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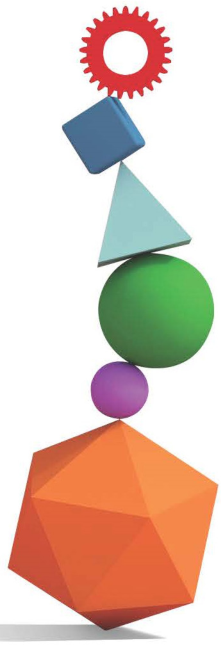
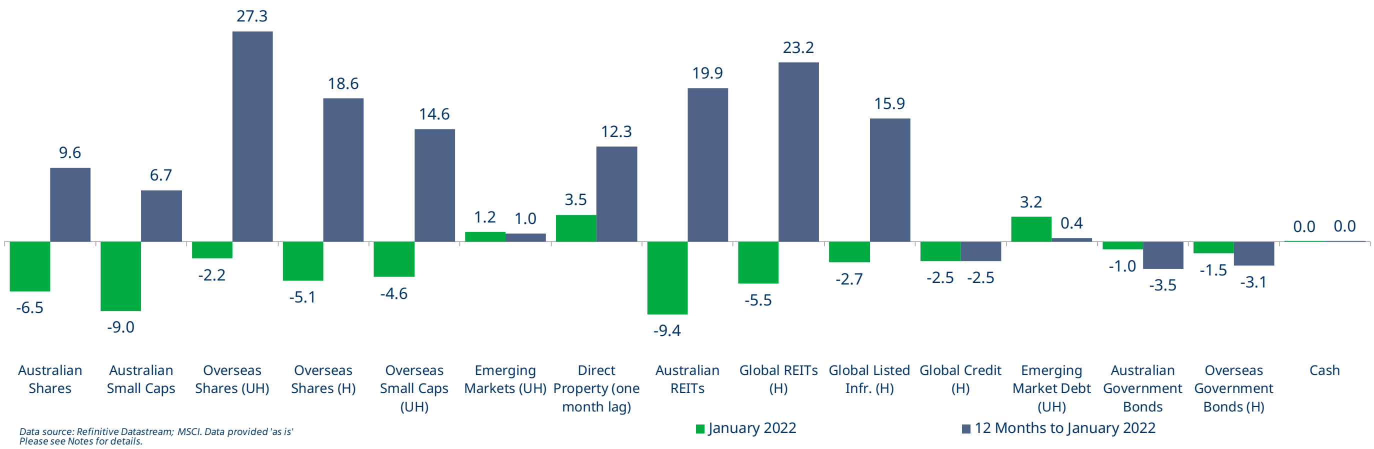


January 2022

Australian monthly market review

Selected market indicators commentary

Asset class returns as at 31 January 2022



The start of this year began with a selloff in equities as market volatility spiked over geopolitical concerns and the planned acceleration in monetary tightening as inflation continued to soar. COVID-19 also played a role in the elevated volatility experienced over the month, as reluctance by consumers to go out hit the services industry, while mandatory quarantines intensified labour shortages and lead to disruptions in some sectors, such as airlines.

Over January, Hedged Developed Market Overseas Shares returned -5.1% as technology stocks lead the decline. US equities were the worst performing region over the month, largely due to their high exposure to growth and technology stocks.

Unhedged Emerging Market Shares outperformed over January, returning 1.2%, as rising commodity prices benefited exporting nations such as Brazil, while policy easing in China was an additional tailwind. Russian markets sold off heavily over the month amid the standoff with Ukraine and fears of western sanctions.

Hedged Overseas Government Bonds returned -1.5% over the month, as 10-year government bond yields for major developed markets ended the month higher. Australian 10-year government bond yields moved in the same direction, increasing by 21bps to 1.88% and the Bloomberg Ausbond Treasury Index returned -1.0% over the month.

