Economic Wrap

November 2020

Summary

- Share markets rose strongly during November with a combination of successful vaccine trials and a Democrat President (but Republican Senate) helping spur the rally.
- Another factor was slowing coronavirus cases with new US and European case growth peaking during the month from much more elevated levels than seen in the March-April "first wave".
- Slowing case growth saw the easing of lockdown restrictions across Europe begin to be announced.
- Joe Biden, the Democrat nominee defeated incumbent President Trump in the US Presidential Election. Results in the Congressional races were tighter with a Republican Senate the likely outcome that would stifle Biden's legislative agenda.
- Promising vaccine trial results by a Pfizer joint-venture in November triggered dispersion in financial markets on the prospects of a viable solution to the pandemic and stronger economic growth.

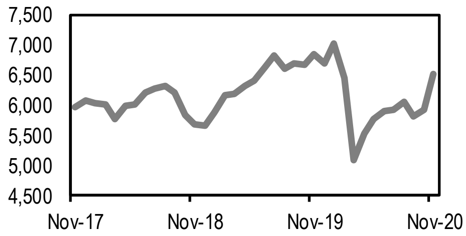
Markets

- Risk assets were all positive with the vaccine news triggering a broad rally especially amongst riskier exposures such as small cap stocks (see page 13).
- Australian equities outperformed vs global peers (see Chart 2) while value stocks bounced back sharply (see Chart 3). Emerging market strength faltered (see Chart 4) after a poor month for Chinese tech stocks such as Alibaba (down 10.8%) and Tencent (down 4.7%).

Key economic news

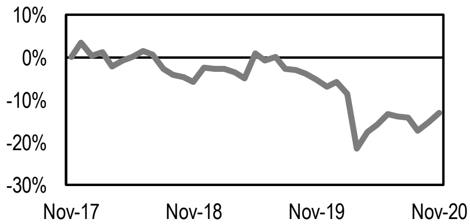
- The RBA launched a new series of measures to promote growth and weaken the Australian dollar.
- Brexit negotiations remained inconclusive suggesting a rush to some compromise will have to occur by year-end.

1. S&P/ASX 200 Price Index



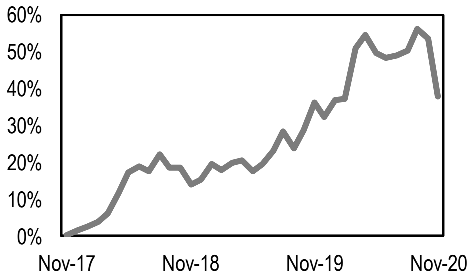
Source: Bloomberg, IOOF

2. ASX200 vs All-World, US$ terms



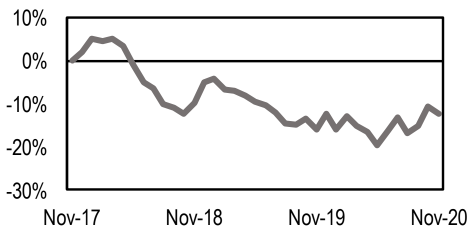
Source: Bloomberg, IOOF

3. Australia – Growth vs Value stocks



Source: Bloomberg, IOOF

4. Emerging markets vs Developed Markets, (In USD)



Sources: Bloomberg, MSCI, S&P, IOOF

Key company news

Vaccine news defined the top and bottom performers for the month. The prospect of retail and tourism activity normalising in the months ahead sparked a sharp rally in companies with exposure to retail foot traffic such as Unibail-Rodamco Westfield (URW) and with exposure to travel e.g. Webjet (WEB) and Flight Centre (FLT). By contrast this saw gold falter as investor optimism over a cyclical uptick in the global economy took hold. As a result, gold miners such as Saracen (SAR) and Silver Lake (SLR) sold off given their operating leverage to gold prices.

Sector and stock returns

ASX/S&P 200 Sectors (GICS)				
	Monthly	**% Δ**	**Quarterly**	**% Δ**
▲	Consumer Discretionary	8.47	Consumer Discretionary	7.01
▼	Consumer Staples	-0.73	Consumer Staples	-3.53
▲	Energy	28.37	Energy	12.58
▲	Financials ex Property	15.23	Financials ex Property	14.85
▲	Financials	15.23	Financials	14.85
▲	Health Care	2.72	Health Care	4.37
▲	Industrials	12.22	Industrials	7.06
▲	IT	4.59	IT	6.09
▲	Materials	7.25	Materials	2.02
▲	Property Trusts	13.25	Property Trusts	11.05
▲	Telecommunications	13.63	Telecommunications	10.25
▲	Utilities	1.16	Utilities	-4.05

Source: Bloomberg, IOOF

Best and Worst S&P/ASX 200 Performers			
Top five stocks		**Bottom five stocks**	
Monthly			
Unibail-Rodamco-Westfield – CDI	+73.1%	Saracen Mineral Holdings Ltd	-16.5%
Webjet Ltd	+65.3%	Silver Lake Resources Ltd	-16.1%
Flight Centre Travel Group Ltd	+52.0%	Northern Star Resources Ltd	-15.1%
Beach Energy Ltd	+49.2%	Ramelius Resources Ltd	-12.7%
Oil Search Ltd	+41.6%	Domino's Pizza Enterprises Ltd	-12.6%
Quarterly			
Fletcher Building Ltd	+65.6%	Zip Co Ltd	-33.8%
Webjet Ltd	+55.1%	Resolute Mining Ltd	-31.2%
Lynas Corp Ltd	+54.9%	Regis Resources Ltd	-30.1%
Unibail-Rodamco-Westfield – CDI	+51.7%	St Barbara Ltd	-29.0%
Eagers Automotive Ltd	+46.3%	Nearmap Ltd	-26.3%

