Market Update

DECEMBER 2021

- Australia's S&P/ASX 200 Index declined by -0.5% in November masking some disparate returns across sectors.
- Nonfarm payrolls rose 210,000 in November, well below of expectations of a 550,000 increase.
- Eurozone annual inflation rose to 4.9%, the highest rate since July 1991.
- The RBA kept the cash rate on hold at 0.1% as expected, with indications that inflation had picked up but remains low in underlying terms.

November market performance

Equity Markets – Index Return*	Index	At Close 30/11/2021	% Return 1 Month	% Return 12 Months
Australia	S&P/ASX 200 Index	7255.97	-0.54%	15.48%
United States	S&P 500 Index	4567.00	-0.69%	27.92%
Japan	Nikkei 225 Index	27821.76	-3.68%	7.00%
Hong Kong	Hang Seng Index	23475.26	-7.42%	-8.55%
China	CSI 300 Index	4832.03	-1.55%	-0.85%
United Kingdom	FTSE 100 Index	7059.45	-2.17%	16.78%
Germany	DAX 30 Index	15100.13	-3.75%	13.61%
Europe	FTSE Eurotop 100 Index	3371.03	-2.61%	22.87%

Property – Index Returns*	Index	At Close 30/11/2021	% Return 1 Month	% Return 12 Months
Listed Property	S&P/ASX 200 A-REIT Index	1690.40	4.52%	20.78%

Interest Rates	At Close 30/11/2021	At Close 31/10/2021	At Close 30/11/2021
Australian 90 day Bank Bills	0.05	0.08	0.02
Australian 10 year Bonds	1.69	2.09	0.90
US 90 day T Bill	0.05	0.05	0.07
US 10 year Bonds	1.45	1.56	0.84

Currency**		At Close 31/10/2021	% Change 1 Month	% Change 12 Months
US dollar	AUD/USD	0.71	-5.53%	-3.47%
British pound	AUD/GBP	0.54	-2.51%	-2.81%
Euro	AUD/EUR	0.63	-3.47%	2.03%
Japanese yen	AUD/JPY	80.33	-6.33%	4.70%
Australian Dollar Trade-weighted Index		60.20	-4.60%	-2.11%

* 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 262 million cases and 7.7 billion vaccine doses administered as at the end of November. COVAX missed its developing world vaccination target for November and called on wealthy nations to do more to get vaccines where needed most, especially in the wake of the new Omicron variant. Inflation has climbed across the globe, with the US recording its highest level in 30 years.

Market Update

US

The Federal Reserve kept its policy rate unchanged at 0.00-0.25%, as expected. Personal consumption increased 1.7% annually, ahead of the expected 1.6%. Prices soared as inflation hit a 30 year high of 6.2% in November, fuelled by strong consumer demand and shortages of goods amid a tight supply chain. Consumer confidence fell in November to 66.8, from 71.7 in October and well short of the expected 72.5. Non-farm payrolls rose 210,000 in November, well below expectations of 550,000 as employers continue to report difficulties in hiring and retaining workers. The unemployment rate fell 40bps to 4.2% in November, coming in below expectations of 4.5. Personal incomes increased by 0.5% in October, ahead of the +0.2% expected. Retail sales surged 1.7% in October, bringing the annual rate to 16.3%, above the forecasted 15.9%. PPI rose 0.6% in October, in line with forecasts. This brought the annual rate to 8.6%, marginally lower that the forecasts 8.7%. The Markit Composite PMI declined 1.1 points to 56.5 in November, pointing to a slowdown in output growth, amid reports of rising prices, poor input availability and challenges finding suitable candidates for vacancies. The Philadelphia Fed Manufacturing Index increased to 39 in November, from 23.8 in October and beating market forecasts of 24. The trade deficit narrowed to $67.1 billion in October, down from a revised $81.4 billion in September.

