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Summary of Key Views

Insights from our CIO:

Key Messages for Investors:

- Macroeconomic conditions are decelerating, but the impact is not evenly felt.
- The 2-Speed Australian Consumer reflects our assertion that the wealthiest portion of the country is carrying the aggregate economy.
- Even between nations, the relative economic performance is widening.
- The best examples of the haves and have-nots are the S&P500 and the Magnificent 7 (M7). Considering the US market as a whole, it looks very expensive, but when you break out the M7, a very different picture emerges.
- Now is the time to use active managers in your clients' portfolios, abide by the rules of diversification, and speak to your clients to ensure their portfolios align with their financial goals.

Market developments during November 2023 included:

Australian Equities

The ASX 200 was up 5.0% for the month of November, halting the three-month slide in returns. Eight of 11 sectors finished positively; the three strongest being Health Care (+11.7%), Property (+11.0%), and Information Technology (I.T.) (+7.4%), while Energy (-7.4%) and Utilities (-6.0%) were laggards. The month began with a rate hike by the RBA and fears of further increases; however, markets were supported by indications of inflation slowing at a decent pace, finishing the month with the strongest return for the index since January. The Health Care sector was driven by a strong month for three major constituents; CSL, ResMed and Cochlear. Meanwhile, despite the RBA's decision early in the month, the rate-sensitive Property and I.T. sectors were the beneficiaries of the ease in inflation as investors piled back into those sectors. Energy stocks were hit by the significant drop in oil prices over the month, partly due to the Chinese economy continuing its struggles. Meanwhile, Utilities were impacted, predominantly, by one stock; Origin Energy, as the unpredictable takeover bid of the company saw its shares fall almost 10%. In all, the ASX 200 finished November by clawing back some of the losses seen in the previous three months.

Global Equities

Global equity markets gained in November, rebounding from October lows. Developed markets outperformed emerging market counterparts returning 4.4% (MSCI World Ex-Australia Index (AUD)) versus a 3.1% return according to the MSCI Emerging Markets Index (AUD).

US markets gained. The S&P500 finished up 9.1% and the Nasdaq up 10.8% (in local currency terms) as the Federal Reserve shows signs of ending rate hikes.

European markets also gained on easing inflation data, the DAX gaining 9.5% (in local currency terms) over the month.

Chinese markets performed poorly, as China's economy continues to contract, and artificially lowered iron ore prices fail to bolster the economy. The Hang Seng Index and CSI 300 Index lost -0.2% and -2.1% for the month (in local currency terms), as China's largest property giant EverGrande continues to face collapse, dragging the Real estate Sector lower in China.

Fixed Interest

After four months of rate hike respite, the RBA has lifted the official cash rate by 25 basis points to 4.35% following latest inflation data and economic indicators. This marks the highest cash rate level since 2011, and the RBA will continue to monitor the balance between the strong labour market and slowing household sector. Over the course of the month, bond yields fell steadily with Australian 2- and 10- Year Bond yields falling by 35bps and 52bps respectively. The Australian bond market, as measured by the Bloomberg AusBond Composite 0+ Yr Index, rose 2.97%.

November brought a large recovery in global bond markets as well. US inflation figures came in cooler than expected, resulting in a rise in bond prices and a drop in bond yields. US 2- and 10- Year Treasury yields fell by 39bps and 60bps respectively, despite Moody's downgrade of US credit rating from 'stable' to 'negative'. The U.K. saw a larger than expected fall in inflation as well as an increase to the Bank Rate by 75bps by the BoE, resulting in U.K 10 Year Gilt yields falling 34bps – a 50 basis point drop from its October high.

REITs (listed property securities)

The S&P/ASX 200 A-REIT Accumulation index advanced during November, with the index finishing the month 11.0% higher. Global real estate equities (represented by the FTSE EPRA/NAREIT Developed Ex Australia Index (AUD Hedged)) also finished strongly, advancing 9.0% for the month. Australian infrastructure also performed well during November, with the S&P/ASX Infrastructure Index TR advancing 1.6% for the month and up 6.6% YTD.

November was relatively muted on the M&A front across the A-REIT sector. Some activity included Centuria Capital Group (ASX: CNI) announcing the acquisition of an industrial facility for $71mn. Ingenia Communities Group (ASX: INA) secured a deal to acquire six seniors' rental villages in Western Australia for $44mn. Additionally, the CEO of Ingenia, Simon Owen, has announced his intention to step down from the role. Owen will continue as CEO until a successor is appointed.

The Australian residential property market experienced an increase by +0.6% Month on Month (as represented by CoreLogic's five capital city aggregate). Perth was the biggest riser (+1.9%), followed by Brisbane (+1.3%) and Adelaide (+1.2%). In contrast, Melbourne (-0.1%) was the only city to deliver negative returns in November.

Alternatives

Preliminary estimates for November indicate that the index increased by 2.1 per cent (on a monthly average basis) in SDR terms, after increasing by 3.2 per cent in October (revised).

The non-rural and base metals sub-indices increased in the past month, whilst the rural sub-index decreased. In Australian dollar terms, the index increased by 0.9 per cent in November.

Over the past year, the index has decreased by 10.5 per cent in SDR terms, led by lower thermal coal and liquified natural gas prices. The index has decreased by 7.4 per cent in Australian dollar terms.