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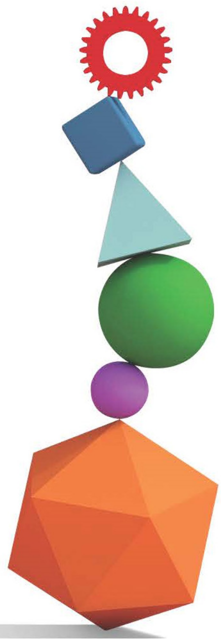
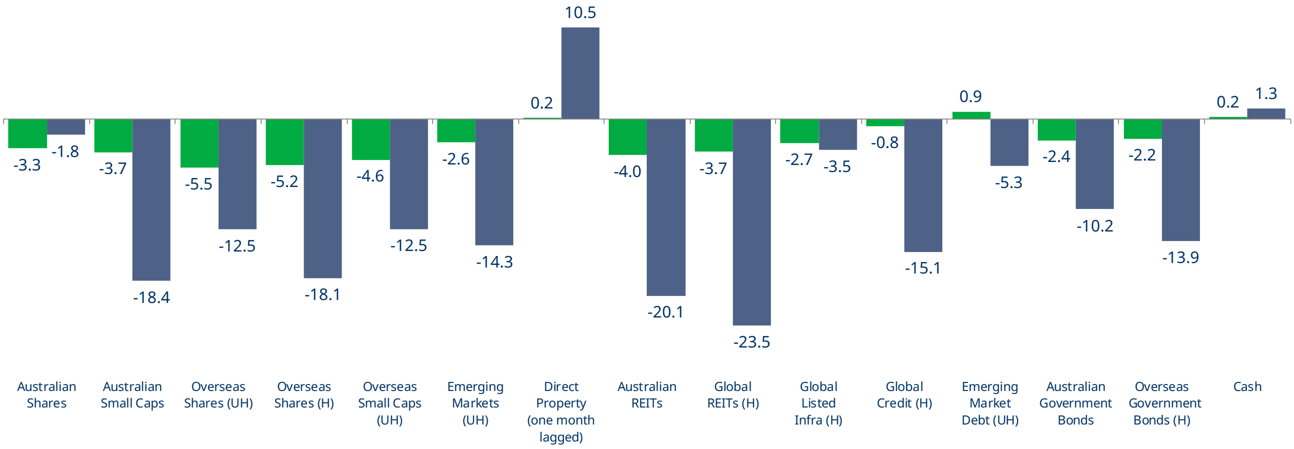
December 2022

Australian monthly market review

Selected market indicators commentary



Asset class returns as at 31 December 2022



Data source: Refinitive Datastream; MSCI. Data provided 'as is' Please see Notes for details.

December was a disappointing end to a bad year for markets. Investors had few places to hide as traditional safe haven assets such as bonds fell in tandem with equities. The final month of the year saw negative returns for equities, commodities and bonds as fears that have driven negative investor sentiment for most of 2022 returned: no end in sight for monetary tightening and uncertainty over the duration and severity of the economic slowdown that started in 2022.

Over December, Hedged Developed Markets Overseas Shares returned -5.2%, following two strong consecutive positive months. For 2022 as a whole, equities had their worst year since 2008. Global equities and the S&P 500 ended the year near bear market territory (defined as a decline of more than 20%), while the NASDAQ ended the year down by over 30% in USD terms.

In December, negative market sentiment returned as investor focus pivoted from favourable inflation trends towards continued monetary tightening and the ongoing economic slowdown, which earnings estimates may not yet fully reflect.

Emerging markets declined to a lesser extent than Overseas and Australian shares, posting a -2.6% decline for the month of December. Weakness in India, Brazil, Taiwan and Korea were offset by strengthening Chinese share as investor sentiment improved amid the rapid reopening of its economy.

Hedged Overseas Government Bonds returned -2.2% over the month as bond yields rose across major regions as fixed income investors positioned for the continuation of monetary tightening following hawkish guidance from all major central banks over the month.

Ten-year US yields rose by 13 basis points to almost 3.9%, while 30-year yields also rose by around 20 basis points to almost 4.0%. Yield movements were more substantial for Germany and the UK where 10 year yields increased by 50-60 basis points. Inflation expectations for the US, as measured by the 10-year inflation breakeven rate, fell from 2.37% to 2.30%.