Europe

The European Central Bank (ECB) kept interest rates on hold at 0.0%, as expected, and indicated the very generous monetary policy support to the economy would need to be reassessed at some point in the future in view of the improved inflation outlook. The GDP growth rate increased 10bps to 2.2% in 3Q21, whilst the yearly rate fell from 14.4% to 3.9%. The yearly inflation rate flash rose 80bps to 4.9% in November, coming in above expectations of 4.5% and is the highest rate of inflation since July 1991, well above the ECB's target of 2.0%. Economic sentiment eased 2.1 points to 116.5 and consumer confidence fell by 2.5 points to -8.6 in November. The unemployment rate fell 10bps to 7.3% in October, as widely expected. The Markit Composite PMI increased 1.2 points to 55.4 in November, indicating a solid and accelerated rate of economic expansion. Retail sales grew 0.2% in October, as widely expected, while the yearly rate fell 120bps to 1.4% (1.2% expected). Industrial production fell 0.2% in September, less than the 0.6% fall expected and following on from the weak -1.7% result in August as supply constraints and high commodity prices weighed on results.

PPI rose 5.0% in October, above expectations of 3.5% growth, while the annual rate increased by 21.9% (19.0% expected).

In the UK, the Bank of England left its cash rate unchanged at 0.1%, as widely expected. GDP rose 0.6% in September, slightly ahead of the 0.5% expected and up on the downwardly revised 0.2% increase in August. Annual inflation jumped to 4.2% in October, the highest since December 2011 and above market forecasts of 3.9%. The unemployment rate fell 20bps to 4.3% in September, below the expected 4.4%. The Markit/CIPS Composite PMI rose to 57.6 in November and the manufacturing PMI increased to 58.1 over the same period. Retail sales rose 0.8% in October, the first gain in six months and above forecasts of 0.5%, but the annual rate declined 1.3%, above expectations of -2%. PPI increased by 1.1% in October following a 0.7% increase in September, with the annual rate up 8.0% against market expectations of 7.3%.

China

China's inflation rate increased 0.7% month-on-month in October, in line with market expectations, with the annual rate increasing sharply to 1.5%, above the expected 1.4%. Yearly industrial production came in at 3.5% in October, above expectations of 3%. The unemployment rate was unchanged at 4.9% in October, the lowest level since December 2018. Retail sales picked up in October to an annual rate of 4.9%, above expectations of 3.5%, and above the 4.4% in September. The Caixin Manufacturing PMI declined 0.7pts to 49.9 in November, below expectations of 50.5. The Caixin China General Composite PMI was marginally lower at 51.2 in November, signalling the softest growth in the private sector in three months amid sporadic COVID-19 outbreaks and related disruptions. The trade surplus narrowed to US$71.7 billion in November, down from US$84.5 billion in October and well below expectations of US$82.8 billion.

Asia region

Japan's unemployment rate fell 10bps to 2.7% in October, slightly ahead of expectations of 2.8%. Japanese consumer confidence remained steady in November at 39.2. Retail sales surprised in October, rising 1.1% compared to expectations of a 1.6% decline, while the yearly rate improved 0.9%. Household spending for October rose 3.4%, lower than the expected 3.6% and the annual rate declined 0.6% which was in line with expectations. Inflation decreased 0.3% in October, with the annual rate rising 0.1%, slowing from the 0.2% in September.

Market Update

Australia

The RBA left the cash rate unchanged at 0.1%, as widely expected, with indications that inflation had picked up but remains low in underlying terms. GDP surprised in 3Q, falling 1.9% against expectations of a 2.7% decline, while the yearly rate came in at 3.9%, above the expected 3.0%. This marked the first contraction in the economy since 2Q20, amid prolonged lockdowns across NSW, Victoria, and the ACT. Retail sales lifted 4.9% in October, as widely expected, buoyed by the end of lockdowns in NSW, Victoria, and the ACT. October's unemployment rate jumped to 5.2%, well above market estimates of 4.8% with the participation rate decreasing 0.2 points to 64.7%. The Westpac consumer sentiment index rose 0.6% to 105.3 in November, as the economy emerged from lockdown. The Markit Composite PMI rose to 55.7 in November, the highest level in the past five months, as Covid restrictions eased. The annual inflation rate fell to 3.0% in Q3 from the 12 year high in Q2 and below market expectations of 3.1%. The trade surplus narrowed to $11.22 billion in October, down from the revised $11.82 billion in September, however, was above expectations of $11.00 billion. It marked the smallest trade surplus since May 2021, amid softening global demand as more countries battled with a resurgence of COVID-19 infections.

