

## NOVEMBER MARKET PERFORMANCE

<b>Equity Markets – Index Returns*</b>		At Close	% Return	% Return
	Index	30/11/2019	1 Month	12 Months
Australia	S&P/ASX 200 Index	6846.00	3.28%	25.98%
United States	S&P 500 Index	3140.98	3.63%	16.11%
Japan	Nikkei 225 Index	23293.91	1.61%	6.47%
Hong Kong	Hang Seng Index	26346.49	-1.98%	3.01%
China	CSI 300 Index	3828.67	-1.49%	23.44%
United Kingdom	FTSE 100 Index	7346.53	1.81%	10.16%
Germany	DAX 30 Index	13236.38	2.87%	17.58%
Europe	FTSE Eurotop 100 Index	3097.19	2.60%	17.65%

<b>Property – Index Returns*</b>		At Close	% Return	% Return
	Index	30/11/2019	1 Month	12 Months
Listed property	S&P/ASX 200 A-REIT Index	1667.40	2.31%	26.97%

<b>Interest Rates</b>	At Close	At Close	At Close
	30/11/2019	31/10/2019	30/11/2018
Australian 90 Day Bank Bills	0.89%	0.94%	1.95%
Australian 10 Year Bonds	1.03%	1.14%	2.59%
US 90 Day T-Bills	1.57%	1.52%	2.34%
US 10 Year Bonds	1.78%	1.69%	2.99%

<b>Currency**</b>		At Close	% Change	% Change
		30/11/2019	1 Month	12 Months
US dollar	AUD/USD	0.68	-1.81%	-7.43%
British pound	AUD/GBP	0.52	-1.75%	-8.70%
Euro	AUD/EUR	0.61	-0.68%	-4.94%
Japanese yen	AUD/JPY	74.04	-0.45%	-10.77%
Australian Dollar Trade-Weighted Index		59.0	-1.67%	-6.79%

\* Closing index values are based on price indices. Index returns are expressed as total returns in local currency.

\*\* All foreign exchange rates rounded to two decimal places.

Past performance is not a reliable indicator of future performance.

## The Pulse

Markets have reacted favourably to the prospect of a 'phase one' trade deal between the US and China, which would involve a roll-back of tariffs.

Positive developments on the trade front would come at the right time for the US economy, which has suffered from a deterioration in business confidence and investment.

The UK will head to the polls on 12 December with polls showing a Conservative lead, but polls have previously underestimated Labour support.

The Chinese economy slowed to a 6.0% annual growth rate in the September quarter, prompting the central bank to cut the short-term lending rate.

The Australian economy grew at an annual pace of 1.7% in the September quarter, recording the weakest consumer spending since the GFC.

## Global economies

Economic data is mixed. Indicators such as manufacturing PMIs have been trending down, while housing has been strong in the US and has improved in Australia. Consumers are also holding up well, especially in the US. Geopolitics remains an unknown factor, with trade talks continually shifting, while further quantitative easing is still a possibility.

## US

Federal Reserve Chairman Jerome Powell reiterated his view that interest rates are probably on hold after three straight reductions, while signalling that the Fed could resume cutting if the growth outlook falters. Markets are now factoring in only one further cut in the Fed funds rate, implying a rate of 1.4% by mid-2020 and 1.3% by end-2020. The apparent easing of trade tensions between the US and China—with the prospect of a so-called 'phase one' deal that would involve a roll-back on existing tariffs—has added to market confidence. It comes just in time, as further deterioration in business confidence would further constrain business investment and hiring. GDP growth has already slowed from 3.1% p.a. early in 2019 to 1.9% in the September quarter. The latest GDPNow projection has GDP growth for the December quarter at 2.0%. Payroll data for November showed the labour market remains strong, bouncing back from a lacklustre October. This brings the average gain in non-farm payrolls to 173,000 through 2019, which is still down on the average of 223,000 in 2018. While some slowdown should be expected given the expansion is now 10 years old, the jobs data will be closely scrutinised for any signals that the downturn in growth and business confidence is flowing through to investment and hiring plans.

