Market Update

NOVEMBER 2021

- Australia's S&P/ASX 200 Index had a moderate decline of -0.10% in October.
- Nonfarm payrolls rose 531,000 in September, well above of expectations of a 450,000 increase.
- Eurozone GDP expanded 2.2% in Q3, slightly ahead of expectations of 2.1%, with the annual rate sitting at 3.7%.
- The RBA kept the cash rate on hold at 0.1% as expected; consumer sentiment fell as worries over the longer-term outlook for the economy overshadowed relief from the loosening of COVID-19 restrictions.

October market performance

Equity Markets – Index Return*	Index	At Close 31/10/2021	% Return 1 Month	% Return 12 Months
Australia	S&P/ASX 200 Index	7323.74	-0.10%	27.96%
United States	S&P 500 Index	4605.38	7.01%	42.91%
Japan	Nikkei 225 Index	28892.69	-1.89%	27.81%
Hong Kong	Hang Seng Index	25377.24	3.27%	8.03%
China	CSI 300 Index	4908.77	0.95%	6.46%
United Kingdom	FTSE 100 Index	7237.57	2.21%	34.52%
Germany	DAX 30 Index	15688.77	2.81%	35.76%
Europe	FTSE Eurotop 100 Index	3466.87	5.36%	44.54%

Property – Index Returns*	Index	At Close 31/10/2021	% Return 1 Month	% Return 12 Months
Listed Property	S&P/ASX 200 A-REIT Index	1617.40	0.42%	30.87%

Interest Rates	At Close 31/10/2021	At Close 30/09/2021	At Close 31/10/2021
Australian 90 day Bank Bills	0.08%	0.02%	0.08%
Australian 10 year Bonds	2.09%	1.49%	0.84%
US 90 day T Bill	0.05%	0.03%	0.10%
US 10 year Bonds	1.55%	1.49%	0.69%

Currency**		At Close 31/10/2021	% Change 1 Month	% Change 12 Months
US dollar	AUD/USD	0.75	4.23%	6.97%
British pound	AUD/GBP	0.55	2.50%	1.21%
Euro	AUD/EUR	0.65	4.35%	7.79%
Japanese yen	AUD/JPY	85.76	6.69%	16.59%
Australian Dollar Trade-weighted Index		63.10	3.78%	6.05%

* 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

Global Covid-19 cases continue to rise with numbers surpassing 246 million cases and 6.9 billion vaccine doses administered as at the end of October. Ongoing Covid cases, production bottlenecks, soaring commodity prices and power supply issues continue to pose a risk to already strained global supply chains.

Market Update

US

The Federal Reserve kept its policy rate unchanged at 0.00-0.25%, whilst deciding to begin reducing the monthly pace of asset purchases by the end of the month. The Fed Chairman, Jerome Powell, noted that they are able to be patient on increasing rates but will not hesitate to act if inflation levels continue to remain elevated. GDP expanded an annualised 2% in Q3, well below market forecasts of 2.7% and slowing sharply from 6.7% in Q2. It is the weakest growth of pandemic recovery as an infusion of government stimulus continued to fade and a surge in COVID-19 cases and global supply constraints weighted on consumption and production. Personal consumption eased sharply (1.6% vs 12% in Q2) as spending on goods services decelerated. CPI increased 0.4% in September, above the 0.3% forecast, with the annual inflation rate reaching a 13 year high of 5.4%, above market expectations of 5.3%. Nonfarm payrolls rose 531,000 in October, well above expectations of 450,000. The unemployment rate declined 20bps to 4.6% in October, below the expected 4.7%, with the average hourly earnings yearly rate rising by 4.9%, the strongest increase since February this year. Personal incomes fell 1% in September, below the expected 0.2% fall. Retail sales rose unexpectedly 0.7% in September against an expected 0.2% fall, bringing the annual rate to 13.9%, well above the forecast 9%. PPI rose 0.5% in September, slightly lower than the forecast 0.6%, with the yearly rate rising to 8.6%, the highest level since November 2010. The Markit Composite PMI increased to 57.6 in October, while the Markit Manufacturing PMI came in at 58.4 for the same period, which is the weakest expansion in ten months. The Philadelphia Fed Manufacturing Index fell to 23.8 in October, from 30.7 in September, below a forecast of 25.0. The Chicago PMI rose to 68.4 in October, well above estimates of 63.5 and reversing the decline of the past two months. The trade deficit widened to US$80.9 billion in September, surpassing expectations of an increase to US$80.5 billion, amid a continued rise in imports and falling exports.

