Market Update

JANUARY 2021

- Globally there were over 85 million confirmed Covid-19 cases at the start of January and over 20 million in the United States alone.
- Democrat wins in the Georgia runoff election will give the incoming Biden administration more flexibility with economic policy and the structure of further stimulus.
- Stricter lockdown measures were implemented throughout Europe, including the move to tier 5 restrictions in England as the UK prepares for its vaccine rollout.
- US-China relations deteriorated as the US began enforcing new visa restrictions on Chinese party officials and investment bans on companies with Chinese military links.
- The RBA minutes for the December meeting revealed the board believes it will take some time for output in Australia to reach its pre-pandemic level.

December market performance

Equity Markets – Index Return*	Index	At Close 31/12/2020	% Return 1 Month	% Return 12 Months
Australia	S&P/ASX 200 Index	6587.10	1.21%	1.40%
United States	S&P 500 Index	3756.07	3.84%	18.40%
Japan	Nikkei 225 Index	27444.17	3.95%	18.26%
Hong Kong	Hang Seng Index	27231.13	3.39%	-0.29%
China	CSI 300 Index	5211.29	5.07%	29.89%
United Kingdom	FTSE 100 Index	6460.52	3.28%	-11.55%
Germany	DAX 30 Index	13718.78	3.22%	3.55%
Europe	FTSE Eurotop 100 Index	2882.47	2.12%	-5.80%

Property – Index Returns*	Index	At Close 31/12/2020	% Return 1 Month	% Return 12 Months
Listed Property	S&P/ASX 200 A-REITS	1442.70	0.42%	-4.61%

Interest Rates	At Close 31/12/2020	At Close 30/11/2020	At Close 31/12/2019
Australian 90 day Bank Bills	0.01%	0.02%	0.93%
Australian 10 year Bonds	0.97%	0.90%	1.37%
US 90 day T Bill	0.09%	0.08%	1.55%
US 10 year Bonds	0.93%	0.84%	1.92%

Currency**		At Close 31/12/2020	% Change 1 Month	% Change 12 Months
US dollar	AUD/USD	0.77	4.18%	9.93%
British pound	AUD/GBP	0.57	2.06%	5.94%
Euro	AUD/EUR	0.63	1.49%	0.24%
Japanese yen	AUD/JPY	79.45	3.45%	4.32%
Australian Dollar Trade-weighted Index		63.4	3.09%	5.14%

* Closing index values are based on price indices. Index returns are expressed as total returns in local currency.
** All foreign exchange rates rounded to two decimal places.
Past performance is not a reliable indicator of future performance.

Global economies

The global economy continues to recover as investors weigh the impact of further lockdowns against the optimism of vaccine rollouts and fiscal support. Covid-19 cases are still rising in the US and Europe and the distribution of vaccines are not expected to bring an immediate end to social distancing, but confidence is improving, reflected in rising equities and longer-dated yields.

Market Update

US

A projected victory in the two Georgia Senate runoff elections has handed Democrats control of Congress and the White House, raising the prospect of higher taxes and big spending on a third coronavirus package. President-elect Biden described the $900 billion stimulus passed in December as a “down payment”, and will call on congress to pass additional measures, including more direct payments and aid to cities and states. More election drama ensued as the House and Senate formalised Biden's electoral college win. The Senate voted against the objections raised by a group of Republican members and senators, paving the way for Biden’s inauguration on 20 January. Economic indicators point to a continued recovery despite record daily Covid-19 numbers. December’s ISM Manufacturing PMI came in at 60.7, beating estimates of 56.6 and marking the seventh straight month of rising manufacturing activity and the strongest growth rate since August 2018. Housing starts rose to an annualised rate of 1.55 million in November, surpassing expectations of 1.53 million, while housing permits jumped to an annualised rate of 1.64 million, ahead of expectations of 1.55 million. December’s nonfarm payroll result could be a source of bad news, with expectations for a lift of only 100,000 following a disappointing print in November.

