Month in Review

Index returns at end October 2020 (%)

Australian Equities	1 mth	3 mth	6 mth	1 yr	3 yr	5 yr	10 yr
S&P/ASX 200 TR Index	1.93%	0.98%	8.67%	-8.15%	4.09%	6.80%	6.94%
S&P/ASX Small Ordinaries TR Index	0.46%	4.69%	15.10%	-2.40%	4.63%	8.56%	3.24%
Global Equities							
MSCI World TR Index (AUD)	-1.04%	2.07%	5.20%	2.93%	9.71%	9.08%	12.95%
S&P 500 TR Index (AUD)	-0.65%	2.50%	5.62%	7.63%	13.71%	12.06%	16.85%
FTSE 100 TR Index (AUD)	-2.77%	-4.00%	-8.22%	-22.05%	-3.73%	-1.87%	4.95%
MSCI Emerging Markets NR Index (AUD)	4.17%	4.82%	12.77%	6.20%	4.97%	8.26%	5.89%
Real Estate Investment Trusts							
S&P/ASX 300 A-REIT TR Index	-0.28%	6.41%	13.24%	-17.18%	3.26%	4.93%	9.76%
FTSE EPRA/NAREIT Dev. NR Index (AUD Hgd)	-3.38%	-3.97%	-0.54%	-25.54%	-3.20%	0.00%	6.03%
Fixed Interest							
Bloomberg Ausbond Composite 0+ Yr Index	0.28%	0.93%	1.91%	4.00%	5.67%	4.53%	5.61%
Bloomberg Ausbond Bank Bill Index	0.01%	0.03%	0.05%	0.51%	1.35%	1.59%	2.52%
Barclays Global Aggregate TR Index (AUD Hgd)	0.00%	-0.35%	1.43%	3.76%	4.49%	4.41%	5.69%

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

Australian shares bucked the global trend to post a 1.9% return in October as easing restrictions, low case numbers, and a highly supportive federal budget bolstered confidence. Information Technology (+9.0%) was the top performing sector, followed by Financials (+6.3%). Even the beaten-down banks enjoyed a reprieve having been impacted by provisions, a rise in customer deposits, and contracting net interest margin.

In earnings news, Resmed (+16.9%) announced 1Q21 results with revenue up 9% on the prior corresponding period and operating profit was up 27%. Revenue in the US, Canada, and Latin America, excluding Software as a Service, increased by 9%, driven by strong mask sales and increased demand for ventilators due to COVID-19, which was partially offset by lower demand for sleep devices. Brambles (-8.6%) released a 1Q21 trading update in early November with sales revenue up 5%, lifting its FY21 outlook to the upper end of its guidance provided in August 2020. Global biotech leader CSL will begin producing 30 million doses of the Oxford University-developed AstraZeneca vaccine to be ready for distribution should trials prove successful. The vaccine is still subject to approval by the Therapeutic Goods Administration for use in Australia.

Global equities

In contrast to the Australian experience, global markets were down in October due to resurgent COVID-19 cases in Europe and the US, while an uncertain presidential election added to volatility in US shares. The CBOE Volatility Index (VIX) jumped to 40.28 at the end of October before easing below 25 points in the first week of November as Joe Biden was projected to win the presidency and Republicans looked to hold their majority in the Senate. Markets responded favourably to news in November of the Pfizer/BioNtech vaccine, which saw a rotation back into cyclicals and value.

While earnings were largely overshadowed by politics, reporting is on track to soundly beat expectations. As at 6 November, 89% of S&P 500 companies had reported for 3Q20, of which 86% reported actual EPS above estimates. Apple reported its 4Q20 results, with revenue of US$64.7 billion and EPS of US$0.73, beating expectations. In Europe, the STOXX Europe 600 Index fell 5.7% in euro terms in October, with the largest losses coming from the Technology and Health Care sectors. The MSCI World Ex-Australia Index fell 1.1% in Australian dollar terms and the MSCI Emerging Markets Index rose 4.2%. In Asia, Hong Kong's Hang Seng Index rose 2.8% and China's CSI 300 Index rose 2.4%, while Japan's Nikkei 225 Index fell 0.9%.

Property

Australian listed property could not match the positive month for local shares, sliding 0.4% in October as the effects of the pandemic threw up mixed results from the A-REIT index. The office sector has continued to collect a high level of rents, and valuations have seen limited reductions given the level of local investor interest in high quality Australian property (albeit international interest is more subdued given that travel is not possible

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for inspections). Medical and tech-related space is also well sought after by smaller investors. However, rental incentives are rising and sub-lease space in Sydney and Melbourne is increasing. According to CBRE, in Sydney alone, the amount of sublease space jumped 56% in the September quarter to 164,950 square metres, its highest level since 1992.

The industrial sector has been led by Goodman Group (+2.8% in October), which reported strong FY20 earnings and reaffirmed its positive outlook based on its global development pipeline and recurring funds management fees. Logistics developments are expanding to cater for the ongoing shift to online networks with some vacancy increase on the east coast. In the US, REITs fell 2.8% in US dollar terms, with the biggest losses coming from shopping centres (-12.4%), office property (-10.1%) and regional malls (-10.0%).

