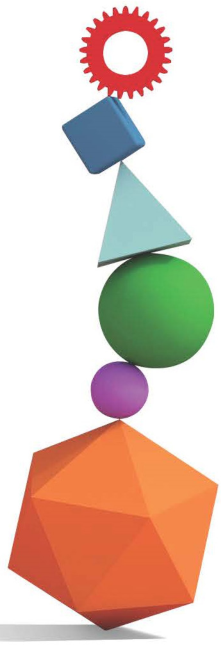
welcome to brighter

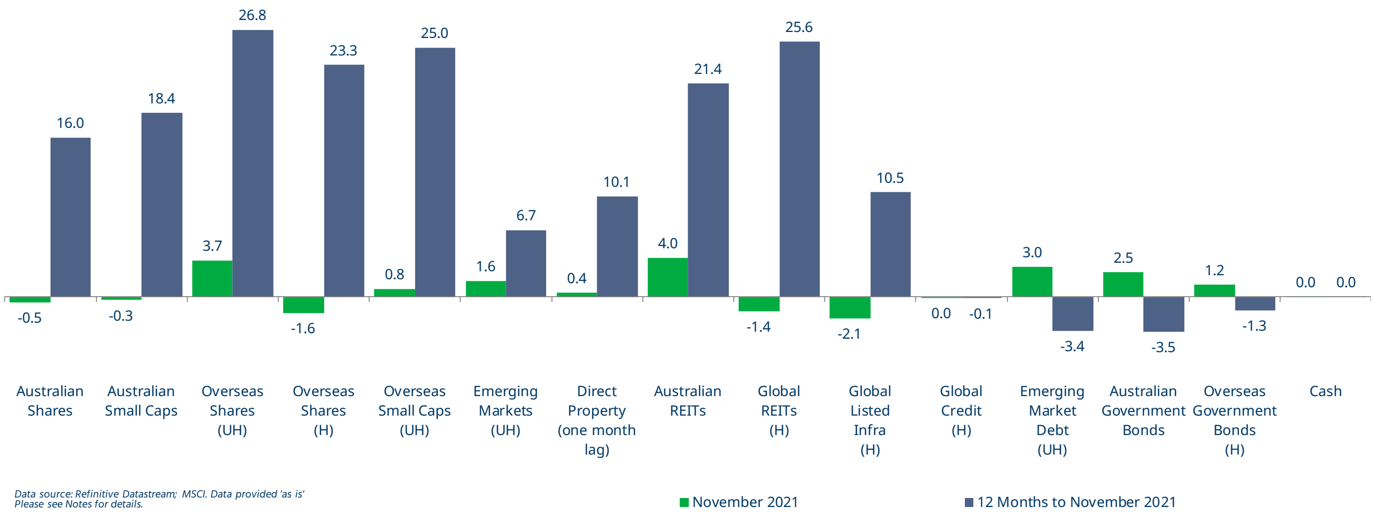


November 2021

Australian monthly market review

Selected market indicators commentary

Asset class returns as at 30 November 2021



Over November, risk assets suffered a sell off over inflation, tapering and Covid-19 variant concerns. Concerns over persistent inflation prompted central banks globally to reaffirm their rhetoric that tighter monetary policies are approaching.

Global equities suffered another sell off over November with Hedged Developed Market Overseas Shares returning -1.6%. Equity markets were poised to perform well off the back of a strong earnings season, however, sentiment shifted due to worries of the new Covid-19 variant. The US outperformed due to its high exposure in growth stocks, however, investors remain cautious over the US Federal Reserve's hawkish tilt. The view on the economy and monetary policies have shifted, as the US Consumer Price Index reached 6.2% year on year.

The Federal Reserve has suggested that inflation is no longer transitory and has confirmed that tapering will go ahead, with rates increasing in 2022. Unhedged Emerging Markets Shares returned 1.6% for the month as we saw a mix of returns from different regions. Large index constituents such as China and Russia saw negative returns due to a potential economic slowdown from the new Covid-19 variant and the impact on export demand. In contrast, Taiwan posted strong positive returns led by its position as the principal exporter of semi-conductors.

With the shifted to a risk off sentiment over November, government bonds rallied over the month as bond yields for many major developed countries fell during the month.

Domestically, Australian 10-year Treasury yields decreased by 41bps and Australian Government Bonds returned 2.5% over the month.

