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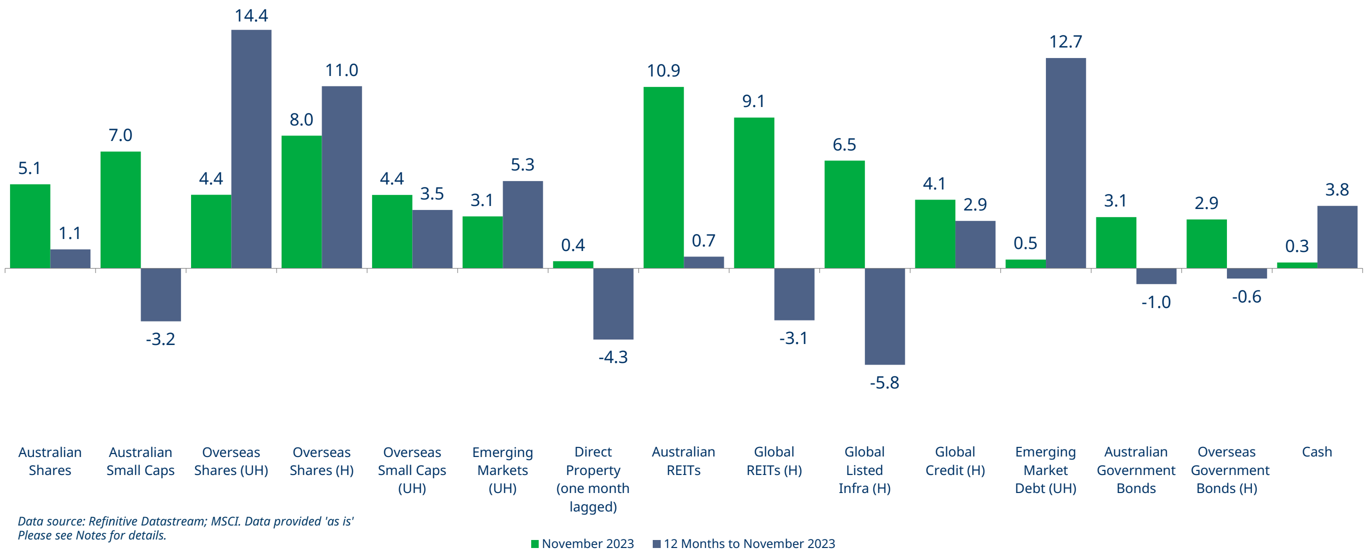
November 2023

Monthly market review

Asset class returns as at 30 November 2023



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

Economic overview

Economic data releases over the past month continue to paint a mixed picture for the Australian economy. The NAB's survey of businesses suggest ongoing resilience in trading conditions whilst other surveys are pointing to softer conditions. Meanwhile, house prices rose again last month, with a further 0.6% month-on-month (MoM) increase in November, despite the high level of interest rates. A tighter labour market (with unemployment for October remaining near a record low at 3.7% p.a.) is playing a crucial role in sustaining the housing market and limiting weaknesses in consumer spending. The Year-on-Year (YoY) trend in inflation, as measured by the monthly Consumer Price Index (CPI) indicator, rose 4.9% p.a. in October, slowing from 5.6% p.a. reported in September, and easing faster than expected. The decline in oil prices along with the appreciating Australian dollar vs other major currencies were among the factors contributing to the decline in inflation. The reading provides some room for the Reserve Bank of Australia (RBA) to pause rate hikes and provide confidence that interest rates may have peaked. Consequently, in its last meeting of the year, the Reserve Bank of Australia (RBA) decided to maintain the interest rates at 4.35% p.a.

In an accompanying statement, RBA governor Michele Bullock maintained the bank's stance by stating, "whether further tightening of monetary policy is required to ensure that inflation returns to target in a reasonable timeframe will depend upon the data and the evolving assessment of risks."

