



BetaShares

Navigating the virus crisis series

23 April 2020

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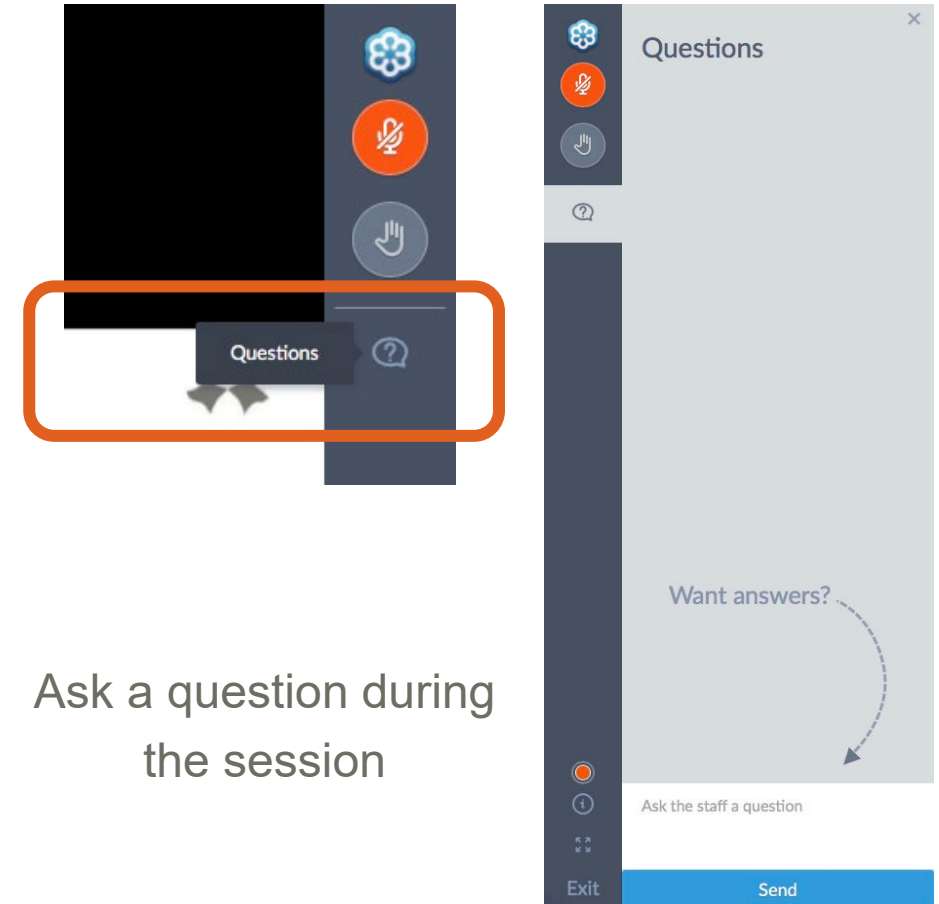




Before we start...



A recording of the session will be sent to all attendees at the end of the webinar



Ask a question during the session



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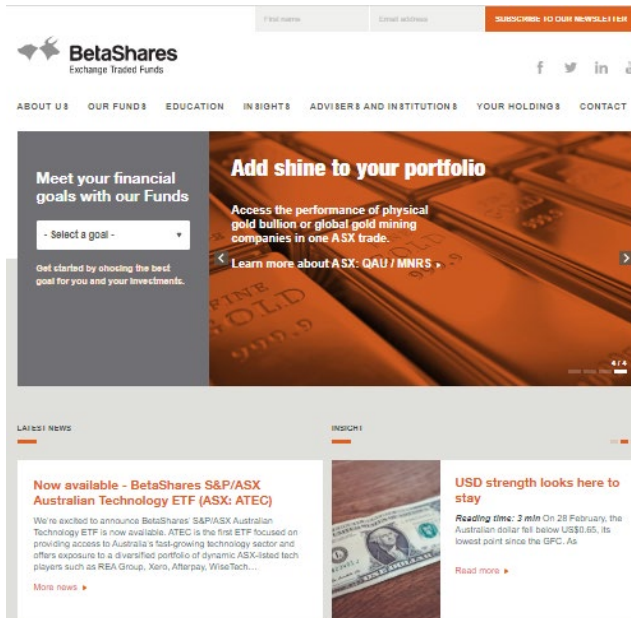
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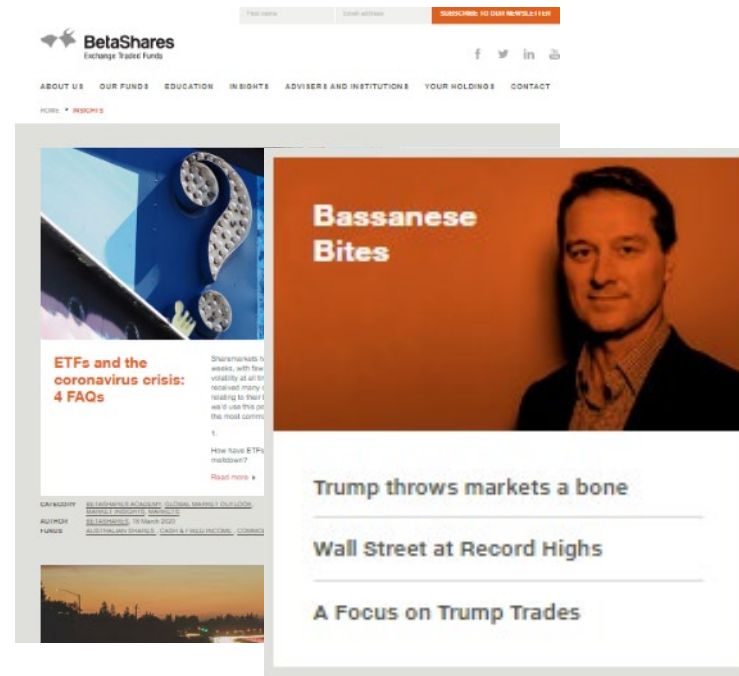


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Speakers



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Agenda



COVID-19 (Coronavirus)



Market Outlook



Investment Ideas

Agenda



COVID-19 (Coronavirus)



