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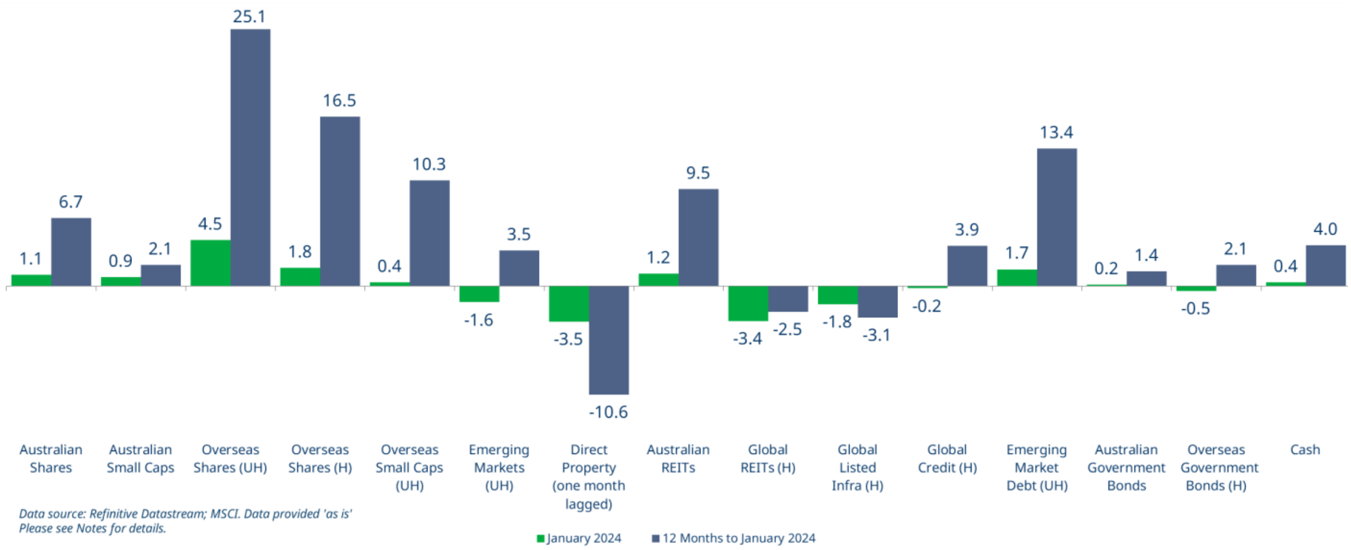
January 2024

Monthly market review

Asset class returns as at 31 January 2024



Economic overview

The latest NAB Business Survey showed signs of easing business conditions, particularly in manufacturing and construction but also in trading conditions, employment, and capacity utilisation. Retail sales also witnessed a decline in December 2023, indicating a softer picture in consumer spending. This was also evident in consumer inflation (Consumer Price Index (CPI)) which saw the smallest quarterly rise since the March quarter of 2021. That said, house prices continued to rise, supported by a tight labour market and population growth, marking the 12th consecutive month of rising property values. Consequently, the Reserve Bank of Australia (RBA) decided to leave interest rates unchanged at 4.35% p.a. and warned that “a further increase in interest rates cannot be ruled out”.

Business activity in the Eurozone remains weak, with surveys of both manufacturing and services companies indicating declining business conditions. The inflation rate rose in December, primarily driven by energy-related base effects, while the core inflation rate continued to cool.

In contrast, economic data in the US remains resilient, particularly in the services sector, with positive growth indicated by the US Institute for Supply Management (ISM) Services Purchasing Manager's Index for December.

The European Central Bank (ECB) also kept interest rates unchanged, noting that the uptick in December inflation was expected. The Bank of Japan (BoJ) maintained its ultra-easy monetary policy and readiness to implement additional easing measures if necessary.

The Federal Reserve (Fed) kept interest rates steady at 5.25 - 5.50% p.a. for the fourth consecutive meeting, citing high inflation and indicated an interest rate cut in March was also unlikely. Similarly, the European Central Bank (ECB) also kept interest rates unchanged, noting that the uptick in December inflation was expected. The Bank of Japan (BoJ) maintained its ultra-easy monetary policy and readiness to implement additional easing measures if necessary.

