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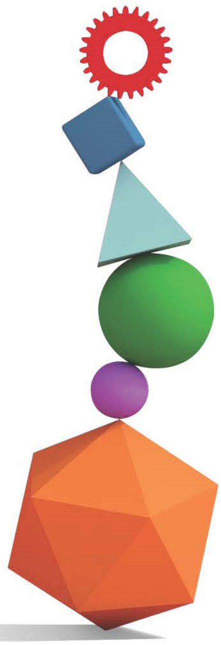
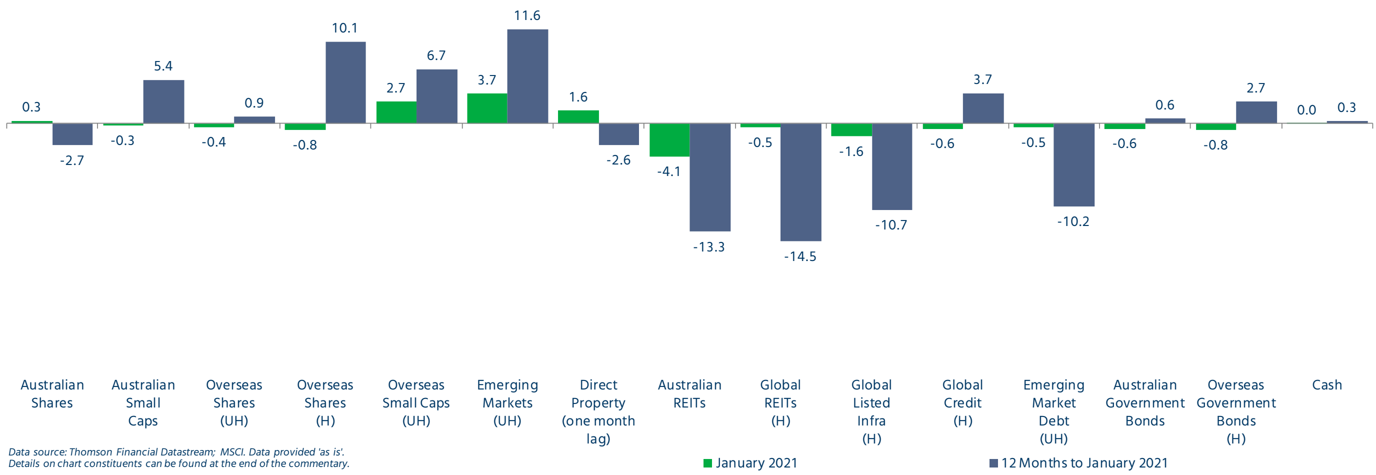


January 2021

Australian monthly market review

Selected market indicators commentary

Asset class returns as at 31 January 2021



Data source: Thomson Financial Datastream; MSCI. Data provided 'as is'. Details on chart constituents can be found at the end of the commentary.

Over the month of January, economic data signalled a short term hit due to pandemic-related restrictions. This overshadowed a strong fourth quarter experienced by China. The continued global roll-out of COVID-19 vaccines in various countries continues to underpin the expected rebound of markets in 2021. The smooth transition of Brexit and the beginning of Biden's presidency provides an outlook for a less volatile geopolitical environment.

Hedged Developed Markets Overseas Shares provided marginally negative returns, returning -0.8% for the month, as western economies faced new lockdown restrictions. In addition, there was an increase in volatility during the month of January as a result of rising concern over the valuation of shares and a short squeeze administered by retail investors. However, growth stocks continue to outperform value stocks, and Developed Markets Overseas Small Caps continue to rally.

Emerging markets have remained top performers, as negative returns for Brazil, Russia and India were snubbed by returns for China, which resulted in 3.7% return for Unhedged Emerging Market Shares over the month.

Over January, government bond yields rose for the US, UK and Australia as rising inflation expectations put upward pressure on nominal yields, causing negative returns. The US dollar began to strengthen again and gold experienced a decline of 2.1%. The expectation of market recovery lead to an increase of 7.8% in Oil prices. The REITs market, both globally and domestically, continued to provide negative returns following last year's sell-offs.

Australian shares provided marginally positive returns over January, with the S&P/ASX300 returning 0.3%. The S&P/ASX300 was one of the few regional equity indices that was able to provide positive performance over the month.

Unlike Developed Markets Overseas Small Caps, the S&P/ASX Small Ordinaries Index fell 0.3%, as investors displayed a risk-off sentiment. Consumer Discretionary (+4.8%) and Communication Services (+2.6%) were the best performing sectors, while the weakest performing sectors were Real Estate (-4.3%) and Industrials (-3.1%).