Fixed income

In November the RBA delivered largely as expected, reducing the cash rate to 0.10% and introducing additional policy measures, including $100 billion in additional outright bond purchases in the 5-10-year maturity buckets. The target for the three-year bond remains in place, meaning the RBA will be combining yield curve control at the short end with quantitative easing at the middle to long end of the curve. While the US Fed has ruled out yield curve control, it will be watching the Australian experience with some interest. Australian credit spreads are expected to continue to remain well bid as issuance by financial institutions remains subdued thanks to strong growth in bank deposits with negligible interest rates and the low-cost option of the RBA's TFF funding facility.

In the US, the yield on 10-year Treasuries pushed higher through October from 0.69% to 0.88% and reached a four-month high of 0.90% on 3 November, with an unclear election result and additional COVID-19 cases weighing on markets. Yields have been under pressure due to large-scale fiscal programs driving a substantial sovereign bond issuance. This issuance has been soaked up by massive central bank bond buying which has reduced the cost of funding for governments and their banking systems.

ASX 200 share movements

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

Best performers		Worst performers	
Coca-Cola Amatil	30.84%	Mesoblast	-39.76%
Link Administration Holdings	27.88%	Flight Centre Travel Group	-18.23%
Virgin Money UK	26.64%	Austal	-17.38%
Challenger	25.59%	Regis Resources	-17.17%
Sims	25.46%	New Hope Corp	-16.73%

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

Best performers		Worst performers	
Afterpay	235.03%	Unibail-Rodamco-Westfield	-70.97%
Fortescue Metals Group	122.65%	Flight Centre Travel Group	-70.63%
NEXTDC	98.75%	Whitehaven Coal	-67.58%
Netwealth Group	98.65%	Oil Search	-62.70%
Elders	94.10%	Webjet	-56.46%

Economic News

Australia

With a string of zero daily cases, the Victorian Premier Daniel Andrews announced an easing of restrictions, including the removal of the 25km 'ring of steel' around Melbourne and a further relaxing of rules around social gatherings and businesses. NSW Premier Gladys Berejiklian announced the reopening of the NSW-Victoria border on 23 November, with all requirements for border permits and quarantine removed. South Australia is set to open its border with Victoria, allowing Victorians to travel into the state after self-isolating for two weeks. The RBA lowered interest rates to an all-time low of 0.10% and committed to the purchase of $100 million worth of 5- and 10-year government bonds over the next six months.

The Australian economy is expected to contract by 4.0% in 2020 before increasing by around 5.0% in 2021 and 4.0% in 2022. Retail sales fell 1.1% in September, following a 4.0% fall in August, while headline inflation jumped 1.6% in the September quarter, largely in line with expectations of a 1.5% rise. The key driver of the increase was the ending of free childcare in all states except Victoria, however childcare is still 26% below

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pre-COVID levels, meaning further inflation pressures are expected in the coming quarters.

Labour force data showcased a resilient jobs market, despite the stage four restrictions imposed in Victoria. Employment rose 111,000 against expectations of a fall of 45,000, with the **unemployment rate** falling from 7.5% to 6.8%, despite the participation rate lifting from 64.7% to 64.8%. Full-time employment decreased by 20,100 to 8,540,300 people, and part-time employment decreased by 9,400 to 4,031,700 people.

The **AiG Performance of Manufacturing Index** rose 9.6 points to 56.3, hitting the first expansion reading since July. Strong expansionary readings were recorded in New South Wales (56.1) and South Australia (68.4), while Victoria (47.3) and Queensland (47.5) remained in contraction despite notable improvement. Production rose 5.0 points to 55.1, New Orders rose 13.3 points to 58.4, and Employment rose 7.6 points to 55.3.

The **Westpac-Melbourne Institute Index of Consumer Sentiment** surged by 11.9% to 105.0 in October from 93.8 in September. Credit must be given to the federal budget, with its singular focus on maintaining employment and supporting businesses, while Australia's relative success in containing COVID-19 was also undoubtedly a factor. **Retail sales** fell 1.1% in September, following a 4.0% fall in August, with weakness led by household goods retailing (-3.6%), food retailing (-1.5%), and clothing, footwear, and personal accessories retailing (-1.1%).

Global

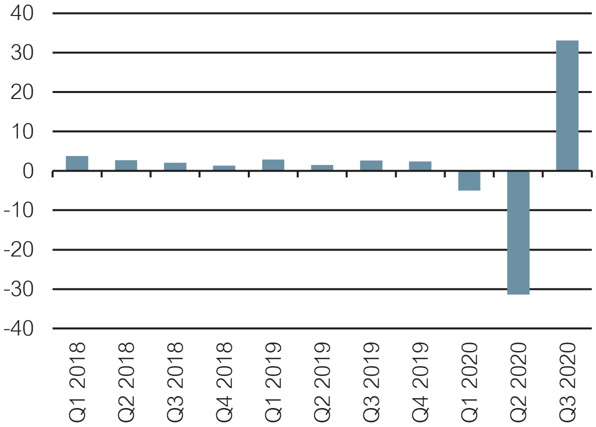
Data from the World Health Organisation showed confirmed COVID-19 cases worldwide were above 45 million at the end of October and global deaths were 1.2 million. According to the IMF, the global growth rate is forecast to be a significantly negative figure of -4.4% for 2020, bouncing back to 5.2% in 2021, although recovery is expected to be "uneven and uncertain".