Europe

The UK has been inoculating people with the Pfizer vaccine on an emergency basis and became the first country in the world to start deploying the AstraZeneca vaccine. The UK expects to have inoculated its most vulnerable groups by mid-February. The EU approved the Pfizer vaccine on 21 December and is set to approve the Moderna vaccine, however distribution efforts have been stymied by logistical issues. England entered a strict new lockdown following the seventh day in a row of more than 50,000 daily infections and the spread of a more contagious variant of the coronavirus. Germany has also extended its national lockdown by three weeks until 31 January to regain control of rising infection rates. A post-Brexit trade deal was approved by the British parliament, offering a moment of victory for prime minister Johnson who promised voters he would “get Brexit done”. On the economic front, the Bank of England left its policy rate unchanged at 0.1% during its December meeting and maintained its bond-buying program at £875 billion, taking a wait-and-see approach amid potential fallout from the trade deal and the Covid-19 situation. The eurozone manufacturing PMI improved to 55.2 in December, lagging expectations of 55.5, while the Markit Composite PMI rose to 49.1 from 45.3, behind the expected reading of 49.8.

China

The Chinese economy continues to power along. Industrial production improved 0.1% to an annual rate of 7.0% in November and in line with expectations, boosted by fiscal stimulus measures, while year-on-year retail sales rose 0.7% to 5.0% (versus 4.4% expected). The Caixin manufacturing PMI for December fell from 54.9 to 53.0, running below expectations of 54.8 but still posting its eighth consecutive month of expansion. The unemployment rate came in at 5.2%, below expectations of 5.5%. US-China relations are rapidly deteriorating. In December, the US State Department tightened travel visa restrictions on Chinese Communist Party (CCP) officials believed to be involved in human rights abuses. The Trump administration also strengthened an executive order preventing US investors from buying shares in companies with ties to China’s military. The NYSE will delist three Chinese telco giants, while a number of companies have been removed from MSCI, S&P Dow Jones and FTSE Russell indices. China’s Ministry of Commerce said China will take “necessary measures to resolutely safeguard the legitimate rights and interests of Chinese enterprises.” With the global vaccine race reaching its peak, China has produced its own vaccines from Sinovac and Sinopharm, which are undergoing trials overseas.

Market Update

Asia region

Japan's September quarter GDP was upgraded from an annualised real 21.4% to 22.9%. Private consumption, which accounts for more than half of Japan's GDP, was revised from a drop of 4.7% to a sizeable rebound of 5.1%. According to a survey conducted by Japan's Center for Economic Research, the world's third largest economy is projected to grow 3.4% over the next fiscal year (running to March 2022). Japan's government is hoping for a significant improvement in consumer spending once vaccines become widely available, boosted by fiscal incentives to get the retail economy moving. Prime minister Yoshihide Suga said the government aims to begin its nationwide vaccination program by the end of February. South Korea has tightened its social distancing rules in the face of a third wave of Covid-19 infections as daily case numbers rose above 1,000 in early January. A ban on small private gatherings that applied throughout Seoul was expanded nationwide until 17 January and additional restrictions were imposed on restaurants, cafes and other venues. India became the third country after the UK and Argentina to approve the AstraZeneca vaccine. The Indian government aims to inoculate 300 million of its 1.35 billon people in the first six to eight months of 2021.

Australia

NSW is on high alert following a Covid-19 outbreak in Sydney's Northern Beaches, while a new, more infectious strain of the virus has been identified throughout the country, including four in Victoria and one case of a quarantine hotel worker in Brisbane. Prime minister Morrison said "Australia should not be at the front of the queue" when it comes to vaccines given the relative success of Australia's containment measures and the more pressing need in other countries to bring the virus under control. An agreement between the Australian government and Pfizer was finalised on Christmas Eve, with 10 million doses to be made available for a March rollout if the vaccine is approved by regulators. Australia also has vaccine agreements with Oxford-AstraZeneca and Novavax. Australia's labour market continues to improve, with 90,000 jobs added in November, including 84,200 full-time jobs. Employment in Victoria increased by 74,000 following October's increase of 82,000. The RBA minutes for the December meeting revealed the board believes it will take some time for output in Australia to reach its pre-pandemic level. Members acknowledged that "the recovery in the labour market was more advanced than expected" but noted there was still significant spare capacity that would remain a key policy challenge for some time.