Market Outlook



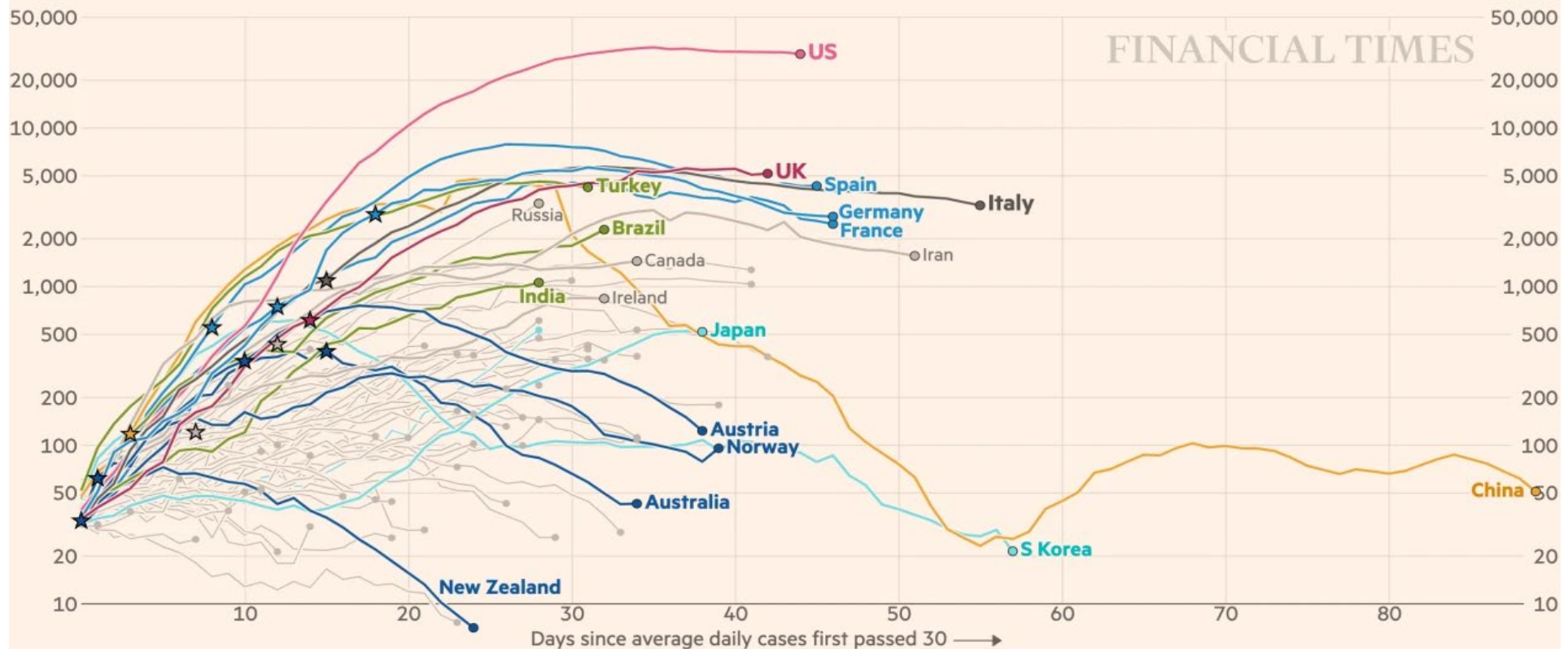
Investment Ideas

Most developed economies seem close to peak in new daily infections...



Several countries have turned the corner, with numbers of new cases now in decline

Daily confirmed cases (7-day rolling average), by number of days since 30 daily cases first recorded
Stars represent national lockdowns ★



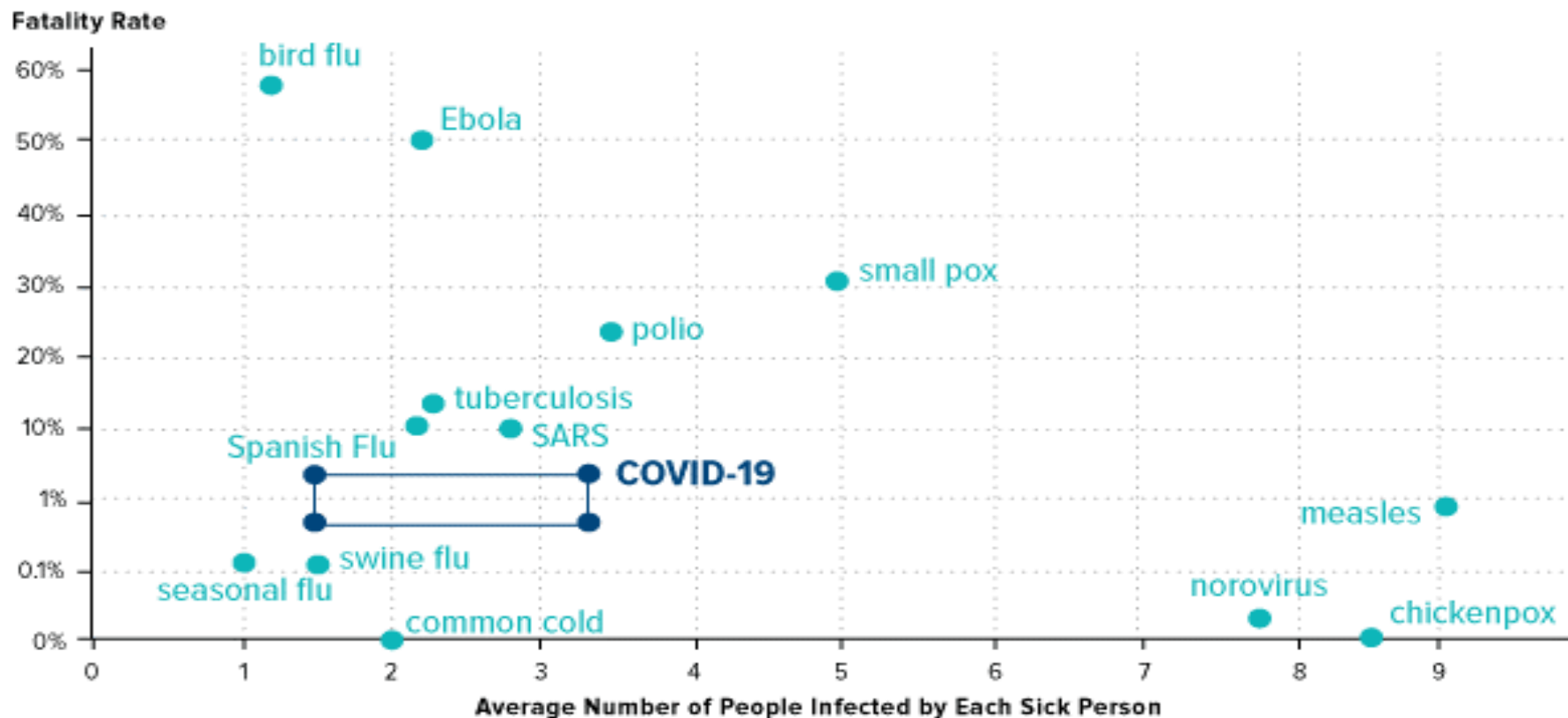
Source: Financial Times. As at 19 April 2020.

Current pandemic seems as contagious as previous ones, but perhaps most lethal since 1918



We Don't Fully Know How Contagious and Deadly COVID-19 Is Yet

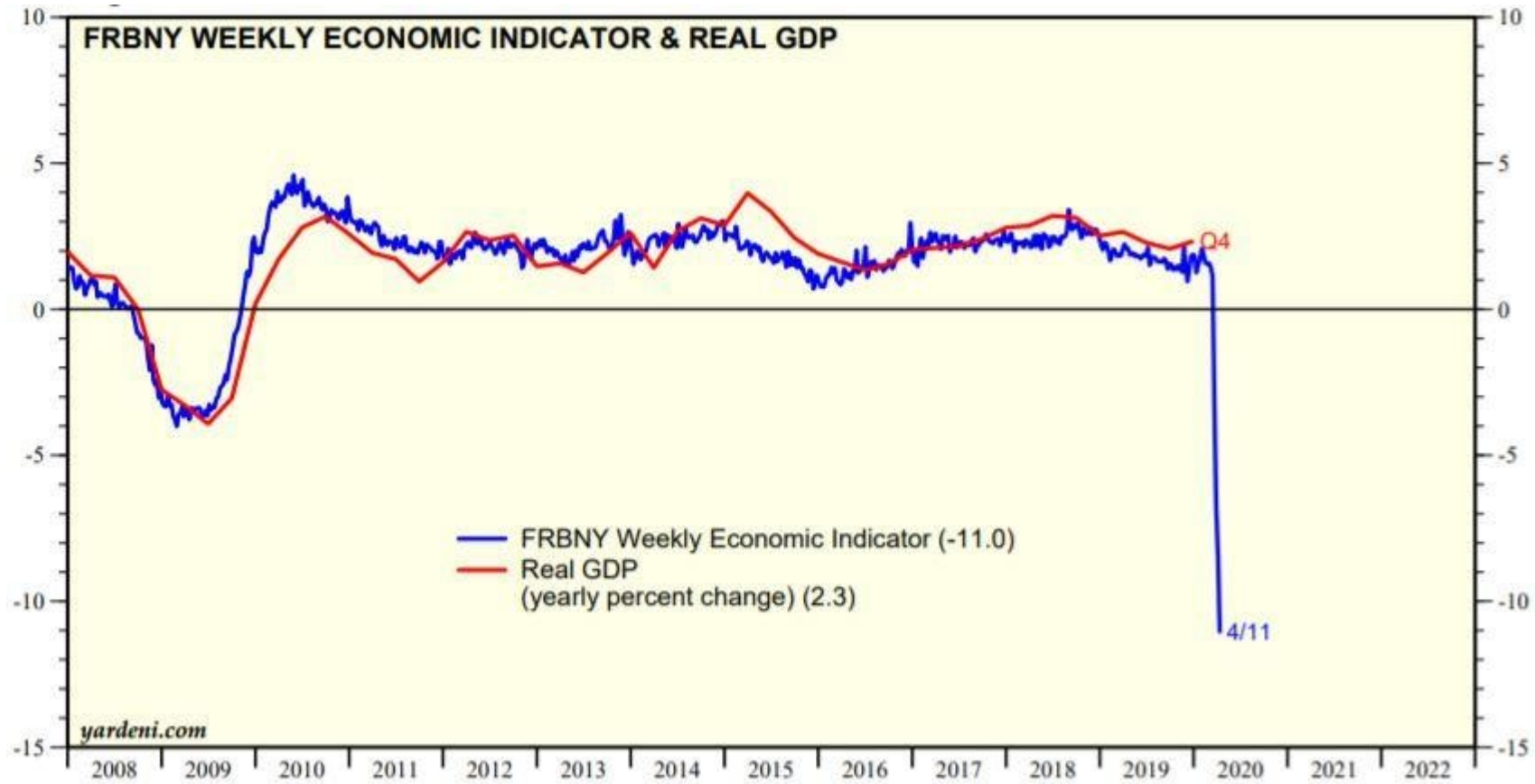
Estimated COVID-19 Transmission and Fatality Rates Compared to Other Viruses



