Market Watch

November Review 2020

This month saw record COVID-19 infections across US and Europe with many countries heading back into physical lockdowns. November also saw mixed economic data and a new US President elect. Despite all, the strong hopes of a vaccine before Christmas led our local share market to have one of its strongest months since 1988.

Development in Global Economy

COVID-19 Outlook

As the northern hemisphere heads back into winter and predicted case numbers rise as a result, it is becoming increasingly evident that COVID-19 like its sibling, the flu, is seasonal.

In Australia, both Victoria and NSW experienced 26 and 24 days respectively of no community transmission. Melbourne, the former hotspot of Australia was able to temporarily eradicate COVID-19 with no active cases in the state by the end of the month. Unfortunately, an outbreak in Adelaide put the city into an extreme 6 day lockdown that was cut short 3 days early.

In the US, daily infection rates have hit all-time highs with more than 200,000 recorded infections with over 2,500 deaths per day reported over the month. As an indicator of the severity of the situation, we saw the New York City Public School system, the largest in the country, close as the percentage of positive tests over the 7 day rolling average hit a 3% circuit breaker level. Europe, like the US, faced a similar fate with most countries heading back into physical lockdowns in the hopes of flattening the curve and to remove stress across an overloaded healthcare system.

While this may have painted a very grim picture as we head into the holiday season – November saw strong hopes for the success of stage 3 vaccine trials. Most notably Pfizer, AstraZeneca and Moderna all reporting an effectiveness of more than 90%. This is in comparison to our normal annual flu jab that sits at 50-60%. Pfizer has submitted emergency approval to the US Food and Drug Authority (FDA), with Moderna not far behind. It is expected that the first round of COVID-19 vaccines will be issued before the end of the year.

US Election

On November 7 the US went to the polls for what was one of the most hotly contested and divided elections in history. The lead up to the election polling data indicated a potential 'blue wave' – with the Democrats taking both houses and the oval office. In the proceeding days after the election it became apparent that while Joe Biden would be the 46th US President (despite the Republicans efforts to overturn the result), Biden will contend with the House of Representatives and Senate most likely being divided, pending the outcome of 2 Senate races in Georgia due in early January.

[1]Largest monthly gain on the All Ordinaries since March 1988

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people's choice CREDIT UNION

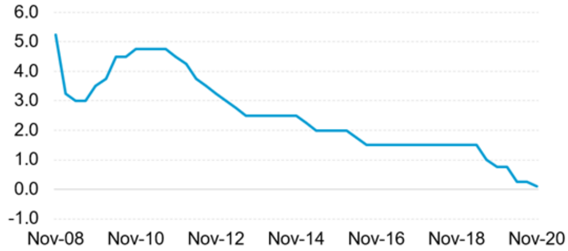
A divided house means it will be a lot harder for Biden to get many of his campaign measures actioned, including raising of corporate taxes. Despite this outcome, markets welcomed the news of a new President as we saw the strongest post-election rally on record. While we still wait to hear if the outgoing President Donald Trump will concede and accept defeat, towards the end of the month Trump agreed reluctantly to allow the transition of power to occur.

There are two key takeaways from the election outside of the noise surrounding alleged voter fraud and multiple state recounts. Firstly, this was the highest level of voter participation in the US at almost 70% (normally sub 60%). Secondly, Joe Biden and Donald Trump received the highest and second highest amount of votes in US history, respectively.

Australia

Earlier in the month, the Reserve Bank of Australia (RBA) cut the official cash rate to a record low of 0.10%, with an additional commitment made that the RBA does not expect to raise the cash rate for at least 3 years. The RBA also announced further Quantitative Easing (QE) with a $100bn government bond buying program over the next 6 months aimed at the longer end of the curve- focusing on 5-10 year maturities. This varies from their original QE program back in March focusing on the 3 year point.

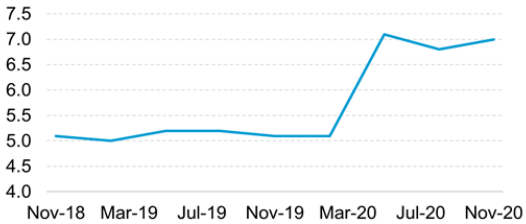
Chart 1: Australia Interest Rate



Source: BTIS/Bloomberg

As lockdowns across the country continued to ease and borders began to reopen, employment data showed signs of improvement with a reported +178k jobs added to the economy in October. While the unemployment rate for October ticked up to 7% from 6.9% in the previous month, this was really an outcome of an increase in the participation rate from 64.9% to 65.8% as casual workers head back to work or the unemployed started looking for jobs. GDP for the September quarter is due out in December when we are expecting a strong snapback from the negative March and June quarters, -0.30% and -7.00% respectively.

