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Market Review – November 2019

Australian Economy

It is being said that Australians are hurting the economy by not spending, with household savings soaring as consumer spending plummets to its lowest level since the global financial crisis.

The much-anticipated economic turning point still seems some way down the road, with the key measure of economic growth, GDP, growing at a well below average annual pace of 1.7%. The economy grew just 0.4% over the September quarter, according to the ABS, below expectations and slower than the previous two quarters.

CBA Chief Economist Michael Blythe said weakness in household spending was the biggest threat to what was becoming a "two-speed" economy i.e. the contribution of the public sector was in stark contrast to weak private spending. Private sector spending fell by 0.1% for the quarter and down 0.3% for the year, while public spending was up 1.1% and 4.8% respectively.

According to the most recent ABS report, the Australian economy advanced a seasonally adjusted 0.4% in the September quarter of 2019, slowing from an upwardly revised 0.6% growth in the previous period and missing market expectations of a 0.5%. Government spending eased and household consumption expanded at its weakest pace since the global financial crisis. Through the year to the third quarter, the economy grew 1.7%, following an upwardly revised 1.6% expansion in the June quarter. GDP Growth Rate in Australia averaged 0.85% from 1959 until 2019, reaching an all-time high of 4.40% in the first quarter of 1976 and a record low of -2% in the second quarter of 1974.

The AUD/USD fell slightly to 67.6cents. Gold fell 2.8% to US$1,473. Iron Ore rose 4.8% to $87t and oil rose to US$60.70.

Global Economy

Global equity markets ended November in positive territory amid receding fears of a global recession and signs of progress in US-China trade talks.

Within fixed interest markets, the more optimistic backdrop led to a rise in government bond yields. Rising government bond yields were in turn a headwind for corporate bond markets. High yield, which is typically more influenced by economic sentiment, was the best performing area of the market.

US: economic data was broadly positive and helped support investor sentiment. The US economy expanded by 2.1% (annualised) in Q3; better than expected and stronger than in Q2.

Although the Q3 US earnings season saw companies overwhelmingly beat expectations - over 70% of companies reported better-than-expected results ‑ absolute earnings fell -2.4% year-on-year. Expectations remain weak, given a number of headwinds. The number of companies upgrading their forecasts fell in Q3, with consensus expectations for Q4 earnings to fall.

However, US Federal Reserve (Fed) chairman Jerome Powell struck an upbeat tone in gauging the ability of policy makers to extend the record US economic expansion, while signalling that US interest rates would probably remain on hold.

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UK and Europe: International considerations largely took a back seat in November as domestically -focused areas of the UK equity market performed very well and sterling extended its recent recovery. This occurred amid a reduction in Brexit and political uncertainty as opinion polls showed the incumbent Conservative Party enjoying a comfortable lead ahead of the general election on 12 December.

Eurozone equities gained, helped by some improving economic data. The flash composite purchasing managers' index (PMI) for November dipped to 50.3 (50 is the level that separates expansion from contraction, and the survey is based on responses from companies in the manufacturing and services sectors). However, the manufacturing PMI picked up to 47.1 from 46.6 in October.

China: While October industrial production growth fell and retail sales disappointed, the November manufacturing purchasing index was higher than expected. The People Bank of China addressed slowdown concerns by continuing to employ supportive monetary policies.

Emerging Markets: Bolstered by signs of stabilisation in global growth, emerging equity markets got off to an encouraging start. However, these gains proved to be short-lived as sentiment turned negative due to a mixture of economic, political and corporate factors.

Plagued with strikes and anti-government protests across the region, Latin American equity markets, along with their respective currencies, came under the most pressure. By comparison, equity performance in Asia and EMEA (Europe, Middle East and Africa) was more mixed.

Equity markets in Greece finished in positive territory as the country completed the early repayment of €2.7 billion of loans to the International Monetary Fund (IMF). It was a quiet month for Russian equities as the IMF deemed further interest rate cuts by the Bank of Russia would be appropriate in view of the continued disinflation. In South Africa, lower gold prices had a negative impact on local mining companies.

In conclusion: It would seem that the aging cycle is set to continue into 2020 thanks to Central bank easing, the de-escalation in the trade war and tentative green shoots in global manufacturing suggest we might be on the edge of another cycle recovery at least through the first months of 2020.

Low inflation should keep the US Federal Reserve on hold during 2020. The November presidential election is likely to be the major source of uncertainty. The eurozone should benefit in 2020 from easier monetary conditions, the recovery in global manufacturing, the lifting of trade-war uncertainty and Chinese policy stimulus, that increases the demand from emerging markets.

