Monthly Market Update

November 2022

KEY MARKET PERFORMANCE

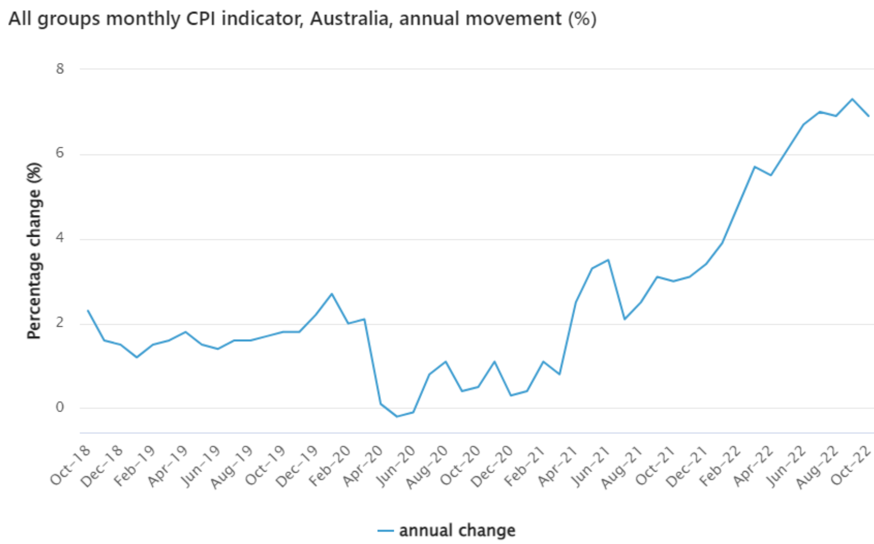
Total Trailing Returns (%)						
As at 30 November 2022	1 mth	3 mths	12 mths	3 yrs (p.a.)	5 yrs (p.a.)	10 yrs (p.a.)
Australian Shares	6.6	6.0	5.0	5.9	8.2	9.4
Australian Small Cap Shares	4.9	-0.8	-14.0	2.6	4.4	5.9
Global Shares (Hedged)	6.1	2.4	-10.4	5.8		
Global Shares (Unhedged)	2.9	5.8	-6.4	7.0	9.1	13.6
Developed Markets Shares (Hedged)	5.5	3.1	-9.8	6.6	7.0	11.2
Developed Markets Shares (Unhedged)	2.1	6.4	-5.6	7.9	10.1	14.5
Emerging Markets Shares (Hedged)	11.3	-2.5	-15.1	0.0		
Emerging Markets Shares (Unhedged)	9.6	0.5	-12.6	0.5	2.1	6.7
Global Property (Hedged)	5.8	0.4	-13.0	-1.6	4.2	8.9
Australian Property	5.0	-4.6	-16.5	-4.4	0.6	5.4
Global Infrastructure (Hedged)	6.1	-2.4	4.9	3.2	5.0	9.4
Australian Fixed Interest	1.5	1.1	-7.7	-2.7	0.9	2.6
Global Fixed Interest (Hedged)	2.4	-1.6	-11.5	-2.8	0.1	2.5
Cash - Bank Bills	0.2	0.6	1.0	0.5	1.0	1.7
Evidentia 70% Growth SAA Benchmark	3.6	3.5	-2.8	3.7	5.9	8.5

Shares rallied in November for the second month in a row, amid hopes that US inflation has peaked which would pave the way for a slowdown in the pace of the Federal Reserve's (Fed) rate hikes. Further support for shares came from signs that China may loosen its strict zero-Covid rules, which have weighed on economic activity. Expectations that central bank tightening would soon moderate also helped bonds with prices rising on the back of falling yields. Recovering risk appetite meant credit also performed strongly over the month.

