



Thanksgiving

Market Update

- Markets drifted mid-month on the news that the phase one deal might be pushed back to next year and US lawmakers passed a bill supporting Hong Kong. However, markets rebounded late on the back of more positive trade headlines, better than expected economic data in the US and China and speculation of rate cuts & the potential of QE in Australia.
- The US Central Bank dismissed the idea of negative interest rates, something president Trump has called for many times. Economies that have implemented negative rates have had mixed results. The majority of FED officials decided rates were appropriate after October cut unless a material change in economic conditions occurs.
- The RBA kept the cash rate on hold at 0.75%. The RBA Governor said the cash rate needed to drop to 0.25% for the bank to start considering quantitative easing. Last month's weak employment data raised the odds of an additional rate however, fueling a house price boom will weigh heavily on any proposed move.
- Consensus forecasts are for Chinese steel prices to fall 20% by the end of 2020 due to easing demand from subdued economic growth and many countries now have anti-dumping curbs on Chinese steel imports.
- Property prices in Sydney surged 2.7% in November, its strongest growth in 31 years. The Sydney market is on track to recoup the 15% loss suffered during the 18-month downturn early next year. Meanwhile, Melbourne property prices also grew by 2.2% over the same period.
- Nickel prices fell away in November after a record run as Indonesia, one of the world's top supplier of nickel ore, allowed miners to continue exports till the end of the year. Concerns over excess stainless steel inventories led the fall. Global inventories remain low, so we feel demand should remain in the new calendar year.
- US Oil production hit record high and refinery demand slipped, pushing stockpiles higher across the nation as OPEC members could not come to an agreement on a production cuts.
- The Australian government has pledged to provide a \$537m funding package in response to the interim report into the Aged Care industry.

Market Performance

As at 30 Nov 2019	Index	1 month %	1 year %
Australian Leaders	ASX200 Accum. Index	3.28%	25.98%
Australian Market	All Ords Accum Index	3.07%	25.89%
US Shares	S&P500	3.40%	13.80%
US Tech shares	NASDAQ Composite Index	4.50%	18.21%

Australian Economy

- The trade balance soared to a \$7.18b surplus in September, beating expectations of a \$5.05b surplus.
- Retail sales rose 0.2% in September, failing short of a 0.4% increase expected by the market. Seasonally adjusted, retail sales fell 0.1% during the September quarter.
- New vehicle sales dropped 9.1% YoY in October, extending a downturn in the industry which has stretched for 19 consecutive months.
- 3rd Qtr wage price index was in line with expectations, 0.5% MoM and 2.2% YoY. Wage growth eased slightly in September quarter, but continuing to grow at a slightly faster rate than CPI.
- The unemployment rate rose to 5.3% in Oct while the participation rate fell to 66%. Total employment fell by 19k with both full-time and part-time jobs declining.
- Construction work completions fell 0.4% in the 3rd Qtr, which was better than expected. This is an improvement on the 3.8% decline during the 2nd Qtr. Residential construction declined 3.1% in 3rd Qtr despite an uplift in non-residential construction, up 4%.
- Sydney Airport reported a 0.7% fall in domestic traffic for the year to October. However, international passengers rose 1.3% with growth from the US, India and Indonesia continued to be the highlight.

ASX200 Index

- The ASX top 200 companies index rallied in November after an uneventful October that saw flat performances across all indices. The ASX 200 Index outperformed the All Ords Index in November, but just slightly behind key US indices.
- Investors rushed to get out of the banks after AUSTRAC accused Westpac (WBC) of 23 million contraventions of anti-money laundering laws. The Westpac CEO became the 3rd out of the major 4 bank CEOs to step down in 27 months.