Australian shares outperformed their Hedged Overseas counterparts in December. The ASX 50 was the top performing Australian index, despite declining -3.0%, meanwhile the ASX mid 50 was the worst performer, declining 4.6%. The best performing sector for the month was Materials (-1.1%) with the big miners BHP, Rio Tinto and Fortescue adding 1.1%, 7.1% and 7.1% respectively, they were also the top three positive contributors to the ASX 300. Meanwhile CBA and Transurban were the largest detractors, declining -4.9% and -8.9% respectively.

Significant Developments

- During its December 2022 meeting, the Reserve Bank of Australia (RBA) decided to increase the current target cash rate by 25 basis points to 3.10% per annum and the interest rate on exchange settlement balances from 2.75% to 3.00%. Inflation in Australia is too high, at 6.9% over the year to October. Global factors explain much of this high inflation, but strong domestic demand relative to the ability of the economy to meet that demand is also playing a role. A further increase in inflation is expected, with inflation forecast to peak at around 8% over the year to the December quarter. Inflation is then expected to decline in 2023. The bank's central forecast is for CPI inflation to decline over the next couple of years to be a little above 3% over 2024. The Australian economy is continuing to grow solidly. Economic growth is expected to moderate over the year ahead as the global economy slows, the bounce-back in spending on services runs its course, and growth in household consumption slows due to tighter financial conditions. The bank's central forecast is for growth of around 1.5% in 2023 and 2024. The labour market remains tight and many firms are having difficulty hiring workers. The unemployment rate declined to 3.4% in October. Employment growth has also slowed as spare capacity in the labour market is absorbed. Wages growth is continuing to pick up from the low rates of recent years and a further pick-up is expected due to the tight labour market and higher inflation. The Board recognises that monetary policy operates with a lag and that the full effect of the increase in interest rates is yet to be felt in mortgage payments. Household spending is expected to slow over the period ahead although the timing and extent of this slowdown is uncertain. Another source of uncertainty is the outlook for the global economy, which has deteriorated. The path to achieving the needed decline in inflation and achieving a soft landing for the economy remains a narrow one. The Board expects to increase interest rates further over the period ahead, but it is not on a pre-set course. It is closely monitoring the global economy, household spending and wage and price-setting behaviour. The size and timing of future interest rate increases will continue to be determined by the incoming data and the Board's assessment of the outlook for inflation and the labour market.
- Australian seasonally adjusted employment increased by 64,000 in November, above expectations for an increase of 19,000 and above the prior month's increase of 32,200. The unemployment rate remained the same in November at 3.4%, in line with expectations of 3.4%. The participation rate increased to 66.8%, above expectations of 66.6%. Part time jobs increased by 29,800 and full time jobs increased by 34,200.
- Australian building approvals decreased by -9.0% month-on-month to November, compared to the decrease of -5.6% (revised) for October.
- The Institute for Supply Management (ISM) Manufacturing Index recorded 48.4 in December, below consensus for 48.5 and below the 49 recorded in November. The two manufacturing industries that reported growth in December were, Primary Metals; and Petroleum & Coal Products. There were 13 industries that recorded contraction in December compared to November. The ISM Services Index recorded 49.6 in December, below consensus for 55 and below the 56.5 recorded in November. Of the 11 services industries, the top performers were Retail Trade; and Health Care & Social Assistance. There were six industries that reported a decrease in the month of December.
- US Non-Farm Payrolls increased by 223,000 in December, below the 263,000 increase recorded for November. The unemployment rate decreased to 3.5% over December, below expectations of 3.7%.
- US GDP third estimate for Q3 2022 is 3.2% quarter on quarter (QoQ) annualised, above expectations of 2.9%.

- US headline consumer price index (CPI) increased to 0.1% MoM and increased to 7.1% YoY in December.
- The Caixin Manufacturing PMI in China recorded 49 in December, below expectations of 49.1, as COVID-19 containment continues to dampen output at the end of 2022.
- The preliminary estimate of the European Core CPI recorded 5.2% over the year to December, above expectations of 5.1%.
- The Eurozone composite PMI increased to 48.8 in December, above expectations for 47.9.
- The final estimate recorded for Q3 2022 Eurozone seasonally adjusted GDP is 0.3% QoQ and 2.3% YoY.

