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Voting Machines and Weighing Machines

June 2020

The brave new world

Sir John Templeton once said "the four most dangerous words in investing are: this time it's different". Yet we think he would agree with us because this time is different. There is no precedent. The global economy is starting to gradually heal from the most vertiginous drop in economic activity experienced in modern times.

Now more than ever investors constitutions are being tested, the market rally over the last quarter is nothing but bewildering and has perplexed the most judicious investor. Notwithstanding, the argument supporting the rally is that the fiscal and monetary response has never been so large – the velocity of the policy response so early in a recession has truly been remarkable.

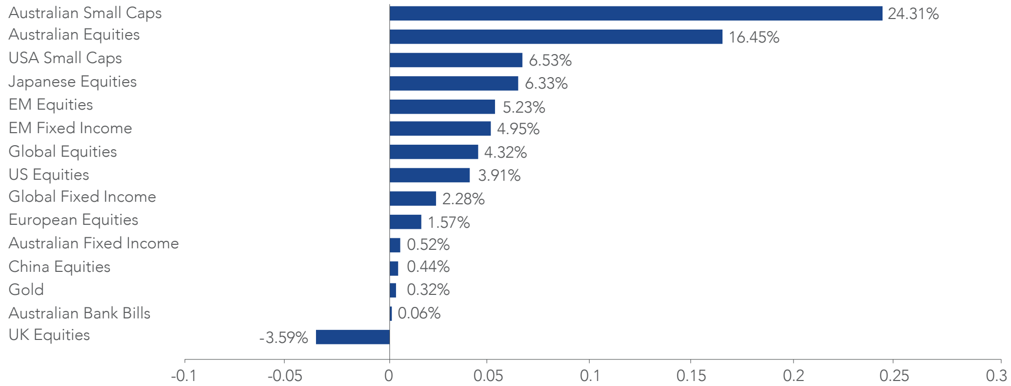
Bolstered by the reopening of economies, the benchmark global share index (MSCI World ex Australia) rose 4.32%. Locally the S&P/ASX 200 rose with its Small Cap rival (S&P/ASX Small Ordinaries) returning 24.31%. It is hard to even conceive that only a short while ago Australian small caps suffered an excess of 30% fall in the March quarter. Australian technology stocks have been the clear sector outlier returning 46.95% for the period and are the clear beneficiary of the accelerated transformation of the digital economy. The process of consumer adoption dramatically condensed from years to mere months.

The evolving COVID-19 pandemic could easily push the global economy into better or worse trajectories with upside surprises and expected setbacks along the way. The general risk is severe deterioration in the macroeconomic and company earnings data over the coming months, the key risk being reinfection and secondary lockdowns.

Australia has been a beacon of success as it has permitted the economy to reopen faster than anticipated – all due to low infection rates and a flattening of the curve. But with the market pricing a V-shaped recovery in company profits there is a great polarisation among investors. There are those who are innately pessimistic and focus on the fundamentals today where things look bleak and the optimists who look at relative valuations to risk-free assets and the hyper-supportive stimulus measures. For the moment the optimists seem to be winning. Most market participants expect a long unwavering grind. One thing hasn't changed, markets are permanently uncertain.

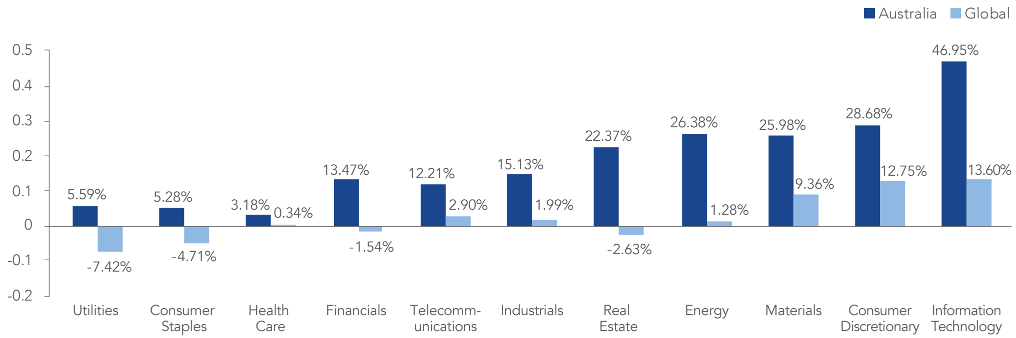
Fortes fortuna iuvat, it truly is a brave new world.

Chart 1: Index returns in the June 2020 quarter



Source: Bloomberg, 1 April to 25 June 2020, returns in Australian dollars. International Equities is MSCI World ex Australia Index, Australian Equities is S&P/ASX 200 Accumulation Index, Australian Fixed Income is Bloomberg AusBond Composite 0+ yrs Index, Global Fixed Income is Bloomberg Global Aggregate Bond Hedged AUD Index, Australian Bank Bills is Bloomberg AusBond Bank Bill Index, Emerging Markets is MSCI Emerging Markets Index, Gold is Gold Spot US$/oz, Australian Small Caps is S&P/ASX Small Ordinaries Index, US Small Caps is Russell 2000 Index, US Equities is S&P 500 Index, UK Equities is FTSE 100 Index, Japanese Equities is Nikkei 225 Index, European Equities is MSCI Europe Index, China equities is CSI 300 Index, EM Fixed Income is 50% J.P. Morgan Emerging Market Bond Index Global Diversified Hedged AUD and 50% J.P. Morgan Government Bond-Emerging Market Index Global Diversified.

Chart 2: Global and Australian equity sectors June 2020 quarterly performance



Source: Bloomberg, 1 April to 25 June 2020, returns in Australian dollars. Consumer discretionary is MSCI World Consumer Discretionary Index/ S&P/ASX 200 Consumer Discretionary Index, Financials is MSCI World Financials Index / S&P/ASX 200 Financials Index, Materials is MSCI World Materials Index / S&P/ASX 200 Materials Index, Healthcare is MSCI World Heath care Index / S&P/ASX200 Heath care Index, Utilities is MSCI World Utilities Index / S&P/ASX 200 Utilities Index, Property is MSCI World REIT Index / S&P/ASX 200 AREIT Index, Consumer Staples is MSCI World Consumer Staples Index / S&P/ASX 200 Consumer Staples Index, Information Technology is MSCI World Information Technology Index / S&P/ASX 200 Information Technology Index, Energy is MSCI World Energy Index / S&P/ASX 200 Energy Index, Industrials is MSCI World Industrials Index / S&P/ASX 200 Industrials Index, Communications is MSCI World Telecommunications Index / S&P/ASX 200 Telecommunications Index.

Voting Machines and Weighing Machines

The father of value investing, Benjamin Graham, once said *"in the short run, the market is a voting machine, but in the long run it is a weighing machine."* What this means is markets tally up popularity in the short term but act like weighing machines, that is measuring value, in the long run.

At the moment, markets are grasping in the dark. Economies have taken plunges of historic dimensions and unfortunately, what comes next is an unknown.

The optimistic investor would say: economies were closed down by governments and can open just as fast when governments roll back restrictions. With coronavirus subdued (optimists also think a COVID-19 vaccine will be developed in the near future) we're near to a V-shaped recovery – one boosted by massive doses of monetary and fiscal stimulus.

