Investment Watch

Autumn 2020 Outlook

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Welcome

As the COVID-19 outbreak continues to dominate headlines, investors are forced to grapple with a new normal amid social distancing and self-quarantine recommendations. We know this is an extremely difficult time for many of our clients and we want you to know that we're here to help.

Morgans is still open for business; however, we have adapted our working arrangements across all offices and many of our staff are now working remotely so we can continue to provide ongoing services to our valued clients during this world-changing event. We also continue to provide you with research and market updates from our research analysts, so you can stay in touch with events as they unfold.

During these challenging times, our priority is the health and well-being of our employees and our clients.

In this month's edition, we update our Asset Allocation to reflect the new realities of investing in 2020. We also lay out our key economic, equity strategy and sector views given our current understanding of the virus, health policies, and monetary and fiscal responses. We remain optimistic that our lives will return to normal eventually, but the lingering effects of the virus on our healthcare system, businesses, and affected industries will be determined by our success in social containment and unprecedented monetary and fiscal action to support our economy.

Recently published research

- Equity Strategy – Sector outlooks and preferred picks (26/3)
- Banks – Exceptional measures for exceptional times (26/3)
- Banks – WBC relatively attractive on risk and value (26/3)
- Economic Strategy – How Jobkeeper supports the economy (3/4)

In this issue indicates published research available online.

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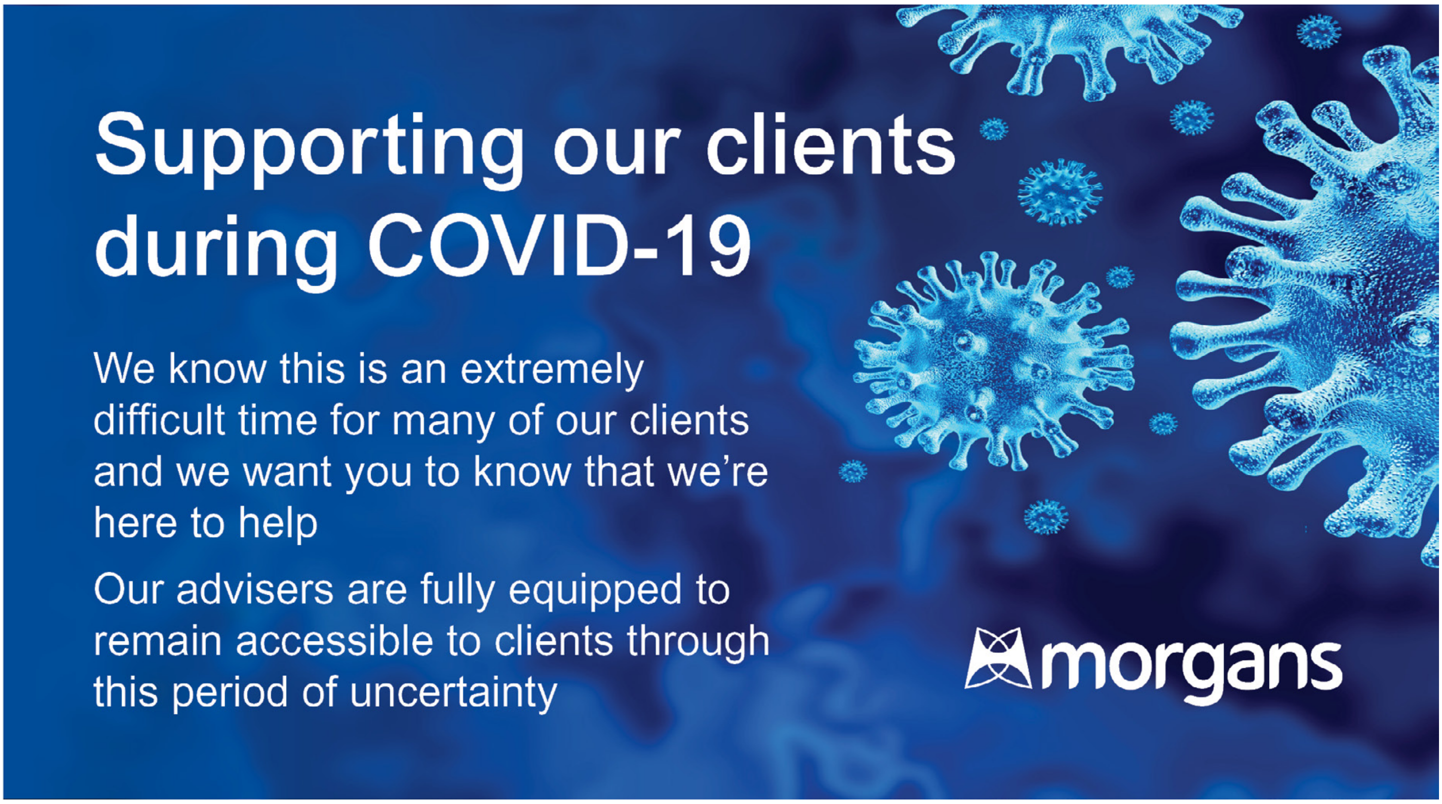


Economics – the current collapse

The current collapse in equity markets is not because of a collapse in fundamentals. The physical infrastructure of the US economy, the Chinese economy and the Australian economy, are still the same.

