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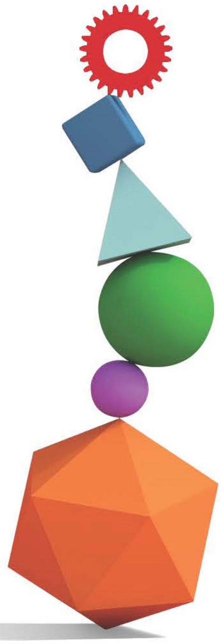
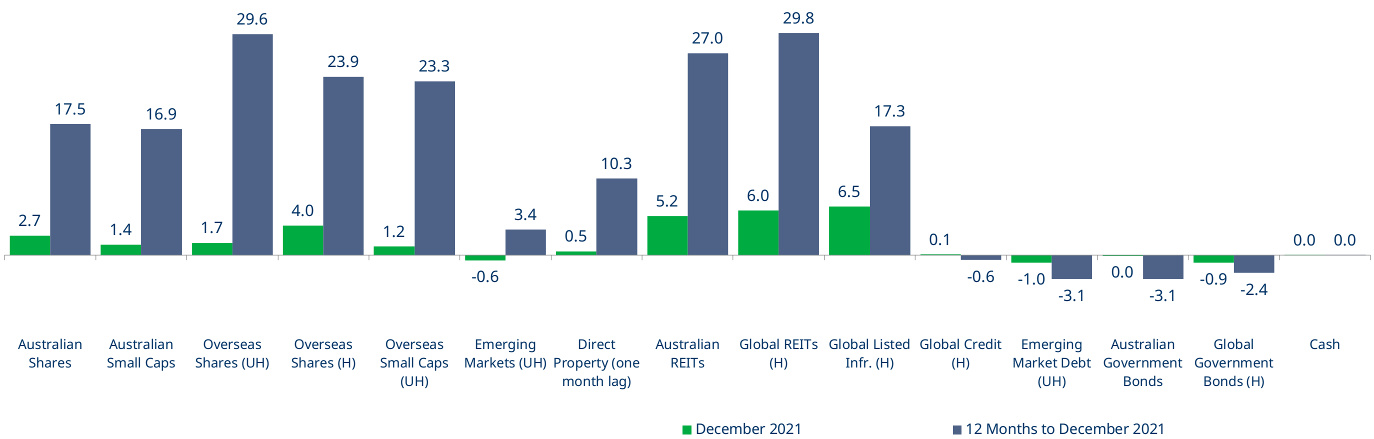


December 2021

Australian monthly market review

Selected market indicators commentary

Asset class returns as at 31 December 2021



Concerns over the latest Covid-19 variant quickly dissipated over December. Despite the ongoing high inflationary environment economic data suggests that the recovery remains well on track, allowing global equity markets to recover over the month and finishing the year on a positive note.

Over December, Hedged Developed Market Overseas Shares returned 4.0% due to a strong earnings outlook for the year ahead. The U.S Federal Reserve announced that it will double the pace of tapering in January 2022, however this hawkish stance did not heavily impact equity markets. Although tighter monetary policy continues to be a concern for investors it appears that this has now been priced in and overshadowed by the earnings optimism.

Unhedged Emerging Market Shares returned -0.6% over December as China continues to negatively weigh on the index. The regulatory crackdown undertaken by China over the past year has resulted in an economic slowdown causing a decline in their equity markets.

Hedged Overseas Government Bonds returned -0.9% over the month, as 10-year government bond yields for major developed markets ended the month marginally higher. Meanwhile, Australian 10-year government bond yields decreased by 2bps to 1.7% and the Bloomberg Ausbond Treasury Index returned flat over the month. Investors expect faster interest rate hikes given the current economic outlook and persistent high inflation.

The prospects of a strong economic recovery continues to push the Real Estate sector higher. Over the month, both Australian (5.2%) and Hedged Global REITs (6.0%) were among the strongest performing asset classes. This strong performance is also evident over the 12 months to December as investors took advantage of the low interest rate environment.