ECONOMIC REVIEW

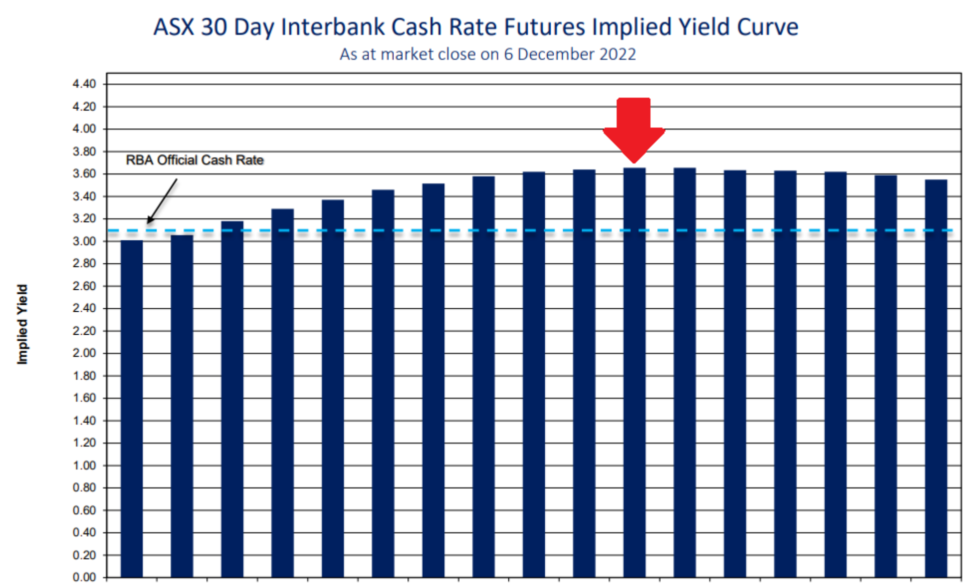
Australia

There were further signs in November that rising cost of living pressures and tighter monetary conditions were impacting economic growth in Australia. The Westpac-Melbourne Institute Index of Consumer Sentiment, which surveys households about their financial situation, decreased 6.9% month-on-month to its lowest level since April 2020. Retail sales growth slowed to just 0.2% over the September quarter, following 1.0% rises in both the June and March quarters. October sales surprised by falling 0.2%, which was well below forecasts of a 0.5% increase. Labour market conditions remain strong, with the unemployment rate edging 0.1% lower to 3.4%, with an increase of 32,200 people employed in October. The Wage Price Index rose to 3.1% year on year, the highest yearly rate since the March quarter in 2013 but still at a level consistent with the Reserve Bank of Australia's (RBA) long-term inflation target.



Source: Australian Bureau of Statistics

While one month of data does not make a trend, inflation looks to be peaking in Australia. The monthly CPI indicator rose 6.9% in the 12 months to October, which was well below consensus forecasts of 7.6% and down from 7.3% in September. The most significant contributors to the annual rise were housing (+10.5%), food and non-alcoholic beverages (+8.9%), and transport (+7.4%). This would have been a pleasant surprise for the RBA, which followed up a 25 basis point lift in the official cash rate in early November with another widely expected 25 basis points in early December, to take the cash rate to a ten-year high of 3.10%. Governor Philip Lowe said the RBA had taken into account the significant increase in rates since May, the lags that existed with monetary policy changes and the full effect of what was yet to be felt in mortgage repayments. He also suggested that global supply chain and commodity price pressures have eased somewhat. Regarding the tightening cycle, the futures market is looking for the cash rate to peak at around 3.65% in late 2023, suggesting another two 25-basis point rate hikes.



