

Monthly Market Insights

December 2020

Australia

NSW is on high alert following a Covid-19 outbreak in Sydney's Northern Beaches, while a new, more infectious strain of the virus has been identified throughout the country, including four in Victoria and one case of a quarantine hotel worker in Brisbane. An agreement between the Australian government and Pfizer was finalised on Christmas Eve, with 10 million doses to be made available for a March rollout if the vaccine is approved by regulators. Australia also has vaccine agreements with Oxford-AstraZeneca and Novavax.

The RBA minutes for the December meeting revealed the board believes it will take some time for output in Australia to reach its pre-pandemic level. Members acknowledged that "the recovery in the labour market was more advanced than expected" but noted there was still significant spare capacity that would remain a key policy challenge for some time.

Australia's labour market continues to recover, with 90,000 jobs added in November. The unemployment rate decreased 0.2 points to 6.8%.

Retail trade rose a seasonally adjusted 7.1% in November as Melbourne retail stores were able to open for a full month (excluding Victoria, turnover was up only 2.6%). Growth occurred across all states except South Australia, which was subject to a brief lockdown.

Optimism abounds according to the latest Westpac-MI Consumer Sentiment Index, which lifted to 112 in December from 107.7 in November. Westpac noted that, after only eight months, it seems clear that sentiment has fully recovered from the Covid recession.

Global

The global economy continues to recover as investors weigh the impact of further lockdowns against the optimism of vaccine rollouts and fiscal support. Covid19 cases are still rising in the US and Europe and the distribution of vaccines are not expected to bring an immediate end to social distancing, but confidence is improving, reflected in rising equities and longer-dated yields.

A victory in the two Georgia Senate runoff elections has handed Democrats control of Congress and the White House, raising the prospect of higher taxes and big spending on a third coronavirus package. Economic indicators point to a continued recovery despite record daily Covid-19 numbers. December's ISM Manufacturing PMI came in at 60.7, beating estimates of 56.6 and marking the seventh straight month of rising manufacturing activity and the strongest growth rate since August 2018. Housing starts rose to an annualised rate of 1.55 million in November, surpassing expectations, while housing permits jumped to an annualised rate of 1.64 million, ahead of expectations of 1.55 million. Nonfarm payrolls fell 140,000 in December, a large miss on expectations for a 71,000 lift in employment, and down from an upwardly revised 336,000 increase in November.

England entered a strict new lockdown following the seventh day in a row of more than 50,000 daily infections and the spread of a more contagious variant of the coronavirus. Germany has also extended its national lockdown by three weeks until 31 January to regain control of rising infection rates.

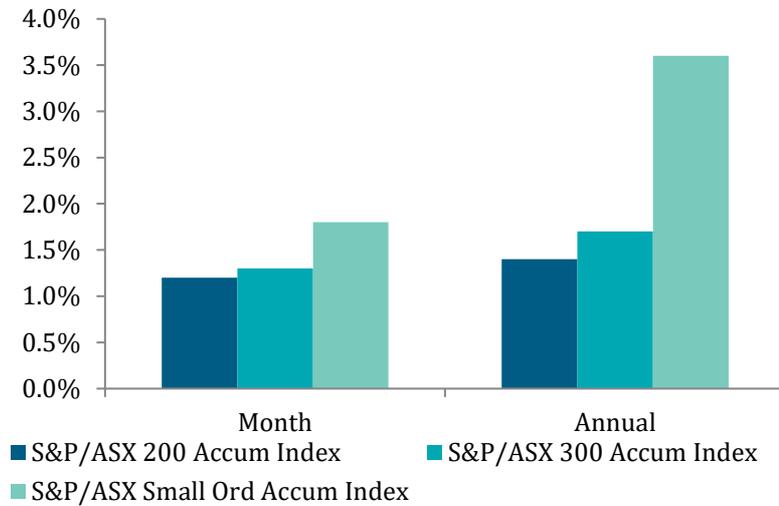
A post-Brexit trade deal was approved by the British parliament, offering a moment of victory for prime minister Johnson who promised voters he would "get Brexit done". On the economic front, the Bank of England left its policy rate unchanged at 0.1% during its December meeting and maintained its bond-buying program at £875 billion, taking a wait-and-see approach amid potential fallout from the trade deal and the Covid-19 situation. The eurozone manufacturing PMI improved to 55.2 in December, lagging expectations of 55.5, while the Markit Composite PMI rose to 49.1 from 45.3, behind the expected reading of 49.8.