The pessimistic investor would say: closing down economies has done long-term damage to profitability, balance sheets (business, household and government), confidence and behaviour. In many major economies, coronavirus is far from beaten. Lockdowns are easing but before infection rates have been managed, so new outbreaks loom. A vaccine will not be developed soon, neither will there be an anti-viral agent. Government stimulus has been akin to life support, protecting cash flow but not profitability or balance sheets. Once support ends any economic recovery will falter.

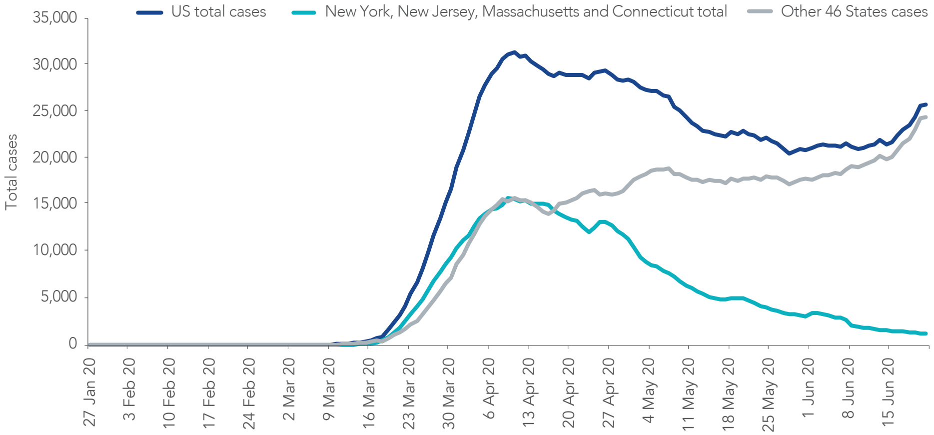
So who is going to be right?

At this point, the data being released is incapable of answering the question of whether the optimist or the pessimist is right. For example, at the June Federal Open Market Committee (FOMC) participant's forecasts of US unemployment in six months' time ranged from 7 to 14 per cent!

So, in the near term, market outcomes will be driven by belief, not evidence – Graham's voting machine, not the weighing machine.

Chart 3: US first wave still spreading

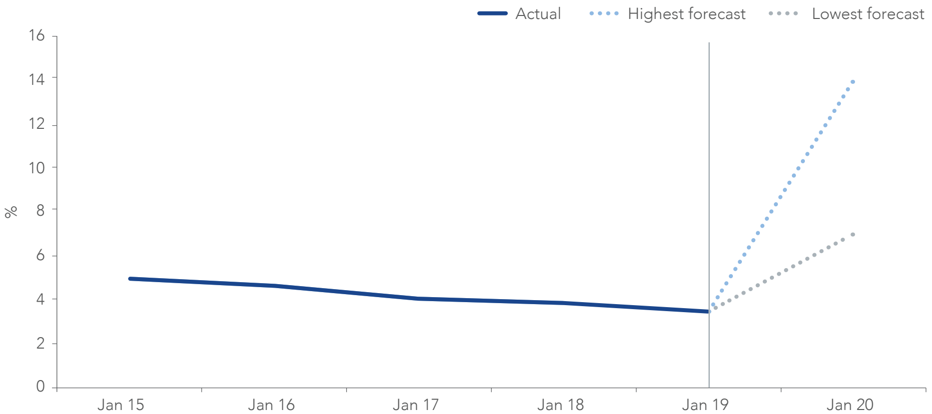
US COVID-19 rates



Source: Bloomberg to 21 June 2020.

Chart 4: The FOMC is made up of optimists and pessimists too

FOMC unemployment forecast range



Source: Board of Governors of the Federal Reserve System.

When can we make a judgement?

We think, unless something miraculous happens, it is unlikely economic data and releases will resolve the question before the first quarter next year. In the immediate term there will be some growth rates that will be spectacular. These will be more a reflection of the shock we have just endured.

Re-openings will start to happen across the third quarter and this will be supportive of data shaped like a V, as pent-up savings will be spent and reviving businesses will re-hire. However, this will coincide with the stimulus withdrawals - rent freezes will end, loan forbearances and corporate bankruptcy standstills will cease, and government spending and income supports will wind down. The impact of much of this will be immediate and governments will do all they can to prevent a major fallout.

The question, then, of whether economies will rapidly recapture all or most or only a fraction of the ground they have ceded in the first half of 2020 will be moot until the world economy settles after the re-opening surge and after the wind-back chill. We don't expect US or global GDP to recover to 2019 trends until 2022.

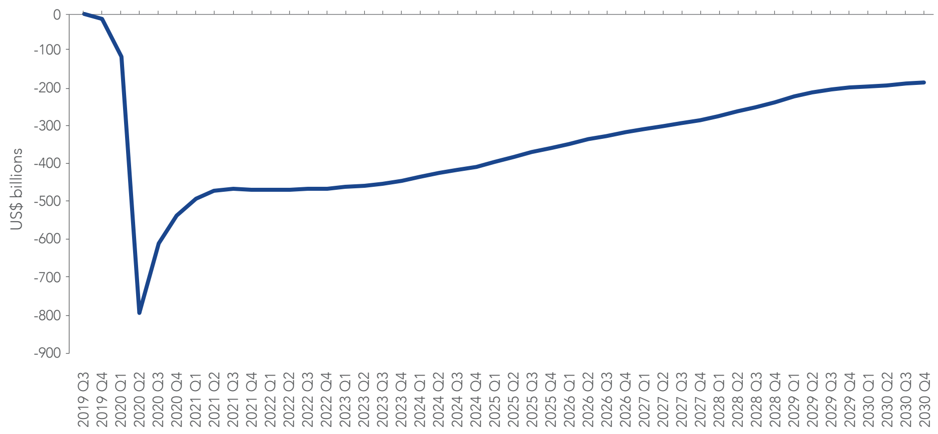
There are pockets of global equities which represent a poor risk/reward at current valuations, for a range of reasons. But while valuation may be destiny, that is the weighing machine, it does not determine near-term direction. That's the voting machine.

And while some influential voters are sitting this one out, there is a flood of retail 'voters' convinced this is a buying opportunity. On the logic above, the voting machine could dominate for months to come. Successful long-term investors survive short-term falls by sticking to investment principles that have withstood the tests of time. Investing in profitable companies with strong balance sheets and stable earnings has historically given resilience to portfolios.

To be fair, the Fed has made it clear it has the market's back. While mumbling that price should encapsulate risk, Fed Governor Powell has, yet again, said they won't alter policy to lean against rising asset prices.

Chart 5: Projecting the shape of the recovery

Difference in nominal gross domestic product between Congressional Budget Office's May 2020 and January 2020 projections



Source: Congressional Budget Office.

Chart 6: The importance of being a selective voter

Forward P/Es of global indices are expensive

Source: MSCI, Bloomberg.

Don't fight the Fed

A pre-occupation of ours over recent quarters has been the risk of a vicious credit event, triggered by the huge volume of BBB corporate credit at risk of slipping below investment grade – forcing massive divestment and credit dislocation.