Inflation remained at multi decade highs for most large economies, with China being an exception. Another large increase in oil prices and continuing wage pressures in tight labour markets has kept inflation elevated. This has caused central banks around the world to project a more hawkish stance. The US Federal Reserve hinted an end of quantitative easing in March 2022 and the likelihood of interest rate hikes over 2022. Markets are pricing in up to five US interest rate hikes and are also expecting rate hikes in the UK this year.

Australian Shares posted negative performance over January, with the S&P/ASX 300 returning -6.5%. All other domestic indices provided similar negative returns, with the S&P/ASX Small Ordinaries returning -9.0% over the month. The best performing sectors were Energy (7.5%) and Utilities (2.6%), driven by rising energy prices. The worst performing sector for the second consecutive month was IT (-17.1%) as evidenced by the relative performance of software companies, Wisetech Global (-16.2%) and Xero (-13.7%).

Significant Developments

- During its early February 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 at zero. The RBA also decided to cease its bond purchasing program on February 10th. The Omicron outbreak has affected the economy, but it has not derailed the economic recovery. The RBA's central forecast is for GDP growth of around 4.25% over 2022 and 2.0% over 2023. The main source of uncertainty continues to be the pandemic. The labour market has recovered strongly, with the unemployment rate declining to 4.2% in December. Wages growth has picked up and a further pick-up is expected as the labour market tightens. Inflation has picked up quicker than expected, but remains lower than in many other countries. The headline CPI inflation rate is 3.5% and is being affected by higher petrol prices, higher prices for newly constructed homes and the disruptions to global supply chains. In underlying terms, inflation is 2.6%. The central forecast is for underlying inflation to increase further in coming quarters to around 3.25%, before declining to around 2.75% over 2023. The Australian dollar exchange rate is around its lows of the past year. The decision to end purchases under the bond purchase program follows a review of the actions of other central banks, the functioning of Australia's bond market and the progress towards the goals of full employment and inflation consistent with target. 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. While inflation has picked up, it is too early to conclude that it is sustainably within the target band.
- Australian seasonally adjusted employment increased by 64,800 in December, above expectations for an increase of 60,000 and below the prior month's increase of 366,100. The unemployment rate decreased to 4.2% for December, below expectations for 4.5%. The participation rate stayed the same at 66.1%, below expectations of 66.2%. Part time jobs increased by 23,300 and full time jobs increased by 41,500.
- Australian building approvals increased by 8.2% month-on-month to December, compared to the increase of 2.6% (revised) for November.
- The Institute for Supply Management (ISM) Manufacturing Index recorded 57.6 in January, above consensus for 57.5 and below the 58.7 recorded in December. Of the 18 manufacturing industries, Apparel, Leather & Allied Products and Furniture & Related Products were the two industries that reported the highest growth. The only industry that reported a contraction over the January period were Paper Products. The ISM Services Index recorded 59.9 in January, in line with consensus and below the 62 recorded in December. Of the 18 services industries, the top performers were Construction and Retail Trade. The three industries reporting a decrease in January were Agriculture, Forestry, Fishing & Hunting; Arts, Entertainment & Recreation; and Information.
- US Non-Farm Payrolls increased by 467,000 in January, below the 510,000 increase (revised) recorded for December. The unemployment rate increased to 4.0% over January, above expectations of 3.9%.
- US GDP first estimate for Q4 2021 is 6.9% quarter on quarter (QoQ) annualised, above expectations of 5.5%.

- The Caixin Manufacturing PMI in China recorded 49.1 in January, below expectations of 50, as the Manufacturing sector performance was dampened by the latest wave of COVID-19.
- The preliminary estimate of the European Core CPI recorded 2.3% over the year to January, above expectations of 1.9%.
- The Eurozone composite PMI decreased to 52.3 in January, below expectations for 52.4.
- The first estimate recorded for Q4 2021 Eurozone seasonally adjusted GDP is 0.3% QoQ and 4.6% YoY.