Outside of Australia, data releases over the past month exhibited more divergence. Business activity in the Eurozone remains weak, with surveys of both manufacturing and services companies showing slight signs of improvement in November but still remaining in contraction territory. However, activity in the US exhibited greater resilience, notably among the services sector as indicated by the US Institute for Supply Management (ISM) Services Purchasing Manager's Index (PMI) for November, which remained in expansionary territory at 51.8. US inflation continued to show broad moderation. Core inflation (excluding food and energy) decelerated to 3.2% year-on-year in October, down from 4.1% in September. The decline in inflation numbers further reinforces the confidence that global interest rates may have peaked. Economic conditions in China remain nuanced, with the services sector showing greater resilience. However, there is still significant uncertainty surrounding China's property sectors, despite recent stimulus measures.

Market review

Global equities rose in most regions over November, primarily driven by a decrease in bond yields following the markets belief that a soft-landing scenario is probable with inflation continuing to moderate. The Australian share market also followed this trend, with a notable increase of 5.1%. The rise in risk appetite led to Information Technology companies outperforming, and the Real Estate and Healthcare sectors displaying strong performance.

Government bond yields declined following the shift in market sentiment, and weaker economic data. The US 10-year government bond declined by 55bps to 4.36%, supported by the expectation that the Federal Reserve has sufficiently tightened monetary policy and a subtle shift to a less hawkish stance by some of the Fed Officials. Similarly, the Australian 10-year yield decreased by 52bps to 4.41%, mainly attributed to the move lower in overseas bonds and a resumption of the downward trend in inflation figures domestically. The Australian dollar (AUD) appreciation against the US dollar (USD), following an interest rate increase by the RBA as well as finding further support from higher prices for Australia's key commodity exports such as Iron Ore.

Commodity markets showed mixed performance in November. Oil prices experienced another decline, dropping by 7.84% to US$80.68 per barrel, as investors seemed to look past the potential risks to oil and gas supply and the conflict in in the Middle East. Iron Ore prices strengthened by 8.6%, reaching their highest level since June 2022, driven by China's measures to revive its struggling property market, a key driver of steel demand. Similarly, the prices of other commodities such as copper and gold experienced an uptick, with gold continuing to be viewed as a safe haven asset by investors.

Market insights

A number of factors have supported growth in Australia in recent quarters including the spending of accumulated savings among households built up over covid, the surge in population growth driven by immigration, the proportion of mortgages on (low) fixed rates, and government spending. Looking ahead, we anticipate a moderation in economic growth in Australia as these factors begin to fade and as the impact from higher interest rates take their toll. While overall inflation may decrease throughout the year, core inflation is likely to remain above the RBA's target range of 2-3% for an extended period of time due to the tight labour market and ongoing wage pressures, and this in turn is likely to see interest rates remain elevated next year.

Globally, we also expect a moderation in economic conditions in major developed economies over the upcoming quarters primarily due to anticipated tighter financial conditions and the impact of higher interest rates on households and businesses. In China, we continue to believe that authorities have the ability to implement targeted stimulus measures, particularly in the absence of inflationary pressures. Other emerging economies, which raised interest rates earlier and more aggressively than many developed economies, are in a better position to lower interest rates in support of economic growth. As a result, we have a more positive economic outlook for emerging markets compared to developed economies.

From an asset class perspective, we maintain a cautious view towards developed markets in light of their rich valuations and optimistic earnings outlook, and a favourable view toward emerging markets where valuations are attractive and economic prospects appear more favourable. Domestically, with market expectations of interest rates for the coming year already elevated, and an earlier-than-expected slowdown in consumption (and inflation) remaining a possibility, we are finding Australian government bonds to be more attractive, albeit with risks remaining given the volatility of global sovereign bond markets and their influence on our market.