The collapse instead, has been triggered by an attempt by these nations to avoid the excesses of mortality, previously associated with such a major pandemic. The Australian Prime Minister, Scott Morrison, says the current pandemic is similar in potential impact to the Spanish Flu epidemic, which struck the world at the end of the Great War.

The major effect of the Spanish Flu in Europe seems to have been in 1918 and 1919. Its major effect in Australia seems to have been in 1919 and 1920. All of these years saw an enormous loss of life. This extreme loss of life, particularly in the United States, was primarily because the US president of the day appeared to ignore the crisis in a situation, where he wanted to maximise the production of war material.

This time is different. Major economies are taking a significant hit in production early on to keep the rate of growth of this contagion at a low enough level.

The Economy

Doctor Anthony Fauci, the Director of the US National Institute of Allergy and Infectious Diseases, believes the path of this disease in the US will likely run its course by the end of July. Should he be correct, then the current actions to restrict output will come to an end. This will, in turn, generate a recovery of both US manufacturing and services output in the second half of calendar 2020.

Most scenarios of the path of the US and Australian economies for 2020 see a slump in output in the second quarter, with growth accelerating in the third quarter and fourth quarter. Scenarios for the Chinese economy suggest that the major slump in output has already occurred in the first quarter of 2020. Output should recover modestly in the second quarter.

What is important to Australia?

The major driver of cycles in domestic demand in Australia's economy is the housing sector. In the short term the housing sector is primarily a function of the level of real interest rates. The lower housing loan interest rates fall relative to inflation, the stronger the demand for new and existing housing in Australia.

The Reserve Bank of Australia has embarked upon a path of aggressive monetary expansion. On 19 March, the RBA cut the cash rate to 0.25%; announced a program of quantitative easing to keep three-year government bonds to a yield of 0.25%; and announced a three-year funding facility for banks also at a rate of 0.25%, this last facility with funding of at least $90 billion.

Meanwhile on the fiscal front, on 12 March, the Federal Government announced a $11 billion stimulus program targeting small enterprises and individuals. On 22 March a further $54 billion was announced to provide additional financial assistance to small business. And on 30 March an enormous $130 billion (6.5% of GDP) was committed to theJobKeeper subsidy to support at risk workers (the government has allowed for up to 6.7 million). The unprecedented monetary and fiscal support will not stop the virus but it will soften the economic blow to the domestic economy.

Should the epidemic come to an end, as expected, in the second half of 2020, then this situation of limited supply and rapidly expanded demand could generate increased housing activity. This will support a strong recovery of demand within the domestic Australian economy.

It is likely that the Australian economy will emerge from 2020 in a strong position. It will not just be physically healthy, but in reasonable economic health as well.

Financial Markets

We model equities markets on the basis of consensus estimates of operating earnings per share. At the time of writing, there has been some downward revision of future estimates of operating earnings per share.

The market has not been reacting to the fundamentals of earnings per share and bond yield that explain the overwhelming majority of stockmarket action. Instead, they have been responding to a one in a 100-year epidemic, the actual effects of which upon the economy are fundamentally unknown.

The ASX 200 seems to be finding support around the area of 4,800 points which was the support level in the selloff in 2016 and the peak of prices in 2011. We think this undervalues the market on a longer-term basis.

Conclusion

It is a little over 100 years since the world encountered an epidemic of the size which currently confronts us. Markets cannot comprehend the effect of something which previously happened so long ago. The result is that equity markets have fallen to levels of undervaluation, only previously seen in periods of the most extreme financial stress.

Our best available information is that this epidemic should run its course by the second half of 2020. By the second half of 2020, the Australian economy should again be healthy. We expect that Australian equities will be trading at much healthier levels as well.

The market is responding to a one in a 100-year epidemic, the actual effects of which upon the economy are fundamentally unknown.

Refer to our recent research note for "**How Jobkeeper supports the economy**" for more. bit.ly/3dQ24Wm

Equity strategy – weathering the storm

What has worked over the past 12-18 months will not suffice in an environment that has raised more questions than the market has answers.

Thoughts on the market

A lasting recovery in markets is unlikely until we also see clear evidence that the global spread of coronavirus is slowing, allowing lockdowns to end. However we do know policymakers are doing what they can to offset the near-term damage caused by shutting down large parts of the economy. Therefore it's essential that investors pay close attention to portfolio positioning as what has worked over the past 12-18 months will not suffice in an environment that has raised more questions than answers.

A combination of fiscal and monetary support provides grounds for optimism that growth will not evaporate. However, with a recession looking more likely than not, we think the majority of the support will end up being spent on essential services, hence our preference is for companies that have a strong balance sheet and resilient revenue streams.

Energy/power supply (APA, AGL), Healthcare (SHL, CSL), Telecommunications (TLS, NXT), and Food supply (COL, FNP) are key essential services likely to remain most resilient to heavy population movement restrictions in coming months. Many are trading at valuation discounts not seen since the GFC. We acknowledge that defensives will likely underperform in an eventual market recovery, but the severity and duration of this event remains unclear. Also, the balance sheet resilience to disrupted trade of many cyclicals is coming into acute focus as vulnerable corporates raise capital.

