



## CONCENTRATED AUSTRALIAN EQUITIES PORTFOLIO

# PORTFOLIO UPDATE

### CONCENTRATED AUSTRALIAN EQUITIES PORTFOLIO (CAE)

Unless otherwise stated, all figures are as at 17 April 2020. Performance figures are preliminary and gross, based on a representative account.

#### OVERARCHING THOUGHTS AND SOME OBSERVATIONS

- Where do house prices go? Rental vacancies were up 20% by the end of March. 31% of dwellings in Australia are rented. Initially landlords will be able to defer their interest payments. There are dwellings being built, generally taking 12 months from start to finish, so the pipeline of new supply does not slow quickly. Unemployment is by far the largest cause of defaults on home loans.
- Unemployment is bad, but would be worse without the Federal government's Jobskeeper programme. A new Australian Bureau of Statistics data series on payrolls showing a 6% decline in jobs over the three weeks ending 4 April 2020. Without Jobskeeper it would be much worse.
- Negative oil prices are an interesting headline, but this may not be the capitulation moment in oil, as the move looks more technical than fundamental. The price did not go negative in Brent, negative prices were limited to WTI which is the subject of significant ETF futures trading and storage constraints. It is however a broad indicator that the "deal" done last week by oil suppliers is being overwhelmed.
- Much of the focus has been on higher income countries. Covid-19 cases in middle income countries such as India and Indonesia are beginning to rise. Testing is low, health care systems have less capacity and many workers need to work to ensure they can obtain basic necessities. They may need to choose a different path.
- Money printing and over the top government spending will increase. This, and the government purchasing of assets tends to inflate bubbles. Perhaps one of the more interesting political developments of recent times is the abandonment of fiscal balance policies in the UK and US by the century long traditional holders of those policies, the UK Conservatives and US Republicans. This happened before Covid-19. Covid-19 has pushed on an open door to deficit funded spending and money printing.

#### HOW HAS CAE PERFORMED

- Month-to-date (MTD), the portfolio has underperformed the S&P/ASX 300 by (0.4%).
- An underweight to financials, the worst performing sector MTD, and overweight to materials contributed to performance while holding ~10% of the portfolio in cash during the MTD market rally and an underweight to real estate continue to detract from performance.

- Stock selection added to performance within materials, industrials and healthcare. This was partially offset by stock selection within consumer staples, financials and communication services which detracted. A key detractor continues to be not holding CSL and our overweights to financials such as Westpac, Suncorp Group, and NAB.
- Gold stocks have done well as major economies effectively print money. Cash was a drag in a rising market. cyclicals such as REITs and consumer cyclicals have seen buying which we see as overly optimistic.

#### WHAT CHANGES HAVE WE MADE TO CAE'S PORTFOLIO POSITIONING?

- We have maintained our cash levels. We have participated in the Metcash equity raise as which we see as prudent to opportunistically make acquisitions in the coming period of weakness, and to fund working capital in the higher volume period they are currently experiencing.

#### WHAT IS OUR OUTLOOK FROM HERE?

- Whilst flattening the first wave curve is an undoubted positive and appear to have caused some relief in the market, the challenges that lie ahead are arguably larger.
- We see the major catalysts for a market rerate up to be:
  - Technological: a cure, vaccine or a dramatic increase in accurate testing. Despite much press, a hard headed analysis of the activity here indicates that material improvements from a cure or a vaccine are at best 12 months away. Testing volumes and accuracy are much better than 6 weeks ago, but are optimistically quarters away from being widespread.
  - Fiscal/Monetary: Money printing, deficit spending and the purchasing of assets by governments can inflate asset prices, and if correctly targeted could restart the economy. The correct targeting is the issue. The US Federal reserve now buys junk bonds. Previously unthinkable. However, as Keynes observed animal spirits (a catchier way of describing consumer confidence) drive the actual economic activity. Without jobs and incomes, inflated asset prices do not turn an economy around. If someone doesn't feel confident about their employment prospects, they won't spend much.

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The data is based on representative accounts. The results presented above do not reflect the deduction of investment-management fees; your return will be reduced by the management fees and other expenses incurred in the management of your account.

**Level 32, Aurora Place, 88 Phillip Street, Sydney NSW 2000 +612 9255 1299 Email: [aust\\_clientservice@alliancebernstein.com](mailto:aust_clientservice@alliancebernstein.com) [www.alliancebernstein.com](http://www.alliancebernstein.com).**

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