The economic data point to ongoing strength in the US recovery but record daily cases of COVID-19 are dragging on sentiment. After a tense **presidential election race**, Senator Biden is the projected winner, while President Trump's dwindling chances hinge on legal challenges in Pennsylvania and other battleground states.

US GDP growth was 33.1% in the September quarter, the biggest expansion ever recorded, beating expectations of 30.9% and rebounding strongly from the 31.4% contraction in the previous quarter. Household demand led the recovery with personal consumption expenditures growing by 40.7%, ahead of the 38.9% expected increase. **Nonfarm payrolls** came in at 638,000 in October, above expectations of 600,000 but down from the upwardly revised 672,000 in September, while the unemployment rate improved 1.0% to 6.9% (7.7% expected).

October's **ISM Manufacturing PMI** came in well ahead of expectations, rising from 55.4 in September to 59.3 (55.8 expected), while construction spending rose 0.3% in September, less than the expected 0.9% gain. **Durable goods orders** in September reported a 1.9% increase (0.5% expected), marking the fifth straight month of growth. Orders rebounded for transportation equipment, largely motor vehicles, which lifted 1.5%, while orders for capital goods and computers and electronics continued to rise.

US GDP % change previous quarter (annual)



Source: Federal Reserve Bank of St Louis

New coronavirus cases continued to rise across Europe, prompting countries to implement new restrictions. The UK broadened the number of cities under the highest tier restrictions, while Germany and France announced heightened restrictions to prevent an uncontrolled outbreak. **Eurozone GDP** for the September quarter came in stronger than expected at 12.7% (9.4% expected), the steepest pace of expansion on record as activity rebounded following the easing of lockdown restrictions.

The **unemployment rate across the eurozone** was unchanged at 8.3% in September, unchanged from the upwardly revised 8.3% in August, while the year-on-year core inflation rate held steady at 0.2%. The **European Central Bank** kept interest rates on hold at 0.0% as expected, with policymakers waiting on a fresh round of economic projections in December. The economic sentiment index was flat in October at 90.9, beating expectations of a fall to 89.6.

UK GDP growth missed expectations in August, with monthly growth of 2.1% undershooting expectations for a 4.6% rise and below July's 6.4% increase. October's final PMI Composite Index came in at 52.1, down from 56.5 last month and below expectations of 52.9. The **Bank of England** increased its quantitative easing program by £150 billion as it grapples with an economy expected to fall by 11% in 2020.

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China unveiled its 14th five-year plan, outlining its economic and social priorities for 2021-25. The plan is centred around maintaining economic growth, with technology and innovation again a key focus, especially strategic emerging sectors like biotechnology, semiconductors and new energy vehicles. China aims to be a “moderately developed” country by 2035, which would mean a GDP per capita of around US$30,000 (nearly three times its current level).

The Chinese economy continues to bounce back from the pandemic-induced slump. Compared to the same quarter last year, **GDP** rose 4.9% in Q3 2020, lagging the 5.2% growth expected, but still leading the world in terms of the strength of the recovery. **Yearly industrial production** surpassed expectations of 5.8% in September, rising 1.3% to 6.9%, while yearly retail sales improved to 3.3% in September (versus 1.8% expected).

Australia-China relations, which were already fraying, deteriorated further in November when Chinese authorities ordered traders to stop purchasing certain Australian commodities, including coal, barley, copper ore and concentrate, sugar, timber, wine and lobster. The move came shortly after Beijing imposed tariffs on Australian barley. China’s Foreign Ministry spokesman said China hoped that Australia would “do more to enhance mutual trust and bilateral cooperation”.

Commodities

Oil markets moved lower through October on the back of back of surging coronavirus cases globally and the impact on demand as many nations moved to impose tighter restrictions once again. The Brent crude price fell 9.9% to US$36.33 per barrel and the WTI crude price fell 11.0% to US$35.64 per barrel. Oil prices reacted favourably to vaccine developments in November, with Brent and WTI both gaining early in the month.

Metals moved higher in October, with gains in Zine (+5.0%), Aluminium (+4.6%), Nickel (+4.4%), Tin (+1.3%) and Copper (+0.7%) while Lead (-0.3%) was down. The Gold spot price was down over the month by 1.0%, finishing October at US$1,878.81 per ounce.

Currencies

The Australian dollar weakened slightly against the US dollar in October, falling 0.9% to US$0.70 as the RBA hinted strongly at more easing. If additional US fiscal spending occurs in coming months, this will likely see the US dollar depreciate due to the widening fiscal deficit. Over October the Australian dollar was down against other major currencies including the British pound (-1.5%), euro (-0.5%), and Japanese yen (-2.0%).

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