The pandemic has triggered the largest co-ordinated global monetary and fiscal response in history. Given the fluidity of the situation, our analysts flag earnings and dividend downside risks to cyclicals including Banks, Consumer discretionary and potentially Transport infrastructure stocks. The re-pricing of risk across the market has been savage, and may well prove to be overdone for many stocks. At this point though, investors must appreciate the higher earnings/dividend uncertainty among cyclicals, and the wider range of plausible outcomes (returns) pending resolution of the pandemic. Note we expect discounted capital raisings to ramp up in many cyclicals (Travel, Retail). However, the GFC also showed us that equity raisings can define the turning points for many cyclicals in these scenarios, signalling an easier catalyst to buy, rather than trying to 'time' buying during immense volatility.

Think through to the other side of this

No crisis lasts forever, nor will this one. Now, more than ever, investors need to discard the noise, assess the calm facts and be clear on their strategies. We think equity markets will likely stabilise when it becomes clear that the number of new daily cases of the virus has peaked, despite the economic impacts lasting for longer. Those companies with the strongest competitive/market positions, balance sheets and adaptive strategies will be able to re-set in order to thrive through an eventual recovery. Yes investors do need a strong stomach in the meantime, but we suspect that rare opportunities are likely to emerge in the coming weeks and months.

Key sector outlooks

Category	Sector	Sector rating (-ve to +ve)	Best buys	Analyst's commentary
Financials	Banks	Deteriorating	WBC, MQG	We see downside risk to earnings/dividends due to rising default risk. CBA and WBC look most defensively positioned from losses on bad debts, as we expect meaningful home lending credit losses to arise last.
	Diversified Financials	Deteriorating	MFG	Sector dynamics are incredibly difficult to call in light of the record worldwide fiscal stimulus and the as-yet unquantifiable nature of COVID on key economies. We prefer the largest franchises with the capability to weather the storm.
Defensives	Consumer Staples	Improving	COL, FNP, A2M	Supermarkets are a clear, bright spot, but the demand spike will not last, and once household pantries are full, sales growth will revert to more normal low single-digit growth rates.
	Healthcare	Positive	SHL, RMD, PME	Healthcare's defensive characteristics should sustain a premium rating. The sharp focus on public health is likely to provide tailwinds for diagnostic and pathology players and downstream medical suppliers.
	Telco	Positive	TLS, NXT	Communication services are becoming increasingly critical for businesses and consumers. Earnings risks look modest due to the move to mobility and the importance of population connectivity, underwriting strong demand.
	Infrastructure and Utilities	Positive	APA, SKI, AGL, TCL, SYD	Providers of critical services with regulated revenues (AST, SKI), resilient demand (AGL), or long-term take-or-pay contracts (APA) look attractive. Ultimately, ultra-low interest rates can plausibly intensify the appeal of strong cash generators (SYD, TCL) once their volumes recover.
Cyclicals	Consumer Discretionary	Negative	DMP, JBH, ALL	Forecasting how COVID's impact on the consumer will resolve is nearly impossible and it is very difficult to recommend buying consumer stocks currently.
	Industrials	Neutral	AMC, AZJ	Earnings risk for many Industrials under our coverage will be fairly moderate compared to other sectors, due to the relatively defensive nature of many of these businesses and the falling AUD.
	Online Media	Positive	REA, IRE	While online leaders do suffer during economic downturns, tighter capital markets may starve their competitors, many of whom operate at a loss, and deprive them of capital required to compete. Recent weakness is a compelling opportunity.
	Agriculture	Improving	ELD	Improved seasonal conditions mean that the Ag stocks, as long as their balance sheets aren't stretched following a few years of drought, are a good place to hide in a volatile market.
Resources	Metals & Mining	Neutral	RIO, BHP, OZL	Q2 will likely see a trough in both commodities consumption (demand) and business/investor confidence. Accumulate blue chips, but wait for better visibility to support a rebound in more leveraged pure plays.
	Energy	Neutral	WPL, BPT	Oil prices cannot remain at current levels indefinitely as a vast amount of the industry is unprofitable at current levels. Geopolitics is unfortunately a dominant and unpredictable influence on already concerning demand issues. Wait.

Negative | Deteriorating | Neutral | Improving | Positive

Fixed Interest – a confluence of events

The concurrent events of COVID-19 and the break-down in OPEC/Russia oil negotiations have led to significant dislocation across all credit markets. Government bond markets were initially torn between the potentially deflationary impact of both lower global growth and oil prices. This very quickly turned to a rise in bond yields as investors looked to the prospect of ballooning debt levels into the future as Governments scramble to shore up recession bound economies. The immediate impact was a fall in liquidity in all bond and credit markets along with a significant widening of credit spreads across all sectors.

As Central Banks have collectively injected trillions of dollars into the global financial system through purchases of government bonds, this has seen liquidity and flows slowly improve. This action along with the provision of liquidity lines to banks globally, has also seen credit markets stabilise somewhat. Government stimulus packages are now aimed at medium term support for economies.

