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A world recalibrated

December 2020

With global cases of COVID-19 over 77 million and in excess of 1.6 million deaths there is no doubt that for the most part we are all looking forward to the end of 2020. The introduction of vaccines has given a spark of optimism and a brighter path ahead.

A new world order has emerged with the pandemic accelerating structural trends and an investment world transformed. Hyper-accommodative fiscal and monetary policy support a shift to a higher inflation regime with the last decade's leaders potentially becoming the new decade's laggards. Investors need to contend with tectonic shifts factoring in an era of sustainability, a paradigm shift in the geopolitical landscape and the fracturing of globalisation. We are at a critical juncture with portfolio allocations, the "60/40" growth/defensive asset allocation is at a pivotal moment – the new investment order warrants a portfolio recalibration.

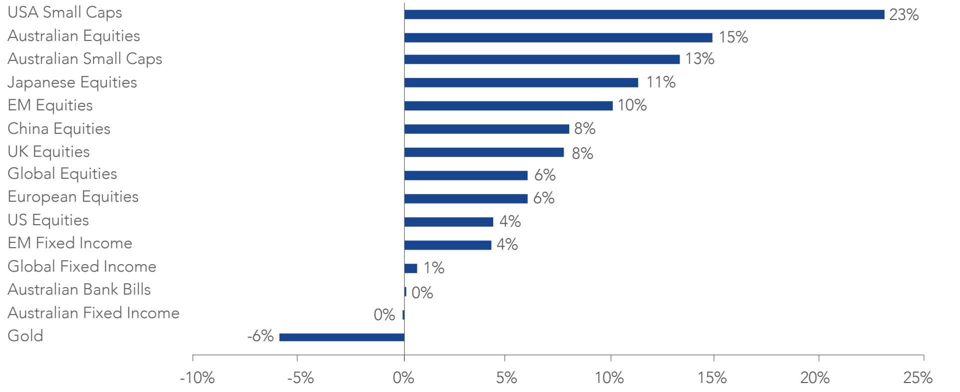
While e-commerce penetration has quantum leaped the last few months we observe a potential regime change may be at hand. For the last few years across developed markets, growth stocks have outperformed value by a long way. This may be coming to an end with a reflation narrative emerging and global cyclicals propelling forward. Energy and financials have been the stand-out winners with more defensive sectors taking a much needed pause. For the moment this is all short term. Equities and credit markets have already priced an optimistic vaccine scenario and a material recovery with a potential to experience a phase of consolidation.

All things being equal, Australia has fared better than most countries with the initial response being first rate. The reopening of Victoria combined with the vaccine announcements has seen Australian large and small caps lead the global stage. Although the recent Northern Beaches cluster in NSW reminds us we're still in the eye of the storm. China's credit impulse is a strong leading indicator of industrial commodities which has been supportive of the commodity heavy ASX. Fiscal policy has cushioned the recessionary impact propping up household income with lower interest rates turning house prices around and limiting financial stress. However, headwinds remain. Escalating tension with China, sagging population growth and little prospect of stronger wage growth are all factors to contend with.

While a successful rollout of the vaccine is a COVID-19 game-changer, the efficacy of the vaccine and front-line health workers apprehension to inoculate still puts to question the ability to overcome the global pandemic challenge. The world has not yet reached peak pandemic. Markets don't like uncertainty. Policy support will continue unabated for some time and we hold the view that central banks won't lean against any premature policy normalisation. We cannot say there is a sustainable and synchronised global recovery just yet. What is certain is the pandemic has acted as the great accelerator.

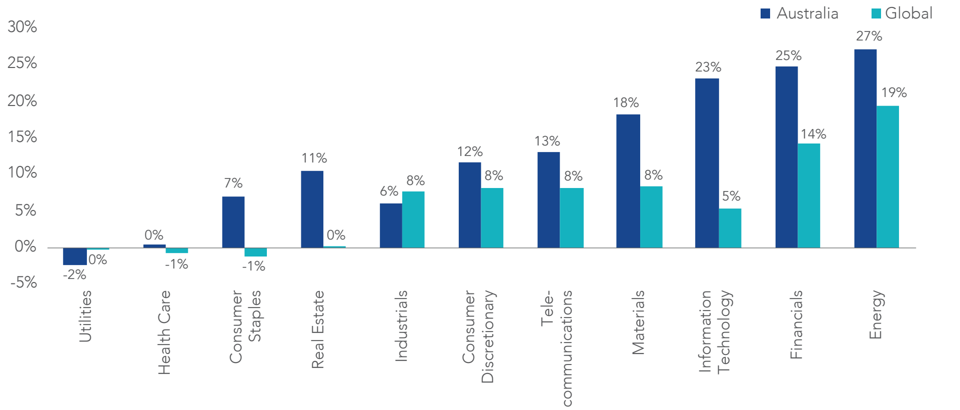
"The fundamental law of investing is the uncertainty of the future" – Peter L. Bernstein

Chart 1: Index returns in the December 2020 quarter



Source: Bloomberg, 1 October 2020 to 21 December 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 December 2020 quarterly performance



Source: Bloomberg, 1 October 2020 to 21 December 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.

Global markets – don't look down!

Learning to walk a tightrope, or even just crossing a rickety bridge, the advice is the same: don't look down! The easiest way to lose nerve, and end up taking the drop, is to realise how far there is to fall.

It's advice that markets have taken to heart – looking straight, or up, over the near-term abyss and plan for the sunny uplands on the far side.

With economies well off their lows and vaccine roll-outs commencing, exuberance is to be expected. The question is though, is this exuberance rational? Markets could be accurately reflecting the outlook for growth, inflation and profits. Or they could be running ahead of themselves.

Just like last quarter, markets may be over-embracing optimism. But, also like last quarter, it may not be time to call a halt to this confidence.

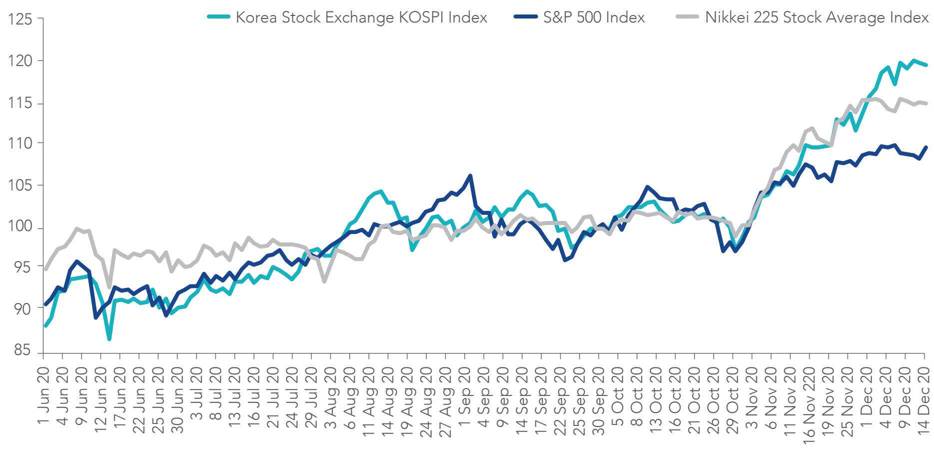
Instead, it is important to look at relative bets – and mostly the same ones that paid off; emerging markets rather than developed markets; Japan instead of the US; gold and its miners as a diversifier and, then perhaps the most confronting, value versus growth.

