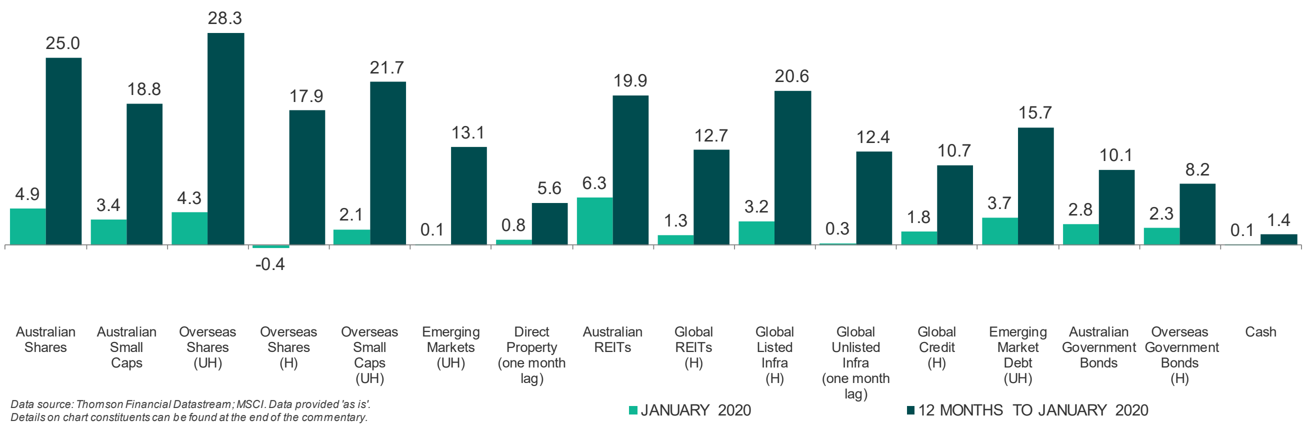
JANUARY 2020

AUSTRALIAN MONTHLY MARKET REVIEW

SELECTED MARKET INDICATORS COMMENTARY

ASSET CLASS RETURNS (%) AS AT 31 JANUARY 2020



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

Global shares closed out the month with losses after reaching fresh highs in mid January 2020. Market sentiment has deteriorated since the coronavirus outbreak in mid January and its potential impacts. Emerging Markets suffered, specifically Latin America and China lagged in anticipation of economic growth fallout. Whilst UK and Japanese share markets fell, US shares were flat, in local currency terms, over January, leading to Hedged Overseas Developed Shares decreasing by 0.4%. The depreciation of the Australian dollar benefited unhedged investors. Bond markets did well over January as headwinds from the coronavirus prompted a rally for defensive bonds. Tech and utilities were the top performers while energy lost ground.

The impact of the coronavirus outbreak will most likely supress growth in the first half of the year. Early estimates suggest the detraction in Chinese growth for the first quarter of 2020 will range from 1.0% to 2.0% which implies around 0.2% to 0.4% negative drag on global GDP growth. Industrial activity is likely to be disrupted with factories delaying their starts. Manufacturing sectors remain in recession across most parts of the world but data has stabilised and might improve.

Geopolitical tensions eased modestly over the month as the US and China signed their "Phase One" trade agreement in mid-January after more than 18 months of negotiations.

Brexit also took place on 31 January as Britain and the European Union have taken first steps towards negotiating a new trade deal, after three years of dispute. The IMF predicts that global growth will accelerate in 2020 to 3.3% and 3.4% in 2021. Major central banks left policies unchanged in January.

Defensive assets rallied as shares were sold off with Overseas Government Bonds returning 2.3%. In the US, Treasury yields fell for longer maturities as the yield curve flattened. The 30-year Treasury yield finished January at 1.99%.

The Australian share market rallied strongly over January, with the S&P/ASX300 returning 4.9%, significantly outperforming its hedged international counterpart by 5.3%. Domestic small caps also displayed positive performance, returning 3.4%. Healthcare (+12.0%) and IT (+10.2%) were the best performing sectors, while the weakest performing sectors were Energy (0.6%) and Utilities (1.0%).

SIGNIFICANT DEVELOPMENTS

- The Reserve Bank of Australia (RBA) has again decided to leave the cash rate unchanged in its early February meeting at 0.75% per annum (pa). Governor, Philip Lowe, noted that the outlook for the global economy remains reasonable, with signs that the slowdown in global growth is coming to an end. Interest rates around the world are very low and a number of central banks around the world have eased monetary policy over the second half of 2019 in response to the subdued inflationary environment. Employment growth has continued strongly, with the unemployment rate declining to 5.1% in December. The unemployment rate is expected to remain at this level for some time, before dropping to just under 5.0% in 2021. Inflation pressures remain subdued and this is likely to continue for some time. Over 2019, CPI inflation was 1.8%. The RBA estimates both headline and underlying inflation to be close to 2.0% in 2020 and 2021.

