

Monthly Market Insights

January 2021

Australia

New positive Covid-19 cases in New South Wales and Victoria have prompted increased testing and tracing to prevent further outbreaks. As Australia prepares for its vaccine rollout, the federal government reaffirmed its confidence in the AstraZeneca vaccine. Oxford University said work was underway to develop a new generation of vaccines that will protect against emerging variants of the virus.

Meanwhile Australia's recovery continues and has been most evident in the labour market. The unemployment rate fell from 6.8% to 6.6% in December, lower than the 6.7% expected, as the recovery in the labour market continued to outperform expectations. 50,000 jobs were added over the month, following the strong 90,000 increase in November, while the participation rate rose from 66.1% to 66.2%. Retail sales fell 4.1% in December and were weaker than expectations of a 2.5% decline as shoppers pulled back in the crucial lead-up to Christmas, resulting in declines across five of the six retail industries. Australia's trade balance rebounded in December to a surplus of \$6.8 billion but fell short of expectations of \$7.7 billion.

Australia's manufacturing sector continues to expand, with the AiG Manufacturing PMI for the combined months of January and December rising 3.2 points to 55.3. Manufacturers reported stronger and more broad-based recovery over the summer holiday period. Sentiment remains strong with the Westpac-MI Consumer Sentiment Index lifting to 109.1 in February from 107.0 in January. With the JobKeeper program set to be phased out at the end of March, the ability of consumers to look ahead with confidence is critical.

Global

The pandemic still looms large across the global economic landscape, with over 100 million confirmed Covid-19 cases worldwide at the start of February. The gradual rollout of vaccines is offering hope that a new normal can be achieved despite early logistical roadblocks and shortages in some regions. The Covid-19 situation in the US is improving while Europe is bringing new outbreaks under control.

In the US congress is negotiating President Biden's proposed US\$1.9 trillion stimulus package. Covid-19 vaccines have begun rolling out across the country as daily confirmed cases continue to fall. President Biden issued new executive orders to accelerate the production of vaccines and protective equipment, establish a Covid-19 testing board, and mandate mask wearing on public transport.

US December quarter GDP rose 4.0%, in line with expectations. Despite pulling back from 60.5 in December, the ISM manufacturing PMI was robust at 58.7 in January and marked the eighth consecutive month of growth. The US labour market is showing signs of weakness, with non-farm payrolls disappointing in January, gaining only 49,000 versus expectations of 105,000. The unemployment rate fell to 6.3%, well below the 6.7% expected, while average hourly earnings lifted 0.2% for the month.

The European Union imposed tougher restrictions on visitors from outside the bloc, with travellers from countries with a higher infection rate than the EU (more than 25 Covid-19 cases per 100,000 people over 14 days) required to enter quarantine. In the UK, home secretary Priti Patel outlined new rules for tighter border controls amid unprecedented pressure on the UK health service.

Eurozone December quarter GDP contracted 0.7% (versus -1.0% expected) following a downwardly revised 12.4% growth rate in the September quarter. The contraction was largely due to Covid-19 restrictions, with major economies Italy and France contracting 3.0% and 1.3% respectively.

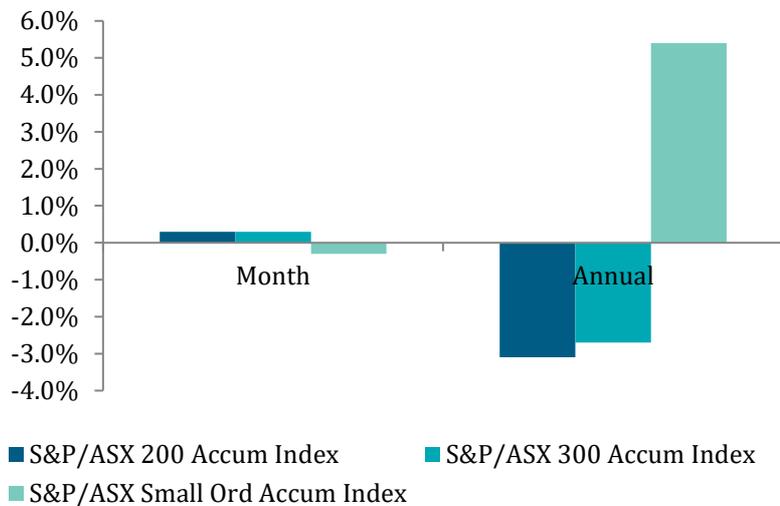
China's economic recovery has hit a rough patch. The Caixin Manufacturing PMI fell to a seven-month low in January.