Source: Centers for Disease Control, WHO, New York Times, U.S. Global Investors



U.S. Q2 GDP will be very weak



Source: Federal Reserve Bank of New York



U.S. unemployment headed to 15-20%



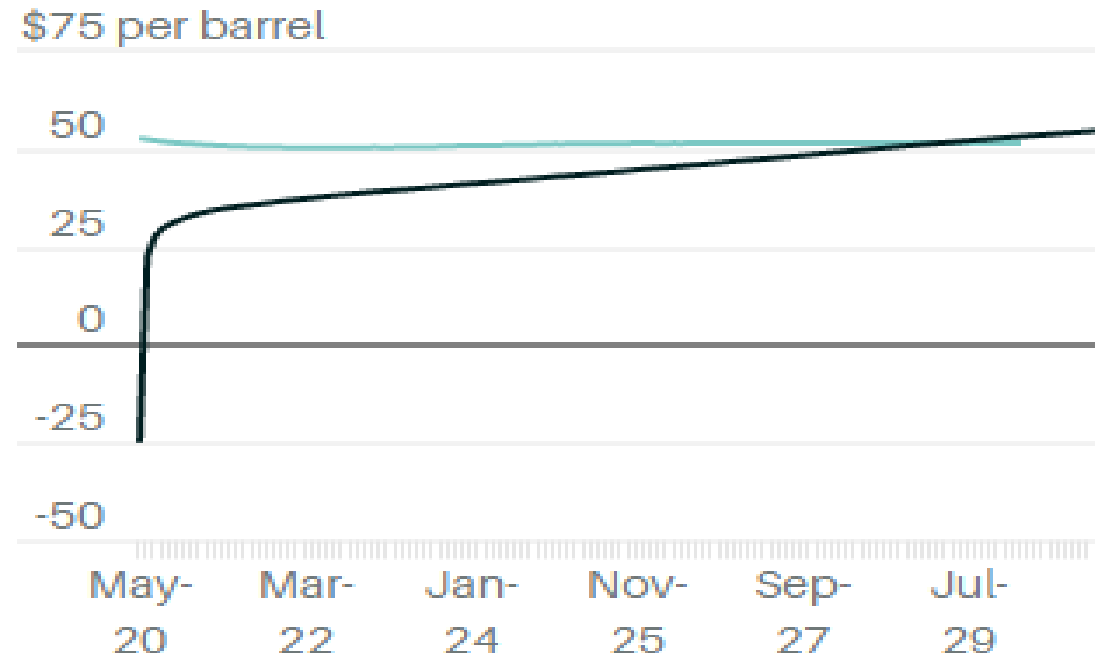
Source: Federal Reserve St Louis



Oil price goes negative!

WTI Oil Futures Curve: 20 April 2020

■ Oil Futures ■ 6 Months Ago



Source: Bloomberg



Australian labour market has also weakened

	1 st week of March (%)	1 st week of April (%)	Change (%)
Has a job	66	63	-3
Currently working paid hours	64	56	-8
Not currently working paid hours	2*	8	5
Does not have a paid job	34	37	3

Source: ABS. Includes all people without a job and should be considered only a loose approximation for the combined 'unemployed' and 'not in the labour force' groups.

*Estimate has a relative standard of error of between 25% and 50% and should be used with caution.



Around 25% of jobs directly at risk

Australian employment by industry

	Feb-20	% of total
Other Store-Based Retailing ; Employed total ; Persons ;	707	5.4%
Non-Store Retailing and Retail Commission-Based Buying and/or Selling ; Employed total ; Persons ;	27	0.2%
Accommodation and Food Services nfd ; Employed total ; Persons ;	935	7.2%
Air and Space Transport ; Employed total ; Persons ;	52	0.4%
Property Operators and Real Estate Services ; Employed total ; Persons ;	178	1.4%
Rental, Hiring and Real Estate Services nfd ; Employed total ; Persons ;	-	0.0%
Preschool and School Education ; Employed total ; Persons ;	620	4.7%
Tertiary Education ; Employed total ; Persons ;	255	2.0%
Education and Training nfd ; Employed total ; Persons ;	3	0.0%
Heritage Activities ; Employed total ; Persons ;	38	0.3%
Creative and Performing Arts Activities ; Employed total ; Persons ;	45	0.3%
Sports and Recreation Activities ; Employed total ; Persons ;	137	1.0%
Gambling Activities ; Employed total ; Persons ;	31	0.2%
Arts and Recreation Services nfd ; Employed total ; Persons ;	0	0.0%
Personal and Other Services ; Employed total ; Persons ;	246	1.9%
Total Jobs at direct risk	3,276	25.1%
Other	9,781	74.91%
Total	13,057	100.0%

Source: ABS.



Government goes big on stimulus

Federal Government Stimulus Measures

■ **March 12**

One-off \$750 cash payment to people receiving social assistance; cash flow assistance to SMEs, payments up to \$25,000; wage subsidies for apprentices.

1st
stimulus
package,
\$17b

■ **March 20**

- Banks announce 6-month repayment holidays to households and small businesses hit by COVID-19 crisis.
- Banks cut lending interest rates by 0.5 to 2 percentage points.

Banks defer repayments

■ **March 22**

- \$550 JobSeeker payment for six months.
- Expanded small business loan guarantees.
- Early release of up to \$20,000 in superannuation under easier hardship provisions.
- \$15b investment by Australian Office of Financial Management in structured finance.
- Second one-off \$750 cash payment to welfare recipients.
- Regulatory relief on bankruptcy, insolvency laws.

2nd
support
package,
\$66b

■ **March 29**

- National cabinet announces moratorium on residential tenancy evictions and moves toward code of conduct for commercial leases.

■ **March 30**

\$1500 fortnightly JobKeeper payment for six months for up to 6 million people

3rd
support
package,
\$130b

Source: Australian Financial Review



Regulators join “Team Australia”

RBA/APRA Measures

■ **March 16** →

- After US Federal Reserve leads coordinated central bank action, RBA expands open market operations to provide emergency liquidity support for bond market.
- ASIC and APRA flag regulatory relief to keep credit flowing.

Reserve Bank provides liquidity

- APRA rules COVID-19 repayment holidays not counted as lender ‘arrears’.

■ **March 19** →

- Cuts cash rate to 0.25pc
- \$90b facility to provide 0.25pc. funding for 3-year bank loans to SMEs.
- Unlimited RBA program to buy government bonds to limit 3-year yields to 0.25pc.
- Commonwealth Bank follows by cutting interest rates to small businesses by 1 percentage point.
- APRA relaxes capital requirements to free up lending to small businesses.
- Government provides \$15b to smaller lenders to support lending to consumers and business.

