Month in Review

Index returns at end November 2020 (%)

Australian Equities	1 mth	3 mth	6 mth	1 yr	3 yr	5 yr	10 yr
S&P/ASX 200 TR Index	10.21	8.22	14.76	-1.98	6.94	9.05	8.10
S&P/ASX Small Ordinaries TR Index	10.27	7.66	14.78	5.98	6.73	10.70	4.20
Global Equities							
MSCI World TR Index (AUD)	7.53	6.05	9.34	5.67	11.21	11.12	13.77
S&P 500 TR Index (AUD)	5.74	4.27	8.08	7.82	14.30	13.61	17.24
FTSE 100 TR Index (AUD)	10.89	5.53	1.88	-16.61	-0.72	0.94	6.34
MSCI Emerging Markets NR Index (AUD)	4.12	10.11	18.14	8.71	5.97	10.35	6.37
Real Estate Investment Trusts							
S&P/ASX 300 A-REIT TR Index	12.88	11.27	19.40	-8.58	5.68	8.12	11.32
FTSE EPRA/NAREIT Dev. NR Index (AUD Hgd)	11.71	5.15	10.95	-16.07	-0.36	2.48	7.47
Fixed Interest							
Bloomberg Ausbond Composite 0+ Yr Index	-0.11	1.25	1.51	3.04	5.33	4.69	5.62
Bloomberg Ausbond Bank Bill Index	0.01	0.03	0.05	0.44	1.31	1.56	2.48
Barclays Global Aggregate TR Index (AUD Hgd)	0.53	0.90	1.70	4.52	4.61	4.48	5.82

Data source: Bloomberg & Financial Express. Returns greater than one year are annualised.
Commentary regarding equity indices below references performance without including the effects of currency (unless specifically stated).

Australian equities

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. Treasury Wine Estates went into a trading halt after the Chinese Ministry of Commerce announced it will apply provisional anti-dumping measures on Australian wine.

Treasury plans to reallocate its Penfolds Bin and Icon ranges from China to other luxury growth markets and will switch its luxury grape sourcing to other premium Australian portfolio brands. Harvey Norman announced an increase in aggregated sales revenue for the period 1 July 2020 to 21 November 2020 of 28.2% on the prior corresponding period. Australian franchises saw a 30.4% increase in comparable sales, while New Zealand sales rose 20.4% and Ireland sales rose 52.7% (in local currency). Insurance Australia Group announced it is raising up to $750 million in equity in response to the unfavourable ruling on its business interruption insurance test case. IAG intends to recognise a post-tax provision of $865 million to reflect the potential impact of the judgement.

Global equities

November was a record-breaking month for global equities. 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. Monetary policy remains extremely accommodative around the world, while further fiscal stimulus in the US and other regions will plug the liquidity gap until vaccines are widely available.

In Europe, cyclical sectors, including energy and financials, regained favour, while previously beaten-down sectors like travel and retail posted strong gains. Despite fears that a second wave of infections could sweep across the continent, EU governments have so far managed to avoid a return to strict lockdowns. It is unclear exactly when herd immunity will be achieved even when vaccines are deployed, but investors clearly see an end in sight and are prepared to look past short-term restrictions. Globally, the MSCI World Ex-Australia Index rose 7.4% and the MSCI Emerging Markets Index rose 4.1% in Australian dollar terms. In Asia, Japan's Nikkei 225 Index rose 15.1%, Hong Kong's Hang Seng Index rose 9.4%, and China's CSI 300 Index rose 5.7%.

Property

The A-REIT sector eclipsed the ASX 200 in November, rebounding 13.3% following a mixed performance in October. Big leaps from the likes of Unibail-Rodamco-Westfield (+73.1%) and Vicinity Centres (+36.4%) were undoubtedly due to positive vaccine news, although in Unibail's case the share price was boosted by the

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rejection of the supervisory board's €3.5 billion capital raising, with opposition led by a group of activist shareholders. The only straggler over the month was Cromwell Property Group (-2.3%), which suffered a board spill triggered by the rejection of its remuneration report.

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. The retail sector is set to benefit from the reopening of the economy, with foot traffic already improving significantly, although large discretionary malls may continue to be affected as social distancing measures remain in place for some categories like cinemas, gyms and restaurants. US REITs also had a strong month, posting 9.1% in US dollar terms, with large gains coming from hotels (+43.6%), shopping centres (+34.3%) and regional malls (+31.6%).

Fixed income

Yields came under pressure in November, with the US 10-year Treasury yield rising early in the month from 0.88% to 0.98%, before retreating to 0.84% by month-end. November was a solid month for credit, with global high yield credit gaining 4.3% and global investment grade credit gaining 2.1% in Australian dollar hedged terms. 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. Authorised deposit-taking institutions have drawn down $84 billion under the TFF and have access to a further $105 billion.

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. RBA Governor Lowe stated the Bank will continue to review its policy settings and is prepared to do more if necessary. Lowe said the Bank is paying close attention to asset prices and household debt but considers unemployment to be the biggest risk to stability, rather than excess borrowing.

