Month in Review

Index returns at end November 2019 (%)

Australian Equities	1 mth	3 mth	6 mth	1 yr	3 yr	5 yr	10 yr
S&P/ASX 200 Accumulation Index	3.28	4.80	9.24	25.98	12.66	9.90	8.50
S&P/ASX Small Ordinaries Accumulation Index	1.56	3.68	5.14	16.62	11.39	10.81	4.60
Global Equities							
MSCI World TR Index (AUD)	4.74	7.35	15.97	24.36	16.35	13.52	13.33
S&P 500 TG Index (AUD)	5.55	7.43	18.06	25.35	18.31	16.26	16.92
FTSE 100 TR Index (AUD)	3.66	8.84	10.26	20.57	11.60	6.90	8.25
MSCI Emerging Markets NR Index (AUD)	1.72	5.64	8.45	15.82	12.26	8.03	6.51
Real Estate Investment Trusts (REITs)							
S&P/ASX 300 A-REIT Accumulation Index	2.26	0.84	9.20	27.02	13.58	13.17	12.49
FTSE EPRA/NAREIT Dev. NR Index (AUD Hgd)	-0.90	3.47	7.51	14.15	9.35	7.19	11.36
Fixed Interest							
Bloomberg Ausbond Composite 0+ Yr Index	0.82	-0.16	3.37	10.69	5.66	4.87	5.88
Bloomberg Ausbond Bank Bill Index	0.08	0.25	0.58	1.58	1.75	1.95	2.90
Barclays Global Aggregate TR Index (AUD Hgd)	-0.20	-1.03	3.16	9.04	4.37	4.42	6.23

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

After a shaky start to the December quarter, Australian shares rebounded in November, returning 3.3%, but lost momentum in the first week of December. November's gains were driven by strength in Health Care (+8.9% and +51.7% over 1 year), while Materials (+4.7% and +31.9% over 1 year) continues to support the index. This despite weakness from the major Financials sector, which slipped 2.1% over the month as the major banks were marked down due to the lower interest rate outlook, which doesn't bode well for lending margins. Meanwhile, Westpac (-13.1%) was the latest to be hit with negative headlines. If returns in December hold up, the ASX 200 will be on track to deliver a return of around 26% for the 2019 calendar year, which would be the highest return investors have seen since 2009.

November was a good month for Australian growth shares, with the Information Technology sector gaining 11.0%, led by popular names like accounting software provider Xero (+17.8%) and artificial intelligence training provider Appen (+12.0%). In the Health Care sector, CSL (+10.7%) had another excellent month, while Cochlear (+10.6%) and Ramsay Health Care (+7.5%) also performed well. Within the Consumer Staples sector (+8.3%), a2 Milk (+22.7%) recovered from a mid-year slump, while CEO Jayne Hrdlicka announced she will step down after 18 months at the helm.

Global equities

November saw global equities extend their strong run over 2019, supported by an easing of trade tensions but generally at odds with economic data, which has been mixed. Markets responded favourably to the prospect of a 'phase one' trade deal between the US and China, while the US market made it through Q3 earnings season in high spirits with 80% of firms beating expectations, although earnings overall were mostly flat on the previous year. The MSCI World Ex-Australia Index returned 4.7% in November and 23.5% over 12 months in Australian dollar terms, with weakness in the Australian currency providing a significant tailwind.

The US S&P 500 Index returned 3.6% in US dollar terms, led by the Information Technology sector (+5.2%), while Financials (+4.8%) has been among the top performing sectors in 2019, with banks and fund manager names benefiting from recent market strength. European shares, measured by the broad STOXX Europe 600 Index, rose 2.7%, led by the Information Technology (+5.7%) and Resources (+5.0%) sectors. In Asia, Japan's Nikkei 225 Index rose a modest 1.6%, while China's CSI 300 Index fell 1.5% and Hong Kong's Hang Seng Index fell 2.0%. Emerging markets continue to benefit from a relatively stable US dollar and a dovish US Fed, although geopolitical risks remain a source of uncertainty.

Property

While underperforming the rest of the ASX 200 in November, Australian listed property has enjoyed an equally impressive year, returning 27.0% over the 12 months ending November. A lift in housing demand, along with record-low interest rates, have boosted property values, lifting the A-REIT sector across the board. Mirvac Group (+5.3%), one of the country's largest residential communities and high-rise developers, has benefited from the recovery in property

Month in Review

prices in 2019, posting gains of 60.6% over the past 12 months. Mirvac has continued to add to its portfolio and is on a short-list of contenders for Nine Entertainment's $200 million North Shore headquarters.