The Chinese economy continues to power along. Industrial production improved to an annual rate of 7.0% in November and in line with expectations, boosted by fiscal stimulus measures, while year-on-year retail sales rose 0.7% to 5.0% (versus 4.4% expected). The unemployment rate came in at 5.2%, below expectations of 5.5%.

Commodities

Oil extended its rally through December and into early January as vaccine rollout plans were laid out and stimulus efforts supported the energy sector. Metals were mixed in December, while the Gold price rebounded over the month, rising to US\$1,894.36.

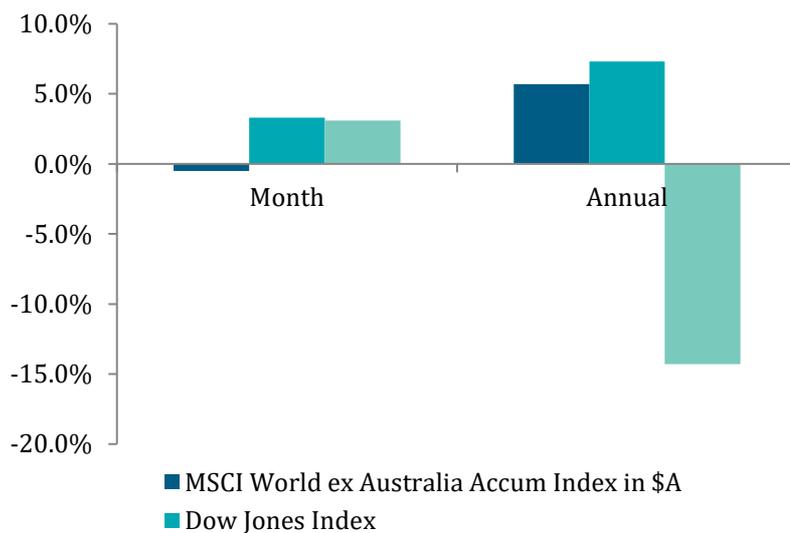
Australian Shares



Much like new year celebrations, Australian shares ended 2020 without fanfare. The ASX 200 added a modest 1.2% in December to end the year up only 1.4% in what was a tumultuous year for all markets.

CSL announced that its Covid-19 vaccine, developed with the University of Queensland, will not proceed after it was discovered that antibodies produced by the vaccine can result in false HIV positive results. The AstraZeneca vaccines will be made in Australia by CSL after an initial batch arrives from overseas.