ASX 200 share movements

S&P/ASX 200 share performance for the month to November

Best performers		Worst performers	
Unibail-Rodamco-Westfield	73.10%	Saracen Mineral Holdings	-16.49%
Webjet	65.33%	Silver Lake Resources	-16.11%
Orocobre	61.33%	Northern Star Resources	-15.08%
Flight Centre Travel Group	51.95%	Domino's Pizza Enterprises	-12.64%
Beach Energy	49.15%	Super Retail Group	-11.71%

S&P/ASX 200 share performance for the year to November

Best performers		Worst performers	
Afterpay	200.66%	Southern Cross Media Group	-65.85%
Mesoblast	129.83%	Whitehaven Coal	-57.94%
Mineral Resources	108.18%	Flight Centre Travel Group	-56.83%
Netwealth Group	98.70%	Unibail-Rodamco-Westfield	-56.61%
Fortescue Metals Group	87.36%	Treasury Wine Estates	-54.06%

Economic News

Australia

Australia's economic recovery has found solid footing, underpinned by low Covid-19 case numbers nationwide and news of successful vaccine trials. After weeks of zero new case numbers, Victoria has relaxed its restrictions. Up to 100 people can attend public gatherings such as weddings, while one quarter of office workers can return to the office (this will increase to one half from 11 January 2021). 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 of 12.5%, while government spending rose 1.4%. Recent data generally point to sustained growth, but the recovery is still expected to be

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uneven and dependent on fiscal support. Retail sales increased 1.4% in October, slightly below the 1.6% expected, bouncing back from a 1.1% fall in the previous month. Building permits followed on from the 16.2% increase in September, gaining a further 3.8% in October, well ahead of expectations of a 3.0% fall.

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% from 64.8%. Full-time employment increased by 97,000 to 8,643,700 people, and part-time employment increased by 81,800 to 4,130,200 people.

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. The 'economy, next 12 months' sub-index rose 9.9% to 111.9, a ten-year high, thanks to Australia's relative success in combatting the pandemic. The 'economy, next five years' sub-index rose 5.9% to 121.1, the strongest reading since December 2009.

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, causing a loss of momentum, but news of successful vaccine trials have boosted confidence. Central bank policy remains extremely accommodative and fiscal spending is supporting jobs and income.

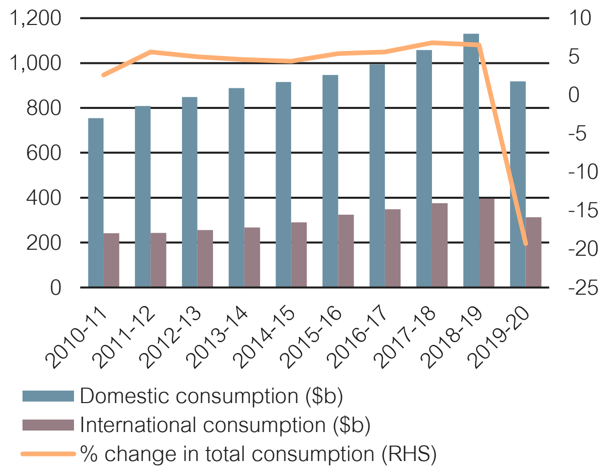
Globally there were over 60 million confirmed **Covid-19 cases** at the start of December and numbers continue to rise in the US, South America and Europe. The UK has begun rolling out the **Pfizer-BioNTech vaccine**, while Australia and the US are preparing to do the same once the vaccine is approved.

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.

Personal spending was the main driver of growth, supported by benefits from the federal CARES Act. However, **non-farm payrolls** showed only 245,000 workers were added to the economy in November—the fewest additions in six months—falling well short of the expected 500,000. The **ISM Manufacturing Index** fell from 59.3 in October to 57.5 in November, slightly lower than the consensus 57.7, while the PMI Manufacturing Index increased in line with expectations from 53.4 to 56.7.

Joe Biden remains the projected winner of the **US presidential election**. The 'safe harbour' cut-off date was reached on 8 December, meaning election results certified by the states must be considered conclusive. A number of states will join Texas in challenging the election result in Pennsylvania and other battleground states.

Australia's tourism industry has taken a big hit



Source: ABS

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. France's President Macron announced a three-stage easing of the country's lockdown, starting with the reopening of 'non-essential' businesses such as hairdressers and clothes shops, while Germany and Spain will enforce restrictions on Christmas gatherings to prevent cases from multiplying.

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. **UK GDP** rose 1.1% in the month of September, below the expected 1.5%, while the quarterly rate improved to 15.5%, falling short of the expected 15.8%.

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As the Covid battle rages on, **Brexit negotiations** between the UK and Europe are yet to yield an agreement. Prime Minister Johnson and European Commission President Ursula von der Leyen both admit that a no deal Brexit is possible if there is no movement on the three key issues of governance, fishing quotas and competition rules.

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. Japan's central bank is now the largest owner of Japanese stocks thanks to the **Bank of Japan's** massive purchases of exchange-traded funds (ETFs) to support the market during the pandemic.

China is preparing for a large-scale rollout of its own domestically developed coronavirus vaccines. At least five vaccines from four producers are being tested in more than a dozen countries including Russia, Egypt and Mexico, while around one million Chinese health care and other workers deemed at high risk have already received the vaccine.

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. Timber log imports from QLD, VIC, TAS and SA have also been suspended, along with previously advised barley. China's list of concerns includes the banning of Huawei and ZTE from Australia's 5G network, as well as Australia's "incessant wanton interference in China's Xinjiang, Hong Kong, and Taiwan affairs".

Commodities

Oil jumped in November and continued to rally into December 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. This places the net cut from a year ago at 7.2mmbopd. The Brent crude price rose 28.9% in November to US$46.84 per barrel and the WTI crude price rose 26.8% to US$45.20 per barrel.

Metals also moved higher in November, with gains in Lead (+13.7%), Copper (+12.8%), Aluminium (+10.6%), Zinc (+10.6%), Nickel (+5.8%) and Tin (+5.1%). The Gold spot price continued to fall over the month, dropping 5.4% to US$1778.10 per ounce.

Currencies

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.

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