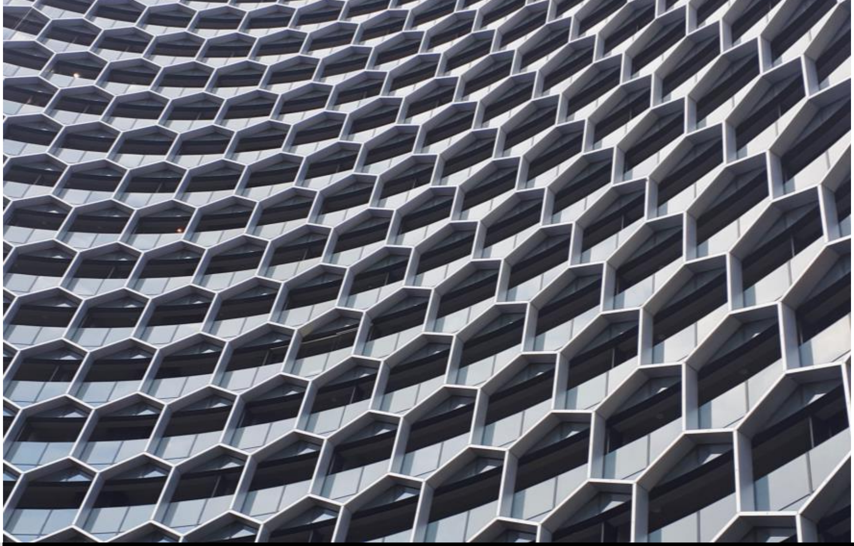
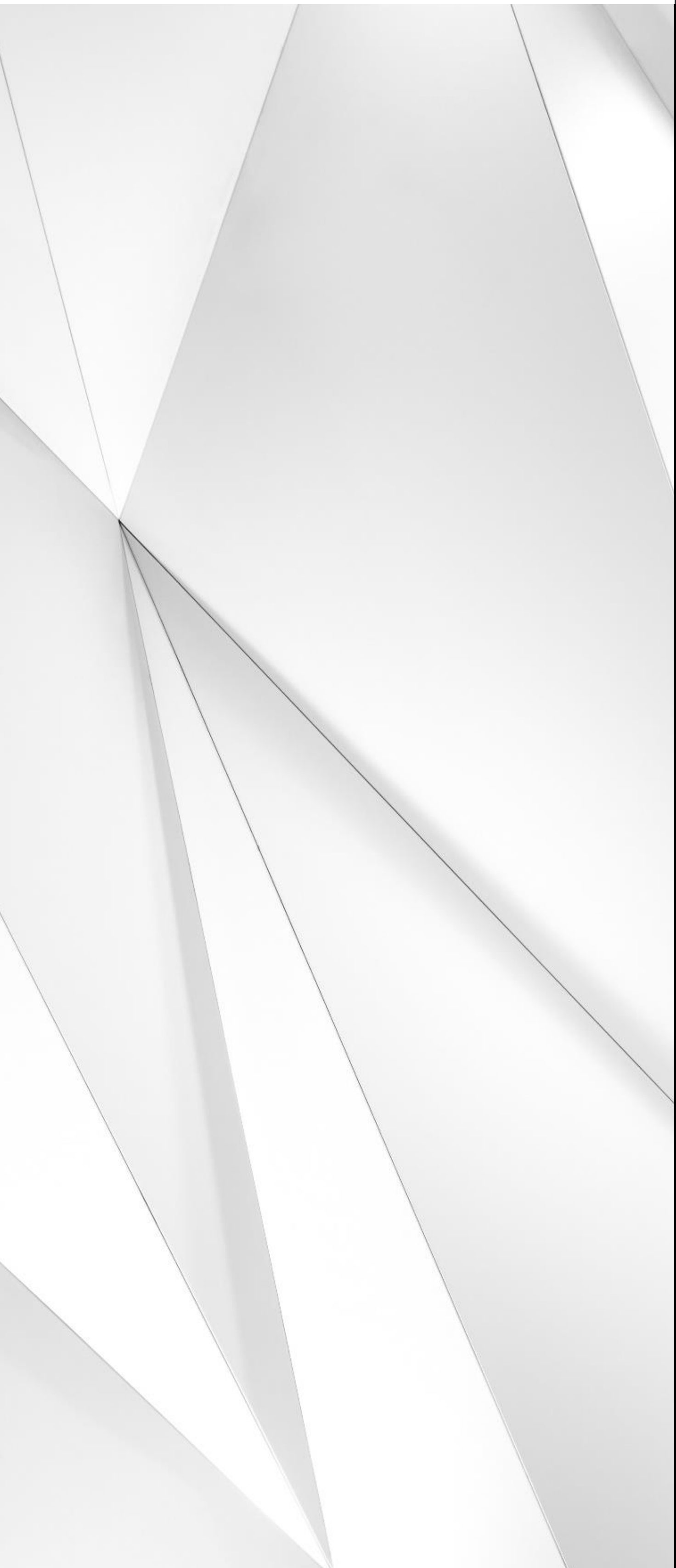