New Japanese Prime Minister Suga is off to a handy start, passing a large stimulus package, perhaps to offset last year's tax hike mistake. As usual with Japanese policy, there's a fair amount of smoke and mirrors in the headline ¥73 trillion number.

The best guess of new money spending, centred around spurring consumer spending, employment support, digitisation and carbon reduction, is more like ¥40 trillion. Still a solid 8% of GDP.

Chart 3: The US is lagging

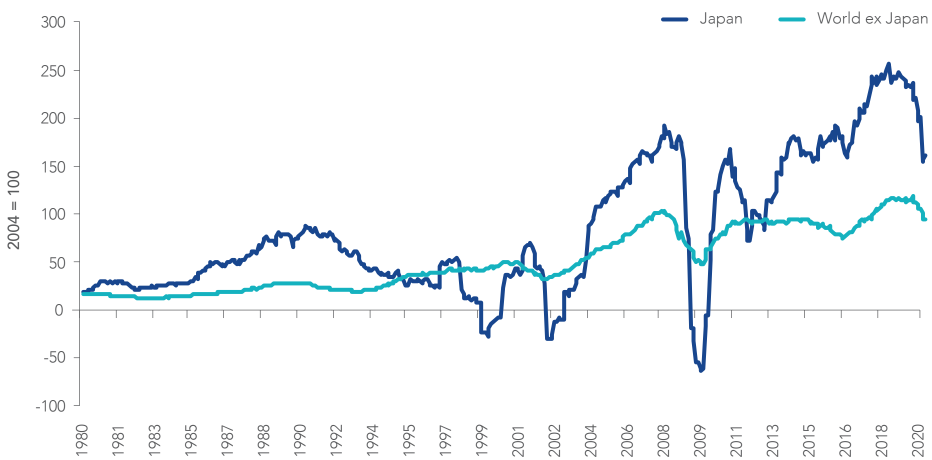
Japan and Korea outpace US



Source: Bloomberg, 1 June 2020 to 15 December 2020.

Chart 4: Japan's stimulus could make its way to corporates

Earnings Per Share (EPS) by market (trailing US$)



Source: MSCI, National Bureau of Economic Research. Both indices rebased in 2004 = 100.

Rising global debt and US dollar weakness

Gold remains a good diversifier, both on valuation and on market dynamics. During November the gold price dipped relative to US real rates, our best forecasting tool for the gold price. But this appears to be a short term aberration. If markets get a bit more sensitive to near term growth problems, that should reflect in lower real rates – and hence higher gold price.

Rising global debt is another other long term driver supporting the case for gold.

On the other hand, while we have been negative on the US dollar, we're currently feeling a bit more ambivalent.

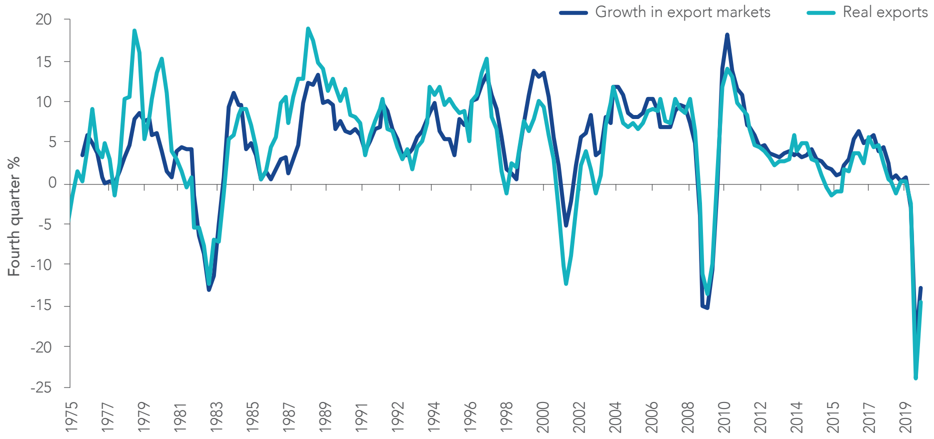
The US still looks to have a distinct advantage over Europe, the biggest weight in the US dollar Index (DXY), on growth – which a rising Euro will already be exacerbating. And while we're cheered that the Eurozone has finally got its fiscal package through, at a hefty €1.8 trillion or c15% of Euro-area GDP, much of the funds are still unlikely to flow before the second half of 2021.

Of course, the US still has whopping twin deficit issues. The US has had both fiscal and current account deficits years. We watch them now with a mixture of trepidation and wonder.

And this will weigh on the value of the US dollar. The dollar depreciation has been underway since March. The sum of the US fiscal and current account deficits has now reached 18% of GDP, which is the largest on record. Large twin deficits can only be sustained with high interest rates to attract foreign capital to keep the currency stable, but US interest rates are at their lowest relative to the rest of the world since 2012 and the Fed remains publicly committed to keeping interest rates low for the foreseeable future.

Chart 5: US dollar woes

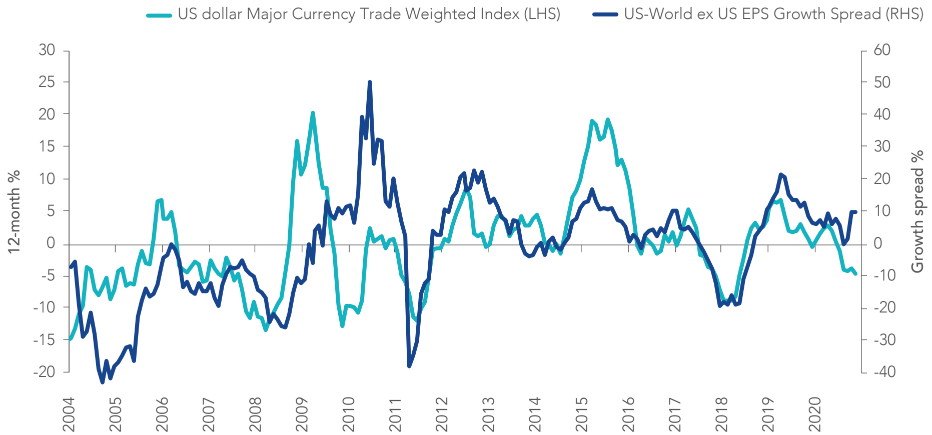
US real export growth and growth in export markets



Source: Bureau of Economic Analysis, National Bureau of Economic Research

Chart 6: US dollar and equities

US dollar trade-weighted index, and US and rest of world earnings per share (EPS) gap



Source: Federal Reserve, MSCI, National Bureau of Economic Research

US macro

US GDP rebounded strongly over Q3, rising by a record 33.1% after falling 31.4% in the second quarter, and dragging employment along for the ride. It is worthwhile to note however that GDP remains 3.5% below its Q4 2019 peak which would be considered a deep recession in normal times.

