

Monthly Market Insights

November 2020

Australia

Australia's economic recovery has found solid footing, underpinned by low Covid-19 case numbers nationwide and news of successful vaccine trials.

At its December meeting the Reserve Bank of Australia left interest rates unchanged at a record low 0.10%. The board anticipates no increase in the cash rate for at least three years, while the size of the bond purchase program will remain under review and dependent on the outlook for jobs and inflation.

GDP grew 3.3% in the September quarter, beating expectations of 2.6%. Household consumption gained the most on record, increasing 7.9% following the sharp fall in the previous quarter, while government spending rose 1.4%. Recent data generally point to sustained growth, but the recovery is still expected to be uneven and dependent on fiscal support.

Labour force data showed employment surged in October, adding 178,800 jobs and confounding expectations for a fall of 30,000. The unemployment rate still rose to 7.0%, however, below expectations of 7.2%, largely due to the participation rate unexpectedly climbing to 65.8%.

The AiG Performance of Manufacturing Index revealed continued expansion in the manufacturing sector, but at a significantly slower pace, falling to 52.1 in November from 56.3 in the previous month. Some moderation was expected following Victoria's reopening in October, while South Australia experienced the largest fall due to lost production from its three-day shutdown.

Optimism abounds according to the latest Westpac-MI Consumer Sentiment Index, which lifted to 112 in December from 107.7 in November. Westpac noted that, after only eight months, it seems clear that sentiment has fully recovered from the Covid recession.

Global

The global recovery is underway and is looking sufficiently V-shaped, but recent economic news has been mixed. Infection rates have risen in the US and Europe, but news of successful vaccine trials have boosted confidence. Central bank policy remains extremely accommodative and fiscal spending is supporting jobs and income.

In the US, additional fiscal stimulus is firmly back on the agenda. A bipartisan group of senators will propose a fresh US\$908 billion package, including US\$288 billion in small business aid and US\$180 billion in unemployment benefits. The US economy has rebounded strongly, but recent economic data has disappointed. US GDP grew at an annualised 33.1% in the September quarter, in line with the advance estimate, making it the largest ever quarter of growth, rebuilding from the 31.4% fall in the June quarter.

Joe Biden remains the projected winner of the US presidential election. However, Texas and 17 other Republican-led states will challenge the election result in the Supreme Court. They are asking the Supreme Court for an emergency order to invalidate the ballots of millions of voters in four battleground states -- Georgia, Wisconsin, Michigan and Pennsylvania -- even though there is no evidence of widespread fraud.

Europe's recovery has set in, even as the region battles resurgent coronavirus numbers and national governments implement new post-lockdown restrictions ahead of the festive season. GDP across the eurozone rebounded by 12.6% in the September quarter—the steepest pace of expansion since 1995—after falling 11.8% in the previous quarter. The eurozone unemployment rate came in as expected in October, rising from 8.3% to 8.4%, with government support programs continuing to support the labour market.

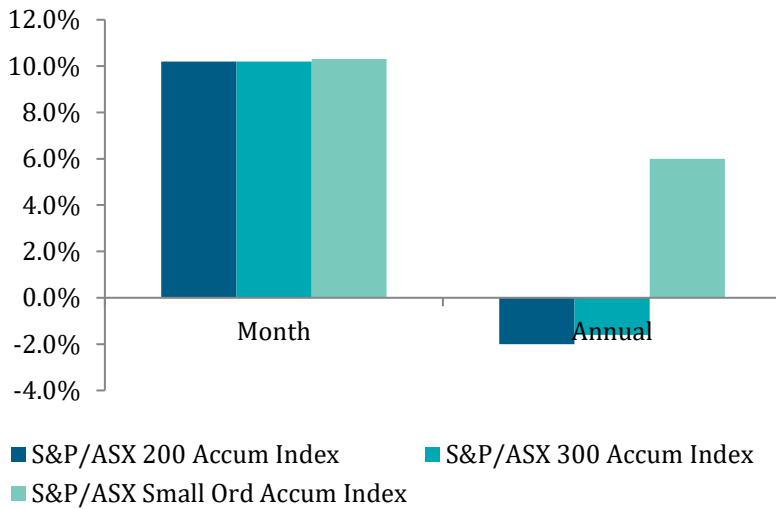
Japan's GDP rebounded by an annualised 21.4% in the September quarter (surpassing expectations of 18.9%) following a revised 28.8% contraction in the prior quarter. The main driver was net external demand, which contributed more than half of the growth, while private consumption also added to the result, returning to growth for the first time in a year.

