Month in Review as at November 2023

Index returns at November 2023 (%)

Australian Equities	1 mth	3 mth	6 mth	1 yr	3 yr	5 yr	10 yr
S&P/ASX 200 TR Index	5.03	-1.80	2.05	1.45	7.15	8.72	7.26
S&P/ASX Small Ordinaries TR Index	7.04	-2.88	-0.73	-3.19	-0.48	4.03	5.54
Global Equities							
MSCI World NR Index (AUD)	4.44	-0.74	6.12	14.12	10.87	12.12	11.84
S&P 500 PR Index (USD)	8.92	1.33	9.28	11.95	8.04	10.60	9.72
FTSE 100 PR Index (GBP)	1.80	0.20	0.10	-1.58	5.96	1.32	1.15
MSCI Emerging Markets NR Index (AUD)	3.13	-1.26	2.09	5.26	-0.60	4.34	5.45
Real Estate Investment Trusts							
S&P/ASX 300 A-REIT TR Index	9.03	-1.68	1.50	-4.15	-0.12	-0.92	3.70
FTSE EPRA/NAREIT Dev. NR Index (AUD Hgd)	9.03	-1.68	1.50	-4.15	-0.12	-0.92	3.70
Fixed Interest							
Bloomberg Ausbond Composite 0+ Yr Index	2.97	-0.47	-1.18	0.20	-3.64	0.41	2.42
Bloomberg Ausbond Bank Bill Index	0.35	1.03	2.08	3.76	1.59	1.35	1.76
Bloomberg Global Aggregate TR Index (AUD Hgd)	3.20	0.46	-0.02	0.89	-3.98	0.18	2.29

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).

Key Market Points

- The Australian market had a strong month in November, finishing 5.0% higher. Healthcare (11.7%) and Property (11.0%) were leaders in the market. All sectors finished higher apart from Energy, Utilities and Consumer Staples.
- Overseas markets also finished the month higher, particularly developed markets. Emerging markets were fixed, with the CSI 300 Index (CNY) and Hang Seng Index (HKD) finishing the month lower.

Australian equities

The ASX 200 was up 5.0% for the month of November, halting the three-month slide in returns. Eight of 11 sectors finished positively; the three strongest being Health Care (+11.7%), Property (+11.0%), and Information Technology (I.T.) (+7.4%), while Energy (- 7.4%) and Utilities (-6.0%) were laggards. The month began with a rate hike by the RBA and fears of further increases. However, markets were supported by indications of inflation slowing at a decent pace, finishing the month with the strongest return for the index since January. The Health Care sector was driven by a strong month for three major constituents: CSL, ResMed and Cochlear. Meanwhile, despite the RBA's decision early in the month, the rate-sensitive Property and I.T. sectors were the beneficiaries of the ease in inflation as investors piled back into those sectors.

Energy stocks were hit by the significant drop in oil prices over the month, partly due to the Chinese economy continuing its struggles. Meanwhile, Utilities were impacted, predominantly by one stock, Origin Energy, as the unpredictable takeover bid of the company saw its shares fall almost 10%. In all, the ASX 200 finished November by clawing back some of the losses seen in the previous three months.

Global Equities

Global equity markets gained in November, rebounding from October lows. Developed markets outperformed emerging market counterparts returning 4.4% (MSCI World Ex-Australia Index (AUD)) versus a 3.1% return according to the MSCI Emerging Markets Index (AUD).

The S&P500 finished up 9.1% and the Nasdaq up 10.8% (in local currency terms) as the Federal Reserve shows signs of ending rate hikes. European markets also gained on easing inflation data, the DAX gaining 9.5% (in local currency terms) over the month.

Chinese markets performed poorly, as China's economy continued to contract and artificially lowered iron ore prices fail to bolster the economy. The Hang Seng Index and CSI 300 Index lost -0.2% and -2.1% for the month (in local currency terms), as China's largest property giant EverGrande continues to face collapse, dragging the Real estate Sector lower in China.

Property

The S&P/ASX 200 A-REIT Accumulation index advanced during November, with the index finishing the month 11.0% higher. Global real estate equities (represented by the FTSE EPRA/NAREIT Developed Ex Australia Index (AUD Hedged)) also finished strong, advancing

9.0% for the month. Australian infrastructure also performed well during November, with the S&P/ASX Infrastructure Index TR advancing 1.6% for the month and up 6.6% YTD.