Asset class comments

Australian Shares

Australian shares had a strong performance in November, with the S&P/ASX 300 Index returning 5.1% on positive global sentiment, as the soft-landing narrative grew in prominence over the month. The increasing risk-on sentiment led to particularly strong outperformance in the small caps space, with the ASX Small Ordinaries index up 7.0% over the period.

Increased risk appetite also led to outperformance of Information Technology names, with the sector returning 8% in November. Real Estate and Healthcare also performed strongly, with returns of 11.0% and 11.8% respectively. CSL was one of the key contributors to the Healthcare sector as investors considered whether the market overestimated the adverse impact from GLP-1 diabetes and weight loss drugs.

Conversely, the Energy sector (-7.3%) lagged as investors looked past the risk to oil and gas supply from the ongoing conflict in the Middle East. Energy names including Woodside and Santos trended lower on weak oil prices stemming from increased production in the US, coupled with OPEC members breaching production quotas. The Utilities sector remained weak, with the largest constituent, Origin Energy, declining as a major shareholder sought to block a sale of the company.

Overseas Shares

The MSCI World ex Australia Index performed strongly over November, returning 8.0% in hedged terms and 4.4% in unhedged AUD terms. Global equities rallied on a shift in positive risk sentiment, while consumers remained strong even as rates are held at restrictive levels. From a factor perspective, Growth outperformed as the market returned to narrow leadership over the month, with the 7 US mega cap tech names contributing over a quarter of the index's performance over the period.

The US was the largest contributor to index performance, despite the US Dollar weakening against the AUD over the period. Industrial export-oriented markets including Japan and Germany also contributed strongly on improving economic sentiment. All sectors barring Energy (-4.1%) and Consumer Staples (-0.4%) returned positive absolute returns over the month, with Information Technology (8.5%) delivering the strongest returns. Similarly, Real Estate (6.5%) and Consumer Discretionary (5.9%) had positive performance over the month.

Emerging Markets also rebounded in November (3.1%, MSCI Emerging Markets Index), and the more locally sensitive small companies' segment returned 4.4% (MSCI World Small Caps Index).

From a country perspective, the risk-on sentiment was evident in the outperformance of the US market with the S&P 500 Index (9.1%), the Dow Jones Industrial Average (9.2%), and the NASDAQ Composite Index (10.7%), all up in USD terms. Similarly, European markets were mostly positive (in local currency terms), with the CAC 40 (France, 6.3%), DAX 30 (Germany, 9.5%), and FTSE 100 Index (UK, 2.3%) all performing strongly over the month. Equity returns were also mostly positive across Asia, with TOPIX (Japan, 5.4%) and S&P BSE 500 (India, 5.4%) all increasing in local currency terms, while the SSE Composite (China, 0.4%) experienced a more challenging month with economic momentum remaining lacklustre despite the stimulus provided to date.

Real Assets

Domestic listed property (S&P/ASX 300 A-REIT Accumulation Index) experienced a significant increase of 10.9% in November and Global REITs (FTSE EPRA/ NAREIT Developed, in AUD hedged terms) rose by 9.1%. This growth is attributed to a decrease in global bond yields. Strong AREIT performance in November comes off the back of a weak September (-8.4%) and October (-5.7%) periods, which were both characterised by rising bond yields. Thus, REITs continue to trade with high sensitivity to interest rate expectations, despite earnings and balances sheets remaining in relatively good condition. Similarly, the FTSE Global Core Infrastructure 50/50 Index returned 6.5% in November (in hedged AUD terms). The Australian unlisted property sector (NAV) saw a 0.5% total return in October, primarily driven by income (dividend) distribution. Given that property valuation cycles are quarterly, with the most recent occurring in September when the index recorded a -4.4% total return, no significant capital movements were noted in returns for October.

