MICHAEL SMITH
Head of Research and Senior Investment advisor

What will the new economic 'normal' look like?

As countries around the world slowly begin to ease lockdown measures, what impact will this have on the global economy and the appeal of different investment sectors throughout

With the global economy effectively in hibernation, the mounting impact of rising unemployment, diminished spending and lower manufacturing activity is beginning to be felt by governments around the world.

A sense of increasing urgency is now sweeping over many nations. Governments are now realising that they must restart their economies or potentially face even greater long-term consequences arising from the fallout of COVID-19.

However, despite all the best intentions, we believe many nations will struggle to find an immediate economic uplift that they may have come to expect.

We maintain the view that in the near-term, the new economic 'normal' will be a shadow of itself. This is likely to weigh on the broader global economy and dampen the prospects of a 'V-shape' recovery.

It is our view that any sense of economic 'normality' may take at least 18 to 24 months to play out. However, notwithstanding macroeconomic challenges, we believe some areas of the economy will fare better than others.

In fact, we strongly believe that changes to the composition of the near-term economy will create numerous opportunities for investors to take advantage of.

Where to invest in 2020?

One of the key areas we see benefitting in the near-term and beyond is the technology sector.

We have previously vocalised our bullish outlook towards payments processing companies, with consumers likely to favour online shopping and avoid cash transactions in favour of digital payment methods. This is a tailwind that we see benefitting the likes of Visa (V), Mastercard (MA), PayPal (PYPL), as well as local BNPL juggernaut Afterpay (APT).

Companies that make it easier to work or conduct business remotely are among those we think will be pivotal to an increasing trend of working from home, even after the pandemic subsides. ServiceNow (NOW) and Atlassian (TEAM) are two of our long-term bullish picks in this space, but we also like others such as Slack Technologies (WORK) and Zoom Video Communications (ZM).

As we believe people will be more likely to spend a greater proportion of their free time at home, we also see a lift in data consumption. Local data centre operator NEXTDC (NXT) is positioned to benefit from this, as is Telstra (TLS) courtesy of the 5G rollout. Meanwhile, international streaming service providers such as Netflix (NFLX) and Roku (ROKU) also have exposure to subscriber growth they can leverage over the long-term.

Looking slightly further out, infrastructure is a segment that we view as likely to be in the sights of governments around the world to kick-start their economies. Transurban (TCL) is one business looking to buy or fund new toll roads, however, broader construction activity could have positive implications for companies such as Lend Lease (LLC) and Cimic Group (CIM).

Consumer staples is another area where we think investors could see upside if seeking defensive exposure. Supermarket operators like Woolworths (WOW), Coles (COL) and Costco (COST) have withstood the market volatility well.

While sales are expected to moderate after recent panic buying, these companies would likely see an uplift in growth if another wave of COVID cases spread across the world. Furthermore, if more consumers dine in and avoid restaurants, the new 'normal' may see consumers cook more food at home.

While our view of the broader consumer discretionary sector is that weakness will persist throughout 2020, we also believe that there will be some positive outliers in this sector.

Home-fitness related stocks are one area that we argue could do well on account of consumers who want to maintain their fitness regime. We like Nike (NKE) and Lululemon (LULU), which have both recorded a big uptick in apparel sales, plus Peloton (PTON), which has seen tremendous growth in sales of its exercise bikes and treadmills as gyms remain closed. Even once gyms are re-opened, we see consumers opting for a cautious approach, favouring exercise at home or 'remotely'.

The rest of the sector is likely to be shaped by confidence in suppressing or eliminating the pandemic. Weekly retail spending has surged higher by as much as 30-70% in Australian cities where lockdowns have been eased.

However, this is coming from a very low base. If another outbreak is avoided, or a proven treatment or vaccine is found, we think there could be pent up spending that would bode well for a late-year rush. Nonetheless, we do not see this outcome as the base case at this time until at least next year.

Where to avoid investing in 2020?

Bank stocks are likely to face ongoing headwinds in 2020 with the impact of the global economic crisis yet to fully play out. The banks have only begun to set aside provisions that largely assume a recovery later this year, however, these impairments may not prove sufficient if unemployment remains in a prolonged downturn.