## Europe

Recent PMI data suggest that GDP was rising at a 0.1% rate at the start of the December quarter, but likely with a weakening trend. Growth remains soft in Europe while Germany narrowly avoided a technical recession in the September quarter, growing 0.1% after contracting 0.2% in the March quarter. German growth is being sustained by the service sector, offsetting the deep recession in manufacturing. The German government revised down its growth forecast for 2020 to 1.0% from 1.5% but left its 2019 forecast at 0.5%. German industrial production declined by 5.3% over the year to September after peaking at more than 7.0% in 2017-18. The UK economy grew by 0.3% in the September quarter after contracting by 0.2% previously. Over the year, UK GDP grew by 1.0%, the slowest rate of growth since the first quarter of 2010. On the political front, Prime Minister Johnson finally secured a new Brexit deal with the EU, which involves a customs border in the Irish Sea—something many unionists were determined to avoid. The parliament agreed to a general election on 12 December, with the Conservatives promising to enact Brexit by 31 January 2020, while Labour is promising a second referendum on a Brexit deal. A hung parliament would enable alliances to be formed, although both major parties are struggling to find natural allies.

## China

There is no clear evidence that the Chinese economy has stabilised. While credit growth appears to have lifted, indicators of consumer spending, investment and production appear to be slowing. In the September quarter the Chinese economy slowed to just 6%, the slowest annual pace in almost 30 years and growth for the current quarter could be lower. Indeed, there are signs that the authorities are becoming increasingly concerned with the slowdown in growth. Up until recently, Beijing's policy response has been limited to measures such as tax reforms and changes to local government bond issuance. There have been a series of cuts to the bank reserve requirement ratio, effectively freeing up borrowing capacity. In November, China's central bank cut its short-term lending rate for the first time in four years, signalling the start of a new easing cycle—a sign that the trade war was starting to hurt businesses. It suggests the authorities are beginning to place more priority on growth rather than financial stability. However, by no means can the current stimulus be compared with the 2008-09 and 2015-16 stimulus packages. Accordingly, any lift in growth is expected to be marginal. The authorities are keen to avoid a further lift in debt levels, unsustainable property investment and rising risks to bank balance sheets.

## Asia region

Japan's economy grew faster in the September quarter than originally estimated, recording annualised GDP growth of 1.8%, revised upwards from 0.2%. Despite falling exports, local demand has kept the economy in expansion mode, however there are concerns that the rise in the consumption tax rate in October may have resulted in buying decisions being brought forward. Indeed, retail sales over the year to September spiked to over 9.0% compared to 2.0% over the year to August, while data for the first two weeks of October showed supermarket turnover fall back. In early December the Japanese government announced a ¥26 trillion (US\$239 billion) stimulus package to support the global slowdown and precarious domestic conditions. The package will centre on infrastructure, including repairs and rebuilding following a string of natural disasters, as well as measures to promote cashless payments. Meanwhile in India, hopes of a stimulus-led recovery have fallen flat, with annual GDP growth falling to 4.5% for the second fiscal quarter (covering July–September), marking the slowest pace since 2013. Exposure to bad loans, especially among the state-run lenders, remains a serious challenge and a handbrake on growth. The government may be forced to push the fiscal levers further, which would extend the deficit beyond the targeted 3.3% of GDP.

## Australia

The Reserve Bank kept the cash rate at a record low 0.75% in early November, as widely expected and offered guidance that a December rate cut was unlikely owing to some slight improvements in the domestic economy as well as the global trade picture. It seems the RBA is pleased with the response of the housing sector to the rate cuts although there is little evidence elsewhere of a response to date. Global risks may have eased with the trade truce but have not completely disappeared. Essentially the RBA believes the economy is coming out of a soft patch and that growth is likely to improve slightly as a result of low interest rates, tax cuts, infrastructure spending and an upswing in house prices. Unemployment is likely to remain above the full employment rate of 4.5% while inflation is expected to pick up only gradually. However, the RBA this time last year was projecting GDP to grow by 3.2% in the 12 months to June 2019. It ended up being less than half that at just 1.4%. The September quarter wages data showed that growth slowed to 2.2%, with public sector wages growth outpacing the private sector at 2.5%. With wages growth low, almost half of the tax cuts still to flow through, and households more intent on paying down debt, it is no surprise that retail spending remains weak.

## Equity markets

The S&P/ASX 200 Index bounced back in November, returning 3.3% supported by gains from the Health Care and Materials sectors.

The US S&P 500 Index rose 3.6% in US dollar terms, with growth shares still providing momentum and investors reacting positively to trade developments.

