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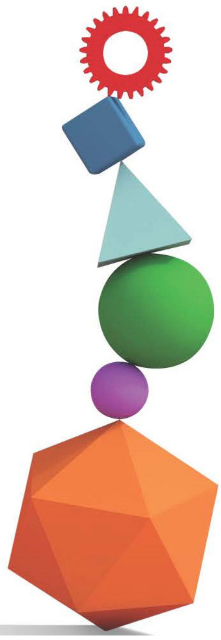
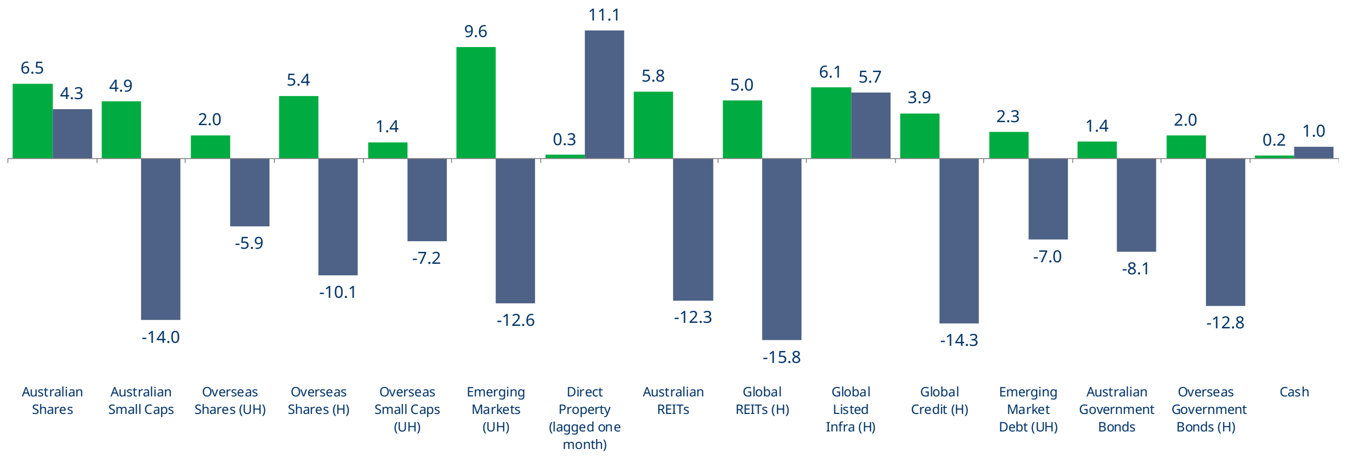
November 2022

Australian monthly market review



Selected market indicators commentary

Asset class returns as at 30 November 2022



Data source: Refinitiv Datastream; MSCI. Data provided 'as is' Please see Notes for details.

November saw equities and other growth assets maintain the positive momentum from October. The main driver of improved investor confidence was a better than expected US inflation reading, which strengthened hopes that monetary tightening may slow down later this year and into 2023. However, the overall economic outlook remains soft as purchasing manager indices remain in contraction territory, and layoffs are increasing. Some regions, such as the UK and Europe, appear to be in a recession. However investors took this as a sign that monetary policy tightening is now taking effect, which perhaps may lead to a slowdown in the pace of monetary tightening, along with better than expected inflation figures in the US strengthening this conviction.

Over November, Hedged Developed Markets Overseas Shares returned 5.4%, marking two strong consecutive positive months. The S&P 500 and Nasdaq indices returned 5.6% and 4.4% respectively in USD terms with the S&P 500 jumping 5.6% on the day the US CPI figure was released. The equity rally was even more noticeable outside the US with major developed markets such as Australia, the UK and Europe enjoying double digit returns in USD terms. Much of the outperformance was due to the sharp decline in the US dollar over the month, which sold off in a risk-on environment. Looking forward, analysts now project a year-over-year decline in earnings for the S&P 500 in Q4 2022. Also over the month, value outperformed growth by a wide margin as value sectors such as industrials and financials outperformed the technology sector.

Emerging markets were the best performer this month outperforming both Australian and Hedged Developed Markets Overseas Shares by a considerable margin. This was almost exclusively driven by a rally in Chinese equities and renminbi over rumours that Covid restrictions would be scaled back.

However, later in the month additional restrictions were put in place, which led to unrest among the population. Brazilian equities declined over the month with negative sentiment around the reappointment of President da Silva.