Clearly, we weren't the only ones concerned with this risk. The Fed stepped up, announcing that, not only would they buy investment grade corporate credit and Exchange Traded Funds (ETFs) for the first time, they would even buy "fallen angels" – formerly investment grade bonds (BBB or better) which had been downgraded in the wake of COVID-19.

Within a day risk markets had bottomed, heading off the issue we had forecast!

And no wonder, alongside backstopping bank liquidity, the Fed has now underpinned corporate credit and corporate liquidity. And, in turn, re-opening corporate bond issuance will allow another cycle of corporate balance sheet re-leveraging – issuing debt to buy back equity. Indeed, in the month following the Fed intervention, corporate bond issuance has soared to a record high!

The Fed felt it had little choice in the face of the swiftest economic crash in a century. But it really does seem like we've reached the "everything" bubble. US equity prices, on year ahead consensus EPS, have soared to new cycle highs (bulls are resorting to two year ahead earnings to paper over the cracks). With such enormous uncertainty ahead, this is prima facie absurd.*

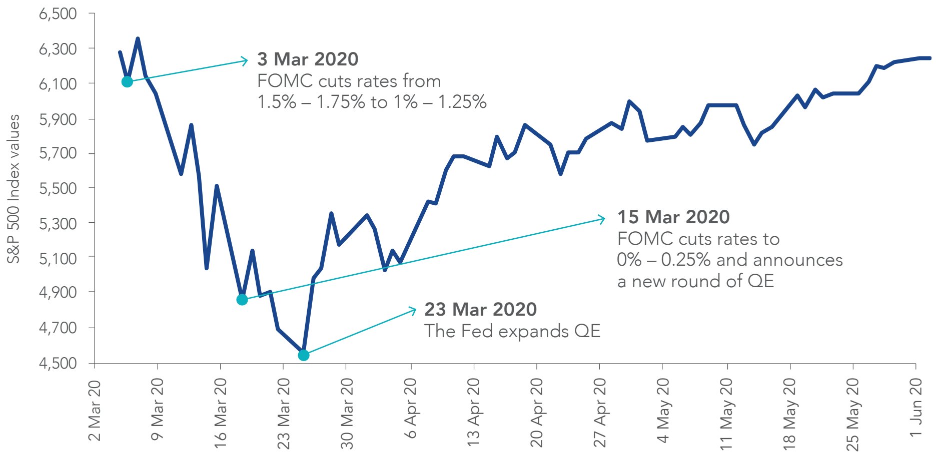
To be fair, much of the US equities surge is concentrated in the so-called FAANG stocks – Facebook, Amazon, Apple, Netflix and Google (Alphabet) plus Microsoft. Of course, this will eventually bring its own problems, given they are now such a big chunk of the market and economy. Indeed, as governments around the world struggle with debt, the FAANGMs look like juicy taxation targets.

President Trump is presently working hard to protect the US tech monopolies. But we are now heading into a US election. It's not clear a President Biden would be so protective. Already candidate Biden's announced tax plans would erode corporate after tax earnings if implemented.

**Of course, the first IBO (Initial Bankrupt Offering) is definitely up there in the absurd stakes… at a time when Hertz has declared Chapter 11 bankruptcy, retail buying is so high the company plans to issue stock!*

Chart 7: The Fed to the rescue

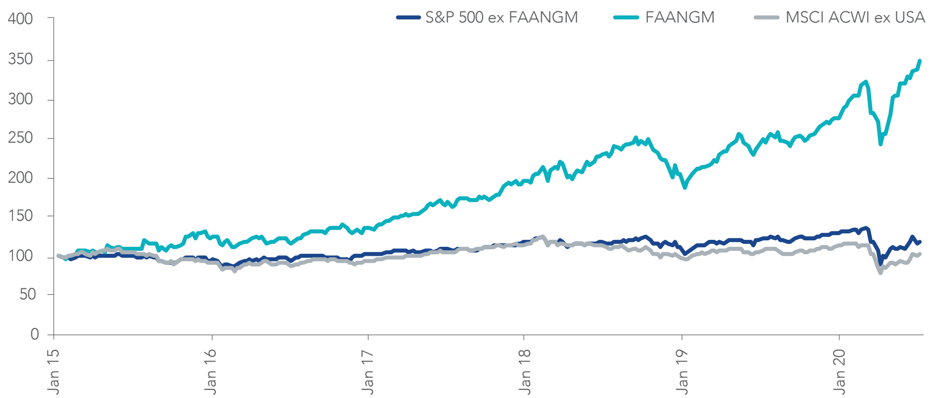
S&P 500 Index and Fed announcement



Source: Bloomberg, VanEck, 1 February 2020 to 2 June 2020

Chart 8: US equities is a story of FAANGM

FAANGM, S&P 500 minus FAANGM and MSCI AC World ex USA Index returns



Source: MSCI, Bloomberg. 1 January 2015 to 19 June 2020. Rebased to 100.

What does it all mean?

We think over the next couple of months, and absent a second wave of infections, we will see a V shaped recover in activity. However, this does not mean the recovery will be sufficient to return the major global economies to the previous growth path they were on within the next two years. Too much damage has already been done to balance sheets, incomes and sentiment.

As we mentioned above, a 'V' in percentage changes can look impressive and growth rates will be high. But the level of growth in economic activity – and hence corporate earnings – will only get us to a level that is lower than the previous earnings path.

Fed action, bond issuance and commercial bank forbearance can preserve liquidity. But they do not guarantee profitability, or even prevent balance sheet deterioration. Zero rates and debt forbearance run the risk of raising a generation of Japan-style zombie companies.

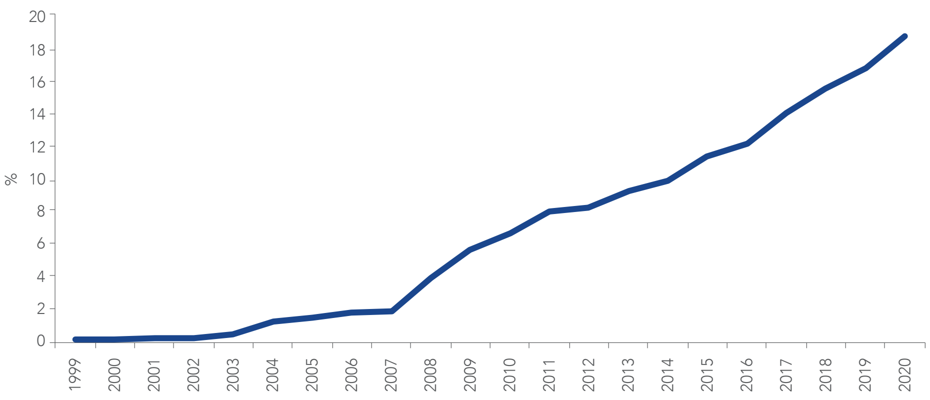
Further, in the US, the 'whatever-it-takes' monetary and fiscal policy, interference in markets and soaring debt levels (both private and government) will eventually run the risk of destabilising the US dollar.

Of course, other sovereigns also face problems. Europe has had a torrid time getting the pandemic under control. As infection rates ebb, however, their existential policy problem remains: until they can unify fiscal response and cost spreading, every crisis will just be a repeat.

