Monthly Market Commentary
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Market Review

On November 1st, Trump took to social media to hail his encounter with Xi Jinping on the sidelines of the APEC Summit in Busan, calling it a “G2 meeting” and declaring that the exchange had been “great for both of our countries” and would “lead to everlasting peace and success”. “G2” stands for Group of Two, a concept used in international relations to describe the idea of the US and China acting together as a duopoly to manage major global economic and political issues. Initially proposed by American economist C. Fred Bergsten in 2005, it was popularised around 2008-2009 by US officials and scholars, including Zbigniew Brzezinski, Robert Zoellick and Niall Ferguson, with the latter introducing the concept of “Chimerica” to describe the depth of the interdependence of the two largest economies in the world. By explicitly invoking the notion of a “G2”, Trump appears to signal his willingness to frame the US and China as co-equal stewards of the global agenda, a major rhetorical departure from years of strategic rivalry, security-driven decoupling and techno-containment. The choice of language suggests that Washington may prioritise direct dealings with Beijing over multilateral or allied-based approaches. While Chinese leadership likely welcomed the remarks privately, its public reaction was muted. Several analysts noted that the term raises expectations of global responsibility and burden-sharing, while simultaneously conflicting with China’s preferred narrative of championing the Global South and advancing a multipolar world order.

Compounding the geopolitical realignment was the formal designation of Venezuela’s Cartel de los Soles as a Foreign Terrorist Organisation (FTO) on November 24th. Trump explicitly accuses the group of being led by President Nicolás Maduro himself, together with members of his inner circle. Although US sanctions have long weakened Venezuela’s oil sector, the addition of the Cartel de los Soles to a list encompassing Islamist extremist organisation as well as powerful transnational criminal networks, including Mexican, Ecuadorian and Colombian drug cartels, represents a significant escalation. The move grants US law enforcement and military agencies expanded authority to investigate, sanction and dismantle the organisation, as illustrated by reports of a massive military buildup and intensified operations in the Caribbean and Pacific. In recent months, the US has stepped up pressure on Maduro, declaring his government illegitimate following last year’s election, which was widely criticised as rigged. The terrorist designation provides another mechanism to intensify diplomatic and economic pressure on Caracas. By drastically heightening the compliance and criminal liability risk for any business or financial institution operating in or with Venezuela, even indirectly, it triggered disruptions in energy and commodity markets. Venezuelan crude exports to Asia, already trading at steep discounts to attract buyers, were further pressured as heightened sanction risk and the threat of penalties prompted some insurers and shipping firms to reassess or withdraw from contracts, raising freight costs.

While US policy toward Latin America hardened, a detente emerged in Eastern Europe as the initial outlines of a Ukraine-Russia peace plan surfaced, paving the way for a potential de-escalation after nearly four years of conflict. The draft framework, initially reported to contain 28 points, addressed a wide array of issues, including ceasefire arrangements, security guarantees and economic reconstruction. However, many provisions were perceived as overly tilted toward Russian interests. Those include clauses suggesting the formal recognition of Russian control over Crimea and portions of the Donbas region, restricting Ukraine’s military capabilities and weapons procurement, conceding Russian influence over Ukrainian domestic political and judicial structures and limiting Ukraine’s future NATO membership. Following the leak of the plan, Ukrainian officials expressed concerns that it could undermine national sovereignty, while European allies stressed the need to safeguard Kyiv's NATO alignment and territorial integrity. Russian authorities, by contrast, welcomed the initiative as a means to secure recognition of contested territories and ease international sanctions. High-level negotiations culminated in a reduction of the plan to 19 points, preserving actionable measures while reserving the most sensitive issues for direct discussions between Zelensky and Putin. The announcement prompted a sharp decline in European defence stocks. However, at the end of month, the sector remained one of the best performers since the beginning of the year, with the WisdomTree Europe Defence UCITS Index up +72.74 in EUR terms.