Fixed Interest

Global sovereign bond performance was mostly positive in November. The yields on 10-year bonds decreased in the US (-55bps to 4.36%), the UK (-33bps to 4.20%), Japan (-24bps to 0.68%), and Germany (-36bps to 2.45%). This decline in bond yields was driven by a combination of weaker-than-expected inflation in the US, Europe, and the UK. Additionally the US treasury announcement of a lower-than-expected increase in the issuance of longer-dated bonds, and Federal Reserve officials adopting a less hawkish stance, expressing confidence in the ability of current policies to slow economic growth and achieve inflation targets, supported the move lower in yields.

The FTSE World Government Bond (ex-Australia) Index and the Bloomberg Global Aggregate Bond Index returned 2.9 and 3.2% respectively in November on a fully hedged basis. Spreads also tightened globally as the market's expectations around the likelihood of a credit squeeze and an economy recession diminished.

Domestically, bond yields across maturities declined as the downtrend in the inflation numbers appears to be resuming after two relatively higher months. This coupled with sentiment from declining global bond yields, led to a fall of -52bps in the Australian 10-year bond yield for the month, to 4.41%. Consequently, the Bloomberg Ausbond Treasury Index gained 3.1%. The domestic credit market, tracked by the Bloomberg Ausbond Credit index, gained 1.8% during the month. The corporate credit market responded positively to companies seeking funding ahead of the traditional end-of-year holiday period.

Currency Markets

The Australian Dollar (AUD) appreciated against most major developed market currencies in November. The AUD was stronger against the US Dollar (4.7%), as the narrowing in interest rate expectations between Australia and the US has made the local currency more appealing.

Furthermore, the surge in prices for Australia's commodity exports has contributed to the upward movement of the Australian dollar. Similarly, the AUD appreciated against Yen (2.2%), UK Pound (0.4%) and Euro (1.4%), whilst on a trade-weighted basis, the local currency was 2.2% stronger in November.

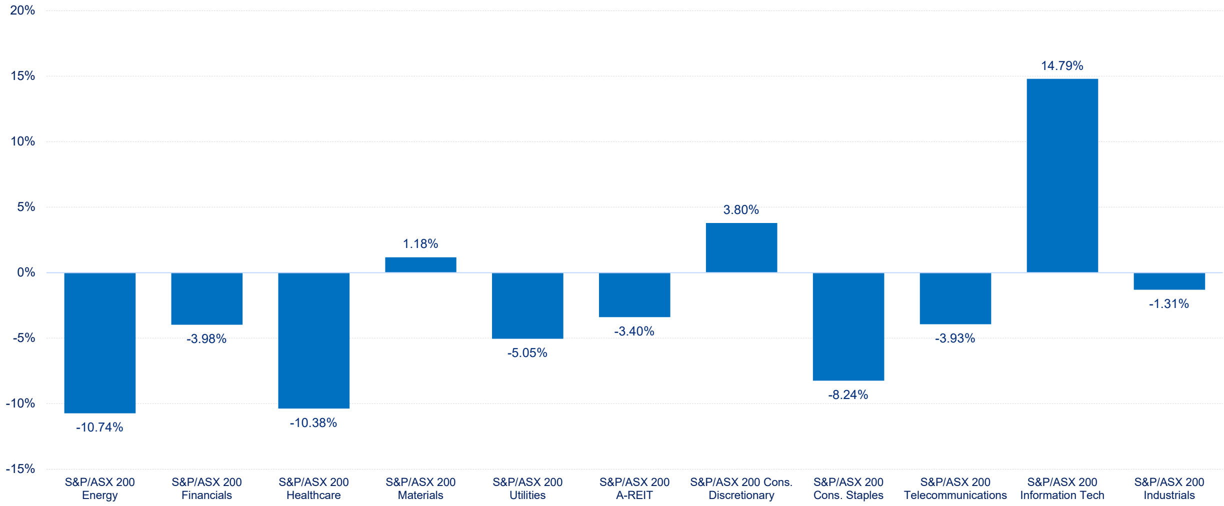
Commodities

The S&P GSCI Commodity Total Return Index experienced an -8.0% decline in November. The energy sector, specifically oil prices (measured by Brent Crude), played a significant role in this decline, dropping by 7.8% to US$80.68 per barrel. Despite ongoing conflicts in the Middle East, investors appeared to overlook the potential risks to oil and gas supply.

