

## The month ahead – June 2020

Global equity markets stabilised in May, albeit with periods of volatility, as the fallout from the COVID-19 (coronavirus) pandemic – both economic and societal – became a little clearer. The declining number of cases, or ‘flattening of the curve’, in Europe and the US provided some optimism, which saw a number of equity markets make modest gains through the first few weeks of May.

As we head into June, we will be paying close attention to the global employment situation as the number of people out of work begins to add to the strain on the global economy. Furthermore, heightening geopolitical tensions and growth data are some of the key areas on the radar this month. With this in mind, here’s ANZ Investments Month Ahead for June.

### **WILL THE US UNEMPLOYMENT RATE TOP 20%?**

After a dire employment report for April, where the US economy lost more than 20 million jobs, May’s report is expected to show further job declines with consensus at around another 10 million job losses. However, all eyes will be on the unemployment rate with some expecting it to top 20%, hitting levels not seen since the Great Depression.

Senior White House officials are bracing for a downbeat report with Kevin Hassett, a senior White House economic adviser, saying the unemployment rate could be “north of 20%”.

Meanwhile, the Australian employment report will be closely eyed as well, with expectations for a further jump in the country’s unemployment rate from 6.2% in April. However, Australia has managed to control the spread of coronavirus, while keeping some sectors of its economy open. Given this, the employment report will be a good gauge of the economic benefits in keeping some sectors of the economy running, while bringing the coronavirus under control.

### **US-CHINA GEOPOLITICAL TENSIONS BACK ON THE RADAR**

The tensions between the US and China, which have run hot over the past few years, have resurfaced and could become a prominent issue for markets going forward. The conflict has centered around two main issues.

Firstly, in early May, the US began pushing the rhetoric that the coronavirus originated in a Chinese laboratory, which some saw as an attempt by the US to deflect criticism it has faced for the spread in its own country. In pushing this theory, US secretary of state, Mike Pompeo said there is

“enormous evidence” that the outbreak stemmed from a Chinese laboratory, but he did not provide any of the alleged evidence. China has vehemently denied these claims.

Secondly, the geopolitical situation in Hong Kong is beginning to rear its head again with China pushing to pass laws in Hong Kong that would ban treason, secession, sedition and subversion. China is seeking to bypass local lawmakers to enact these laws, which has resulted in the return of pro-democracy protests in Hong Kong.

We will be closely monitoring any US retaliation, which seems inevitable. Possible retaliatory measures include the US revoking Hong Kong’s special status, which could impact its status as an international financial hub.

### **POTENTIAL PROGRESS ON A COVID-19 VACCINE**

With the global death toll in excess of 350,000, the push for a vaccine or treatment for the virus is being prioritised by several countries and pharmaceutical companies. To-date, a number of trials have found some success in Phase 1 experiments, but signs of a full vaccine still appear to be a while off.

However, this is an area we are paying particular interest to. Should we see any breakthrough, we would likely see a pick-up in the long-term optimism in the fight against the virus.

### **WILL NEW ZEALAND AND AUSTRALIA REPORT NEGATIVE GDP FOR THE FIRST QUARTER**

In June, both New Zealand (18 June) and Australia (3 June) will report growth data for the first quarter of 2020. Many global economies, including the US, Japan, Germany and the UK have already recorded sharp declines in first-quarter GDP. However, the economic impact of the virus appeared to hit New Zealand and Australia a few weeks later than their global counterparts, which may have limited the first-quarter economic damage.

In saying this, most forecasts are for both economies to record declines for the first quarter, which would be the first quarterly decline for either country in nearly ten years.

### **SMALL OVERWEIGHT TO INTERNATIONAL EQUITIES AND HOLDING CASH**

As of 26 May we hold a moderate overweight position in international equities noting the mild uptick in optimism on the re-opening of economies. Furthermore, we have seen the odd bright spot in the race for a vaccine or medical treatment for the coronavirus, but note all clinical trials are still in early stages.

Elsewhere, we are holding an overweight position to cash, which acts as a defensive play in this environment, but also enables us to enter positions should various asset classes hit attractive levels.

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