Market Update

DECEMBER 2020

- Joe Biden is the projected winner of the US presidential election, with the passing of the 'safe harbour' deadline making it hard for legal challenges to change the outcome.
- 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.
- China has ramped up its trade conflict with Australia, putting tariffs of up to 200% on Australian wine and suspending the importation of Australian beef, barley and timber.
- The Reserve Bank of Australia left the cash rate unchanged at a record low 0.10% and the board expects rates will not increase for at least three years.

November market performance

Equity Markets – Index Return*	Index	At Close 30/11/2020	% Return 1 Month	% Return 12 Months
Australia	S&P/ASX 200 Index	6517.81	10.21%	-1.98%
United States	S&P 500 Index	3621.63	10.95%	17.46%
Japan	Nikkei 225 Index	26433.62	15.05%	15.73%
Hong Kong	Hang Seng Index	26341.49	9.38%	3.21%
China	CSI 300 Index	4960.25	5.70%	32.29%
United Kingdom	FTSE 100 Index	6266.19	12.69%	-11.98%
Germany	DAX 30 Index	13291.16	15.01%	0.41%
Europe	FTSE Eurotop 100 Index	2825.24	14.56%	-6.06%

Property – Index Returns*	Index	At Close 30/11/2020	% Return 1 Month	% Return 12 Months
Listed Property	S&P/ASX 200 A-REITS	1455.70	13.25%	-9.20%

Interest Rates	At Close 30/11/2020	At Close 31/10/2020	At Close 30/11/2019
Australian 90 day Bank Bills	0.02%	0.06%	0.89%
Australian 10 year Bonds	0.90%	0.83%	1.04%
US 90 day T Bill	0.08%	0.09%	1.59%
US 10 year Bonds	0.84%	0.88%	1.78%

Currency**		At Close 30/11/2020	% Change 1 Month	% Change 12 Months
US dollar	AUD/USD	0.74	4.95%	9.09%
British pound	AUD/GBP	0.55	1.65%	5.60%
Euro	AUD/EUR	0.62	2.44%	0.36%
Japanese yen	AUD/JPY	76.80	4.48%	3.52%
Australian Dollar Trade-weighted Index		61.5	3.36%	4.24%

* Closing index values are based on price indices. Index returns are expressed as total returns in local currency.
** All foreign exchange rates rounded to two decimal places.
Past performance is not a reliable indicator of future performance.

Global economies

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.

Market Update

US

As coronavirus case numbers continue to rise, 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. 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 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.

Europe

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 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. In the 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%. 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.

China

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's industrial production growth remained steady in October at 6.9% year-on-year (versus 6.5% expected) and 34 out of 41 major industry groups recorded increases. Retail sales disappointed in October, posting growth of 4.3% year-on-year, missing expectations for growth of 4.9%. China has enjoyed strong global demand for goods such as protective gear and home office devices and equipment. November exports rose 21.1% year-on-year, while imports rose 4.5%, resulting in a record US$75.42 billion trade surplus that eclipsed the previous record set in May. 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 Xinjinag, Hong Kong, and Taiwan affairs".

Market Update

Asia region

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. Japan's industrial production rose 3.8% in October and household spending rose 2.1% month-on-month. Previously the poster child of effective Covid-19 containment, South Korea is reporting hundreds of new cases a day as the country's health minister called Seoul's metropolitan area a "Covid-19 warzone". India is also battling to reduce its daily case numbers, which have fallen from over 90,000 per day in September to around 40,000 in November. India's economy is making steady progress, with October's unemployment rate of 7.0% lower than February's reading of 7.8% before lockdowns were imposed, although data show there are 20 million fewer people employed due to workers dropping out of the labour force.

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 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.

Market Update

EQUITY MARKETS

- Australia's S&P/ASX 200 Index rallied 10.2% in November with the largest gains coming from the Energy, Financials and Communications sectors.
- The US S&P 500 Index gained 11.0% in November in US dollar terms, pushing past 3,700 points in December to a new all-time high.
- In Europe, the UK FTSE 100 Index rose 12.7%, Germany's DAX 30 Index rose 15.0%, and France's CAC 40 Index rose 20.1% over the month.
- 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%.
- Global developed market shares rose 7.4% in Australian dollar terms while emerging market shares rose 4.1%.

Australian equities

	Index/Benchmark (% pa)	1 Year	3 Years	5 Years	7 Years
Australian	S&P/ASX 200 Acc.	10.21%	-1.98%	6.94%	9.05%
	S&P/ASX 50 Acc.	10.98%	-4.90%	6.62%	8.27%
	S&P/ASX Small Ordinaries Acc.	10.27%	5.98%	6.73%	10.70%

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.

Investment Index/Benchmark returns*

S&P/ ASX 200 Index

Sector	1 Month	3 Months	1 Year
Energy	28.45%	13.25%	-28.08%
Financials ex-Property	16.11%	15.88%	-7.33%
Communications	13.64%	10.53%	-0.83%
Property	13.25%	11.14%	-9.20%
Industrials	12.26%	7.55%	-12.56%
Consumer Discretionary	8.47%	7.18%	7.47%
Materials	7.32%	2.95%	10.32%
Information Technology	4.59%	6.23%	37.49%
Health Care	2.73%	4.87%	6.51%
Utilities	1.47%	-3.35%	-11.24%
Consumer Staples	-0.69%	-2.82%	-4.53%

*Total returns based on GICS sector classification

Market Update

BIG MOVERS THIS MONTH

Going up

- ⇑ Energy +28.5%
- ⇑ Financials ex-Property +16.1%
- ⇑ Communications +13.6%

Going down

- ⇓ Consumer Staples -0.7%

Global Equities

	Index/Benchmark (% pa)	1 Month	1 Year	3 Years	5 Years	7 Years
Global	MSCI World Ex Australia Index (AUD)	7.43%	5.35%	10.71%	10.54%	12.41%
	MSCI World Ex Australia Index (LCL)	12.00%	12.48%	9.39%	10.34%	9.76%
	MSCI World Ex Australia Small Cap Index (AUD)	10.00%	2.33%	7.03%	9.18%	11.18%
Emerging	MSCI Emerging Markets Index (AUD)	4.12%	8.71%	5.97%	10.35%	8.16%
	MSCI AC Far East Index (AUD)	4.60%	10.67%	7.30%	9.95%	10.46%

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

	Index/Benchmark (% pa)	1 Month	1 Year	3 Years	5 Years	7 Years
Australian	S&P/ASX 300 A-REIT Acc	13.25%	-9.20%	5.36%	7.74%	10.41%
Global	FTSE EPRA/NAREIT Developed Ex Australia Index (AUD Hedged)	11.43%	-15.92%	-0.45%	2.35%	5.22%

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 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 Interest

	Index/Benchmark (% pa)	1 Month	1 Year	3 Years	5 Years	7 Years
Australian	Bloomberg AusBond Composite 0+ Yr Index	-0.11%	3.04%	5.33%	4.69%	5.13%
	Bloomberg AusBond Bank Bill Index	0.01%	0.44%	1.31%	1.56%	1.83%
Global	Bloomberg Barclays Global Aggregate Index	-2.96%	-0.51%	5.55%	4.27%	5.94%
	Bloomberg Barclays Global Aggregate Index AUD	0.53%	4.52%	4.61%	4.48%	5.10%

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.

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.