Finally, November marked one of the worst downturns in Sino-Japanese relations in decades, with the two countries locked in a diplomatic crisis over Taiwan. On November 7th, the new Prime Minister Takaichi told the National Diet that a Chinese attack on the self-governing island "could undoubtedly become a survival-threatening situation" for Japan, meeting the legal threshold to justify the deployment of the Japan Self-Defense Forces (JSDF) in the region. Her comment broke with Japan's traditional strategic ambiguity, bringing Tokyo's stance more in line with US policy. Beijing immediately condemned the remarks as a violation of the one-China principle and escalated the diplomatic dispute to the United Nations (UN). Tensions intensified further in mid- to late- November when a formation of China Coast Guard vessels conducted patrols within the territorial waters of the disputed Senkaku/Diaoyu Island, prompting a response from the Japanese Coast Guard. Japan also reaffirmed its plan to station medium-range surface-to-air missiles on Yonaguni Island, about 110 km from Taiwan. Despite the worsening political climate, China and Japan remain major economic partners. In 2024, China was still Japan's second-largest export destination after the US, purchasing around 125 billion USD in Japanese goods. Geopolitical realities are now driving the two nations into confrontation, as China regards Taiwan essential to its national unity, while Japan increasingly sees Taiwan's security as inseparable from its own.

International Equities

US equities suffered their steepest correction since the Liberation Day crash during the first three weeks of November, driven by concerns about stretched valuations in the technology space, expectations of a slowdown in the economy following a 43-day government shutdown and fading prospects for a FED rate cut in December. The S&P 500 and the Nasdaq 100 dropped 5.76% and 8.59% from peak to trough, respectively, before staging a furious rebound. The former went on to record its seventh consecutive month of gains, a feat last achieved in 2021, while the latter trimmed its losses to -1.64% in USD terms. The S&P 500 (+0.13%), the Dow Jones Industrial (+0.32%) and the Russell 2000 (+0.85%), the popular benchmark for smaller companies, posted their highest monthly closes on record. The "Magnificent Seven" declined, while the rest of US large caps ended the month in the black. November was a challenging month for the OpenAI ecosystem after a controversial online exchange between Brad Gerstner, host of the BG2 podcast, and Sam Altman went viral. Pressed on how OpenAI plans to finance its massive 1.4 trillion USD infrastructure spending, Altman cut the conversation short stating that the company will generate "enough" revenues. He then offered to find a buyer if Gerstner wanted to sell his shares. Moreover, during the same podcast, Satya Nadella explained that a shortage of electricity, and not of chips, is currently the key constraint for the AI industry. He stated that Microsoft has GPUs "sitting in inventory" that it can't install because there isn't enough available power to plug them in. Finally, following the release of the Gemini 3 model by Google on November 18th, Sam Altman warned employees that competitive pressure from the search engine leader "could create some temporary economic headwinds for our company". Microsoft and Nvidia fell sharply in November, with the latter further pressured by reports that SoftBank and Peter

Thiel had exited their entire stakes. Conversely, Alphabet posted double-digits gains for the fourth consecutive month, as the news that Warren Buffett's Berkshire Hathaway had purchased 0.31% of its outstanding shares added to the positive momentum. Market leadership rotated away from mega cap growth names, with value stocks catching a bid. Neglected sectors the likes of healthcare, materials, consumer staples and energy topped the list, followed by interest-rate-sensitive sectors. Technology, consumer discretionary and industrials bucked the trend, as highly speculative stocks, momentum and high beta gave back part of their most recent gains.

US equities performed in line with the rest of the world (as exemplified by the MSCI AC World Index ex USA TR Index) in November. Europe was the only region to generate a positive return and beat the general index owing to its greater exposure to financials, industrials, energy and defensive sectors. Speculations about the Bank of Japan (BoJ) tightening in December weighed on the Nikkei 225. Despite sporting relatively more reasonable valuations than the US, South Korea, Taiwan and China were caught in the AI sell-off, dragging emerging markets lower. All in all, the MSCI AC World Daily TR was unchanged in USD terms and down -0.21% in AUD terms.