Post any disruption of this type, market participants search to see where securities can be traded in volume at a price that starts to represent a fair assessment of value, rather than indiscriminate selling based on fear or need for immediate liquidity at any cost. For equities, the determinants are, in simplistic terms, near and longer-term earnings, a determination of the right risk-free rate and an appropriate equity risk premium in this new paradigm. For debt markets, we can look to the level of supply of debt and the ability of the issuers to service these obligations. At low interest rates this should not be an issue for most governments. For example, every $1trillion of stimulus will cost the US Government circa $15billion p.a. and this will be funded via future taxes. For corporate borrowers, future revenues are uncertain, particularly in the near term. Some sectors have more uncertainty than others and some companies will not survive. While this uncertainty exists, few companies or sectors are given the benefit of the doubt as prices are forced lower in the search of liquidity.

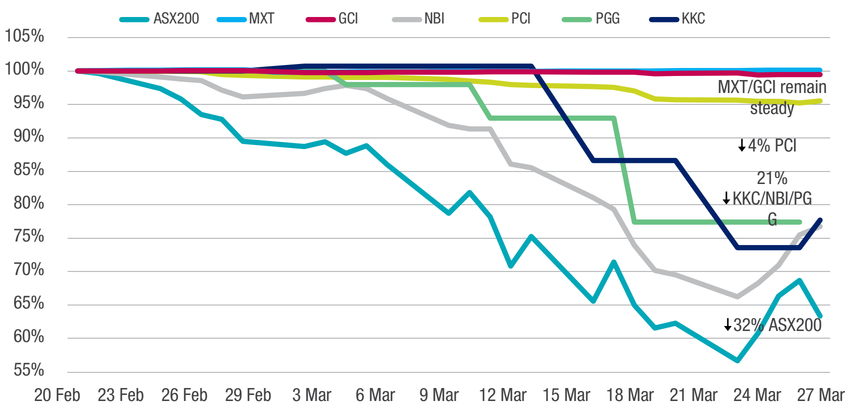
We have seen this play out for retail investors in listed and unlisted managed funds as well as listed and unlisted debt securities including hybrids. These investments form part of many diversified income portfolios. While the price falls across these sectors have been dramatic in some instances, it can reasonably be expected, except in the most extreme of circumstances, that income will continue to be paid. Listed Investment Trusts (LITs) and most other managed funds will continue to generate income on underlying portfolio investments, and this will be passed onto investors. ASX listed hybrid distributions, while always subject to board discretion and regulator oversight, would, except in extreme circumstances, continue to be paid.

In this sell-off, these asset classes have, by and large, performed as expected though low liquidity has clearly exacerbated asset price changes. What we do know though, is that debt securities that don't default will return to their $100 face value with investors repaid. Even where defaults do occur, investors should be shielded through the diversification of underlying portfolios. One of the major features of LITs is that managers of these funds are not forced to sell assets at distressed prices to fund investor redemptions. We do note though that the ASX prices of LITs have fallen significantly more than can be justified by the move in the respective value of underlying assets (NTA) (refer to Chart 1).

Clearly, there are investors who have sold "at any price" to gain liquidity. We believe this creates a rare opportunity for both existing and new investors in the sector to take advantage of this mis-match in unit price and underlying asset value. We expect income will continue to be paid as the underlying investments are fundamentally bonds and loans. Further, NTAs and traded unit prices will improve as markets settle, and investors again focus on underlying value not liquidity at any cost.

Hybrid instruments, while less impacted, will also stabilise and we would expect to see prices improve over time. By way of example, Chart 2 shows the performance of PCAPA through the GFC. While every cycle and indeed crisis is different; two things are immediately evident. Firstly, the extent of the collapse in hybrid prices this time is nowhere near as severe as during the GFC, and secondly, despite the steep fall in price, the security did return to its issue price and was ultimately called by the issuer.

Chart 1 – Listed Investment Trusts NTA and ASX 200 Performance (Common Base)



Source: IRESS

Chart 2 – CBA PERLS III (PCAPA) price from issue to redemption

Source: IRESS

Banks – earnings downside risk

The emerging picture is that the next six months will be far from normal. The banks are part of the Team Australia effort to build a sturdy economic bridge to get across the abyss created by COVID-19. What we believe this will practically mean is that all sorts of exceptions will be applied to all sorts of rules for the sector, and certain parts of the Australian economy will be placed into hibernation for a period of six months. The good outcome would be that these parts of the economy are de-iced after six months and the Australian economy goes back to normal. If such a scenario was to be one's base case, then it would be concluded that Australian major bank share prices are offering good value at the moment; this is despite us seeing a risk of major bank dividend suspensions over the next 12 months.

NAB and ANZ more vulnerable: If a macroeconomic downturn is triggered in Australia then we expect business lending to suffer most, followed by institutional lending and then home lending. We believe NAB's relatively high exposure to business lending makes it vulnerable from this perspective. While we expect institutional loan growth to be a beneficiary of reintermediation if credit spreads remain at wide levels, we do expect a negative impact on institutional loan growth as banks become more wary of credit quality. We also point out that we expect the NZ economy to be impacted more than Australia by a potential downturn in global GDP. This point, combined with ANZ's relatively high exposure to institutional lending, means that we also view ANZ's credit growth prospects as more vulnerable than that of CBA and WBC.

