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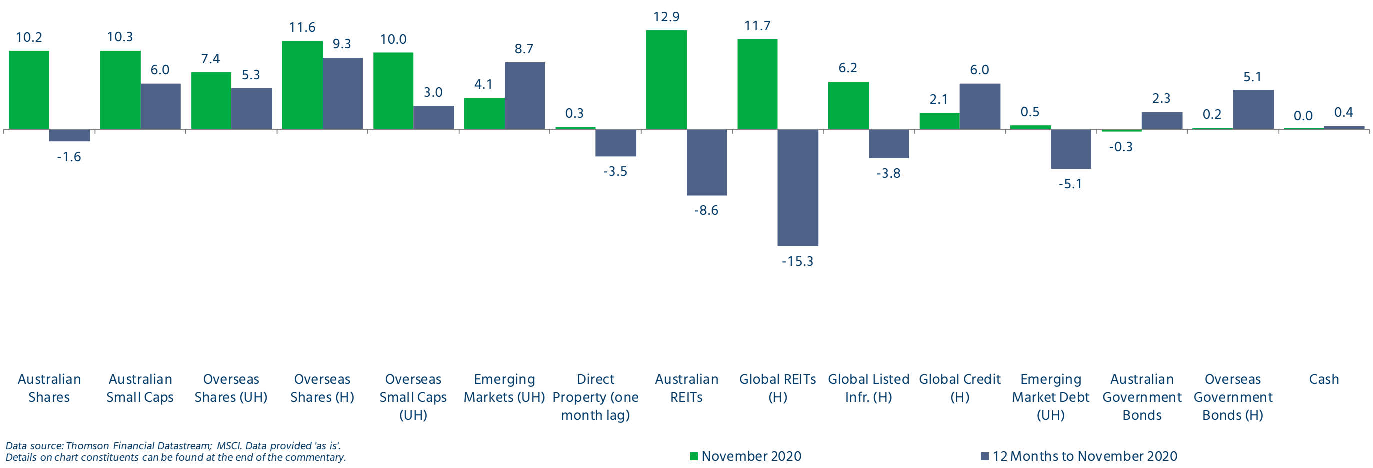
November 2020

Australian monthly market review

Selected market indicators commentary

Asset class returns as at 30 November 2020



Data source: Thomson Financial Datastream; MSCI. Data provided 'as is'.
Details on chart constituents can be found at the end of the commentary.

While COVID-19 cases continued to soar in the US, UK and Continental Europe over November, markets shrugged off short-term developments and soared on the back of positive vaccine news and the US presidential election results. Domestic and developed overseas share markets achieved strong positive returns for the month, with outperformance in sectors that are expected to benefit from a removal in restrictions next year, such as energy. Hence, value stocks that are representative in these sectors adversely affected by restrictions managed to outperform growth stocks. Oil was another pro-cyclical sector that benefited substantially by the expected end of the coronavirus pandemic and the full reopening of economies, and thus an expected demand surge for oil and other commodities.

Over the month of November, Joe Biden emerged as the President-elect, while Republicans gained seats in the House and seem likely to hold onto the Senate, subject to a runoff election in Georgia in January 2021. The US dollar (USD) was weaker against most major currencies and plummeted against currencies of commodity exporters. The weakening of the USD came as investors lowered their demand for safe haven currencies and positioned for commodity reflation. The Australian dollar rose 4.9% relative to the USD over the month. In addition, gold fell for the second month in a row, as investors rotated into industrial metals bound to benefit from the recovery as it materialises.

Major central banks confirmed their policy support, including the Reserve Bank of Australia, maintaining the target cash rate at 0.10%. Both credit and high yield spreads narrowed significantly, especially for high yield debt as investors flocked into risk assets across the board. Hedged global credit rose 2.1% over the month and unhedged emerging market debt reported large inflows also rising 0.5% over the month. Overseas government bonds remained relatively flat, returning 0.2% as yields moved sideways for most developed nations. Ten year Australian government bond yields rose considerably higher over November, with the Bloomberg Ausbond Treasury Index returning -0.3%.

The Australian share market made strong gains, with the S&P/ASX300 returning 10.2% over November. However, Developed Overseas Shares also gained over the month and Australian Shares continue to lag its hedged international counterpart. Energy witnessed a strong recovery in returns over the month, returning 28.2%, and Financials also achieved a strong positive return (+16.1%). In contrast, Consumer Staples (-0.7%) and Utilities (+1.5%) were the weakest performing sectors in the domestic equity market.