Europe

The ECB kept interest rates on hold at 0.0%, as expected. GDP expanded 2.2% in Q3, slightly ahead of expectations of 2.1%, while the yearly rate now sits at 3.7%. Economic sentiment surprised in October, rising from 117.8 to 118.6, against an expected fall to 117.1. Consumer confidence fell in October from -4.0 to -4.8, in line with forecasts. The unemployment rate fell 10bps to 7.4% in September, the lowest level since April 2020. The Markit Composite PMI declined 2pts to 54.2 in October, below expectations of 55.2, amid increasing supply bottlenecks and ongoing COVID-19 concerns. Retail sales surprised in September, declining 2.5% against expectations of 0.6% growth, with the yearly rate slumping to -0.9% (1.8% expected). The annual inflation rate rose to 4.1% in October and well above the forecasted 3.7%, recording the highest level since July 2008. Angela Merkel stood down as Chancellor of Germany after 16 years. Her replacement is likely to be Olaf Sholz, leader of the Social Democrats, who agreed to a preliminary coalition deal with the Greens and Free Democrats in late October. PPI rose 2.7% in September, above expectations of 2.2% growth, while the yearly rate increased to 16.0% (15.2% expected).

In the UK, the Bank of England left its cash rate unchanged at 0.1%, as widely expected. The bank also left its bond-buying programme unchanged as policymakers weighed concerns over rising prices against the downside risks from slowing global growth and a potential upturn in UK unemployment following the end of the furlough schemes in September. Inflation fell to 0.3% in September, from 0.7% the month prior and below the forecast 0.4%. This takes the annual rate to 3.1%, down from the nine-month high of 3.2% in August. The unemployment rate fell 10bps to 4.5% in August, as expected. This is the lowest level in the year, but still 0.5% points above pre pandemic rate. Job vacancies rose to an all-time high of 1.1m, mainly in the lower paid accommodation and services sectors. The Markit/CIPS Composite PMI rose to 56.8 in October, a three-month high and highlighting buoyant business and consumer spending due to the roll back of pandemic restrictions Stronger wage pressures and the worsening global supply chain crisis contributed to the fastest rate of input price inflation at UK private sector companies since this index began in January 1998. The manufacturing PMI increased to 57.8, in line with expectations and above September's seven month low. Retail sales fell 0.2% in September, missing expectations of 0.5% growth, while the annual rate lowered to -1.3% against the expected -0.4%.

China

China's inflation rate stayed the same month-on-month in September, below expectations of 0.3%. The yearly rate unexpectedly edged lower to 0.7% in September against market estimates of 0.9%, the lowest reading since March. The yearly GDP growth rate fell 300 bps to 4.9% in Q3, below expectations of 5.2%. Yearly industrial production came in at 3.1% in September, down from 5.2% in August and missing expectations of 4.5%. The unemployment rate fell 20bps to 4.9% (5.1% expected) in September, the lowest level since December 2018. Retail sales picked up in September to an annual rate of 4.4%, above expectations of 3.3%, and well above the 2.5% in August. The NBS Manufacturing PMI fell for the second month in a row in October to 49.2, missing expectations of 49.7, with output, new orders and export sales all declining. The Caixin China General Composite PMI rose 0.1 point in October to 51.5. The trade surplus surged to US$84.5 billion in October, up from US$66.8 billion in September, and well above the market consensus of US$65.6 billion. Shortages of raw materials, soaring commodity prices, and electricity supply problems created strong constraints for manufacturers and continue to pose a risk to already strained global supply chains.