We believe ANZ's group net interest margin (NIM) is the most vulnerable of the major banks, particularly as we think ANZ's NIM is most vulnerable to cuts in the Fed Funds Rate and the Bank of England's base rate.

We believe it is plausible that the current situation can result in an increase in customer deposits with the major banks, of which we would expect the NIMs of CBA and WBC to be the greatest beneficiaries.

CBA and Westpac are more defensive: If the current situation triggers macroeconomic deterioration in Australia, then we expect meaningful institutional credit losses to arise first, followed by unsecured business and unsecured personal lending losses, followed by secured business lending losses, and we expect meaningful home lending credit losses to arise last. We believe CBA and WBC are most defensively positioned from this perspective due to their loan books being more skewed to Australian home lending.

Recent developments offshore leads us to believe that there is an increased risk that dividend payment restrictions may be applied to banks in Australia. We have discussed the risk of dividend suspensions in our last sector note (published 26 March).

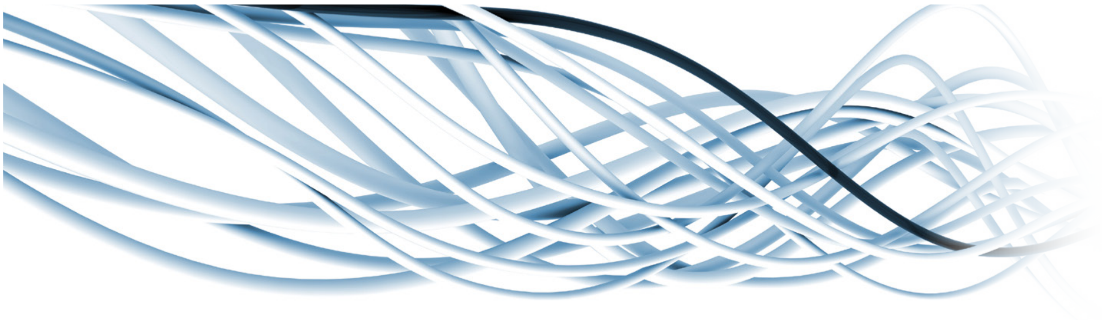
Given the developments in the UK banking sector, we believe it is possible that if dividend restrictions are imposed on Australian banks then they may initially be imposed only on the larger banks; meaning that we believe it is possible that some of the regional banks and smaller banks may be spared from such a restriction. Having said this, if Australia does go down the path of restricting bank dividends, we believe a blanket dividend restriction on all Australian Authorised Deposit-Taking Institutions (ADIs) that are eligible to access the RBA's Term Funding Facility is more likely.

Based on valuations, **WBC** is our preferred major bank, followed by NAB, ANZ and CBA. However, in light of the current situation, if we ignore valuations and purely focus on our assessment of risk profiles, then CBA is our preferred major bank, followed by WBC, NAB and ANZ. Taking into account both valuations and overall risk profiles in this environment, Westpac is our preferred major bank.

Bank Pricing Table

Stock	Recommendation	Share Price	Target Price	Dividend Yield	Gross Yield	12m Forecast TSR
WBC	ADD	$15.98	$22.50	9.9%	14.2%	55%
CBA	HOLD	$61.24	$67.00	6.4%	9.1%	19%
NAB	HOLD	$16.00	$17.50	9.2%	13.2%	23%
ANZ	HOLD	$16.15	$18.50	8.8%	11.4%	26%

Source: Morgans. Data as 2 April 2020.



Telecommunications – stick to critical infrastructure

Telecommunications are becoming increasingly critical for businesses and consumers alike. There are many moving parts in the global economy at the moment. All businesses are currently in a state of uncertainty and discretionary projects may be paused, creating short-term risks to earnings. That said we don't expect large earnings risk for Telcos as the move to mobility (working and studying from home) combined with the need for individuals to communicate, now more than ever, means that telecommunications are in high demand. Liquidity has once again become a challenge for debt and equity investors and at this junction in the cycle we believe it is best to be exposed to the large, liquid names with strong balance sheets and relatively defendable earnings.

Our preferred pick remains **Telstra**. In addition to being more defensive than many stocks, Telstra also has the benefit of coming out of several years of intense competition. This means the backdrop is for the core earnings drivers to improve from here. The intense pricing pressure in home Broadband due to the NBN forced migration is coming to an end. The merger of TPG Telecom and Vodafone now seems likely. This, combined with the launch of 5G, means mobile competition should also lessen, in our view. Network quality will once again be a point of difference. Fixed and mobile are the largest earnings drivers for Telstra so improvements here are clearly positive.

Telstra recently reiterated guidance, albeit now at the lower end of its earnings guidance range. Assuming a ~six-month economic recovery, we believe it should still be in a position to hold its dividend, however this will depend on the recovery in broader economic activity.

Telstra
ADD TP A$3.73

NEXTDC
ADD TP A$8.73

Consumer discretionary – incredibly difficult

Retailers face many unknowns in these unprecedented times. Forecasting how this will resolve is near impossible and we think investors will understand it is very difficult to recommend buying consumer stocks currently.

Shopping centre foot traffic has been significantly impacted due to COVID-19. While large format centres should be more resilient than traditional malls, we doubt they will be immune. Online sales growth/penetration should pick up meaningfully but is unlikely to offset in-store impacts.