Chart 2: Australia Unemployment Rate



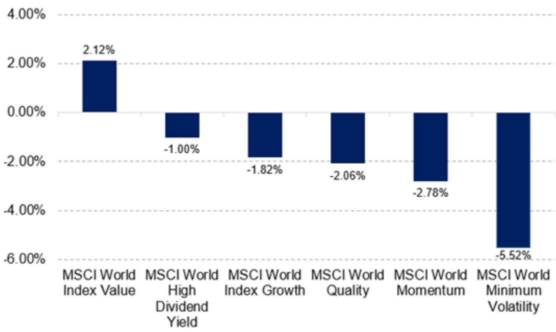
Source: BTIS/Bloomberg

Australian shares followed the trend of international markets on strong vaccine data, with their strongest month since 1988. Bond yields continue to remain at historically low levels. The Australian dollar continued to appreciate to its highest level in nearly two years as the US dollar has depreciated against most currencies.

United States

The US market once again lead the charge with the S&P500 and Dow Jones hitting all-time highs mid-month on positive news surrounding encouraging results from COVID-19 vaccine trials, and certainty on the result of the US Election. Unlike prior months this rally was not led by the tech giants also known as the 'FANMAG's'. Rather we saw a rotation to value sectors including travel, banks and energy. Given the recent optimism surrounding a path out of COVID 19, investors appear to be rotating money to areas that will prosper from economic growth and thrive when physical and economic lockdowns are no longer required or at the least significantly reduced.

Chart 3: MSCI World Factor Index Excess Return vs MSCI World (AUD) - November 2020



Source: BTIS/FactSheet

However, while market returns paint a rosy picture of the future, economic data released over the month did not reflect this same belief. Despite US PMI's in excess of 50, or what is considered an expansionary level, retail sales remained weak and jobless claims continued to tick up, as initial government stimulus packages conclude. It is always important to remember during a recovery phase the real economy lags that of the markets.

As the US now looks to the inauguration of President Elect Joe Biden on January 20, attention is turned to what many term 'Bidenomics' – more stimulus, tougher regulation and clarity and predictability to foreign policy including relations with China.

Asia

Japan followed suit over the month of November, the Nikkei hitting 29-year highs towards the end of the month. Any inflationary fears for Japan given the excessive monetary and fiscal stimulus have somewhat been squashed in light of recent economic data.

In China, the economy continued to show strong signs of recovery. The Caixin China General Manufacturing PMI rose to 54.9 in November from 53.6 in October, beating market estimates of 53.5. Whilst Chinese data can be 'taken with a grain of salt', this was the seventh straight month of growth in factory activity and the strongest since November 2010. The Chinese government also released their plan for economic growth over the next 5 years as China looks beyond a pure manufacturing-based economy.

India officially entered recessionary territory in November with two consecutive negative quarters of GDP. India's economy shrank 7.5% in the September quarter, after seeing a record contraction of 23.9% in the June quarter. However, it is worth noting the economy substantially narrowed the contraction - potentially a sign the government fiscal stimulus targeting small business that were heavily impacted by lockdowns is making an impact. India continues to face a long and bumpy road out of COVID-19, despite positive hopes of a vaccine in the developed world it is becoming increasingly evident developing countries such as India will struggle to make this readily available to all its citizens.

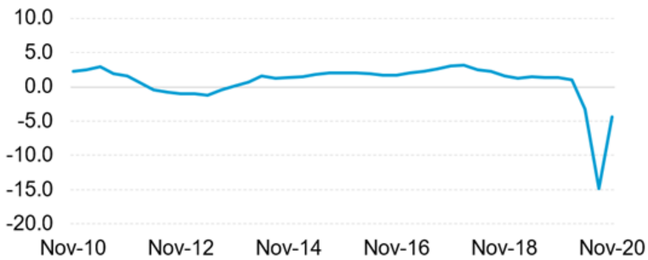
Chart 4: Nikkei 225—the last 5 years

Source: BTIS/Bloomberg

Europe

November saw the European Union (EU) and the UK enter what was meant to be the final Brexit negotiations ahead of the December 31 deadline. There are signs from negotiations thus far, that towards the end of the month a deal is expected to brokered and will be signed early December. In the event of a no deal, the UK will revert to standard WTO trading arrangements on January 1. Many predict a no-deal Brexit will have a far worse impact than COVID-19 on the economic recovery of both the UK and Europe. European PMI's for November declined to 45.1, from 50 in October. Earlier in the month the UK entered a 6-week lockdown in an attempt to curb the virus ahead of Christmas. Many of their European counterparts including France and Germany have also followed suit. Towards the end of the month daily infection numbers were showing positive signs the curve was flattening.

Chart 5: Eurozone GDP Annualised



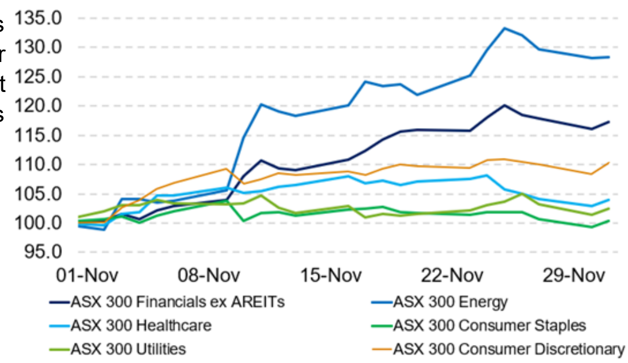
Source: BTIS/Bloomberg

Development in Financial Markets

Australian shares

Australian financial markets had their strongest month in over 3 decades over November. The ASX Small Ordinaries Accumulation rose 10.27% over the month; with the ASX300 Accumulation returning 10.23%. The strongest performers over the month were Energy (+28.44%) and Financials (+16.56%), with Consumer Staples (-1.91%) and Utilities (+1.01%) lagging.

