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ADVISERS

**MONTHLY UPDATE ON THE INVESTMENT ENVIRONMENT**

November 2020



**primesuper**  
surprisingly straightforward



## MARKET UPDATE

November was a positive month for the global economy overall. The announcement of promising vaccine trial results from three pharmaceutical firms – AstraZeneca, Pfizer and Moderna – provided a significant tailwind for risk assets during the month, increasing economic optimism despite an escalation in active COVID-19 cases globally. Risk assets were also buoyed by the US election outcome and continuingly dovish central bank signalling. The trio of factors proved an irresistible combination for risk assets; a number of equities indices posted their best monthly returns in decades and many reached new record highs, more than recouping the losses earlier in 2020. Defensive assets recorded corresponding declines, with developed government bond yields rising, while the spot price of gold plummeted and the US dollar sold off against a raft of currencies.

Despite market optimism, many parts of the world nonetheless remain firmly in the grip of the pandemic. Renewed lockdown measures in Europe continued in an attempt to combat a second wave of the virus, while in the US the number of cases and deaths soared to record highs in December. By early December, the global death toll from the pandemic exceeded 1.5 million lives, with over 65 million cases confirmed.

Australia quickly emerged from its first recession since the early 1990s, posting third quarter GDP growth of 3.3% quarter-on-quarter. The result was driven by a sharp uptick in consumer spending as lockdown restrictions were eased. While beating forecasts, the result was not enough to claw back the contraction earlier in the year, with growth down 4.4% over twelve months. The residential real estate sector also recorded a month of positive performance nationwide, benefitting from ultra-low lending rates.

The nation's trade surplus widened due to strong commodities export demand, hitting \$7.5 billion, while falling global supply of iron ore boosted Australian iron ore prices as well as the local dollar, which hit a two-year high of 74 US cents.

In less positive news, Australia's two most populous states, New South Wales and Victoria, lost their AAA ratings from Standard & Poor's, with rising pandemic-induced borrowing and declining revenues triggering the downgrades.

The US continued to bear the brunt of the human impact of the pandemic, with soaring cases leading to record daily deaths in early December. While unemployment fell slightly to 6.7% and ongoing jobless claims declined to 5 million (one-fifth of the May peak), less than a quarter of a million new jobs were added in November; well below forecasts. Nonetheless, there was cause for optimism, with indications from US politicians that negotiations regarding a fiscal stimulus package were progressing well as the year draws to a close. While President Trump appears to have implicitly conceded defeat, there remains some uncertainty around the US Senate composition pending two run-off elections in the state of Georgia in early January, which would see the Republican-controlled upper house tilt in favour of the Democrats.

Australian exports continued to be adversely impacted by the ire of the Chinese government, with substantial tariffs slapped on Australian wine. The measures follow earlier beef and wheat tariffs, as well as rumoured restrictions on Australian lobster, coal, copper and sugar exports. While the intent of the measures is unclear, China has argued the wine tariffs are to curb dumping by Australian producers, while speculation abounds that it may be punishment for Australian political and business overtures earlier in the year.

In Europe, the ECB continued to note significant economic risks flowing from the renewed impact of the pandemic on the continent, although there were no changes to its policy settings over the month. Eurozone unemployment remains at a high 8.4% and headline inflation persisted at -0.3% for a third straight month. EU-UK trade deal negotiations continued to be an area of focus, with indications increasingly suggesting a deal will be reached before the 31 December deadline.



**Table: Index Returns to 30 November 2020**

|  | <b>MONTH (%)</b> | <b>THREE MONTHS (%)</b> | <b>FYTD (%)</b> | <b>ONE YEAR (%)</b> |
|--|------------------|-------------------------|-----------------|---------------------|
| <b>Australian Equities</b>                                 |                  |                         |                 |                     |
| S&P/ASX 300 Accumulation Index                             | 10.2             | 8.3                     | 12.2            | -1.6                |
| S&P/ASX Small Ordinaries Accumulation Index                | 10.3             | 7.7                     | 17.1            | 6.0                 |
| <b>International Equities</b>                              |                  |                         |                 |                     |
| MSCI World (ex Australia) Index (hedged A\$)               | 11.6             | 4.8                     | 14.9            | 9.3                 |
| MSCI World (ex Australia) Index (unhedged A\$)             | 7.4              | 5.9                     | 10.2            | 5.3                 |
| MSCI Emerging Markets Index (unhedged A\$)                 | 4.1              | 10.1                    | 14.1            | 8.7                 |
| <b>Property</b>  |                  |                         |                 |                     |
| S&P/ASX 200 A-REIT Accumulation Index                      | 13.2             | 11.1                    | 20.7            | -9.2                |
| <b>Australian Fixed Interest</b>                           |                  |                         |                 |                     |
| Bloomberg AusBond Composite Index                          | -0.1             | 1.2                     | 1.2             | 3.0                 |
| <b>Global Fixed Interest</b>                               |                  |                         |                 |                     |
| FTSE WGBI ex-Aust (hedged A\$)                             | 0.2              | 0.9                     | 0.8             | 5.1                 |
| Barclay's Global Capital Aggregate Bond Index (hedged A\$) | 0.5              | 0.9                     | 1.2             | 4.5                 |
| <b>Cash</b>  |                  |                         |                 |                     |
| Bloomberg AusBond Bank Bill Index                          | 0.0              | 0.0                     | 0.0             | 0.4                 |
| <b>Commodities</b>   |                  |                         |                 |                     |
| Gold (US\$ per ounce)                                      | -5.8             | -10.1                   | -0.1            | 21.4                |
| Copper (US\$ per metric tonne)                             | 12.8             | 13.7                    | 26.0            | 29.3                |
| WTI Crude Oil (US\$ per barrel)                            | 26.7             | 6.4                     | 15.5            | -17.8               |
| RBA Index of Commodity Prices (A\$)                        | 0.5              | 4.0                     | 3.1             | -0.8                |

**Table 1: Australian Dollar versus Foreign Currencies to 30 November 2020**

| <b>AUSTRALIAN DOLLAR VERSUS</b> | <b>AS AT 30 NOVEMBER 2020</b> | <b>MONTH (%)</b> | <b>THREE MONTHS (%)</b> | <b>FYTD (%)</b> | <b>ONE YEAR (%)</b> |
|---------------------------------|-------------------------------|------------------|-------------------------|-----------------|---------------------|
| <b>US Dollar</b>                | 0.74                          | 4.9              | 0.4                     | 7.8             | 9.0                 |
| <b>British Pound Sterling</b>   | 0.55                          | 2.1              | 0.3                     | -0.8            | 5.4                 |
| <b>Euro</b>                     | 0.62                          | 2.1              | -0.2                    | 0.9             | 0.0                 |
| <b>Japanese Yen</b>             | 76.80                         | 4.5              | -1.4                    | 4.1             | 3.5                 |