The month ahead – August 2020

Equity markets posted solid gains in July, recording their fourth-consecutive winning month as the post-COVID rebound continues. Despite the push higher, broader sentiment remains somewhat cautious as the global economy appears to still face headwinds.

While COVID-19 continues to dominate headlines – and will going forward – the reemergence of geopolitical tensions will be back on our radar in August. Additionally, we will continue to eye fiscal stimulus measures. As always, we will be eyeing a host of key economic indicators this coming month. With all this in mind, here's ANZ Investments' Month Ahead for August.

THE US IS UNDER PRESSURE TO PASS A NEW STIMULUS PACKAGE

In the US, Democrats and Republicans are frantically working on a fresh stimulus package as the US$600 per week wage supplement is set to expire at the end of July. As part of the new stimulus package, Democrats want to extend the US$600 per week through to January 2021, while Republicans argue the payment is too high and are looking for something around US$200 per week, or even a new structure that would pay unemployed workers a percentage of the pre-unemployment salary.

One area both sides appear to have reached a consensus is another round of direct payments, which look to match the prior US$1,200 per person under the required income threshold.

Other aspects of the bill we will be eyeing is the amount of money allocated for COIVD-19 testing and tracing.

US-CHINA GEOPOLITICAL TENSIONS BACK ON THE RADAR

Geopolitical tensions between the US and China are flaring up again, bringing the long-running conflict, which began with trade agreements, back on the radar.

President Donald Trump continues to blame China for the spread of the coronavirus, and more recently, the US accused China of stealing intellectual property relating to medical information, which led to the closure of the Chinese embassy in Houston. In a retaliatory measure, China ordered the closure of the US embassy in Chengdu.

Should we see this spill over into trade agreements or other economic actions, it would likely bring with it a period of market volatility.

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CASES CONTINUE TO RISE IN THE SOUTHERN STATES OF THE US

On the COVID-19 front, we continue to monitor the uptick in cases in southern states, in particular, Florida, Texas and Arizona. If cases continue to accelerate, pressure will mount on state and local officials enact stricter lockdown measures, which could weigh on economic activity.

Down under, we are also noting the reemergence of COVID-19 cases and its community spread in Victoria, Australia. Moreover, there are concerns that it may have spread to Sydney, which could pose risks for the local economy there and force the state into some form of lockdown, similar to what has been imposed in Victoria.

FIRST LOOK AT THE NEW ZEALAND EMPLOYMENT SITUATION

On 5 August, Statistics New Zealand will release the employment report of the second quarter. After the country went into lockdown and closed its borders to stop the spread of the coronavirus, the report will shed light on the economic impact of the shutdown and give us a better understanding of the state of the local economy.

As at 28 July, expectations are for the unemployment rate to hit 7%, which would be the highest level in around 20 years.

Other employment data we will be closely eyeing is the 7 August release of the US non-farm payrolls. As some heavily populated areas, most notably New York, begin to reopen slowly, employment figures have begun to bounce back. Most forecasts show the unemployment rate to dip back towards 10%.

SMALL OVERWEIGHT TO INTERNATIONAL AND AUSTRALIAN EQUITIES; STILL HOLDING CASH

We continue to hold a modest overweight position in international equities. Also, we recently added a small overweight to Australian equities, believing they offer better valuations than New Zealand equities and the economy is better positioned to benefit from Chinese stimulus.

Finally, we are holding an overweight position to cash. With the global economy still showing a lot of uncertainty, our cash position acts as a defensive hedge to any potential volatility.

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