Japan's economy, which was battling recession even before the pandemic hit, remains in precarious shape. Japan's GDP is expected to grow by 2.3% in 2021 following an estimated fall of 5.3% over 2020, but much depends on how the pandemic plays out.

Commodities

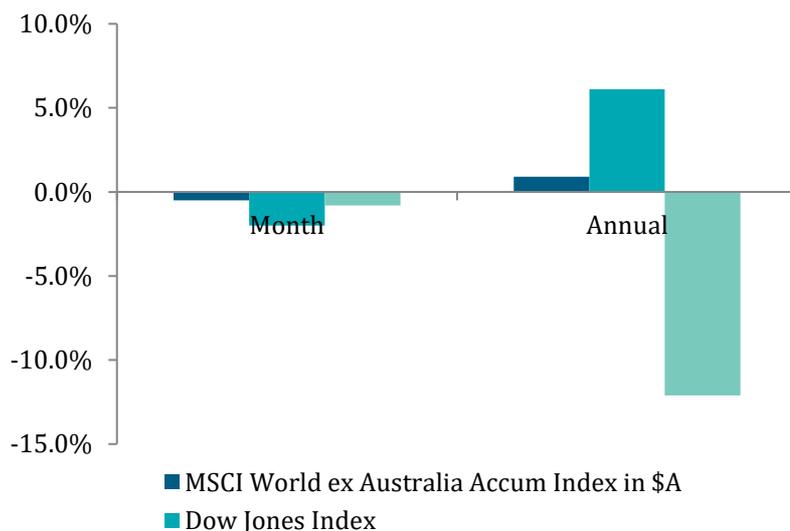
As the coronavirus loosens its grip on the global economy, oil demand is likely to rise. At the same time, artificial supply constraints imposed by OPEC+ will provide additional support to prices. Base metals were mostly stronger in January, with gains in Tin, Nickel, Lead and Copper and falls in Zinc, Aluminium and Gold.

Australian Shares



Australian shares outperformed their global peers in January, starting 2021 with a modest gain of 0.3%. Australian equities remain largely influenced by macro factors surrounding the management of Covid-19, but the start of earnings season will see a renewed focus on fundamentals. A rotation out of some expensive growth pockets into value sectors was evident over the December quarter and into the new year, driven by vaccine developments and additional stimulus, while a significant jump in the iron ore price was the principal catalyst for a re-rating of the three largest local miners BHP, Fortescue and Rio Tinto.

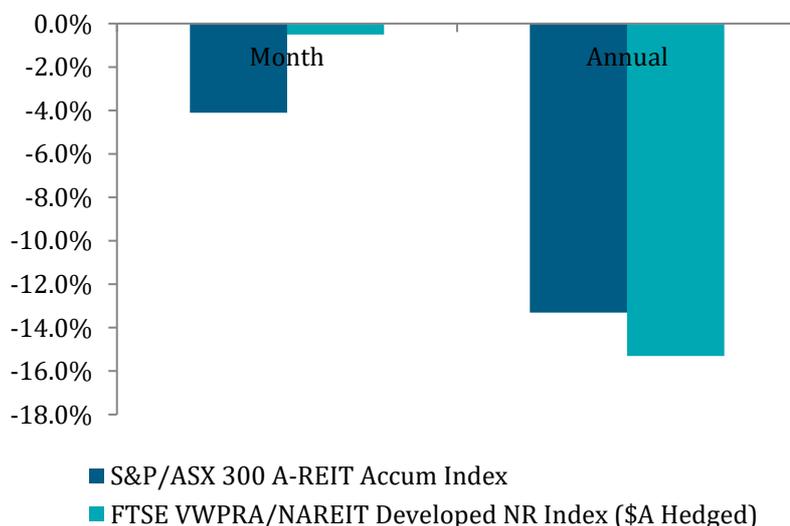
International Shares



Global shares were down over January as vaccine rollouts hit logistical roadblocks in the US and Europe, while the emergence of new viral strains of Covid-19 put a dampener on sentiment. With valuations stretched, some form of correction was to be expected, but stocks remain buoyed by the economic recovery.

