★★★
IGO Limited	IGO	★★★
Iluka Resources Limited	ILU	★★★★
Incitec Pivot Limited	IPL	★★★★
Inghams Group Limited	ING	★★★
Insurance Australia Group	IAG	★★★
InvoCare Limited	IVC	★★★★
IOOF Holdings Limited	IFL	★★★
IRESS Limited	IRE	★★★
James Hardie Industries Plc	JHX	★★
Janus Henderson Group PLC	JHG	★★★
JB Hi-Fi Limited	JBH	★
Kogan.com Ltd	KGN	★
Lendlease Group	LLC	★★★
Link Administration Holdings	LNK	★★★★★
Macquarie Group Limited	MQG	★★★
Magellan Financial Group	MFG	★★

Name	Ticker	Analyst Rating
Mayne Pharma Group Limited	MYX	★★★
Medibank Private Limited	MPL	★★★
Megaport Limited	MP1	★★★
Mercury NZ Limited	MCY-NZ	★★
Mercury NZ Limited	MCY	★★
Meridian Energy Limited	MEZ	★★
Meridian Energy Limited	MEL-NZ	★★
Metcash Limited	MTS	★★
Mineral Resources Limited	MIN	★★★
Mirvac Group	MGR	★★★
Monadelphous Group Limited	MND	★★★
Mortgage Choice Limited	MOC	★★★★
Myer Holdings Limited	MYR	★★★★★
MyState Limited	MYS	★★★★
Nanosonics Limited	NAN	★
National Australia Bank	NAB	★★★★
National Storage REIT	NSR	★★
Netwealth Group Limited	NWL	★★
New Hope Corporation Limited	NHC	★★★★
Newcrest Mining Limited	NCM	★★
News Corporation	NWS	★★★★
NIB Holdings Limited	NHF	★★★★
Nine Entertainment Co.	NEC	★★★★
Nufarm Limited	NUF	★★★★★
Oil Search Limited	OSH	★★★★★
Oohmedia Limited	OML	★★★★
Orica Limited	ORI	★★★
Origin Energy Limited	ORG	★★★
Orora Limited	ORA	★★★★
OZ Minerals Limited	OZL	★★★
Pact Group Holdings Ltd	PGH	★★★★★
Pendal Group Limited	PDL	★★★★
Perpetual Limited	PPT	★★★★
Platinum Asset Management	PTM	★★★
Port of Tauranga Limited	POT-NZ	★
Premier Investments Limited	PMV	★★
Qantas Airways Limited	QAN	★★★
QBE Insurance Group Limited	QBE	★★★
Qube Holdings Limited	QUB	★★★
Ramsay Health Care Limited	RHC	★★
REA Group Ltd	REA	★★
Regis Resources Limited	RRL	★★
Reliance Worldwide	RWC	★★★★★
ResMed Inc.	RMD	★
Rio Tinto Limited	RIO	★★
Ryman Healthcare Limited	RYM-NZ	★★★
Sandfire Resources Limited	SFR	★★★★
Santos Limited	STO	★★★★★
Scentre Group	SCG	★★★★
SEEK Limited	SEK	★★★
Seven Group Holdings Limited	SVW	★★★

Name	Ticker	Analyst Rating
Seven West Media Limited	SWM	★★★★
Shopping Centres Australasia	SCP	★★★
Sigma Healthcare Limited	SIG	★★★
Sims Limited	SGM	★★★★
Sky Network Television Limited	SKT	★★★★★
Sky Network Television Limited	SKT-NZ	★★★★★
SkyCity Entertainment Group	SKC	★★★★
SkyCity Entertainment Group	SKC-NZ	★★★★
Sonic Healthcare Limited	SHL	★★
South32 Limited	S32	★★★★
Southern Cross Media Group	SXL	★★★★★
Spark Infrastructure Group	SKI	★★★
Spark New Zealand Limited	SPK-NZ	★★★
Spark New Zealand Limited	SPK	★★★
Steadfast Group Limited	SDF	★★★
Stockland	SGP	★★★
Suncorp Group Limited	SUN	★★★★
Super Retail Group Limited	SUL	★★★
Sydney Airport	SYD	★★★★
Tabcorp Holdings Limited	TAH	★★★★
Technology One Limited	TNE	★★★
Telstra Corporation Limited	TLS	★★★★
The a2 Milk Company Limited	ATM-NZ	★★
The a2 Milk Company Limited	A2M	★★
The Star Entertainment Group	SGR	★★★★
TPG Telecom Limited	TPG	★★★
Transurban Group	TCL	★★
Treasury Wine Estates Limited	TWE	★★★
Trustpower Limited	TPW-NZ	★★★
Unibail-Rodamco-Westfield	URW	★★★★★
United Malt Group Limited	UMG	★★★
Vicinity Centres	VCX	★★★★
Village Roadshow Limited	VRL	★★★
Virgin Money UK PLC	VUK	★★★★★
Viva Energy Group Limited	VEA	★★★★
Vocus Group Limited	VOC	★★★
Washington H. Soul Pattinson	SOL	★★★
Wesfarmers Limited	WES	★
Westpac Banking Corporation	WBC	★★★★
Whitehaven Coal Limited	WHC	★★★★★
Wisetech Global Limited	WTC	★
Woodside Petroleum Limited	WPL	★★★★★
Woolworths Group Limited	WOW	★
Worley Limited	WOR	★★★★
Xero Limited	XRO	★
Z Energy Limited	ZEL	★★★★★
Z Energy Limited	ZEL-NZ	★★★★★