Meanwhile, Industrial Metals had a positive performance in November, with Iron Ore ending the month higher by 8.6%, driven by reports that Chinese regulators may be preparing a financing package for eligible developers which is expected to boost the property sector. Furthermore, copper prices (S&P GSCI Copper) rose by 4.5% over the month. Similarly, in precious, gold prices increased by 2.1% to US $2,037.80 per ounce, attributed to the weakening of the USD and rising expectations for interest rates cuts next year.

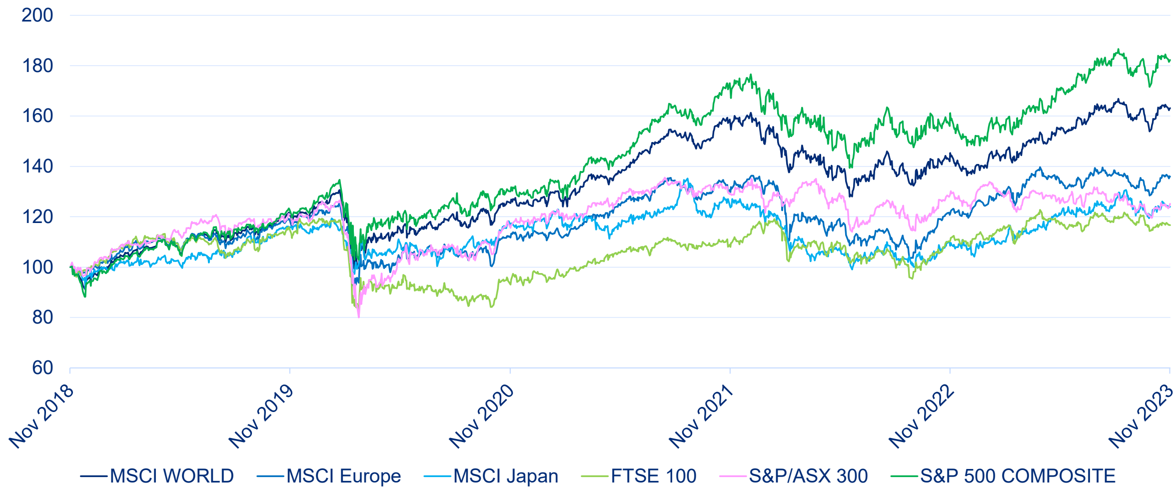
Market charts

ASX Sector Returns - Rolling 12 months



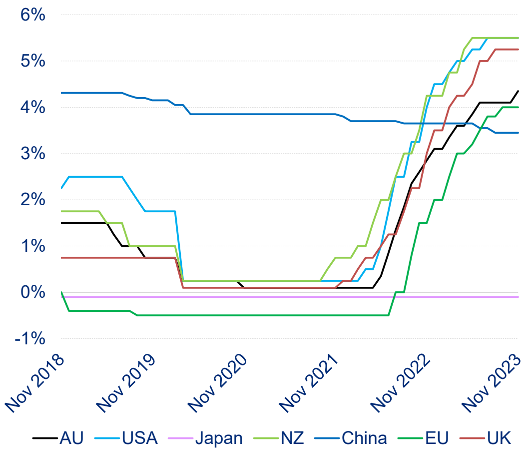
Source: S&P Global, Mercer

Global Equity Indices - 5 years



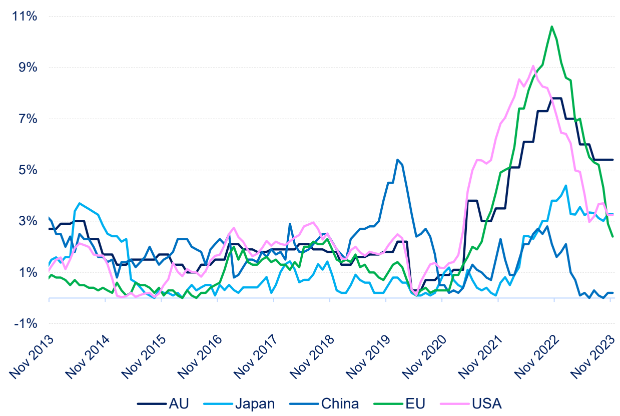
Source: MSCI, Refinitive DataStream (Rebased to 100. All returns denominated in AUD).

Central Bank Policy Rates



Source: Bloomberg, Mercer

Inflation - 10 years



Source: Refinitiv, Australian Bureau of Statistics, Ministry of Internal Affairs & Communication (Japan), National Bureau of Statistics of China, Eurostat, Bureau of Labor Statistics, U.S. Department of Labor

Market data - November 2023

Australian shares		1 Month	3 Months	1 Year	3 Years	5 Years
S&P/ASX 300 Accumulation		5.06%	-1.85%	1.14%	6.96%	8.69%
S&P/ASX 300 Industrials Accumulation		6.36%	-2.43%	0.64%	4.66%	6.91%
S&P/ASX 300 Resources Accumulation		1.76%	-0.27%	2.44%	14.53%	14.86%
S&P/ASX 300 Accumulation A-REIT		10.93%	-4.48%	0.70%	2.35%	4.48%
S&P/ASX Small Ords Accumulation		7.04%	-2.88%	-3.19%	-0.48%	4.03%