Significant Developments

- During its early February 2021 meeting, the Reserve Bank of Australia (RBA) decided to maintain its current policy settings, including the target cash rate at 0.10% per annum and the targeted yield on 3-year Australian Government bonds at 0.10%. The RBA also decided to purchase an additional $100bn of bonds issued by Australian Government and states and territories, the current bond purchase program ends in April. Governor Philip Lowe noted that in Australia, the economic recovery is well under way and has been stronger than previously expected, particularly in employment with a decline in the unemployment rate to 6.6%. Retail spending has also been strong and households and businesses have now recommenced loan payments that were previously deferred. In the RBA's central scenario, it will not be until the middle of this year that the level of GDP reaches the level attained at the end of 2019. In the central scenario, GDP is expected to grow by around 3.5% over both 2021 and 2022. Whilst the unemployment rate is expected to decline, the central scenario is for unemployment to be around 6.0% at the end of this year and 5.5% at the end of 2022. In underlying terms, inflation is forecast to be 1.25% over 2021 and 1.5% over 2022.The Board has noted that it will not increase the cash rate until inflation sits sustainably within the 2-3% target range. For this to occur, wage growth will have to be materially higher than it is at present. This will require significant gains in employment and a return to a tight labour market. The Board has noted that it does not expect these conditions to be met until 2024 at the earliest.
- Australian seasonally adjusted employment increased by 50,000 in December, in line with expectations, while the November figure remained at an increase of 90,000. The unemployment rate decreased to 6.6% for December, below expectations for 6.7%. The participation rate increased to 66.2%, in line with expectations. Part time jobs increased by 14,300 and full time jobs increased by 35,700.
- Australian building approvals increased 10.9% month-on-month to December, compared to the previous level of 3.4% (revised) for period ending November.
- The Institute for Supply Management (ISM) Manufacturing Index recorded 58.7 in January, below consensus for 60.0, and below the 60.5 recorded in December. Of the 18 manufacturing industries, Electrical Equipment, Appliances and Components and Machinery were the two industries that reported the highest growth. Printing & Related Support Activities and Petroleum and Coal Products were the two industries that reported a contraction in January. The ISM Services Index recorded 58.7 in January, above consensus for 56.7 and above the 57.7 recorded in December. Of the 18 services industries, the top performers in January were Real Estate, Rental and Leasing and Construction. Arts, Entertainment & Recreation and Educational Services were the two industries that reported the highest contractions over the month.
- US Non-Farm Payrolls increased by 49,000 in January, above the 227,000 decrease (revised) recorded for December. The unemployment rate decreased to 6.3% over January, below expectations for 6.7%.
- US GDP advanced estimate for Q4 2020 is 4.0% quarter on quarter (QoQ) annualised, below expectations for 4.2%.
- The Caixin Manufacturing PMI in China recorded 51.5 in January, below expectations for 52.6, signalling the slowest improvement in operating conditions in seven months.
- The preliminary estimate of the European Core CPI recorded 1.4% over the year to January, above expectations for 0.9%.
- The Eurozone composite PMI decreased to 47.8 in January, above expectations for 47.5.
- The advanced estimate recorded for Q4 2020 Eurozone seasonally adjusted GDP is -0.7% QoQ and -5.1% YoY.

Australian Equities

The Australian share market outperformed its hedged overseas counterpart over the month, as the S&P/ASX 300 Index returned 0.3%. The S&P/ASX 50 was the strongest relative performer, increasing 0.7%, while the S&P/ASX Mid 50 was the weakest, returning -1.1% over the month.

The best performing sectors were Consumer Discretionary (+4.8%) and Communication Services (+2.6%), while the weakest performing sectors were Real Estate (-4.3%) and Industrials (-3.1%).

The largest positive stock contributors to the index return were Westpac Banking, Wesfarmers and Afterpay with absolute returns of 9.2%, 8.6% and 14.5% respectively. In contrast, the most significant detractors were CSL, Fortescue Metals and Macquarie Group with absolute returns of -4.0%, -6.5% and -4.9%, respectively.

Global Equities

The broad MSCI World ex Australia (NR) Index returned -0.4% in unhedged terms and -0.8% in hedged terms over the month, as new restrictions hit the western countries due to rising COVID-19 infections. In AUD terms, the strongest performing sectors were Energy (+3.5%) and Health Care (+1.7%), while Consumer Staples (-3.8%) and Industrials (-2.2%) were the weakest performers. In AUD terms, the MSCI Small Caps (TR) Index was up 2.7% and MSCI Emerging Markets (NR) Index was also up 3.7% over January.