China has ramped up its trade conflict with Australia, putting tariffs of up to 200% on Australian wine and suspending the importation of beef from a sixth Australian supplier

Commodities

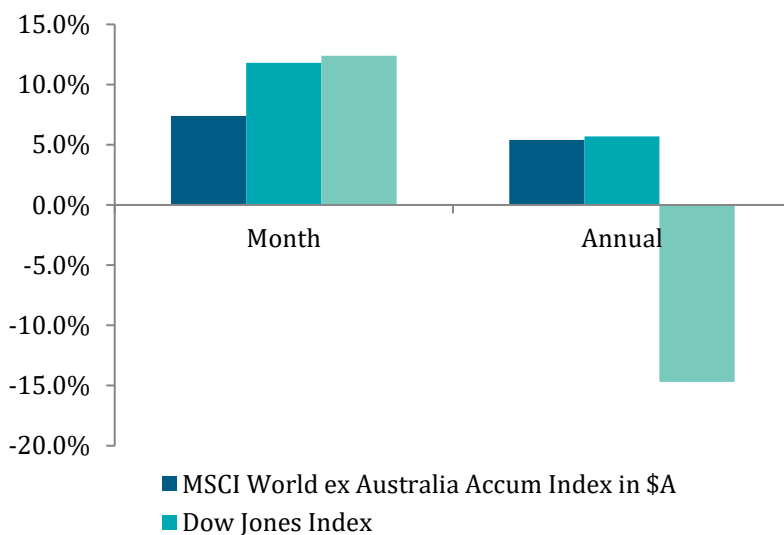
Oil jumped in November as hopes for Covid-19 vaccines and continued stimulus supported the energy sector. OPEC and Russia have agreed to increase oil production by 0.5mmbopd from January 2021. Metals also moved higher in November, however, the gold spot price continued to fall over the month.

Australian Shares



The ASX 200 Index posted a return of 10.2% in November, building on October's momentum as the rotation into cyclical sectors continued. The easing of Covid-19 restrictions, a string of better-than-expected economic data, and positive news from vaccine trials all contributed to the rally. It was not all smooth sailing, however, with some businesses hit hard by Chinese trade measures.

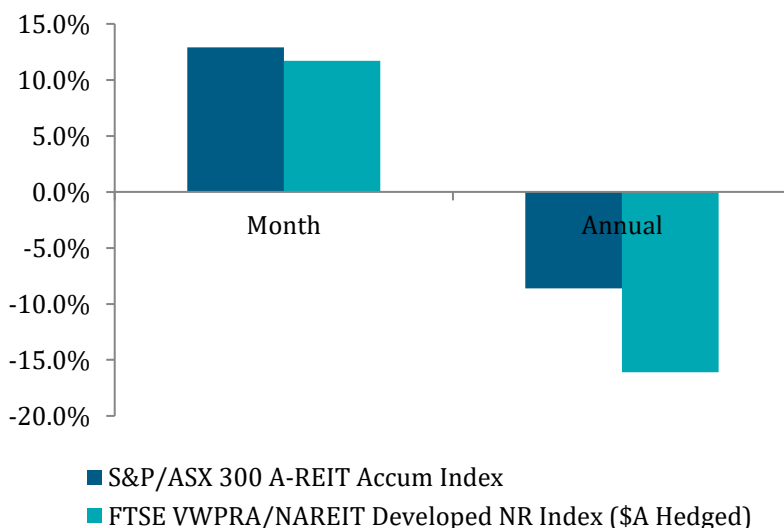
International Shares



November was a record-breaking month for global equities. Globally, the MSCI World Ex-Australia Index rose 7.4% and the MSCI Emerging Markets Index rose 4.1% in Australian dollar terms.

