Equity Trustees

November 2021

EQT MONTHLY SUMMARY

The MSCI AC World index and ASX200 have rallied 21.6% and 15.5% respectively over the last 12 months. We remain cautiously optimistic heading into 2022, but gains seen over the last 12-18 months are unlikely to be repeated. Economic growth in 2022 should be above trend and higher global vaccination rates will support increased mobility and a progressive re-opening. While central banks are working toward removing extreme settings, monetary policy remains very loose, excess savings and low unemployment rates should aid consumption and public and private investment should remain supportive. However, risks remain. New Covid variants such as Omicron threaten a smooth reopening, inflation pressures are building in parts of the world and Chinese economic growth has slowed impacted by a slowing property sector.

At this point in the cycle, we believe to generate outperformance relative to the benchmark you require an experienced, fundamental and active investment manager. Our approach is to invest in "quality securities at the right price" to produce sustainably stronger-than-market returns.

MARKET SUMMARY – KEY POINTS

- Equities fell in November - In local currency, the ASX200 (-0.54%) outperformed the Euro Stoxx (-4.4%), MSCI Asia Pacific ex Japan Index (-3.6%), MSCI AC World (-1.6%) and the US S&P500 (-0.8%) during the month. Emerging Markets (-3.2%) underperformed dragged down by the MSCI China (-5.9%).
- Divergent Sector moves – 7 of 11 sectors ended the month higher. The best performing sectors in the ASX200 for the month were Materials (+6.3%), Communication Services (+5.2%) and Property (+4.5%). The Property sector was bolstered by the strongly performing industrial sub-sector and lower bond yields. The worst performers were Energy (-8.3%), Financials ex property (-6.9%) and Information Technology (-2.9%). The banks were dragged down by lower bond yields, slowing credit growth and results exposing increased competition and margin pressure. Mid-caps outperformed large caps.
- When we take size (market capitalisation) into account, the top-five contributors to the ASX200 were BHP Group (+29.2bps), Fortescue Metals Group Ltd (+18.5bps), Goodman Group (+16.6bps), Woolworths Group (+11.8bps) and Telstra Corporation (+10.5bps). The bottom five contributors were Commonwealth Bank of Australia (-69.5bps), Westpac Banking Corporation (-67.0bps), National Australia Bank (-16.5bps), ANZ Banking Group (-14.5bps) and Afterpay (-12.9bps).
- Equity markets were impacted by increasing concerns about inflation, a more hawkish US Federal Reserve, increasing Covid cases in Europe (delta strain) and later in the month news of an emerging Covid "Variant of Concern" (Omicron). Global economic growth expectations for 2022 have been revised lower recently due to the lingering effects of Covid, higher inflation and softer Chinese growth.
- Economic data improved but inflation printed higher also – Australian economic data showed strength in retail sales as stores reopened. Non-mining & mining capital expenditure intentions were also positive. In the US, initial jobless claims fell to the lowest level since November 1969, consumption data (retail sales and personal spending) was strong but inflation data surged. US

CPI rose 6.2% year-on-year – the highest level in 30 years. Chinese economic indicators such as the manufacturing PMI and credit data stabilized but domestic demand remains soft and property data softened. Much of the outlook hinges on the property sector where there are currently no major signs of policy stimulus. Producer prices retraced, however, reducing stagflation concerns.

- Central Bank messaging varied - Members of the US Federal Reserve eluded to a faster tapering of bond purchases due to strong economic growth and more persistent inflation pressures. In contrast, the Reserve Bank of Australia (RBA) retained a more dovish stance despite indicating greater confidence in the recovery of the labour market. The RBA indicated Australia isn't suffering the same inflation pressures (wages and energy prices) as other countries and don't expect inflation to be sustained within the 2-3% for some time. The European Central Bank (ECB) also pushed back on the timing of rate hikes.
- Bonds were bought as investors sought defensive exposures – Following the rapid and broad-based sell-off last month bonds gained in November. During the month the RBA pushed back on aggressive marketing pricing for rate hikes. Australian 10-year government bond yields fell 40bp to close at 1.69%. Bonds were also bought as news of Omicron hit the tapes and credit spreads widened. US 10-year government bond yields also fell by 10bp to close at 1.45%.
- The USD rose - The Australian dollar (AUD) fell 5.2% against the US Dollar (USD) to close at 0.7130c. The USD was supported by a combination of higher expected yields and defensiveness, while sentiment to the AUD has been impacted by a slowing Chinese economy and a more dovish RBA.
- Commodities fell – Many of the energy related commodities which had risen strongly recently fell back in November. Oil (WTI) fell by 20.8%, natural gas prices fell by 15.1% and Thermal Coal retraced by 32%. Iron ore and the precious metals index also fell by 6% and 6.9% respectively.
- Despite equity market falls, earnings and dividend revisions rose - US & European 3Q Reporting Season concluded with better than expected results. Despite many companies citing increasing inflationary pressures and supply chain constraints, earnings upgrades were registered due to strong top line growth. During November, global earnings expectations for the MSCI World were up 0.7%. The UK's FTSE 100 (+3.0%) and US' S&P 500 (+1.6%) all saw stronger growth in earnings expectations. The ASX 200 earnings rose 1.3%; the first positive monthly move since July. Global dividend expectations for the MSCI World also rose by 2.3% during the month with all key global markets saw positive DPS revisions in November.