Market Update

EQUITY MARKETS

- Australia's S&P/ASX 200 Index rose 1.2% in December, ending 2020 up 1.4%, underperforming global shares through the year.
- The US S&P 500 Index rose 3.8% in December in US dollar terms and delivered a remarkable 18.4% return over 2020, finishing above 3,700 points.
- In Europe, Germany's DAX 30 Index returned 3.6% over 2020, while France's CAC 40 Index was down 5.0% and the UK's FTSE 100 Index fell 11.6%.
- In Asia, Japan's Nikkei 225 Index gained 18.3% over the year and China's CSI 300 Index rocketed 29.9%, while Hong Kong's Hang Seng Index was flat.
- Global developed market shares rose 5.7% over the year in Australian dollar terms and emerging market shares rose 7.8%.

Australian equities

	Index/Benchmark (% pa)	1 Year	3 Years	5 Years	7 Years
Australian	S&P/ASX 200 Acc.	1.21%	1.40%	6.73%	8.73%
	S&P/ASX 50 Acc.	0.68%	-1.94%	6.32%	7.84%
	S&P/ASX Small Ordinaries Acc.	2.76%	9.21%	6.57%	10.46%

Much like new year celebrations, Australian shares ended 2020 without fanfare. The ASX 200 added a modest 1.2% in December to end the year up only 1.4% in what was a tumultuous year for all markets. The IT sector was the best performing in December, returning 9.5% over the month and 57.8% over the year. Unsurprisingly it was Afterpay that led the tech pack in 2020, tripling in value as consumers continued to flock online and ditch their credit cards. Afterpay announced that it exceeded $2 billion of monthly underlying sales in November—more than double the $1 billion of underlying sales in November 2019. Machine learning and AI specialist Appen downgraded its 2020 earnings guidance, citing the impact of lockdowns globally—especially in California where its heavyweight technology clients reside—and a weaker US dollar. CSL announced in December that its Covid-19 vaccine, developed with the University of Queensland, will not proceed to phase 2 and 3 trials after it was discovered that antibodies produced by the vaccine can result in false HIV positive results. The AstraZeneca vaccines will be made in Australia by CSL after an initial batch arrives from overseas. Domino's was a clear Covid winner, rising 65.6% in 2020 and reporting a year-on-year jump in online sales of 21% in FY20.

Investment Index/Benchmark returns*

S&P/ ASX 200 Index

Sector	1 Month	3 Months	1 Year
Information Technology	9.48%	24.76%	57.77%
Materials	8.80%	15.35%	18.20%
Consumer Staples	2.26%	6.38%	6.17%
Consumer Discretionary	0.98%	11.12%	11.34%
Property	0.42%	13.30%	-4.61%
Financials ex-Property	-0.51%	22.76%	-6.29%
Communications	-0.63%	12.29%	4.61%
Energy	-0.88%	26.25%	-27.63%
Industrials	-2.70%	4.94%	-12.30%
Health Care	-4.85%	-1.12%	4.12%
Utilities	-5.38%	-5.41%	-16.66%

*Total returns based on GICS sector classification

Market Update

BIG MOVERS THIS MONTH

Going up

- ⇑ Information Technology +9.5%
- ⇑ Materials +8.8%
- ⇑ Consumer Staples +2.3%

Going down

- ⇓ Utilities -5.4%
- ⇓ Health Care -4.9%
- ⇓ Industrials -2.7%

Global Equities

	Index/Benchmark (% pa)	1 Month	1 Year	3 Years	5 Years	7 Years
Global	MSCI World Ex Australia Index (AUD)	-0.50%	5.73%	11.16%	10.94%	11.64%
	MSCI World Ex Australia Index (LCL)	3.56%	13.77%	10.28%	11.63%	9.98%
	MSCI World Ex Australia Small Cap Index (AUD)	2.51%	5.36%	8.50%	10.40%	10.85%
Emerging	MSCI Emerging Markets Index (AUD)	2.51%	7.77%	6.65%	11.49%	8.44%
	MSCI AC Far East Index (AUD)	0.75%	10.41%	8.06%	10.25%	10.30%