The retail sector was mixed in November, with French-owned Unibail-Rodamco-Westfield gaining 4.2% and Scentre Group rising 2.9%, while Vicinity Centres was flat at 0.4%. In the office sector, vacancy rates are expected to tighten, especially in Sydney and Melbourne, while limited space and robust demand is supporting the industrial segment. In the US, REITs had a challenging month as Shopping Centres (-1.5%) and Regional Malls (-0.3%) lost some steam and Office Property (+0.7%) was flat in US dollar terms. While cap rates are relatively low, they are reasonable given the low interest rate environment.

Fixed income

In Australia, a fall in yields saw a modest return from fixed interest in November, with government bonds returning 0.86%, beaten slightly by corporate bonds, which returned 0.72%. While a risk-on environment has prevailed through 2019, bonds have performed reasonably well, with Australian government bonds returning 9.6% over the year to the end of November, compared to 8.0% from corporate bonds. While the RBA is not completely dissatisfied with the effect of recent rate cuts, the likelihood of further cuts in 2020 mean yields may have further to fall.

In the US, the Fed is once again growing the size of its balance sheet in the wake of the repo rate spike in September. The Fed will purchase US$60 billion per month at least until the June quarter of 2020. After inverting in August, the spread of 10-year over 2-year US Treasuries is stable but remains narrow, ending November at 17 basis points. US yields moved higher in November, with the 10-year yield rising nine basis points to end the month at 1.78%. Yields in other major economies rose, but negative yields still pervade the marketplace. The German 10-year Bund yield rose from -0.41% to -0.36% and the Japanese 10-year yield rose from -0.14% to -0.08%. The UK 10-year Gilt rose from 0.63% to 0.70%.

ASX 200 share movements

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

Best performers		Worst performers	
NRW Holdings	33.33%	G8 Education	-23.54%
Caltex Australia	26.73%	PolyNovo	-20.80%
Technology One	25.89%	SmartGroup Corp	-20.68%
a2 Milk Co	22.67%	SpeedCast International	-18.60%
Bravura Solutions	20.68%	Nufarm	-16.39%

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

Best performers		Worst performers	
Avita Medical	662.20%	SpeedCast International	-75.00%
Emerchants	211.94%	Galaxy Resources	-65.74%
PolyNovo	198.33%	Pilbara Minerals	-64.29%
Fortescue Metals Group	182.18%	Costa Group Holdings	-62.44%
Jumbo Interactive	157.95%	Mayne Pharma Group	-52.55%

Economic News

Australia

The Reserve Bank kept the cash rate at a record low 0.75% in early November, as widely expected and offered guidance that a December rate cut was unlikely owing to some slight improvements in the domestic economy as well as the global trade picture. It seems the RBA is pleased with the response of the housing sector to the rate cuts although there is little evidence elsewhere of a response to date. Global risks may have eased with the trade truce but have not completely disappeared. Essentially the RBA believes the economy is coming out of a soft patch and that growth is likely to improve slightly as a result of low interest rates, tax cuts, infrastructure spending and an upswing in house prices. Unemployment is likely to remain above the full employment rate of 4.5% while inflation is expected to pick up only gradually.

However, the RBA this time last year was projecting GDP to grow by 3.2% in the 12 months to June 2019. It ended up being less than half that at just 1.4%. The September quarter wages data showed that growth slowed to 2.2%, with public sector wages growth outpacing the private sector at 2.5%. With wages growth

Month in Review

low, almost half of the tax cuts still to flow through, and households more intent on paying down debt, it is no surprise that retail spending remains weak.

The **AIG Manufacturing Index** fell 3.5 points to 48.1 in November, marking the lowest reading since August 2016. The contraction in the manufacturing sector was driven by falls in employment and new orders, while sales and production were barely steady. The large food & beverages sector, which has been keeping the sector in expansion remained elevated, driven by rising exports and a seasonal boost thanks to the Christmas season.

Consumer concerns about the state of the economy are starting to translate into a spending strike. The **Westpac Melbourne Institute Index of Consumer Sentiment** fell 1.9% in December to 95.1, and has fallen 6.1% since the RBA embarked on its first rate cut in June, and so far this round of cuts has proven less effective in turning sentiment around than previous cycles. The 'finances vs a year ago' sub-index fell 3.6% in December and the 'finances, next 12 months' sub-index slipped 0.5%. Each are down by 9.5% and 7.0% respectively on a year ago.

Australia's **GDP growth** was a less-than-expected 0.4% in the September quarter, reflecting softer consumer activity as lower interest rates and tax cuts failed to get people spending. Exports added 0.2 percentage points to GDP while domestic consumption was held up by government spending in aged care and infrastructure. While households have received a boost from monetary and fiscal policy, the savings ratio rose to 4.8%, showing consumers preferred to put the extra cash aside rather than spend it.

Global

Economic data is mixed. Indicators such as manufacturing PMIs have been trending down, while housing has been strong in the US and has improved in Australia. Consumers are also holding up well, especially in the US. Geopolitics remains an unknown factor, with trade talks continually shifting, while further quantitative easing is still a possibility.