	Dec-22	Jan-23	Feb-23	Mar-23	Apr-23	May-23	Jun-23	Jul-23	Aug-23	Sep-23	Oct-23	Nov-23	Dec-23	Jan-24	Feb-24	Mar-24	Apr-24
Implied Yield	3.010	3.055	3.180	3.290	3.370	3.460	3.515	3.580	3.620	3.640	3.655	3.655	3.635	3.630	3.620	3.590	3.550

Source: ASX

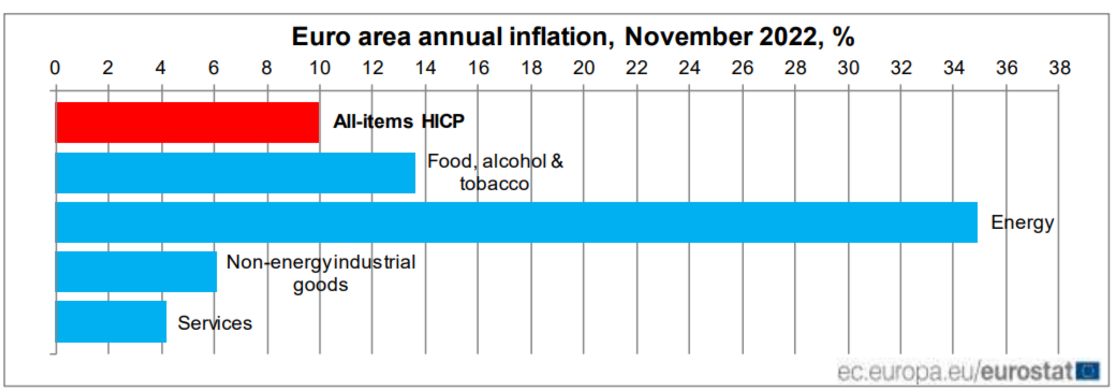
US

It has been a long time coming, but US inflation pressures appear to be moderating. Headline CPI for the 12 months to October rose 7.7% and was the smallest advance since January 2022. The Personal Consumption Expenditures price index (PCE), the Fed's preferred inflation gauge, fell from 6.3% in September to 6.0% in October. Although the inflation data was a welcome surprise for markets, continuing strength in the jobs market suggests there is still a lot more work to be done to slow the economy and push inflation lower. The November jobs report showed a faster pace of hiring than had been expected, with nonfarm payroll employment rising by 263,000, well above consensus expectations for a 200,000 increase. Despite being stronger than anticipated, the jobs report still reflected a slowdown, with the number of jobs created significantly lower than the 2022 monthly average of 392,000 jobs. The unemployment rate was unchanged at 3.7%, and annual wages growth was 5.1%, well above the level required to deliver on inflation targets.

Most commentary coming from the Fed over the past month indicated a softening in its aggressive rate hiking path. Markets were hopeful that Fed Chair Jerome Powell would cement this position in his Brookings Institution speech at the end of November, which he did, saying "the time for moderating the pace of rate increases may come as soon as the December meeting." Against this backdrop, the market expects the Fed to raise the federal funds rate by 50 basis points on 14 December to 4.25%-4.50%. While that would represent a slowing from the four consecutive 75 basis point hikes engineered this year, it is still an aggressive tightening of monetary policy by historical standards. To temper over-exuberance, Powell reiterated that the fight against inflation would extend well into 2023 and that rates would need to remain restrictive for some time. According to the Fed's projections, rates are expected to peak at 4.5%-4.75% in 2023.

Europe

Eurozone CPI eased more than expected in the year to November, with prices up 10.0%, down from a record high of 10.6% in October and below consensus estimates of 10.4%. Although energy costs remain the most significant inflation component, warmer autumn weather reduced energy demand, allaying some fears of shortages. This helped consumer sentiment rise for the first time since the Russian invasion of Ukraine in February, while the flash composite purchasing managers' index (PMI) rose to 47.8 from 47.3 in October, albeit still pointing to economic contraction and the likelihood of a recession in Europe. The European Central Bank (ECB) is expected to increase interest rates by 50 basis points at its next meeting in mid-December, smaller than the 75 basis point increases announced in its last two meetings. Recent data suggests underlying UK growth has been more resilient than previously thought, with GDP shrinking only -0.2% in the September quarter. Still, the UK economy is likely to already be in recession.