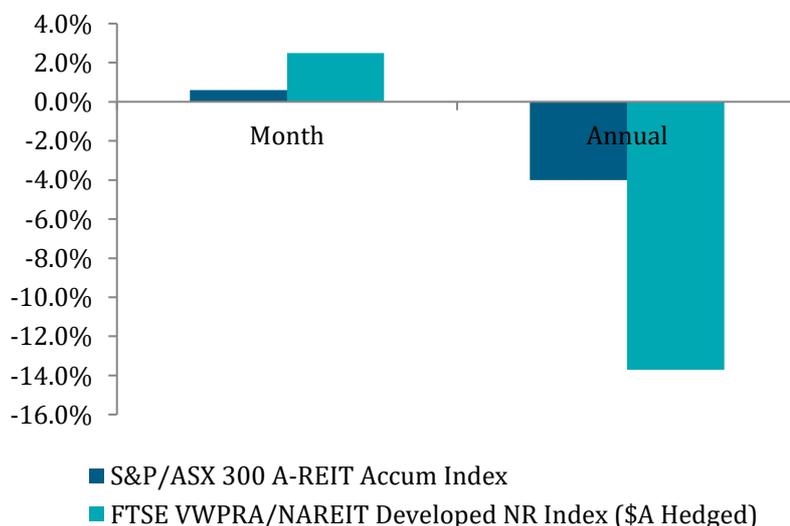
International Shares



Global shares saw mixed performance over 2020, with some markets rebounding strongly in the second half and others finishing the year deep in the red. Overall, it was a positive year, with the MSCI World Ex-Australia Index returning 5.7% in Australian dollar terms. The US S&P 500 Index finished on a high, returning 3.8% in December and 18.4% over the year after rallying to record highs in the wake of the pandemic.

European shares fared considerably worse over 2020 compared to the US and Asia. The UK's FTSE 100 Index was down 11.6% and France's CAC finished 5.0% lower, while Germany's DAX managed a modest gain.

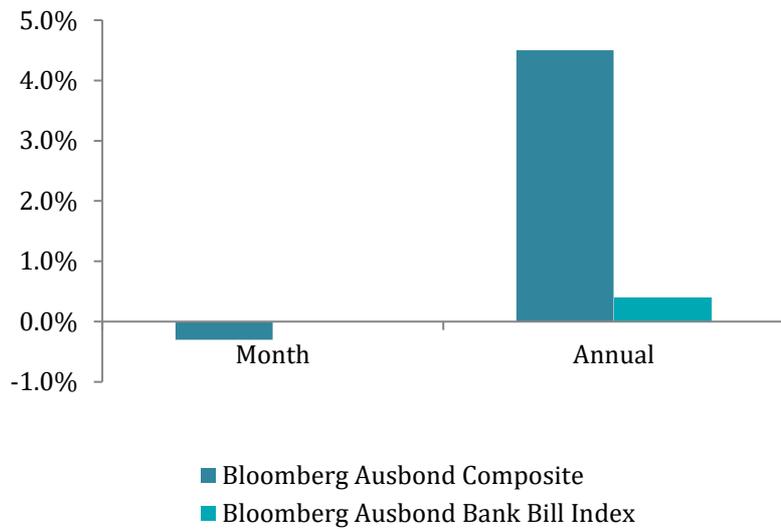
Property



It was an annus horribilis for listed property, with almost every sector under pressure due to lockdowns and social distancing. The S&P/ASX 200 A-REIT Index fell 4.6% over 2020, while global REITs fared even worse, down 13.6%.

Australia's housing market is improving but the Reserve Bank notes that the recovery is uneven and there has been considerable variation in price changes across capital cities. A clear factor has been the slowdown in population growth due to border closures and the decline in net overseas migration.

Fixed Interest

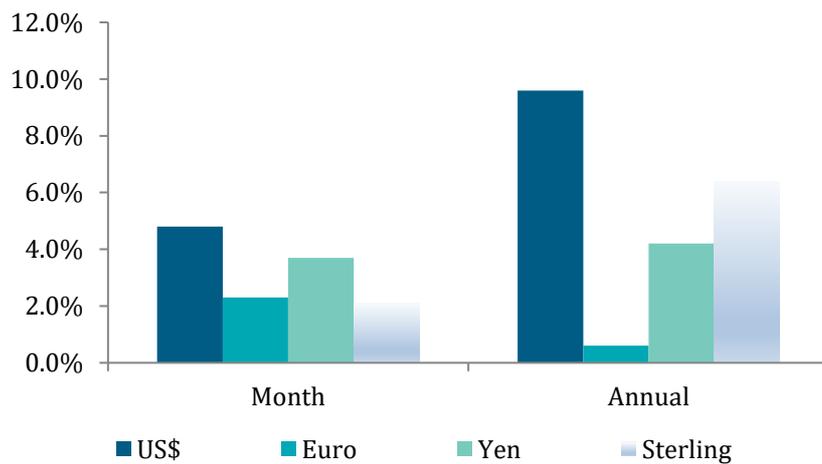


The end of 2020 saw further recovery in yields, thanks in part to positive vaccine news, which has boosted equities and narrowed spreads between corporate and government yields.