Source: Bloomberg, IOOF

Share Markets, November 2020

	Australian Indices	Nov-20 Price	1M return (%)	Aug-20 Price	3M return (%)
▲	S&P/ASX 200	6518	9.96	6060	7.55
▲	All Ordinaries	6742	9.93	6246	7.94
▲	Small Ordinaries	3016	10.20	2820	6.94
US Indices					
▲	S&P 500	3622	10.75	3500	3.47
▲	Dow Jones	29639	11.84	28430	4.25
▲	Nasdaq	12199	11.80	11775	3.59
Asia Pacific Indices					
▲	Hang Seng	26341	9.27	25177	4.63
▲	Nikkei 225	26434	15.04	23140	14.23
UK & Europe Indices					
▲	FTSE 100	6266	12.35	5964	5.07
▲	CAC40	5519	20.12	4947	11.55
▲	DAX Index	13291	15.01	12945	2.67

Sources: Bloomberg, MSCI, FTSE, S&P, IOOF

Note: return is reported on a price basis and in local currency terms e.g. S&P500 performance is in US dollars and excluding dividends

Global equity markets

European equities were the strongest performers in November, rallying from sharp declines in October. US equities were also strong whilst emerging markets lagged the general “risk on” rally. Key drivers were:

- Vaccine progress with promising trials from Pfizer and Moderna-led ventures and slightly less so from the AstraZeneca effort.
- In the US uncertainty over the presidential election was alleviated with a Biden victory that also came with a likely Republican Senate, removing the risk of a “blue wave” and substantial legislative change.
- In China, antitrust scrutiny saw large caps such as Alibaba and Tencent underperform after leading the emerging market index for much of the year. The pulled IPO of Alibaba subsidiary Ant Financial following tighter regulatory scrutiny also weighed on the Alibaba share price in November.

At a regional level, exposure to emerging markets would have dragged on client returns for November although they have outperformed developed markets over the past year by 5% (see page 13)

	1-mth	3-mth	6-mth	1-yr	3-yr	5-yr
MSCI World Index	7.5%	5.9%	9.1%	5.1%	10.6%	10.5%
Value	9.7%	8.7%	5.5%	-9.6%	2.6%	5.6%
Value-Weighted	13.2%	11.7%	10.6%	-3.4%	5.7%	8.2%
Momentum	4.1%	2.3%	10.6%	15.1%	16.1%	15.5%
Growth	5.8%	3.8%	13.0%	20.7%	18.3%	15.2%
Quality	5.5%	4.2%	6.9%	12.3%	16.4%	14.2%
Low volatility	3.0%	3.5%	-0.9%	-6.0%	7.3%	#N/A
Equal weight	10.5%	8.8%	16.3%	-1.3%	7.4%	11.2%
Small caps	11.2%	14.5%	15.9%	3.8%	7.4%	9.5%

Source: Bloomberg, IOOF, MSCI

At a style level, November saw a rotation-trade away from Growth and Quality towards both value and small caps which showed strong relative outperformance persist. Positive vaccine trials helped see undervalued segments of the market with exposure to tourism and hospitality rally substantially. Energy was another notable source of strength as investors anticipated stronger oil demand. The overall impact was sizeable dispersion between the growth/quality names that have led for most of 2020 and more undervalued market segments. Managers with a value bias or exposure to small cap stocks likely outperformed in these conditions.

Australian equity markets

The Australian market also performed strongly with a 10% rise for the benchmark S&P/ASX 200 Price Index. At a sector level, the benchmark was driven higher by the financials (up 15.2%) and energy sectors (up 28.4%).

	1-mth	3-mth	6-mth	1-yr	3-yr	5-yr
MSCI Australia Index	10.5%	8.4%	14.9%	-4.3%	6.4%	8.7%
Value	16.4%	13.1%	19.8%	-4.6%	1.5%	5.5%
Value-Weighted	16.6%	14.6%	19.6%	-4.5%	4.6%	7.9%
Momentum	2.0%	1.4%	12.2%	2.1%	8.3%	10.5%
Growth	5.4%	3.4%	12.8%	21.2%	18.7%	15.6%
Quality	5.5%	3.8%	5.8%	12.0%	16.6%	14.3%
Low volatility	7.8%	5.7%	10.0%	-8.0%	4.8%	7.6%
Equal weight	10.5%	8.8%	16.3%	-1.3%	7.4%	11.2%
Small caps	10.3%	7.7%	14.8%	6.0%	6.7%	10.7%

Source: Bloomberg, IOOF, MSCI

At a style level, Australia performed in line with global share markets. Small caps underperformed slightly in November while we also so growth and quality stocks falter against the benchmark with value names the only style outperforming for the month. The prospect of economies normalising saw a sharp rally in energy stocks while others also reliant on consumer freedom of movement such as the travel sector saw sentiment turn positively as investors looked to position for a cyclical upswing in these names.

Fixed Income

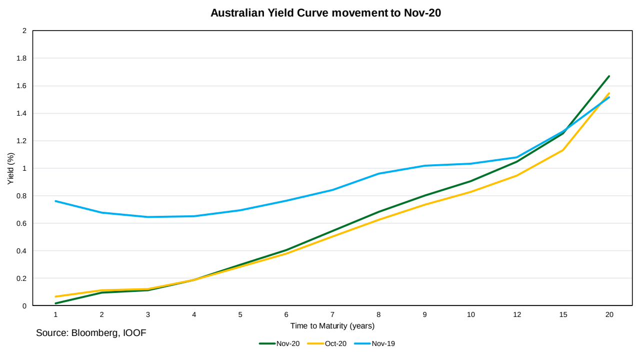
Fixed Income	Nov-20 yield	1M mvt (bps)	Aug-20 yield	3M mvt (bps)
▼ Australian Cash Rate	0.10	-0.15	0.25	-0.15
▲ 10-year Bond Yield	0.90	0.07	0.98	-0.09
▼ 3-year Bond Yield	0.11	-0.01	0.26	-0.15
▼ 90 Day Bank Bill Yield	0.02	-0.04	0.09	-0.07
▼ US 10-year Bond Yield	0.84	-0.03	0.70	0.13
▼ US 3-year Bond Yield	0.19	-0.01	0.15	0.04
▼ US Investment Grade Spread	1.20	-0.21	1.45	-0.25
▼ US High Yield Spread	3.87	-1.04	4.63	-0.76

Source: Bloomberg, IOOF

Australian bond market

The Australian yield curve steepened during November particularly from the 7-year mark.