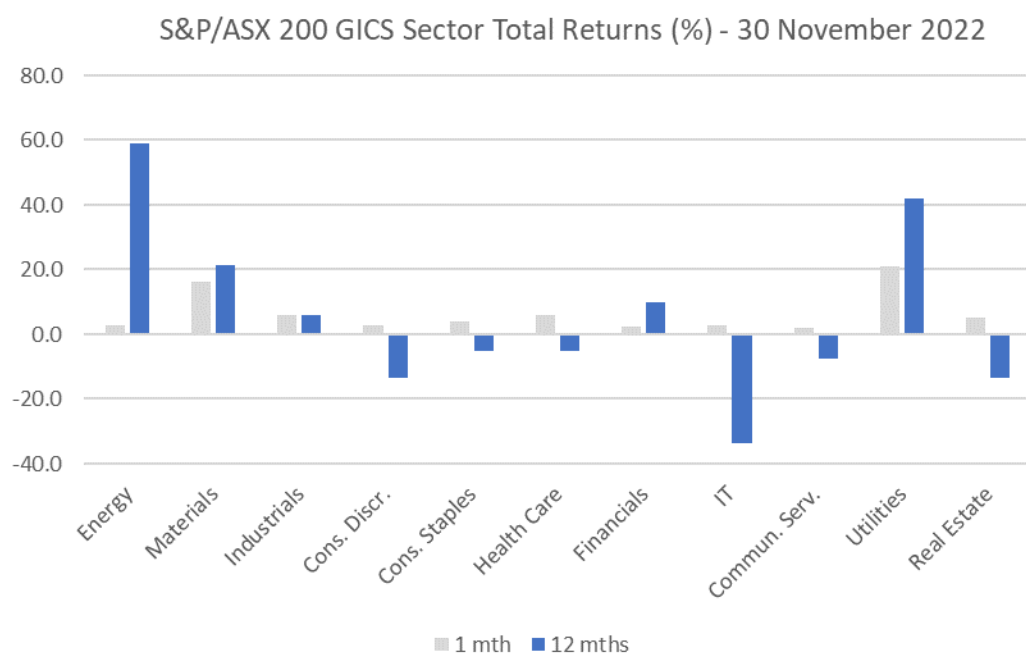
Source: Eurostat

China

Despite relaxing some of its zero-Covid regulations, social unrest and protests against rolling lockdowns continued across the country. It is too early to know whether this will lead to further policy changes. China faces a difficult winter with a rise in Covid cases, low vaccination rates amongst the elderly population and limited vaccine efficacy, no overseas vaccines approved for local use, and limited hospital ICU capacity. But the market is choosing to look through near-term weakness to focus on the re-opening trade, which continues to support mining companies and help underpin a rise in commodity prices. A 16-point plan to rescue its ailing property sector also benefited market sentiment, as did the potential easing in geopolitical tensions with the US after a much-anticipated meeting between US President Biden and Chinese President Xi.

AUSTRALIAN SHARES

Australian shares enjoyed another strong month in November. The S&P/ASX 200 Index finished the month up 6.6%, putting the index in positive territory for the year, and only 5% off its all-time peak reached back in August 2021. Smaller companies also performed well but lagged the broader market, with the S&P/ASX Small Ordinaries Index lifting 4.9%. At a sector level, an increase in base metal prices on China's re-opening hopes helped Materials (+16.3%) outperform the market. Utilities (+20.8%) was the other outperformer due in part to a takeover offer for Origin Energy. Health Care (+6.0%), Industrials (+5.9%) and Real Estate (+5.0%) were other solid performers. Whilst no sectors posted a negative monthly return, Communication Services (+2.1%), Financials (+2.5%), Energy (+2.7%), Consumer Discretionary (+2.9%), Information Technology (+2.9%) and Consumer Staples (+3.9%) all underperformed the broader index by some margin.