What's more, we think banks' margins will remain capped as interest rates sit at historical lows for the years to come. Notwithstanding 'pauses' in mortgage repayments, we also consider the risk that bad debts could be understated. Dividends also look unlikely in this environment.

Elsewhere, despite the fact economies are set to re-open, we remain much more pessimistic around the near-to-mid-term outlook for travel. Although we understand progress is being made towards identifying treatment options or a potential vaccine for the Coronavirus, we do not anticipate international travel to rebound to pre-COVID-19 levels for at least 3-5 years, as was the case following 9-11 and the GFC.

It is our view that a large proportion of travellers will be disinclined to travel until a vaccine is proven, regardless of whether some countries 'eradicate' the virus. As such, we hold a bearish outlook towards hotels and airlines, although Sydney Airport (SYD) is a stock we hold due to its role as critical infrastructure and its prevailing importance to the economy in the long-term.

As we touched on earlier, consumer discretionary is a segment that in our view will consist of polarising investment opportunities. Whereas home-exercise stocks have reason to see sales uplift, gyms will continue to face difficulties around consumer mindset and behavioural adjustment. Similarly, social distancing guidelines that are likely to remain for the medium-term will dampen business activity for restaurants and other leisure-related stocks.

Finally, the energy sector is a segment of the economy that we think could move pretty quickly in either direction. It's certainly an area that we think will do well in the long-term as demand picks up and oil prices revert towards historical averages.

However, the sector was also seeing structural issues leading up to COVIF-19. Furthermore, in the event of another wave of the pandemic, the energy market would all but face the same headwinds as it is facing now. As such, the sector does not represent a compelling risk-adjusted opportunity for us at this time.

Keeping a watchful eye

Although financial markets are likely to be swayed by volatility in coming months, we see numerous opportunities in areas where economies will be repositioned to facilitate a gradual recovery.

Like past downturns, stocks can get caught up in the broad-based sell-off even when they otherwise stand to benefit from some of the unfolding changes taking place. It's our role to remain responsive in identifying those opportunities and we remain confident this will prove another one of those instances where history repeats itself.

MICHAEL SMITH
Head of Research and
Senior Investment advisor

International

International Growth Portfolio

The portfolio declined 2% throughout April.

As we entered the month with no holdings, we gradually added new positions to the portfolio across the course of the month. Since our positions were not afforded sufficient time to contribute towards growth in portfolio NAV, equities accounted for a small increase in net assets by 0.6%.

Our new positions were predominantly in the technology space, with the likes of Adobe (ADBE), Amazon (AMZN), Alibaba (BABA), Microsoft (MSFT) and Atlassian (TEAM) just some of the key names we added.

In addition, payments processing stocks were also a focus due to the transition to digital payment methods. We added PayPal (PYPL), Mastercard (MA) and Visa (V).

For defensive exposure, we bought shares in Costco (COST) and CME Group (CME).

By the end of April, equity and index options delivered NAV growth of 0.2%. The puts that we sold against some of the portfolio's core holdings reached their expiry early in the month and we collected modest gains. Towards the end of the month, we also sold call options against Peloton (PTON) and Taiwan Semiconductor Manufacturing (TSM), which were another duo of stocks we added to the Growth Portfolio.

While our currency strategy has played a significant role helping us outperform the market in recent months, the rising Australian dollar worked against us in April. The USD/AUD rate decreased from 1.6294 to 1.5356, which weighed on portfolio NAV. We responded by selling some USD to mitigate our exposure such that adverse forex movements reduced portfolio NAV by 2.7%. Had we not acted to sell some of our USD cash, the rising AUD would have impacted the portfolio by as much as 5.4%.

Realised income represented 0.7% of NAV from the end of March, while unrealised income represented 0.5%. At the end of April, cash accounted for 68.4% of the portfolio.

From here, we remain cautious in assessing the market before determining our next steps amid these volatile conditions. We believe there is likely to be further headwinds for the economy and stock market ahead, however, that does not preclude us from investing in specific investment opportunities, so long as we remain patient.