Market review

Global equities experienced widespread gains in January, driven by resilient economic data in the US and the Fed's indication of potential rate cuts. The Australian share market also saw an increase in line with the global trend.

Government bond yields generally increased in January, despite a sharp decline in the last week of the month. The US 10-year yield rose, driven by strong US economic data. The Australian 10-year yield followed the global trend. The Australian dollar depreciated against the strengthening US dollar, influenced by easing expectations of US rate cuts and ongoing tensions in the Middle East.

Commodity markets had a mixed performance. Oil prices rebounded with their first monthly gain in five months, increasing to US$81.93 per barrel in January, driven by better than expected economic data, forecast growth in demand and a decline in supply. Copper prices remained relatively stable, while gold prices rebounded towards the end of the month due to concerns in the US banking sector and a decline in US Treasury yields, prompting some investors to seek safer assets, like gold.

Market insights

The economic growth in Australia is expected to slow down as factors that have supported growth, such as household savings and low interest rates, gradually diminish. Inflation is also expected to slow down, although pressures from the residential rental markets may cause it to slow down less rapidly compared to other developed economies. The risks of a more pronounced slowdown in activity appears more likely than currently anticipated by markets. While the market predicts just over two interest rate cuts in 2024, we believe that more cuts are likely and will occur sooner.

Globally, we expect growth to remain resilient, although it will vary across regions. The United States is anticipated to experience a moderation in growth due to less supportive fiscal policy, tighter financial conditions, and the impact of higher interest rates. However, a recession is not anticipated due to the strength of household and corporate balance sheets, as well as the resilience of the US services sector. The Eurozone is expected to see a modest improvement in growth driven by lower inflation and an increase in global manufacturing activity. China is also expected to experience stronger growth, supported by favourable fiscal, monetary, and regulatory policies, as well as a recovery in the manufacturing inventory cycle and potential stabilisation in the housing sector, whilst other emerging economies are anticipated to benefit from their central banks implementing looser monetary policy measures.

From an asset class perspective, we hold a cautious view on developed markets due to their rich valuations and optimistic earnings outlook. We have a favourable view on emerging markets, which offer attractive valuations and more promising economic prospects. In the domestic market, considering the relative risks associated with interest rate expectations, we have a favourable view on Australian Sovereign bonds, despite the persisting risks posed by the volatility of global sovereign bond markets and their impact on our market.

Asset Class comments

Australian Shares

The S&P/ASX 300 advanced 1.1% in January in a broad-based rally, except for the Materials and Utilities sectors which experienced declines during this period. The Financials sector played a significant role in driving index performance, returning 5.0%, driven by interest rate cut expectations and optimism for a soft economic landing outcome. Commonwealth Bank, a heavyweight in the index, was the largest individual contributor to index performance over the period. The Energy sector experienced a positive performance in January, benefiting from the first monthly gain in oil prices since September 2023, driven by concerns over supply due to a widening conflict in the Middle East. Healthcare performance was also positive over the month, bolstered by ResMed’s strong performance, with the company rallying on margin improvement coupled with weakened competition, as its largest global peer continues to encounter regulatory hurdles. Conversely, the Materials sector (-5.0%) lagged in January, primarily due to a deteriorating outlook on Chinese demand which continued to negatively impact the sector. Furthermore, the Utilities sector also saw a lesser decline of -1.5%, driven by a softening in electricity prices and a rating downgrade of some of the companies in the sector.

The S&P/ASX Small Ordinaries index also delivered a positive return of 0.9% but underperformed the S&P/ASX 300 in January. The Energy sector, led by uranium companies in the index emerged as the strongest performance for the month. Conversely, the Materials sector was among the largest detractors within the index, as the deepening decline in lithium prices weighted heavily.

Overseas Shares

The MSCI World ex Australia Index delivered strong performance in January, delivering a return of 1.8% in hedged terms and 4.5% in unhedged Australian Dollar (AUD) terms. The US played a significant role in driving index performance, supported by robust earnings results and positive manufacturing and services PMI readings for January. These factors have instilled hope among investors that the US economy has successfully avoided a severe recession, leading to a rally in US equities during the period, primarily driven by the performance of the Magnificent Seven companies.

