View from the hill

DECEMBER 2019

Market update

The table below provides details of the movement in average investment returns from various asset classes for the period up to **30 November 2019.**

Asset class (% change)	1 month	3 months	1 year	3 years (%pa)
Australian shares	3.3	4.8	26.0	12.7
Smaller companies	1.6	3.7	16.6	11.4
International shares (unhedged)	4.7	7.3	23.6	15.8
International shares (hedged)	3.2	7.6	14.4	12.0
Emerging markets (unhedged)	1.7	5.6	15.8	12.3
Property - Australian listed	2.3	0.8	27.0	13.6
Property - global listed	-0.9	3.7	15.3	10.4
Australian fixed interest	0.8	-0.2	10.7	5.7
International fixed interest	-0.2	-1.0	9.0	4.4
Australian cash	0.1	0.2	1.6	1.7

Past performance is not a reliable indicator of future performance. The Global Listed property reference index changed to FTSE EPRA/NAREIT Developed Rental NR Index (AUD Hedged) as of August 2019

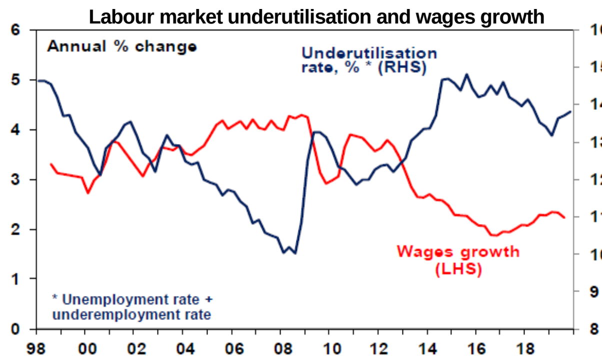
Overview & Outlook

Domestic and global markets displayed strong performance in November, with US and Australian equity markets both reaching all-time highs. These appeared to be minimally impacted by ongoing concerns surrounding poor economic data and various geopolitical risks including those brought about by the US-China trade war.

November was not immune to the ups and downs in market sentiment brought by the US-China trade tensions with equity markets performing strong early in the month before weakness mid-month on renewed fears that the trade talks might fall through. Nonetheless, domestic and global markets rebounded towards the end of the month as Trump claimed that the two nations were close to signing the phase one agreement. The deal is expected to address concerns about intellectual property and financial services access, the Chinese purchase of US agricultural products and the cancellation of additional tariffs by the US.

The pressure on China and the US to progress trade talks appears to be greater than before, especially due to the ongoing signs of a slowing Chinese economy. Progress for US would provide a distraction from Trump's impeachment allegations leading up to the upcoming Presidential election.

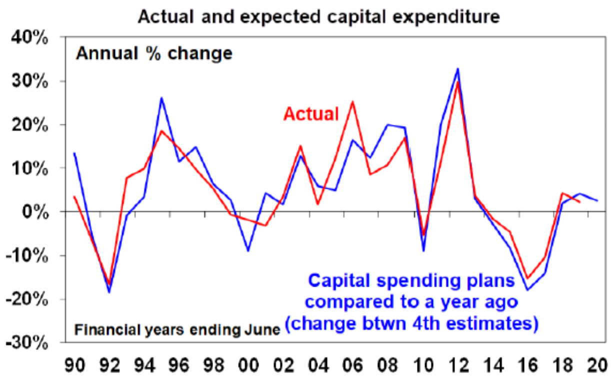
Australian economic data continued to display some concerns. ABS data displays that jobs growth and wages growth are both slowing, and that the underutilisation rate (which equates to the sum of the unemployment and underemployment rates) is rising.



Source: Bloomberg, ABS, AMP Capital

This is in line with the slowing domestic economic growth as well as a reduction in job advertisements and vacancies. An increase in underutilisation may further reduce wages growth, which has remained low at below 2.5% since 2015.

ABS data also revealed that business investment remains low. Although investment in non-residential buildings and structures rose in the September quarter, investment in equipment, plant and machinery continued to fall. This contributed to a fall in the estimate for business investment during 2019-2020 to just 2.5% above the estimate for 2018-2019, implying limited real growth over the period.