Hedged Overseas Government Bonds returned 2.0% over the month, as bond yields fell across most major regions except Japan as investors priced in a slowing pace of monetary tightening. The decline was most pronounced in the UK where bond yields kept falling from still elevated levels. Ten-year US yields fell by 37 basis points to 3.7%, while 30-year yields were mostly unchanged at 3.8%. Ten-year government bond yields fell by 36 basis points to 3.1% in the UK, and by around 20 basis points in Germany. Inflation expectations for the US, as measured by the 10-year inflation breakeven rate, fell from 2.51% to 2.37%. The market consensus remains that inflation will stabilize in the medium term, but will likely stay above pre-2020 levels for the foreseeable future.

Australian shares outperformed their Hedged Overseas counterparts in November. The ASX 50 was the top performing Australian index, adding 7.0%, meanwhile the ASX Small was the worst performer, adding 4.9%. The best performing sector for the month was Utilities (20.9%), driven higher by Origin Energy which gained 41.6% over the month on the back of a buyout offer from a Brookfield-led consortium. BHP (23.0%) was the top contributor to the index over the month, followed by other big miners Fortescue and Rio Tinto. The big four banks were the top four detractors to the index over the month, with NAB (-2.4%) detracting

Significant Developments

- During its December 2022 meeting, the Reserve Bank of Australia (RBA) decided to increase the current target cash rate by 25 basis points to 3.10% per annum and the interest rate on exchange settlement balances from 2.75% to 3.00%. Inflation in Australia is too high, at 6.9% over the year to October. Global factors explain much of this high inflation, but strong domestic demand relative to the ability of the economy to meet that demand is also playing a role. A further increase in inflation is expected, with inflation forecast to peak at around 8% over the year to the December quarter. Inflation is then expected to decline next year. The Bank's central forecast is for CPI inflation to decline over the next couple of years to be a little above 3% over 2024. The Australian economy is continuing to grow solidly. Economic growth is expected to moderate over the year ahead as the global economy slows, the bounce-back in spending on services runs its course, and growth in household consumption slows due to tighter financial conditions. The Bank's central forecast is for growth of around 1.5% in 2023 and 2024. The labour market remains tight and many firms are having difficulty hiring workers. The unemployment rate declined to 3.4% in October. Employment growth has also slowed as spare capacity in the labour market is absorbed. Wages growth is continuing to pick up from the low rates of recent years and a further pick-up is expected due to the tight labour market and higher inflation. The Board recognises that monetary policy operates with a lag and that the full effect of the increase in interest rates is yet to be felt in mortgage payments. Household spending is expected to slow over the period ahead although the timing and extent of this slowdown is uncertain. Another source of uncertainty is the outlook for the global economy, which has deteriorated. The path to achieving the needed decline in inflation and achieving a soft landing for the economy remains a narrow one. The Board expects to increase interest rates further over the period ahead, but it is not on a pre-set course. It is closely monitoring the global economy, household spending and wage and price-setting behaviour. The size and timing of future interest rate increases will continue to be determined by the incoming data and the Board's assessment of the outlook for inflation and the labour market.
- Australian seasonally adjusted employment increased by 32,200 in October, above expectations for an increase of 15,000 and above the prior month's decrease of 900. The unemployment rate decreased in October to 3.4%, below expectations of 3.5%. The participation decreased to 66.5%, below expectations of 66.6%. Part time jobs decreased by 14,900 and full time jobs increased by 47,100.
- Australian building approvals decreased by 6.0% month-on-month to October, compared to the decrease of 8.1% (revised) for September.
- The Institute for Supply Management (ISM) Manufacturing Index recorded 48.4 in November, below consensus for 50 and below the 50 recorded in October. Of the 6 manufacturing industries, Apparel, Leather & Allied Products and Nonmetallic Mineral Products were the two industries that reported the highest growth. There were 12 industries that recorded contraction in November compared to October.

The ISM Services Index recorded 56.5 in November, above consensus for 53.5 and above the 54.4 recorded in October. Of the 13 services industries, the top performers were Real Estate, Rental & Leasing and Mining. The 3 industries reporting a decrease in the month of November were Management of Companies & Support Services; Wholesale Trade; and Information.