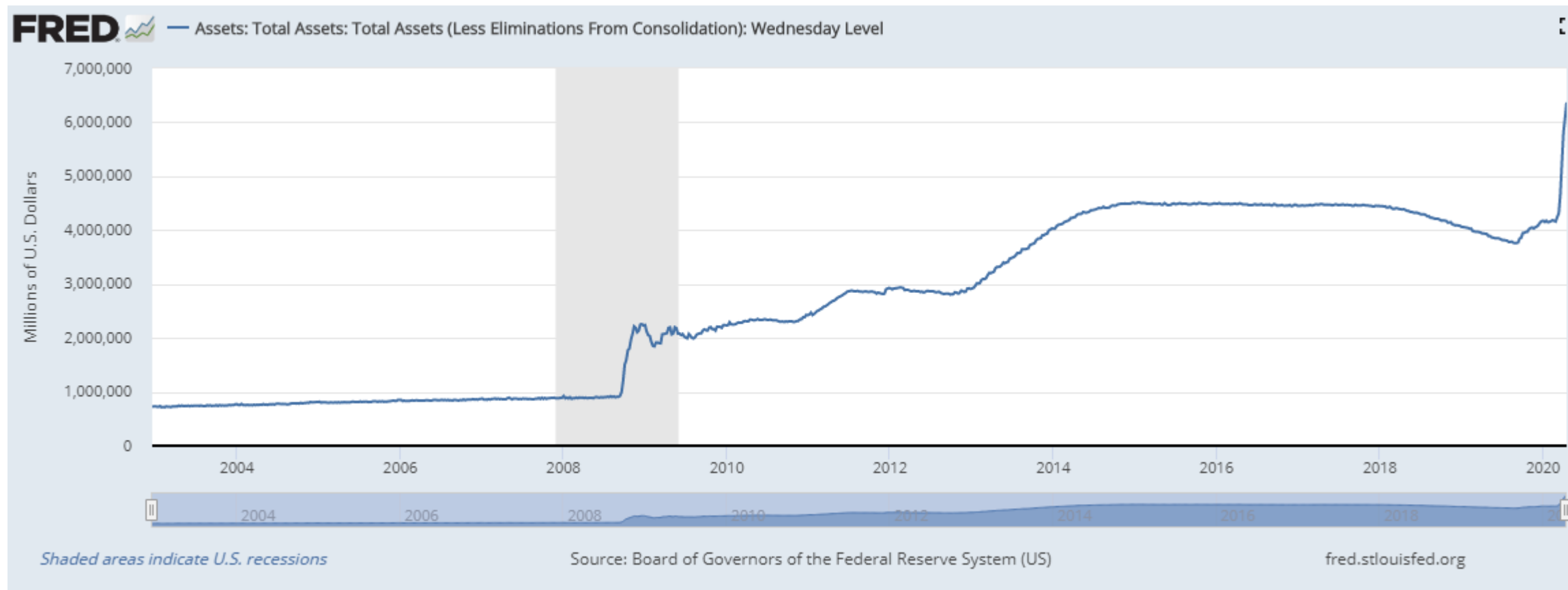
RBA's bridge across chasm

Source: Australian Financial Review

US Federal Reserve supportive of bond market – but buying equities perhaps a step too far!



Federal Reserve Balance Sheet

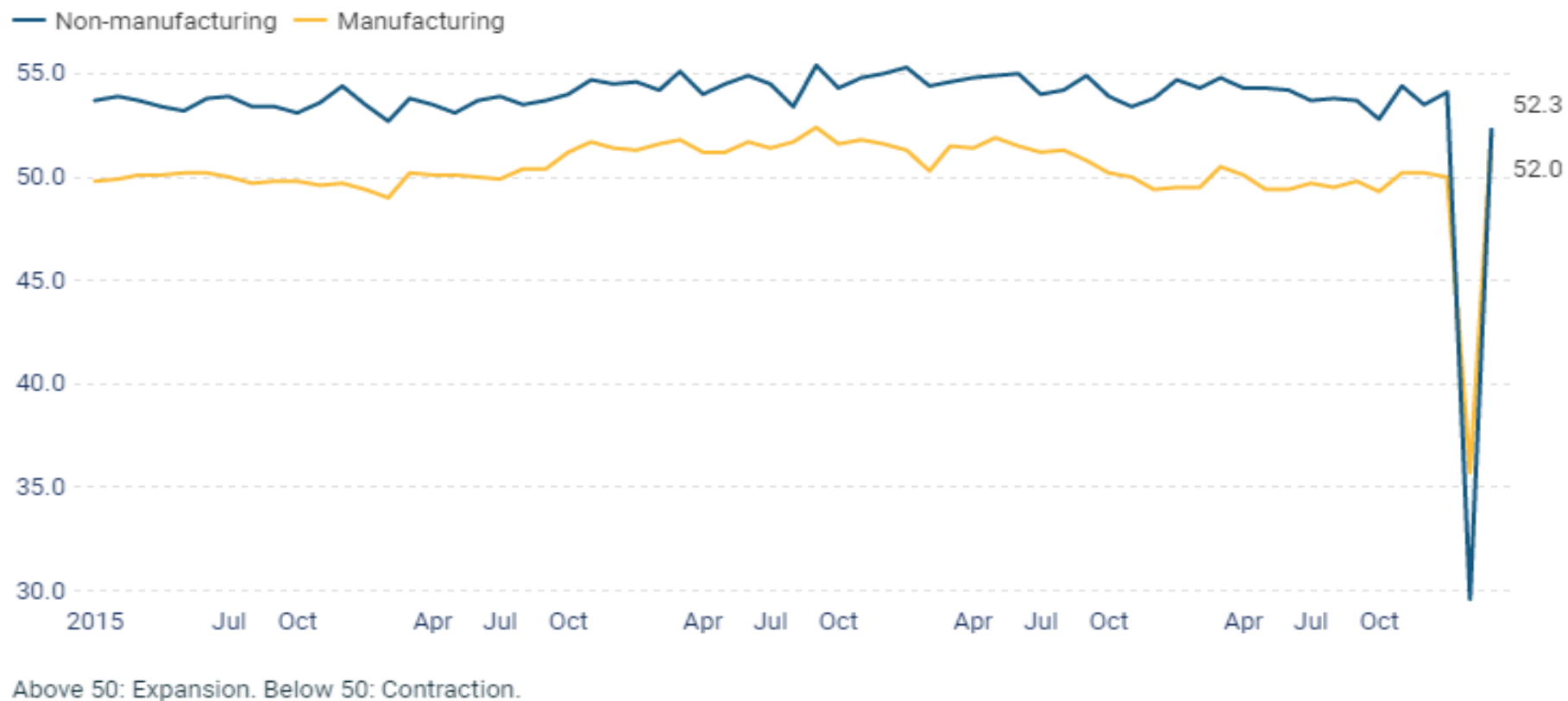


Source: Federal Reserve St Louis

Grounds for hope: China seems on the road to recovery



China PMI Indices

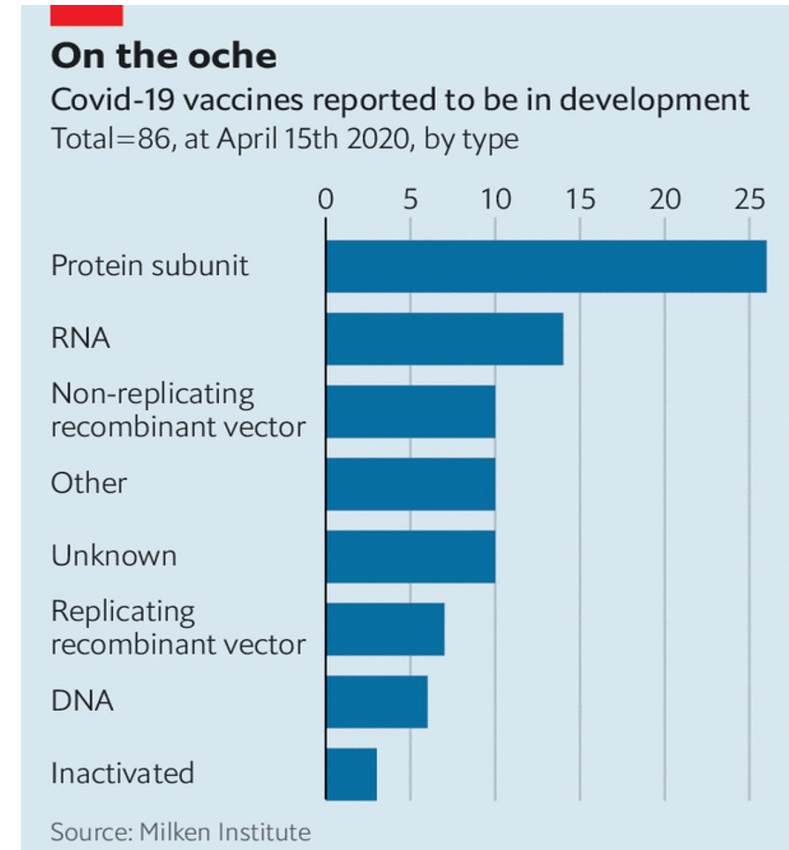


Source: National Bureau of Statistics

Hopeful progress on a vaccine.. but could still be at least months away



Reports of ~86
candidate vaccines
being developed
around the world



Source: The Economist, 16 April 2020. <https://www.economist.com/briefing/2020/04/16/can-the-world-find-a-good-covid-19-vaccine-quickly-enough>