From a style perspective, Growth stocks outperformed Value stocks in January. The mega-cap names contributed nearly a quarter of the index's returns during the period, with these companies continuing to report better-than-expected earnings. The returns were further boosted in AUD terms by the strengthening of the US Dollar. On sectors, the Information Technology sector exhibited a robust return of 7.4%, fuelled by advancements in semiconductor companies and a renewed sense of optimism in artificial intelligence. The positive performance of semiconductor companies was widespread, with Taiwan Semiconductor Manufacturing Co, the world's largest chipmaker, also experiencing gains after reporting better-than-expected earnings and revenue for the December quarter. Additionally, Communication Services (7.7%) and Healthcare (6.0%) sectors maintained their strong performance during this period. Conversely, the Materials sector underperformed in January, declining by -1.3%. The sector closely mirrored the softening commodity prices, particularly in battery minerals, which faced a downturn due to a weakening outlook for electric vehicle demand. Similarly, the Real Estate sector experienced negative performance during the period, returning -1.5%.

The MSCI Emerging Markets Index recorded a negative return of -1.6% in January, falling behind developed global equity markets, with Chinese equities remaining a significant headwind to index performance. Despite the persistent rally in Indian equities, it was not sufficient to counterbalance the underperformance observed in Chinese and Hong Kong equity markets.

From a country perspective, the risk-on sentiment was evident in the outperformance of the US market, with the S&P 500 Index (1.7%), the Dow Jones Industrial Average (1.3%), and the NASDAQ Composite Index (1.0%), all showing gains in USD terms. Similarly, European markets were mostly positive (in local currency terms), with the CAC 40 (France, 1.6%), DAX 30 (Germany, 0.9%), performing positively over the month. However, the FTSE 100 Index (UK, -1.3%) ended the month lower. Across Asia, equity returns were mixed, with the TOPIX (Japan, 7.8%) and S&P BSE 500 (India, 1.9%) experiencing positive returns in local currency terms. Meanwhile, the Hang Seng (Hong Kong, -9.2%) and the SSE Composite (China, -6.3%) faced significant challenges during the period. Despite a series of stimulus measures, China continues to grapple with a range of economic challenges such as increasing debt levels and unfavourable demographic trends. The collapse of property giant Evergrande further exacerbated these challenges, adding stress to the market.

Real Assets

Domestic listed property (S&P/ASX 300 A-REIT Accumulation Index) increased by 1.2% in January, slightly outperforming general equities. However, global listed property (FTSE EPRA/ NAREIT Developed, AUD hedged) declined by -3.4%, with the tempering of rate cut expectations in 2024 for the US weighing on the market.

The FTSE Global Core Infrastructure 50/50 Index returned -1.8% in January (in hedged AUD terms). Similarly, the Australian unlisted property sector (MSCI/Mercer Core Wholesale Property Fund Index – NAV Pre Fee) experienced a decline of -3.5% in gross total return in December. This decline was primarily driven by negative revaluation movements across all sectors as valuers continue to adjust valuation metrics in response to expectations of higher interest rates for longer and ongoing economic and capital market volatility.

Fixed Interest

Despite a sharp decline in yields towards the end of the month, global sovereign bond performance was negative in most regions in January. Yields on 10-year government bonds increased in the US (8bps to 3.95% p.a.), Germany (10bps to 2.13% p.a.), the UK (27bps to 3.84% p.a.), and Japan (8bps to 0.70% p.a.). This increase was a result of the correction in expectations of an early monetary policy ease. Central banks delivered less dovish messages following recent economic data, leading to a reassessment of the probability of rate cuts in 2024. The US 10-year government bond yield experienced a sharp decline towards the month end, driven by the Fed maintaining the policy rate unchanged and Powell statement that an interest rate cut was unlikely to occur in the March meeting but could potentially happen later in the year. Similarly, Japanese 10 year bond yields ended the month higher, following comments from the Bank of Japan's Governor Kazuo Ueda that the likelihood of achieving the country's inflation target was increasing, which led to speculation of a potential policy shift. Finally, in Europe, bond yields rose after repricing of market bets on rate cuts and comments from Lagarde that it was too early to consider rate cuts.