Markets were particularly heartened by the rebound in corporate profits. Corporate profits after tax rebounded in Q3, hitting US$2.32 trillion – above the Q4 2019 peak of US$2.31 trillion!

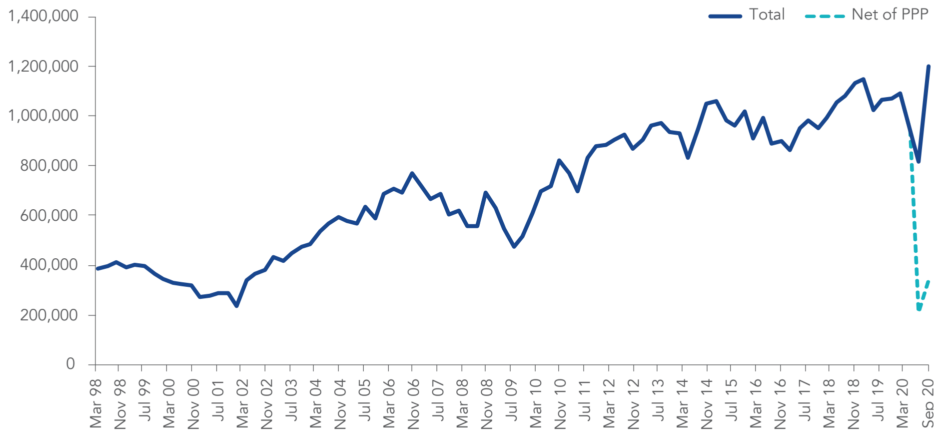
Of course, nothing is as good as it seems, that figure includes huge government subsidies, most notably the Paycheck Protection Program – which, in annualised level terms, contributed US$0.865 trillion to the Q3 profit figure. While not yet in run-off, the programme looks unlikely to make a further major contribution to profits in the future.

More generally, government stimulus is being withdrawn, just as the US gets thumped by a new wave of COVID. This is the second or third wave, depending on what you read, but what is irrefutable is that it is worse than the earlier wave/s. Infections, hospitalisations and death statistics are tragically hitting new highs. Even with a vaccine on the way, infections are likely to continue to hit new highs following mass Thanksgiving and Christmas travel.

It's too early to call a top in infection rates, but already retail sales have been hit with COVID's resurgence.

Chart 7: The corporate profit rebound isn't what it seems

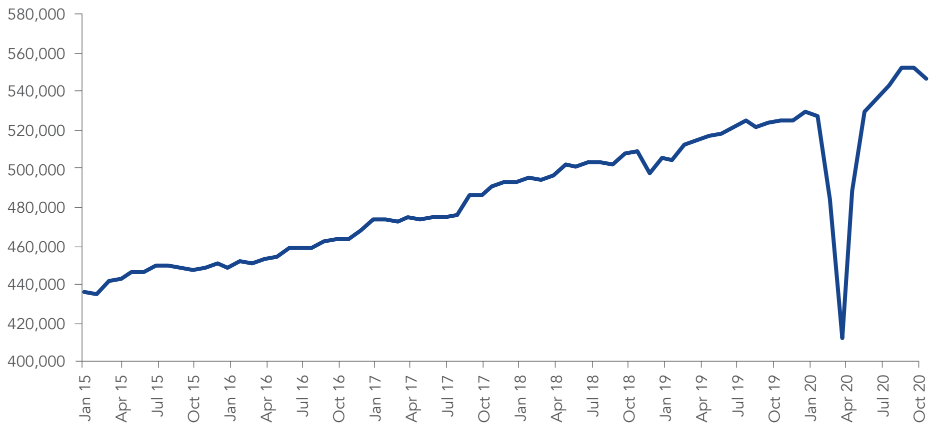
US Corporate profits (after tax, national accounts basis)



Source: Bloomberg, Jan 1998 to September 2020.

Chart 8: Retail sales fell more than expected in November

Retail trade and food services: US total seasonally adjusted sales – monthly (US$m)



Source: US Census Bureau, Advance Monthly Sales for Retail and Food Services.

What will the US response be?

In response to increasing COVID cases, lockdowns are starting to build though partisan rancour is so high responses are inconsistent between states.

As a result, jobless claims have surged back to levels last seen in September. This does not bode well for a continuation of the economic recovery that seemed to be underway.

That said, even while the Federal Government was gridlocked on its support program, markets continued rising on the hopes of a new stimulus package – a sign of how upbeat markets have been. Three months ago it was US$2.2 trillion or bust. Now President Trump and warring parties in Congress have been able to agree on various proposals totalling US$900 billion.

It will be interesting to see how this impacts markets. There is expectation that asset prices will remain high.

The sort of squabbling over this stimulus package may be the harbinger of the next 2 to 4 years. Unless the Democrats can win both Georgia Senate seats in the run-off we may see a re-run of the Obama years, with a hostile Senate blocking everywhere possible. At the time of writing the betting odds are 2:1 against a democratic victory; though polling is closer.

Markets appear reasonably comfortable with this outcome – with the likelihood of a subpar recovery offset by the prospect of no wind back in Trump era tax largesse. Plus, lower for longer in interest rates.

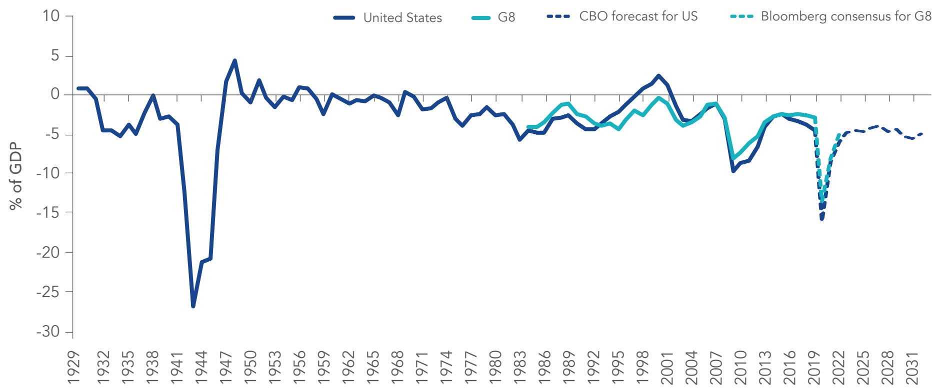
Chart 9: Worse than ever

US COVID-19 deaths (7 day moving average)

Source: John Hopkins University.

Chart 10: US government deficit

Budget balance, Share of GDP



Source: Congressional Budget Office, Bloomberg, National Bureau of Economic Research.

Growth versus value and tech wars

"Lower for longer" has been a key underpinning of the extraordinary growth stock outperformance, alongside the once-in-a-generation surge in both consumer and business tech use driven by lockdowns.