Agenda



COVID-19 (Coronavirus)



Market Outlook

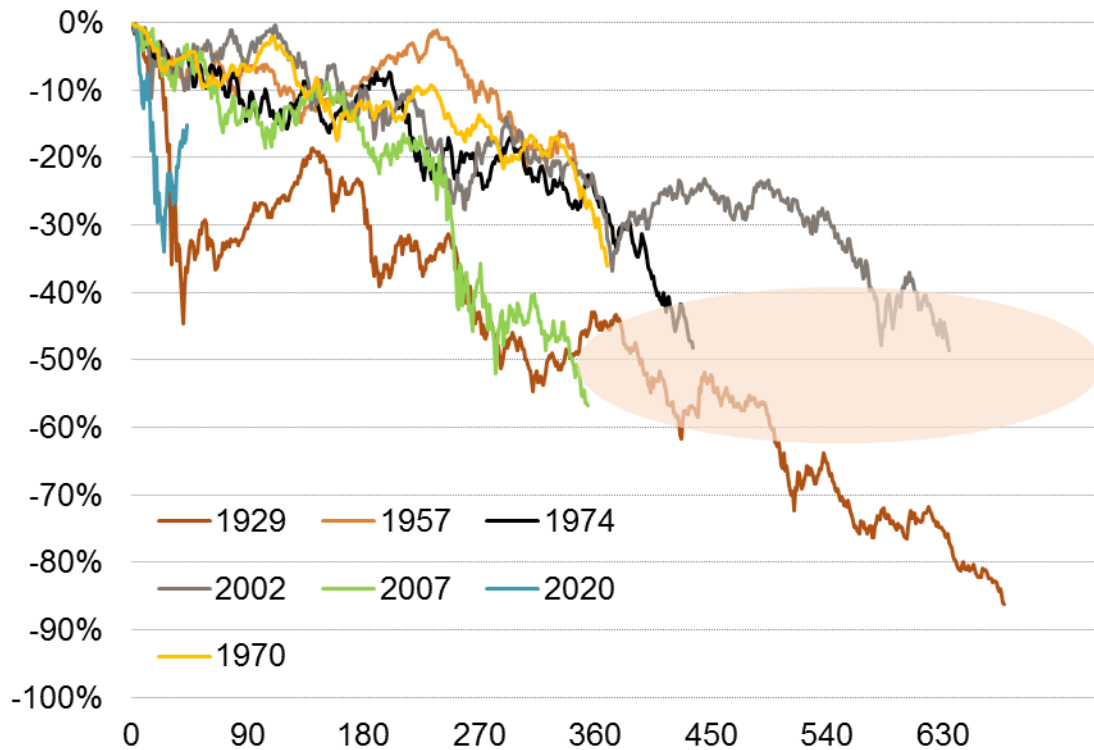


Investment Ideas

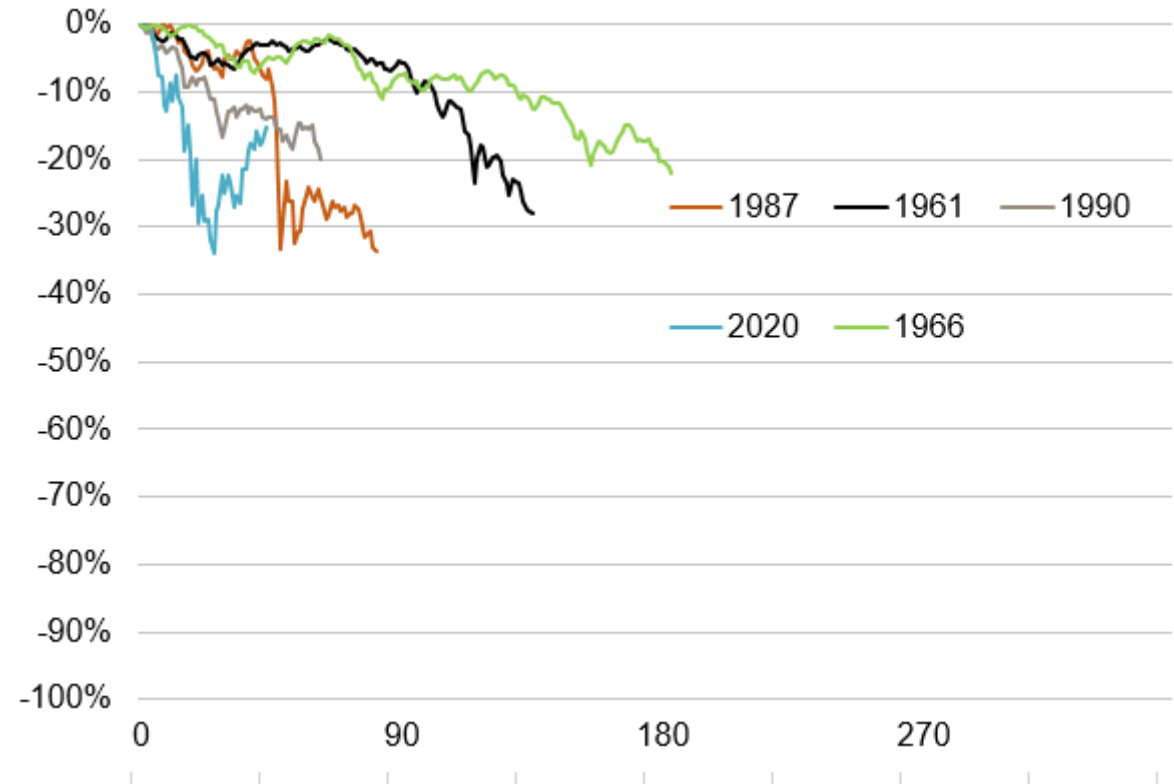


Fastest and shortest “bear market” in history?

