View from the hill

DECEMBER 2020

HILLROSS

Market update

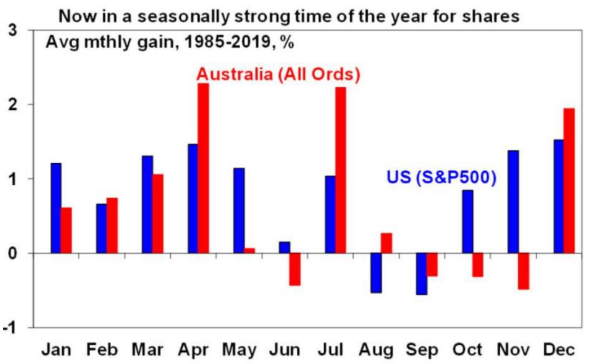
The table below provides details of the movement in average investment returns from various asset classes for the period up to **30 November 2020.**

Asset class (% change)	1 month	3 months	1 year	3 years (%pa)
Australian shares	10.2	8.2	-2.0	6.9
Smaller companies	10.3	7.7	6.0	6.7
International shares (unhedged)	7.4	5.9	5.3	10.7
International shares (hedged)	12.0	5.4	12.5	9.4
Emerging markets (unhedged)	4.1	10.1	8.7	6.0
Property – Australian listed	12.9	11.3	-8.6	5.7
Property – global listed	11.7	5.3	-15.3	0.6
Australian fixed interest	-0.1	1.2	3.0	5.3
International fixed interest	0.5	0.9	4.5	4.6
Australian cash	0.0	0.0	0.4	1.3

Past performance is not a reliable indicator of future performance.

Overview & Outlook

The announcement of three effective Covid-19 vaccines drove a risk-on sentiment in markets across the world and along with the post-US election rally provided a promising near-term economic outlook.



Source: Bloomberg, AMP Capital

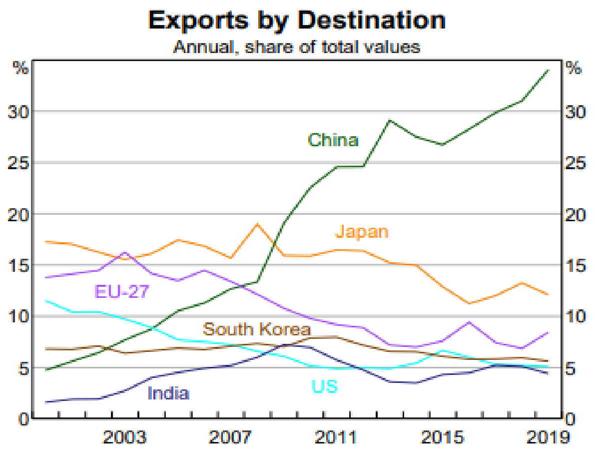
Equities around the globe had a historic month with the S&P500 posting a 11% gain, the best November since its inception and around 9% above its average November (1.3%) gain since 1985. The increased market volatility from the lead-up towards the US election and the rising number of Covid-19 cases was immediately overturned at the announcement of successful trial vaccines.

Supported by ultra-loose monetary and fiscal stimulus policies, the significant market returns were driven by positive investor sentiment around the improved profitability and certainty of companies' cash flows.

The transition of power to the Biden administration indicates that Joe Biden has most likely won the 2020 elections.The incoming president is expected to take a more diplomatic and less confrontational approach in foreign policiy which could lead to lower trade friction and generally lower market volatility. Biden also intends to rejoin the Paris Agreement which will drive the 'green' agenda and shape policies towards a lower carbon economy in the post-pandemic recovery which may place more regulation on the US power and energy sectors.

As Covid cases continue to rise in Europe, the UK has joined France and Germany in mobility restrictions. The service PMI, which measures prevailing direction of economic trends in the service industry, has fallen for five straight months and is now at 41.3 indicating contraction ahead of the holiday season with hospitality, travel and consumer-facing companies reporting especially weak demand due to additional lockdown measures across the Continent.