The FTSE World Government Bond (ex-Australia) Index and the Bloomberg Global Aggregate Bond Index returned -0.5% and -0.2% respectively in January, on a fully hedged basis. The main driver across markets were speculation around policy rate cuts, while spreads remained flat to positive. The US observed the highest ever January supply of corporate issuances.

Domestically, the 10-year bond yield, broadly moved in line with global markets, ending the month 9bps higher at 4.05% p.a. Consequently, the Bloomberg Ausbond Treasury Index gained 0.2%. The domestic credit market, as tracked by the Bloomberg Ausbond Credit Index, also experienced gains, returning 0.4% during the month. Towards the end of the month, bond yields declined sharply, driven by the decrease in retail sales and inflation figures, which point to a softer economic condition in Australia.

Currency Markets

The AUD depreciated against most major developed market currencies in January. The AUD was weaker against a strengthening US Dollar (-3.1%), as expectations for US rate cuts eased following strong-than-expected economic data in the US and Powell ruling out a March rate cut at his January media conference. Furthermore, increased tension in the Middle East at the beginning of January also contributed to the AUD's depreciation.

Weaker commodity prices, particularly iron ore prices, coupled with the weaker economic data in Australia, including slower inflation data, contributed to the depreciated of the AUD against the UK Pound (-3.0%) and Euro (-1.5%). On a trade-weighted basis, the local currency exhibited a decrease of -1.9% in January. However, the AUD witnessed appreciation against the Yen (+0.4%), supported by the backdrop of lower interest rates in Japan.

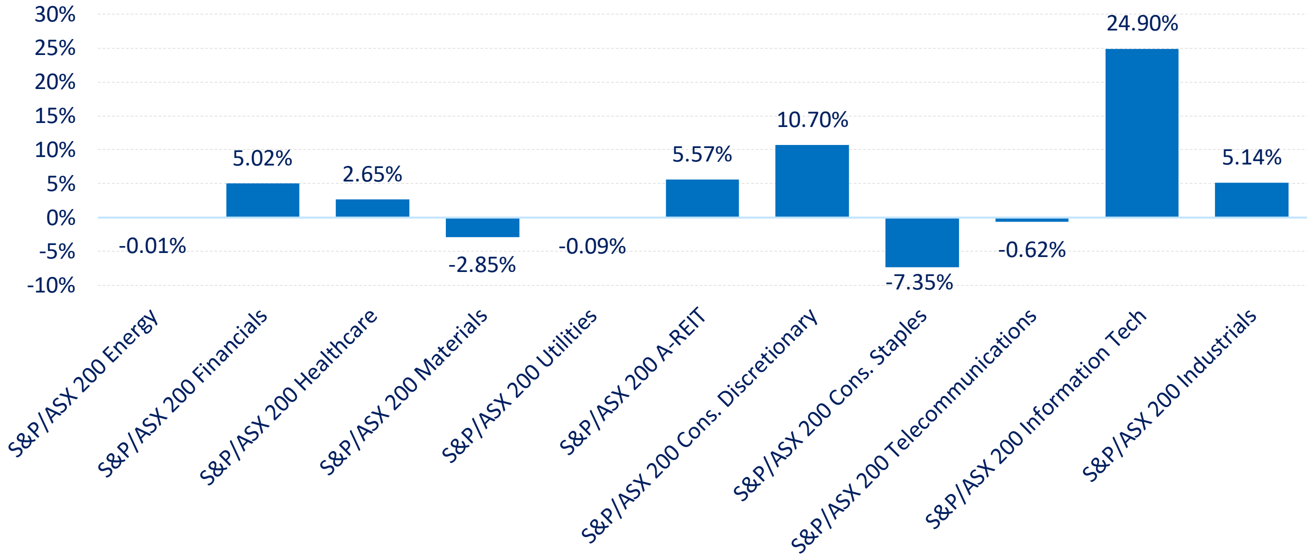
Commodities

The S&P GSCI Commodity Total Return Index witnessed a notable increase of 7.8% in January. This rise was largely influenced by the energy sector, particularly the surge in oil prices (measured by Brent Crude) which climbed by 5.5% to US$81.93 per barrel. The oil price hike is partly attributed to the US economic data revealing better-than-anticipated growth for the December quarter, and as tensions in the Red Sea continued to disrupt global trade. Additionally, the increase in price was also partly attributed to the International Energy Agency (IEA) aligning with the producer group OPEC in forecasting strong growth in global oil demand. On the supply side, cold winter weather disrupted crude output in the US, with the US government also reporting a significant weekly decline in crude inventories. Furthermore, Saudi Arabia's state-controlled company Aramco, which is the largest exporter of crude oil globally, has recently announced a pause in its plans to increase its crude production capacity. The initial plan, announced in 2020, aimed to raise the capacity by 1 million barrels per day (bpd) from 12 million bpd to 13 million bpd.