5. Australian yield curve changes to Nov-20



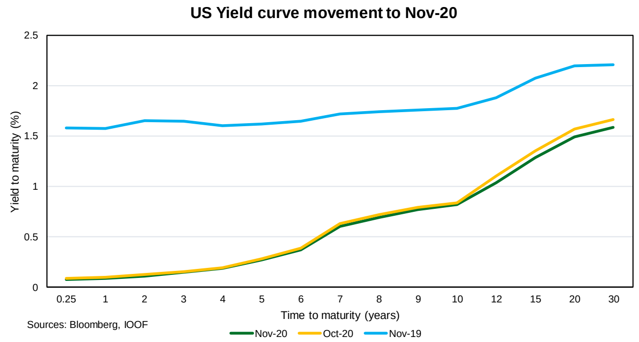
The RBA rate cut of 15bps on 3 November, taking the cash rate from 0.25% to 0.10%. The RBA announced additional bond purchases to the tune of $100bn to lower longer-term borrowing costs and separately purchases would be made to maintain its (now) lower target for the 3-year bond yield of 0.1%.

The shift in risk sentiment dwarfed these moves particularly where the RBA policy to constrain yields has less impact. The RBA focus is on shorter-term term yields, particularly around the 3-year mark whereas longer-term bonds have more scope to trade freely. The vaccine news as a positive for a normalising global economy was unsurprisingly well-received and saw investors adjust upwards their economic growth expectations with longer-term bond yields rising accordingly. It also saw corporate bonds in the Australian market rally further with 1% outperformance in the month compared to government bonds (see page 13). Managers with more exposure to riskier segments of the market such as corporate bonds are likely to have outperformed while those with lower duration than the benchmark including defensive alternative managers will have benefitted from the rise in domestic bond yields.

US bond market

US Treasury yields were flat to slightly lower particularly for longer-dated bonds. While the vaccine news was well-received initially, seeing the 10-year yield lift to 98bps, the current challenges facing the US economy soured investor optimism in the bond market. The prevalence of coronavirus cases and lockdown restrictions in most US States as well as some mixed economic data saw caution take hold and the 10-year yield fall 14bps from its intramonth high to end November at 0.84%.

6. US yield curve movement to Nov-20



US credit spreads contracted sharply during the month reflecting the strength seen in equity markets. The vaccine news spurred a surge particularly in riskier, lower-rated business debt with firms exposed to travel or tourism such as hospitality or hotel businesses seeing a strong rally on expectations that the world would be going “back to normal” sooner.

After month-end we have seen an uptick in US yields and further contraction in credit spreads. Expectations of an earlier vaccine rollout with Vice President Pence stating that this could occur from late December has helped stoke optimism once again.

Currencies

	Currencies	Nov-20 Price	1M return (%)	Aug-20 Price	3M return (%)
▲	$A vs $US	73.44	4.50	73.76	-0.43
▲	$A vs GBP	55.12	1.57	55.17	-0.09
▲	$A vs YEN	76.61	4.15	78.12	-1.93
▲	$A vs EUR	61.58	2.04	61.79	-0.34
▼	$A vs $NZ	104.69	-1.47	109.54	-4.43
▲	$A TWI	61.50	3.36	62.60	-1.76
▼	$US vs EUR	83.85	-2.34	83.78	0.08
▼	$US vs CNY	6.58	-1.68	6.85	-3.94
▼	$US vs GBP	75.05	-2.81	74.80	0.33
▼	$US vs JPY	104.31	-0.33	105.91	-1.51
▼	$US vs CHF	90.89	-0.88	90.37	0.58
▼	US Dollar Index	92.00	-2.17	92.14	-0.15
▲	EM Currency Index	56.28	3.66	55.45	1.49

Source: Bloomberg, IOOF

The Australian dollar (AUD) rose 4.5% against the US Dollar (USD) during November, from USD 0.7028 to USD 0.7344. Drivers included:

- Development of coronavirus vaccines showed promising progress. Two joint ventures led by Moderna and Pfizer respectively reported strong trial results for their respective options. This stoked investor sentiment for a nearer term end to the pandemic which is seen as good for economic growth and hence demand for Australian resource exports, supporting the AUD's rise.
- While the RBA did cut rates which would, ordinarily, put downward pressure on the AUD, this was swamped by the shift in investor sentiment.
- A hiring surge in the October labour market report was also received positively as it highlighted a continuation of the job recovery from April lows.

Conversely the US Dollar saw a sharp reversal with the DXY Index falling 2.2%. The vaccine drove outperformance of currencies seen as benefitting from stronger global growth. In addition, a Biden win saw anticipation of more liberal trade policy, a support for more trade-sensitive currencies such as the Euro.

Commodities

	Commodities	Nov-20 Price	1M return (%)	Aug-20 Price	3M return (%)
▲	Aluminium	1994	7.61	1806	10.43
▲	Copper	344	12.63	308	11.75
▲	Nickel	16419	8.44	15383	6.73
▲	Zinc	2782	10.49	2520	10.39
▲	Crude Oil - Brent	47.59	27.04	45.28	5.10
▼	Natural Gas	2.88	-14.07	2.63	9.58
	Metallurgical Coal	129	--	130	-1.07
▲	Thermal Coal	65	7.55	49	31.51
▲	Iron Ore	124.62	3.69	122.53	1.71
▼	Gold	1781	-5.63	1987	-10.35
▼	Silver	23	-5.07	29	-21.43

Source: Bloomberg, IOOF

Most commodities rallied strongly during November across the energy and base metals spectrum. Notable exceptions lay in natural gas and precious metals.

The catalyst for the strong rise was the news of successful vaccine trials from the likes of Moderna and Pfizer. These promised a closer end to the pandemic and recovery in commodity demand as economic activity normalises. A resumption of air travel for example would be a strong support for oil demand, helping spark a sharp uptick in oil prices. Despite elevated coronavirus cases in the likes of the US and Europe, manufacturing production continued to track strongly with the Global Manufacturing PMI rising to 53.7, a 33-month high and above neutral for a fifth-consecutive month.