Asia region

The Bank of Japan left its key short-term interest rate unchanged at -0.1% and the target for the 10-year government bond yield at around 0.0%, as widely expected. In a quarterly outlook report, the central bank slashed its projected rates of the GDP for the current FY to 3.4% from earlier forecasts of 3.8% made in July, citing sluggish consumption and a slowdown in exports and output as supply disruptions persisted. Japan's unemployment rate remained at 2.8% in September, in line with market consensus. Japanese consumer confidence was up 1.4 points in October to 39.2, the strongest reading since May 2019. Retail sales increased 2.7% in September, with the annual rate falling just 0.6%, against expectations of a 2.3% fall. Household spending surprised in September with the month on month rate increasing 5% against expectations of 2.8% and the annual rate declining 1.9% against the forecast of -3.9%. PPI increased 6.3% yoy in September, beating market consensus of 5.9% and after an upwardly revised 5.8% growth a month earlier. This was the 7th straight month of producer price inflation and the highest reading since September 2008, amid surging commodity prices. Industrial production dropped by 5.4% in September, above expectations of -3.2%, amid rising COVID-19 cases across the country and persistent supply chain disruptions. This pushed the annual to -2.3%. The ruling LDP was re-elected, with a reduced majority and Fumio Kishida was re-elected as Prime Minister.

Australia

The RBA left the cash rate unchanged at 0.1%, as widely expected, while continuing with plans to trim the purchase of government bonds to $4 billion a week until at least mid-February 2022. Retail sales increased 1.3% in September after slumping 1.7% in August. September's unemployment rate rose 0.1 points to 4.6%, below the expected 4.8%, with the participation rate decreasing 0.7 points to 64.5%. The Westpac- consumer sentiment index fell 1.5% to 104.6 in October, as worries over the longer-term outlook for the economy overshadowed relief from the loosening of COVID-19 restrictions. The NAB business confidence index rebounded strongly by 19pts to +13 in September, with NSW (up 42pts to +27) and Victoria (up 16pts to +5) driving the shift. The Markit Composite PMI rose to 52.1 in October, the highest level in the past four months, and a marked increase above the 46 in September. PPI increased 1.1% in Q3, below the expected 1.4%, with the yearly rate increasing from 2.2% to 2.9%. The trade surplus narrowed to $12.24 billion in September, as expected, down from a revised $14.74 billion in August. NSW and Victoria reopened in late October as full vaccination rates reached 80% of the population over 16 in each state. The Federal government announced the opening of the international border to vaccinated travellers without the need to quarantine from 1 November.

Market Update

EQUITY MARKETS

- Australia's S&P/ASX 200 Index had a moderate decline of -0.10% in October, with returns across Industrials (-3.2%), Energy (-2.7%), Consumer Staples (-2.3%) and Communications (-1.1%) weighing on returns.
- During October, the US S&P 500 Index increased strongly (+7.0%) in US dollar terms, taking the one year return to 43.0%.
- In Europe, the UK's FTSE 100 Index was up 2.2% with Germany's DAX 30 also up by 2.8%.
- Asian markets were somewhat mixed with Japan's Nikkei 225 Index down by -1.9% and China's CSI 300 Index up by 1.0%. By Contrast, Hong Kong's Hang Seng Index finished up 3.3% after a challenging month in September (all in local currency terms.)

Australian equities

	Index/Benchmark (% pa)	1 Month	1 Year	3 Years	5 Years	7 Years
Australian	S&P/ASX 200 Acc. Index	-0.10%	27.96%	11.91%	10.87%	8.45%
	S&P/ASX 50 Acc. Index	-0.08%	28.56%	11.41%	10.38%	7.57%
	S&P/ASX Small Ordinaries Acc. Index	0.92%	31.01%	13.51%	11.44%	10.59%

A late selloff for the Australian share market led to modest overall losses for the month, with the S&P/ASX 200 retracing 0.1%. Information Technology was the standout sector, gaining 2.1% for the month, with Health Care (+1%) and Financials (+0.8%) also contributing positively. Industrials were the biggest lag on the Index, falling 3.2% as inflation fears weighed on investor sentiment in the sector. Energy also pulled back with a decline of 2.7%, unwinding some of the impressive gains from the previous month.