This is because, the higher the price to earnings (P/E) of a stock, the more vulnerable it is to a back-up in interest rates. The Q3 surge in economic/vaccine optimism saw a first burst of the rotation out of priced-to-perfection growth into bashed-by-COVID and other forgotten stocks, i.e. value.

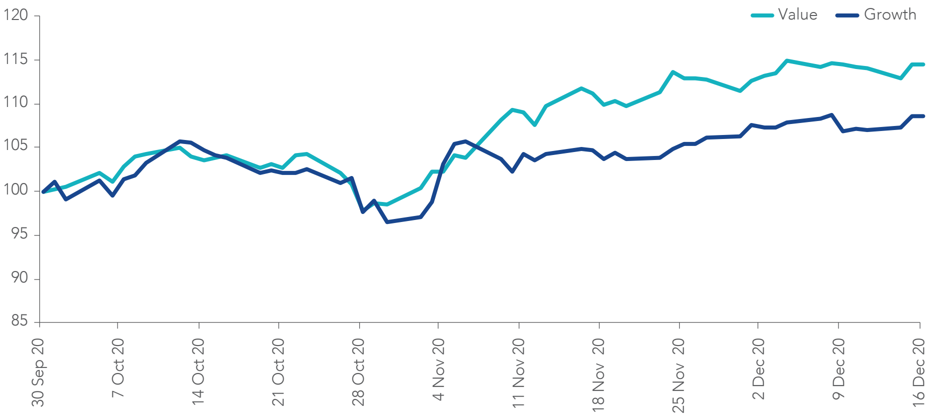
We think this trade will continue. And, while it's possible that the value tilt could have a setback in a mild risk-off event, we would expect that in a major risk-off event, valuation will provide protection.

And, longer run, extreme valuation will still have to be paid for. In the case of tech, it's an open question how much of the surge in uptake is a pull forward, an important question at nosebleed P/Es, since earnings have to keep rising to justify the valuations.

As we've pointed out, possibly ad nauseum, the prospects for a traditional 60:40 portfolio from here look pretty poor. Bonds and credit look expensive and US equities are fully priced/expensive on practically any measure. Again, though, we stress expensive can get more expensive without a correction catalyst. Hence, our preference for better valued sectors rather than a head on the chopping block.

Chart 11: Value came back last quarter

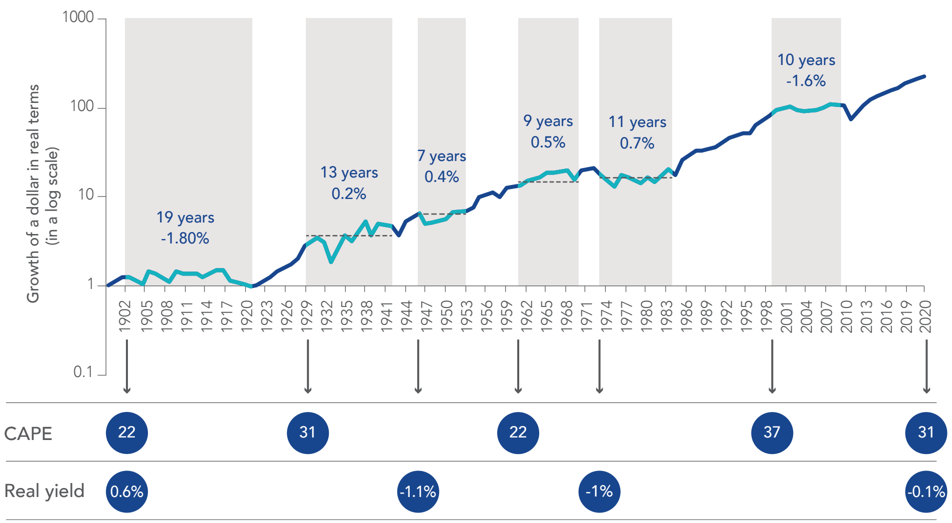
Russell 1000 Value Index and Russell 1000 Growth Index since 1 October 2020



Source: Bloomberg, Rebased to 100. 1 October 2020 to 16 December 2020.

Chart 12: Dangers of trading "60:40"

Bonds are now as expensive as equities, and equities have been expensive before



Source: Bloomberg, Factset, Shiller. 60% US equities, 40% US Bonds assume a monthly rebalance.
Past performance not a reliable indicator of future results.

More headwinds for tech

Meanwhile, over and above valuation issues, tech faces global political headwinds.

The US Presidential election focused attention on the outsize ability of social media to direct eyes and filter news. In turn, this also drew attention to the broader issue of monopoly power in tech. Facebook has become the poster child for both problems. Various measures to offset monopoly power, up to and including corporate break-ups are now being discussed.

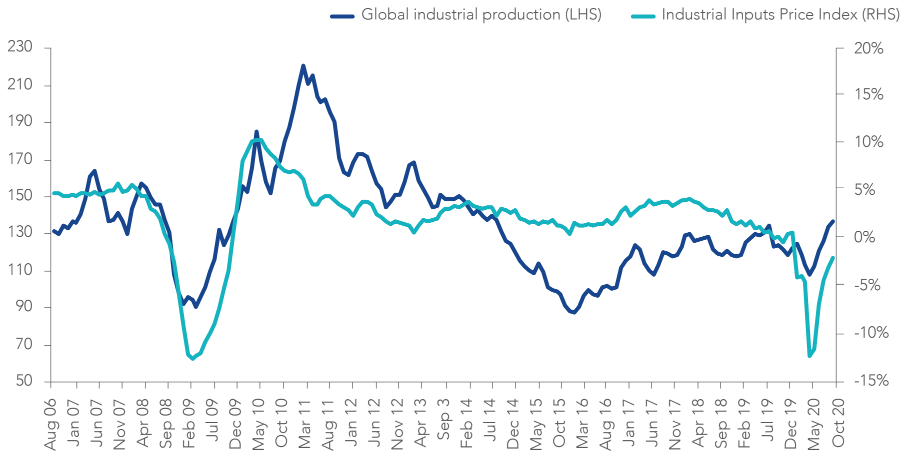
Of course, once you're out of favour it never rains, it pours. The next cab off the rank for tech is being caught in national tax nets. With government finances severely stretched by the COVID response, governments will be looking for whatever routes they can find to bolstering finances. As always the less painful for run-of-the-mill voters, the better.

It's worth noting a senior member of Joe Biden's transition team is economist Brad Setser, whose specialties are trade flows and distortions caused by tech firms' global IP tax scams. Read his articles on the Council for Foreign Relations website.

Another thing a Biden government will have to contend with is managing corporate credit which as we have seen from past crises can cripple markets. According to Bloomberg, since the onset of the pandemic, some of America's most esteemed companies have become zombies – unable to earn enough to cover their interest expense. Zombies totalling 20% of the country's 3,000 largest companies added almost US$1 trillion in debt. The unintended consequence of the Fed's propping up of the bond market may be directing the flow of capital to unproductive firms, depressing employment and growth for years to come.