Australian Equities

Australian equities fell in November, with the MSCI Australia Net TR index underperforming the MSCI AC World Daily TR index by more than 300 basis points for the third month in a row. The S&P/ASX 300 (+2.64%) tracked its international peers lower during the first three weeks of the month, before embarking on a more muted rebound that ultimately recovered only half of the earlier losses. Healthcare, consumer staples, materials and industrials bucked the overall market weakness. CSL caught a bid after having shed almost 50 billion AUD in market capitalisation in the previous three months. Miners continued to benefit from the strong momentum in gold (+5.91% in USD terms), silver (+16.04%), copper (+1.90%) and lithium. Technology was the worst performing group for the second consecutive month, weighed down by Xero, which stumbled amid uncertainty surrounding the outlook for its recently acquired US-based Melio business and the impact of AI on software valuations. Financials sold off sharply, with CBA down double-digits as both traditional and non-traditional players intensified their competitive pressure. As a result, the Ex-20 index recorded its best monthly relative performance vis-à-vis the Top 20 since July 2022. Finally, mid-caps eked out a modest gain, while smaller companies curbed losses on the back of the positive momentum in the resources space.

International Fixed Income

Three of the four major global central banks that met during the month kept interest rates steady. Those include the Riksbank, Sweden's central bank, the Norges Bank, Norway's central bank, and the Bank of England (BoE), which held their policy rates at 1.75%, 4% and 4% respectively.

On November 26th, the Reserve Bank of New Zealand (RBNZ) reduced its Official Cash Rate (OCR) by 25 basis points to 2.25%, its lowest level since May 2022. While the reduction was widely anticipated, forward guidance indicated that the OCR may have bottomed out at the current level. Global fixed income experienced volatility in November as the implied probability of a December FED rate cut oscillated in response to evolving economic data and communications from officials. Eventually, market sentiment shifted toward a more dovish stance after the delayed September labour report pointed to sluggish conditions and John Williams, the powerful President of the Federal Reserve of New York, opened the door to "further adjustment in the near term" in a speech on November 21st. The chance of monetary easing was further strengthened by rumours that Kevin Hassett, currently leading the National Economic Council (NEC), had come out as the frontrunner for the Chairman role. In the US, the yield curve transposed lower and steepened modestly, while in Europe it remained largely unchanged among choppy trading. Japanese government bonds were the clear losers for the month as the announcement of a record-sized stimulus package renewed concerns over the country's already sizable debt burden. The 10- year yield jumped to its highest level since June 2007 while the 30- year yield ended the month at 3.3%, the highest on record. All in all, the Bloomberg Barclays Global Aggregate Index hedged back to AUD advanced 0.18% for the month.

Australian Fixed Income

On November 4th, the RBA kept the cash rate unchanged at 3.60%, citing a recovery in private demand and somewhat tight labour market conditions, alongside "a little more underlying inflationary pressure" than previously expected. Later in the month, the Australian Bureau of Statistics (ABS) monthly indicator of consumer prices (CPI) surprised to the upside, rising to +3.8% YoY in October (from +3.6%). The CPI Trimmed Mean, the measure preferred by the central bank, ticked up to +3.3% YoY (from +3.2%). Wage growth stabilised at +3.4%, slightly outpacing inflation, with public sector pays continuing to accelerate, up +3.8% YoY, versus a cooling off to +3.2% YoY in the private sector. As a result, at the end of November the cash futures had removed the last remaining cut previously anticipated in the current easing cycle. The repricing of the yield curve led to losses for the Bloomberg AusBond Composite 0+ Yr (-0.88%). The 2-, 5- and 10- year yields jumped 25, 29 and 22 basis points to 3.81%, 4.06% and 4.52% respectively, with all three outpacing their American equivalents for the first time since September 2024. The Australian Dollar was a mixed bag, losing ground against the Euro and the Sterling Pound (GBP), but appreciating vis-à-vis the greenback the Japanese Yen (JPY).

