Count
The confidence to look ahead

Market **Wrap**

November 2023

Economic and market overview

- Investors in financial markets were given an early Christmas present in November, with favourable performance being generated across the board. In fact, November was the best month of returns for 'balanced' 60% equity / 40% fixed income portfolios since November 2020.
- Previously, there were lingering suggestions that borrowing costs might have to be raised further in key regions to combat persistently high inflation. The release of weaker-than-expected inflation prints and some softer employment data in the US, however, suggested that the Federal Funds rate has likely peaked.
- Moreover, most investors had previously expected borrowing costs to remain elevated for an extended period. This 'higher for longer' narrative had been weighing on risk assets for several months.
- Again, there was a shift in consensus forecasts during November. With inflation coming down sharply in the world's largest economy, there were increasing suggestions that borrowing costs are unlikely to remain elevated for as long as previously thought and that policymakers might be able to start lowering interest rates by mid-2024.
- These evolving forecasts provided a strong tailwind for risk assets. Equities and credit fared well over the month.
- Shifting interest rate expectations also resulted in very strong returns from fixed income, as bond yields fell sharply in major markets. Monthly returns from the US bond market, for example, were the strongest since the mid-1980s.

- **US**: US interest rates were unchanged during November, but consensus forecasts now suggest they will be cut next year. As many as five rate cuts have been priced in for 2024 as a whole.
- Headline inflation slowed meaningfully, to an annual rate of 3.2%. This remains slightly above the Federal Reserve's target, but represents a meaningful slowdown from the peak of more than 9% year-on-year in mid-2022. There is a growing feeling that significant increases in interest rates during this period are finally having their desired effect, dampening inflation without strangling growth and risking tipping the economy into recession.
- Separately, the latest data showed that 150,000 new jobs were created in October. This was among the lowest monthly totals since the post-Covid rebound in employment.
- The previously announced increase in employment for September was also revised lower and the official unemployment rate ticked up to 3.9%. This was only a 0.1% increase from the prior month, but again suggested economic conditions might be weakening a little, in turn feeding through to a further moderation in inflationary pressure.

- **Australia**: As had been widely anticipated, the Reserve Bank of Australia raised cash rates by 0.25% to 4.35% on Melbourne Cup day in early November.
- Like elsewhere, however, there were increasing suggestions that this will prove to be the peak in interest rates in this cycle and that policymakers could be in a position to lower borrowing costs in the next 6-9 months.
- Central bank officials sounded a little more precautionary, modestly increasing their long-term inflation forecasts as part of the quarterly *Statement of Monetary Policy*.
- The fresh comments suggest officials remain concerned that inflation could persist in the first half of 2024, before falling back within the target 2% to 3% target range during 2025.
- All of this is important, as observed inflation readings will have an important bearing on monetary policy settings locally and, in turn, affect sentiment towards Australian shares and bonds.

- **New Zealand**: Interest rates were left on hold at 5.5% and policymakers tried to dampen the market's expectations for three rate cuts in 2024.
- It seems the Reserve Bank of New Zealand is mindful of the potential inflationary impact of immigration and strong population growth. Officials could therefore be reluctant to start easing policy settings in the near term.
- It remains to be seen whether policies implemented by the new government will have any bearing on pricing pressures. The next monetary policy meeting is scheduled for the end of February and interest rates seem likely to remain unchanged until then.

- **Europe:** It was a similar story in Europe, where the President of the European Central Bank suggested policymakers might be in a position to pause the interest rate-hiking cycle.
- In other news, there was a welcome upturn in German business confidence. Officials will hope this is a signal that conditions and activity levels are improving in Europe's largest economy and that a prolonged recession can be averted. That said, industrial production in Germany has now fallen for five consecutive months, suggesting conditions remain sluggish for manufacturers.
- In the UK, inflation fell to its lowest level in two years. Consumer prices rose at an annual rate of 4.6% in October, down from 6.7% year-on-year in September. The latest reading was consistent with Prime Minister Sunak's pledge to halve inflation in 2023, one of five key priorities he hopes will improve the Conservative Party's chances in the next general election, which much be held in the next year or so.
- Like in the US, investors believe the timing of interest rate cuts in the UK will be brought forward. Consensus forecasts suggest the first easing in policy settings could occur in mid-2024.

- **Asia/EM**: Amid sluggish economic conditions, authorities in China stepped up their economic support measures. An additional 1.45 trillion yuan, or around A$300 billion, was injected into the financial system through fresh loans.
- Unlike in most other major economies, where inflation remains above target despite recent falls, prices in China are now falling on a rolling 12-month basis. Headline CPI fell back to -0.2% year-on-year in October.
- Producer prices – often a useful gauge of demand for manufactured goods – have also weakened recently, suggesting that both consumers and businesses might be reining in their expenditure.
- None of this will please officials in Beijing, who remain committed to annual 5% GDP growth targets.

Australian dollar

- The 'risk on' tone benefited the Australian dollar.

- Gains were most significant versus the US dollar, with the AUD appreciating by nearly 3 US cents. This was primarily due to broad-based USD weakness rather than AUD strength, with the greenback falling in value against most major currencies.
- That said, the AUD appreciated by 2.2% on a trade-weighted basis, and regionally by 1.8% against the Japanese yen.