Chart 13: Costs blowout could impact output

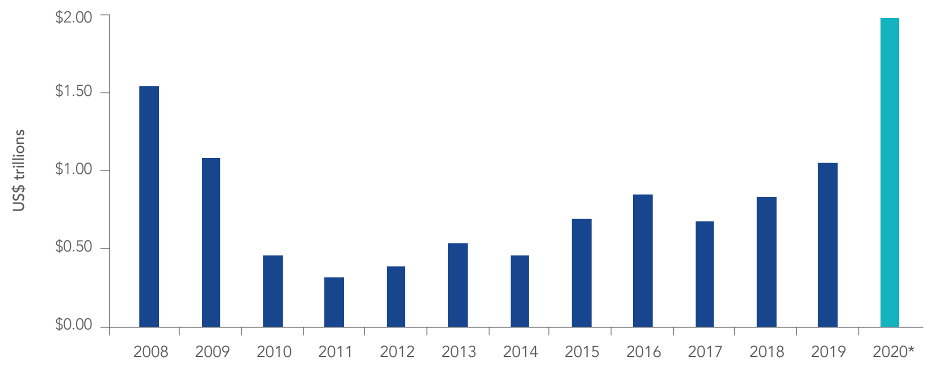
Global industrial production and industrial input prices



Source: Bloomberg.

Chart 14: The undead debt

Zombie firms are sitting on an unprecedented US$2 trillion of obligations



Source: Bloomberg, VanEck. Year-end figures. *2020 figures are for 3 quarters to 30 September 2020.

Gold: bearish near-term technicals

Gold responds negatively to anything that convinces markets that the economy, the financial health of businesses and households, and life in general, can return to normal without inflation. This risk-free scenario is being priced into the markets, along with the news that vaccines will become widely available in 2021. This caused gold to briefly dip below the bull market trend that began in June 2019.

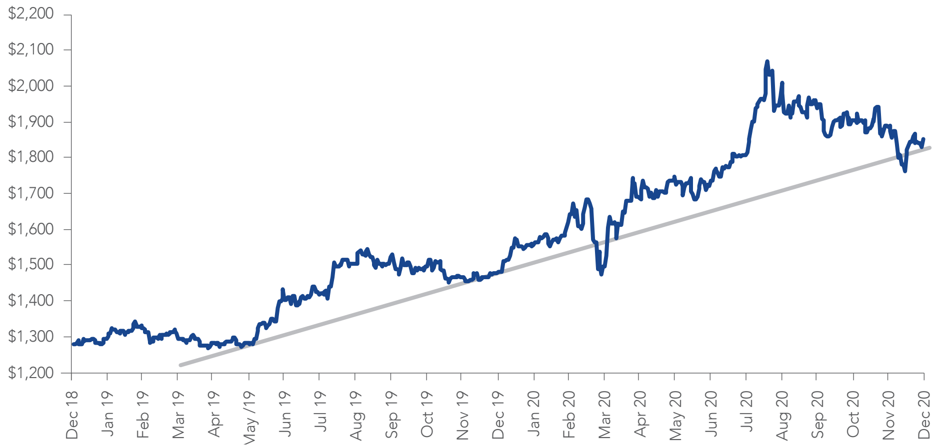
This selloff and the fall below the threshold level of US$1,800/oz suggest that the gold bull market does not carry as much near-term strength.

We approach the market's view that the world can emerge from the pandemic as if nothing ever happened with less optimism than the market. There will be lasting damage as the coronavirus appears set to continue to wreak havoc throughout much of the world.

In the US, Moody's Analytics estimates that state and local governments could face a US$70 billion shortfall this year; that figure could balloon to US$268 billion in 2021 and US$312 billion in 2022. Meanwhile, Rosenberg Research figures show that nearly 30 million American households will be affected by an end to unemployment support, eviction moratoriums and home loan forbearance in 2021. Many of the unemployed won't have jobs to go back to. And the longer they remain out of work, the more their skills erode. According to the same research, the savings rate at 13.6% is nearly double pre-pandemic levels. Rather than representing a potential spending bonanza, perhaps high savings levels represents a new conservatism in investing and consumption. Young people coming of age have already experienced two historic crises in 12 years; they may adopt the values of their Depression-era great grandparents, rather than those of their Boomer or Gen-Xer parents.

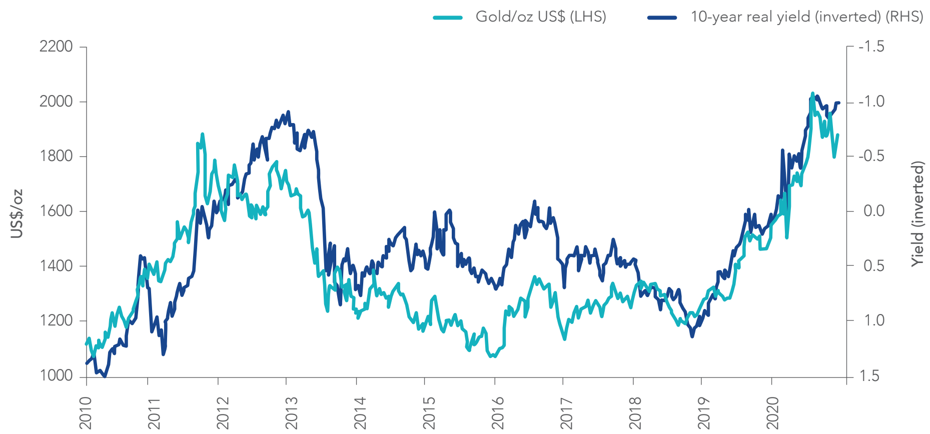
Chart 15: Gold price experienced a brief dip

Gold price per ounce (US$)



Source: LBMA, Morningstar, 1 Jan 2019 to 16 December 2020.

Chart 16: Gold price (US$/oz) and the real 10-year treasury yield



Source: Bloomberg, National Bureau of Economic Research.

Gold: longer term bullish

Beyond the pandemic are a host of risks that could threaten the financial system. Foremost is the massive debt that has been issued since the global financial crisis and that has accelerated with the pandemic. A few of the characteristics of the global debt load that cause concern:

1. The Institute of International Finance (IIF) estimates that global debt rose to US$272 trillion through the third quarter and will reach a record 365% of global GDP by the year-end. Advanced nations have seen a 50 percentage point increase in nine months to 432% of GDP.
2. The US Education Department's latest estimate shows student loan losses reaching US$435 billion, equal to 32% of student loans outstanding. This is approaching the US$535 billion lost on subprime mortgages in 2008.
3. The world's inventory of negative yielding bonds reached a record US$17.05 trillion in November. Rosenberg Research estimates this represents 26% of the world's investment grade debt.
4. The rise of zombie companies. As mentioned this debt is cause of concern.