In the US, the focus shifted to the deployment of vaccines country wide following successful trials, while Joe Biden firmed as the apparent victor of the presidential election. The Dow Jones blew past 30,000 points and the S&P 500 Index rose above 3,700 points in early December even as record new cases of the coronavirus were reported.

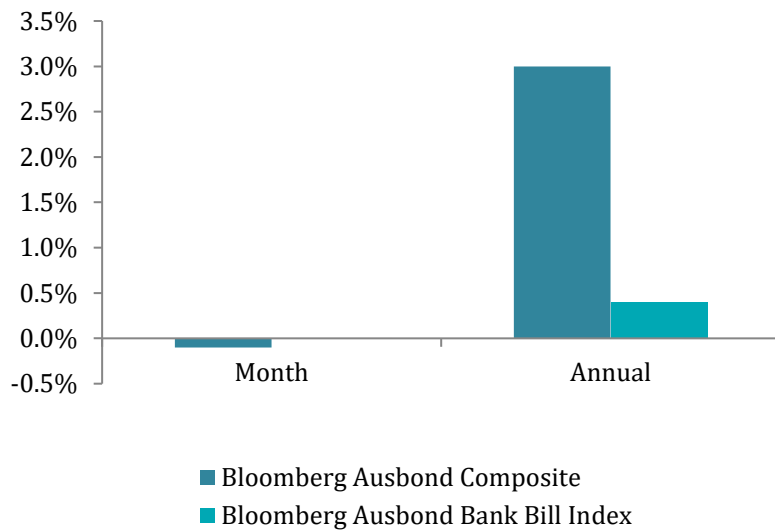
Property



The A-REIT sector eclipsed the ASX 200 in November, rebounding 13.3% following a mixed performance in October.

Quality assets are in demand and Australian property is still attracting capital flows from offshore. Rent collections have improved and remain high across the office and industrial sectors, while retail has seen a significant lift from its June lows.

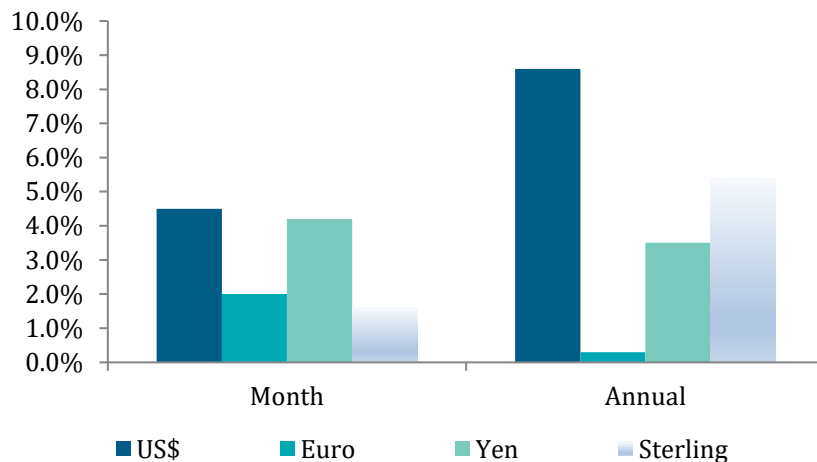
Fixed Interest



At its December meeting, the RBA decided to keep its policy settings on hold, including its 0.10% target for the 3-year bond yield, along with the conditions of the Term Funding Facility (TFF) and its new quantitative measures announced in November.