The STOXX Europe 600 Index rose 2.7%, the German DAX 30 Index gained 2.9% and the UK's FTSE 100 Index climbed 1.8%.

In Asia, China's CSI 300 Index fell 1.5% and Hong Kong's Hang Seng Index eased 2.0%, while Japan's Nikkei 225 Index rose 1.6%.

Global developed market shares excluding Australia rose 4.7% in Australian dollar terms and emerging market gained 1.7%.

## Australian equities

Equity	Index/Benchmark (% p.a.)	1 Month	1 Year	3 Years	5 Years	7 Years
Australian	S&P/ASX 200 Acc. Index	3.28%	25.98%	12.66%	9.89%	10.88%
	S&P/ASX 50 Acc. Index	3.26%	28.18%	12.80%	9.41%	10.75%
	S&P/ASX Small Ordinaries Acc. Index	1.56%	16.62%	11.39%	10.81%	7.31%

After a shaky start to the December quarter, Australian shares rebounded in November, returning 3.3%, but lost momentum in the first week of December. November's gains were driven by strength in Health Care (+8.9% and +51.7% over 1 year), while Materials (+4.7% and +31.9% over 1 year) continues to support the index. This despite weakness from the major Financials sector, which slipped 2.1% over the month as the major banks were marked down due to the lower interest rate outlook, which doesn't bode well for lending margins. Meanwhile, Westpac (-13.1%) was the latest to be hit with negative headlines. If returns in December hold up, the ASX 200 will be on track to deliver a return of around 26% for the 2019 calendar year, which would be the highest return investors have seen since 2009. November was a good month for Australian growth shares, with the Information Technology sector gaining 11.0%, led by popular names like accounting software provider Xero (+17.8%) and artificial intelligence training provider Appen (+12.0%). In the Health Care sector, CSL (+10.7%) had another excellent month, while Cochlear (+10.6%) and Ramsay Health Care (+7.5%) also performed well. Within the Consumer Staples sector (+8.3%), a2 Milk (+22.7%) recovered from a mid-year slump, while CEO Jayne Hrdlicka announced she will step down after 18 months at the helm.

## Investment Index/Benchmark returns\*

S&P/ASX 200 Index

Sector	1 Month	3 Months	1 Year
Information Technology	10.97%	5.96%	34.35%
Health Care	8.87%	14.22%	51.74%
Consumer Staples	8.25%	7.68%	33.54%
Communications	7.51%	2.78%	28.31%
Energy	7.48%	13.01%	22.29%
Consumer Discretionary	4.89%	8.95%	33.54%
Materials	4.70%	5.91%	31.94%
Industrials	4.08%	7.14%	30.73%
Property	2.31%	0.75%	26.97%
Utilities	-0.60%	2.58%	18.63%
Financials ex-Property	-2.05%	-0.91%	11.83%

\* Total returns based on GICS sector classification

## Big movers this month

### Going up:

Information Technology	+11.0%
Health Care	+8.9%
Consumer Staples	+8.3%

### Going down:

Financials ex-Property	-2.1%
Utilities	-0.6%

## Global equities

Equity	Index/Benchmark (% p.a.)	1 Month	1 Year	3 Years	5 Years	7 Years
Global	MSCI World Ex Australia Index (AUD)	4.71%	23.48%	15.81%	12.89%	17.65%
	MSCI World Ex Australia Index (LCL)	3.16%	14.43%	11.97%	8.54%	11.90%
	MSCI World Ex Australia Small Cap Index (AUD)	5.23%	19.44%	13.03%	12.92%	17.84%
Emerging	MSCI Emerging Markets Index (AUD)	1.69%	15.74%	12.29%	7.96%	9.46%
	MSCI AC Far East Index (AUD)	2.28%	17.15%	12.25%	10.86%	13.82%

November saw global equities extend their strong run over 2019, supported by an easing of trade tensions but generally at odds with economic data, which has been mixed. Markets responded favourably to the prospect of a 'phase one' trade deal between the US and China, while the US market made it through Q3 earnings season in high spirits with 80% of firms beating expectations, although earnings overall were mostly flat on the previous year. The MSCI World Ex-Australia Index returned 4.7% in November and 23.5% over 12 months in Australian dollar terms, with weakness in the Australian currency providing a significant tailwind. The US S&P 500 Index returned 3.6% in US dollar terms, led by the Information Technology sector (+5.2%), while Financials (+4.8%) has been among the top performing sectors in 2019, with banks and fund manager names benefiting from recent market strength. European shares, measured by the broad STOXX Europe 600 Index, rose 2.7%, led by the Information Technology (+5.7%) and Resources (+5.0%) sectors. In Asia, Japan's Nikkei 225 Index rose a modest 1.6%, while China's CSI 300 Index fell 1.5% and Hong Kong's Hang Seng Index fell 2.0%. Emerging markets continue to benefit from a relatively stable US dollar and a dovish US Fed, although geopolitical risks remain a source of uncertainty.