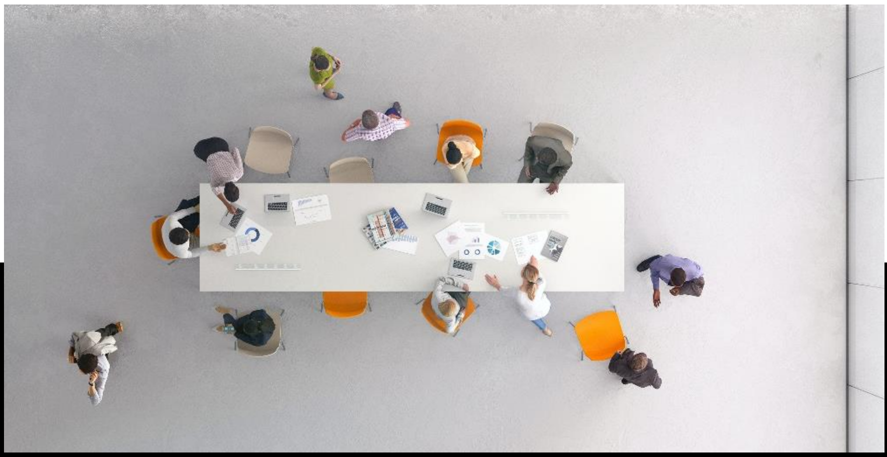


Investment & Economic Snapshot

November 2023

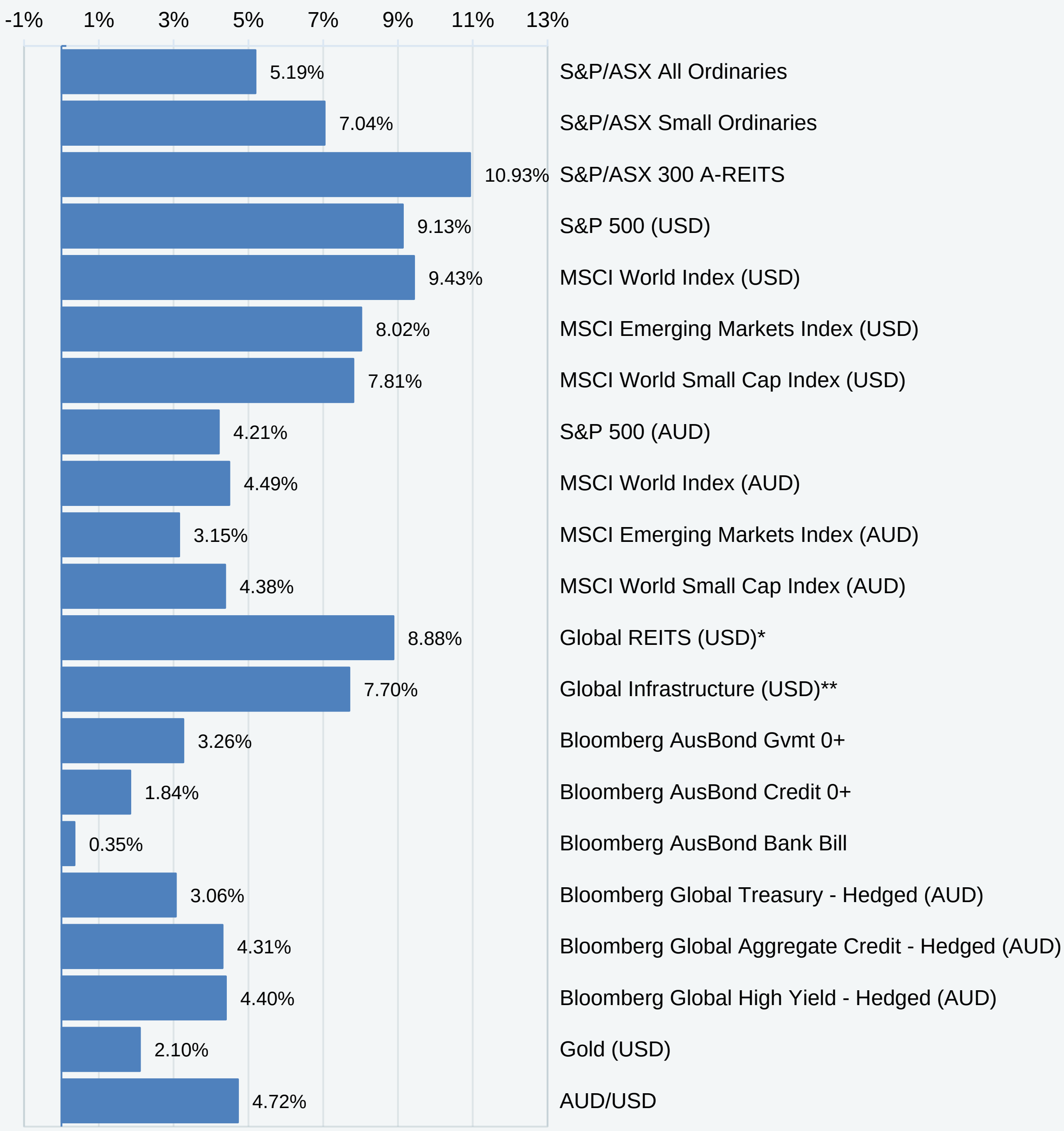
Smarter Investment Solutions

Highlights



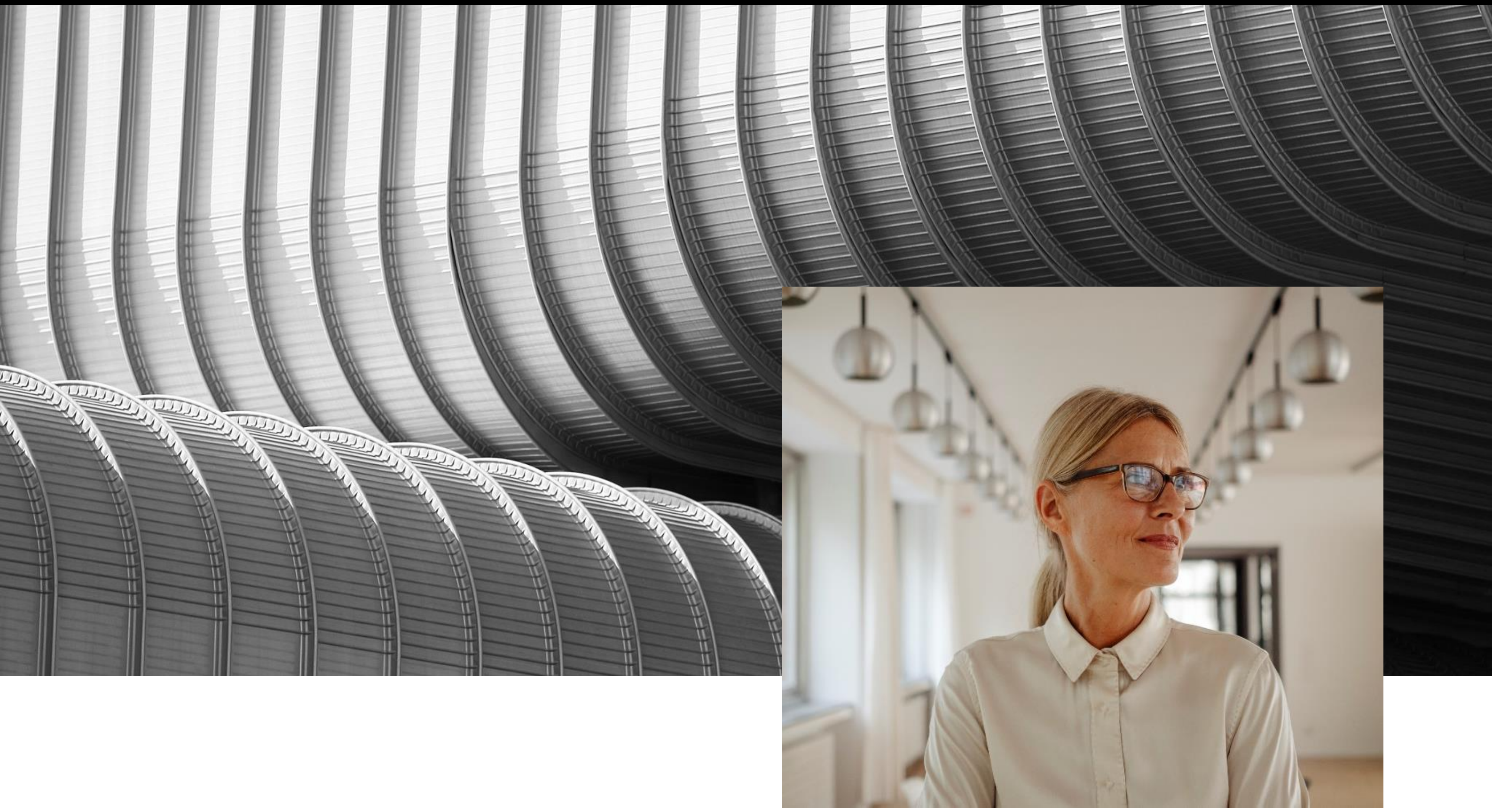
- Investors received an early Christmas present as global financial markets delivered exceptional gains in November.
- The latest US inflation and jobs data underwhelmed, leading to markets pricing in significant US rate cuts for 2024.
- Government bonds rallied +3% as investors priced in the end of rate hikes, despite the Fed's cautious tone.
- The Reserve Bank of Australia (RBA) Governor, Michele Bullock expects it to take another two years for inflation to move below 3 per cent. The rate hike door is left ajar for now.
- Global manufacturing surveys deteriorated further, suggesting a meaningful recovery is still some way off as the downward trend continues.

