

Economic and market update

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Bob reviews events in Australian and overseas markets during November.

How did markets perform in November?

Global shares recorded solid gains in November as US shares surged to record highs following the election of Donald Trump as the next US President. Hopes for stronger US economic growth and higher corporate profits given President-elect Trump's ambitious stimulus promises supported US shares.

US economic activity in November was also encouraging with strong consumer spending and job gains. Previous concerns about the prospect for higher interest rates did not inhibit risk taking during November. The US Federal Reserve again signalled that the solid US economic activity has "strengthened" the case to raise interest rates "relatively soon".

European shares recorded modest gains. Concerns over European political stability constrained share gains. Italy's constitutional referendum in December as well as next year's French and German elections also inhibited investors. European economic activity was generally positive with favourable business surveys indicating a sustainable recovery.

UK shares slipped in November given the sharp rise in bond yields, European political concerns and the diminishing prospects for further interest rate cuts from the Bank of England.

Japan's share market surged higher in November given the benefit of a weaker performing yen against the US dollar (USD).

Australian shares rebounded solidly in November (3.0%) after a disappointing October. Strong commodity price gains for coal, iron ore and oil propelled Energy and Resources higher.

Global bond yields moved sharply higher in November given the prospect of Trump's aggressive fiscal stimulus and an imminent US interest rate rise. These factors caused US government bond yields to dramatically increase. Australian government bond yields continue to move higher in response to global factors.

The Australian dollar (AUD) recorded mixed performance against the major currencies. A strong USD was a key market theme in November which weighed against the AUD. However the AUD managed considerable gains against the weaker yen.

What were the key factors driving markets?

The major theme driving markets in November was the election of Trump, which caused US share prices and bond yields to surge higher given his promises of corporate tax cuts and infrastructure spending.

Stronger demand from China and better US infrastructure spending prospects resulted in iron ore prices rising to US\$72 per tonne in November.

In Australia, our economic activity was mixed with subdued employment results and a stable unemployment rate (5.6%), yet solid readings for the National Australia Bank business survey and consumer sentiment surveys.

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