## Property

Property	Index/Benchmark (% p.a.)	1 Month	1 Year	3 Years	5 Years	7 Years
Australian	S&P/ASX 200 A-REIT Acc. Index	2.31%	26.97%	13.21%	12.92%	13.72%
Global	FTSE EPRA/NAREIT Developed Ex Australia Index (AUD Hedged)	-0.97%	14.70%	10.21%	7.85%	10.72%

While underperforming the rest of the ASX 200 in November, Australian listed property has enjoyed an equally impressive year, returning 27.0% over the 12 months ending November. A lift in housing demand, along with record-low interest rates, have boosted property values, lifting the A-REIT sector across the board. Mirvac Group (+5.3%), one of the country's largest residential communities and high-rise developers, has benefited from the recovery in property prices in 2019, posting gains of 60.6% over the past 12 months. Mirvac has continued to add to its portfolio and is on a short-list of contenders for Nine Entertainment's \$200 million North

Shore headquarters. The retail sector was mixed in November, with French-owned Unibail-Rodamco-Westfield gaining 4.2% and Scentre Group rising 2.9%, while Vicinity Centres was flat at 0.4%. In the office sector, vacancy rates are expected to tighten, especially in Sydney and Melbourne, while limited space and robust demand is supporting the industrial segment. In the US, REITs had a challenging month as Shopping Centres (-1.5%) and Regional Malls (-0.3%) lost some steam and Office Property (+0.7%) was flat in US dollar terms. While cap rates are relatively low, they are reasonable given the low interest rate environment.

## Fixed interest

Fixed Interest		1 Month	1 Year	3 Years	5 Years	7 Years
Australian	Bloomberg AusBond Composite 0+ Yr Index	0.82%	10.69%	5.66%	4.87%	4.92%
	Bloomberg AusBond Bank Bill Index	0.08%	1.58%	1.75%	1.95%	2.19%
Global	Bloomberg Barclays Global Aggregate Index (AUD)	1.08%	17.00%	7.01%	6.90%	7.67%
	Bloomberg Barclays Global Aggregate Index (AUD Hedged)	-0.20%	9.04%	4.37%	4.42%	4.88%

In Australia, a fall in yields saw a modest return from fixed interest in November, with government bonds returning 0.86%, beaten slightly by corporate bonds, which returned 0.72%. While a risk-on environment has prevailed through 2019, bonds have performed reasonably well, with Australian government bonds returning 9.6% over the year to the end of November, compared to 8.0% from corporate bonds. While the RBA is not completely dissatisfied with the effect of recent rate cuts, the likelihood of further cuts in 2020 mean yields may have further to fall. In the US, the Fed is once again growing the size of its balance sheet in the wake of the repo rate spike in September. The Fed will purchase US\$60 billion per month at least until the June quarter of 2020. After inverting in August, the spread of 10-year over 2-year US Treasuries is stable but remains narrow, ending November at 17 basis points. US yields moved higher in November, with the 10-year yield rising nine basis points to end the month at 1.78%. Yields in other major economies rose, but negative yields still pervade the marketplace. The German 10-year Bund yield rose from -0.41% to -0.36% and the Japanese 10-year yield rose from -0.14% to -0.08%. The UK 10-year Gilt rose from 0.63% to 0.70%.

## Australian dollar (AUD)

The Australian dollar moved higher early in November, rising above US\$0.69, but failed to break through, falling to \$0.68 at the end of the month. Metals fell through November, putting pressure on the currency. The RBA appears content to look back and judge the effects of 2019's rate cuts before moving further, but a rate cut in early 2020 is still the likely scenario.

*The information contained in this Market Update is current as at 12/12/2019 and is prepared by Lonsec Research Pty Ltd ABN 11 151 658 561 AFSL 421445 on behalf of National Australia Bank and its subsidiaries.*

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