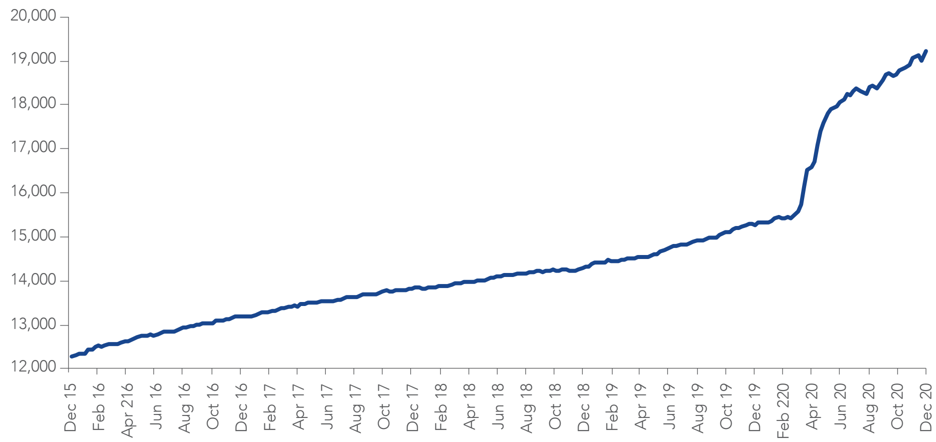
Perhaps the most worrisome and least predictable of the financial risks is the effect of the liquidity that has been pumped into the financial system by the Fed's quantitative easing and the government's deficit spending. The massive scale is captured in the change in M2 total debt.

Both the Fed and the Treasury are expected to implement more stimulus when US President-elect Biden takes office. Far too much money in a financial system carries the risk of unintended consequences, such as asset bubbles, currency volatility, or inflation. Already we are seeing bubbles develop in large tech stocks, initial public offerings and residential real estate. The velocity of money (rate of turnover of the money supply) is currently extremely low, which keeps inflation in check. A return to normal velocity with stronger economic growth might trigger an inflationary cycle.

Gold is the only one with an established history as a store of wealth and hedge against tail risks so the long-term bullish case for gold remains.

Chart 17: The scale of The Fed's QE and the Government's spending

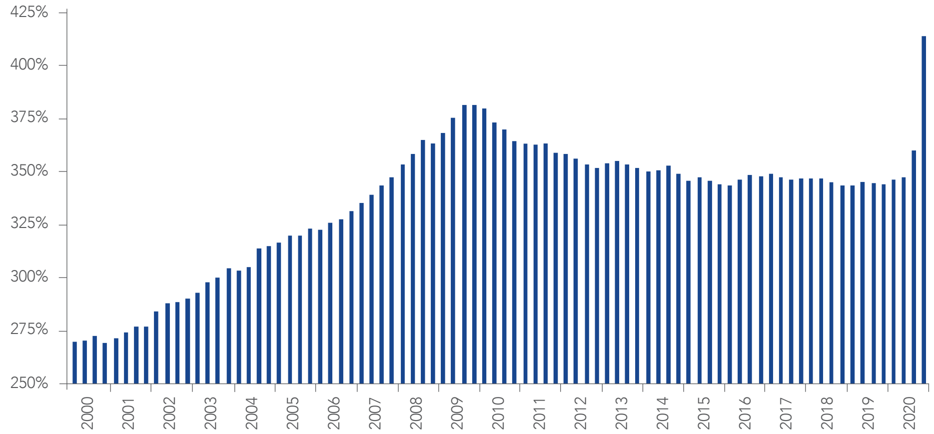
M2 Money Stock (US$ billions, Weekly, Seasonally Adjusted)



Source: Federal Reserve Bank of St. Louis.

Chart 18: More of the scale of The Fed's QE and the Government's spending

US domestic debt to GDP %



Source: U.S. Federal Reserve Bank of St. Louis. Data as of 23 November 2020.

China: leading the pack

China's relative growth has benefited from "first in, first out" on COVID-19 lockdowns and is now benefiting further from a global inventory rebuild cycle. Anecdotally, Chinese exports would be higher still, if not constrained by containers and shipping availability; certainly, container freight prices are surging.

Indeed, China's trade imbalance with the US is heading to new wides.

Historically, China's data showed lower exports to the US, compared to US import data from China. This year's data, however, actually shows Chinese exports to the US (Chinese data) exceeding US imports from China (US data) – signalling either:

1. attempts to ship capital into China on the sly (less likely); or
2. successful evasion by importers of US tariffs on China (more likely).

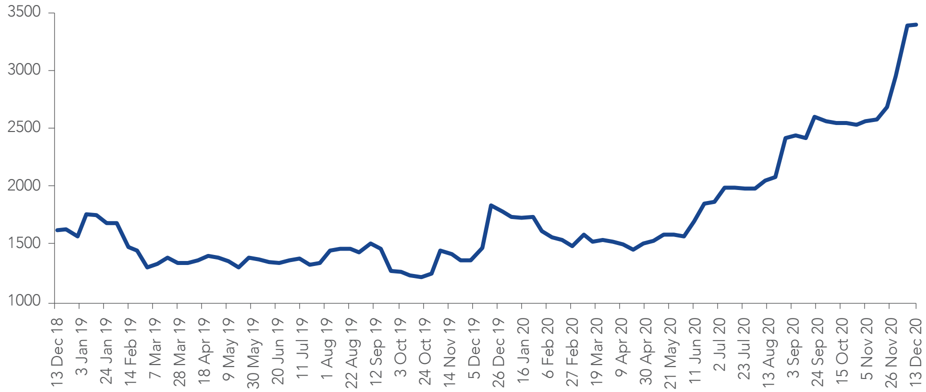
Either way, the trade targets for 2020 in the US-China trade agreement are clearly shot ducks. While a Biden White House is much less likely to go for shouty unilateralism, China containment will remain a major policy goal.

We note that President-elect Biden has announced Katherine Tai, a China hardliner (of Taiwanese descent), as US Trade Representative.

The China credit and production surge is also translating into a bid in commodity markets. This could be a bit over-exuberant: global IP remains well below its peak level, while few commodities face supply barriers (iron ore is an exception).

Chart 19: Container costs are skyrocketing

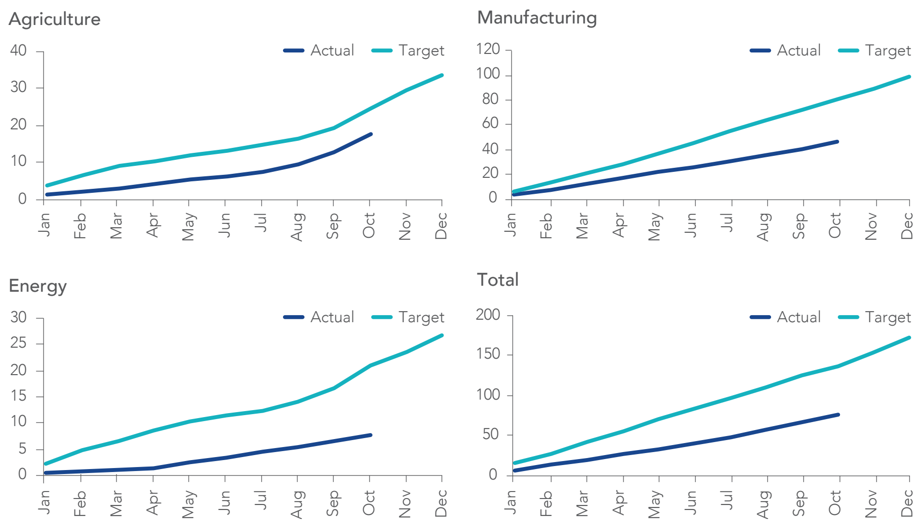
World Container Index $ per 40ft container



Source: Bloomberg.