Bear markets with recession

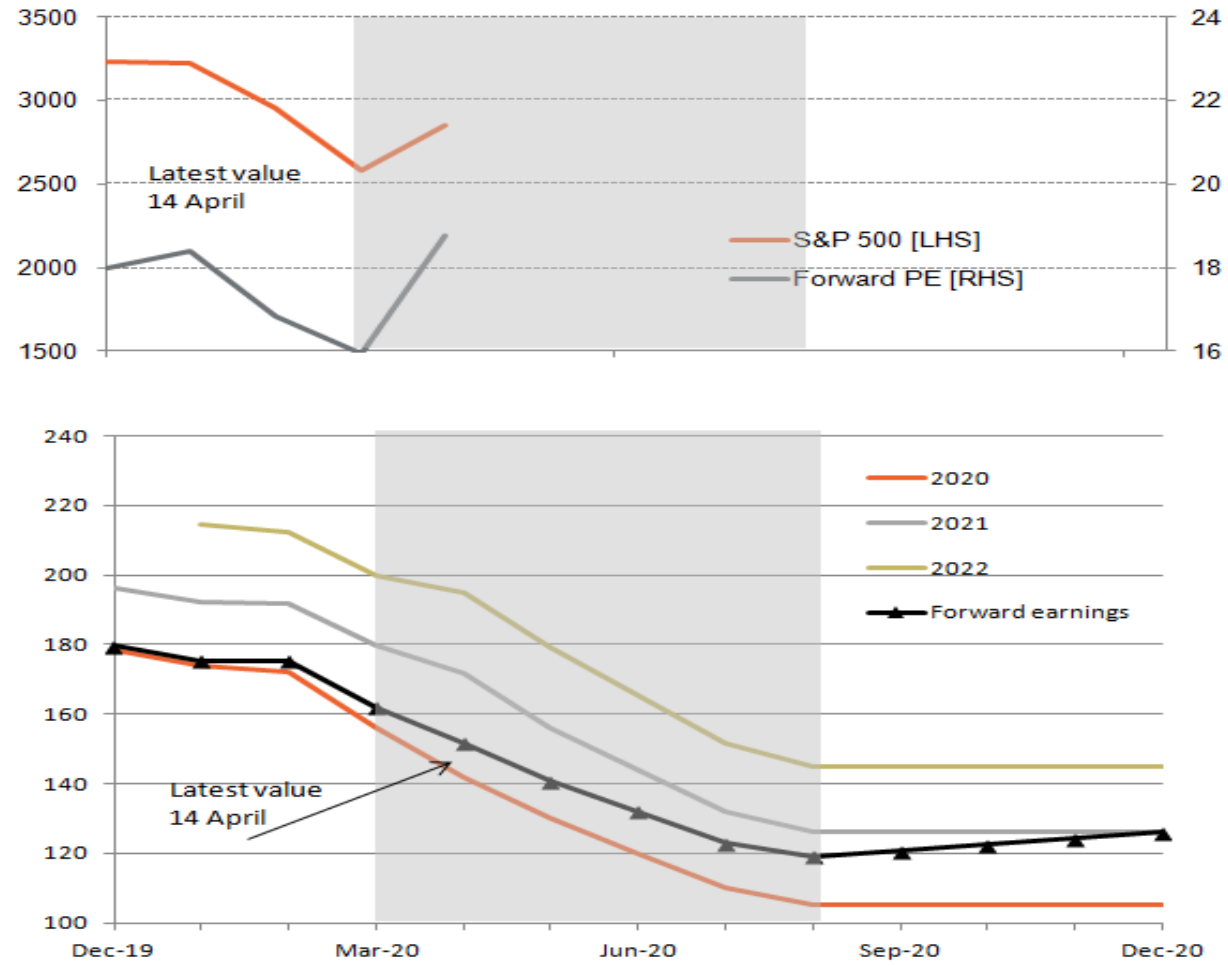


Bear markets without recession



Source: Bloomberg. 2020 data as at March 23

U.S. market – will face the challenge of weaker earnings in coming months



Source: Bloomberg, BetaShares

Investors so far trying to shelter in U.S. tech – which has been less hurt by the shutdowns

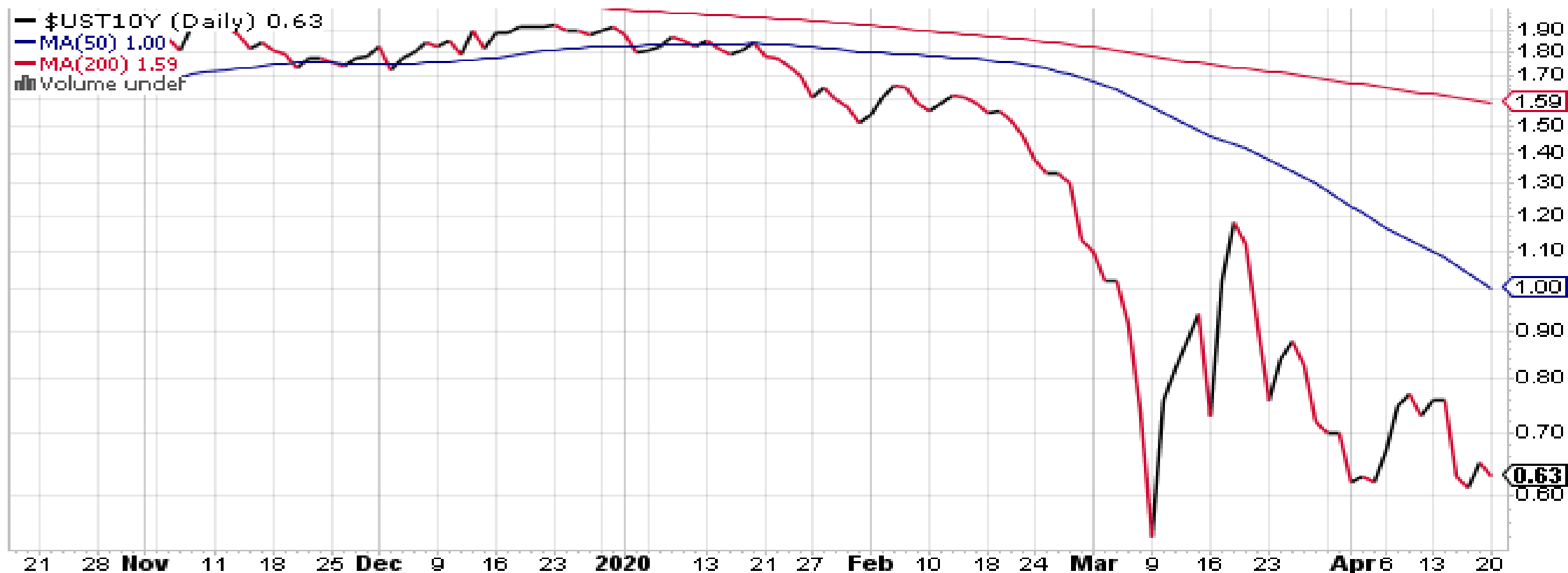


Source: BofA Global Investment Strategy, Bloomberg

Bond market not yet expecting a “V-shaped” recovery



US 10-year govt. bond yield



© StockCharts.com, Chart courtesy of StockCharts.com.

Credit spreads have only partly unwound



High-yield bond spread



Source: Bloomberg

Gold looks poised to benefit from both upside and downside scenarios



\$U.S. Spot Gold Price



© StockCharts.com, Chart courtesy of StockCharts.com.



Scenarios

**The U: worst almost over,
but slow recovery ahead**

U

- ▶ Ineffective lockdown delays containment for 2-3 months
- ▶ Vaccine ready and/or strict testing/tracing then prevents second wave

**The V:
buy the dip**

V

- ▶ Containment in weeks
- ▶ Vaccine ready and/or strict testing/tracing to prevent second wave

**The L: the worst
has yet to come**

L

- ▶ Ineffective lockdown delays containment for 3-6 months
- ▶ Lack of vaccine or poor testing/tracing causes a second wave

***Hoping for a 'V,' but 'U' more likely –
and still can't rule out 'L'***

Agenda



COVID-19 (Coronavirus)