The Australian residential property market experienced an increase by +0.6% Month on Month (as represented by CoreLogic's five capital city aggregate). Perth was the biggest riser (+1.9%), followed by Brisbane (+1.3%) and Adelaide (+1.2%). In contrast, Melbourne (-0.1%) was the only city to deliver negative returns in November.

Fixed Income

After four months of rate hike respite, the RBA has lifted the official cash rate by 25 basis points to 4.35% following latest inflation data and economic indicators. This marks the highest cash rate level since 2011, and the RBA will continue to monitor the balance between the strong labour market and slowing household sector. Over the course of the month, bond yields fell steadily with Australian 2 and 10-Year Bond yields falling by 35bps and 52bps respectively. The Australian bond market, as measured by the Bloomberg AusBond Composite 0+ Yr Index, rose 2.97%.

Economic key points

- The RBA raised the cash rate to 4.35% as inflation proved more persistent than expected.
- Australian 3Q23 GDP fell short of expectations, growing only +0.2% over 2Q23 (compared to +0.4% forecast), and +2.1% compared to the past 12 months.
- Inflation appears to be easing globally, making it more likely that the next move for central bank interest rates is down, not up.

Australia

The RBA raised the cash rate by 0.25% to 4.35% on Melbourne Cup Day, the first rate hike under new governor Michele Bullock. The tone of commentary accompanying the bank's decision suggested a lower chance of further monetary tightening and investment markets are now pricing in a 20% chance of rate cuts by the end of 2024.

October's inflation indicator came in at 4.9%, with the most significant rises coming from housing, food, and transport. 3Q23 GDP fell short of expectations, growing only +0.2% over the June quarter (compared to +0.4% forecast). In annual terms GDP expanded 2.1%, in line with the prior quarter and ahead of market expectations of 1.8%.

The Westpac-Melbourne Institute Index of Consumer Sentiment fell 2.6% to 79.9 in November, returning to deeply pessimistic levels as the RBA's rate rise has put renewed pressure on family finances. Retail sales fell 0.2% in October, the first decline since June as consumers pulled back on some discretionary spending and awaited Black Friday sales. In contrast, annual sales increased 1.2%.

The unemployment rate increased to 3.7% in October, aligning with the market expectations. The Wage Price Index grew 1.3% in quarterly terms in the third quarter, meeting expectations. The reading was the highest quarterly growth in the 26-year history of the index. On an annual basis, growth rose to 4% vs 3.6% rise last quarter.

Composite PMI fell again in November to 46.2, largely driven by a sharp decline in services output. The NAB business confidence index fell to -2 in October with falls in most industries. The trade surplus came in at $7.13 billion in October, below market forecasts of $7.5 billion.

Global

During November there was further evidence of inflation easing across the world, making it more likely that the next move for central bank interest rates is down. German CPI gains slowed to +2.3% in November, while Spain's inflation rate fell to an annualised rate of +3.2%, both below expectations.

The Hamas/Israel war entered its second month and combined with the ongoing Russia-Ukraine war provides significant headwinds for the global economy. Aside from the catastrophic human toll, these wars could affect the US and European economies via lower regional trade, tighter financial conditions, higher energy prices and lower consumer confidence.

US

The Federal Reserve kept rates at 5.5% at its November meeting, reflecting the twin focus of returning inflation to the 2% target while avoiding excessive monetary tightening. Policymakers emphasised that any additional policy tightening would consider the cumulative impact of previous interest rate hikes, the time lags associated with how monetary policy influences economic activity and inflation, and developments in both the economy and financial markets.

Annual inflation fell to 3.2% in October, below market expectations of 3.3%, as energy costs dropped 4.5% and food, housing and used car costs rose at a softer pace. PPI fell 0.5% month-over-month in October, the most since April 2020 and against market expectations for a 0.1% increase.

The economy added 199,000 jobs in November, above the anticipated 180,000, with the unemployment rate falling to 3.7%. While the economy added more jobs than expected in November, it is the second month in a row that new jobs were well below the average of 240,000 jobs per month for the past year, suggesting that the labour market is slowing.

In November consumer sentiment fell to 60.4, missing estimates for 64 and largely driven by high interest rates and persistent inflation fears. Retail sales in October fell 0.1% over the month, ahead of expectations for a 0.3% drop but a slowdown from September's upwardly revised 0.9% rise. The annual rate increased 3.75%.

