Market Update – November 2023

Asset class total return to 30/11/2023	1M (%)	3M (%)	6M (%)	1Y (%)	3Y (% p.a.)	5Y (% p.a.)	Current Yield (%)
Cash	0.4	1.0	2.1	3.9	1.7	1.4	4.4
Fixed Term Deposits	0.4	1.2	2.3	4.0	1.8	1.7	5.1
Australian Bonds	3.0	-0.5	-1.2	0.2	-3.6	0.4	4.5
Australian Bank Hybrids	1.0	2.0	4.4	4.8	3.6	3.5	5.1
Australian Property	10.9	-4.5	1.3	0.7	2.3	4.5	4.5
Australian Shares	5.0	-1.8	2.0	1.5	7.1	8.7	4.0
Global Shares (unhedged)	4.4	-0.7	6.2	14.4	10.9	12.2	1.8
Global Infrastructure (hedged)	6.9	1.5	-0.7	-5.4	3.0	3.7	3.5

Total returns and yields are before franking credits. Source: RBA cash rate, 12M Bank term deposit, Bloomberg Austbond Composite Index, Solactive Aust Banking Preferred shares Index, S&P/ASX 300 A-REIT Index TR, S&P/ASX 200 TR, MSCI World ex-Aust unhedged TR, FTSE Developed Core Infrastructure 50/50, hedged, TR.

Financial Indicator movement	30/11/23	1M	3M	6M	1Y
AUD/USD (cents)	0.66	0.03	0.02	0.01	-0.02
Aust. 10-year bond yield (%)	4.39	-0.54	0.35	0.79	0.85
Gold US$/ounce	2,036	2.7%	4.9%	3.5%	15.1%
Brent oil US$/bbl	83	-5.2%	-4.6%	15.6%	-3.0%
Iron ore US$/t	130	9.2%	19.3%	23.8%	17.1%
Copper US$/pound	3.83	5.1%	1.5%	5.5%	2.7%

Source: Refinitiv. Note: Past performance is not a reliable indicator of future performance.

Global

Some positive news on the inflation front led to a market rally in November. Firstly, US inflation for October came in lower than expected with headline at 3.2% and core at 4.0%. Secondly, the Brent oil price retreated from its peak around US$96/bbl in September to US$83/bbl by the end of November (and has continued to fall into December).

The market now believes that the US Federal Reserve (the Fed) has finished increasing interest rates for this cycle and is likely to be easing by mid-2024. It seems the US is headed for a soft-landing, with growth and employment remaining robust, as inflation declines.

Bond yields fell materially in November, which led to a strong rally in property, infrastructure and shares. In addition, the USD has started to weaken (as US interest rates retreat), which has seen other currencies strengthen.

China seems stable, despite continued problems in its property sector. Iron and coal prices have remained surprisingly resilient, despite China's slowdown.

Oil seems to have retreated because the Russian/Ukraine and Israel/Hamas conflicts have not really interrupted oil supply. In fact, oil supply outside of OPEC has been increasing, particularly from the US, Iran, Brazil and Venezuela. The fact that OPEC has found it necessary to maintain production cuts demonstrates that global supply exceeds demand. While negative for the energy sector, this is a major positive for inflation and most other sectors.

Australia

Australia seems to be about six months behind the US in the inflation battle. Australian inflation remains problematic at around 4.9% - well above the RBA's 2-3% target. For this reason, the RBA was forced to implement another 0.25% rate increase in November, which brought the official cash rate to 4.35%.

The market is pricing in a peak rate of 4.40% by March next year, which suggests a small probability of one more rate hike to go. The tightening bias of the RBA vs the holding pattern of the Fed, should lead to further support for the AUD/USD over 2024.

The recent Bank reporting season showed evidence that the major Banks are moving into negative earnings growth due to increased competition for loans and deposits, which has lowered interest margins. We remain cautious on Banks in the short term.

Resources and Energy stocks have also become more volatile, with recent weakness in many commodities (excluding iron ore and coal). We prefer steel inputs (iron ore and coking coal), copper and rare earths.

Industrial and Property sectors have started to recover with bond yields retreating. Many of the higher quality companies can be found in these sectors and are showing good value at the moment. Healthcare is a prime example of this phenomenon.

Outlook

The interest rate cycle seems to be at-or-near its peak. Surprisingly, growth and employment have remained resilient this tightening cycle, so there is a good chance of a soft landing. As inflation moves towards target, interest rates should retreat, but the process could take most of 2024 to play out. In the meantime, companies will still be facing challenging conditions.

We are adopting a cautious but opportunistic mindset. We see good value in the industrial and property sectors that have been adversely impacted by the tightening cycle. Our focus on quality, value and yield will continue to be important in the short to medium term. Longer term, equity markets should recover as interest rates come down.

The next key events on the calendar include:

Fed meeting – 12/13 December 2023

4Q23 US reporting season – January 2023

Fed meeting – 30/31 January 2024

RBA meeting – 6 February 2023

1H FY23 Aust. Reporting season – February 2023

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Warnings, Disclosures and Disclaimer

Date issued: Sunday, December 10, 2023

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