Market Outlook



Investment Ideas



U-shaped recovery: Slower recovery ahead



ASX: QLTY

Access high-quality companies



ASX: HBRD

Hybrids over bank equity



V-shaped recovery: Buying the dip

ASX: A200

Ultra-low management fees

**0.07%
p.a.**

**Low-cost broad
Australian equities**

ASX: ATEC

ASX: NDQ

Amazon
Netflix
Google
App

Technology

ASX: GEAR
ASX: GGUS

Gearing



The L Scenario: The worst has yet to come



**ASX: BEAR/
BBOZ/ BBUS**

**Hedge
portfolios or
profit from
further falls**



ASX: AAA

**Move
to
cash**



ASX: QAU

**'Safe haven'
assets**



ASX: AGVT

**Longer
duration
government
bonds**



**ASX: WRLD/
AUST**

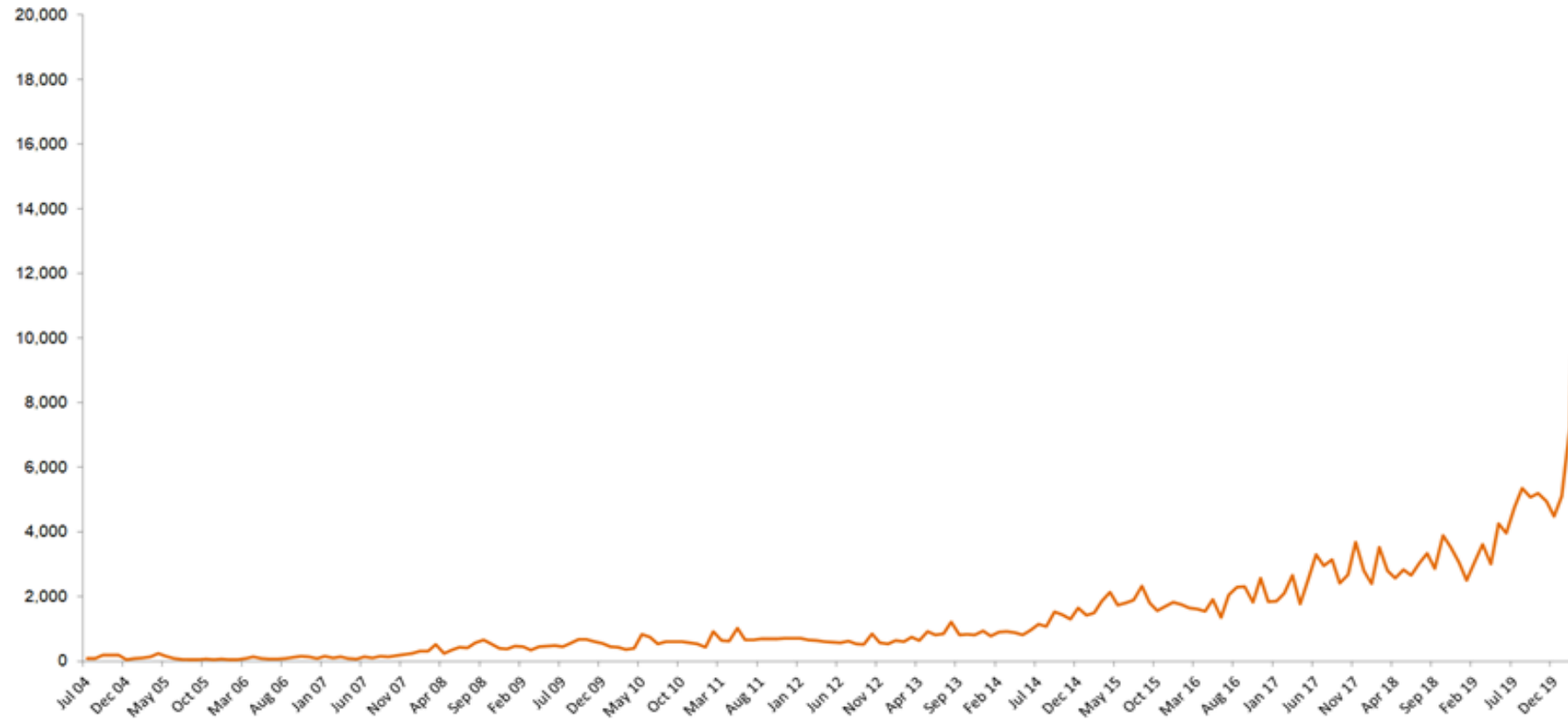
**Managed
risk equities**

Most popular funds

ETP trading volume



ASX ETP Monthly Trading: July 2004 – March 2020 (A\$M)

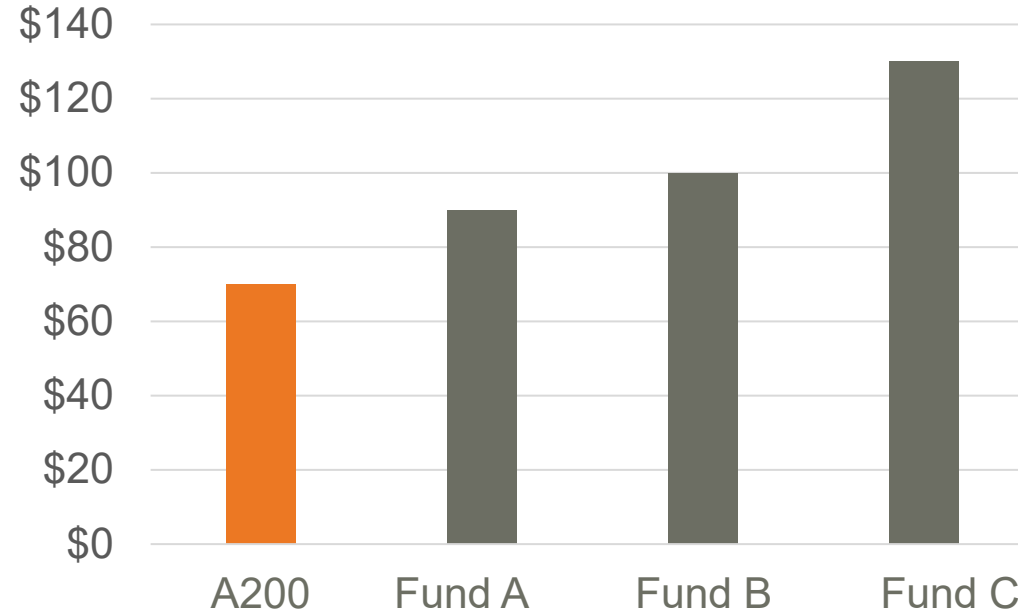


Source: ASX, BetaShares.



BetaShares Australia 200 ETF (A200)

The lowest cost Australian share ETF currently available
A200 management fees vs other comparable Australian share ETFs



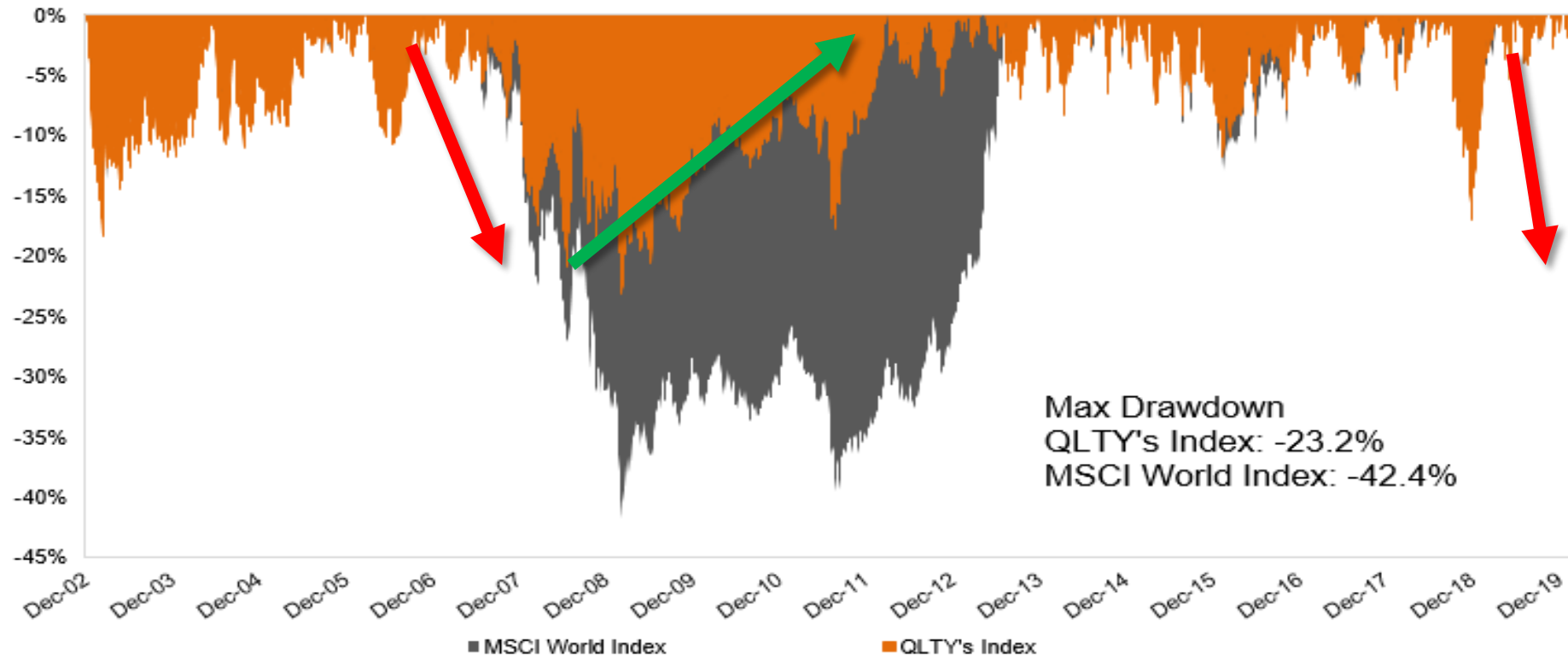
Annual management fee for a \$100,000 investment in each ETF

Based on information from relevant PDSs as at 23 March 2020. Other fees and costs, such as transactional and operational costs, may apply. Refer to PDS for more details.