Significant Developments

- During its early December 2020 meeting, the Reserve Bank of Australia (RBA) decided to maintain its current policy settings, including the target cash rate at 0.10% per annum and the targeted yield on 3-year Australian Government bonds at 0.10%. Governor Philip Lowe noted that in Australia, the economic recovery is under way and recent data have generally been better than expected. This is good news, but the recovery is still expected to be uneven and drawn out and it remains dependent on significant policy support. In the RBA's central scenario, it will not be until the end of 2021 that the level of GDP reaches the level attained at the end of 2019. In the central scenario, GDP is expected to grow by around 5 per cent next year and 4 per cent over 2022. The extended period of high unemployment and excess capacity is expected to result in subdued increases in wages and prices over coming years. In the September quarter, the Wage Price Index increased by just 0.1 per cent, to be 1.4 per cent higher over the year. In underlying terms, inflation is forecast to be 1 per cent in 2021 and 1.5 per cent in 2022.The Board has noted that it will not increase the cash rate until inflation sits sustainably within the 2% to 3% target range. For this to occur, wages growth will have to be materially higher than it is at present. This will require significant gains in employment and a return to a tight labour market.
- Australian seasonally adjusted employment increased by 178,800 in October, above the expectations for a fall of 27,500, while September figures were revised to a decrease of 42,500. The unemployment rate increased to 7.0% for October, below expectations for 7.1%. The participation rate increased to 65.8%, above expectations of 64.8%. Part time jobs increased by 81,800 and full time jobs increased by 97,000.
- Australian building approvals increased 3.8% month-on-month to October, compared to the previous level of 16.2% (revised) for period ending September.
- The Institute for Supply Management (ISM) Manufacturing Index recorded 57.5 in November, below consensus for 58.0, and below the 59.3 recorded in October. Of the 18 manufacturing industries, Apparel, Leather and Allied Products and Nonmetallic Mineral Products were the industries that reported the highest growth. Printing & Related Support Activities and Petroleum & Coal Products were the two industries that reported a contraction in November. The ISM Services (previously Non-Manufacturing) Index recorded 55.9 in November, below consensus for 55.8 and below the 56.6 recorded in October. Of the 18 services industries, the top performers in November were Transportation and Warehousing, Management of Companies and Support Services and Health Care and Social Assistance. Arts, Entertainment and Recreation and Other Services were the two industries that reported a decrease over the month.
- US Non-Farm Payrolls increased by 245,000 in November, below the 610,000 increase (revised) recorded for October. The unemployment rate decreased to 6.7% over November, in line with expectations.
- US GDP secondary estimate for Q3 2020 is 33.1% quarter on quarter (QoQ) annualised, in line with expectations.
- The Caixin Manufacturing PMI in China recorded 54.9 in November, above expectations for 53.5, as firms recorded sharper rises in both output and total new work.
- The preliminary estimate of the European Core CPI recorded 0.2% over the year to November, in line with expectations.
- The Eurozone composite PMI decreased to 45.1 in November, below expectations for 45.6.
- The final recorded for Q3 2020 Eurozone seasonally adjusted GDP is 12.5% QoQ and -4.3% YoY.

Australian Equities

The Australian share market underperformed its hedged overseas counterpart over the month, as the S&P/ASX 300 Index returned 10.2%. The S&P/ASX 50 was the strongest relative performer, increasing 11.0%, while the S&P/ASX Mid 50 was the weakest, returning 6.6% over the month.

The best performing sectors were Energy (+28.2%) and Financials (+16.1%), while the weakest performing sectors were Consumer Staples (-0.7%) and Utilities (+1.5%). The largest positive stock contributors to the index return were NAB, ANZ and CBA with absolute returns of 23.5%, 20.6% and 14.6% respectively. In contrast, the most significant detractors were CSL, Woolworth Group and Newcrest Mining with absolute returns of 3.5%, -3.1% and -7.8%, respectively.

Global Equities

The broad MSCI World ex Australia (NR) Index increased 7.4% in unhedged terms and 11.6% in hedged terms over the month, as the Australian dollar (AUD) appreciated against all major developed market currencies. In AUD terms, the strongest performing sectors were Energy (+22.9%) and Financials (+13.6%), while Utilities (+0.3%) and Consumer Staples (+2.9%) were the weakest performers. In AUD terms, the Global Small Cap index was up 10.0% and Emerging Markets index was also up 4.1% over November.

Over November, the NASDAQ increased 11.8%, the S&P 500 Composite Index increased 10.9% and the Dow Jones Industrial Average increased 12.1%, all in USD terms. In local currency terms, major European share markets experienced positive returns as the CAC 40 (France) increased 20.1%, FTSE 100 (UK) increased 12.7% and, the DAX 30 (Germany) increased 15.0%. In Asia, the Indian S&P BSE 500 (+11.7%), Hong Kong Hang Seng (+9.4%), Chinese SSE Composite (+5.2%) and Japanese TOPIX (+11.1%) had solid positive returns.

Real Assets

The Real Assets sector achieved broadly positive returns over November. The Global Real Estate Investment Trusts (REITs) Index increased by 11.7% over the month and the FTSE Global Core Infrastructure 50/50 Index returned 6.2% (both in AUD hedged terms). Domestic REITs increased 12.9% over November, whilst the Australian Direct Property (NAV) returned 0.3% on a one-month lagged basis.

Fixed Interest

Global bond markets were broadly positive over November, with the Barclays Capital Global Aggregate Bond Index (Hedged) returning 0.5% and the FTSE World Government Bond (ex-Australia) Index (Hedged) returning 0.2%. Ten-year bond yields increased in most markets including UK (+12bps to 0.34%), German bond yields (+5bps to -0.57%), whilst Japan yield remained flat and the US yield decreased (-3bp to 0.83%). Two-year bond yields were mixed over the month, decreasing in the US (-1bps to 0.15%) and remaining flat in Japan (-0.12%), whilst increasing in Germany (+5bps to -0.75%) and the UK (+1bp to -0.02%).

Returns for Australian bondholders were mixed over November, with 10-year (+7bps to 0.90%) and five-year (+2bps to 0.30%) bond yields increasing, and two-year bond yields decreasing (-2bps to 0.10%). Of the Bloomberg Ausbond indices, the Bloomberg Ausbond Credit Index produced the highest return, increasing 0.8% over the month.

Currency Markets

The AUD Trade Weighted Index increased to 61.5 over November, up by 3.4% from October. The AUD appreciated against all major developed market currencies, including the US Dollar (+4.9%), Japanese Yen (+4.5%), Euro (+2.4%) and Pound Sterling (+1.7%).

Commodities

Iron Ore increased by 10.6%, finishing the month at US$130.5 per metric tonne. The S&P GSCI Commodity Total Return Index increased 6.8% over the month. Gold prices decreased from October finishing the month at US$1,774.4 per ounce and the oil price increased 27.1% to US$47.7 per barrel over November.

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 Barclays 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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