Natural Gas (an important Australian export) prices fell sharply with milder weather than previously forecast for November dragging on demand while supply had also been built up to 8% over last year's levels with the resulting surplus dragging on prices.

Precious metals specifically gold struggled against a stronger real yield (bond yield after inflation) environment following rising government bond yields. There has also been a sentiment reversal with more speculative investors chasing Bitcoin as a gold alternative after strong recent price action.

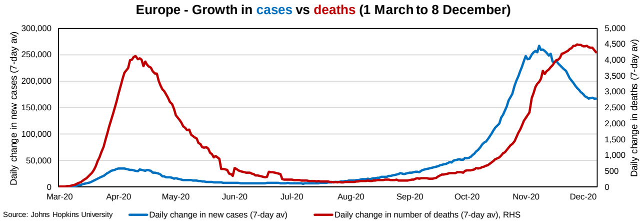
Coronavirus update

The coronavirus pandemic has accelerated to new highs in the US notably with tighter lockdown restrictions that will drag on economic activity in the near term. Vaccine rollout will take time to make inroads given logistic constraints but gives cause for optimism in 2021.

Global case trends

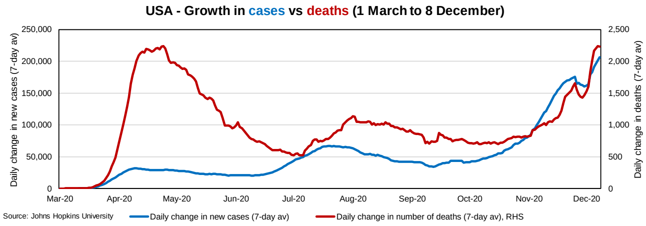
European case growth moderated substantially from its high of ~267k cases on average to ~167k cases with coronavirus-related deaths also peaking in December. The situation remains but difficult appears to be improving.

7. Europe coronavirus case vs fatality growth



The US situation is more severe. Case growth, hospitalisation and fatality trends have intensified after falling slightly in mid-November. Calls that Thanksgiving holiday travel would contribute to further transmission have also been realised it appears.

8. US coronavirus case vs fatality growth

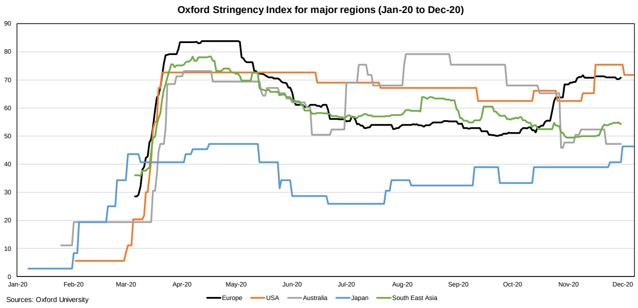


Lockdown measures

The Oxford University Stringency indices track the degree a country is locked down including measures restricting freedom of movement, shutting down schools and the like. As we can see, Asian countries have handled this period better than the US or EU with both having to increasingly lockdown their economies to counteract new waves of the pandemic. This weakens near term economic performance and, given current case trends, we are likely to see the US lockdowns tighten further with California for instance announcing new, tighter controls. US efforts have been hamstrung by a lack of coordination nationally in contrast to Australian efforts for example.

In Europe we saw a moderated approach to lockdown restrictions to begin with. Several countries including France have flagged lifting restrictions from December as case trends continue to moderate and the health care system is at less risk of being overwhelmed.

9. Oxford Stringency Index for major regions



Vaccine progress

The below snapshot illustrates the vaccine pipeline and estimates of vaccine delivery (represented by the green bars). The approval timeline has been slightly delayed but at the time of writing it appears likely that the Moderna and Pfizer/BioNTech vaccines will be approved in the US in the coming weeks while the AstraZeneca solution will require further studies after issues emerged in their medical trials.

10. Vaccine rollout forecasts

The Pfizer solution has already been approved in the UK with authorities moving to mobilise vaccination for high priority groups such as aged care workers and the elderly. Australia has agreements in place for several vaccines with the trial issues surrounding the AstraZeneca option potentially delaying delivery later into 2021. While urgency here is not as pronounced given our greater success in containing and for most States eliminating the virus, we should expect a similar rollout process to the UK. In addition, Wave 2 in the above infographic points to more traditional vaccine options that should be available to emerging market countries next year as well. Taken together this progress gives us room for hope and optimism that we are nearing the end of the pandemic.

Australia

The bounce back in economic activity following the Victorian lockdown continues. Inter-State travel is normalising, and economic activity continues to track favourably with unemployment falling amidst a strong October jobs report and confidence also recovering strongly.

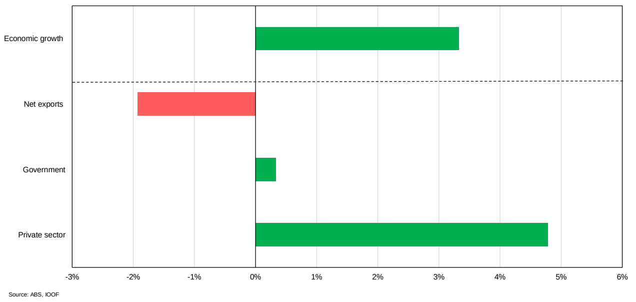
Policy

We also saw notable budget deficits at a State level with both NSW and Victoria committing to sizeable spending and asset sales to support their economies. Tax reform also featured with the NSW government announcing plans to give taxpayers the option between paying stamp duty and a smaller, annual property tax. Partial stamp duty exceptions were also a feature in Victoria as was targeting job creation with a $250m wage subsidy program to encourage women and young workers to re-join the workforce.

Economic growth

The September quarter marked the end of the technical recession with economic growth bouncing back led by strong household consumption. Government spending contributed to this recovery bounce which saw real GDP grow 3.3% (consensus: 2.5%) while net exports dragged with international travel bans limiting tourism spending and import demand recovering as lockdown restrictions lifted.