Tensions between Australia and China continued to escalate throughout the month with tariffs on Australian wine, lobsters and copper. The value of these bans is currently around $6B p.a. which is around 0.3% of GDP. While this is still a very small number, a number of the sectors impacted could face contraction, and it appears likely that sanctions may be imposed by China on some of Australia's bigger exporting sectors. Despite the relationship strain, China remains Australia's biggest export market and their early economic recovery has helped support our own economy through demand for iron ore exports and other minerals. The combination of better virus control, superior policy response and trade exposure to China should result in stronger economic growth in Australia compared to the rest of the globe.

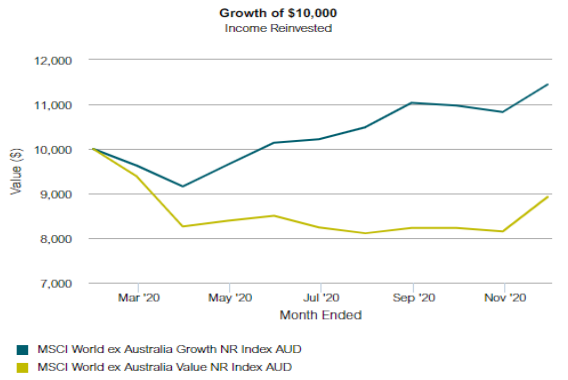


Source: ABS, RBA

Share markets

The Australian share market (+10.2%) surged as positive vaccine news contributed to the rise in equities as investors improved their earnings expectations. The Energy sector (+28%) lead the market higher as the oil price moved above $US40 per barrel. In Financials (+16%), strong demand for mortgages, and a high number of customers with frozen loans returning to make full repayments, provided the banks with an unexpected lift in their revenue. With state borders and travel restrictions easing in Australia, travel companies recorded sharp gains with Webjet (+64%) and Flight Centre (+52%) being notable performers and reflecting a positive outlook on domestic tourism.

International shares (hedged) (+12.0%) posted strong gains in November. The US equity market (+11.0%) was a major beneficiary of the improved economic outlook from a vaccine given the poor health outcomes in the US currently. European markets (+17.0%) also rose off the back of positive vaccine developments and the prospect of easing lockdowns. As economies around the world continue to recover, Value stocks (+14%) outperformed Growth (+10%) this month, as many Value sectors, which were strongest hit by the pandemic, begin to recover.



Source: Lonsec

Emerging markets (+4.1%) followed the global trend. Brazil (+15%) and India (+12%) were notable performers as expectations of a vaccine offset investor concerns of rising Covid-19 cases. China (+2%) lagged behind the global rally, possibly because they were one of the first countries to recover from the pandemic without needing a vaccine, and have since managed the pandemic situation very successfully, so the positive news did not create as much additional market upside relative to other emerging market countries

Interest Rates

Australian fixed interest (-0.1%) was steady as bond investors reacted positively to the vaccine news and pushed the 10-year bond yield up 8bps.

International fixed interest (+0.5%) also remained broadly steady as global bond yields remained unchanged with the US 10-year government bond yield dipping slightly on the absence of new data.

The AUD/USD (+5%) appreciated to $US0.74 due to higher commodity prices and risk-on sentiment. Improved investor sentiment to Australia's sound health outcomes as well as strong economic growth also supported the currency.

Property

Australian property (+12.9%) and international property (+11.7%) both performed very well from the tailwinds generated from positive vaccine news. Leading the rally in domestic listed property was Unibail Rodamco Westfield (+76%) and Scentre Group (+33%), both having a heavy retail exposure and were hardest hit by the spread of the coronavirus. News of the vaccine lifted the stocks as investors expected consumers to return to shopping centres. Goodman Group (0.2%) lagged behind the industry as its portfolio is concentrated in industrials which remained relatively stable throughout the pandemic, so there was less ground to recover from the vaccine news announced.