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# MONTHLY UPDATE ON THE INVESTMENT ENVIRONMENT

November 2021

Prime Super

## MARKET UPDATE

The past month was characterised by renewed COVID-19 concerns amid a fourth wave of outbreaks in Europe and the emergence of the new Omicron strain of the virus, escalating geopolitical concerns between NATO and Russia, and a sharp about-turn in language from the US Federal Reserve about the persistence of recent elevated inflation.

Confirmed COVID-19 deaths now exceed 5.3 million globally, and daily case counts are at record highs in Europe. While fears of the new Omicron strain rattled markets in late November, there remains uncertainty around the strain's severity, transmissibility, and the efficacy of currently used vaccines. Regardless, its emergence has prompted fresh border closures and social distancing restrictions in several countries as a precaution

The United Nation's Climate Change Conference, more commonly known as 'COP26', was held in Glasgow in early November. The summit resulted in the Glasgow Climate Pact – the first climate pact to explicitly commit to reducing coal use, which also encouraged urgency in emissions cuts and finance for developing nations to address climate change. Over 140 countries representing 90% of global GDP also pledged to reach net-zero emissions, while over 100 countries agreed to reverse deforestation by 2030. Nonetheless, the final terms were considered weak overall, with China and India tempering measures to end coal power and fossil fuel subsidies.

The new Omicron strain and potential policy responses due to inflationary pressures weighed on risk assets, leading to both global and local equities to post negative returns for the month. While short-dated yields remain elevated, long-dated yields fell as markets retraced from recent peaks, benefitting fixed interest returns. Global commodity prices declined amid potential weaker demand due to Omicron uncertainty and slowing Chinese demand.

While data for the Australian economy was ostensibly subdued, upside surprises suggest the economy is well-placed to recover following recent easing in lockdown restrictions. Third quarter GDP contracted 1.9% – the third largest quarterly drop in history – but beat market forecasts and saw improving household disposable income and savings. October jobs data similarly recorded an adverse shift in the unemployment rate, which increased 0.6% to 5.2% (the highest since April 2021) and involved the net loss of 50,000 jobs across the domestic economy. However, the job losses were lower than consensus, while the unemployment rate followed an uptick in the participation rate as more workers returned to the workforce as lockdown restrictions were lifted. The overall optimistic economic outlook has led to markets pricing in four RBA rate hikes by the end of 2022 – considerably more hawkish than the RBA's own forecasts.

In the US, President Biden succeeded in garnering enough bipartisan support for the passage of his flagship US$1.2 trillion infrastructure bill into law. The bill includes over US$500 billion in spending on airports, broadband networks and roads. President Biden also renominated Jay Powell for a second term as Chair of the US Federal Reserve, naming the other major contender for the role, the more dovish Lael Brainard, as Vice-Chair.

There was a notable tilt in policy signalling from Powell, who noted in late November that the term 'transitory' inflation may be worth retiring from the central bank's usage, conceding that inflationary pressures had grown more persistent, and that the Fed had been behind the curve in containing inflation. Markets now expect a hastened reduction in quantitative easing, setting the scene for a possible start to the Fed's next hiking cycle in mid-2022.

US jobs and inflation data remained strong, with headline CPI rising by an annual 6.2% – the fastest annual rate since 1990. While non-farm payrolls increased by less than expected, unemployment fell sharply, falling 0.4% to 4.2%.

In China, manufacturing activity unexpectedly picked up, while the People's Bank of China cut its reserve requirement ratio to help stimulate the local economy. That said, it appears property developer giant Evergrande is unable to be rescued, with intervention by authorities unable to avert default.

European sentiment indicators weakened over the month as a fourth wave of COVID-19 hit the region, triggering fresh restrictions, especially for the unvaccinated. Energy prices also continued to soar amid tensions with major supplier nation Russia, particularly following the withholding of certification for the Nord Stream 2 pipeline and concerns of looming Russian military intervention in Ukraine. Rising energy prices worked in tandem with supply chain issues to push the latest eurozone inflation print to an annual rate of 4.9% – a record high since the introduction of the euro.

**Table 1: Index Returns to 30 November 2021**

| | MONTH (%) | THREE MONTHS (%) | FYTD (%) | ONE YEAR (%) |
|---|---|---|---|---|
| **Australian Equities** | | | | |
| S&P/ASX 300 Accumulation Index | -0.5 | -2.3 | 1.3 | 16.0 |
| S&P/ASX Small Ordinaries Accumulation Index | -0.3 | -1.5 | 4.1 | 18.4 |
| **International Equities** | | | | |
| MSCI World (ex Australia) Index (hedged A$) | -1.6 | -0.1 | 4.4 | 23.3 |
| MSCI World (ex Australia) Index (unhedged A$) | 3.7 | 2.2 | 9.6 | 26.8 |
| MSCI Emerging Markets Index (unhedged A$) | 1.6 | -4.1 | -5.7 | 6.7 |
| **Property** | | | | |
| S&P/ASX 200 A-REIT Accumulation Index | 4.5 | 2.7 | 9.4 | 20.8 |
| **Australian Fixed Interest** | | | | |
| Bloomberg AusBond Composite Index | 2.1 | -3.0 | -1.2 | -3.2 |
| **Global Fixed Interest** | | | | |
| FTSE WGBI ex-Aust (hedged A$) | 1.2 | -0.1 | 1.0 | -1.3 |
| Barclay's Global Capital Aggregate Bond Index (hedged A$) | 0.7 | -0.5 | 0.5 | -0.8 |
| **Cash** | | | | |
| Bloomberg AusBond Bank Bill Index | 0.0 | 0.0 | 0.0 | 0.0 |
| **Commodities** | | | | |
| Gold (US$ per ounce) | 2.0 | -0.6 | 2.3 | 2.4 |
| Copper (US$ per metric tonne) | -0.6 | -0.8 | 0.7 | 24.6 |
| WTI Crude Oil (US$ per barrel) | -20.8 | -3.4 | -9.9 | 46.0 |
| RBA Index of Commodity Prices (A$) | -0.6 | -5.3 | -2.8 | 33.7 |

**Table 2: Australian Dollar versus Foreign Currencies to 30 November 2021**

| AUSTRALIAN DOLLAR VERSUS | AS AT 30 NOVEMBER 2021 | MONTH (%) | THREE MONTHS (%) | FYTD (%) | ONE YEAR (%) |
|---|---|---|---|---|---|
| **US Dollar** | 0.71 | -5.6 | -3.0 | -5.6 | -3.8 |
| **British Pound Sterling** | 0.54 | -2.2 | 0.9 | -1.4 | -2.9 |
| **Euro** | 0.63 | -2.9 | 1.7 | -0.5 | 2.3 |
| **Japanese Yen** | 80.51 | -6.0 | 0.3 | -3.4 | 4.8 |