11. Sep-20 Quarterly growth and its contributors



Growth outlook

The Westpac-Melbourne Institute Leading Index rose to 3.25% in October, up from -0.48% in September. This marked the first above trend growth result since November 2018 and suggests that there will be continued growth momentum as the economy recovers from the lockdown shock earlier this year. Longer-term, structural challenges still loom however as current policy support unwinds, and immigration levels remain low (adding more people tends to boost economic activity and overall growth in aggregate). In the near-term, vaccine progress promises to potentially support growth momentum further.

Housing market

According to CoreLogic data, property prices rose 0.8% nationally in November following a 0.15% rate cut by the RBA. This follows positive returns in October with Melbourne the laggard following a drag from coronavirus lockdowns.

Government stimulus such as the HomeBuilder grant scheme as well as a broader economic recovery has boosted sentiment towards the property sector a positive for construction jobs (one of the largest employers in the country). Building approvals bounced sharply in October by 3.8% (consensus: -2.4%) and followed strength in September. This bodes well for future construction activity by extending the pipeline of approved projects.

Labour market

The unemployment rate rose slightly to 7% in October with a major driver being the almost 1% increase in the participation rate as more people re-joined the workforce looking for work. If participation had instead held steady at 64.9%, the unemployment rate would have fallen to an estimated 5.6%. This latter point reflects the sharp uptick in jobs growth with 178.8k jobs added in October, 97k of which were full-time.

In addition to this welcome result we also saw job vacancies continue to recover with a 7.8% rise in online jobs ads during November according to the National Skills Commission. This saw total ads rise to 169,900 nationally, 11.2% above the level we saw in November 2019 (pre-coronavirus). Rising vacancy rates points to increased demand for labour and should act as a tailwind for the current jobs recovery.

China trade tensions

Chinese retaliation against Australia continued into November culminating with punitive tariffs against Australian wine producers that will effectively price them out of the Chinese market. Australian authorities have stood their ground on Chinese demands. The exports targeted by China have been relatively small in the context of our overall trade relationship, accounting for less than 15% of the annual total. We expect this *détente* period to persist in the near term with some further escalation limited to goods that can be substituted elsewhere e.g. lamb and timber.

United States

The coronavirus pandemic has continued to worsen in the US and seen lockdown restrictions tighten while economic data has remained positive but shown signs of weakness.

US Elections

At the time of writing Joe Biden has been recognised as the President-elect with his position to be formalised when the Electoral College votes on 14 December. The legal battles by the Trump campaign were met with widespread defeat and repudiation in the courts even in one case at the Supreme Court.

The Democrat Party may still claim the Senate depending on the outcome in Georgia. There the votes were sufficiently close to trigger runoff elections on 5 January 2021 for both Senate seats. If the Democrats were to win both they would be able to control both the Presidency and Congress. This has seen campaigning intensify for both parties in the weeks ahead of the election.

Policy

Negotiations for additional fiscal stimulus remained inconclusive. However at the time of writing expectations are growing that a bipartisan group of US legislators will succeed in passing a fifth coronavirus relief package totalling some $908bn with relief for State and Local governments as well as extensions to unemployment benefits and payment protection loans to small businesses (which can be converted into grants i.e. not repaid in certain cases).

The incoming Biden administration promises to push greater national coordination in combating the pandemic which should help to assist in containing its spread. Some such as encouraging greater mask usage are pragmatic whilst others such as contact tracing, given the current spread, are less realistic.

Growth outlook

Leading indicators including the Conference Board Leading Economic Index and the ECRI Weekly Leading Index suggest growth momentum should continue improving in the near term. The Weekly Economic Index from the NY Fed suggesting the December quarter should show a continued uptick in growth. This may however be moderated by the more subdued consumption outlook and the policy stimulus set to be terminated in upcoming months unless bipartisan efforts succeed. The increase in lockdown restrictions will also pose a near-term headwind. Successful FDA approval of the vaccine options under consideration may assist in accelerating the recovery but given the challenge sin delivery it will take several months before enough of the population can be immunised to help contain transmission.

Business sentiment

The US manufacturing PMI continued to rise in November, defying coronavirus disruptions with a reading of 56.7, up from 53.4 in October. New orders continued to climb with a welcome uptick (albeit small) in foreign demand. Coronavirus restrictions did see an uptick in input costs which were passed onto clients given the stronger demand backdrop. Confidence over the next year rose to its highest level since February 2015. The make up of orders was also favourable of longer-term optimism with a notable uptick in investment good spending.

The Services PMI also signalled strength with a rise to 58.4, up from 56.9, the sharpest expansion in over five years. The acceleration in new business orders was a key driver and predominantly domestic-led with weakness on the export order front due to travel restrictions. The overall combination saw the Composite PMI rise to 58.6, its highest level since March 2015 with business expectations also rising to their highest level since May 2014 following reduced political uncertainty and vaccine-led optimism.

Consumer confidence

The Conference Board Consumer Confidence Index fell to 96.1 in November (consensus: 98), down from 101.4 in October and still well below its pre-coronavirus reading of 132.6 in February. It was driven by consumer's dimmer views on both current and future economic circumstances.

Catalysts such as a vaccine rollout or new fiscal stimulus may help alleviate these concerns, but current levels suggest a drag on consumer spending.

Retail sales

US retail sales rose 0.3% month-on-month in October (consensus: 0.5%) while core retail sales rose 0.1% (consensus: 0.5%), a notable decline from September readings of 1.6% and 0.9% respectively. This defies the strength seen on the industrial side and reflects a mix of coronavirus restrictions and concern over stimulus rolling over.

China

Business surveys suggest continued improvement into November although geopolitical risks in Hong Kong and trade remain a feature, clouding the outlook potentially. Deceleration of credit growth may pose a headwind into 2021 with concerns that Chinese firms and households cannot persist with current growth trends.