As at 30 November 2019	Weight	1 Month %	1 Year %
Communication Services	3.56%	7.51%	28.31%
Consumer Discretionary	6.58%	4.89%	33.56%
Consumer Staples	5.97%	8.25%	33.55%
Energy	5.27%	7.48%	22.27%
Financials	30.68%	-2.05%	11.83%
Health Care	10.19%	8.87%	51.73%
Industrials	8.47%	4.08%	30.78%
Information Technology	2.42%	10.97%	34.40%
Materials	17.40%	4.70%	31.90%
Real Estate	7.65%	2.39%	29.03%
Utilities	1.83%	-0.60%	18.63%

- Bank of Queensland (BOQ) underperformed as the regional lender raised \$250 million via a discounted rights issue.
- Energy rallied in November. Overall, the sector rose 7.48%, led by Caltex (CTX), which received a takeover offer from Canadian firm Couche-Tard. Coal miners extended their underperformance for another disappointing month.
- The IT sector was the best performer in November, driven by strong volumes and strategy updates from heavyweights Xero (XRO), Appen (APX) and Nearmap (NEA).

Stock Review

- Telstra (TLS) reaffirmed FY2020 guidance, with EBITDA ranging from \$7.4b to \$7.9b. The telco expected operating expenses to decline, excluding impairments and restructuring costs, which would be about \$300m higher. Reduced underling fixed costs would help offset higher NBN costs.
- SaaS accounting software provider Xero (XRO) reported a strong start to the year by marking its first profit for an interim period of NZ\$1.3m, up from a NZ\$28.6m loss in the prior corresponding period. Xero reported strong subscriber growth in Aus / NZ and North America.
- Kogan.com (KGN) reported October gross sales up 18.5% while operating costs fell 8.6%. Active customers reached 1.66 million up 13.3% YoY. Kogan.com has seen a strong performance from its exclusive brands and market place operations in the first 4 months this Financial Year. The company also noted the very important Christmas trading period ahead following on from a substantial growth in its Black Friday sales.

Global Markets

- US equities traded higher late in the month as China and the US suggested an imminent phase 1 deal that was followed by better than expected economic data. The S&P 500 rallied 3.4%, hitting a record high. The NASDAQ also finished the month higher, trading up 4.5%.
- Chinese November manufacturing PMI came in at 50.2, up from 49.3 in October and ahead of consensus estimate of 49.5. Non-manufacturing PMI was also a beat, rose from 52.8 in Oct to 54.4.
- Political unrest continued to escalate in Hong Kong as pro-democracy protestors shut down the city. The protests delivered 85% of 452 seats up for election to the pro-democracy movement. The damage from the recent events in Hong Kong is equivalent to 2% of the city's GDP growth. Hong Kong retail sales slumped again amid political chaos while the city is expected to post the first budget deficit in 15 years.
- Polling in the UK revealed that Boris Johnson is heading for a decent majority at the December 12 election. The UK's CPI YoY came in at 1.5%, slightly lower than an estimate of 1.6%. The nation's GDP growth also fell short of expectations, at 1% YoY. The UK's FTSE Index finished the month slightly higher.
- The STOXX 600 Index rallied 2% in November with Tech and Industrial Goods and Services named leading the market. Eurozone CPI YoY was in-line with consensus, at 0.7%. Retail sales growth was a beat, coming in at 3.1% YoY vs the last reading of 2.1% and consensus of a 2.4% growth.

Key Indicators	31/10/19	30/11/19	Change
\$AUD	US\$0.6900	US\$0.6772	↓
Brent Crude Oil	US\$60.56	US\$60.73	↑
Gold	US\$1,503.80	US\$1,470.40	↓
RBA Cash Rate	0.75%	0.75%	↔
US 10y bond	1.77%	1.78%	↑
Aust 10yr bond	1.14%	1.03%	↓

For Further Information

Financial advisers and investment professionals seeking additional information can contact Adviser Services at:

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About Armytage

Armytage Private is a boutique investment specialist majority owned by members of its investment team and key executives. Founded in 1995, Armytage is a pioneer in Australia's investment industry, offering a suite of actively managed IMAs and managed funds.

Armytage is a Value manager with a fundamental investment approach designed to identify quality businesses trading at a considerable discount to valuation. The process is guided by three fundamental beliefs:

- Markets are not perfectly efficient and the true value of a business is not always reflected in its share price;
- Undervalued companies can be identified through detailed and intensive research; and
- Capital preservation is critical to wealth creation.

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