Momentum and growth were the only factors to provide a positive return for the month with a gain of 0.6% and 0.1% respectively. Quality was the largest detractor with a decline of 1.3%. While value declined 0.2%, it remains the dominant factor year to date with a gain of 20.6%.

During the month, third quarter inflation data was released with underlying inflation coming in at 2.1% year-on-year, which was ahead of the 1.8% expected by the market. Inflation now sits within the bottom of the RBA's target range of 2% to 3% for the first time in six years. The inflation surprise dented investor sentiment in the Australian share market as expectations are mounting that the RBA will need to tighten much earlier than previously forecast. The prospect of higher rates will likely challenge equity valuations that have risen based on ultra-loose monetary and fiscal policy.

Investment Index/Benchmark returns*

S&P/ ASX 200 Index

Sector	1 Month	3 Months	1 Year
Information Technology	2.10%	14.80%	21.78%
Health Care	0.97%	2.55%	7.97%
Financials ex-Property	0.78%	7.25%	49.01%
Property	0.42%	4.38%	30.87%
Consumer Discretionary	0.32%	3.43%	36.34%
Materials	-0.47%	-16.29%	17.45%
Utilities	-0.63%	2.84%	-5.98%
Communications	-1.11%	5.37%	41.19%
Consumer Staples	-2.29%	0.66%	9.68%
Energy	-2.69%	9.08%	36.52%
Industrials	-3.23%	-1.01%	18.54%

*Total returns based on GICS sector classification

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BIG MOVERS THIS MONTH

Going up

⥣ Information Technology +2.1%

⥣ Health Care +1.0%

⥣ Financials ex Property +0.8%

Going down

⥥ Consumer Staples -2.3%

⥥ Energy -2.7%

⥥ Industrials -3.2%

Global Equities

	Index/Benchmark (% pa)	1 Month	1 Year	3 Years	5 Years	7 Years
Global	MSCI World Ex Australia Index (AUD)	1.65%	31.36%	16.03%	15.87%	13.95%
	MSCI World Ex Australia Index (LCL)	5.62%	40.71%	17.84%	15.27%	11.87%
	MSCI World Ex Australia Small Cap Index (AUD)	-0.55%	35.98%	13.79%	14.43%	13.42%
Emerging	MSCI Emerging Markets Index (AUD)	-2.88%	9.35%	10.14%	9.67%	7.98%
	MSCI AC Far East Index (AUD)	-4.32%	5.43%	9.17%	9.65%	9.89%

Global markets saw a recovery in performance during October from a volatile prior month, with developed markets returning 1.65%, outperforming global small caps which detracted 0.6% in Australian dollar terms. More broadly, Asian and emerging markets continue to face pressure, with equities detracting there by 4.3% and 2.9% over the month in Australian dollar terms, respectively. Over the year, developed market small caps led their broad cap counterparts, whilst emerging market equities outperformed Asian equities, as represented by the MSCI AC Far East NR Index, in Australian dollar terms. October was the best month of the year for the S&P500, driven by strong third quarter earnings results reported by the country's largest companies. Support for risk appetite going forward is expected to improve as Washington comes close to approval of its US$1.85 trillion stimulus plan, which comes off the back of US$1 trillion infrastructure support package that gained Senate approval in late October. Equities in the UK and Europe continue to rise in line with US markets, with inflation and a shift in FED policy remaining the most significant near-term risks for developed market equities. Further abroad, continued regulatory tightening in China remains a persistent issue with a newly proposed real estate tax weighing on the property sector. Although Chinese GDP has returned to its pre-pandemic level, the broad reaching policy shift is expected to dampen growth in the near term. Elsewhere, retention of Japan's sitting prime minister is expected to support Japanese investor sentiment going forward, as political uncertainty caused foreign investors to become net sellers of Japanese equities leading up to the election in the final week of October.