Australian Shares

The Australian share market outperformed its hedged overseas counterpart over the month, as the S&P/ASX300 Index returned -3.3%. The S&P/ASX 50 Accumulation Index was the strongest relative performer, returning -3.0%, while the S&P/ASX Mid 50 Accumulation was the weakest, returning -4.6% over the month.

The best performing sectors were Materials (-1.1%) and Utilities (-1.2%), while the weakest performing sectors were Consumer Discretionary (-7.0%) and IT (-5.6%). The largest positive stock contributors to the index return were BHP, Rio Tinto and Fortescue Metals with absolute returns of 1.1%, 7.1% and 7.1%, respectively. In contrast, the most significant detractors were CBA, Transurban Group and Aristocrat Leisure with absolute returns of -4.9%, -8.9% and -12.8%, respectively.

Overseas Shares

The broad MSCI World ex Australia Accumulation Index returned -5.2% in hedged terms and -5.5% in unhedged terms over the month as the AUD appreciated against the USD and Pound. In AUD terms, the strongest performing sectors were Utilities (-1.1%) and Healthcare (-2.4%), while Consumer Discretionary (-9.7%) and IT (-9.2%) were the weakest performers. In AUD terms, the MSCI Small Caps Total Return Index was down by 4.6%, while the MSCI Emerging Markets Accumulation Index was down by 2.6% over December.

Over the month, the S&P500 Composite Index (-5.8%), the Dow Jones Industrial Average (-4.1%) and the NASDAQ (-8.7%) decreased, all in USD terms. In local currency terms, major European share markets the FTSE 100 (UK) (-1.5%), the DAX 30 (Germany) (-3.3%) and the CAC 40 (France) (-3.8%) all decreased.

In Asia, the Chinese SSE Composite (-2.0%), the Indian S&P BSE 500 (-3.2%), and the Japanese TOPIX (-4.6%) decreased, while the Hong Kong Hang Seng (6.4%) increased, all in local currency terms.

Real Assets

The listed Real Assets sector produced mostly negative returns over December. Over the month, the Global Real Estate Investment Trusts (REITs) Index decreased by 3.7% and the FTSE Global Core Infrastructure 50/50 Index decreased by 2.7% (both in AUD hedged terms). Domestic REITs decreased by 4.0% over December, whilst Australian Direct Property (NAV) returned 0.2% (on a one month lagged basis).

Fixed Interest

Global bond markets were negative over December, with the Barclays Capital Global Aggregate Bond Index (Hedged) returning -1.3% and the FTSE World Government Bond (ex-Australia) Index (Hedged) returning -2.2%. Ten-year bond yields moved higher over the month, increasing in the UK (51bps to 3.67%), Germany (62bps to 2.56%), the US (13bps to 3.83%) and Japan (16bps to 0.41%). Two-year bond yields also rose over the month, increasing in Germany (59bps to 2.68%), Japan (6bps to 0.03%), the UK (43bps to 3.71%) and the US (8bps 4.54%).

Returns for Australian bondholders were negative over December, with 10-year bond yields increasing (52bps to 4.05%), five-year bond yields (42bps to 3.70%) and two-year bond yields (29bps to 3.42%). Of the Bloomberg Ausbond indices, the Bloomberg Ausbond Inflation index produced the lowest monthly return of -2.7% whilst the Bloomberg Ausbond Bank Bill index produced the highest return of 0.2%.

Currency Markets

The AUD Trade Weighted Index decreased to 61.4 over December, down by 1.1% from November. The AUD appreciated against the US Dollar (1.3%) and the Pound Sterling (0.3%), while depreciating against the Euro (-2.3%) and the Japanese Yen (-4.3%).

Commodities

Iron Ore increased by 14.1%, finishing the month at US$117.5 per metric tonne. The S&P GSCI Commodity Total Return Index decreased by 2.6% over the month. Gold prices increased by 3.6% at US$1,815.64 per ounce and the oil price decreased by 0.6% to US$84.92 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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- The value of Gilts, bonds, and other fixed income investments including unit trusts can go down as well as up and you may not get back the amount you have invested.
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- For higher volatility investments, losses on realisation may be high because their value may fall suddenly and substantially.
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