

# Market Review

November 2019

How the different asset classes have fared:  
(As at 29 November 2019)

Asset Class	10 Yr % p.a.	5 Yr % p.a.	3 Yr % p.a.	1 Yr % p.a.	YTD %	6 Mo %	3 Mo %	1 Mo %
Cash <sup>1</sup>	2.90	1.95	1.75	1.58	1.43	0.58	0.25	0.08
Australian Bonds <sup>2</sup>	5.88	4.87	5.66	10.69	9.05	3.37	-0.16	0.82
International Bonds <sup>3</sup>	6.23	4.42	4.37	9.04	7.50	3.16	-1.03	-0.20
Australian Shares <sup>4</sup>	8.46	10.13	12.64	25.89	26.45	9.21	4.88	3.07
Int. Shares Unhedged <sup>5</sup>	12.90	13.08	15.88	23.76	29.34	15.91	7.32	4.74
Int. Shares Hedged <sup>6</sup>	12.40	9.47	12.35	13.87	24.29	12.81	7.54	3.18
Emerging Markets Unhedged <sup>7</sup>	6.22	7.61	11.79	15.31	14.55	8.27	5.45	1.65
Listed Infrastructure Unhedged <sup>8</sup>		11.86	15.10	24.45	25.30	8.17	0.46	0.47
Australian Listed Property <sup>9</sup>	12.49	13.17	13.58	27.02	24.86	9.20	0.84	2.26
Int. Listed Pty Unhedged <sup>10</sup>	13.10	10.59	12.12	25.10	28.57	11.58	3.38	0.62

1 Bloomberg AusBond Bank 0+Y TR AUD, 2 Bloomberg AusBond Composite 0+Y TR AUD, 3 Bloomberg Barclays Global Aggregate TR Hdg AUD, 4 S&P/ASX All Ordinaries TR, 5 Vanguard International Shares Index, 6 Vanguard Intl Shares Index Hdg AUD TR, 7 Vanguard Emerging Markets Shares Index, 8 FTSE Developed Core Infrastructure 50/50 NR AUD, 9 S&P/ASX 300 AREIT TR, 10 FTSE EPRA/NAREIT Global REITs NR AUD

Australian and international share markets rallied in November, with the S&P/ASX 200 and the S&P 500 both rising to record highs. The Australian bond market also rose (bond yields fell), while the Australian dollar depreciated by 1.8% against the US dollar.

## Cash and Fixed Income

Australian bond yields fell in November (bond prices rose) due to weak Australian economic data and an increase in market expectations for another rate cut by the Reserve Bank of Australia (RBA) in 2020.

Australian employment data was weaker-than-expected: the unemployment rate increased slightly, wage growth remained subdued and ANZ job advertisements fell which points to potential further labour market weakness ahead. Retail sales also continued to disappoint, suggesting that the recent tax cuts have failed to provide much of a boost to consumer spending. Business investment also unexpectedly weakened further in the September quarter. On the housing market, house prices increased again in October and housing loan approvals have risen strongly over the past few months. However, housing credit growth slowed further in October (suggesting a faster repayment of existing loans) and residential construction activity continued to decline.

In early November, the RBA kept the cash rate unchanged at 0.75%, as expected. However, the Minutes from the November meeting released later in the month showed that a rate cut was a closer call than the market had initially thought. The RBA Governor also delivered a speech in late-November which discussed the likely floor for the cash rate in Australia, the conditions for the RBA to undertake a quantitative easing (QE) program and the likely details of this program if it were to take place. The RBA suggested that the cash rate floor is 0.25% and QE would only become an option to be considered at a cash rate of 0.25%, but not before that. If the RBA were to undertake QE, they would purchase government bonds. However, the Governor stated that the threshold for undertaking QE in Australia has not been reached and he doesn't expect it to be reached in the near future. It was also noted that negative interest rates in Australia are 'extraordinarily unlikely'.

## Australian Shares

Australian share markets rose by 3% in November, broadly in-line with gains in international share markets. Most sectors rose over the month, except for the financials sector which extended its October decline. Westpac shares tumbled by 13% following: a disappointing earnings release; the announcements of a dividend cut to 80c per share and a A\$2.5 billion capital raising and allegations by AUSTRAC that more than 23 million Westpac transactions had breached anti-money laundering and counter-terrorism financial laws. NAB shares also fell sharply over the month, down 9.5%, after its annual results also disappointed market expectations; the weakness in earnings was attributed to weaker mortgage flows and customer-related remediation charges.

## International Shares

International share markets extended higher in November, supported by optimism that a US-China trade deal will materialise (although the "Phase One" deal still hasn't been agreed), a resilient US economy and better-than-expected US corporate earnings. Emerging market shares underperformed developed market shares in November.

## The Australian Dollar

The Australian dollar depreciated by 1.8% against the US dollar over the month, supported by a widening in the differential between Australian and US interest rates as expectations for another rate cut in Australia increased. The Australian dollar is expected to continue to weaken over the next year as the Australian economy underperforms the US economy and with iron ore prices likely retracing further.

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