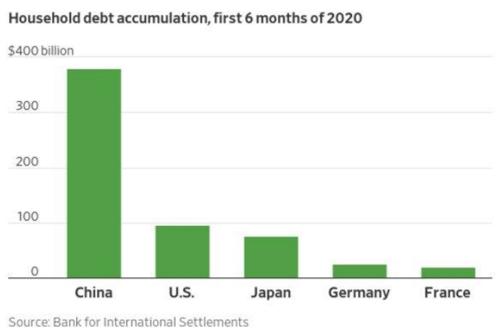
Business activity and sentiment

Chinese economic activity continued to strengthen in November with the Composite PMI rising to 57.5, up from 55.7 in October, its highest level since March 2010. This was supported by strength across both the manufacturing and services sectors with new business expanding and job growth continuing to improve. New business orders reached their highest level since April 2010 and business expectations continued to improve. New export orders returned to expansion for the services sector with pandemic-related uncertainty failing to slow growth while new export orders marked a fourth-consecutive month in expansion for the manufacturing sector. In contrast to the broader inflation print, input cost inflation rose to a 34-month high in November with the stronger demand backdrop allowing Chinese companies to pass on some of these costs to clients.

Credit growth

Broad M2 money supply grew 10.7% in the year to November (consensus: 10.5%) and total social financing, a broader credit measure rose 13.6% to 2.13 trillion yuan (consensus: 2.075 trillion yuan). This has contributed to further leveraging of the Chinese economy and may prompt People's Bank of China to intervene to slow debt growth (provided policy makers are willing to tolerate slower economic growth). Chart 12 below illustrates the scale of the credit recovery seen in China relative to other major economies.

12. Household debt accumulation, H1 2020



Any signs of slowing credit growth will be watched for closely as it may bode poorly for key exports such as iron ore as it signals less willingness to lend to fringe projects to create economic activity.

Inflation

Inflationary pressures softened further with headline CPI falling 0.5% for the year to November and producer price inflation falling 1.5%. The CPI numbers reflect base effects with annual inflation cycling out of a period of very high pork prices due to Asian swine fever. The core inflation rate (stripping out volatile price effects) was unchanged at 0.5% with inflation remaining well below the 3.5% target that was set for 2020 by authorities.

As with other countries, deflationary pressures remain the near-term concern although strength in PMI indicators suggests inflationary pressures may return with the broader economic recovery.

Geopolitics

In response to the disqualification of opposition legislators in Hong Kong the US is reportedly planning to sanction at least a dozen Chinese officials over their alleged role in the exercise with the Trump Administration looking to maintain pressure on Beijing in its final weeks. This follows initial sanctions against four Chinese officials over the episode.

Joe Biden has promised to take a tougher stance on human rights than President Trump with China and we continue to observe how this scenario will develop. At a minimum, it appears unlikely we will see a return to the pre-Trump state of diplomatic relations between the two countries.

Trade balance

Chinese exports grew 21.1% in the year to November (consensus: 12%) driving the trade surplus for the month to $75.42bn (consensus: $53.5bn). Continued demand for medical supplies and challenges to manufacturing elsewhere amidst the pandemic have supported sales of Chinese manufactured goods. Strong sales in appliances such as fridges or microwaves as households globally spent more time at home was another tailwind. Imports rose 4.5% over the same period (consensus: 6.1% increase), a third straight month of growth but lagging expectations and reflecting the anaemic consumer recovery to date with retail sales disappointing consensus.

Europe

The coronavirus pandemic remains elevated but below peak levels with signs that lockdown restrictions will be relaxed during December. Brexit negotiations remain inconclusive and pose another near-term risk to the regional outlook with limited time left to ratify any emergency deals.

United Kingdom

The UK has been the first developed country to proceed with the Pfizer vaccination program with allergic reactions by two recipients prompting concern over the broader rollout. Vaccines are not a foolproof exercise and authorities have responded by excluding those with a history of allergic reactions from taking the shot at present.

Brexit negotiations remained inconclusive even following recent emergency talks while the 31 December deadline is rapidly approaching. Contentious issues for both sides include fishery access and state subsidies. The UK is not prepared for a "no deal" scenario and a lack of a finalised deal will compound the difficult economic situation of the region as well. We believe some form of compromise, perhaps even an additional extension of the current transition period will be necessary. If this does not eventuate, further economic weakness is likely under a "no deal" scenario.

Business activity and sentiment

The Eurozone Manufacturing PMI fell to 53.8, down from 54.8 in October. While disappointing this still signals expansion in manufacturing activity and reflects how this sector has been relatively shielded particularly in Germany where the current reading is 57.8, well ahead of other economies in the region. The November reading marked a slowdown from October's 32-month high and the picture for the rest of the region excluding Germany was more subdued with new orders falling for the first time since June. On a positive note, business expectations are elevated for the year ahead suggesting the gap between Germany and other member States will close in time. Coronavirus restrictions weighted on the Services sector with the PMI falling to 41.7 in November, marking further contraction from October's 46.9 print. Weakness was widespread amongst major countries with new orders declining for a fourth successive month both domestic and international suggesting a troubled demand backdrop and reflecting the difficulties in services trade given the lockdowns. The current downturn appears to be less severe than that seen in the June quarter with the expansion in manufacturing a welcome feature as is the less severe nature of current lockdown measures. A contraction in growth for the December quarter still appears to be a likely outcome but looking forward vaccine developments are fuelling optimism for a "return to normal" in 2021. This is especially important for the more challenged Southern states that have a greater reliance on tourism exports which has seen businesses increasingly embattled given the collapse of global travel this year.

Policy

The European Central Bank is introduced additional monetary stimulus in December with extensions to its Pandemic Emergency Purchase Program (PEPP) and Targeted Long-Term Refinancing Operations (TLROs). The former should see an increase of €500bn until March 2022 to assist in suppressing bond yields for even the more economically challenged European member States. The TLROs will give banks access to cheaper funding facilities to encourage lending activity, spurring a forecast recovery in 2021. As discussed in prior updates there are limitations in how much these policies can realistically achieve given the already low borrowing costs prevailing across Europe.