Chart 20: China's trade imbalance is growing

China imports from US based on US export data (US$ billion)



Source: US Census Bureau.

Emerging markets bonds

China continues to rise as an independent growth engine, stabilising emerging markets' economic activity.

The bond market has rewarded Chinese growth and policy responses and this has been reflected in bond prices within broader emerging markets. Local-currency emerging markets debt outperformed hard-currency debt by almost 300 basis points in the fourth quarter, after lagging all year. The big winners within emerging markets were Mexico, South Africa, Brazil, and Indonesia, all linked to Chinese growth.

We expect 2021 to be positive for emerging markets fundamentals and returns. Emerging markets have lower debt, independent central banks, and higher interests rates (whether in local-currency in real terms, or in US dollars in spread terms). These are the factors that generated superior emerging markets returns in the 10 years following the GFC, and we expect the period following the COVID-19 crisis to be similar.

The risks that concern us in 2021 in emerging markets bonds are that:

a) most emerging markets asset prices (other than local-currency) have already rallied;

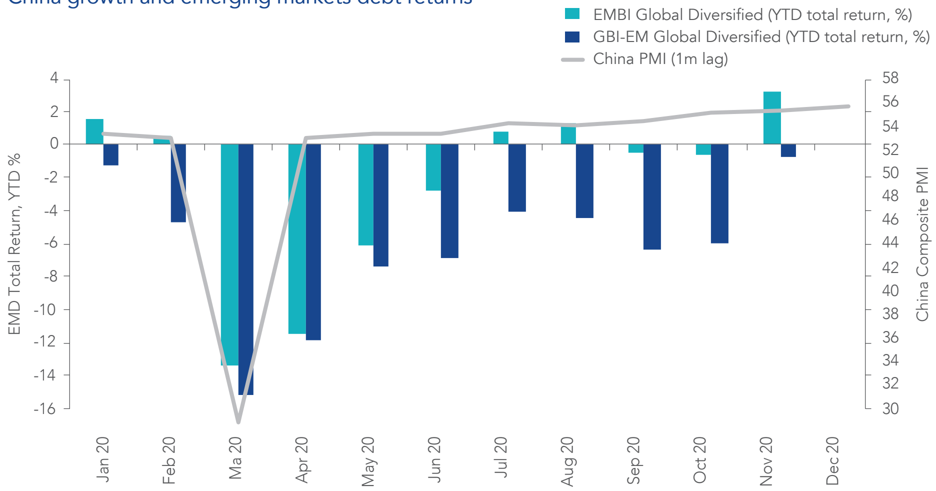
b) a number of individual emerging markets don't look like the rest of emerging markets and face repayment risks; and

c) vaccines are fully-priced whereas the next COVID waves are not.

Emerging markets and many other asset prices are all near or above their pre-COVID highs. Some of this is defensible. Nonetheless, being bullish after a rally is fraught in the middle of potential growth challenges from more COVID waves. Still, the exhibit also shows that EMFX has not returned to its pre-COVID levels, making it attractive within emerging markets. Also, even though many emerging markets debt markets have returned to their pre-COVID levels, they are not at all-time highs; most other markets are at all-time highs. At most we view this as a risk of bumpiness, not derailment of an intact case for emerging markets debt.

Chart 21: China grew, EM debt flew

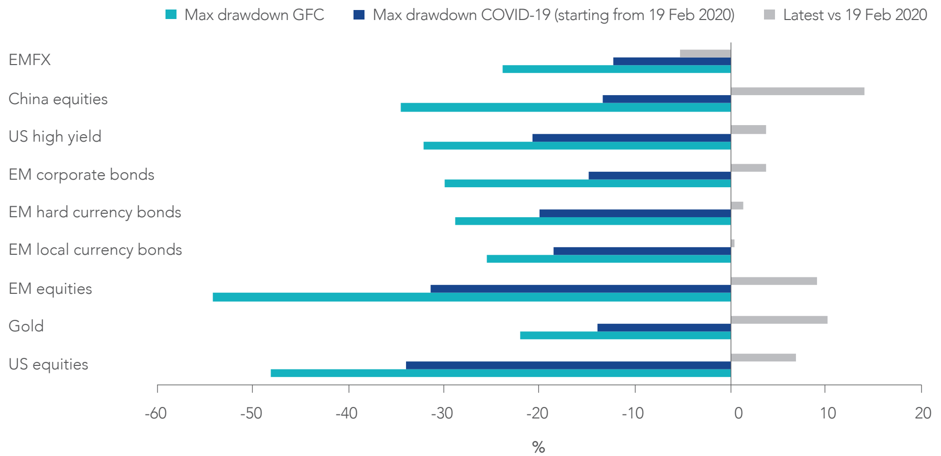
China growth and emerging markets debt returns



Source: Bloomberg, VanEck.

Chart 22: All asset prices back to pre-COVID highs, except EMFX

Max drawdowns: GFC versus COVID-19



Source: Bloomberg, VanEck as at 30 November 2020. You cannot invest in an index. Past performance is not a reliable indicator of future performance. Indices used: EMFX is JPMorgan EMFX Index; US high yield is ICE BofAML US High Yield Index; EM corporate bonds is J.P. Morgan Corporate Emerging Markets Bond Index; EM hard currency bonds is J.P. Morgan Emerging Market Bond Index Global (EMBIG); EM local currency bonds is J.P. Morgan Government Bond Index-Emerging Markets Global Diversified (GBIEM); Emerging markets equities is MSCI Emerging Markets Index; Gold is Gold Spot US$/oz; US equities is S&P 500 Index.

The rest of Asia

Asia is well positioned for the recovery from the pandemic-induced economic disruptions. Despite the sporadic spikes in infections, the deft handling of the coronavirus outbreak in countries like China, South Korea and Taiwan have enabled economic activities to recover, which should in turn buoy corporate earnings growth.

Both the Bank of Korea and Taiwan's central bank recently provided an upbeat economic outlook as they have weathered the pandemic far better than many of their neighbours. Expansive fiscal and monetary policies have helped their economies bounce back from the fallout of virus-control restrictions. Likewise, export volumes have improved and would help drive the economic recoveries.

As the number of COVID-19 cases dwindle in North Asia, the economic rebound is likely to broaden out to other parts of the region, supported by China's growing heft. China's economy has improved markedly after hitting a trough in the first quarter, with key economic indicators such as trade and manufacturing signalling a healthy rebound in 2021.