Global shares		**1 Month**	**3 Months**	**1 Year**	**3 Years**	**5 Years**
MSCI World ex Australia Unhedged in $A		4.43%	-0.73%	14.37%	10.93%	12.18%
EPRA/NAREIT Developed Index Hedged A$		9.03%	-1.68%	-4.15%	-0.12%	-0.92%
STOXX Europe 600 Total Return		6.45%	0.75%	4.90%	5.84%	5.25%
S&P 500 Total Return		9.13%	1.74%	13.84%	9.76%	12.51%
Nikkei 225 Total Return		8.53%	3.40%	22.27%	10.36%	10.62%
Fixed interest		**1 Month**	**3 Months**	**1 Year**	**3 Years**	**5 Years**
Bloomberg AusBond Bank Bill Index		0.35%	1.03%	3.76%	1.59%	1.35%
Bloomberg AusBond Composite (0+Y)		2.97%	-0.47%	0.20%	-3.64%	0.41%
Barclays Global Aggregate TR Hedged A$		3.20%	0.46%	0.89%	-3.98%	0.18%
Commodities	**Month End Price**	**1 Month**	**3 Months**	**1 Year**	**3 Years**	**5 Years**
Bloomberg Commodity Index	101.81	-2.69%	-3.98%	-12.28%	11.04%	4.28%
Generic Brent Crude Oil	82.83	-5.24%	-4.64%	-3.04%	20.29%	7.13%
Generic WTI Crude Oil	75.96	-6.25%	-9.17%	-5.70%	18.77%	8.32%
Gold US$/oz	2037.07	2.66%	4.91%	16.21%	4.64%	10.79%
Iron Ore	125.33	5.54%	10.44%	29.33%	0.46%	14.13%
Currencies	**Month End Price**	**1 Month**	**3 Months**	**1 Year**	**3 Years**	**5 Years**
AUD/USD	0.6605	4.20%	2.09%	-1.58%	-3.53%	-2.00%
EUR/USD	1.089	2.98%	0.47%	5.57%	-3.06%	-0.77%
USD/JPY	148.21	-2.18%	1.86%	6.34%	12.43%	5.47%
GBP/USD	1.262	3.89%	-0.34%	5.67%	-1.86%	-0.20%

Source: Bloomberg

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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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