So with widespread sovereign problems, it's not hard to see a run to gold (and even crypto currencies) gathering steam.

Chart 9: The zombies are coming

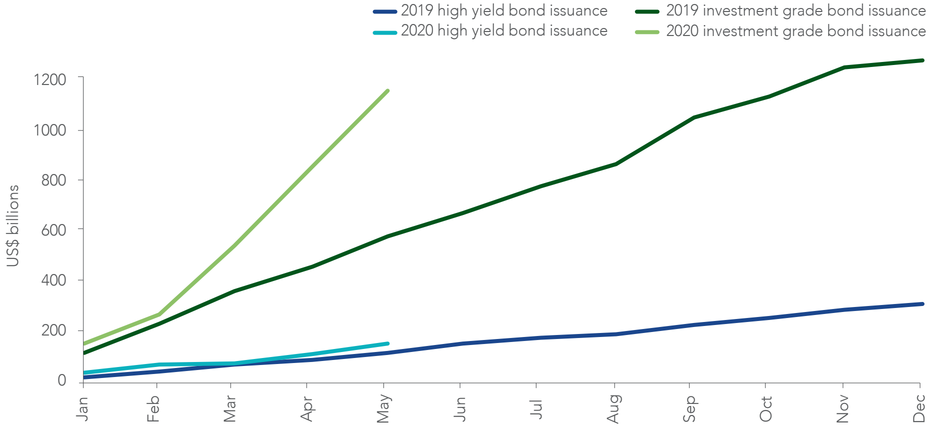
Percentage of US firms with debt service > profit



Source: Deutsche Bank, 31 March 2020.

Chart 10: The surge in corporate debt

US debt issuance



Source: Securities Industry and Financial Markets Association.

Four drivers of the secular shift in gold

Gold carries no counterparty risk. Its supply is limited, it fits in small places, exists outside of the mainstream financial system and is universally seen as a store of value. These attributes make it a unique safe-haven investment. Likewise, gold companies hold vast resources of gold locked in the ground that only they have the technology and skills to extract and bring to market. While gold and gold equities are highly tradeable, volumes are dwarfed by stock, bond and currency markets. A relatively small shift in global asset allocations can drive the gold markets. We believe such a secular shift has begun, driven by four broad categories of systemic risk: deflation, debt, inflation and loss of confidence.

Deflation

The COVID-19 pandemic is a deflationary shock of the highest order, where demand for almost everything has collapsed virtually overnight. As global GDP has fallen sharply, it seems that in the best of outcomes, this will be an average recession. Gluskin Sheff calculates the average post WWII duration from the peak of the S&P 500 to the trough of the subsequent recession has averaged 13.6 months, while the S&P 500 fell 29.0% on average. Therefore, if this is to be an average recession, it would not trough until April 2021. However, myriad factors make it easy to imagine a recession with deflationary pressures that lasts longer than average. Below are just a few of our concerns.

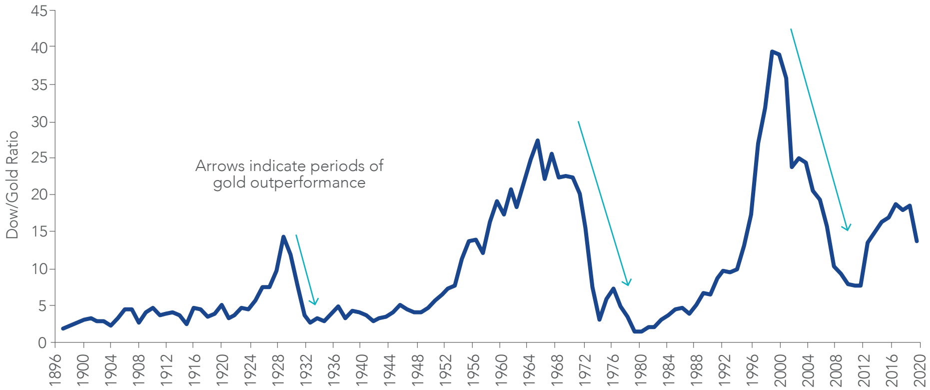
Most people in democracies have never experienced state-controlled lockdowns. Many are also horrified by the incessant COVID-19 media coverage. As a result, once lockdowns are lifted, investment and consumptions patterns might become more cautious and conservative, at least until a vaccine is widely available and perhaps much longer. Meanwhile, a resurgent virus and more lockdowns are a possibility.

Economists surveyed by The Wall Street Journal expect US unemployment to hit 10% in December, which suggests a lingering deep recession.

The IMF forecast that global GDP will contract 3% this year, compared to a 0.1% contraction amid the global financial crisis. While growth may return in 2021, it warned that there is a higher risk of a worse outcome as many countries face a multi-layered crisis comprising a health shock, economic disruptions, falling external demand, capital flow reversals, and a collapse in commodity prices.

Chart 11: Gold outperforms when markets are uncertain

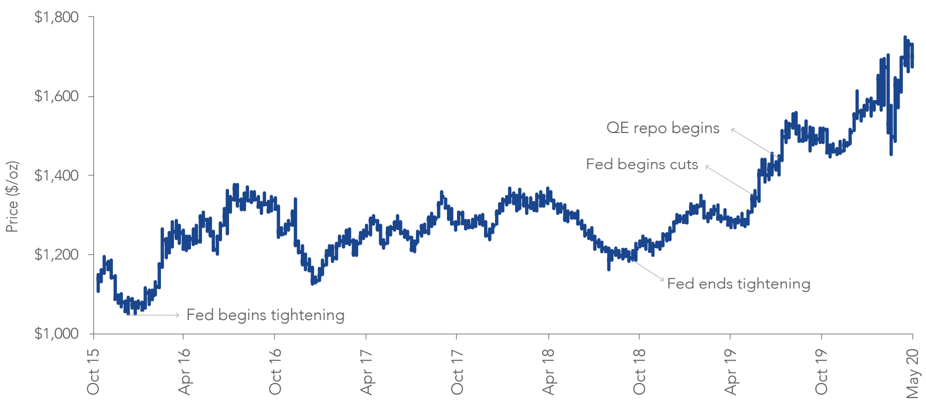
Dow/Gold Ratio, 1896 to 2020



Source: Bloomberg, VanEck as at May 2020.

Chart 12: Gold prices reacting to looming systemic financial risks and low rates

Gold Price (US$)



Source: Bloomberg, VanEck as at May 2020.

Debt

Debt is always a problem in a deflation, while excessive debt can become a crisis. The elephant in the room is corporate debt, while the whale in the room is sovereign debt. Goldman Sachs forecasts the US budget deficit will reach US$3.6 trillion this fiscal year and US$2.4 trillion in 2021. This is on top of US$17.9 trillion worth of existing debt, which now exceeds 100% of GDP. Based on these figures, it appears unlikely that the government will ever pay back the money it owes. At zero interest rates, money is free and sovereign debt keeps piling up. The Fed may never be able to raise rates for fear of a ruining rise in debt service costs. Anyone who owns a business, or runs a household, knows intuitively that this is unsustainable. Nonetheless, no one knows whether it can persist, end in failure, or whether government debt eventually gets pared down in a cycle of inflation.