As widely expected, the US Federal Reserve left the target range for the funds rate unchanged at 0.00–0.25% during its December meeting.

In Australia, money market rates are still close to zero and the yield on the 3-year government bond is in line with the RBA's 0.10% target.

Australian Dollar



The Australian dollar continued to strengthen in December, rising 4.2% against the US dollar and appreciating 3.1% in trade-weighted terms.

The ballooning US fiscal deficit and the promise of further debt-driven stimulus has put pressure on the US dollar, while rising commodity prices and a relatively strong economic situation at home are a tailwind for the Australian currency.

Key Investment Indices

As at 31 December 2020		1 month	3 months	6 months	1 year	5 years	
Australian Shares		%	%	%	%	%	
S&P/ASX 200 Accumulation Index		1.2	13.7	13.2	1.4	8.7	
S&P/ASX 300 Accumulation Index		1.3	13.8	13.7	1.7	8.8	
S&P/ASX Small Ordinaries Accumulation Index		1.8	14.4	15.7	3.6	9.3	
S&P/ASX 300 Industrials Index		-0.4	12.6	12.5	-0.1	6.7	
S&P/ASX 300 Resources Index		8.4	18.6	18.5	9.2	20.4	
International Shares		Value	%	%	%	%	
MSCI World ex Australia Accumulation Index in \$A			-0.5	5.7	9.7	5.7	10.9
MSCI World ex Australia Accumulation Index (\$A hedged)			3.4	11.7	18.9	10.6	11.4
MSCI World Small Cap Index			2.5	15.0	18.8	5.6	10.4
MSCI Emerging Markets Index in \$A			2.5	11.2	17.0	7.8	11.5
Dow Jones Index in \$US	30,606		3.3	10.2	18.6	7.3	11.9
S&P 500 Index in \$US	3,756		3.7	11.7	21.2	16.3	12.9
FTSE 100 Index in £	6,461		3.1	10.1	4.7	-14.3	0.7
Deutsche Boerse DAX Index in €	13,719		3.2	7.5	11.4	3.6	5.0
Nikkei 225 Index in ¥	27,444		3.8	18.4	23.1	16.0	7.6
Hang Seng Index in HKD	27,231		3.4	16.1	11.5	-3.4	4.4
Shanghai Shenzhen CSI 300 Index in RMB	5,211		5.1	13.6	25.2	27.2	6.9
Property			%	%	%	%	
S&P/ASX 200 A-REIT Accumulation Index			0.4	13.3	21.2	-4.6	7.0
S&P/ASX 300 A-REIT Accumulation Index			0.6	13.2	21.6	-4.0	7.4
FTSE EPRA/NAREIT Developed NR Index (\$A Hedged)			2.5	10.6	11.3	-13.7	2.9
Fixed Interest			%	%	%	%	
Bloomberg Ausbond Bank Bill Index			0.0	0.0	0.1	0.4	1.5
Bloomberg Ausbond Composite Bond Index			-0.3	-0.1	0.9	4.5	4.6
Barclays Global Aggregate Index (\$A Hedged)			0.3	0.8	1.5	5.1	4.6
Currencies (relative to \$A)		Value	%	%	%	%	
\$US	0.7694		4.8	7.4	11.5	9.6	1.1
Japanese ¥	79.4690		3.7	5.2	6.7	4.2	-1.9
Euro €	0.6298		2.3	3.1	2.5	0.6	-1.3
Sterling £	0.5629		2.1	1.5	1.1	6.4	2.6
Commodities		Value	%	%	%	%	
S&P Goldman Sachs Commodity Index (\$US)			6.2	16.9	25.8	-6.1	5.6
Oil (\$US/barrel)	51.8		7.0	20.6	23.6	-20.5	5.6
Gold (\$US/ounce)	1,898.36		6.8	0.7	6.6	25.1	12.3
Iron Ore (\$US/tonne)	158.15						
Inflation			%	%	%	%	
Australia CPI			0.1	0.2	1.8	0.2	1.4

Sources: Lonsec