Performance:

Index	April Performance	YTD Performance
Dow Jones	11.1%	-14.7%
NASDAQ	15.4%	-0.9%
S&P 500	12.7%	-9.8%
Global Growth Portfolio	-2.0%	10.8%

Top 10 Holdings:

Code	Company Name	Weighting %
MSFT	Microsoft	4.22%
V	Visa	4.19%
TEAM	Atlassian	3.43%
ADBE	Adobe	2.56%
COST	Costco	2.43%
PYPL	PayPal	2.00%
TSM	Taiwan Semi	1.94%
MA	Master Card	1.69%
CME	CME Group	1.57%
BABA	Alibaba	1.43%

MICHAEL SMITH
Head of Research and Senior Investment advisor

AFIQ MALEK
Research Analyst and Senior Client advisor

Performance:

Index	*April Performance*	*YTD Performance*
ASX 200	**8.8%**	**-17.4%**
ALLORDS	**5.8%**	**-17.7%**
Aus Yield Portfolio	**8.8%**	**-21.0%**

Top 10 Holdings:

Code	*Company Name*	*Weighting %*
WPL	**Woodside**	**6.82%**
CBA	**Comm Bank**	**6.52%**
CBAPD	**CBA Note**	**5.35%**
CBAPI	**CBA Note**	**5.18%**
BHP	**BHP Group**	**4.99%**
WES	**Wesfarmers**	**4.79%**
ANZ	**ANZ Bank**	**4.15%**
KKC	**KKR Credit**	**4.15%**
MQGPD	**MaquarieNote**	**3.99%**
ANZPD	**ANZ Note**	**3.92%**

Australian

Australian Yield Portfolio

The portfolio increased 8.8% across April.

During the month, we received dividends from Commonwealth Bank (CBA), Wesfarmers (WES), Iluka Resources (ILU), oOh!media (OML), Woolworths (WOW), Kkr Credit Income Fund (KKC), Hub24 (HUB) and Cedar Woods Properties (CWP). Collectively, these dividend proceeds were equivalent to 0.6% of portfolio NAV from the end of March, excluding dividend accruals.

As we sold some of our positions in late-March to free up cash, we took the opportunity to add some new holdings across April. These were mostly bank hybrids, which we believe will offer greater stability during the current market conditions, while also improving the visibility of income that we receive.

In terms of the major contributors to the underlying performance of the portfolio, gains were spread across a diverse range of stocks.

Our new investment in the Kkr Credit Income Fund (KKC) proved particularly successful. The stock appealed to us because of the sizeable discount it has been trading at relative to its NAV, not to mention the attractive yield to maturity levels.

Baby Bunting (BBN) was another stock that performed well for us and it is one that we think will do very well over the long-term. Coming out of the crisis, we expect that births will continue at least at the same rate as now, while the company's products may in many ways be considered a staple item, even if classified as a discretionary purchase. Baby Bunting's leading market position, diverse product mix and scale also afford it scope for rapid sales growth into the future.

Unrealised losses represented 24.7% of the closing NAV from March. Following our investment into bank hybrids across the month, cash accounted for just 2% of all portfolio assets.

The Australian government's handling of the Coronavirus positions the economy for a gradual recovery, however, we think caution and the absence of open borders will be overriding factors that mitigate growth. As such, we do not expect the economy to rebound until next year.

Irrespective of the low case numbers here in Australia, it is likely that the ASX will follow leads coming from the US and China insofar as the pace of the recovery in those respective locations. In our view, this means that market returns may be muted in the near-term.

DANIEL WONG
Research Analyst

ALEX NEGROH
Research Analyst

Performance:

Index	*April Performance*	*YTD Performance*
ASX 200	8.8%	-17.4%
ALLORDS	5.8%	-17.7%
Balanced Portfolio	7.0%	-7.0%

Top 10 Holdings:

Code	*Company Name*	*Weighting %*
CBAPE	CBA Note	6.5%
MGG	Magellan Trus	6.5%
CBAPH	CBA Note	5.00%
VGB	Aus Bond	5.00%
HM1	H & M Invest	4.00%
NABPD	NAB Note	4.00%
ANZPE	ANZ Note	3.00%
CBAPF	CBA Note	3.00%
CSL	CSL Limited	3.00%
FMG	Fortescue	3.00%

Hub 24 - Super

Balanced Portfolio

The portfolio increased by 7% last month, compared with an 8.8% gain across the ASX 200.

Our key performers were Afterpay (APT), Fortescue Metals Group (FMG), Hearts and Minds Investments (HM1) and Tyro Payments (TYR).