Another concern was the progress on the fiscal policy front with Hungary and Poland threatening to derail the proposed European Recovery Fund initiative over concerns that funding would be conditioned on rule-of-law standards (both countries have been mired by issues over judicial independence amongst other rule-of-law concerns). A compromise has been reached where any limitations on disbursements tied to democratic standards requires a European Court of Justice ruling before sanctions could be triggered. This paves the way for a successful summit in early December and the capital raising to then commence and see a flow of up to $2.2 trillion into the Eurozone's embattled economies.

Retail sales

Eurozone retail sales surged 1.5% month-on-month in October (consensus: 0.8%) with strong 6.1% growth in ecommerce offsetting declines elsewhere. This offers further support that the current downturn will not be as severe as what we saw earlier this year.

Company news - best and worst performers during November 2020

Vaccine news defined the top and bottom performers for the month.

The prospect of retail and tourism activity normalising in the months ahead sparked a sharp rally in companies with exposure to retail foot traffic such as Unibail-Rodamco Westfield (URW) and with exposure to travel e.g. Webjet (WEB) and Flight Centre (FLT).

Other stock-specific factors included:

Unibail-Rodamco-Westfield CDI (URW, +73.1%)

URW was expected to conduct a dilutive capital raising heading into November which contributed to rising short interest in the stock. The play there was that the capital raising would go ahead and send the share price lower, with short sellers participating in the raise and locking in their profits. The locked down state of much of Europe where URW has a considerable retail property footprint also contributed to higher short interest. However, said capital raise did not occur with activist French investors able to sway enough investors to cancel the raise and the business instead able to access the necessary capital via a long-term debt issue. This helped reduce near-term solvency concerns and avoided sizeable dilution in the stock. In addition to the vaccine news, these factors saw a “short-squeeze” result where short-sellers have to buy on the market to exit the stock and prevent excessive losses with other short-sellers having to follow suit creating a reinforcing loop of demand driving the stock price higher.

Flight Centre Travel Group Ltd (+52%)

Flight Centre likewise gained on vaccine news with the presumption that normal business would be returning sooner than expected. Another important factor was a successful debt issue helping to de-risk the business for investors by increasing leverage to add to improve current solvency.

By contrast this saw gold falter as investor optimism over a cyclical uptick in the global economy took hold. As a result, gold miners such as Saracen (SAR) and Silver Lake (SLR) sold off given their operating leverage to gold prices.

Saracen Mineral Holdings (SAR, -16.5%) and Northern Star Resources (NST, -15.1%)

Saracen and Northern Star continued to progress their merger discussions with Saracen CEO Raleigh Finlayson set to become the Managing Director of the combined entity. However, despite the progress in their talks during the month, they were caught up in the general decline of the gold price with the shares of both businesses struggling as a result.

Sources: ASX company announcements, Bloomberg, Fund manager disclosures, Australian Financial Review, Sydney Morning Herald

Movers and Shakers for month of November 2020

ASX Code	Company Name	Closing price ($)	Month ago, close ($)	Month price return (%)	Quarter ago close ($)	Quarter Price return (%)	Year ago, close ($)	Annual Price Return (%)
URW	Unibail-Rodamco-Westfield	5.02	2.90	73.1	3.31	51.7	11.57	-56.6
WEB	Webjet Ltd	5.77	3.49	65.3	3.72	55.1	9.12	-36.7
FLT	Flight Centre Travel Group L	17.11	11.26	52.0	13.23	29.3	39.64	-56.8
BPT	Beach Energy Ltd	1.76	1.18	49.2	1.52	15.8	2.40	-26.7
OSH	Oil Search Ltd	3.64	2.57	41.6	3.27	11.3	7.25	-49.8
VUK	Virgin Money UK Plc - CDI	2.31	1.64	40.9	1.73	33.9	3.35	-31.0
MND	Monadelphous Group Ltd	12.79	9.14	39.9	11.29	13.3	16.35	-21.8
FBU	Fletcher Building Ltd	5.40	3.87	39.5	3.26	65.6	4.93	9.5
WOR	Worley Ltd	12.90	9.41	37.1	9.62	34.1	15.00	-14.0
CTD	Corporate Travel Management	20.00	14.60	37.0	15.53	28.8	20.08	-0.4

Source: Bloomberg, IOOF

ASX Code	Company Name	Closing price ($)	Month ago, close ($)	Month price return (%)	Quarter ago close ($)	Quarter Price return (%)	Year ago, close ($)	Annual Price Return (%)
SAR	Saracen Mineral Holdings Ltd	4.71	5.64	-16.5	5.22	-9.8	3.08	52.9
SLR	Silver Lake Resources Ltd	1.77	2.11	-16.1	2.17	-18.4	1.11	59.5
NST	Northern Star Resources Ltd	12.61	14.85	-15.1	13.65	-7.6	9.59	31.5
RMS	Ramelius Resources Ltd	1.69	1.93	-12.7	2.08	-19.0	1.02	66.0
DMP	Domino's Pizza Enterprises	74.02	84.73	-12.6	80.75	-8.3	52.82	40.1
SUL	Super Retail Group Ltd	9.88	11.19	-11.7	10.70	-7.7	9.89	-0.1
NXT	NextDC Ltd	11.25	12.74	-11.7	12.20	-7.8	6.61	70.2
GUD	G.U.D. Holdings Ltd	11.23	12.63	-11.1	11.50	-2.3	11.00	2.1
RRL	Regis Resources Ltd	3.69	4.15	-11.1	5.28	-30.1	4.75	-22.3
WGX	Westgold Resources Ltd	2.30	2.57	-10.5	2.13	8.0	2.00	15.0

Source: Bloomberg, IOOF

Asset class performance to November 2020 (Total returns in AUD)