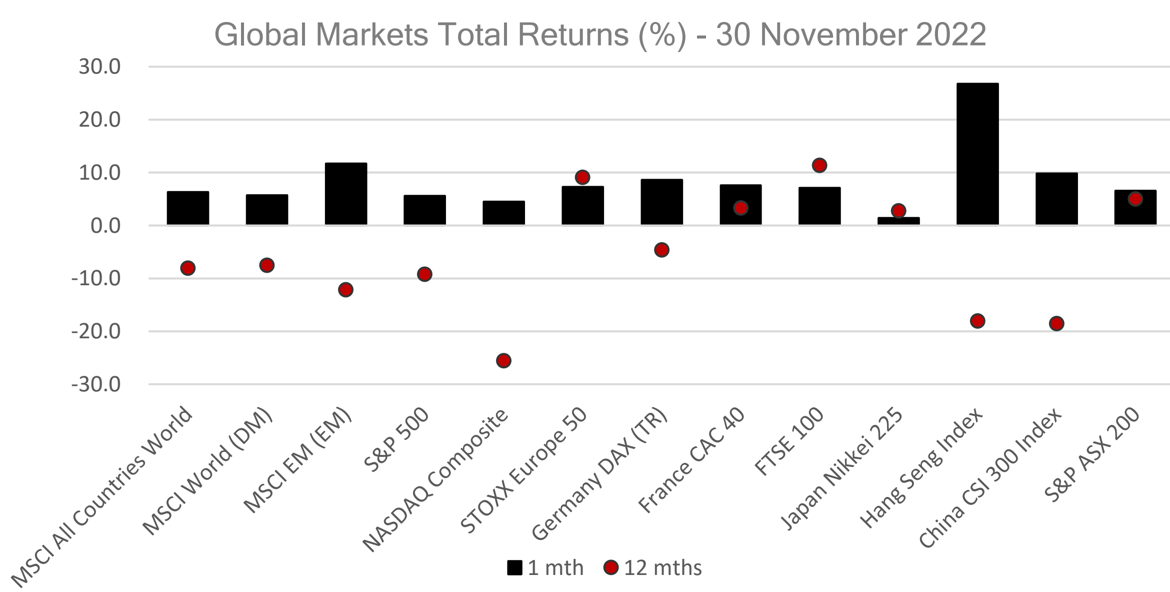
Source: Evidentia

Managers are saying:

*"The market continues to debate topics such as recession, hyperinflation, and stagflation scenarios for 2023, and investors remain cautious. In Australia, rising mortgage payments will exert pressure on disposable incomes and, combined with a weaker housing market and tapering asset values may curtail consumption. While business sentiment is still positive, the pace of change needs to be monitored. As the macroeconomic backdrop rapidly changes, fundamentals will be scrutinised. The market will assign a certainty premium for equities that offer viable growth, free cash flows and a reliable growth trajectory. It will be essential to steer clear of loss-making concept stocks, highly leveraged industries, low-quality momentum-driven names and high-risk microcaps." **Fidelity International***

GLOBAL SHARES

Global shares gained in November, with softer US inflation, a weaker US dollar, and Fed messaging around a moderation in policy tightening, all contributing to risk-on sentiment. The MSCI AC World Index rose 6.1% (hedged) and was up 2.9% (unhedged) as the Australian dollar strengthened almost 5% against the US dollar during the month. Emerging Markets rebounded (11.3%), significantly outperforming Developed Markets (5.5%). This was mainly due to the performance of the Chinese market (28.4%), which enjoyed a reversal of its October underperformance on the anticipation that Chinese demand will recover next year as authorities re-open the economy and provide further stimulus. The US market response to a potential moderation of Fed rate hikes was positive, with the S&P 500 up 5.6%. Materials (11.8%) and Industrials (7.9%) were among the strongest US sectors over the month, although all sectors moved higher. Energy (1.3%) and Consumer Discretionary (1.0%) made more muted gains. The NASDAQ Composite Index, which is more heavily weighted in technology and growth companies, finished up 4.5% and trailed the broader market again. European shares advanced, supported by the prospect that inflation may be moderating in the eurozone.



