View from the hill

DECEMBER 2023

HILLROSS

Market update

The table below provides a summary of investment returns for the major asset classes for the month ending 30 November 2023.

Asset class (% change)	1 month	3 months	1 year	3 years (%pa)
Australian shares	5.0	-1.8	1.5	7.1
Smaller companies	7.0	-2.9	-3.2	-0.5
International shares (unhedged)	4.4	-0.7	14.4	10.9
International shares (hedged)	8.4	1.6	12.4	8.4
Emerging markets (unhedged)	3.1	-1.3	5.3	-0.6
Property – Australian listed	10.9	-4.5	0.7	2.3
Property – global listed	9.1	-1.4	-3.1	0.8
Infrastructure - global listed	6.5	1.6	-6.5	2.9
Australian fixed interest	3.0	-0.5	0.2	-3.6
International fixed interest	3.2	0.5	0.9	-4.0
Australian cash	0.3	1.0	3.8	1.6

Past performance is not a reliable indicator of future performance.

Overview & Outlook

- November broke a 3-month losing streak with a strong rebound in all major stock markets off the back of cooling inflation and dovish central bank language.

- Inflation is falling across all major developed economies, and coupled with lower oil prices, stronger GDP and still strong unemployment suggest the economy may be on a path to a soft landing.

- Bond yields fell despite Powell's comments that rate cuts by the Fed are not on the cards near term. In Australia, the RBA lifted the cash rate by 0.25% with Bullock's comments being more hawkish than many expected. This helped support a rally in the Australian dollar over the month.

- The outlook in the short term will be guided by a continuation of softer inflation data and seasonality effects heading into Christmas. While growth risks have a lower chance of materialising in the short term, it remains the case that tighter monetary policy is still feeding its way through the economy and the risk remains that a recession or downturn is still in the pipeline. There are still mixed signs in the economic data, however credit growth is still slowing and excess savings from the pandemic are expected to be exhausted by Q1 2024.

Equities

Equity sector returns - Global	1m	3m	12m
MSCI World/Information Tech	+13.3	+5.1	+35.4
MSCI World/Consumer Disc	+9.8	-0.1	+17.1
MSCI World/Financials	+9.4	+4.5	+6.7
MSCI World/Industrials	+8.9	+0.5	+12.1
MSCI World/Comm Services	+7.5	+2.7	+30.2
MSCI World/Materials	+6.8	+1.1	+3.8
MSCI World/Utilities	+5.6	+1.4	-2.9
MSCI World/Health Care	+4.7	-2.0	-2.5
MSCI World/Consumer Staples	+2.9	-2.5	-3.0
MSCI World/Energy	-0.8	-1.3	-1.0

Equity sector returns - Australia	1m	3m	12m
S&P/ASX 200 Health Care	+11.7	-2.8	-9.1
S&P/ASX 200 Info Tech	+7.3	-8.6	+15.7
S&P/ASX 200 Industrials Sector	+6.7	-3.4	+2.1
S&P/ASX 200 Fincl Ex A-REIT	+5.7	+0.3	+1.1
S&P/ASX 200 Materials	+5.0	+2.2	+5.8
S&P/ASX 200 Cons Discretionary	+4.8	-3.9	+7.0
S&P/ASX 200 Resources	+1.8	-0.2	+3.2
S&P/ASX 200 Telecom Svcs	+0.4	-4.7	+0.3
S&P/ASX 200 Consumer Staples	-0.8	-6.4	-5.3
S&P/ASX 200 Utilities	-6.0	-6.3	-0.6
S&P/ASX 200 Energy	-7.4	-10.7	-3.7

Australian Shares rose 5.0% erasing September losses. Health care was the outperformer at 11.7% with a strong rally in heavily sold off names such as CSL and ResMed. Slowing oil demand weighed on the Energy sector which turned in a 7.4% loss for the month.

At a global sector level, Information Technology led the rally posting a 13.3% gain for the month. Optimism seems to have enveloped the market led by declining inflation and the improving chance of a soft-landing narrative. Energy performed the worst at -0.8%.

The key driver for equity markets this month was the likely end of the hiking cycle and hopes for a soft-landing scenario comprised of falling inflation, only moderately higher unemployment (which rose to 3.9% in the US from 3.8% in September) and robust GDP growth with the US growing 5.2% QoQ vs consensus of 5.0%. So long as the market can continue to balance these factors and geopolitical tensions do not intensify, markets are likely to remain supported into year end.

In Australia the potential for another hike should keep the performance of domestic shares slightly lagged to its counterparts. On the currency side, it is a different story with a further rate rise likely to appreciate the AUD.

Fixed Income

Change in key interest rates, basis points				
Interest rate	Aus	US	Eurozone	UK
Cash rate	25	0	0	0
2yr Govt bond	-35	-41	-20	-17
10yr Govt bond	-51	-60	-36	-34

*Note that bond prices rise when yields fall

Cooling inflation and the likely end of the hiking cycle was the central theme for rates markets in November. As a result, there were big moves down in 2-year and 10-year yields, which fell 60 basis points to settle at 4.32% in the case of US 10-year yields having threatened to break beyond the 5% barrier just last month.

In Australia, Bullock raised rates to 4.35% from 4.1% whilst signalling that there will likely be another rate hike. However, the market brushed this off as cooling retail sales figure (down -0.2% from +0.9% in September) and lower inflation figures (4.9% versus 5.2% prior) prompting a 3% rally in Australian Fixed Interest markets.

International Fixed Interest rose 3.2%. Policymakers are generally expressing greater caution and seeing a more balanced economic outlook, and a pause seems to be the global consensus call on rates. In the US, inflation is stabilising lower with a decline in energy costs, food costs and the consumption basked more broadly. Both the Bank of England and European Central Bank believe maintaining the current policy level for an extended period would be sufficient to bring inflation back down to target.

Property & Infrastructure

Property was the strongest performing Growth sub-sector for November with Australian Property returning 10.9% and International Property returning 9.1%. The high likelihood of peaking rates and the potential for cuts in 2024 drove listed property higher, boosting its valuation appeal while also removing some of the tail risks associated with defaults under a persistently higher interest rate regime.

Infrastructure in comparison was more muted but still returned 6.5%, lifted by utilities, industrials and telecommunications.