Global shares saw mixed performance over 2020, with some markets rebounding strongly in the second half and others finishing the year deep in the red. Overall, it was a positive year, with the MSCI World Ex-Australia Index returning 5.7% and the MSCI Emerging Markets Index returning 7.8% in Australian dollar terms. The US S&P 500 Index finished on a high, returning 3.8% in December and 18.4% over the year after rallying to record highs in the wake of the pandemic. Wall Street was preoccupied with election-related news in January, with the Georgia runoffs deciding control of Congress and the fate of the incoming Biden administration's economic policy. European shares fared considerably worse over 2020 compared to the US and Asia. The UK’s FTSE 100 Index was down 11.6% over the year and France’s CAC finished 5.0% lower, while Germany’s DAX managed a modest gain of 3.6%. Cyclical sectors like energy and financial services were the hardest hit, along with exposed sectors such as travel and leisure, while technology shares were the best performing. The pan-European STOXX 600 Index rose 2.5% in December but came under pressure amid concerns of a fast-spreading Covid-19 mutation. The outlook for 2021 is supported by very accommodative monetary and fiscal policy and the start of Covid-19 vaccine rollouts.

Property

	Index/Benchmark (% pa)	1 Month	1 Year	3 Years	5 Years	7 Years
Australian	S&P/ASX 300 A-REIT Acc	0.42%	-4.61%	5.42%	6.99%	10.69%
Global	FTSE EPRA/NAREIT Developed Ex Australia Index (AUD Hedged)	2.65%	-13.59%	0.06%	2.79%	5.49%

It was an annus horribilis for listed property, with almost every sector under pressure due to lockdowns and social distancing. The S&P/ASX 200 A-REIT Index fell 4.6% over 2020, while global REITs fared even worse, down 13.6%. However, some diversified trusts saw impressive growth over 2020. Charter Hall bucked the trend with a $3.5 billion outlay on real estate deals over the year and benefitted from higher demand for access to industrial and logistics assets during the pandemic. This was in stark contrast to shopping centre REITs Vicinity Centres and Scentre Group, which fell 35.5% and 27.4% respectively over the year. Australia’s housing market is improving but the Reserve Bank notes that the recovery is uneven and there has been considerable variation in price changes across capital cities. A clear factor has been the slowdown in population growth due to border closures and the decline in net overseas migration. The US experience has been marked by the permanent closure of well-known chain-store branches and iconic brands filing for bankruptcy. With the holiday season over, a further wave of bankruptcies is expected. The pandemic has prompted investors to diversify into alternative assets such as childcare, healthcare, and data centres, which are less tied to the broader economy than mainstream commercial sectors and office space.

Fixed Interest

	Index/Benchmark (% pa)	1 Month	1 Year	3 Years	5 Years	7 Years
Australian	Bloomberg AusBond Composite 0+ Yr Index	-0.27%	4.48%	5.42%	4.56%	5.01%
	Bloomberg AusBond Bank Bill Index	0.00%	0.37%	1.26%	1.52%	1.80%
Global	Bloomberg Barclays Global Aggregate Index	-3.23%	-0.53%	5.32%	3.57%	5.21%
	Bloomberg Barclays Global Aggregate Index AUD	0.26%	5.09%	4.62%	4.55%	5.19%

The end of 2020 saw further recovery in yields, thanks in part to positive vaccine news, which has boosted equities and narrowed spreads between corporate and government yields. The US 10-year Treasury yield rose from 0.84% to 0.93% in December, before lifting above 1.0% in early January on the back of Democrat victories in the Georgia runoff. As widely expected, the US Federal Reserve left the target range for the funds rate unchanged at 0.00–0.25% during its December meeting. The Fed will continue to increase its holdings of Treasury securities by at least $80 billion per month and agency mortgage-backed securities by $40 billion until substantial progress is made towards achieving the inflation objective. Central bank officials have indicated they are less concerned about potential overshooting of inflation. The Fed's Charles Evans said, "getting inflation moving up with momentum and delivering rates around 2.5% is important for achieving our inflation objective in as timely a manner as possible." Central bank bond buying programs have helped soak up high levels of government debt issuance in the fight against the pandemic. In Australia, money market rates are still close to zero and the yield on the 3-year government bond is in line with the RBA's 0.10% target.

Australian dollar

The Australian dollar continued to strengthen in December, rising 4.2% against the US dollar and appreciating 3.1% in trade-weighted terms. The ballooning US fiscal deficit and the promise of further debt-driven stimulus has put pressure on the US dollar, while rising commodity prices and a relatively strong economic situation at home are a tailwind for the Australian currency.