BLUEBIRD
PORTFOLIO SERVICES

Quality Listed Portfolios

Monthly Market Update – November 2021

Asset Class total returns to: 30/11/2021	1M (%)	3M (%)	6M (%)	1Y (%)	3 Y (% p.a.)	5 Y (% p.a.)	Current Yield
Cash	0.0	0.0	0.1	0.1	0.7	1.1	0.1%
Fixed Term Bank Deposit (12M)	0.0	0.1	0.2	0.4	1.0	1.4	0.4%
Australian Bonds (composite)	2.1	-3.0	-0.6	-3.2	3.3	3.3	2.0%
Australian Bank Hybrids (gross yield to call)	0.0	0.9	1.7	4.5	4.4	4.1	3.4%
Australian Property	4.0	2.6	15.7	21.4	12.1	10.2	3.7%
Australian Shares	-0.5	-2.5	3.4	15.5	12.5	10.1	3.5%
Global Shares (unhedged)	3.7	2.2	14.8	26.8	18.2	15.7	1.8%
Global Infrastructure (hedged)	-2.3	-1.7	2.4	10.1	7.2	8.8	3.8%

Key indicator movement to:	30/11/2021	1M	3M	6M	1Y
AUD/USD (cents)	0.71	-0.04	-0.03	-0.06	-0.02
Aust. 10-year bond yield (%)	1.73	-0.34	0.57	0.08	0.83
Gold US$/ounce	1,774	-1.0%	-2.0%	-7.0%	-0.2%
Brent oil US$/bbl	70.6	-16.4%	-3.0%	1.8%	48.3%
Iron ore US$/t	95	-21.5%	-40.3%	-53.8%	-23.8%
Copper US$/pound	4.28	-2.2%	-0.9%	-8.6%	25.1%

Source: Refinitiv, relevant benchmark data. Note: Past performance is not a reliable indicator of future performance.

Global

Major developments over the past month include concern over a new COVID variant (Omicron) and the US Federal Reserve (the Fed) suddenly turning hawkish on inflation, after the recent reappointment of the Fed Chair, Jerome Powell. This had led to increased volatility in financial markets, which previously seemed primed for a Christmas rally.

It is early days on the Omicron variant, but it does seem to be more infectious but less virulent. If so, it could turn out to be a net positive in that it could spread natural immunity to the COVID virus. In addition, existing vaccines may remain effective against Omicron but in any case, new vaccines or booster shots might prove to be effective, within a short timeframe. Nonetheless, fears of new travel restrictions and lockdowns, particularly in Europe, have led to a retreat in bond yields and commodity prices. In addition, many stock sectors, like technology, have become more volatile.

Adding fuel to the fire has been the Fed taking a more hawkish stance on monetary policy. It is now more worried about inflation persisting (dropping the word 'transitory') and plans to wind up asset purchases by March 2022, with the first interest rate hikes possible by mid-2022. This is a positive and a negative. Bond markets will be comforted that the Fed is starting to act on inflation (preventing bond yields from rising too rapidly) but equity markets will be concerned that interest rates are set to rise over 2022.

Complicating matters are patchy growth and employment numbers globally. Growth trends are improving but employment numbers remain stubbornly below expectations, particularly in the US, and suggest that workers are not responding to job openings. It seems higher wages will be required to coax workers back into the workforce. Wage inflation along with ongoing supply chain issues seem to be main short-term drivers of inflation.

Longer term, the transition away from fossil fuels to clean energy may also be inflationary, as replacing coal, oil and gas, in many key industrial processes like transport, steel, cement, fertiliser and plastics won't be easy and is often more costly in the initial transition phase.

Lastly, China issues seem to be on the back burner for now, with the US and China opening up communication recently and China's largest property developer, Evergrande, staving off creditors for now. However, the state of China's property market and its property developers continues to remain a key risk.

Australia

Economic activity has gained momentum, as NSW and Victoria reopen after reaching 90% double-dose vaccination rates. Omicron has thrown a little doubt on national and international borders opening up into Christmas but the verdict on Omicron's status should be known shortly. As mentioned above, anecdotal evidence suggests it may be more infectious but less virulent – let's hope so!

Both major parties have adopted a net zero carbon policy by 2050, but there is a lot of hard work ahead to transition from fossil fuels (which still make up over 80% of our energy needs) to clean energy. A particularly wet and eventful 'La Nina' summer seems to be another reminder that climate change is not going away.

The RBA is expected to wind up its bond market activity by February 2022 but is adamant it has no plans to increase the cash rate in 2022. With the Fed bringing forward potential interest rate increases to mid-2022, the USD has been strengthening and the AUD falling. The expectation is that the AUD will remain weak, while the RBA maintains the cash rate at 0.10% but any hint of the RBA becoming more hawkish could see the AUD rally.

The Federal Government is running into an election due by May 2022. Both major parties are already campaigning with COVID, climate change and the budget likely to be key issues. With the LNP government already running very loose fiscal policy, there seems to be little difference between the two major parties nowadays!

Outlook

The outlook generally remains positive based on very accommodative fiscal and monetary policy. The COVID pandemic remains a key risk, although it should fade in 2022. The other major risk is inflation and central banks being forced to tighten monetary policy.

The key known risks ahead seem to be:

- COVID pandemic (should fade in 2022);
- Inflation (supply bottlenecks, labour dislocation, ESG transition);
- China (Xi pivoting back to Mao policies and property bubble);
- Regulatory interventions (related to market failures and/or ESG issues); and
- Geopolitical tensions around trade, security and sovereignty.

The next key events on the calendar include:

- US Fed meeting – 14-15 December 2021
- US $28.5 trillion public debt limit - must be lifted by 15 December 2021
- US 4Q21 reporting season – February 2022
- Australia 1H22 profit season – February 2022
- Australian Federal Election – March/April 2022
- Australian Federal Budget – May 2022

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Warnings, Disclosure and Disclaimer

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