Table 1: Market Performance – Periods to 30 November 2019

Sector	1 Month %	3 Months %	1 Year %	3 Years % pa	5 Years % pa
Australian Shares	3.3	4.8	26.0	12.7	9.9
Australian Shares Small Cap	1.6	3.7	16.6	11.4	10.8
International Shares Ex-Aus (Unhedged)	4.7	7.3	23.6	15.8	13.0
International Shares Ex-Aus (Hedged)	3.2	7.6	14.4	12.0	8.5
Emerging Markets (Hedged)	0.6	5.1	8.8	9.5	5.7
Emerging Markets (Unhedged)	1.7	5.6	15.8	12.3	8.0
Australian Listed Property	2.3	0.8	27.0	13.2	12.9
International Listed Property ($A)	0.6	10.8	24.8	13.4	11.4
Australian Direct Property*	0.8	1.7	7.0	10.8	11.7
Australian Fixed Interest	0.8	-0.2	10.7	5.7	4.9
International Fixed Interest (Hedged)	-0.2	-1.0	9.0	4.4	4.4
Cash (BAUBIL)	0.1	0.2	1.6	1.7	1.9

		Change over the month
Australian Govt. 10 yr Bond Yield	1.03%	0 bps
AUD/USD	$0.69	$0.01

*as at 30 September 2019

Australian Shares (S&P/ASX 200 Accumulation Index)

The S&P/ASX 200 Accumulation Index jumped +3.3% in November with the gain over the year a substantial +26.0%.

The best performing sectors in the S&P/ASX200 Accumulation Index for the month were Consumer Durables & Apparel (+11.9%), Food Beverage & Tobacco (+11.2%), Software & Services (+11.0%), Pharmaceuticals & Biotechnology (+10.3%) and Telecommunication Services (+9.6%). The worst performing sectors included Household & Personal Products (-4.7%), Banks (-3.7%), Insurance (-0.8%), Utilities (-0.6%) and Media & Entertainment (+0.8%).

The top three moves within the S&P/ASX 200 Accumulation index included NRW Holdings (+33.3%) after executing an agreement to acquire 100% of BCG Contracting, Virgin Money Plc (+29.3%) after reporting results for the year ended 30 September 2019 that were stronger than investors' expectations and Caltex Australia (+26.7%) which received a takeover proposal from Canadian firm Alimentation Couche-Tard.

The bottom three moves were G8 Education (-23.5%) after revising earnings guidance lower due to deteriorating trading conditions, Polynovo (- 20.8%) which held its 2019 Annual General Meeting during the month and Smartgroup Corporation (-20.7%) which provided updated earnings guidance for the 2019 financial year combined with news that the long term CEO is planning to retire in February 2020.

The index finished trading at a P/BV of 2.2x and a P/E Ratio of 18.8x and equity yield (dividend) of 4.0%.

The VIX was at 14.80 (the average since 01.10.2010 is 16.4) indicating below average level of market volatility.

Australian Shares Small Cap (S&P/ASX Small Ordinaries Index)

As a collective, Australian small caps (stocks 101-300 in the ASX) benefit from low interest rates, a low currency and availability of equity capital. Add a modest improvement in demand (high employment and some wage inflation) and there is reason to expect some growth.

The Small Ords Accumulation index rose +1.6% in November underperforming the broader index by -0.7%.

Some of the strongest performers in the small cap space came from; NRW Holdings (+33.3%) due to acquisition of BGC Contracting and Bravura Solutions (+20.7%) following earnings upgrade at their AGM. Global card and payments firm EML Payments (+19.7%) announced significantly earnings accretive and capital raising during the month.

Trailing P/E Ratio was at 19.9x at the end of the month, P/BV is at 2.1x and equity yield (dividend) of 3.1%.

International Shares (MSCI World ex Australia Index, Net AUD and the MSCI World ex Australia Index, Net LCL)

The MSCI World ex Australia Index (Unhedged) +4.7% for November whilst the MSCI World ex Australia Index (Hedged) returned +3.2%.

A number of markets reached record highs in November. The US Dow Jones rose by +3.7%, the S&P 500 lifted by +3.4% and the Nasdaq rose by +4.5%. In Europe, the German Dax rose by +2.9%, and the UK FTSE gained +1.4%. In Asia Japan's Nikkei rose by +1.9%.

Among MSCI developed world GICS sectors, the growth / cyclical IT (+5.4%), Health Care (+4.8%) and Industrials (+3.2%) sectors outperformed the most, while the interest rate sensitive, Utilities (-1.9%), REITs (-1.6%) and Consumer Staples sectors(0.8%) underperformed the most.

The uptrend in global equities so far this year continues to be led by P/E valuations rather than earnings, with the latter in turn supported by the decline in bond yields. That said, the drivers of global equities could be changing as risk-sentiment improves, there has been a very modest rebound in forward earnings in recent months, while bond yields have moved higher. The rebound in equity prices, however, is still outstripping earnings, such that as at end-November, the global forward PE ratio rose further, from 15.3 to 15.8 – compared to a 10-year average of 13.9.