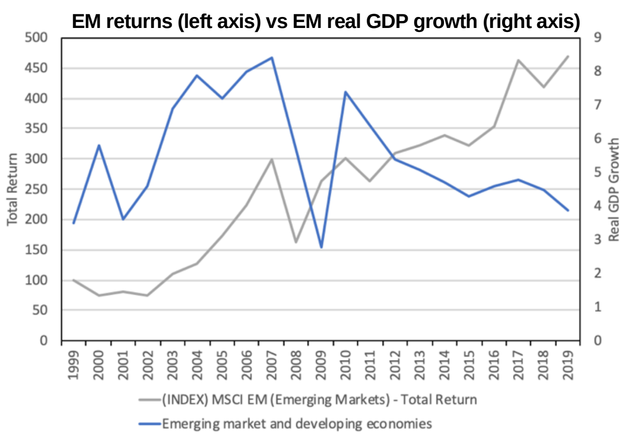
Source: ABS, AMP Capital

Share markets

Equity markets provided positive returns in November. In Australia and the US, IT stocks performed well while less economically sensitive sectors such as REITs and utilities underperformed.

International equities experienced their third consecutive month of positive returns in November, growing by 3.2% on a currency hedged basis. Key contributors include global small cap stocks, which were up 3.6% on a currency hedged basis as well as US equities (+3.6%), which reached an all-time high towards the end of the month. Although below par with global equities, European stocks returned 2.8%. This was assisted by returns of 2.9% for German equities, whereas UK shares were weaker delivering 1.8%. Markets appeared to be factoring in an uptick in global growth in 2020 driven by central bank rate cuts and an anticipated reduction in geopolitical risks.

Notwithstanding returns of 1.7%, emerging markets underperformed the global market due to a headwind of the strengthening US dollar. Although the annual EM GDP growth has reduced considerably since 2010, the EM equities market have recorded sound gains.



Source: Factset and IMF, AMP Research

The Australian stock market just outperformed its global counterpart this month, with returns of 3.3%. Most sectors experienced significant positive returns as the ASX200 reached an all-time high towards the end of the month. The strongest performing sectors included IT (+11.0%) and telecommunication services (+9.6%) as investors appeared to be favouring growth assets, some of which that have not performed so well in recent times. This was also apparent within health care sector (+8.9%), which is now up a total of 33.8% over the last 12 months. The financial sector (-2.1%) took a hit in November after the Westpac scandal renewed regulatory concerns, whereas utilities (-0.6%) was the only other sector to experience negative returns in November.

Despite the negative returns experienced by the financials sector, Virgin Money UK led the ASX100 in November with returns of 29.3%. This appears to largely be a result of the strong performance of the company's lending and deposits portfolios as well as the progress with its plan to streamline operations into a single brand. Caltex Australia (+26.7%) was also up considerably after receiving a generous cash takeover offer from Alimentation Couche-Tard – a Canadian multinational operator of convenience stores. In a strong month for Australian equities, Westpac fell 10.2% after being accused of breaching the AML/CTF Act. The Bank of Queensland (-10.1%) also experienced a difficult month as the market reacted to its 14% decline in cash earnings and reduced dividends.

Interest Rates

The Australian fixed interest market (+0.8%) bounced back up in November as the Australian 10-year bond yield fell by 7 basis points to 1.04%. The market appeared to be digested the gains off the October lows.

Investor sentiment moved toward the view that the RBA would cut rates even further in 2020 with some commentators calling the cash rate to 0.25%. The governor of the RBA stated that it was most unlikely that the RBA would move to a negative rate regime.

Property

A-REITs returned 2.3% in November whereas G-REITs experienced negative returns, falling by 0.9% on a currency hedged basis. These returns suggest that investors were relatively less inclined to invest in defensive areas of the market. Nonetheless, domestic and international listed property have experienced strong returns in the 12 months to the end of November, returning 10.7% and 9%, respectively.