Source: Evidentia

Managers are saying:

*"The markets have punished more speculative and lower quality companies, but we have still yet to see meaningful downward revisions in corporate earnings in aggregate. Global equities are down meaningfully from all-time highs and, at some point, will begin to fully discount risks. However, thus far a large contraction in valuation multiples produced the bulk of the weakness, while corporate earnings expectations and profit margins have barely budged from all-time highs. Under a range of adverse scenarios from global recession to military escalation to a currency crisis, we would expect some capitulation in corporate fundamentals before the market can regain solid footing." **Franklin Templeton***

PROPERTY & INFRASTRUCTURE

Global infrastructure returned 6.1% in November, in line with global shares, and has been one of only a few major asset classes to generate positive returns over the past 12 months. Australian property followed a strong month in October, with the S&P/ASX 200 A-REIT Index lifting another 5.0%. The S&P Global REIT Index, which measures the performance of global property, rose 5.8%.

AUSTRALIAN FIXED INTEREST

The Australian fixed interest market recovered in November, returning 1.5%. At the shorter end of the curve, the yield on the 2-Year Government Bond fell from 3.24% to 3.11%. Further along the curve, 10-Year Government Bond yields peaked at 4.04% before ending the month at 3.53%. Early indications of a slowing in the pace of rate tightening globally, broadly conservative company balance sheets, combined with attractive all-in yields, drove strong demand for credit into month-end. In a break from months of significant gains in yields as the RBA lifted the cash rate, short-term money market yields were flat to lower in November. Three-month bank bills ended essentially unchanged at 3.09%, while the yield on six-month bank bills ended the month ten basis points lower at 3.56%.

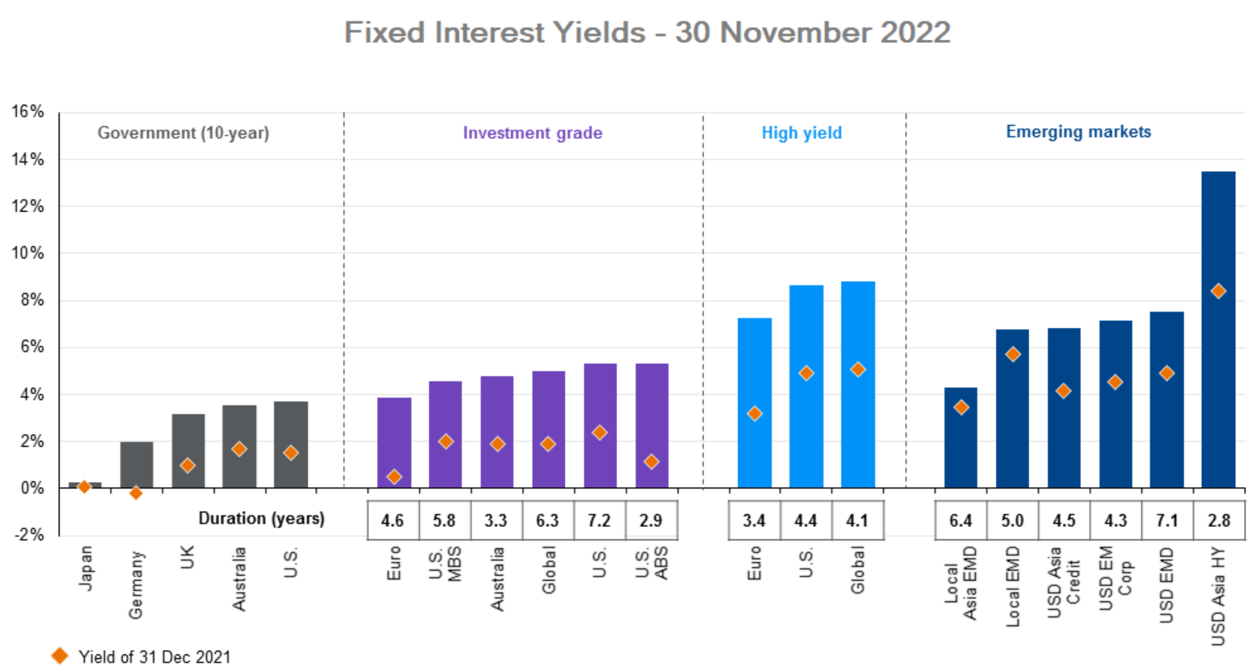
Managers are saying:

*"Attractive yields on high-quality credit spreads have seen demand return from defensive income investors. In our view, the more illiquid, structured, and levered sectors of the market are yet to adequately reprice. We believe this is a process that will occur in due course as earnings outlooks weaken. We anticipate that as conditions tighten further, global spreads will suffer decompression where high-quality liquid credit outperforms lower quality as compensation for default risk and illiquidity needs to increase. We continue to favour being positioned up in quality and seniority in capital structures, leaving powder dry for when compensation for investors escalates." **Janus Henderson***

Fixed Interest Rates, Yields & Spreads					
As at 30 November 2022	Month End	1 month earlier	3 months earlier	12 months earlier	10 Year Avg
Australian RBA Cash Rate	2.85	2.60	1.85	0.10	1.49
Australian 10 Year Bond Yield	3.53	3.76	3.60	1.69	2.46
Australian Corporate Composite Bond Spread	2.01	2.16	1.75	1.13	1.21
US Fed Funds Rate	4.00	3.25	2.50	0.25	0.90
US 10 Year Bond Yield	3.61	4.05	3.20	1.45	2.11
US Aggregate Corporate Bond Spread	1.33	1.58	1.40	0.99	1.25
US High Yield Bond Spread	4.48	4.64	4.84	3.37	4.31
Bloomberg Ausbond Comp 0+ Yrs	3.69	3.87	3.64	1.42	2.31
Bloomberg (Barclays) Global Aggregate	3.53	3.82	3.10	1.24	1.66

GLOBAL FIXED INTEREST

Global fixed interest markets recovered in November, ending the month up 2.4%. Yields drifted lower as markets reassessed the pace of further monetary tightening following the better-than-expected inflation readings and comments from the Fed. Government bond yields were broadly lower as prices rose. The yield on the US 10-Year Treasury ended the month at 3.61%, well below its October peak of 4.25%. The yield on the US 2-Year Treasury got as high as 4.72% but pulled back at the end of the month to settle at 4.38%. The UK 10-Year yield decreased from 3.51% to 3.16%. Credit spreads tightened across global markets, resulting in positive credit market returns led by emerging markets high yield, as well as US and UK investment grade credit. Investment grade credit are the highest quality bonds as determined by a credit rating agency, while high yield bonds are more speculative, with a credit rating below investment grade.



Source: J.P. Morgan Asset Management

Managers are saying:

"Crucially, while the correction in global bond markets has been incredibly painful, we believe that it is nearing completion. Further hikes from the central banks are likely in 2023 as policymakers continue to battle inflation. Yet with the market now pricing a terminal rate close to 5% in the US, around 4.5% in the UK and near 3% in the eurozone, the scope for further upside surprises is significantly diminished provided that inflation starts to cool.

Looking forward, it is clear that the income on offer from bonds is now far more enticing. The global government bond benchmark has seen yields rise by roughly 200 basis points (bps) since the start of the year, while high-yield (HY) bonds are again worthy of such a title with yields approaching double digits. Valuations in inflation-adjusted terms also look more attractive – while the roughly 1% real yield on global government bonds may not sound particularly exciting, it is back to the highest level since the financial crisis and around long-term averages." ***J.P. Morgan Asset Management***