As part of our investment strategy, we made the decision to increase our weighting towards fixed income hybrids by an additional 12%. In the current economic climate we believe these instruments will provide some stability to the overall composition of the portfolio.

With the view that the US Federal Reserve's money printing program will lead to higher gold prices, we also increased our exposure to gold stocks. In fact, we expect that gold prices will top US$2,000, while a weakening Australian dollar will only magnify the upside for local gold producers. Based on this premise we added additional shares in Saracen Mineral Holdings (SAR).

We also expect that traffic volumes will begin to increase from here as the economy begins to re-open. Transurban (TCL) is directly leveraged to this upside and after our exit at a higher price in March, we made the decision to re-enter at a lower price in April. The company also offers a solid dividend yield and has sufficient liquidity courtesy of its recent efforts to raise €600 million through European bonds.

Elsewhere, we also have a bullish outlook for the iron ore sector, where we entered positions in BHP (BHP) and Fortescue Metals Group (FMG). The price of iron ore has remained resilient through much of the recent financial markets turmoil, and we anticipate that the Chinese government will flood their economy with stimulus. This is likely to increase demand for steel, and in turn, lead to greater requirements for iron ore. At the same time, supply from Brazil's Vale is substantially lower.

Notwithstanding the broader macroeconomic pressure facing economies around the world, we have identified certain sectors that we feel will hold up better than others. We will continue to concentrate our efforts in identifying investment opportunities that align with this approach, with the increasing emphasis on fixed income designed to protect the portfolio from volatility.

DANIEL WONG
Research Analyst

ALEX NEGROH
Research Analyst

Hub 24 - Super

Growth Portfolio

The portfolio gained 7% throughout April, compared with an 8.8% gain across the ASX 200.

Portfolio gains were in line with the performance of the balanced portfolio as most of our allocation levels across our positions mirror one another. This is a reflection of our approach to mitigate risk during the current volatile trading environment. Therefore, we have added several fixed income hybrids to provide some stability.

Among some of the key adjustments specific to the growth portfolio, we have increased our position in Aristocrat Leisure (ALL). We expect that the company's digital business will partially offset some of the recent impact on its pokies machine segment, however, with economies set to re-open, and casinos also likely to begin trading again soon, this should kick-start revenue.

We also doubled our holdings in Electro Optic Systems (EOS) last month in response to price weakness. The stock was sold down heavily following its capital raise and we bought into the drop around the $4 mark.

Given the momentum of the digital payments and BNPL segment(s), we opened a position in Zip Co (Z1P) as we believe this will be a beneficiary of the economy re-opening and any pent up demand for consumer spending.

NRW Holdings (NWH) is another stock that we feel has upside potential once the economy is reignited. Given the importance that mining operations play in the broader economy, the government will be keen to see the likes of BHP and other miners back at full capacity. NRW Holdings is a specialist contractor of diversified services for companies in the resources, energy, infrastructure and urban development sectors. Therefore, as key businesses pick up momentum in these areas, we think NRW is likely to see a sharp rebound.

The growth portfolio has been oriented towards a slightly more defensive position than would normally be the case, thanks to hybrids and similar allocations as that of the balanced portfolio. However, we will still be looking to differentiate exposure through a core selection of stocks that we approach with a greater risk tolerance. If we get a sense that markets have started to stabilise, we will likely readjust our positions to allow for more growth and risk exposure.

Performance:

Index	*April Performance*	*YTD Performance*
ASX 200	**8.8%**	**-17.4%**
ALLORDS	**5.8%**	**-17.8%**
Growth Portfolio	**7.0%**	**-12.6%**

Top 10 Holdings:

Code	*Company Name*	*Weighting %*
CBAPE	**CBA Note**	**6.50%**
VGB	**Aus Gov Bond**	**5.00%**
HM1	**H & M Invest**	**4.00%**
MGG	**Maq Trust**	**3.50%**
MHH	**Maq High Con**	**3.25%**
ANZPE	**ANZ Note**	**3.00%**
CBAPF	**CBA Note**	**3.00%**
COL	**Coles**	**3.00%**
FMG	**Fortescue**	**3.00%**
GOLD	**Gold ETF**	**3.00%**

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