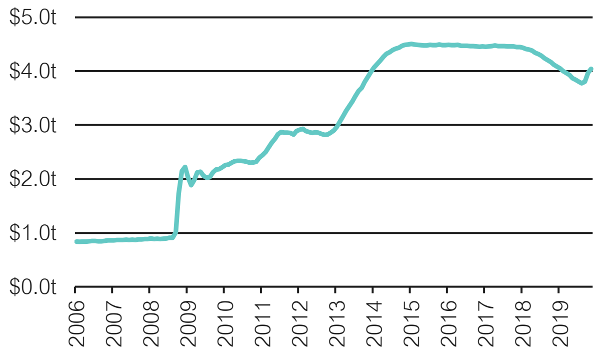
Federal Reserve Chair Jerome Powell reiterated his view that interest rates are probably on hold after three straight reductions, while signalling that the Fed could resume cutting if the growth outlook falters. Markets are now factoring in only one further cut in the Fed funds rate, implying a rate of 1.4% by mid-2020 and 1.3% by end-2020.

The apparent easing of trade tensions between the US and China—with the prospect of a so-called 'phase one' deal that would involve a roll-back on existing tariffs—has added to market confidence. It comes just in time, as further deterioration in business confidence would further constrain business investment and hiring.

GDP growth has already slowed from 3.1% p.a. early in 2019 to 1.9% in the September quarter. The latest GDPNow projection has GDP growth for the December quarter at 2.0%.

Payroll data for November showed the labour market remains strong, bouncing back from a lacklustre October. This brings the average gain in non-farm payrolls to 173,000 through 2019, which is still down on the average of 223,000 in 2018. While some slowdown should be expected given the expansion is now 10 years old, the jobs data will be closely scrutinised for any signals that the downturn in growth and business confidence is flowing through to investment and hiring plans.

US Fed balance sheet ($UStrillion)



Source: Atlanta Fed

Europe's **recent PMI data** suggest that GDP was rising at a 0.1% rate at the start of the December quarter, but likely with a weakening trend. Growth remains soft in Europe while Germany narrowly avoided a technical recession in the September quarter, growing 0.1% after contracting 0.2% in the March quarter. German growth is being sustained by the service sector, offsetting the deep recession in manufacturing. The German government revised down its growth forecast for 2020 to 1.0% from 1.5% but left its 2019 forecast at 0.5%. German industrial production declined by 5.3% over the year to September after peaking at more than 7.0% in 2017-18.

The **UK economy** grew by 0.3% in the September quarter after contracting by 0.2% previously. Over the year, UK GDP grew by 1.0%, the slowest rate of growth since the first quarter of 2010. On the political front, Prime Minister Johnson finally secured a new Brexit deal with the EU, which involves a customs border in the Irish Sea—something many unionists were determined to avoid. The UK went to a general election on 12 December, with early polling suggesting a Conservative majority.

Month in Review

There is no clear evidence that the **Chinese economy** has stabilised. While credit growth appears to have lifted, indictors of consumer spending, investment and production appear to be slowing. In the September quarter the Chinese economy slowed to just 6%, the slowest annual pace in almost 30 years and growth for the current quarter could be lower. Indeed, there are signs that the authorities are becoming increasingly concerned with the slowdown in growth.

Up until recently, Beijing's policy response has been limited to measures such as tax reforms and changes to local government bond issuance. There have been a series of cuts to the bank reserve requirement ratio, effectively freeing up borrowing capacity. In November, China's central bank cut its short-term lending rate for the first time in four years, signalling the start of a new easing cycle—a sign that the trade war was starting to hurt businesses.

It suggests the authorities are beginning to place more priority on growth rather than financial stability. However, by no means can the current stimulus be compared with the 2008-09 and 2015-16 stimulus packages. Accordingly, any lift in growth is expected to be marginal. The authorities are keen to avoid a further lift in debt levels, unsustainable property investment and rising risks to bank balance sheets.

Commodities

Metals fell in November, with significant drops in Nickel (-17.9%), Lead (-10.3%) and Zinc (-8.4%), while Copper (+1.2%) held firm and Aluminium and Tin were mostly flat. The gold price fell 3.2% to US$1463.97. Oil prices rose in November after a volatile month previously, with Brent crude climbing 8.8% to US$64.50 per barrel and WTI rising 7.6% to $58.12.

Currencies

The Australian dollar moved higher early in November, rising above US$0.69, but failed to break through, falling to $0.68 at the end of the month. Metals fell through November, putting pressure on the currency. The RBA appears content to look back and judge the effects of 2019's rate cuts before moving further, but a rate cut in early 2020 is still the likely scenario.

Over the three months to the end of November 2019 the Australian dollar rose 0.5% against the US dollar, 0.1% against the euro to 0.61, and 3.4% against the Japanese yen to 74.0, and fell 5.6% against the British pound to 0.52.

Month in Review