According to Rosenberg Research, the volume of business debt has roughly doubled this cycle to over US$10 trillion in the US. Many businesses are now taking on more debt to deal with the collapse in revenues through bond offerings, revolving credit lines, and new government lending programs. All corners of the private debt markets are under acute pressure.

According to the US Chamber of Commerce, over 40% of the US's small businesses could close permanently in the next six months.

Bloomberg reported that home lenders are bracing for up to 15 million mortgage defaults in the biggest wave of delinquencies in history.

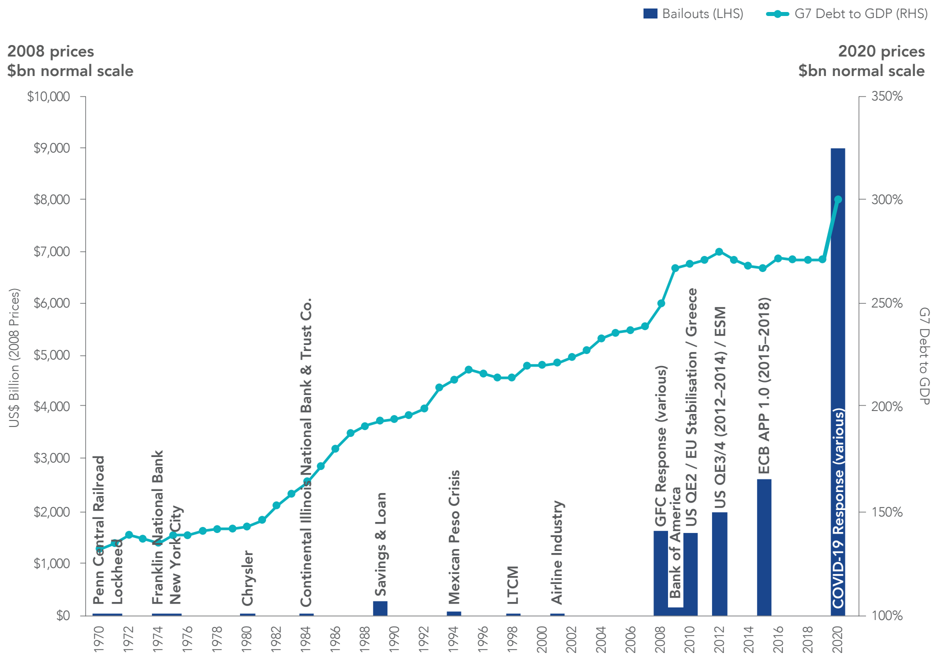
Inflation

We believe the global economy will be mired in deflationary pressure for the foreseeable future. Central banks have been trying unsuccessfully to generate wage and price inflation for years. Instead, their policies have brought asset price inflation – bubbles in stocks, bonds, real estate etc. However, if economic growth ever returns to historic norms, complacency towards inflation, coupled with the massive pandemic stimulus, could bring high levels of wage and price inflation, along with asset bubbles.

The world is on a war-footing to fight the pandemic. Past wars have brought double-digit inflation in the US. The end of WWI also coincided with the Spanish Flu pandemic.

Chart 13: Bailout from pandemic pushing debt levels to astronomic highs

Historical government bailouts and G7 debt to GDP



Source: Deutsche Bank, as at May 2020.

Chart 14: The COVID-19 war might end with another cycle of unwanted inflation

End of war and inflation

War	End of War	Peak Inflation/Year
WWI	1918	24% / 1920
WWII	1945	20% / 1947
Vietnam	1975	15% / 1980

Source: VanEck.

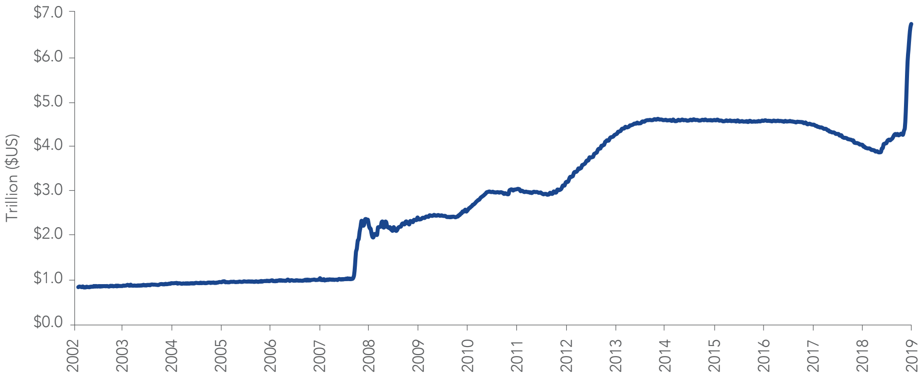
Loss of confidence

The Government took on unconventional fiscal and monetary policies after the financial crisis with trillion-dollar deficits, quantitative easing (QE), and zero interest rates. It tried to scale these extraordinary measures back during the expansion but failed. Now with unlimited QE, rescue programs to all corners of the debt market, and multi-trillion-dollar deficits, fiscal and monetary policies have transformed from unconventional to dangerous. We acknowledge that a massive response to the lockdowns is necessary, but piling onto an edifice of record peace-time deficits and central bank balance sheets creates a very unstable financial system.

After WWll, the Bretton Woods Agreement created a global monetary order in which dollars were convertible to gold by foreign governments. The Bretton Woods system ended in 1971 as the US was spending heavily on social programs and the Vietnam War. Some countries lost confidence in the US dollar, demanding more gold than the US was willing to provide. Thus, the gold window was closed and the current system of fiat currencies and floating exchange rates was adopted. The fiat currency system is now being trashed by rampant QE and government borrowing. We believe the Fed could be on the verge of issuing money directly to the Treasury to fund spending and debt payment. Call it monetisation, helicopter money, or modern monetary theory; no financial system has survived such currency devaluation. If investors and foreigners lose confidence in the dollar-based system, it will be time for a new Bretton Woods, a new global monetary order. Gold would be the last currency standing.

Chart 15: US Fed balance sheet: the bubble of all bubbles?

US Federal Reserve balance sheet assets



Source: Federal Reserve of St. Louis, VanEck. Data as of May 2020.

China

Other intertwined risks are gathering too, deemed insignificant behind the COVID-19 recession – but which otherwise would have been ringing alarm bells. Last year's 'front-and-centre', the trade war, has re-emerged.

This round of the struggle is being fought over blame for the pandemic. While the pandemic spread first from China, the amount of blame, if any, China bears is a much more open question. But China blaming does provide a great cover for domestic failings in pandemic response. With US Presidential and Congressional elections looming there's plenty of incentive to look for scapegoats. Meanwhile, unlike much of last year, the Chinese seem uninterested in a conciliatory response. They seem to have abandoned any effort to meet the first round targets on US trade. China appears to be, where possible, setting up alternative trade partnerships for example, diverting soy bean imports to Brazil.