BetaShares Global Quality Leaders ETF (ASX: QLTY)



Drawdown: QLTY v MSCI World (AUD): January 2003 – March 2020



QLTY tracks an index that has historically displayed 'defensive' characteristics during market declines

Source: Morningstar Direct, BetaShares. The graph shows drawdowns of QLTY (using QLTY's index data for the period prior to inception, taking into account QLTY fees and costs) against the drawdowns of the MSCI World Index (both in AUD). The index which QLTY aims to track is the iSTOXX MUTB Global Ex-Australia Quality Leaders Index. You cannot invest directly in an index. **Past performance is not an indicator of future performance of the index or the ETF.**

Oil & the cost of rolling - BetaShares Crude Oil Index ETF - Currency Hedged (synthetic) (ASX: OOO)



WTI oil futures are in significant state of 'contango'



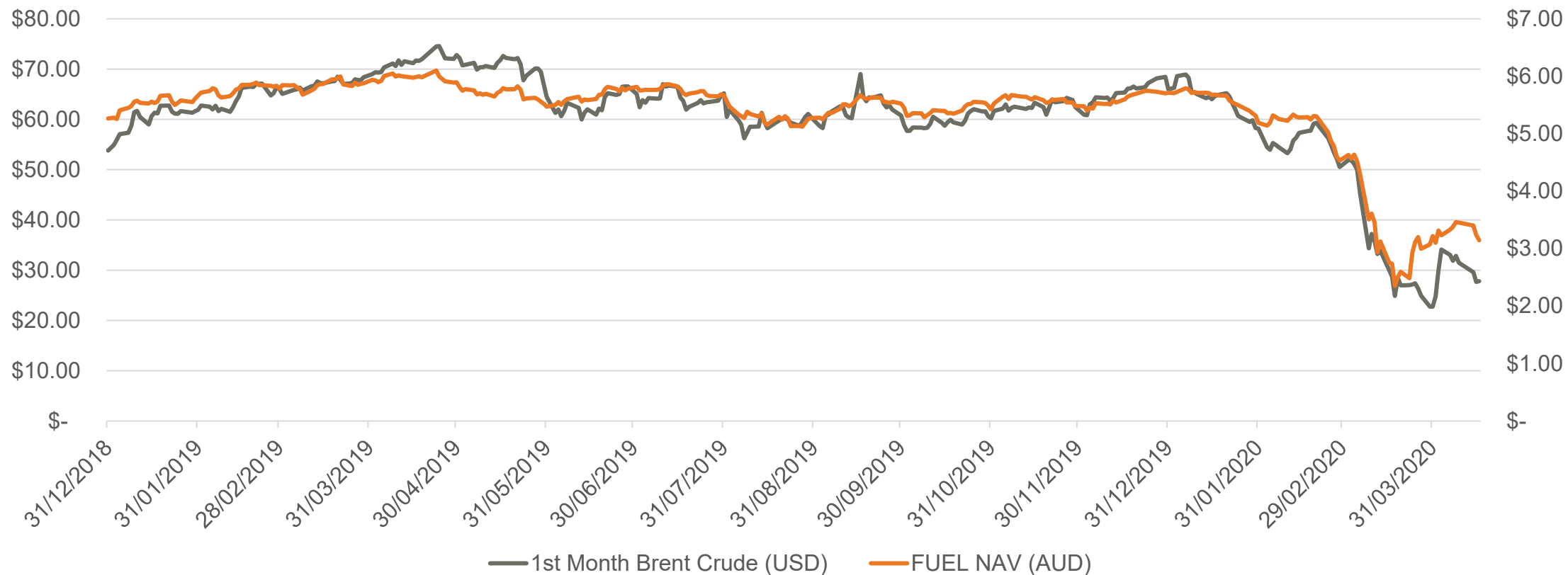
Rolling from May futures contract to June futures contract would require a ~27% increase in oil price to avoid a loss

Source: Bloomberg. Data as at 14th April 2020. <https://www.cmegroup.com/trading/energy/crude-oil/light-sweet-crude.html>

BetaShares Global Energy Companies ETF – Currency Hedged (ASX: FUEL)



FUEL vs Brent Crude Oil

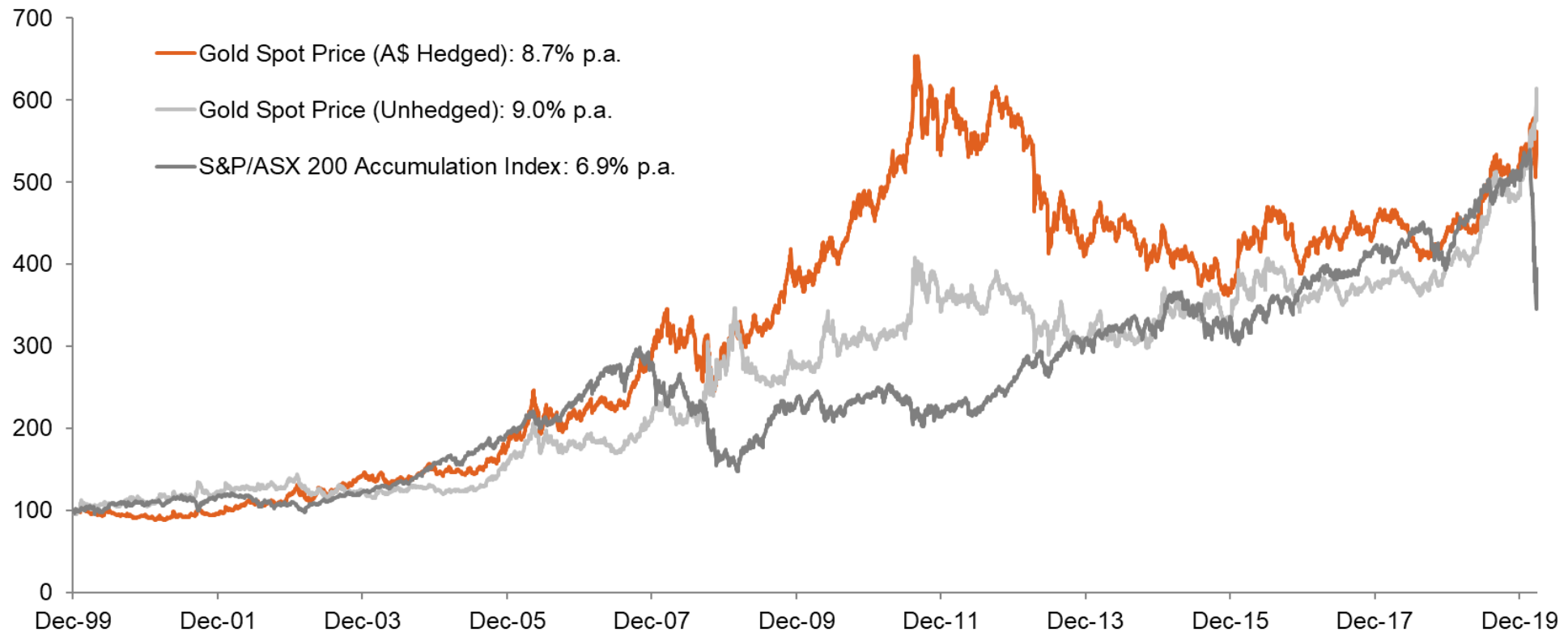


Source: Bloomberg, BetaShares. Data as at 16 April 2020. **Past performance is not indicative of future performance.**

BetaShares Gold Bullion ETF – Currency Hedged (ASX: QAU)



Gold Bullion Spot Price Performance (A\$ Hedged v Unhedged) v S&P/ASX 200 Index Performance December 1999 - March 2020



Source: Bloomberg. Past performance is not indicative of future performance.



Things to consider

- ▶ **Investment risk:** The value of an investor's portfolio can go down as well as up. Risks include:
 - Market risk with equities
 - Currency risk with international investments
 - Instrument complexity and bank sector concentration risk with hybrids
 - Interest rate and credit risk with bonds and cash.

- ▶ **No guarantees:** Future outcomes are uncertain – desired return outcome may not be achieved.

- ▶ **General information only:** Today's discussion does not take into account any person's individual circumstances and is not personal financial advice.

- ▶ **Professional advice:** Investors should seek professional financial advice before investing.

- ▶ **Research:** See relevant PDS for more information about risks and other features of each fund.

Questions?