Late 2019-early 2020 trading was actually looking solid for some retailers as consumers brought forward purchases and braced for travel restrictions. Lower spending on travel/entertainment/services and more time at home may stimulate demand for takeaway food, household goods and tech for a period, with the caveat that stores actually remain open.

We're concerned with trading conditions into FY21. Aside from lower foot traffic in the immediate term, the more concerning future impact will be on confidence as job security falls with the economy. The lower AUD poses an additional margin headwind should it persist.

Retailers will pull every cost lever. This includes reducing marketing budgets, trading hours, casual staff, wages and rent. We expect to see downward pressure on rents and requests for an extension of payment terms. Rental relief is likely.

Being comfortable with sector balance sheets is near impossible while earnings uncertainty is so elevated, given large fixed cost bases. While most of our retailers have comfortable balance sheet positions currently, debt positions can increase quickly if/when trading stalls. There is a risk that all retailers breach banking covenants should stores close/activity grinds to a halt. How the banks deal with this is uncertain and final dividends are certainly at risk.

Casino operators face significant earnings risk due to venue closures which will expose fixed operating cost bases. Star Group has a strong net asset position but near-term liquidity is a risk. We're also concerned about the wagering outlook for Tabcorp with venue closures and event cancellations. Lottery demand is expected to remain robust and we expect to see an increase in digital sales, which could be a net positive for online operator Jumbo Interactive. US casino bans will hit the revenues of Aristocrat.

Most retailers have downgraded and/or withdrawn earnings guidance in recent weeks and we think risks remain to the downside. We recommend treading very carefully in this space as it's at the pointy end of any economic fallout, with the situation evolving daily. Our preferred picks include **Domino's Pizza**, **Collins Food Group** and **JB Hi-Fi.**

Domino's Pizza
HOLD TP A$57.19

Collins Food
ADD TP A$7.06

JB Hi-Fi
ADD TP A$33.15

Infrastructure – value into a recovery

Core infrastructure stocks have not been immune to the market rout with both energy and transport stocks posting declines.

The airport stocks (AIA, SYD) have been hardest hit, given their leveraged exposure to aviation travel that has effectively been shut down by travel restrictions and airline capacity reductions. While its distribution may be suspended during the travel crisis, on a 2 year+ investment horizon we believe **Sydney Airport** represents outstanding value at current prices. It has $2bn of available liquidity (cash and undrawn debt facilities), which is sufficient to refinance debt due in FY20-21 and to meet (reduced) capex requirements. Even a harsh one-year earnings downside case has minimal valuation impact (10-29cps), assuming that earnings steadily recover once the pandemic passes.

The share prices of toll roads (ALX, TCL) have declined as investors anticipate significant traffic declines. ALX has deferred/suspended its 2020 distributions, and we suspect TCL will follow. ALX (debt covenant breaches if traffic slumps) and TCL (traffic slump, construction issues) are possibly at greatest risk of capital raisings.

Energy infrastructure stocks have outperformed transport infrastructure, with the regulated utilities (AST, SKI) particularly strong. The distribution reductions that we had feared from the regulated utilities due to macro headwinds coming into regulatory resets now look relatively less of a concern given distribution actions in the transport space. We continue to rate **APA Group** as best-of-breed in the energy space, and think it's well suited to weather the coronavirus and oil-price storms. About 90% of APA's revenue is take-or-pay or regulated, about 90% of revenue is with customers that have investment grade credit ratings, and average contract term is over 12 years. The balance sheet is solid and its refinancing task very manageable.

APA Group
ADD TP A$10.90

Transurban
HOLD TP A$14.81

Sydney Airport
ADD TP A$7.82

Atlas Arteria
ADD TP $8.12

Asset Allocation –
recommended Asset Allocations and tactical tilts

The collapse in output due to COVID-19 has been more extensive than anything experienced in recent recessions - including the GFC - as global supply chains are now more inter-woven. Lockdowns in critical economic hubs see developed economies take the brunt of the impact.

The role of economic policymakers is changing as central banks respond by pushing monetary policy to new levels, above those seen in the GFC. Asset purchasing is occurring on an unprecedented scale (bonds, mortgages, corporate debt, direct loans) to shore up the supply of liquidity to stalled economies.

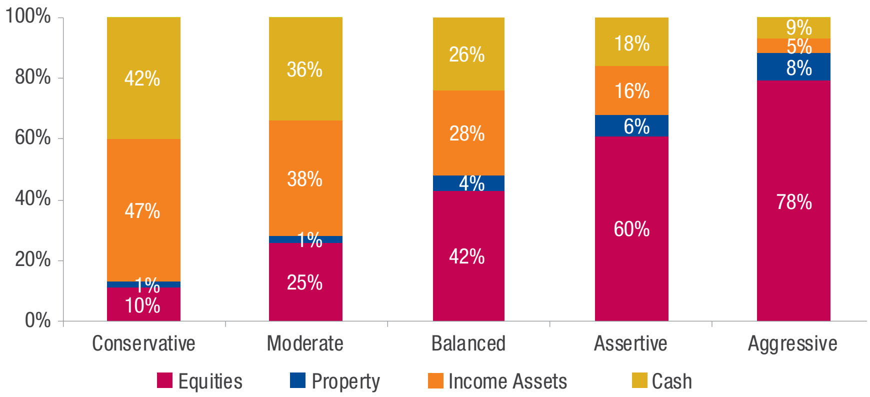
The role of government is also being rethought. The scale of fiscal support deployed so far is rightly enormous, and one of the legacies of this crisis will be higher debt burdens drawing obvious funding concerns. In addition, Governments are taking a much more active role in the economy (guarantees, wage subsidies, nationalisation) placing the state as a backstop to banks and otherwise solvent firms. The immediate priority is to cushion the collapse in demand, but a clear by-product of the recovery is lasting downward pressure on already low growth and inflation (interest rate) expectations.