Selected Market Returns November 2023



Sources: *Refinitiv G-7 Diversified REIT Index, **FTSE Global Core Infrastructure 50/50 Index

Key developments in November



Financial markets.

Global financial markets experienced remarkable gains in November. Equities and fixed income stood out, driven by a shift in the market expectation favouring significant Federal Reserve rate cuts in 2024.

European stocks outperformed other major global equity indices, surpassing the more defensive US market. Japanese equities were also a standout, contributing to the overall positive trend. Despite lagging behind their global counterparts, Chinese stocks also managed to generate positive returns.

While a few mega caps dominated market dynamics in 2023, by the end of October, markets had surrendered nearly all their year-to-date gains on an equal-weighted basis. However, the latest rally, starting in late October and running through November, has been more broad-based, with global stocks showing equivalent gains on both market-weighted and equal-weighted bases.

The widespread depreciation of the US dollar played a pivotal role in driving the rally. The 2.6% drop in the trade-weighted dollar index marked the most significant sell-off since November 2022.

Gold also rallied supported by falling Treasury yields, the weak US dollar, and heightened geopolitical uncertainty arising from the Middle East crisis. However, the performance of other commodities was more subdued, with the industrial metals index remaining largely unchanged, and crude oil prices declining for the second consecutive month.

Economic developments.

Global Manufacturing Purchasing Managers' Index (PMI) slips deeper into contraction territory.

The October Global Manufacturing PMI signalled a worsening world-wide economic cycle, with the headline index dropping from 49.2 to 48.8. Output, employment, and new export orders all fell below 50, indicating economic contraction. In essence, the latest PMI figure suggests that a meaningful recovery is not likely in the short term. The equivalent PMI for the US economy tells a similar story. US manufacturing conditions in November came in unchanged at 46.7, which suggests that the pace of contraction was more pronounced than the market was expecting.

Ultimately, the forward-looking components of the manufacturing index suggest that it is possible that conditions will stabilise over the near term. However, a meaningful recovery is unlikely until the full effect of restrictive monetary policy makes its presence felt.

US Federal Reserve proceeds carefully but gives bullish investors plenty to be happy about.

The monthly minutes from the latest Federal Reserve meeting indicated a cautious consensus among policymakers, suggesting that any potential future rate increase is highly dependent on the direction and pace of inflation. In better news, the economic data released post-meeting, suggested that there is currently no need for another rate hike. This is what excited investors this month. Despite inflation remaining above 2% and a tight labour market, recent indicators, as highlighted in the Fed Reserve's meeting minutes, revealed softer-than-anticipated Consumer Price Index (CPI) inflation, a contraction in retail sales, and a slight uptick in the unemployment rate for October.

The meeting minutes affirm the likelihood that the tightening cycle has come to an unofficial end, with the policy discussion now focusing on determining the appropriate duration of the current rate pause.

Deflationary pressures still dominate China's economy.

China's inflation data for October reflected ongoing deflationary pressures in the domestic economy. Consumer prices declined by 0.2% year-on-year, below expectations, while the Producer Price Index (PPI) showed a 2.6% year-on-year contraction. Both consumer and producer goods experienced price declines, indicating a widespread deflationary trend. These findings align with other economic indicators, suggesting a lack of robust economic recovery.