Market Update

EQUITY MARKETS

- Australia's S&P/ASX 200 Index declined by -0.5% in November masking some disparate returns across sectors with Materials, Communications, and Property having strong returns (6.3%, 5.2% and 4.5% respectively), and Information Technology, Financials ex Property, and Energy leading losses (-2.9%, -6.9%, and -8.3% respectively).
- During November, the US S&P 500 Index declined by -0.69% in US dollar terms. The Index is posting a healthy return of 27.92% over one year.
- In Europe, the UK's FTSE 100 Index was fell -2.17% with Germany's DAX 30 down by -3.75%. Asian markets also declined with Japan's Nikkei 225 Index down by -3.68% and China's CSI 300 Index down by -1.55%. Hong Kong's Hang Seng Index dropped -7.42% (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	-0.54%	15.48%	12.54%	10.10%	8.88%
	S&P/ASX 50 Acc. Index	-0.88%	14.82%	11.85%	9.40%	7.98%
	S&P/ASX Small Ordinaries Acc. Index	-0.31%	18.44%	13.53%	11.64%	11.15%

The Australian share market declined for a third consecutive month with the S&P/ASX 200 falling 0.5% despite seven out of the eleven sectors in the Index finishing higher. Materials was the standout sector producing a return of 6.3%, whilst Communication Services (+5.2%) and Consumer Staples (4.5%) also contributed positively. Heavy declines in the Financials (-7%) and Energy (-8.3%) sectors weighed on the Index. Local miners were bolstered by a slight recovery in the price of iron ore which was driven by China's move to ease the recent liquidity crunch on the debt-laden property sector. The Financials sector was impacted by fears of contracting margins for the major banks as cash rates remain at record lows and competition in the home loan market continues to intensify. Weaker oil prices weighed on the Energy sector as concerns grow that the Omicron variant will further disrupt travel and lead to additional lockdowns globally. Momentum and quality were the strongest performing factors for the month with gains of 4.3% and 3.5% respectively. Value was the only factor to finish the month in the red, with a decline of 3.5%. Year to date, value remains as the leading factor (+17%), although its dominance is beginning to wane.

Investment Index/Benchmark returns*

S&P/ ASX 200 Index

Sector	1 Month	3 Months	1 Year
Materials	6.32%	-4.00%	16.35%
Communications	5.20%	5.37%	30.71%
Property	4.52%	2.66%	20.78%
Consumer Staples	4.45%	-1.63%	15.36%
Utilities	3.88%	5.80%	-3.75%
Health Care	1.41%	-2.66%	6.59%
Industrials	0.93%	-2.74%	6.58%
Consumer Discretionary	-1.25%	-1.19%	24.12%
Information Technology	-2.87%	-4.73%	13.09%
Financials ex-Property	-6.94%	-4.73%	19.43%
Energy	-8.34%	4.09%	-2.59%

*Total returns based on GICS sector classification

Market Update

BIG MOVERS THIS MONTH

Going up

⇑	Materials	+6.3%
⇑	Communications	+5.2%
⇑	Property	+4.5%

Going down

⇓	Information Technology	-2.9%
⇓	Financials ex-Property	-6.9%
⇓	Energy	-8.3%

Global Equities

	Index/Benchmark (% pa)	1 Month	1 Year	3 Years	5 Years	7 Years
Global	MSCI World Ex Australia Index (AUD)	3.70%	26.81%	18.17%	15.69%	13.70%
	MSCI World Ex Australia Index (LCL)	-1.48%	23.78%	16.78%	14.33%	11.15%
	MSCI World Ex Australia Small Cap Index (AUD)	0.64%	24.29%	15.00%	12.95%	12.90%
Emerging	MSCI Emerging Markets Index (AUD)	1.61%	6.72%	10.34%	10.41%	7.94%
	MSCI AC Far East Index (AUD)	2.17%	2.87%	10.12%	10.02%	9.68%