- US Non-Farm Payrolls increased by 263,000 in November, above the 261,000 increase recorded for October. The unemployment rate remained the same at 3.7% over November, in line with expectations of 3.7%.
- US GDP second estimate for Q3 2022 is 2.9% quarter on quarter (QoQ) annualised, above expectations of 2.8%.
- The Caixin Manufacturing PMI in China recorded 49.4 in November, above expectations of 48.9, as manufacturing conditions improved slightly over the month.
- The preliminary estimate of the European Core CPI recorded 5% over the year to November, in line with expectations.
- The Eurozone composite PMI decreased to 47.8 in November, above expectations for 47.
- The first estimate recorded for Q3 2022 Eurozone seasonally adjusted GDP is 0.3% QoQ and 2.3% YoY.

Australian Shares

The Australian share market outperformed its hedged overseas counterpart over the month, as the S&P/ASX300 Index returned 6.5%. The S&P/ASX 50 Accumulation Index was the strongest relative performer, returning 7.0%, while the S&P/ASX Small Ords was the weakest, returning 4.9% over the month.

The best performing sectors were Utilities (20.9%) and Materials (16.1%), while the weakest performing sectors were Communication Services (2.2%) and Financials (2.5%). The largest positive stock contributors to the index return were BHP, Fortescue Metals, and Rio Tinto with absolute returns of 23.0%, 33.7% and 25.4%, respectively. In contrast, the most significant detractors were NAB, ANZ and CBA with absolute returns of -2.4%, -2.7% and 3.0%, respectively.

Overseas Shares

The broad MSCI World ex Australia Accumulation Index returned 5.6% in hedged terms and 2.0% in unhedged terms over the month as the Australian dollar strengthened against most major developed market currencies. In AUD terms, the strongest performing sectors were Materials (7.6%) and Financials (4.1%), while Energy (-1.6%) and Consumer Discretionary (0.1%) were the weakest performers. In AUD terms, the MSCI Small Caps Total Return Index was up by 1.4%, while the MSCI Emerging Markets Accumulation Index was up by 9.6% over November.

Over the month, the S&P500 Composite Index (5.6%), the Dow Jones Industrial Average (6.0%) and the NASDAQ (4.4%) increased, all in USD terms. In local currency terms, major European share markets experienced positive returns as the FTSE 100 (UK) (7.1%), the DAX 30 (Germany) (8.6%) and the CAC 40 (France) (7.6%) all increased. In Asia, the Chinese SSE Composite (8.9%) the Hong Kong Hang Seng (26.8%), the Indian S&P BSE 500 (3.3%), and the Japanese TOPIX (3.0%) increased, all in local currency terms.

Real Assets

The listed Real Assets sector produced positive returns over November. Over the month, the Global Real Estate Investment Trusts (REITs) Index increased by 5.0% and the FTSE Global Core Infrastructure 50/50 Index increased by 6.1% (both in AUD hedged terms). Domestic REITs increased by 5.8% over November, whilst Australian Direct Property (NAV) returned 0.3% (on a one month lagged basis).

Fixed Interest

Global bond markets were positive over November, with the Barclays Capital Global Aggregate Bond Index (Hedged) returning 2.4% and the FTSE World Government Bond (ex-Australia) Index (Hedged) returning 2.0%. Ten-year bond yields were mixed over the month, decreasing in the UK (36bps to 3.16%), Germany (21bps to 1.94%) and the US (37bps to 3.71%), while increasing in Japan (1bp to 0.25%). Two-year bond yields were also mixed over the month, increasing in Germany (14bps to 2.09%) and Japan (2bps to -0.02%), while decreasing in the UK (1bp to 3.28%) and the US was unchanged remaining (4.46%).

Returns for Australian bondholders were positive over November, with 10-year bond yields decreasing (23bps to 3.53%), five-year bond yields (17bps to 3.28%) and two-year bond yields (12bps to 3.12%). Of the Bloomberg Ausbond indices, the Bloomberg Ausbond Inflation index produced the highest monthly return of 2.5% whilst the Bloomberg Ausbond Bank Bill index produced the lowest return of 0.2%.

Currency Markets

The AUD Trade Weighted Index increased to 62.1 over November, up by 1.3% from October. The AUD appreciated against the US Dollar (4.7%), the Euro (0.5%), and the Pound Sterling (1.3%), while depreciating against the Japanese Yen (-1.7%).

Commodities

Iron Ore increased by 25.6%, finishing the month at US$103.0 per metric tonne. The S&P GSCI Commodity Total Return Index decreased by 6.1% over the month. Gold prices increased by 7.0% finishing the month at US$1,751.94 per ounce and the oil price decreased by 10.9% to US$85.40 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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- The value of Gilts, bonds, and other fixed income investments including unit trusts can go down as well as up and you may not get back the amount you have invested.
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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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