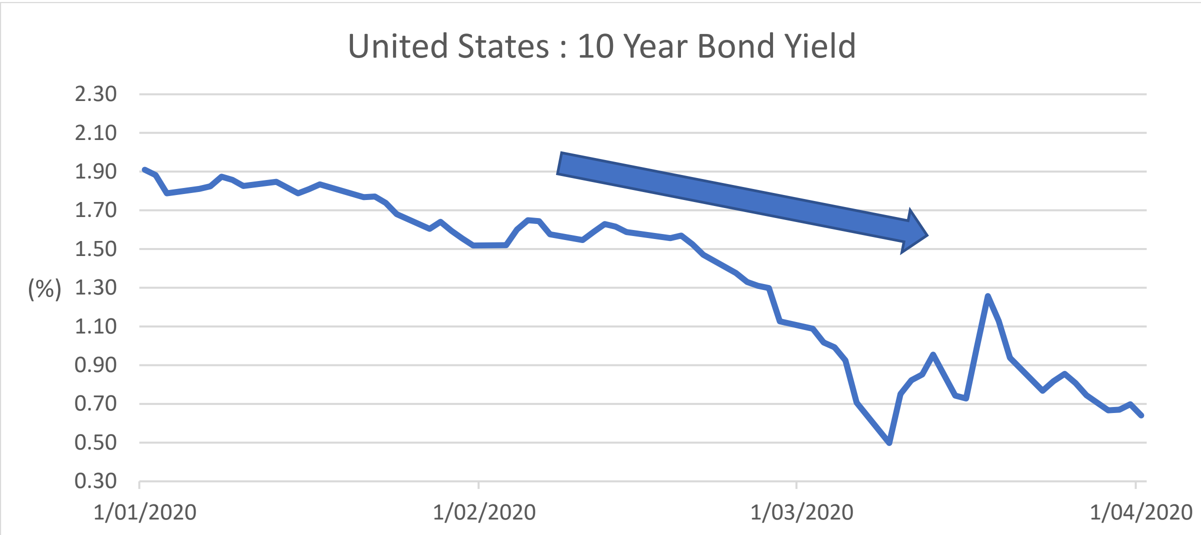
Financial Market Conditions

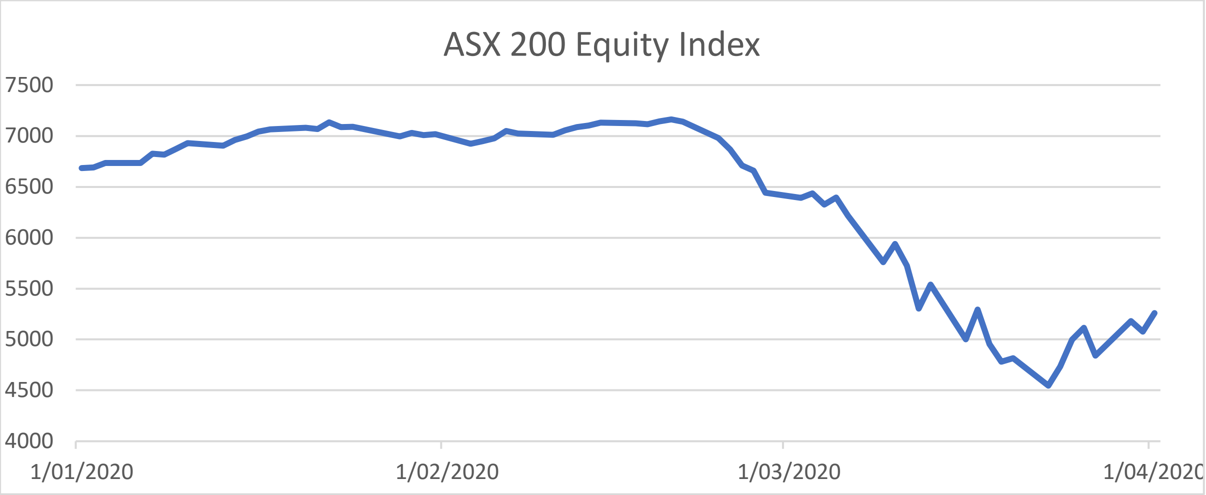
Global financial markets experienced high levels of volatility over the past month as nations continued to grapple with the public health crisis and economic downturn caused by the COVID-19 pandemic.

The coronavirus (COVID-19) pandemic is now affecting most countries around the world with the total infected almost at 1 million confirmed cases worldwide. Cases of the virus have stabilised in China and it is now the US, Spain and Italy were infection rates continue to climb. While not a lot of substantial data has been released since the declaration of a pandemic in early March, it seems clear that the self-isolation that is being forced on some and chosen by others is having a massive dampening effect on the global economy. This unprecedented world health crisis has resulted in co-ordinated stimulatory responses by central banks and governments around the world.

In mid-March the US Federal reserve cut their reserve rate by 1% and are now targeting a rate of between 0-0.25% and at the same meeting committed to a $700 billion quantitative easing program. Although many believe the US took too long to respond to the public health crisis, in late March President Trump signed off on a $2 trillion stimulus package in an effort to insulate the US economy from the impacts of the virus. This coordinated action was replicated by central banks and governments around the globe and somewhat stabilised the freefall that was seen on global equity markets. Global bond markets have also been extremely volatile over the past month as markets had to digest the potential of a deep global recession, the commencement or re commencement of quantitative easing around the world as well as the need for governments to issue large amounts of debt into markets to provide the needed stimulus.



Australian financial markets also experienced high levels of volatility associated with the economic impact of the coronavirus. In a coordinated effort, the Reserve Bank of Australia cut the official cash rate twice and announced other stimulatory measures and the Australian government announced a massive $192 billion stimulus package. The coordinated response by the RBA and the Government created some stability in financial markets, however, the damage was already done highlighted by the ASX 200 falling over 21% over the course of the month. The Australian dollar fell from around $0.65 USD to $0.60 USD over the course of the month as investors repatriated funds back to US dollar assets.



On 3 March 2020, the RBA met and cut Australia's official cash rate by 0.25% to a historic low of 0.5%. In the accompanying statement, Governor Lowe stated that the board decided to cut the rate to support the economy as it responds to the global coronavirus outbreak and noted that several other countries have also enacted or were about to enact such policy measures. On 18 March 2020, the RBA met again at an emergency meeting and cut the official cash rate by a further 0.25% to 0.25%, committed to buy 3-year Australian government bonds at a rate of 0.25% (a process known as quantitative easing) and implemented a huge securitisation program, partnering with Australian banks to support lending to corporations affected by the economic slowdown created by the pandemic. These emergency measures are all designed to help stimulate the economy by ensuring that individuals and corporations alike have access to liquidity and loan funds during these unprecedented times. Interest rates futures pricing suggests that the official cash rate will remain at 0.25% for the foreseeable future.

<u>Implied RBA Cash rate as at 31/03/2020:</u>