Chart 6: Australian Shares (rebased to 100)



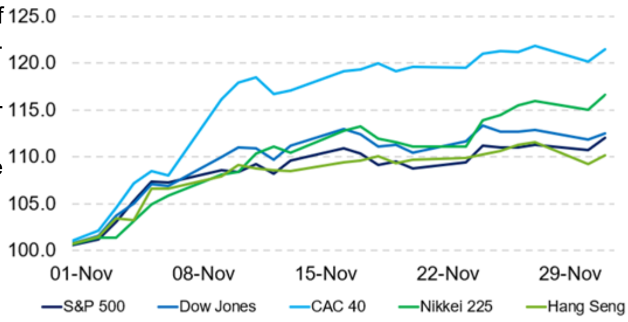
Source: BTIS/Bloomberg

International shares

International markets also saw very strong positive performance off the back of the positive vaccine news over November. The MSCI World ex Australia Unhedged index climbed 7.43% over the month. The United States lead the charge, noticeably a clear rotation from growth to value off the back of confirmation that President-Elect Joe Biden will become the 46th President. The DOW closed up 12.14% and the S&P 500 was up 10.95%. European shares were similar, the Euro STOXX gaining 13.73%. France's CAC 40 and Germany's DAX Index continued to trend higher ending the month up 20.12% and 15.01% respectively.

Asia's markets continued to consolidate on recent strong performance throughout the month. Japan's Nikkei hit all-time highs, ending the month up 15.05%. China's Shanghai Composite

Chart 7: Major Market Indices (rebased to 100)



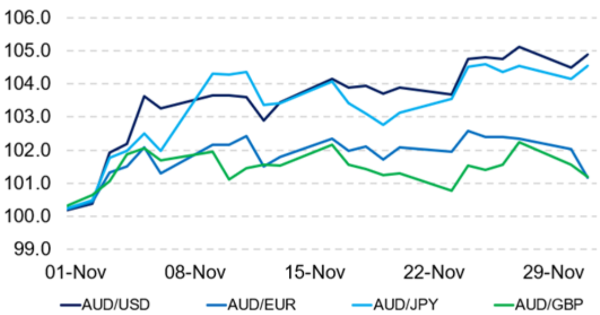
Source: BTIS/Bloomberg

Fixed interest

Government bonds' yields remained at all-time lows, anchored to central bank policy rates and with no signs of short-term cash rates being lifted in the developed world for the foreseeable future.

In Australia bonds remained relatively flat with the Bloomberg AusBond Composite (0+Y) index down -0.11%. For international fixed interest markets, the Barclays Global Aggregate TR Hedged index gained some ground as its one-month numbers closed at 0.53% Longer term bond yields gained momentum early in the month off strong vaccine news but fell towards the end of the month on mixed economic data. The 10-year Treasury bond yields in Australia added 6 bps to 0.89%, the US fell 3bps to 0.85%.

Chart 8: Major Currencies (rebased to 100)



Source: BTIS/Bloomberg

Currencies

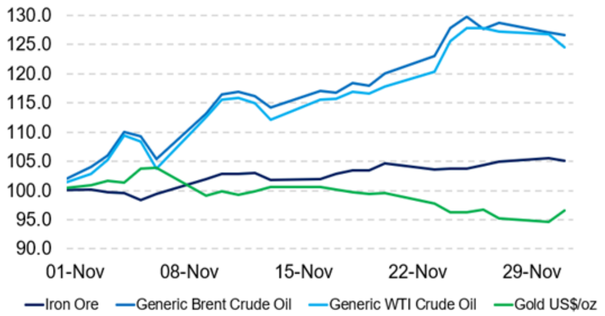
The AUD/USD has seen a strong appreciation over November, hitting its highest level in 2 years. Finishing the month at 0.7344, despite a minor sell off on the last day of November the AUD/USD experienced a 4.50% appreciation this month. Additionally, the Euro regained ground against the USD, with a 2.40% gain to 1.1927. Moreover, the GBP consolidated on last month's appreciation against the USD, up 2.90% to 1.3323.

Commodities

Commodities saw strong positive returns across November. Iron Ore reversed last month's fall as it gained 5.51% to a month end price of US$123.60. The strong AUD/USD may start to impact Iron Ore returns down the track, as prices continue to rise on positive signs of an economic recovery. While Gold, generally seen as a risk off haven asset fell -5.42%, ending the month at $1776.95 oz.

Oil erased the pain of the last few months ending up with strong gains over the month. Over November, Brent Crude Oil was up 27.04% to US$47.59 while WTI Oil also made strong gains 26.68% to US$45.34. Despite this, the Bloomberg Commodity Index saw a gain of 3.50% to 74.36.

Chart 9: Major Commodities (rebased to 100)



Source: BTIS/Bloomberg