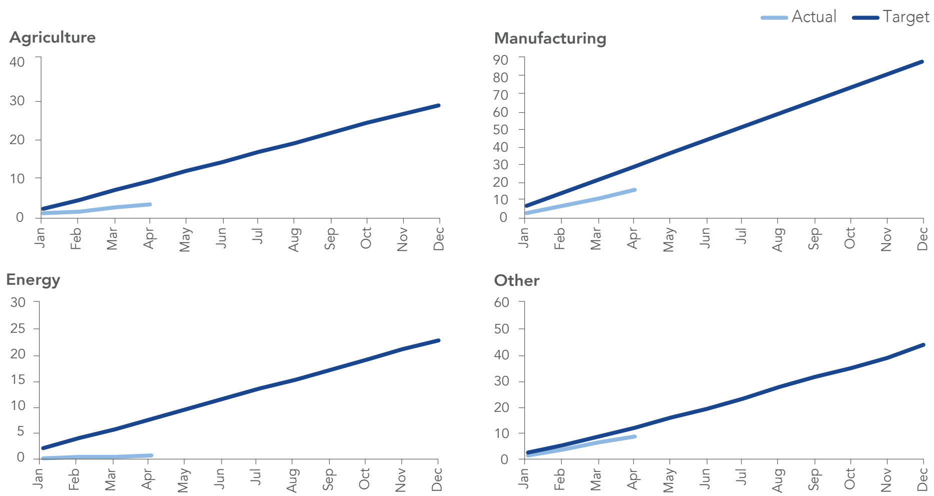
This may reflect a view that conciliation is unlikely to work at present. China has not escaped unscathed from the COVID-19 crisis. In the Two Session meetings in May, China publicly abandoned a near-term growth rate – perhaps just a sign of uncertainty but likely also a refusal to be an engine of global growth.

Despite the contraction in China's economy during the first quarter of 2020, the IMF still projects the economy to grow by 1.2 percent for the year. For 2021, the IMF predicts China's economy will grow by 9.2 percent, leading all major economies. This puts the growth rate near the ruling Communist Party's goal of doubling 2010 GDP and per capita income levels by 2021 in celebration of the Party's 100th anniversary.

While this year's growth will be significantly lower than the approximate six percent growth expected before the coronavirus outbreak hit, that China will manage positive growth at all is a testament to its strength. And if the IMF's projections are correct, China will be making up for lost time in 2021. China's May activity gauges (Purchasing Managers Indices, or PMIs) point to an uneven recovery that faces strong global headwinds. In May, the official manufacturing PMI remained expansionary (50.6), but undershot consensus, while new export orders PMI was outright contractionary (35.3). At the same time, the services PMI continued to improve (55.0), and the Caixin manufacturing PMI – which has a larger share of small privately-owned companies – returned to expansion territory (50.7).

Chart 16: The trade war has re-emerged

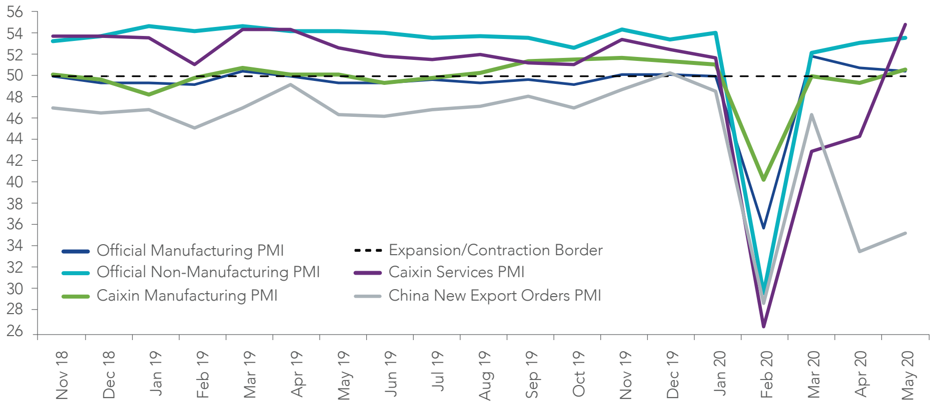
China imports from US, based on US export data US$bn



Source: US Census Bureau.

Chart 17: The return to expansion

China Purchasing Managers Indices (PMI)



Source: Bloomberg. Data to 31 May 2020.

Emerging markets

While emerging market (EM) equities have underperformed developed markets (DM) over the past three months there have been developments during the quarter that support emerging markets going forward. Unprecedented policy stimulus in the developed markets supports external demand for emerging economies because they remain linked to final demand in the developed.

Indeed, the impact of DM stimulus is such that most EM countries have so far contented themselves with financial support only (i.e. monetary policy and loan/liquidity support). Thus they still have a bazooka "to fire". Many could benefit from any diversification away from China by US/Europe business.

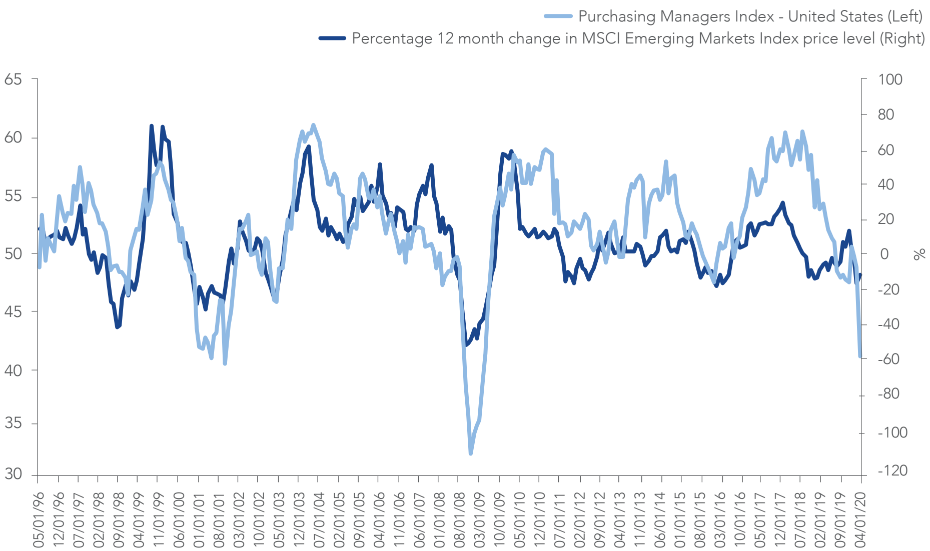
The performance of MSCI Emerging Markets Index has tended to be correlated to the US Institute of Supply Management (ISM) manufacturing PMI and inventory cycle connected through the global supply chain and given that the US remains the key source of global final demand. On the negative side, global trade has clearly been slowed because of the US and China trade dispute over the past few years and will likely remain so looking forward.

The other factor that has positively benefited EM equities is the fall of the US dollar during the quarter. Over the past quarter the US dollar, as measured by the DXY Index has fallen around 5% and we don't see it rallying in the short term.