The RBA lifts rates and leaves open the possibility of another rate increase.

In November, the RBA lifted the cash rate by 25 basis points to a 12-year high of 4.35%. Governor Michele Bullock's post-meeting speech underscored that although inflation is moderating, it remains too high and is more persistent than anticipated. Interestingly, Bullock mentioned that the remaining inflation challenge is increasingly homegrown, and demand-driven. An important implication of this observation is that the RBA expects it to take another two years for inflation to move below 3% should demand dynamics continue. Ultimately, the statement left open the possibility of another rate increase, highlighting that future incoming data and the evolution of risks will determine whether the RBA lifts interest rates again.

Outlook

Despite our initial expectations of a recession this year not materialising, we maintain a vigilant stance on the looming risk of an economic downturn affecting major developed economies. The current market sentiment reflects this concern, evident in the anticipation of more than two rate cuts by June 2024. However, we note this perspective contrasts with recent statements from Federal Reserve Board Chairman Jerome Powell, who cautioned recently against prematurely concluding that a sufficiently restrictive stance has been achieved or speculating on the timing of potential policy easing.

Irrespective of these differing views, the inevitability of a recession looms large in 2024. Given the inherent high risk associated with any economic downturn for equities, exercising prudence is advised, especially considering the deteriorating outlook for U.S. earnings growth.

In the realm of bonds, our preference continues to lean towards government bonds, expected to provide a robust return in a recessionary environment. In contrast, we approach high yield bonds with caution given their current valuations. Additionally, the rising trend of corporate defaults poses a threat, especially if the market's expectation of a soft landing transforms into a more challenging economic environment.

As we approach 2024, our overall outlook is one of caution. While immediate rate cuts are not anticipated from policymakers, a shift towards monetary easing is predicted later in the coming year. Patience is once again recommended as we await potential opportunities that may arise with the onset of the recession and subsequent central bank interventions aimed at steering the economy back on course.

Major market indicators

	30-Nov-23	31-Oct-23	30-Sep-23	Qtr change	1 year change
Interest Rates (at close of period)					
Aus 90 day Bank Bills	4.38%	4.21%	4.13%	+23.0	+132.0
Aus 10yr Bond	4.58%	4.63%	4.21%	+45.0	+87.4
US 90 day T Bill	5.25%	5.33%	5.32%	-7.0	+98.0
US 10 yr Bond	4.34%	4.91%	4.57%	+24.4	+63.9
Currency (against the AUD)					
US Dollar	0.663	0.633	0.645	2.38%	-0.99%
British Pound	0.523	0.523	0.528	2.65%	-6.34%
Euro	0.606	0.599	0.611	2.04%	-6.29%
Japanese Yen	97.79	95.89	96.06	3.65%	4.64%
Trade-Weighted Index	61.50	60.20	61.10	1.49%	-0.97%
Equity Markets					
Australian All Ordinaries	5.2%	-3.9%	-2.8%	-1.7%	1.7%
MSCI Australia Value (AUD)	3.7%	-2.8%	-1.6%	-0.8%	4.2%
MSCI Australia Growth (AUD)	6.4%	-4.5%	-3.9%	-2.3%	1.8%
S&P 500 (USD)	9.1%	-2.1%	-4.8%	1.7%	13.8%
MSCI US Value (USD)	7.2%	-2.8%	-3.6%	0.4%	-0.3%
MSCI US Growth (USD)	11.4%	-1.8%	-5.6%	3.2%	29.7%
MSCI World (USD)	9.4%	-2.9%	-4.3%	1.7%	13.6%
Nikkei (YEN)	8.5%	-3.1%	-1.6%	3.4%	22.3%
CSI 300 (CNY)	-2.1%	-3.1%	-2.0%	-7.0%	-6.9%
FTSE 100 (GBP)	2.3%	-3.7%	2.4%	0.9%	2.4%
DAX (EUR)	9.5%	-3.7%	-3.5%	1.7%	12.6%
Euro 100 (EUR)	5.9%	-2.8%	-2.3%	0.5%	8.8%
MSCI Emerging Markets (USD)	8.0%	-3.9%	-2.6%	1.2%	4.6%
Commodities					
Iron Ore (USD)	7.8%	2.1%	1.7%	11.9%	29.4%
Crude Oil WTI U$/BBL	-7.4%	-10.1%	8.6%	-9.6%	-6.0%
Gold Bullion $/t oz	2.1%	7.5%	-4.4%	4.9%	16.3%

Source: Quilla and Refinitv

altitudewm.com.au

quilla.com.au