Real Assets

Global property rose +2.04% in USD terms and +1.84% in AUD terms in November. Asia was the best performing region, followed by Europe. The US lagged, weighed by data centres. Australia bucked the trend as the 10- year real yield climbed to its highest level in 6 months following the shift in interest rate expectations.

Global infrastructure was up +3.27% in USD terms and +3.06% in AUD terms for the month. Energy infrastructure, mid-stream in particular, led gains, reversing the recent underperformance as US natural gas prices rose on colder-weather forecasts and robust LNG export demand.

Alternatives

Returns for Alternatives (+1.27%) were positive across strategic mandates in November. Long/Short equities drove returns and trend following mandates extended their positive performance streak to four months.

Market Outlook

The outcome of the FOMC meeting held on December 10th was supportive of risk assets in our view. The central bank delivered its third rate cut of the year, introduced a new liquidity tool aimed at stabilising the banking system and signalled confidence in the economic outlook. Moreover, Chairman Powell's unusually upbeat tone on productivity and the role of AI indicated a notable shift from his recent hawkish rhetoric, providing coverage for an upcoming transition from a restrictive to an accommodative stance. The 25-basis point reduction, although widely expected, validated the idea that the FED is easing pre-emptively to ward off an unnecessary deterioration in the labour market rather than waiting for a sharp rise in unemployment before acting. In this regard, it bears noting that the job market appears healthier than payroll figures alone suggest. In fact, slower population growth driven by restrictions on immigration has lowered the pace of job gains required to maintain a stable unemployment rate. Estimates vary but, on average, they suggest that the breakeven rate of payroll growth may have fallen below 50,000 jobs per month, compared with roughly 150,000 earlier in the year. As a result, flat payroll growth today is not equivalent to recessionary conditions in past cycles. Critically, most other labour indicators do not corroborate the weakness implied by payrolls. Layoffs remain subdued, job openings are elevated and claims data remain exceptionally low by historical standards.

The emphasis on extending the economic cycle rather than risking a policy-induced recession was further reinforced by the announcement of monthly Reserve Management Purchases (RMPs) beginning on December 12th. In practical terms, this involves the central bank purchasing Treasury Bills at what it has described as an "elevated" pace through April, with the initial round of buying totalling approximately 40 billion USD. The FED was careful about presenting its latest operation as a technical adjustment rather than a new round of Quantitative Easing (QE). The stated objective is, in fact, to ensure that there are ample reserves in the banking system, averting potential funding strains. However, behind the jargon, the (positive) message is that policymakers are conscious of the risk that an insufficient level of reserves could force banks to sell assets in a disorderly fashion, causing stress similar to the money market and repo dislocations observed in September 2019. By acting early, the central bank is attempting to remove what may have been a low-probability but high-impact tail risk from the financial system. For markets, this matters on two fronts. On the one hand, the operation is a signal that the FED has no interest in allowing a reserve shortage to morph into a catalyst for forced deleveraging or asset price shocks. On the other hand, even if the central bank insists this is not "QE," the net effect of regular purchases of Treasury Bills is to inject a modest but steady liquidity impulse into the system. That tends to support risk asset valuations at the margin, especially when combined with a gradual easing in the policy rate.

The tone and content of Chairman Powell's press conference was the most surprising element of the meeting. While historically he has tended to emphasise risk management and downside scenarios, this time he adopted an optimistic stance. He painted an outlook for stronger economic growth and lower unemployment in the US, coupled with projections of decreasing inflation. Taken at face value, such a combination is not typically associated with rate cuts. On the contrary, in a textbook macro setting better growth and lower unemployment would typically argue against easing. Yet the FED chose to cut, justifying its decision by prioritising the need to prevent further deterioration in the labour market. The common thread linking these seemingly inconsistent elements is productivity. Powell's remarks suggest that the central bank increasingly views higher trend productivity growth as the mechanism that reconciles solid real activity with disinflation. In plain English, the FED appears less concerned about inflation than in the past because structural improvements in productivity, amplified by the diffusion of AI, are helping to contain unit labour costs, even as wage growth remains relatively resilient. The argument is that if each worker can produce more output per hour, pays can rise without exerting the same pressure on prices, allowing inflation to move closer to the 2% target. Powell did not go so far as to explicitly claim that "AI will take care of inflation," but he came close. It logically follows that the FED is increasingly prepared to lean on an AI-driven productivity narrative as a meaningful macroeconomic tailwind, and that creates room for rate cuts even in the absence of recession.