Australian Shares

The Australian share market underperformed its hedged overseas counterpart over the month, as the S&P/ASX 300 Index returned -6.5%. The S&P/ASX 50 Accumulation Index was the strongest relative performer, returning -5.6%, while the S&P/ASX Small Ordinaries was the weakest, returning -9.0% over the month.

The best performing sectors were Energy (7.5%) and Utilities (2.6%), while the weakest performing sectors were IT (-17.1%) and Healthcare (-12.1%). The largest positive stock contributors to the index return were BHP Group, Rio Tinto and Woodside Petroleum with absolute returns of 12.5%, 12.2% and 14.5%, respectively. In contrast, the most significant detractors were CSL, Wesfarmers and Macquarie Group with absolute returns of -10.4%, -10.9% and -10.4%, respectively.

Overseas Shares

The broad MSCI World ex Australia (NR) Index returned -2.2% in unhedged terms and -5.1% in hedged terms over the month. In AUD terms, the strongest performing sectors were Energy (19.4%) and Financials (4.3%), while Consumer Discretionary (-5.5%) and Information Technology (-5.5%) were the weakest performers. In AUD terms, the MSCI Small Caps (TR) Index was down by 4.6%, while the MSCI Emerging Markets (NR) Index was up by 1.2% over January.

Over the month, the NASDAQ (-9.0%), the S&P 500 Composite Index (-5.2%) and the Dow Jones Industrial Average (-3.2%) decreased, all in USD terms. In local currency terms, major European share markets experienced mixed returns as the FTSE 100 (UK) (1.1%) increased, while the CAC 40 (France) (-2.0%) and the DAX 30 (Germany) (-2.6%) decreased. In Asia, the Chinese SSE Composite (-7.6%), the Indian S&P BSE 500 (-0.4%) and the Japanese TOPIX (-4.8%) decreased, whilst the Hong Kong Hang Seng (1.7%) increased, all in local currency terms.

Real Assets

The Real Assets sector produced broadly negative returns over January. The Global Real Estate Investment Trusts (REITs) Index decreased by 5.5% over the month and the FTSE Global Core Infrastructure 50/50 Index decreased by 2.7% (both in AUD hedged terms). Domestic REITs decreased by 9.4% over January, whilst Australian Direct Property (NAV) returned 3.5% (one-month lag).

Fixed Interest

Global bond markets were negative over January, with the Barclays Capital Global Aggregate Bond Index (Hedged) returning -1.6% and the FTSE World Government Bond (ex-Australia) Index (Hedged) returning -1.5%. Ten-year bond yields moved higher over the month, increasing in the UK (34bps to 1.31%), the US (28bps to 1.78%), Germany (15bps to -0.03%) and Japan (9bps to 0.16%). Two-year bond yields also rose over the month, increasing in the UK (36bps to 1.04%), Japan (4bps to -0.05%), Germany (10bps to -0.56%) and the US (49bps to 1.15%).

Returns for Australian bondholders were negative over January, with 10-year bond yields (21bps to 1.88%), five-year bond yields (21bps to 1.55%) and two-year bond yields (55bps to 0.92%) increasing. Of the Bloomberg Ausbond indices, the Bloomberg Ausbond Bank Bill produced the highest monthly return, returning flat whilst the Bloomberg Ausbond Semi-Government produced the lowest return of -1.3%.

Currency Markets

The AUD Trade Weighted Index decreased to 59.3 over January, down by 2.9% from December. The AUD depreciated against the Pound Sterling (-2.2%), Euro (-1.7%), Japanese Yen (-3.0%), and the US Dollar (-3.1%).

Commodities

Iron Ore increased by 23.7%, finishing the month at US$143.5 per metric tonne. The S&P GSCI Commodity Total Return Index increased by 15.2% over the month. Gold prices decreased by 1.4% finishing the month at US$1,796.7 per ounce and the oil price increased by 16.5% to US$91.4 per barrel over January.

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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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- For higher volatility investments, losses on realisation may be high because their value may fall suddenly and substantially.
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