  There are further signs of a pick-up in house prices in Sydney and Melbourne, despite the growth in housing credit remaining low. The easy monetary policy over the past year has lowered the exchange rate, supporting activity across a range of industries. The Board has noted that it is reasonable to expect an extended period of low interest rates in order to reach full employment and achieve the inflation target in Australia.
- Australian seasonally adjusted employment increased by 28,900 in December, above expectations for a 10,000 rise while November figures were revised to an increase of 38,500. The unemployment rate decreased to 5.1% for December, below expectations for 5.2%. The participation rate remained at 66.0%, in line with expectations. Part time jobs increased by 29,200 and full time jobs decreased by 300.
- Australian building approvals decreased 0.2% month-on-month, but were up 2.7% for the year to December, compared to previous levels of 10.9% and -2.8% (revised) for respective periods ending November.
- The Institute for Supply Management (ISM) Manufacturing Index recorded 50.9 in January, above consensus for 48.5, and above the 47.8 recorded in December. Of the 18 manufacturing industries, Furniture & Related Products and Wood Products were the top contributors, whilst Printing & Related Support Activities and Apparel, Leather & Allied Products were the largest detractors over the month. The ISM Non-Manufacturing Index recorded 55.5 in January, above consensus for 55.1 and above the 54.9 recorded in December. Of the 18 non-manufacturing industries, the top performers in January were Agriculture, Forestry, Fishing & Hunting and Management of Companies & Support Services, while Transportation & Warehousing and Wholesale Trade were the industries which reported the biggest decreases over the month.
- US Non-Farm Payrolls increased by 225,000 in January, above the previous 147,000 increase (revised) for December. The unemployment rate increased to 3.6% over January.
- US gross domestic product (GDP) advanced estimate for Q4 2019 is 2.1% quarter on quarter (QoQ) annualised, above expectations for 2.0%.

- The Caixin Manufacturing PMI in China recorded 51.1 in January, above expectations for 51.0. Whilst remaining above the neutral 50.0 mark, the indicator signalled only a marginal improvement in the health of China's manufacturing sector.
- A preliminary estimate of the European Core Consumer Price Index (CPI) recorded 1.1% over the year to January, below expectations for 1.2%.
- The Eurozone composite PMI increased to 51.3 in January, above expectations for 50.9.
- The advanced estimate recorded for Q4 2019 Eurozone seasonally adjusted GDP is 1.0% for year-on-year (YoY) and 0.1% QoQ.

AUSTRALIAN EQUITIES

The Australian share market outperformed its hedged overseas counterpart index over the month, as the S&P/ASX 300 Index returned 4.9%. The S&P/ASX 50 was the strongest relative performer, increasing 5.1%, while the S&P/ASX Small Ordinaries was the weakest, increasing 3.4% over the month.

The best performing sectors were Healthcare (+12.0%) and Information Technology (+10.2%), while the weakest performing sectors were Energy (+0.6%) and Utilities (+1.0%). The largest positive stock contributors to the index return were CSL, CBA and Woolworths with absolute returns of 13.3%, 6.7% and 15.7% respectively. In contrast, the most significant detractors were Treasury Wine Estates, IAG and Qantas with absolute returns of -19.6%, -7.2% and -9.6%, respectively.

GLOBAL EQUITIES

The broad MSCI World ex Australia (NR) Index increased 4.3% in unhedged terms and decreased 0.4% in hedged terms over the month, as the Australian dollar (AUD) depreciated against most major currencies. The strongest performing sectors were Utilities (+11.0%) and Information Technology (+8.5%), while Energy (-4.5%) and Materials (-0.8%) were the worst performers. In AUD terms, the Global Small Cap index was up 2.1% and Emerging Market index was up 0.1% over January.

Over January, the NASDAQ increased 2.0%, the S&P 500 Composite Index returned flat and the Dow Jones Industrial Average decreased 0.9%, all in USD terms.

In local currency terms, major European share markets experienced negative returns as the CAC 40 (France) decreased 2.7%, the DAX 30 (Germany) decreased 2.0% and the FTSE 100 (UK) decreased 3.4%. Returns were also negative in Asia, as the Japanese TOPIX (-2.1%), the Indian S&P BSE 500 (-0.1%), Hang Seng (-6.7%) and the Chinese SSE Composite (-2.4%) decreased over January.

REAL ASSETS

The Real Assets sector experienced positive returns over January. The FTSE Global Core Infrastructure Index rose by 3.2% and the Global Real Estate Investment Trusts (REITs) Index increased by 1.3% over the month (both in AUD hedged terms). Domestic REITs increased 6.3% over January while Australian Direct Property (NAV) returned 0.8% on a one-month lagged basis.

FIXED INTEREST

Global bond markets were broadly positive over January as yields decreased across most major regions. The Barclays Capital Global Aggregate Bond Index (Hedged) increased 1.8% over the month and the FTSE World Government Bond (ex-Australia) Index (Hedged) increased 2.3%. Ten-year bond yields decreased in the US (-40bps to 1.52%), Japan (-5bps to -0.06%), Germany (-29bps to -0.47%) and the UK (-31bps to 0.52%). Two-year bond yields experienced negative movements over the month with German (-7bps to -0.67%), Japanese (-3bps to -0.15%), US (-24bps to 1.34%) and UK (-3bps to 0.51%) bond yields decreasing.

Returns for domestic bondholders were positive over January, with 10-year yields (-42bps to 0.96%), five-year yields (-34bps to 0.71%) and two-year yields (-27bps to 0.67%) all decreasing. Of the Bloomberg Ausbond indices, the Inflation index produced the highest return, increasing 3.5% over the month.

CURRENCY MARKETS

The AUD Trade Weighted Index decreased to 58.1 over January, down by 3.6% from the previous month. The AUD depreciated against most major currencies, including the Euro (-2.5%), Japanese Yen (-3.7%), US dollar (-4.8%) and Pound Sterling (-3.9%).

COMMODITIES

Iron Ore increased 4.9% over January, finishing the month at US$96.5 per metric tonne.
The S&P GSCI Commodity Total Return Index decreased 6.4% over the month. Gold prices finished the month at US$1,586.70 per ounce, increasing 4.4% over the period and the oil price decreased 12.2% to US$58.23 per barrel over 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 Unlisted Infrastructure (one month lag)	Mercer Global Unlisted Infrastructure Fund	Gross 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