The perspective shared by Powell provides the central bank with an intellectual basis for maintaining a relatively benign inflation outlook as growth expectations are revised higher. It also aligns with the prevailing bullish narrative around generative AI and automation, in which technology investment supports earnings growth and margin resilience rather than merely displacing labour. There was, however, one significant point of tension between the FED and the market. While futures pricing going into the meeting embedded expectations of close to three cuts in 2026, the Dot Plot indicated only one additional reduction in the coming year. That divergence matters because, historically, episodes where the FED's guidance fell short of market expectations have often been accompanied by periodic bursts of volatility, as investors "push" the central bank to converge toward the market path. Recent history offers a template. In early November, the FED was still signalling reluctance to cut in December. Markets responded with a notable drawdown, which many commentators interpreted as a sign that the AI trade was unravelling and that a larger tech bubble was bursting. In reality, the adjustment was largely the market's way of expressing disapproval with the monetary policy guidance. As soon as the tone from policymakers shifted dovish, risk assets ripped back to all-time highs. Ultimately, the central bank delivered the much-awaited loosening, continuing its familiar pattern of "talking hawkish but acting dovish". With the FED once again projecting fewer cuts than the market would prefer, investors may test policymakers' resolve and seek to pull forward additional easing. However, this does not undermine the fundamentally supportive direction of policy.

Putting all things together, our baseline case for growth assets remains constructive. We expect the US economy to re-accelerate following a temporary soft patch linked to the recent government shutdown, together with a gradual decline in policy rates and a renewed impetus from fiscal support. The latter is coming through the forthcoming tax relief under the "One Big Beautiful Bill Act" (OBBBA), and, potentially, through additional populist measures as the political calendar intensifies. As the FED continues to ease while growth remains solid, the US Dollar (USD) should soften, transmitting more favourable financial conditions to the Rest of the World (RoW). We anticipate a weakening greenback to act as a meaningful tailwind for global growth, particularly for countries such as China that carry significant US dollar-denominated debt. Staying invested, selectively adding risk during occasional pullbacks and maintaining an internationally diversified portfolio appears to be the appropriate approach in this environment. While the leading US technology and AI-related names remain extraordinarily profitable and have continued to deliver strong earnings, which justifies a certain degree of valuation premium, it is rational for investors to ask whether the market is adequately pricing the uncertainty around the long-term returns on massive infrastructure spending. We will monitor credit markets closely for clues that the financing of AI-related capex may have run ahead of fundamentals. To date, much of the spending has been funded out of cash flow, with only selective recourse to debt markets. If and when the sector begins to rely more heavily on leverage, a widening of spreads could spell trouble. For now, however, the credit cycle related to AI looks relatively nascent. The banking system has not yet participated aggressively in financing the build-out, partly because post-GFC regulation has tied up balance sheets in “safe” assets such as Treasuries. If the regulatory stance is loosened and banks are given more room to expand credit, the AI investment cycle could extend further and potentially reprice the entire complex higher before any eventual correction, challenging simplistic “bubble” narratives.

Turning to Australia, cash futures are pricing in the possibility of one rate hike in 2026 as the 2-year yield, a key proxy for future RBA policy, has risen almost 80 basis points in only 2 months. This tightening in financial conditions is likely to weigh on economic growth, reinforcing our long-standing preference for international over domestic equities. A stronger Australian dollar is also plausible in this context given the divergent policy paths between Australia and the US. On a positive note, Australian fixed income is becoming more attractively priced. While we continue to favour global duration at the current juncture, domestic duration may represent an opportunity next year if expectations for RBA tightening prove misplaced and the central bank ultimately returns to easing.