Over recent years, the highest month-end PE ratio reached by global equities has been around 16 to 16.5, or around 3% above current levels.

US market: The US equity market ended the month in positive territory after reaching record highs during November on optimism over China trade relations and a fresh wave of merger and acquisition activity. Investors were also cheered by a resilient US economy and corporate earnings, putting the US equity market on track for its largest annual rise since 2013.

US equity market gains over the month were led by the IT sector, with financials and health care close behind. Financial stocks in particular were supported by the rosy outlook on trade talks and central bank easing across the world last month (interest rate cuts in the US, the eurozone, Brazil, Mexico and Chile).

UK market: The UK equity market provided a positive return over November. Having fallen sharply at the beginning of October, the FTSE All-Share index rose steadily in subsequent weeks to regain lost ground. Despite this positive return, the market failed to recover previous highs following a volatile August.

European markets: European markets rallied in November buoyed by some better than expected economic data and positive US-China trade rhetoric. Following on from last month, investors were happier to adopt a 'risk-on' stance with 'cyclical' parts of the market (companies whose performance is linked to the business cycle) outperforming 'defensive' areas.

Chinese market: Chinese equities ended the month higher amid mixed economic data and US-China trade tensions. While October industrial production growth fell and retail sales disappointed, the November manufacturing purchasing index was higher than expected.

Emerging markets: Emerging market equities had a bit of a roller coaster ride during November but still managed to eke out a positive return.

Equity markets in Greece finished in positive territory as the country completed the early repayment of €2.7 billion of loans to the International Monetary Fund (IMF).

In Asia, Taiwan benefited from the global rally in the semiconductor industry whereas demand for Indian equities was diluted by a slowing economy – India's GDP growth rate fell to a six-year low of 4.5%.

Emerging Markets Shares (MSCI Emerging Markets Index, Net AUD)

It was a healthy month for emerging equity markets with all the regions recording gains. The MSCI Emerging Markets Index (Unhedged) +1.7% for November whilst the MSCI World Emerging Markets Index (Hedged) returned +0.6%.

A number of markets sensitive to US dollar strength lagged, most notably in Latin America. Chile and Colombia were the weakest index countries, primarily due to currency weakness. Civil unrest persisted in Chile, with anti-government protests emerging in Colombia. Brazil underperformed as a wider-than-expected current account deficit and expectations for further central bank easing weighed on the currency.

The index ended trading at a forward P/E Ratio of 13.5x and P/BV of 1.9x and equity yield (dividend) 2.9%.

Australian Listed Property (S&P/ASX 200 A-REIT Accumulation Index)

The S&P/ASX 200 Property Accumulation index returned +2.3% in November, underperforming the S&P/ASX 200, which returned +3.2%. S&P/ASX Diversified AREITS returned +2.5%, S&P/ASX Retail AREITS returned +2.2% and S&P/ASX Office AREITS returned +0.8%. Key outperformers were MGR (+5.0%), CQR (+4.3%) and URW (+4.2%). Key underperformers were CMW (-7.5%), CHC (-4.3%) and VVR (-3.5%).

At the end of November, the index was trading on a dividend yield of 4.2% with a P/BV 1.3x and a P/E Ratio 14.4x.

International Listed Property (FTSE EPRA/NAREIT Developed ex-Australia Index, AUD)

Globally, REITs were up +1.8% this month (USD terms). The top performing region in November was the UK (+3.2%) followed by Continental Europe (+2.6%), Worst-performing region over the month was the New Zealand (-5.4%) followed by HK (-2.8%).

YTD AREITs have returned 23.8% (FTSE, EPRA, NARIET, 18.9% in USD) underperforming the Global REIT market (21.6% in USD). United Kingdom was the top-performing region (+3.2%).

At the end of November, the index was trading on a dividend yield of 3.7% with a P/B 1.8x and a P/E Ratio 21.5x.

Australian Direct Property (Atchison Consultants Unlisted Property Funds Index)

Australian direct property posted a return of +1.7% over the September 2019 quarter. Capitalisation rates across property sectors continued to trend downwards. Cap rates across office, industrial and retail properties range are 5.1%, 5.6% and 5.0% respectively.

Australian Fixed Interest (Bloomberg AusBond Composite Bond Index)

Australian fixed interest rose by +0.80% over the month. Australian government 10-year bond yields fell by 11bps to 1.03%. 10-year Australian bonds yields are now 75bps below US yields while 3-year single A corporate credit spreads tightened from 0.855% to 0.829%.

International Fixed Interest (Barclays Global Aggregate TR Bond Index, Hedged to AUD)

International fixed interest returned -0.20% over the month (Bloomberg Barclays). The 10-year US government bond yield increased by 9bp to 1.78% while the US corporate investment-grade credit spread widened from 1.500% to 1.61%.

Contact Details

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