The month ahead – July 2020

Equity markets continued their bounce back in June, with some indices in the US, Europe and Australasia now more than 30% off their mid-March lows. Tech stock outperformance continued with the NASDAQ 100, a benchmark of US technology companies, hitting a new all-time high.

In economic data, we saw both the New Zealand and Australian economies contract in the first quarter of 2020, meaning both are likely in a recession – defined as two consecutive periods of negative growth.

As we head into July, employment reports will again gauge the extent of the economic recovery, while we continue to eye developments on the COVID-19 front. With this in mind, here's ANZ Investments Month Ahead for July.

IS THERE A 'SECOND WAVE' OF CORONAVIRUS UNDERWAY?

As coronavirus cases in Europe and the Northeast of America fell sharply in early June, hopes were that a 'flattening of the curve' was underway and the worst was behind us. However, over the final couple of weeks of June, there has been a sharp rise in cases across Southern and Southwestern states of the United States – most notably, Florida, Texas and Arizona.

With mobility data showing a pickup in travel, coupled with states easing lockdown measures, there is a fear the rising cases in these states could spread, causing a much-feared 'second wave' that could hinder the economic recovery. We continue to eye the extent of these increasing case numbers and watch for any spread to those states hit early in the pandemic.

EARNINGS SEASON IS UNDERWAY

After one of the worst quarters of economic growth in modern times, we will get an insight into just how bad business activity was when earnings season begins in July. Estimates, as of mid-June, are that earnings for S&P 500 companies declined by around 40% year-over-year, which if true, would mark the worst period since the final quarter of 2008, where earnings fell nearly 70%.

Of particular interest will be the Consumer Discretionary sector, which includes non-essential goods and services such as apparel, entertainment and automobiles. As businesses were forced into lockdown and unemployment rose, it is likely to show that many firms suffered sharp declines in sales.

US EMPLOYMENT REPORT: WAS MAY A FLUKE OR A TURNING POINT?

On 3 June, the Bureau of Labor Statistics will release the US unemployment report for June. After May's huge surprise, where more than 2 million jobs were added to the economy against a forecast of around 7 million in job losses, June's report should shed light on the validity of the May data: Was it an outlier, or was it a turning point?

Most forecasts expect a decline of around 500,000 jobs in June and a rise in the unemployment rate to around 15%. Any upside surprise would give credence to the argument that a 'V-shaped recovery' is underway.

AUSTRALIAN EMPLOYMENT REPORT AND OTHER DATA OF NOTE

On the heels of the US employment report is the Australian jobs report for June. After the unemployment rate hit a near 20-year high above 7%, expectations are for further job losses and for the unemployment rate to move up slightly.

Elsewhere down under, some key economic data releases and events include:

- The Reserve Bank of Australia meeting on 7 July
- Australia's second-quarter inflation report on 31 July
- NZIER Business Confidence on 2 July
- New Zealand's second-quarter inflation report on 16 July

SMALL OVERWEIGHT TO INTERNATIONAL EQUITIES AND HOLDING CASH

We continue to hold a modest overweight position in international equities. While we still see several risks to the economy given the ever-changing coronavirus situation, we assess current valuations to be on the attractive side. Furthermore, our base is that economies will begin to re-open further in the second half of 2020, aiding global growth.

In addition, we are holding an overweight position to cash, which acts as a defensive play in this environment, but also enables us to enter positions should other asset classes hit attractive levels.