Australian Shares posted strong positive performance over December, with the S&P/ASX300 returning 2.7%. All other domestic indices provided similar returns, except for the S&P/ASX Mid 50 Accumulation Index (4.2%) and the S&P/ASX Small Ordinaries Index (1.4%). The best performing sectors were Utilities (7.9%) and Materials (6.2%) driven by a strong recovery in commodity prices as investors became more optimistic about the ongoing economic rebound. The worst performing sector was IT (-5.8%) as evidenced by the relative performance of Afterpay (-26.4%) and battery materials and technology company, Novonix (-25.8%).

Significant Developments

- During its early December 2021 meeting, the Reserve Bank of Australia (RBA) decided to maintain the current target cash rate at 0.10% per annum and the interest rate on exchange settlement balances of zero. The RBA will continue to purchase government securities at the rate of $4bn per week until mid-February. The Australian economy is recovering after the interruption caused by the Delta outbreak with high vaccination rates and substantial policy aiding this recovery. The emergence of the Omicron strain is a new source of uncertainty but it is not expected to derail the recovery. The economy is expected to return to its pre-Delta path in the first half of 2022. Wages growth has picked up and a further pick-up in wages growth is expected as the labour market tightens. Inflation has increased slightly at 2.1% and the headline CPI inflation rate is 3.0%. The central forecast is for underlying inflation to reach 2.5% over 2023. Housing prices have risen strongly over the past year, although the rate of increase has eased over recent months. Globally, bond yields have declined over the past month due to concerns around the Omicron variant. The Australian dollar exchange rate has depreciated and is currently sitting around its lows of the past year. At its February 2022 meeting, the Board will consider the bond purchase program and by then will hold a total of $350bn of bonds issued by the Australian Government and the states and territories. While inflation has picked up, it remains low in underlying terms. The Board are committed to maintaining highly supportive monetary conditions and will not increase the cash rate until actual inflation is sustainably within the 2-3% target range. For this to occur, the labour market will need to be tight enough to generate wages growth that is materially higher than it is, which will likely take some time.
- Australian seasonally adjusted employment increased by 366,100 in November, above expectations for an increase of 200,000 and above the prior month's decrease of 56,000 (revised). The unemployment rate decreased to 4.6% for November, below expectations for 5.0%. The participation rate increased to 66.1%, above expectations of 65.5%. Part time jobs increased by 237,800 and full time jobs increased by 128,300.
- Australian building approvals increased by 3.6% month-on-month to November, compared to the decrease of 13.6% for October.
- The Institute for Supply Management (ISM) Manufacturing Index recorded 58.7 in December, below consensus for 62.0 and below the 61.1 recorded in November. Of the 18 manufacturing industries, Apparel, Leather & Allied Products and Furniture & Related Products were the two industries that reported the highest growth. The three industries that reported a contraction over the December period were Wood Products, Printing & Related Support Activities and Paper Products. The ISM Services Index recorded 62.0 in December, below consensus for 67.0 and below the 69.1 recorded in November. Of the 18 services industries, the top performers were Accommodation & Food Services and Wholesale Trade. The only industry reporting contraction in December was Mining.
- US Non-Farm Payrolls increased by 199,000 in December, below the 249,000 increase (revised) recorded for November. The unemployment rate decreased to 3.9% over December, below expectations of 4.1%.
- US GDP third estimate for Q3 2021 is 2.3% quarter on quarter (QoQ) annualised, above expectations of 2.1%.
- The Caixin Manufacturing PMI in China recorded 50.9 in December, above expectations of 50.0, with production increasing at it quickest rate for a year.

- The preliminary estimate of the European Core CPI recorded 2.6% over the year to December, above expectations of 2.5%.
- The Eurozone composite PMI increased to 53.3 in December, below expectations for 53.4.
- The Final estimate recorded for Q3 2021 Eurozone seasonally adjusted GDP is 1.1% QoQ and 3.6% YoY.

Australian Shares

The Australian share market underperformed its hedged overseas counterpart over the month, as the S&P/ASX 300 Index returned 2.7%. The S&P/ASX Mid 50 Accumulation Index was the strongest relative performer, returning 4.2%, while the S&P/ASX Small Ordinaries was the weakest, returning 1.4% over the month.

