Market Update

NOVEMBER 2020

- Senator Biden is projected to win the US presidency, while President Trump's chances hinge on successful legal challenges in multiple battleground states.
- Markets were buoyed in November by the successful trial of the Pfizer/BioNtech vaccine, which is expected to be approved by the FDA later in the month.
- Rising COVID-19 cases in Europe have forced countries to return to lockdown conditions, including the closure of non-essential businesses.
- After bouncing back from the pandemic, China revealed its new five-year plan, which continues China's focus on emerging technology and innovation.
- Australia's combined fiscal and monetary response, along with the easing of restrictions across the country, are expected to boost the recovery in the final quarter of 2020.

October market performance

Equity Markets – Index Return*	Index	At Close 31/10/2020	% Return 1 Month	% Return 12 Months
Australia	S&P/ASX 200 Index	5927.58	1.93%	-8.15%
United States	S&P 500 Index	3269.96	-2.66%	9.71%
Japan	Nikkei 225 Index	22977.13	-0.88%	2.20%
Hong Kong	Hang Seng Index	24107.42	2.79%	-7.50%
China	CSI 300 Index	4695.33	2.38%	23.30%
United Kingdom	FTSE 100 Index	5577.27	-4.75%	-20.48%
Germany	DAX 30 Index	11556.48	-9.44%	-10.18%
Europe	FTSE Eurotop 100 Index	2469.07	-5.85%	-15.87%

Property – Index Returns*	Index	At Close 31/10/2020	% Return 1 Month	% Return 12 Months
Listed Property	S&P/ASX 200 A-REIT Index	1285.40	-0.37%	-17.97%

Interest Rates	At Close 31/10/2020	At Close 30/09/2020	At Close 31/10/2019
Australian 90 day Bank Bills	0.06%	0.08%	0.94%
Australian 10 year Bonds	0.83%	0.84%	1.14%
US 90 day T Bill	0.09%	0.10%	1.54%
US 10 year Bonds	0.88%	0.69%	1.69%

Currency**		At Close 31/10/2020	% Change 1 Month	% Change 12 Months
US dollar	AUD/USD	0.70	-0.90%	1.70%
British pound	AUD/GBP	0.55	-1.53%	1.79%
Euro	AUD/EUR	0.60	-0.46%	-2.79%
Japanese yen	AUD/JPY	73.51	-1.97%	-2.33%
Australian Dollar Trade-weighted Index		59.5	-1.98%	-0.83%

* 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

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".

Market Update

US

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.

Europe

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 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. In the 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.

China

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".

Market Update

Asia region

India became the second country to pass 8 million COVID-19 cases in October, fast approaching the US, which ticked over 9 million at the start of November. Concerns continue to mount as India approaches its major Hindu festival season, which is likely to increase the speed of the spread of the virus. Japan has been relatively successful in containing the virus, recording just over 100,000 cases at the start of November and around 1800 deaths. While economic activity is picking up, the economy remains in a “severe situation”, according to the Bank of Japan, pointing to the pause in services consumption through the summer. The Japanese government upgraded its view on private consumption for the first time in seven months, while exports are expected to continue increasing, mainly for automobile-related goods. South Korea’s GDP is expected to fall by 1.0% in 2020, making it the best performing economy after China, which is expected to grow 1.8% according to the OECD. South Korea reported quarter-on-quarter growth of 1.9% over the July-September period, aided by a strong recovery in exports of cars and memory chips. Vietnam—another COVID-19 success story—reported September quarter growth of 2.6% on the prior corresponding period.

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

Market Update

EQUITY MARKETS

- Australia's S&P/ASX 200 Index rose 1.9% in October with the largest gains coming from the IT, Financials and Consumer Staples sectors.
- The US S&P 500 Index fell 2.7% in October in US dollar terms, dragged down by the IT, Energy and Health Care sectors.
- In Europe, the UK FTSE 100 Index fell 4.8%, France's CAC 40 Index fell 4.4%, and Germany's DAX 30 Index fell 9.4% over the month.
- 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%.
- Global developed market shares fell 1.1% in Australian dollar terms while emerging market shares rose 4.2%.

Australian equities

	Index/Benchmark (% pa)	1 Month	1 Year	3 Years	5 Years	7 Years
Australian	S&P/ASX 200 Acc. Index	1.93%	-8.15%	4.09%	6.80%	5.63%
	S&P/ASX 50 Acc. Index	1.29%	-11.52%	3.39%	5.87%	4.71%
	S&P/ASX Small Ordinaries Acc. Index	0.46%	-2.40%	4.63%	8.56%	5.91%

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.

Investment Index/Benchmark returns*

S&P/ ASX 200 Index

Sector	1 Month	3 Months	1 Year
Information Technology	8.96%	17.29%	45.88%
Financials ex-Property	6.27%	0.85%	-21.82%
Consumer Staples	4.75%	-2.56%	4.06%
Consumer Discretionary	1.45%	7.37%	3.93%
Health Care	1.17%	6.14%	12.88%
Property	-0.37%	5.88%	-17.97%
Communications	-0.55%	-6.40%	-6.17%
Energy	-0.84%	-8.88%	-39.82%
Materials	-1.21%	-2.95%	7.63%
Utilities	-1.49%	-9.35%	-13.06%
Industrials	-3.92%	0.21%	-18.93%

*Total returns based on GICS sector classification

BIG MOVERS THIS MONTH

Going up

- ⇑ Information Technology +9.0%
- ⇑ Financials ex-Property +6.3%
- ⇑ Consumer Staples +4.8%

Going down

- ⇓ Industrials -3.9%
- ⇓ Utilities -1.5%
- ⇓ Materials -1.2%

Global Equities

	Index/Benchmark (% pa)	1 Month	1 Year	3 Years	5 Years	7 Years
Global	MSCI World Ex Australia Index (AUD)	-1.13%	2.71%	9.25%	8.52%	12.15%
	MSCI World Ex Australia Index (LCL)	-3.16%	3.60%	5.89%	8.02%	8.35%
	MSCI World Ex Australia Small Cap Index (AUD)	2.07%	-2.08%	4.78%	7.03%	10.55%
Emerging	MSCI Emerging Markets Index (AUD)	4.17%	6.20%	4.97%	8.26%	7.85%
	MSCI AC Far East Index (AUD)	3.21%	8.24%	6.69%	8.17%	10.47%

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

	Index/Benchmark (% pa)	1 Month	1 Year	3 Years	5 Years	7 Years
Australian	S&P/ASX 300 A-REIT Acc	-0.37%	-17.97%	2.83%	4.47%	8.03%
Global	FTSE EPRA/NAREIT Developed Ex Australia Index (AUD Hedged)	-3.43%	-25.32%	-3.27%	-0.06%	3.23%

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 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 Interest

	Index/Benchmark (% pa)	1 Month	1 Year	3 Years	5 Years	7 Years
Australian	Bloomberg AusBond Composite 0+ Yr Index	0.28%	4.00%	5.67%	4.53%	5.13%
	Bloomberg AusBond Bank Bill Index	0.01%	0.51%	1.35%	1.59%	1.86%
Global	Bloomberg Barclays Global Aggregate Index (AUD)	2.16%	3.63%	7.36%	4.23%	6.81%
	Bloomberg Barclays Global Aggregate Index (AUD Hedged)	0.00%	3.76%	4.49%	4.41%	5.03%

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.

Australian dollar

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%).