

Market & Economic Update

November 2021



General Economic and Market Update

- The Australian equity market started off the month of November on a positive note, supported by strong property markets, better than expected retail sales data and the RBA reiterating no interest rate increase in 2023. However, the emergence of a new COVID variant, Omicron, and Jerome Powell “removing” the word transitory from the dictionary, threw the markets into chaos as the markets succumbed to inflation and interest rate pressure.
- The collapse in the price of coal intensified as the Chinese government stepped up in its intervention into the domestic coal market in an effort to sooth tensions sparked by the energy crisis.
- Iron ore prices recovered, rising above US\$100t, as Brazil’s Vale lowered its production guidance for this year and issuing a lower than expected forecast for next year, added some supply-side support to the base metal’s road to recovery.
- China’s industrial output grew at a surprisingly faster pace in October, despite fresh curbs to control COVID-19 outbreaks and supply shortages that have threatened to undercut the recovery in the world’s second-largest economy. China’s industrial output grew 3.5% YoY in October while retail sales rose 4.9% YoY, all above forecast.
- US retail sales rose in October for a third month, signalling households continue to spend even with the fastest inflation in decades. The value of overall retail purchases increased 1.7% last month, the most in seven months, following an 0.8% rise in September.
- UK consumer prices jumped 4.2% YoY in October, the biggest leap in a decade, adding pressure on the Bank of England to hike rates. The UK central bank left rates unchanged in its last meeting, surprising markets, and the fresh inflation data has heightened expectations the bank will hike rates soon.
- Oil retreated in early November as uncertainty over supply drove the energy markets. Oil prices suffered one of the largest plunges in one day, crashing more than 11% as fears of lockdowns returned and lower global demand as Omicron took the spotlight.

Australian Economy

- The RBA has maintained the cash rate at 0.1% and continued to purchase government bonds at the rate of \$4b a week until at least mid February 2022. The RBA would like to see a tighter labour market and actual inflation within the 2% - 3% target before considering to lift interest rate. The RBA Governor Phillip Lowe said inflation remained low at 2.1%, which largely reflected higher oil prices, higher prices for residential construction and strained global supply chains.
- Retail sales fell 4.4% in the September quarter, the biggest quarterly decline on record. However, it was lower than the 5% fall anticipated. On the positive side, retail sales were much stronger in October, rising 4.9% vs expectations of 2.2%, bringing the YoY figure to 5.2%.
- In the past two years consumers have spent 14% more over the four-day sales period that begins with Black Friday and ends with Cyber Monday compared to the respective prior weeks. Early merchants data indicated this year’s Black Friday sales headed to \$5.6b, buoyed by pent up demand. The figure could potentially push Boxing Day sales to shame.
- The unemployment rate unexpectedly jumped to 5.2% in October, as the economy shed 46.3k jobs versus market expectations of a 50k increase. The fall followed a 138k job decline in September, when Sydney and Melbourne were in the grip of lockdowns. The participation rate increased to 64.7% on a seasonally adjusted basis.

Market performance as at 30/11/21	1 month %	1 year %
ASX100 Accumulation Index	-0.56%	15.68%
All Ordinaries Index	-0.68%	12.54%
All Ordinaries Accumulation Index	-0.33%	16.69%
S&P500	-0.83%	26.10%
NASDAQ Composite Index	0.25%	27.37%

Key Indicators	31/10/21	30/11/21
AUD/USD	0.7431	0.7124
Brent Crude Oil (US\$)	84.51	70.57
Gold (US\$)	1,787.93	1,773.14
Iron Ore (US\$)	99.95	102.15

ASX200	1 Month Perf %	1 Year Perf %
Materials	6.16%	9.22%
Communication Services	5.20%	26.63%
Consumer Staples	4.40%	12.2%
Real Estate	4.25%	13.08%
Utilities	3.59%	-8.81%
Health Care	1.40%	5.27%
Industrials	0.93%	4.18%
Consumer Discretionary	-1.25%	21.19%
Information Technology	-2.87%	12.4%
Financials	-8.00%	14.68%
Energy	-8.40%	-5.01%

Sector Review

- Despite the market finished relatively flat in November, the sector performance was distinctive. The **Financials** and **Energy** sector were down 8% and 8.4% respectively while the **Materials** sector gained 6.16% and **Telco** returned 5.2%.
- Resource stocks flew high in November after a few months of being under pressure from China's anti-pollution stance. Nickel stocks led the rally as the price of the base metal soared above the US\$21k mark, **Chalice Mining (CHN)** +49% and **Nickel Mines (NIC)** +36%. Shares in iron ore miners were supported by the recovery of iron ore prices. Pure play iron ore **Fortescue (FMG)** +22% while **BHP** and **RIO** returned 7% and 3.5% respectively.
- The **Energy** sector was caught in the sell-offs in November as the new COVID variant Omicron posed a threat on global oil demand. The push for clean & renewable energy also weighed on the sector as **Electric Vehicles (EV)** will be heavily featured at the upcoming Australian Federal Election in 2022.
- Travel and tourism stocks also underperformed in November as lockdown and restrictions were back in the Northern Hemisphere. Online travel agent **Webjet (WEB)** crashed 13% while shares in land & marine tourism service provider **Kelsian (KLS)** tumbled 12%.

Stock Snapshot

- **Netwealth (NWL)** has proposed to merge with **Praemium (PPS)**, at 1 NWL share for every 11.96 PPS share, plus a cash consideration from the net proceeds from the sales of PPS's international business.
- **Inghams (ING)** has warned of rising feeding costs and a dip in demand linked to lockdowns. Meanwhile, **Elders (ELD)** forecast the prices of beef and lambs to keep rising because demand is outstripping supply and Australia's herds are still being rebuilt.
- The **Commonwealth Bank (CBA)** delivered cash NPAT of \$2.2b in the first quarter of FY22. The bank's income was down 1%, with the growth in mortgage volume helped offset lower net interest margin pressure and lower non-interest income.
- Traffic levels in Sydney and Brisbane are back to pre-COVID levels, said **Transurban (TCL)** CEO.
- **James Hardie's (JHX)** profit has soared during the first half of the new financial year, with net sales climbing in the past six months. The company declared an interim dividend of US40¢ a share.
- **Vicinity Centres (VCX)** and **Scentre Group (SCG)** both have seen positive initial signs on reopening in NSW and VIC.
- **Coles (COL)** is expecting robust sales in the group's supermarkets in the lead-up to Christmas as the large cities on the eastern seaboard return towards near normal in the next phase of the pandemic.
- **Ramsay Health Care (RHC)** has suffered a sharp fall in earnings in the September quarter, which the company attributed to a slowdown in elective surgeries linked to COVID-19 restrictions.
- **Treasury Wine (TWE)** has acquired Family Frank Vineyards in Northern California for US\$315m.
- **Crown Resorts (CWN)** has received an offer from shareholder Blackstone at \$12.50 a share cash and is considering the revised bid. Blackstone already owns 9.99 per cent of the casino operator.
- The FIRB has approved the \$5.2b takeover of Spark Infrastructure.

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.

Products & Services

Investment strategies offered by Armytage include:

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