Efforts to the stem pandemic are turning conventional economic logic on its head and the road ahead is unusually uncertain. What we can be sure of is that the slump in output in the coming quarter will be huge and the pandemic will leave complex questions in its wake. We have dialled up our already defensive Asset Allocation settings given the current escalation in unknowns. We increase our defensive tilt to cash (to +6%) and increase the negative tilts to Equities (to -2%) and Property (to -2%). We are looking for the opportunity to play the cyclical recovery, but that looks far too early to call with the information at hand.

Quick views per asset class

Equities	The largest, best capitalised and well managed franchises are best placed to weather the storm. Reliable income generators are likely to become even more attractive on the other side of the pandemic.
Listed Property	The playing field may somewhat be re-drawn due – particularly for retail – but population growth and the normalisation of human behaviour should re-instate demand for higher quality, physically scarce property.
Global Infrastructure	Appetite for quality yield will only strengthen on the lower interest rate outlook. Global infrastructure such as energy utilities, telecommunications and toll roads, we again become highly attractive income sources.
Listed Fixed Interest	Global volatility across all asset classes has impacted the listed fixed interest space with prices falling across the board. We retain a preference for shorter-dated securities, particularly given price volatility and the returns currently on offer.
Government Bonds	Australian Government bonds have been very volatile of late and we continue to recommend that conservative investors with <$250,000 stick to term deposits given the Government guarantee rather than making direct bond investments.
Term Deposits	We have seen a number of financial institutions offering special term deposit rates in the current climate as banks look to increased deposit funding.
Cash	Despite lower returns, we maintain a higher cash weighting for capital preservation and to protect against downside risks.

Benchmark long-term Asset Allocation and current Tactical Tilts



Sources: Morningstar, Morgans Research

	Conservative	Moderate	Balanced	Assertive	Aggressive	Tactical Tilts
Equities	12%	27%	44%	62%	80%	-2%
Property	3%	3%	6%	8%	10%	-2%
Income Assets	49%	40%	30%	18%	7%	-2%
Cash	36%	30%	20%	12%	3%	6%

Sources: Morningstar, Morgans Research

Agrifood – generally a safe place to be

Food and beverage stocks are relatively defensive investments given consumers are stockpiling household essentials. Freedom Foods reported that it is experiencing strong demand for key products including UHT dairy and plant beverages and cereals and snacks. It is our key pick in the sector.

A2 Milk has noted stronger than expected sales due to COVID-19. We also think that Inghams is benefiting from strong retail sales. While Coca-Cola Amatil has removed its FY20 guidance, we believe the company's diversity of channels to market means that overall it shouldn't be too badly impacted, especially compared to other companies and industries.

We're cautious on Treasury Wine Estates given the US market is in oversupply and competitor activity is irrational and COVID-19 will materially impact wine demand globally but particularly in its high margin Asian business. For Blackmores supply chain disruptions are more than offsetting increased demand for key immunity products in Australia and Asia.

Freedom Foods
ADD TP A$5.16

A2 Milk
HOLD TP A$17.10

Coca-Cola Amatil
HOLD TP A$10.87

Healthcare – renewed focus on diagnostics and supply

The defensive nature of the Healthcare sector has seen it outperform the falling market. We continue to monitor the worldwide spread of COVID-19 but predicting the extent and duration of the virus remains very difficult.

Key to watch are the rates of disease increase (or decrease) in key economies like Germany, France, Australia, UK and US. We also continue to review clinical programs which are undertaking trials for a vaccine (preventative) or a treatment, noting that international pharmaceutical companies Roche and Gilead have seen increased demand for their products.

The sharp focus on health is likely to provide tailwinds for the diagnostic and pathology players such as **Sonic Healthcare** and **Healius**, and also medical suppliers such as Fisher & Paykel for its respirators and **Ansell** for gloves.

Given COVID-19 often results in viral pneumonia, we see potential for an increase in radiological lung imaging demand with **Volpara** currently capturing ~8% of lung cancer screens in the US. Meanwhile **Promedicus** and **Mach 7 Technologies** are likely to benefit from heightened general imaging demand across the US and Asia. X-ray equipment manufacturer Micro-X has already seen a significant uptick in demand for its mobile units.

Recent initiations

Adelaide Brighton (ABC)
ADD TP A$2.85

ABC is one of Australia's leading, diversified construction materials companies with a long-dated track record of delivering solid earnings growth.

MoneyMe (MME)
ADD PT A$2.01

MME is a consumer credit business that utilises its digital presence and technology platform to offer innovative loan products.