The S&P Global Composite PMI was steady at 50.7 in November as services activity showed a small uptick in the rate of growth. The trade deficit for October came in at US$64.31 billion, above the forecast US$64.2 billion.

Euro area

There was no meeting of the ECB in November, so interest rates remained at 4.5%. Annual inflation fell to 2.4% in November, well below the expected 2.7%.

PPI rose 0.2% in October, with the annual rate dropping by 9.4% as energy costs continued to fall, but at a slower rate than in previous months. Unemployment was unchanged at 6.5% in October, matching market expectations.

Consumer confidence rose to -16.9 in November reflecting improved assessments of the general economic situation and lower than expected inflation. Retail sales grew 0.1% in October, falling short of market expectations of a 0.2% rise as consumer demand remained subdued due to persistent high inflation and elevated borrowing costs. The Composite PMI rose to 47.1 in November but still represents a deterioration in economic conditions with input costs rising sharply and employment declined for the first time in three years.

UK

Inflation for October came in at 4.6%, down from 6.7% in both September and ahead of expectations of 4.8%. This fall is due in part to the reduction in energy prices following a decision by the UK energy market authority to lower the cap on household bills.

PPI fell to 0.1% in October in line with expectations, with the annual rate falling 0.6%, below the estimated 1% fall.

Consumer confidence rose to -24 in October, ahead of the anticipated -28 even as ongoing cost of living concerns continued to impact. Retail sales dropped 0.3% in October, well below the expected 0.3% rise as consumers are spending their money more cautiously. Annual sales fell 2.7%, more than the expected -1.5%.

China

Further disappointing economic data was released from China, with deflation of -0.2% in the headline CPI for the year to October. PPI was down 2.6%, having now declined for 13 consecutive months. Chinese exports contracted 6.4%, much worse than expected, and the country recorded its first ever quarterly deficit in Foreign Direct Investment as offshore companies withdrew capital.

Composite PMI rose to 51.6 in November, the steepest pace of growth since August as both services and manufacturing activity increased. Retail sales increase 0.1% in October with annual sales increasing 7.6%, above the expected 7.0%

The unemployment rate remained at 5.0% in October.

Japan

The Japanese economy shrank 0.7% in 3Q23. It was the first GDP contraction since 3Q22, amid elevated cost pressure and mounting global headwinds. CPI accelerated modestly to +2.9% in October and has now been above the Bank of Japan's 2% target for 19 consecutive months. The country's annual wage negotiations, due to begin in February, are expected to provide a further boost to Japan's inflation, with large trade unions aiming for member pay rises of at least 5%. Further evidence of sustainably above-target inflation may provide the BOJ with sufficient justification to withdraw its monetary stimulus measures, which have so far kept cash interest rates negative and Japanese 10-year government bond yields below 1.0%.

The unemployment rate fell to 2.5% in October, below market expectations.

The consumer confidence index rose to 36.1 in November, with sentiment increasing in most components. Retail sales fell 1.6% in October, with the annual rate rising 4.2%, well short of the forecast 5.9%. Although the lowest figure for ten months, retails sales continue to recover from the pandemic induced slump.

Composite PMI dropped to 49.6 in November, the first contraction since December 2022, as a drop in manufacturing offset the growth in services activity.

Currencies

The Australian dollar (AUD) appreciated over the month of November, closing 2.2% higher in trade weighted terms to 61.5, appreciating against all four referenced currencies in this update.

During the month, the volatility between the AUD and US Dollar (USD) stabilised, with the key factor behind the AUD's rebound being the widespread weakening of the USD. This trend was largely influenced by the mid-month US Consumer Price Index (CPI) release, revealing a 0.1% downside surprise in the core (excluding food and energy) measure. This outcome boosted confidence that the Federal Reserve has concluded its current tightening cycle, increasing the likelihood of rate cuts in the first half of 2024.

Relative to the AUD, the Pound Sterling (GBP) depreciated the least during the month, closing 0.3% lower. The laggard of the month was the USD, depreciating in relative terms against the AUD by 4.2%. Year-on-year, the AUD remains behind the GBP, Euro (EUR) and USD by -6.9%, -6.8% and -1.6% respectively, whilst ahead of the Japanese Yen (JPY) by 4.7%.