A weak US dollar also benefits EM debt, which has outperformed DM debt in the past quarter. This rally was after the global liquidity crisis that drove all asset prices in the first quarter of 2020. Hard- and local-currency EM debt was down between 11%–13% end-March, but by early June was only down about 3–4%. To put this in perspective, following the worst financial and economic crisis perhaps on record, EM debt is performing in-line with the S&P 500. We think EM debt should perform similarly to how it did following the GFC because the setup is similar. In particular, DM stimulus is as large as that slowly worked its way into economies post-GFC, if not larger, and certainly much faster, during the COVID-19 crisis. And, the initial conditions that made EM perform so well through the GFC (in retrospect) are intact – lower relative debt levels, independent central banks, and less experimental fiscal and monetary policy.

Chart 18: Emerging markets are correlated to US activity

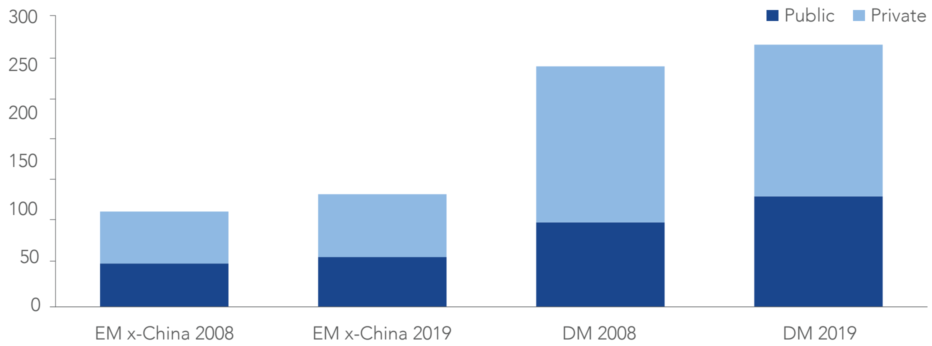
US ISM manufacturing PMI and MSCI EM



Source: Factset, 30 April 2020.

Chart 19: Like the GFC, EM has far less debt

Debt/GDP Ratios in EM and DM - GFC vs COVID



Source: Bloomberg, VanEck, 31 May 2020.

Europe

Europe was hit hard and early by COVID-19. Indeed, there is some medical evidence that the virus was circulating there as early as last year; and that the European strain is more aggressive than the strain most widespread in Asia.

The size of the initial hit is visible in Q1 GDP pain: outside of China, western Europe took the biggest early hit. As democracies, they were unable and/or unwilling to impose the brutal lockdowns the Chinese implemented. As a result their bounce back has also been slower.

The depth of the European hit, coupled with the well-earned scepticism over the ability of policy to respond, has seen European equity markets continue their woeful underperformance. To be fair though, some of the valuation differential relates to the huge US tech sector and its valuations.

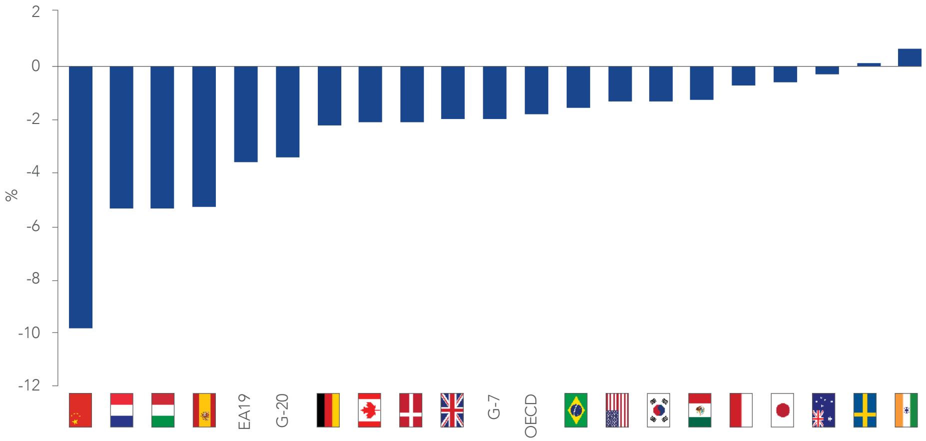
Perhaps surprisingly the initial European policy response was good. Germany, which has leant against aggressive fiscal action ever since the GFC, came through with a huge early package – amounting to nearly 40% of GDP. Sufficient monetary action by the ECB and loan facilities also saw sovereign spreads retrace the initial surge. Unfortunately, the early policy success is now getting bogged down in the usual fiscal mutuality issues.

Even though Chancellor Merkel and President Macron are both on board, they are facing resistance from by the so-called ‘Frugal Four’, Austria, Denmark, Netherlands and Sweden, who are calling for fiscal restraint and repayment of cross-border rebates.

Churchill once said the Americans could be relied upon to do the right thing – once every other possibility was exhausted. The same could be said of Europe now, they will eventually reach a minimal acceptable position but only after squandering crucial time and investor goodwill.

Chart 20: China and Europe took the early hit

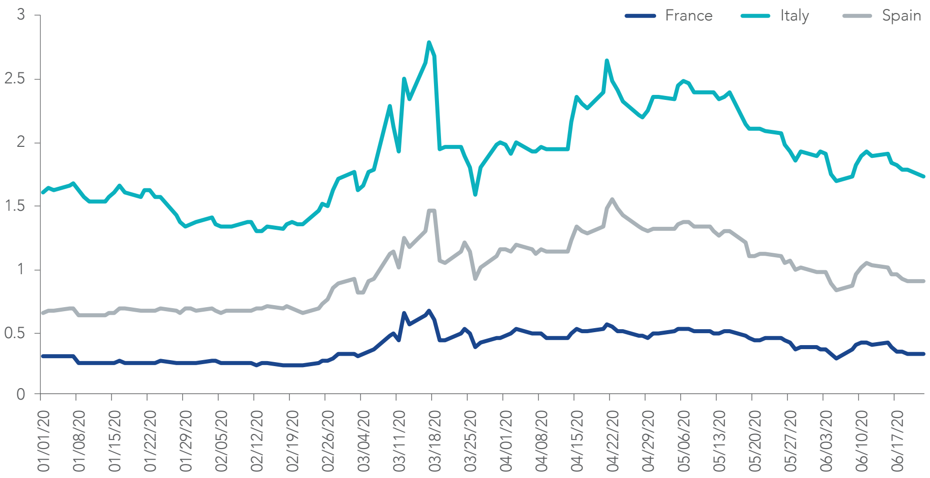
Q1 2020 Real GDP change



Source: Organisation for Economic Co-operation and Development.

Chart 21: Spreads have not recovered to January levels

10 year Spreads to German 10 Year Bonds since the beginning of the year



Source: Bloomberg.

Is Australia in any better position than other G7 Nations?

Australia, through some combination of luck, distance and policy has succeeded in getting the pandemic under control faster than many other countries. While borders stay closed, the apparent rate of community infection looks low enough that it can be controlled. This will allow most of the economy to reopen quicker than elsewhere in the world. Australia's strong fiscal position has also allowed a big fiscal response. Even with record deficits predicted for the next couple of years, government debt levels relative to GDP are at developed country lows.