A recovery in key Singapore's regional trade partners like China will benefit the city state. The incoming Biden administration could potentially provide more certainty to the US-China relations as well, aiding small and trade dependent countries such as Singapore. The easing of lockdown measures in the third quarter have already led to a pickup in industrial output, while non-oil exports declined at a slower pace. Recent manufacturing and electronics PMIs have also pointed to a sustained recovery in both sectors. The continued reopening of the economy and the flattening of the coronavirus infection curve should support business activity and consumer spending.

Other parts of Southeast Asia, though, faces a bleaker prospect as virus outbreaks and restrictions continue in Indonesia, Malaysia and the Philippines. In Thailand, the still fluid political situation, coupled with tepid domestic demand caused by the slow implementation of fiscal measures and budget disbursement, threaten to derail its economic recovery.

Despite that, Asia as a whole went into the downturn with its economic fundamentals in a healthy shape, having undertaken reforms after previous crises. Most Asian nations now have stronger current accounts and healthier government debt-to-GDP numbers. Bank and corporate balance sheets are also more robust. Other structural growth trends including a large and growing middle class, widespread adoption of technology, urbanisation and infrastructure boom, will continue to play out for the foreseeable future, bolstering the region's appeal.

Looking further out, the signing of the Regional Comprehensive Economic Partnership (RCEP) has raised the prospect of Asia moving closer towards economic integration. The pan-Asian trade pact, signed by leaders from China, Japan, Australia, New Zealand, South Korea and the 10 Southeast Asian nations, covers a third of the world's population and economic output. Although critics claim the deal is unambitious in scope and does not lead to large overall tariff reductions, RCEP serves as a wake-up call for free trade – at a time when the West is growing sceptical of moves towards trade liberalisation.

Chart 23: Asia's fundamentals shine in uncertain times

	Current Account % of GDP	Govt Debt % of GDP
China	2.4	17.8
Hong Kong	9.3	-
India	3.9	66.5
Indonesia	0.4	35.3
Malaysia	7.1	59.4
Philippines	5.7	59.3
Singapore	20.0	150.6
South Korea	6.9	43.0
Taiwan	17.2	27.4
Thailand	2.4	42.5

Australia

With President Trump riding off into the sunset, countries that rallied behind his approach have found themselves renegotiating from an apparent weaker position. Australia, unfortunately, finds itself in this position, with no sheriff riding to the rescue in the short term.

As we've pointed out previously, China dominates Australia's top exports (both goods and services). While global supply constraints leave China little choice but to accept iron ore from Australia, the rest of Australia's top exports are receiving "the treatment".

While Australia's trade account has been in sufficiently good shape to bear the pain, the trade skirmish will add downward pressure to national income.

At the same time, the Federal Government seems intent on pushing ahead with industrial relations reforms which will keep wages under pressure.

While Australia's economy experienced a relatively good COVID-19 recession, i.e. a short dip followed by a strong recovery while controlling COVID cases, weak household incomes had the economy on the back foot before the pandemic arrived. While fiscal stimulus has temporarily put spending money in pockets, it is not clear that there is enough fiscal firepower to keep the economy growing through 2021.

At the same time, the political appetite for more government support appears to be waning.

Unfortunately, the RBA also looks out of the game. Apart from a bit of bond buying, it's hard to see them doing much more. Indeed, with the national sport of property speculation apparently kicking off again, can macro prudential policy be far away.

Charts 24: China is Australia's largest export trading partner

Exports by Destination 2019 (% of total)

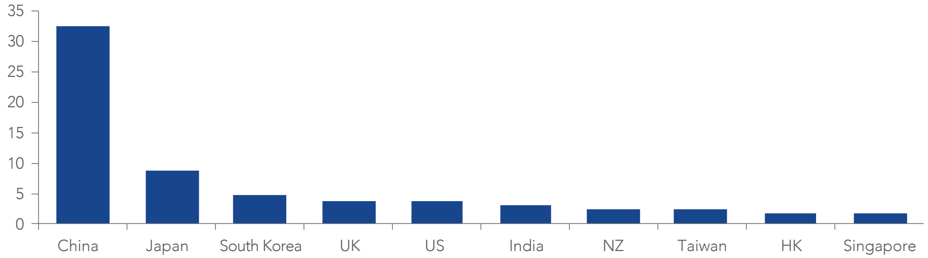
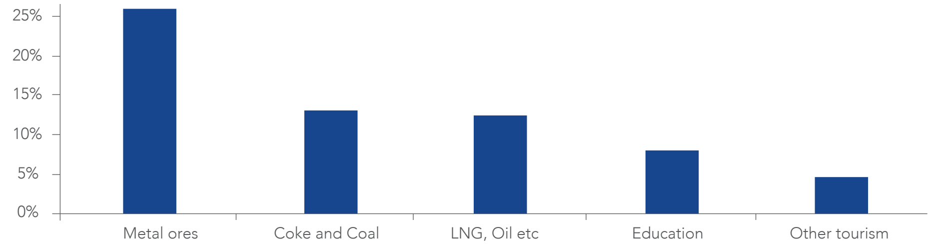


Chart 25: Australian exports to China

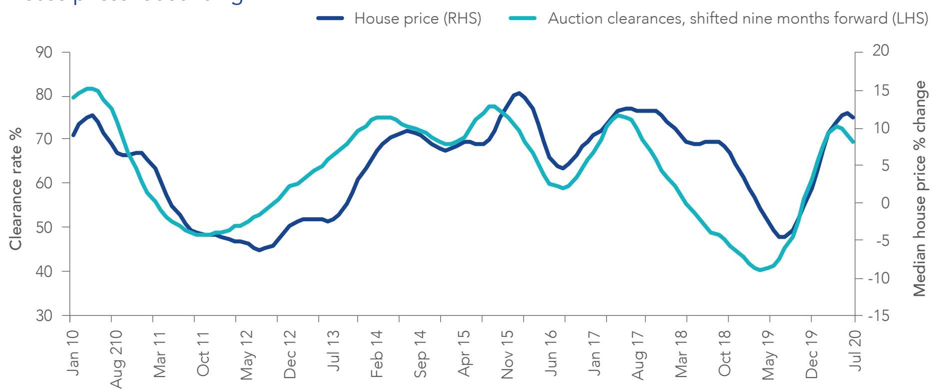
Top exports 2019 % of total



Source: Australian Bureau of Statistics.

Chart 26: The return of Australia's national sport

House prices rebounding



Source: Corelogic.

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%
Australian Equity Income			
Morningstar Australian Moat Income ETF	DVDY	Morningstar® Australia Dividend Yield Focus Index™	0.35%
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%
Morningstar World ex Australia Wide Moat ETF	GOAT	Morningstar® Developed Markets ex Australia Wide Moat Focus Index™	0.55%
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%
Global Healthcare Leaders ETF	HLTH	MarketGrader Developed Markets (ex-Australia) Health Care AUD Index	0.45%
Australian Fixed Income			
Australian Corporate Bond Plus ETF	PLUS	iBoxx AUD Corporates Yield Plus Mid Price 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 Mid Price Index	0.29%
Thematic			
Video Gaming and eSports ETF	ESPO	MVIS™ Global Video Gaming and eSports Index (AUD)	0.55%
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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