After a strong recovery in global markets over the prior month and stable performance for most of November, the month ended in volatility with the worst one-day decline of the year for the DJIA as news of the spread of the new Omicron Covid-19 variant drove a sharp sell-off in global equities. Developed markets detracted by -1.5% over the month, faring better than Asian and emerging markets, which fell -3.4% and -3.9%, respectively in local currency terms. Global small caps detracted more than their broad cap counterparts during November, receding by -4.8%. Given the relative decline in the AUD over the month, the returns presented above in AUD are positive and somewhat misleading. As such, we quote USD returns in the following commentary. Over the month, all sectors in the developed market index excluding IT delivered negative returns in USD terms, with IT returning 2.6%, whilst finance and energy detracted by -6.2% and -7.3%. Within emerging markets, IT was again the only sector with positive returns over the month, returning 1.3%, with energy and consumer discretionary detracting by -7.5% and -10.1% for the period in USD terms. Whilst global markets have stabilised since the end of month sell off, further volatility may occur until scientists can confirm if the new variant has improved resistance to the available vaccines. If this were the case, a return to social restrictions and lockdowns would see further de-risking in global equities.

Property

	Index/Benchmark (% pa)	1 Month	1 Year	3 Years	5 Years	7 Years
Australian	S&P/ASX 200 A-REIT Acc	4.52%	20.78%	11.66%	9.73%	10.51%
Global	FTSE EPRA/NAREIT Developed Ex Australia Index (AUD Hedged)	-1.45%	26.13%	7.07%	7.45%	6.58%

The S&P/ASX 200 A-REIT Accumulation index advanced strongly during November, finishing the month 4.5% higher. Global real estate equities (represented by the FTSE EPRA/NAREIT Developed Ex Australia Index (AUD Hedged)) finished down 1.45% for the month, after its very strong October performance. Nareit has cited the Omicron Variant as the potential cause for the pullback in G-REITs. November was relatively quiet across the A-REITs sector. Some activity includes SCA Property Group (ASX: SCP) acquiring Delacombe Town Centre for a price of $112m (with an implied fully let yield of 5.3%), Ingenia Communities Group (ASX: INA) announced an intention to raise $475m in equity to fund $552m of identified acquisitions, and Centuria Industrial REIT (ASX: CIP) announced it acquired four high-quality freehold industrial assets for $129.4m. The Australian domestic housing market again experienced positive growth last month, with the CoreLogic 5 capital city aggregate advancing 1.1%. Darwin is the only major city to have experienced negative growth for

November, recording -0.37%. At the end of October, the combined value of residential real estate in Australia is estimated to be $9.3 trillion (CoreLogic, November 2021).

Fixed Interest

	Index/Benchmark (% pa)	1 Month	1 Year	3 Years	5 Years	7 Years
Australian	Bloomberg AusBond Composite 0+ Yr Index	2.08%	-3.23%	3.35%	3.30%	3.42%
	Bloomberg AusBond Bank Bill Index	0.01%	0.02%	0.68%	1.14%	1.45%
Global	Bloomberg Barclays Global Aggregate Index (AUD)	5.62%	0.50%	5.36%	4.15%	4.88%
	Bloomberg Barclays Global Aggregate Index (AUD Hedged)	0.74%	-0.84%	4.16%	3.34%	3.66%

Australian Fixed Income markets rebounded in November, following the large selloff at the short end in late October. Yields fell substantially across the Australian Government Bonds curve over the month, with the 10-year and 3-year yields falling by 22 and 14 basis points respectively. Australian credit spreads continued to widen over the course of the month, but as this increase was smaller in magnitude than the fall in government bond yields the Bloomberg AusBond Composite 0+ Yr Index ended the month with a strong result of 2.1%. In global markets, yields for government bonds in developed economies trended downwards, but by less than in Australia. As the October selloff was a uniquely Australian phenomenon, so too was the correction after the fact. The Bloomberg Barclays Global Aggregate Index (AUD Hedged) Index returned 0.74% over the month, with the unhedged variant's return of 5.6% being primarily driven by a weakening Australian Dollar.

Australian dollar

The Australian dollar withered over the month of November closing -5.5% lower against the greenback and -4.6% in trade-weighted terms. Indicative forecasting by the RBA implied that rate increases would still not occur until 2024, triggering a sell-off early in the month setting the stage for sustained downward pressure on the AUD. USD strength supported by unexpected positive CPI reports further deepened this descent as Federal Reserve officials reviewed their QE program indicating a potential acceleration of tapering activity. Intermittent upside support was provided by various commodity reprices throughout the month, albeit any gains were eclipsed by the emergence of the new Omicron COVID-19 variant and associated retreat of investor confidence.