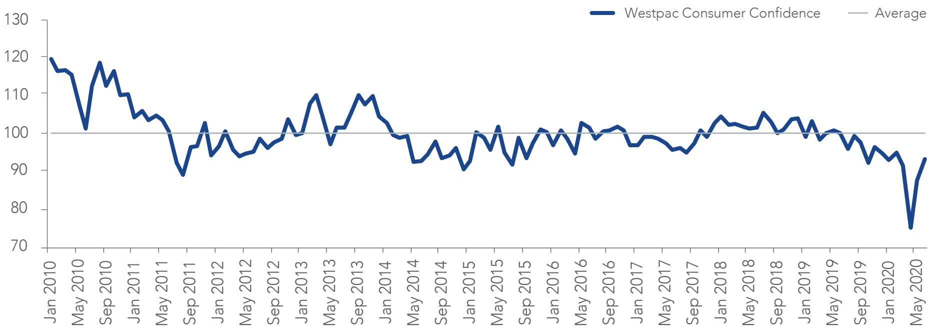
These are two powerful positives. But there are two offsets as powerful. Firstly, perhaps forgotten in the pandemic panic, but the Australian economy was stagnant going in to the COVID-19 crisis. A return to pre-recession levels would return us to a struggling economy. As the economy has reopened, confidence has bounced – but only to pre-COVID-19 levels, which were well below neutral/long term average. Secondly, somehow Australia has bought into the US and China fight. As a small nation, with China as our biggest trading partner, Australia has made itself a target for retribution. China dominates demand for four of Australia's five biggest exports: iron ore, coal, education, and tourism.

Australia's iron ore exporters have benefited from Brazil's poor handling of the virus (this has had the impact of driving up the Australian dollar, much to the chagrin of the RBA). Thermal coal demand has been crushed by the global recession; likewise tourism and education. As well as brutalising the university sector, the loss of foreign students is having a spill-on to inner city property markets. While Australia can eventually diversify its export markets, a brawl with China could undermine Australia's standard of living and growth over the next few years.

To return to robust growth, Australia is going to need ongoing stimulus and support beyond a planned September phase out. Worryingly, the Government seems to be showing signs of turning back to tried, and failed, austerity policies. Restive backbenchers are already agitating for fiscal wind backs and wage and superannuation pauses. The proposed structural responses don't look like the answer either. The COVID-19 Commission seems to be mainly concerned with pushing pet schemes. The other main responses: increased labour market flexibility (read lower wages) and corporate tax relief weren't working before COVID-19 – capital expenditure has been so weak RBA Governor Phil Lowe has been tearing his hair out – so we don't think they will work now.

Chart 22: Consumer Confidence Rebounds - but still well below average

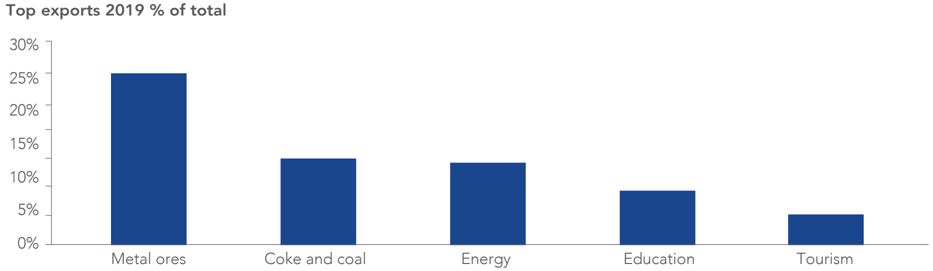
Westpac consumer confidence

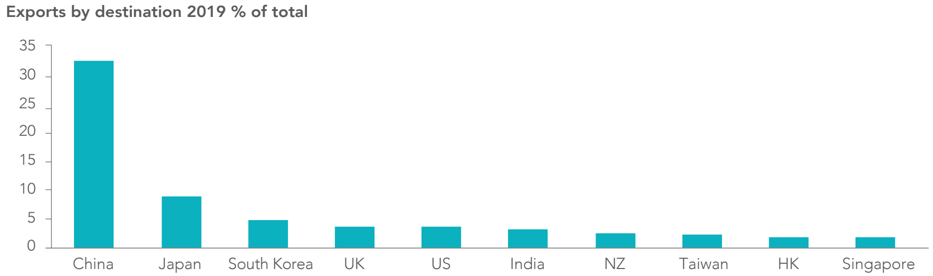


Source: Westpac, Bloomberg.

Chart 23 and 24: A brawl with China will prolong economic pain

Australia's top exports by type and trading partner





Source: Australian Bureau of Statistics.

VanEck's range of Exchange Traded Funds on ASX

Name	ASX code	Index	Management costs (% p.a.)*
Australian Broad Based			
Australian Equal Weight ETF	MVW	MVIS Australia Equal Weight Index	0.35%
Australian Sector			
Australian Banks ETF	MVB	MVIS Australia Banks Index	0.28%
Australian Property ETF	MVA	MVIS Australia A-REITs Index	0.35%
Australian Resources ETF	MVR	MVIS Australia Resources Index	0.35%
Australian Small and Mid Companies			
Small Companies Masters ETF	MVS	MVIS Small-Cap Dividend Payers Index	0.49%
S&P/ASX MidCap ETF	MVE	S&P/ASX MidCap 50 Index	0.45%
Sustainable Investing			
MSCI International Sustainable Equity ETF	ESGI	MSCI World ex Australia ex Fossil Fuel Select SRI and Low Carbon Capped Index	0.55%
MSCI Australian Sustainable Equity ETF	GRNV	MSCI Australia IMI Select SRI Screened Index	0.35%
International			
FTSE China A50 ETF	CETF	FTSE China A50 Index	0.60%
China New Economy ETF	CNEW	CSI MarketGrader China New Economy Index	0.95%
MSCI Multifactor Emerging Markets Equity ETF	EMKT	MSCI Emerging Markets Diversified Multiple-Factor Index (AUD)	0.69%
Morningstar Wide Moat ETF	MOAT	Morningstar Wide Moat Focus Index™	0.49%
MSCI World ex Australia Quality ETF	QUAL	MSCI World ex Australia Quality Index	0.40%
MSCI World ex Australia Quality (Hedged) ETF	QHAL	MSCI World ex Australia Quality 100% Hedged to AUD Index	0.43%
Global Sector			
FTSE Global Infrastructure (Hedged) ETF	IFRA	FTSE Developed Core Infrastructure 50/50 Hedged into AUD Index	0.52%
FTSE International Property (Hedged) ETF	REIT	FTSE EPRA Nareit Developed ex Australia Rental Index AUD Hedged	0.43%
Gold Miners ETF	GDX	NYSE Arca Gold Miners Index	0.53%
Australian Fixed Income			
Australian Corporate Bond Plus ETF	PLUS	Markit iBoxx AUD Corporates Yield Plus Index	0.32%
Australian Floating Rate ETF	FLOT	Bloomberg AusBond Credit FRN 0+Yr Index	0.22%
Australian Subordinated Debt ETF	SUBD	iBoxx AUD Investment Grade Subordinated Debt Index	0.29%
Global Income		**Performance Benchmark**	
VanEck Emerging Income Opportunities Active ETF (Managed Fund)	EBND	50% J.P. Morgan Emerging Market Bond Index Global Diversified Hedged AUD and 50% J.P. Morgan Government Bond-Emerging Market Index Global Diversified	0.95%

*Other fees and costs apply. Please see the respective PDS.

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