Mach7 (M7T)
ADD PT A$1.16

M7T is a provider of enterprise imaging management systems for healthcare organisations.

iSentia (ISD)
ADD PT A$0.33

ISD is the market leader in APAC in media intelligence. It helps enterprise and government clients aggregate, monitor, analyse and action brand-related activities.

Aerometrix (AMX)
ADD PT A$1.99

AMX provides aerial images, mapping and geospatial engineering products to the private and government sectors in Australia.

Updated best ideas

Our best ideas are those that we think offer the highest risk-adjusted returns over a 12-month timeframe, supported by a higher-than-average level of confidence. They are our most preferred sector exposures

Refer to our High Conviction update for more **www.morgans.com.au/stockpicks**

Company	Sector	Size	Risk	Price	12m Price target	Dividend yield	Gross yield	12m TSR
Telstra Corporation (TLS)	Comm. Services	Large	Lower	$3.20	$3.73	5.2%	7.4%	22%
Aristocrat Leisure (ALL)	Consumer Discretionary	Large	Moderate	$21.78	$36.91	3.0%	3.0%	73%
Coles Group (COL)	Consumer Staples	Large	Lower	$15.83	$14.72	3.8%	5.4%	-3%
Woodside Petroleum (WPL)	Energy	Large	Moderate	$19.64	$26.71	1.5%	2.1%	37%
Macquarie Group (MQG)	Financials	Large	Moderate	$89.34	$140.44	6.6%	7.8%	64%
Westpac Banking Corp (WBC)	Financials	Large	Lower	$16.70	$22.50	9.6%	13.7%	44%
Sonic Healthcare (SHL)	Health Care	Large	Lower	$24.60	$35.12	3.5%	3.9%	46%
Aurizon Holdings (AZJ)	Industrials	Large	Lower	$4.51	$5.71	6.6%	8.6%	33%
Amcor (AMC)	Materials	Large	Moderate	$13.51	$16.62	5.9%	5.9%	29%
Rio Tinto (RIO)	Materials	Large	Moderate	$88.40	$94.01	6.6%	9.4%	13%
BHP Group (BHP)	Materials	Large	Moderate	$30.23	$36.46	8.0%	11.4%	29%
AGL Energy (AGL)	Utilities	Large	Lower	$17.56	$18.35	5.7%	7.6%	10%
APA Group (APA)	Utilities	Large	Lower	$10.51	$10.90	4.9%	5.6%	9%
REA Group (REA)	Comm. Services	Mid	Moderate	$85.02	$86.93	1.5%	2.2%	4%
Domino's Pizza (DMP)	Consumer Discretionary	Mid	Moderate	$50.24	$57.19	2.4%	3.4%	16%
JB Hi-Fi (JBH)	Consumer Discretionary	Mid	Moderate	$30.99	$33.15	5.4%	7.7%	12%
The A2 Milk Company (A2M)	Consumer Staples	Mid	Moderate	$16.82	$17.10	0.0%	-	2%
Beach Energy (BPT)	Energy	Mid	Moderate	$1.30	$1.85	1.7%	2.5%	44%
Magellan Financial (MFG)	Financials	Mid	Moderate	$48.32	$45.32	4.7%	6.2%	-2%
ResMed Inc (RMD)	Health Care	Mid	Moderate	$23.64	$27.79	1.1%	1.1%	19%
Cleanaway (CWY)	Industrials	Mid	Moderate	$1.80	$2.17	2.4%	3.4%	23%
OZ Minerals (OZL)	Materials	Mid	Moderate	$7.36	$10.85	1.9%	1.9%	49%
Spark Infrastructure (SKI)	Utilities	Mid	Lower	$1.96	$2.05	6.9%	8.4%	11%
InvoCare (IVC)	Consumer Discretionary	Small	Lower	$10.86	$15.87	4.1%	5.8%	50%
Elders (ELD)	Cons. Staples	Small	Moderate	$7.86	$7.10	2.5%	3.6%	-7%
Freedom Foods Group (FNP)	Cons. Staples	Small	Moderate	$4.79	$5.16	1.3%	1.9%	9%
Kina Securities (KSL)	Financials	Small	Higher	$0.90	$1.67	14.7%	14.7%	101%
Pro Medicus (PME)	Health Care	Small	Higher	$21.05	$31.18	0.7%	0.7%	49%
IPH Limited (IPH)	Industrials	Small	Moderate	$7.27	$9.78	4.0%	5.6%	38%
IRESS (IRE)	IT	Small	Moderate	$10.75	$16.30	4.5%	5.3%	56.1%
NEXTDC (NXT)	IT	Small	Moderate	$9.18	$8.73	0.0%	-	-5.0%
Orocobre (ORE)	Materials	Small	Higher	$2.18	$4.80	0.0%	-	120.3%
APN Conv. Retail REIT (AQR)	Real Estate	Small	Lower	$2.86	$3.80	7.8%	7.8%	40.7%
Viva Energy REIT (VVR)	Real Estate	Small	Lower	$2.34	$2.71	6.5%	6.5%	22.5%

Source: Morgans. Data as 1 April 2020

Indicates published/linked Research Note

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Gladstone	+61 7 4972 8000
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