Meanwhile, in the realm of industrial metals, Iron Ore ended the month lower by -6.7%, as the USD strengthened following robust economic data, adding to the existing downward pressure caused by concerns about demand in China, which was further amplified by the collapse of property giant Evergrande, and weaker economic activities in Germany. Copper prices (S&P GSCI Copper) remained relatively stable, with a slight increase of 0.6% over the month. Similarly, Gold prices, which have been hovering near its highest levels, experienced a decrease of -0.8% to US$2,048.35 per ounce by the end of the month. Toward the end of January, Gold price experienced a rebound, driven by a sharp decline in US Treasury yields and concerns surrounding regional US lender New York Community Bancorp which prompted a rush towards safer assets for some of the investors.

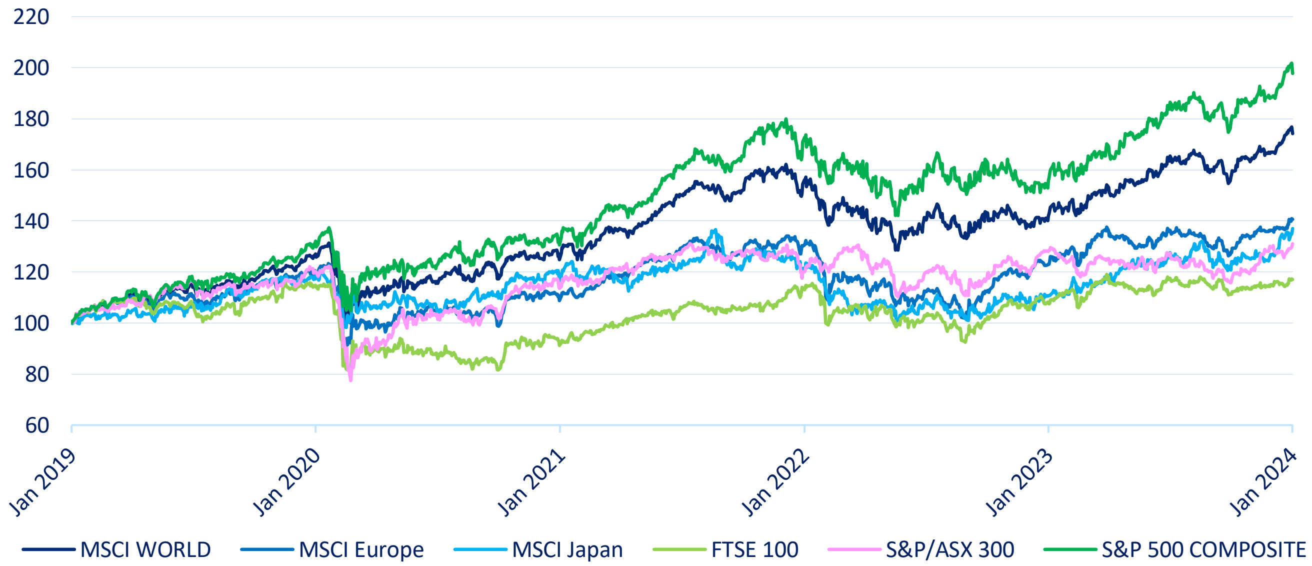
Market Charts

ASX Sector Returns - Rolling 12 months to January 2024



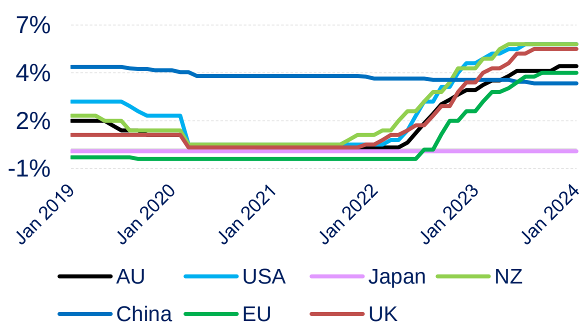
Source: S&P Global

Global Equity Indices (5 years)