Property

	Index/Benchmark (% pa)	1 Month	1 Year	3 Years	5 Years	7 Years
Australian	S&P/ASX 200 A-REIT Acc	0.42%	30.87%	9.86%	8.95%	9.81%
Global	FTSE EPRA/NAREIT Developed Ex Australia Index (AUD Hedged)	5.80%	42.67%	8.94%	7.47%	7.17%

The S&P/ASX 200 A-REIT Accumulation Index finished 0.42% higher in October, equating to a one year return of 30.87%. Global real estate equities (represented by the FTSE EPRA/NAREIT Developed Ex Australia Index (AUD Hedged)) advanced strongly, finishing 5.80% higher, equating to a one year return of 42.67%. Interestingly, U.S. REITs have raised north of $100bn in IPOs and secondary debt and equity offerings during 2021 along with eleven REIT mergers, a strategic play to fuel further growth (Source: Nareit, October 2021). October A-REIT acquisitions included Vicinity Centres (ASX: VCX) reaching conditional agreement to acquire a 50% interest in Harbour Town Premium Outlets Gold Coast from Australian Prime Property Retail for $358m, and GPT Group (GPT) selling Wollongong

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Central to Haben Property Fund and the JY Group for $402m. Nationally, the housing market once again advanced further, showing considerable strength, with the CoreLogic 5 city aggregate recording a 1.36% increase for the month. Perth was the only city to record negative growth, albeit -0.10%. Hobart is leading the way for year-on-year change, with all dwellings advancing 28.07%, significantly above the 5 city aggregates 20.63% for the same period, which has now broken last month's record of highest one year growth rate since June 1989, according to CoreLogic's data.

Fixed Interest

	Index/Benchmark (% pa)	1 Month	1 Year	3 Years	5 Years	7 Years
Australian	Bloomberg AusBond Composite 0+ Yr Index	-3.55%	-5.30%	-2.72%	2.58%	3.30%
	Bloomberg AusBond Bank Bill Index	0.00%	0.03%	0.73%	1.17%	1.49%
Global	Bloomberg Barclays Global Aggregate Index (AUD)	-4.06%	-7.67%	2.54%	2.79%	4.45%
	Bloomberg Barclays Global Aggregate Index (AUD Hedged)	-0.26%	-1.05%	4.06%	2.85%	3.73%

Australian Fixed Interest markets were hit hard in October, with the bulk of the losses being driven by a sharp increase in the 2 and 3 year Australian Government Bond yields at the end of the month. Markets had begun to doubt the Reserve Bank of Australia's (RBA) conviction in keeping the 2 year rate held at 0.1% and begun to sell off the issue in earnest on the 28th of October. The RBA failed to defend their 'yield curve control' target, leading to the yield rising by more than 50bps over the course of the day, reaching more than 0.75%. The RBA formally dropped the 0.1% yield curve control target in the following week. The longer end of the curve also saw increases, with the 10 year yield exceeding 2% for the first time since 2019. These increases in yields drove a return of -3.55% for the Bloomberg AusBond Composite 0+ Yr Index over the course of October, as credit spreads remained relatively static and had little impact on the month's results. The significant yield shift was primarily an Australian affair, as the RBA is one of the only central banks in the world to have deployed a yield curve control policy. As such, returns were much more muted internationally, with the Bloomberg Barclays Global Aggregate Index (AUD Hedged) returning -0.26% in October, with currency fluctuations resulting in a return of -4.06% for the unhedged variant.

Australian dollar

The Australian dollar rebounded over the month of October closing 4.2% higher against the greenback and 3.8% in trade-weighted terms. Energy shortages in Europe and Asia have buoyed commodity linked currencies including the AUD as thermal coal and crude oil prices approach record highs. In addition, the removal of the aforementioned 'Yield Curve Control' by the RBA served to lift the AUD. These gains were enhanced by improvement in investor confidence over the course of the month as Victoria reopened after a prolonged lockdown, coupled with predictions of tighter monetary policy and interest rate hikes in the near term.

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