Australian equities

- The Australian share market generated strong returns over the month, benefiting from moderating inflation data both domestically and offshore.
- Company news flow stemming from the AGM season in Australia was also broadly positive relative to expectations, which further brightened the mood. By month end, the S&P/ASX 200 Accumulation Index was up more than 5.0%.
- The Heath Care sector was a standout performer, returning 11.7%. CSL, Fisher & Paykel Healthcare, and Pro Medicus all rose between 12% and 19%. The latter announced a new $20 million contract with Oregon Health & Science University, which was well received by investors.
- Concerns about oversupply weighed on oil markets during the month and pushed WTI oil prices down more than 6%. Energy stocks generally fared relatively poorly as a result. Karoon Energy (-19.5%) was particularly weak after the company announced an intended acquisition. Global oil and gas producers Santos and Woodside Energy also struggled, both closing the month nearly 10% lower.
- Negative contributions from Origin Energy (-9.8%) and AGL Energy (-12.3%) weighed on returns from the Utilities sector. Origin's proposed takeover by the Brookfield consortium continued to look increasingly challenged. During the month the company rejected the consortium's revised offer, which had been proposed in case the original takeover proposal failed.
- Investors' healthy risk appetite enabled small caps to generate even stronger returns. The S&P/ASX Small Ordinaries closed the month 7.0% higher, which offset weakness earlier in the year and lifted returns back into positive territory in 2023.
- Biotechnology company Imugene was a standout performer in the small cap space, soaring more than 150% after dosing a first patient with its blood cell therapy drug, Azer-cel. Imugene subsequently announced that the Food and Drug Administration in the US had granted 'Fast Track' designation for Vaxinia, the company's cancer treatment program.

Global equities

- Share markets enjoyed strong rallies almost across the board during the month. In the US the S&P 500 Index added 9.1%, which was the best monthly return since mid-2022. The rebound higher was particularly welcome following three consecutive months of negative returns.
- As well as the tailwind from lower-than-expected inflation data in key regions, quarterly earnings announcements from US firms affirmed that profitability is holding up relatively well in most areas of the market. Sentiment towards technology-related names was particularly buoyant, which saw the NASDAQ rise by more than 10%.
- All of the major European share markets rose too, although there was a fairly large dispersion in returns. Spanish equities closed the month up more than 11%, for example, while the UK's FTSE 100 Index rose 'only' 1.8%. Weakness in energy giants Shell and BP, two of the largest constituents in the Index, kept a lid on overall performance in the UK.
- The release of subdued economic indicators in China hampered the CSI 300 Index (-2.1%), as well as the Hang Seng in Hong Kong (-0.4%). Across the East China Sea, Japanese shares performed much more strongly. The Nikkei added 8.5%.
- Stocks in developing regions performed well too, enabling the MSCI Emerging Markets Index to rise 4.5% in AUD terms.

Listed property

- Global property securities fared very well in November, meaningfully outperforming broader equity markets.
- Australian dollar strength diluted returns somewhat, but the FTSE EPRA/NAREIT Developed Index nonetheless added 9.0% in AUD terms. This helped claw back lost ground from earlier in the year.
- European markets generally fared the best. The Swedish and German markets added between 15% and 20%, for example. Both markets are typically quite sensitive to fluctuations in interest rates and therefore benefited from a moderation in expectations for future inflation.
- Asian markets performed less well, with Hong Kong and Japan adding 'only' 0.4% and 3.7% respectively in local currency terms.
- Earnings announcements from US REITs mostly beat consensus expectations, resulting in positive returns from the world's largest property market.
- Sector-wise, stocks in the industrials and self-storage sub-sectors typically fared the best, while healthcare-related names generally underperformed peers.
- Locally, lower bond yields provided some much needed relief for A-REITs and enabled the sector to return 11.0%. Charter Hall Group added 20.0%, while Stockland and Mirvac Group also generated particularly favourable returns.

Global and Australian Fixed Income

- Bond markets generated exceptionally strong returns in November as yields fell sharply worldwide. The Bloomberg Global Aggregate Index returned 3.2% in AUD terms.
- The performance of Treasuries was particularly good, with yields on 10-year US government securities closing the month 0.60% lower. Against this backdrop, the US bond market generated its strongest monthly return since the mid-1980s.
- More importantly, much-improved performance in November lifted returns from global bonds back into positive territory in 2023 to date, following weakness earlier in the year.
- The drop in yields reflected the release of lower-than-expected inflation readings and, in turn, suggestions that official cash rates might have peaked in key regions.
- Locally, yields on 10-year Australian Commonwealth Government Bonds fell 0.51% over the month, again as investors revised their interest rate forecasts lower.
- Buoyed by this move, the Bloomberg AusBond Composite Index returned 3.0%. Again, this lifted the Index back into the black in the calendar year to date.

Global credit

- The rally in risk assets extended to credit markets, with spreads on investment grade and high yield corporate bonds narrowing sharply over the month.
- The prospect of lower interest rates over time should be beneficial for credit issuers and could help ensure default rates do not rise significantly from current levels.
- Developments during November increased the likelihood of a 'soft-landing' in 2024, with inflation coming off the boil and economic growth rates remaining resilient. These conditions are perceived to be ideal for credit markets.
- US names fared particularly well over the month, although European issuers also added value. We even saw an improvement in sentiment towards Asian property names, which have generally endured a fairly torrid time this year.

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