Returns for Australian Shares were muted over November. The S&P/ASX 300 returned -0.5% and all other domestic indices provided similar returns, except for the S&P/ASX Mid 50 Accumulation Index, which returned 1.2%. Energy (-7.8%) was the worst performing sector as energy prices collapsed following the news of the latest Covid-19 variant. The financials sector followed closely, returning -6.9%, as many of the banks missed earnings expectations. Materials (6.0%) was the best performing sector evidenced by the strong relative returns of Fortescue Metals (25.0%) and Lynas Rare Earths (21.5%).

Significant Developments

- During its early December 2021 meeting, the Reserve Bank of Australia (RBA) decided to maintain the current target cash rate at 0.10% per annum and the interest rate on exchange settlement balances of zero. The RBA will continue to purchase government securities at the rate of $4bn per week until mid-February. The Australian economy is recovering after the interruption caused by the Delta outbreak with high vaccination rates and substantial policy aiding this recovery. The emergence of the Omicron strain is a new source of uncertainty but it is not expected to derail the recovery. The economy is expected to return to its pre-Delta path in the first half of 2022. Wages growth has picked up and a further pick-up in wages growth is expected as the labour market tightens. Inflation has increased slightly at 2.1% and the headline CPI inflation rate is 3.0%. The central forecast is for underlying inflation to reach 2.5% over 2023. Housing prices have risen strongly over the past year, although the rate of increase has eased over recent months. Globally, bond yields have declined over the past month due to concerns around the Omicron variant. The Australian dollar exchange rate has depreciated and is currently sitting around its lows of the past year. At its February 2022 meeting, the Board will consider the bond purchase program and by then will hold a total of $350bn of bonds issued by the Australian Government and the states and territories. While inflation has picked up, it remains low in underlying terms. The board are committed to maintaining highly supportive monetary conditions and will not increase the cash rate until actual inflation is sustainably within the 2-3% target range. For this to occur, the labour market will need to be tight enough to generate wages growth that is materially higher than it is, which will likely take some time.
- Australian seasonally adjusted employment decreased by 46,300 in October, below expectations for an increase of 50,000 and above the prior month's decrease of 141,000 (revised). The unemployment rate increased to 5.2% for October, above expectations for 4.8%. The participation rate decreased to 64.7%, below expectations of 64.8%. Part time jobs decreased by 5,900 and full time jobs decreased by 40,400.
- Australian building approvals decreased by 12.9% month-on-month to October, compared to the decrease of 4.3% for September.
- The Institute for Supply Management (ISM) Manufacturing Index recorded 61.1 in November, below consensus for 61.2 and above the 60.8 recorded in October. Of the 18 manufacturing industries, Apparel, Leather & Allied Products and Furniture & Related Products were the two industries that reported the highest growth. The two industries that reported a contraction over the November period were Printing & Related Support Activities and Primary Metals. The ISM Services Index recorded 69.1 in November, above consensus for 65.0 and above the 66.7 recorded in October. Of the 18 services industries, the top performers were Real Estate, Rental & Leasing and Transportation & Warehousing. No industry reported a decrease in November.
- US Non-Farm Payrolls increased by 210,000 in November, below the 546,000 increase (revised) recorded for October. The unemployment rate decreased to 4.2% over November, below expectations of 4.5%.
- US GDP second estimate for Q3 2021 is 2.1% quarter on quarter (QoQ) annualised, below expectations of 2.2%.
- The Caixin Manufacturing PMI in China recorded 49.9 in November, below expectations of 50.6, with output expanding slightly over the month, but demand conditions softening.
- The preliminary estimate of the European Core CPI recorded 2.6% over the year to November, above expectations of 2.3%.
- The Eurozone composite PMI increased to 55.4 in November, below expectations for 55.8.
- The Final estimate recorded for Q3 2021 Eurozone seasonally adjusted GDP is 2.2% QoQ and 3.9% YoY.

Australian Shares

The Australian share market outperformed its hedged overseas counterpart over the month, as the S&P/ASX 300 Index returned -0.5%. The S&P/ASX Mid 50 was the strongest relative performer, returning 1.2%, while the S&P/ASX 50 was the weakest, returning -0.9% over the month.

The best performing sectors were Materials (6.0%) and Communication Services (4.7%), while the weakest performing sectors were Energy (-7.8%) and Financials (-6.9%). The largest positive stock contributors to the index return were BHP, Fortescue Metals Group and Goodman Group with absolute returns of 8.6%, 24.5% and 12.9% respectively. In contrast, the most significant detractors were Commonwealth Bank, Westpac and NAB with absolute returns of -11.0%, -19.8% and -4.7%, respectively.