				Annualised						
Asset class	**1-mth**	**3-mth**	**6-mth**	**1-yr**	**3-yr**	**5-yr**	**7-yr**	**10-yr**	**15-yr**	**20-yr**
Australian equities (S&P/ASX 200)	10.2%	8.2%	14.8%	-2.0%	6.9%	9.1%	7.3%	8.1%	6.8%	8.0%
Australian equities - Mid caps	6.6%	9.6%	23.9%	11.5%	9.4%	13.3%	13.2%	10.5%	7.6%	10.7%
Australian equities - Small caps	10.3%	7.7%	14.8%	6.0%	6.7%	10.7%	8.2%	4.2%	4.3%	6.2%
Australian equities - Micro caps	12.9%	13.2%	40.7%	21.3%	11.2%	14.0%	9.5%	2.2%	5.0%	#N/A
International equities	7.7%	6.2%	9.3%	5.6%	10.8%	10.6%	12.5%	13.3%	7.3%	4.1%
International equities (Hedged)	12.2%	5.5%	18.3%	10.0%	8.4%	10.3%	10.4%	12.3%	8.4%	#N/A
International equities - Small caps	11.2%	14.5%	15.9%	3.8%	7.4%	9.5%	11.2%	12.9%	7.8%	7.4%
Emerging Markets equities	5.9%	12.0%	20.2%	10.6%	6.6%	10.7%	8.4%	6.6%	6.6%	#N/A
Australian REITs	13.2%	11.1%	19.0%	-9.2%	5.4%	7.7%	10.4%	11.2%	4.1%	6.8%
Global REITs	8.8%	7.3%	4.1%	-18.2%	2.1%	3.0%	7.5%	8.6%	4.5%	#N/A
Global REITs (Hedged)	11.7%	5.2%	10.9%	-16.1%	-0.4%	2.5%	5.4%	7.5%	5.0%	#N/A
Global Infrastructure	2.7%	6.2%	-3.7%	-9.4%	5.0%	7.7%	10.2%	11.3%	#N/A	#N/A
Global Infrastructure (Hedged)	7.7%	6.6%	5.2%	-3.1%	4.0%	7.9%	8.7%	10.8%	#N/A	#N/A
Trend following (USD)	3.6%	-0.6%	0.0%	2.4%	0.3%	-1.9%	2.3%	1.0%	3.3%	5.3%
Australian bonds	-0.1%	1.2%	1.5%	3.0%	5.3%	4.7%	5.1%	5.6%	5.7%	5.8%
Australian bonds - government	-0.2%	1.2%	1.2%	2.8%	5.5%	4.7%	5.2%	5.6%	5.7%	5.8%
Australian bonds – corporate	0.8%	1.8%	3.6%	4.4%	5.3%	5.0%	5.2%	6.0%	6.1%	6.2%
Australian bonds - floating rate	0.2%	0.6%	1.3%	2.0%	2.4%	2.8%	2.9%	3.7%	4.3%	4.7%
Global bonds (Hedged)	0.5%	0.9%	1.7%	4.5%	4.6%	4.5%	5.1%	5.8%	6.4%	6.9%
Global bonds - government (Hedged)	0.1%	0.7%	0.6%	4.1%	4.6%	4.3%	5.1%	5.8%	6.3%	6.8%
Global bonds - corporate (Hedged)	1.9%	2.0%	5.6%	6.6%	5.6%	5.9%	6.0%	6.8%	7.0%	7.6%
Global bonds - High Yield (Hedged)	4.2%	2.8%	10.1%	3.7%	3.4%	6.5%	6.0%	8.1%	8.8%	#N/A
Emerging Market bonds (Hedged)	4.0%	1.9%	9.7%	4.0%	3.6%	6.1%	6.4%	7.2%	8.1%	10.3%
Cash (AUD)	0.0%	0.0%	0.1%	0.4%	1.3%	1.6%	1.8%	2.5%	3.5%	4.0%

Sources: Bloomberg, IOOF calculations
* AUD total returns as at Nov-20 assuming reinvestment of dividends unless otherwise specified
** Returns reflect index performance excluding any fees; Actual ETF/managed fund performance will vary due to both fees and tracking error.

Appendix – Index sources

Asset class	Index
Australian equities (S&P/ASX 200)	S&P/ASX 200 Accumulation Index
Australian equities - Mid caps	S&P/ASX Accumulation Midcap 50 Index
Australian equities - Small caps	S&P/ASX Accumulation Small Cap Ordinaries Index
Australian equities - Micro caps	S&P/ASX Emerging Companies Total Return Index
International equities	MSCI World ex Australia Net Total Return (in AUD)
International equities (Hedged)	MSCI World ex Australia Hedged AUD Net Total Return Index
International equities - Small caps	MSCI World Small Cap Net Total Return USD Index (in AUD)
Emerging Markets equities	MSCI Emerging Markets EM Net Total Return AUD Index
Australian REITs	S&P/ASX 200 A-REIT Accumulation Index
Global REITs	FTSE EPRA/NAREIT Developed Index Net Total Return (in AUD)
Global REITs (Hedged)	FTSE EPRA/NAREIT Developed Index Net Total Return (Hedged to AUD)
Global Infrastructure	FTSE Global Core Infrastructure 50/50 Net Total Return in AUD
Global Infrastructure (Hedged)	FTSE Global Core Infrastructure 50/50 100% Hedged to AUD Net Tax Index
Trend following	SGI Cross Asset Trend Following Index (USD)
Australian bonds	Bloomberg AusBond Composite 0+ Yr Index
Australian bonds - government	Bloomberg AusBond Govt 0+ Yr Index
Australian bonds – corporate	Bloomberg AusBond Credit 0+ Yr Index
Australian bonds - floating rate	Bloomberg AusBond Credit FRN 0+ Yr Index
Global bonds (Hedged)	Bloomberg Barclays Global Aggregate Total Return Index Value Hedged AUD
Global bonds - government (Hedged)	Bloomberg Barclays Global Aggregate Treasuries Total Return Index Hedged AUD
Global bonds - corporate (Hedged)	Bloomberg Barclays Global Aggregate Corporate Total Return Index Hedged AUD
Global bonds - High Yield (Hedged)	Bloomberg Barclays Global High Yield Total Return Index Hedged AUD
Emerging Market bonds (Hedged)	J.P. Morgan EMBI Global Core Hedged Index Level AUD
Cash (AUD)	Bloomberg AusBond Bank Bill Index

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