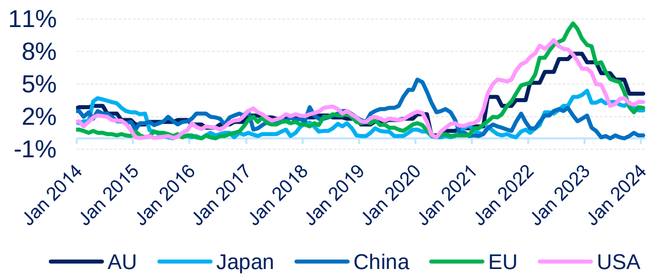
Source: MSCI, Refinitive DataStream (Rebased to 100. All returns denominated in AUD).

Central Bank Policy Rates - 5 years



Source: Bloomberg

Inflation (10 years)



Source: Refinitiv, Australian Bureau of Statistics, Ministry of Internal Affairs & Communication (Japan), National Bureau of Statistics of China, Eurostat, Bureau of Labor Statistics, U.S. Department of Labor

Market Data – January 2024

Australian shares	1 Month	3 Months	1 Year	3 Years	5 Years
S&P/ASX 300 Accumulation	1.10%	13.89%	6.66%	9.27%	9.67%
S&P/ASX 300 Industrials Accumulation	2.91%	17.14%	9.20%	8.03%	8.76%
S&P/ASX 300 Resources Accumulation	-3.69%	5.58%	0.20%	13.08%	12.65%
S&P/ASX 300 Accumulation A-REIT	1.21%	25.07%	9.48%	7.79%	5.42%
S&P/ASX Small Ords Accumulation	0.90%	15.80%	2.10%	1.33%	5.44%

Global shares	1 Month	3 Months	1 Year	3 Years	5 Years
MSCI World ex Australia Unhedged in $A	4.52%	11.16%	25.09%	13.62%	13.68%
EPRA/NAREIT Developed Index Hedged A$	-3.43%	13.97%	-3.53%	0.72%	-0.69%
STOXX Europe 600 Total Return	1.39%	11.99%	7.16%	7.05%	6.25%
S&P 500 Total Return	1.68%	16.01%	20.82%	10.99%	14.30%
Nikkei 225 Total Return	8.44%	17.80%	35.60%	11.67%	14.06%

Fixed interest	1 Month	3 Months	1 Year	3 Years	5 Years
Bloomberg AusBond Bank Bill Index	0.37%	1.09%	4.00%	1.83%	1.44%
Bloomberg AusBond Composite (0+Y)	0.21%	5.96%	2.45%	-2.49%	0.56%
Barclays Global Aggregate TR Hedged A$	-0.31%	5.98%	2.82%	-3.02%	0.23%

Commodities	Month End Price	1 Month	3 Months	1 Year	3 Years	5 Years
Bloomberg Commodity Index	98.5602	-0.09%	-5.79%	-11.84%	7.16%	4.07%
Generic Brent Crude Oil	81.71	6.06%	-6.52%	-3.29%	13.50%	5.71%
Generic WTI Crude Oil	75.85	5.86%	-6.38%	-3.83%	13.26%	7.12%
Gold US$/oz	2039.52	-1.14%	2.80%	5.76%	3.35%	9.07%
Iron Ore	129.47	-1.77%	9.03%	9.84%	-6.04%	10.31%

Currencies	Month End Price	1 Month	3 Months	1 Year	3 Years	5 Years
AUD/USD	0.6568	-3.58%	3.65%	-6.90%	-4.93%	-2.02%
EUR/USD	1.0818	-2.00%	2.30%	-0.41%	-3.76%	-1.13%
USD/JPY	146.92	4.17%	-3.14%	12.94%	11.96%	6.17%
GBP/USD	1.2688	-0.34%	4.40%	2.99%	-2.54%	-0.65%

Source: Bloomberg

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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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