Overseas Shares

The broad MSCI World ex Australia (NR) Index returned 3.7% in unhedged terms and -1.6% in hedged terms over the month. In AUD terms, the strongest performing sectors were Information Technology (8.8%) and Consumer Discretionary (5.7%), while Energy (-1.2%) and Financials (-0.5%) were the weakest performers. In AUD terms, both the MSCI Small Caps (TR) Index and the MSCI Emerging Markets (NR) Index were up by 0.8% and 1.6% respectively, over November.

Over the month, the NASDAQ (0.3%) increased, whereas the S&P 500 Composite Index (-0.7%) and the Dow Jones Industrial Average (-3.5%) decreased, all in USD terms. In local currency terms, major European share markets experienced negative returns as the CAC 40 (France) (-1.5%), FTSE 100 (UK) (-2.2%) and DAX 30 (Germany) (-3.8%) all decreased. In Asia, the Chinese SSE Composite (0.5%) increased, while the Indian S&P BSE 500 (-3.0%), Hong Kong Hang Seng (-7.4%) and Japanese TOPIX (-3.6%) decreased, all in local currency terms.

Real Assets

The Real Assets sector achieved mixed returns over November. The Global Real Estate Investment Trusts (REITs) Index decreased by 1.4% over the month and the FTSE Global Core Infrastructure 50/50 Index decreased by 2.1% (both in AUD hedged terms). Domestic REITs increased by 4.0% over November, whilst Australian Direct Property (NAV) returned 0.4% (one-month lag).

Fixed Interest

Global bond markets were positive over November, with the Barclays Capital Global Aggregate Bond Index (Hedged) returning 0.7% and the FTSE World Government Bond (ex-Australia) Index (Hedged) returning 1.2%. Ten-year bond yields declined over the month, decreasing in the UK (-22bps to 0.81%), the US (-13bps to 1.43%), Germany (-25bps to -0.34%) and Japan (-2bps to 0.06%). Two-year bond yields also broadly declined over the month, decreasing in the UK (-23bps to 0.48%), Japan (-2bps to -0.13%) and Germany (-20bps to -0.78%), and returning flat in the US (0.46%).

Returns for Australian bondholders were positive over November, with 10-year bond yields (-41bps to 1.69%), five-year bond yields (-27bps to 1.31%) and two-year bond yields (-26bps to 0.35%) decreasing. Of the Bloomberg Ausbond indices, the Bloomberg Ausbond Treasury produced the highest monthly return of 2.5% and the Bloomberg Ausbond Bank Bill produced the lowest return, returning flat.

Currency Markets

The AUD Trade Weighted Index decreased to 60.2 over November, down by 4.6% from October. The AUD depreciated against the Pound Sterling (-2.2%), Euro (-2.9%), Japanese Yen (-6.0%), and the US Dollar (-5.6%).

Commodities

Iron Ore declined 7.0%, finishing the month at US$100.0 per metric tonne. The S&P GSCI Commodity Total Return Index decreased by 5.5% over the month. Gold prices increased by 0.2% finishing the month at US$1,780.05 per ounce and the oil price decreased by 13.1% to US$73.34 per barrel over November.

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Chart Constituents

Notes

- *Currency: AUD.*
- *UH: Unhedged.*
- *H: Hedged.*
- *Net Index: Total Return (Net Dividends Reinvested).*
- *Total Return: Total Return Index with Gross Dividends.*
- *Where a lag exists, the performance period start and end dates are shifted accordingly.*

Asset class	Benchmark	Data type
Australian Shares	S&P/ASX 300	Total Return
Australian Small Caps	S&P/ASX Small Ordinaries	Total Return
Overseas Shares (UH)	MSCI World ex Australia	Net Index
Overseas Shares (H)	MSCI World ex Australia 100% Hedged	Net Index
Overseas Small Caps (UH)	MSCI World Small Cap	Total Return
Emerging Markets (UH)	MSCI Emerging Markets	Net Index
Direct Property (one month lag)	MSCI/Mercer Australia Core Wholesale Monthly PFI	NAV Post Fee
Australian REITs	S&P/ASX 300: Industry Group: A-REIT	Total Return
Global REITs (H)	FTSE EPRA/NAREIT Developed Hedged	Total Return
Global Listed Infrastructure (H)	FTSE Global Core Infrastructure 50/50 Hedged	Total Return
Global Credit (H)	Bloomberg Global Credit	Hedged Return
Emerging Market Debt (UH)	JP Morgan GBI EM Global Diversified Composite	Total Return
Australian Government Bonds	Bloomberg AusBond Treasury 0+ year	Total Return
Overseas Government Bonds (H)	FTSE WGBI Non Australia	Hedged Return
Cash	Bloomberg AusBond Bank Bill	Total Return

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- For higher volatility investments, losses on realisation may be high because their value may fall suddenly and substantially.
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