Over January, the NASDAQ increased 1.4%, the S&P 500 Composite Index decreased 1.0% and the Dow Jones Industrial Average decreased 2.0%, all in USD terms. In local currency terms, major European share markets experienced negative returns as the CAC 40 (France) decreased 2.6%, FTSE 100 decreased 0.8% and the DAX 30 (Germany) decreased 2.1%. In Asia, the Indian S&P BSE 500 decreased (-1.8%), whilst the Hong Kong Hang Seng (+3.9%), Chinese SSE Composite (+0.3%) and Japanese TOPIX (+0.2%) all increased, all in local currency terms.

Real Assets

The Real Assets sector achieved broadly negative returns over January. The Global Real Estate Investment Trusts (REITs) Index decrease by -0.5% over the month and the FTSE Global Core Infrastructure 50/50 Index returned -1.6% (both in AUD hedged terms). Domestic REITs decreased -4.1% over January, whilst the Australian Direct Property (NAV) returned 1.6% on a one-month lagged basis.

Fixed Interest

Global bond markets were broadly negative over January, with the Barclays Capital Global Aggregate Bond Index (Hedged) returning -0.6% and the FTSE World Government Bond (ex-Australia) Index (Hedged) returning -0.8%. Ten-year bond yields increased in most markets including the UK (+11bps to 0.35%), Germany (+3bps to -0.55%), Japan (+2bps to 0.04%) and the US (+18bps to 1.09%). Two-year bond yields were mixed over the month, decreasing in the US (-1bp to 0.12%) and Germany (-2bps to -0.73%), whilst increasing in the UK (+5bps to -0.11%) and remaining flat in Japan (-0.13%).

Returns for Australian bondholders were negative over January, with 10-year (+12bps to 1.09%), five-year (+4bps to 0.38%) and two-year (+4bps to 0.12%) bond yields increasing. Of the Bloomberg Ausbond indices, the Bloomberg Ausbond Inflation Index produced the lowest return, decreasing -0.9% over the month.

Currency Markets

The AUD Trade Weighted Index decreased to 63.0 over January, down by 0.6% from December. The AUD depreciated against the Pound Sterling (-1.4%) and US Dollar (-0.6%). However, the AUD appreciated against the Japanese Yen (+0.6%) and Euro (+0.8%).

Commodities

Iron Ore fell 0.3%, finishing the month at US$158.0 per metric tonne. The S&P GSCI Commodity Total Return Index increased 5.5% over the month. Gold prices decreased by 2.1% and the oil price increased 7.8% during January.

Chart Constituents

Notes

- *Currency: AUD.*
- *UH: Unhedged.*
- *H: Hedged.*
- *Net Index: Total Return (Net Dividends Reinvested).*
- *Total Return: Total Return Index with Gross Dividends.*
- *Where a lag exists, the performance period start and end dates are shifted accordingly.*

Asset class	Benchmark	Data type
Australian Shares	S&P/ASX 300	Total Return
Australian Small Caps	S&P/ASX Small Ordinaries	Total Return
Overseas Shares (UH)	MSCI World ex Australia	Net Index
Overseas Shares (H)	MSCI World ex Australia 100% Hedged	Net Index
Overseas Small Caps (UH)	MSCI World Small Cap	Total Return
Emerging Markets (UH)	MSCI Emerging Markets	Net Index
Direct Property (one month lag)	MSCI/Mercer Australia Core Wholesale Monthly PFI	NAV Post Fee
Australian REITs	S&P/ASX 300: Industry Group: A-REIT	Total Return
Global REITs (H)	FTSE EPRA/NAREIT Developed Hedged	Total Return
Global Listed Infrastructure (H)	FTSE Global Core Infrastructure 50/50 Hedged	Total Return
Global Credit (H)	Bloomberg Barclays Global Credit	Hedged Return
Emerging Market Debt (UH)	JP Morgan GBI EM Global Diversified Composite	Total Return
Australian Government Bonds	Bloomberg AusBond Treasury 0+ year	Total Return
Overseas Government Bonds (H)	FTSE WGBI Non Australia	Hedged Return
Cash	Bloomberg AusBond Bank Bill	Total Return

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Important Notices

MARSH & McLENNAN COMPANIES