The best performing sectors were Utilities (7.9%) and Materials (6.2%), while the weakest performing sectors were IT (-5.8%) and Consumer Staples (-2.3%). The largest positive stock contributors to the index return were Commonwealth Bank, BHP Group and Fortescue Metals Group with absolute returns of 8.4%, 6.3% and 14.9% respectively. In contrast, the most significant detractors were CSL, Afterpay and Woolworths with absolute returns of -5.2%, -23.7% and -6.9%, respectively.

Overseas Shares

The broad MSCI World ex Australia (NR) Index returned 1.7% in unhedged terms and 4.0% in hedged terms over the month. In AUD terms, the strongest performing sectors were Consumer Staples (5.9%) and Utilities (5.6%), while Consumer Discretionary (-2.0%) and Communication Services (-0.6%) were the weakest performers. In AUD terms, the MSCI Small Caps (TR) Index was up by 1.2%, while the MSCI Emerging Markets (NR) Index was down by -0.6% over December.

Over the month, the NASDAQ (0.7%), the S&P 500 Composite Index (4.5%) and the Dow Jones Industrial Average (5.5%) increased, all in USD terms. In local currency terms, major European share markets experienced positive returns as the CAC 40 (France) (6.5%), FTSE 100 (UK) (4.8%) and DAX 30 (Germany) (5.2%) all increased. In Asia, the Chinese SSE Composite (2.1%), the Indian S&P BSE 500 (2.3%) and Japanese TOPIX (3.4%) increased, whereas the Hong Kong Hang Seng (-0.3%) decreased, all in local currency terms.

Real Assets

The Real Assets sector achieved positive returns over December. The Global Real Estate Investment Trusts (REITs) Index increased by 6.0% over the month and the FTSE Global Core Infrastructure 50/50 Index increased by 6.5% (both in AUD hedged terms). Domestic REITs increased by 5.2% over December, whilst Australian Direct Property (NAV) returned 0.5% (one-month lag).

Fixed Interest

Global bond markets were negative over December, with the Barclays Capital Global Aggregate Bond Index (Hedged) returning -0.4% and the FTSE World Government Bond (ex-Australia) Index (Hedged) returning -0.9%. Ten-year bond yields were positive over the month, increasing in the UK (+16bps to 0.97%), the US (+7bps to 1.50%), Germany (+16bps to -0.18%) and Japan (+1bp to 0.07%). Two-year bond yields also rose over the month, increasing in the UK (+20bps to 0.68%), Japan (+4bps to -0.09%), Germany (+12bps to -0.66%) and the US (+19bps to 0.66%).

Returns for Australian bondholders were mixed over December, with 10-year bond yields (-2bps to 1.67%) decreasing, and five-year bond yields (+4bps to 1.34%) and two-year bond yields (+2bps to 0.37%) increasing. Of the Bloomberg Ausbond indices, the Bloomberg Ausbond Inflation produced the highest monthly return of 2.2% whilst the Bloomberg Ausbond Bank Bill and Bloomberg Ausbond Treasury produced the lowest returns, both returning flat.

Currency Markets

The AUD Trade Weighted Index increased to 61.1 over December, up by 1.5% from November. The AUD appreciated against the Pound Sterling (0.2%), Euro (1.5%), Japanese Yen (4.0%), and the US Dollar (2.5%).

Commodities

Iron Ore increased by 16.0%, finishing the month at US$116.0 per metric tonne. The S&P GSCI Commodity Total Return Index increased by 4.9% over the month. Gold prices increased by 2.4% finishing the month at US$1,822.4 per ounce and the oil price increased by 11.4% to US$78.4 per barrel over December.

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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 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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- Certain investments, such as illiquid, leveraged or high-yield instruments or funds and securities issued by small capitalization and emerging market issuers, carry additional risks that should be considered before choosing an investment manager or making an investment decision.
- For higher volatility investments, losses on realisation may be high because their value may fall suddenly and substantially.
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