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Monthly Market Update November 2023

Key Events in November 2023

- Geopolitical tensions between US-China appeared to thaw; a resumption in high-level military communications was agreed at the Biden-Xi meeting.
- Temporary ceasefire in the Middle East allowed for an exchange of hostages, assisting investment markets to take a more positive stance.
- Australian stock market had a stellar month, providing a return of +5.0%.
- Global equity markets rebounded by +4.5%(unhedged) in November, as did global bonds +3.2%. Global stocks recorded their strongest month in three years, nearly retracting their summer losses, in a broad-based rally that saw cyclical sectors outperform.
- Bond yields declined sharply; the US 10-year note yield fell by 60bps, delivering the best monthly return in more than 10 years.
- Other good news in November came from the commodities sector, Brent Crude oil prices fell for a second month in a row – despite further OPEC+ production cuts – to US$82.83 p/b, while gold remained above US$2,000.
- US Federal Reserve left its target interest rate range unchanged at 5.25 - 5.50% - a second consecutive pause – but Powell did not rule out further rate hikes.
- The UK economy stagnated in Q3, defying expectations of a contraction. With UK inflation headline inflation (CPI) falling by more than 2% to 4.6% in October.
- Euro area headline (CPI) and core inflation (CPI minus components that exhibit large fluctuations month to month) declined further in November, to 2.4% and 3.6% respectively.
- As widely expected, the Reserve Bank of Australia Board (RBA) increased the official Cash Rate by 0.25% pa to 4.35% at its November meeting. Annual inflation in Australia fell to 4.90% in October from 5.60% in September.
- The RBA is one of a few central banks still lifting interest rates, and where market expectations are, we may possibly see a further move higher.
- The Australian dollar recovered toward 0.62 as investors reassessed US monetary policy settings in 2024 and moved toward expectations of lower rates, thereby lessening the appeal for the US dollar.

Asset Class Summary

Table 1: Asset Class Returns – Periods to 30 November 2023

30- November-23 Sector	1 Month %	3 Months %	1 Year %	3 Years % pa	5 Years % pa	10 Years % pa
Australian Shares	5.0	-1.8	1.5	7.2	8.7	7.3
Australian Small Companies	7.0	-2.9	-3.2	-0.5	4.0	5.5
International Shares (Unhedged)	4.5	-0.6	15.0	11.5	12.8	12.6
International Shares (Hedged)	8.0	1.1	11.0	7.1	8.8	9.3
Emerging Markets (Local Currency)	6.2	0.6	4.8	-1.2	4.6	5.2
Australian Property Securities (Listed)	11.0	-4.5	1.1	2.0	4.1	7.8
Global Property Securities (Hedged)	9.0	-1.7	-4.2	-0.1	-0.9	3.7
Global Listed Infrastructure (Hedged)	7.5	0.4	-3.0	5.5	4.4	6.1
Australian Bonds	3.0	-0.5	0.2	-3.6	0.4	2.4
Global bonds (Hedged)	3.2	0.5	0.9	-4.0	0.2	2.3
Cash	0.4	1.0	3.8	1.6	1.4	1.8
AUD/USD	-4.5	-2.3	1.0	3.6	2.0	3.3

Past performance is not a reliable indicator of future performance.
Source: S&P ASX 200 Accum Index, S&P ASX Small Ordinaries Accum Index, MSCI World EX Australia, MSCI Emerging Markets AUD, MSCI Emerging Markets in Local Currency, S&P ASX 200 A-REIT Accum Index, FTSE EPRA/NAREIT Developed TR Hdg (AUD), S&P Global Infrastructure Index, Bloomberg AusBond Composite 0+Yr Index, Barclays Global Aggregate TR Hdg AUD, Bloomberg AusBond Bank Bill Index

Australian Markets

The S&P/ASX 200 was on form in November, finishing the month up +5.0% with small caps up +4.4%. Eight of the eleven sectors were in the black with Health Care leading the way +11.7%, followed by Real Estate +11.0%, IT +7.4%, Industrials +6.7%, Financials +5.7%, Materials +5.0% and Consumer Discretionary +4.8%. The declines where in Energy -7.4%, Utilities -6.0% and Consumer Staples -0.8%.

Valuations have started to creep higher in many equity markets. The forward-price-to-earnings (P/E) ratio for the ASX 200 is now closer to its long run average but with a weaker earnings outlook at 15.3x.

Best performing stocks in November was Block Inc up+59% driven by a stronger-than-expected quarterly update. Followed by Neuren Pharmaceuticals +45%, on upbeat sales. IRESS share price has been rebounding with a gain of +41%. It was also pleasingly to see REITs moving up, such as Cromwell Property Group +38% driven by bargain hunters.

Global Markets

Global markets bounced back in November following easing in tensions in the Middle East and US inflation figures, suggesting US interest rates may have peaked. The S&P 500 rose +9.1% in November. Whilst the broader MSCI World ex-Australia unhedged index retuned +4.5% and hedged +8.0%.

European equities were also stronger, with the EuroStoxx 50 up +8.0%. In the UK, the FTSE 100 rally was more muted, however it was still up +1.8%.

Japanese stocks were stronger, with Nikkei up+8.6%. Other Asian equities followed the global trend, with the MSCI Asia Ex-Japan Index up+5.3%.

Emerging markets had a stellar month up+6.2% in local currency terms on the back of expected US Fed rate cuts in 2024. Egypt, was the top performing market, followed by Korea where tech-related stocks rallied strongly. China was some way behind the index with economic data released in November somewhat mixed.

Outlook

Globally, good signs that inflation is under control !

The path to a soft economic landing for the global economy and receding inflation looks achievable as-long-as central banks keep a tight hold on interest rates and do not buckle under pressure from governments to lower rates too quickly. But it should be noted that as we move towards 2024, disturbingly there seems to be more armed conflicts and violence around that could unstable the world, leading to further global macroeconomic shocks, like the Ukraine conflict, and the subsequent impact on energy prices.

Looking ahead at 2024, positioning your asset allocation will play an important role in contributing to overall investment performance over the next 12 months. We view fixed income as a bright spot for investors given current yield level, slowing growth, and continued disinflation (falling inflation). Given the current uncertainties around the world, investors with a shorter time horizon should consider remaining cautious on risk assets and lean towards quality stocks in equity markets.

Emerging markets tend to outperform in “best case” environments of stable-to-rising global growth and global trade, supported by adequate or abundant global liquidity, neither of which are currently evident however worth considering as we move through 2024. China is experiencing some well documented challenges , so be aware of China’s high weighting of around 30% to the emerging markets benchmark.

From a big picture perspective, in the short term consumers around the world are expected to be less of a growth driver as excess savings and financial stimulus fade and households feel the strain of high interest rates. The implication on corporate earning is evident as expected sales revenues and profit margins are anticipated to shrink. In this environment companies with more resilient earnings streams and stronger balance sheets should be better positioned withstand rising debt and a deterioration of consumer spending.

What describes a “quality” company? In summary; consistency of earnings, elevated profitability, low debt, brand strength, competitive moat, strong business model, proven management team, great culture, and finally vision.

For those investors seeking growth with a time horizon more than five years and with an increased risk tolerance, Australian and International equities still offer opportunities, and investors have the potential to take advantage of recent market pullbacks and add to their growth exposures.

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