Since the start of 2020, the RBA has expanded its balance sheet by \$130 billion, and under its new quantitative easing program, the RBA will buy \$100 billion worth of bonds over the next six months. These measures have helped to keep funding costs low, extend much-needed liquidity to businesses, and support balance sheets.

Australian Dollar



The Australian dollar gained 5.0% against the US dollar in November and appreciated against other major currencies as the domestic outlook improved and commodity prices pushed higher.

Widening US trade and fiscal deficits will likely put pressure on the US dollar, while Australia's relative success in managing the pandemic has lifted its currency.

Key Investment Indices

As at 30 November 2020		1 month	3 months	6 months	1 year	5 years	
Australian Shares		%	%	%	%	%	
S&P/ASX 200 Accumulation Index		10.2	8.2	14.8	-2.0	9.1	
S&P/ASX 300 Accumulation Index		10.2	8.3	15.0	-1.6	9.1	
S&P/ASX Small Ordinaries Accumulation Index		10.3	7.7	14.8	6.0	10.7	
S&P/ASX 300 Industrials Index		10.1	9.5	16.0	-2.6	7.5	
S&P/ASX 300 Resources Index		10.7	3.7	11.1	2.4	18.0	
International Shares		Value	%	%	%	%	
MSCI World ex Australia Accumulation Index in \$A			7.4	5.9	9.0	5.4	10.5
MSCI World ex Australia Accumulation Index (\$A hedged)			11.6	4.8	17.6	9.6	10.2
MSCI World Small Cap Index			10.0	13.3	14.5	2.6	9.3
MSCI Emerging Markets Index in \$A			4.1	10.1	18.1	8.7	10.4
Dow Jones Index in \$US	29,639		11.8	4.3	16.8	5.7	10.8
S&P 500 Index in \$US	3,622		10.8	3.5	19.0	15.3	11.7
FTSE 100 Index in £	6,266		12.4	5.1	3.1	-14.7	-0.3
Deutsche Boerse DAX Index in €	13,291		15.0	2.7	14.7	0.4	3.2
Nikkei 225 Index in ¥	26,434		15.0	14.	20.8	13.5	6.0
Hang Seng Index in HKD	26,341		9.3	4.6	14.7	-0.0	3.7
Shanghai Shenzhen CSI 300 Index in RMB	4,960		5.6	3.0	28.3	29.6	6.8
Property			%	%	%	%	
S&P/ASX 200 A-REIT Accumulation Index			13.3	11.1	19.0	-9.2	7.7
S&P/ASX 300 A-REIT Accumulation Index			12.9	11.3	19.4	-8.6	8.1
FTSE EPRA/NAREIT Developed NR Index (\$A Hedged)			11.7	5.2	11.0	-16.1	2.5
Fixed Interest			%	%	%	%	
Bloomberg Ausbond Bank Bill Index			0.0	0.0	0.1	0.4	1.6
Bloomberg Ausbond Composite Bond Index			-0.1	1.3	1.5	3.0	4.7
Barclays Global Aggregate Index (\$A Hedged)			0.5	0.9	1.7	4.5	4.5
Currencies (relative to \$A)		Value	%	%	%	%	
\$US	0.7344		4.5	-0.4	10.2	8.6	0.3
Japanese ¥	76.6540		4.2	-1.9	6.5	3.5	-3.0
Euro €	0.6158		2.0	-0.3	2.5	0.3	-2.1
Sterling £	0.5513		1.6	-0.1	2.1	5.4	2.8
Commodities		Value	%	%	%	%	
S&P Goldman Sachs Commodity Index (\$US)			13.2	7.6	25.6	-5.8	2.8
Oil (\$US/barrel)	47.59		26.7	6.4	27.8	-17.8	1.7
Gold (\$US/ounce)	1,776.43		-5.4	-9.7	2.7	21.4	10.8
Iron Ore (\$US/tonne)	124.25						
Inflation			%	%	%	%	
Australia CPI			0.1	1.1	0.4	0.5	1.5

Sources: Lonsec