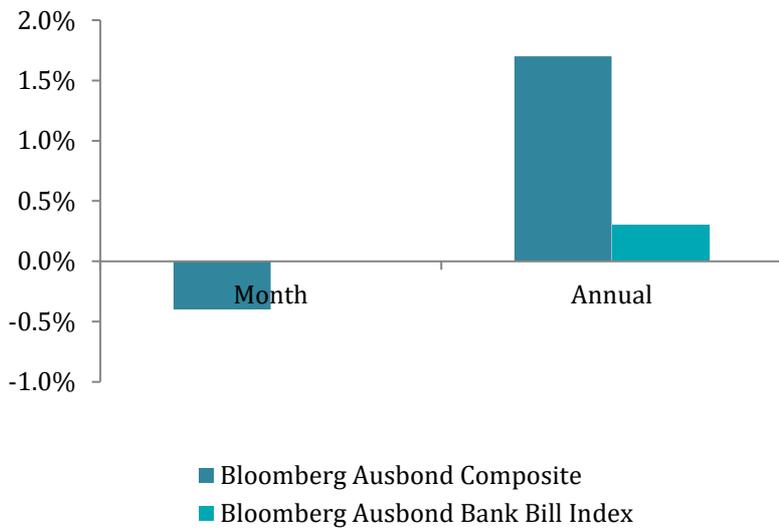
Since reaching their March 2020 low, the rebound in global equities has been largely led by large cap growth companies, however their beaten down cyclical counterparts experienced a pronounced recovery in the December quarter.

Property



Australian listed property had a rough start to 2021, falling 4.1% in January as reports of new Covid-19 cases emerged and a drawn-out return to 'normal' appeared more likely. As the vaccine rollout progresses and lockdown restrictions ease, sold-off sectors such as retail may continue to strengthen and close the valuation gap with in-favour sectors such as industrial and specialised. The December housing report highlighted the strength of Australia's residential market, with turnover, prices, financing activity and dwelling approvals all posting strong gains.

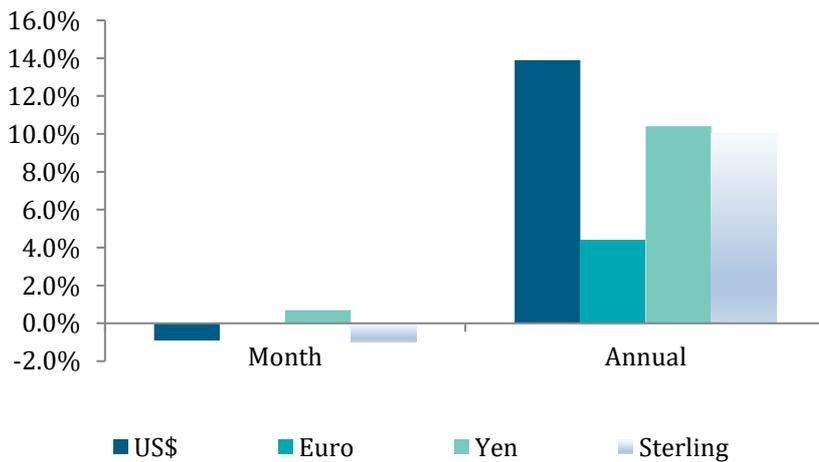
Fixed Interest



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At its February meeting the RBA left the official cash rate at 0.1% but expanded its bond purchase program announcing it will purchase an additional \$100 billion of bonds issued by the federal and state governments. Other unconventional monetary policy measures, namely yield control on 3-year Treasuries and the Term Funding Facility, remain unchanged.

Australian Dollar



The Australian dollar was weaker in January, falling 0.7% against the US dollar to end the month at USD 0.76, but has been rising consistently since the depths of the pandemic, thanks to a weaker US dollar and rising commodity prices. The RBA's bond purchases have helped to lower interest rates and ensure the dollar is lower than it otherwise would be.

Key Investment Indices

As at 31 January 2021		1 month	3 months	6 months	1 year	5 years	
Australian Shares		%	%	%	%	%	
S&P/ASX 200 Accumulation Index		0.3	11.9	13.0	-3.1	10.0	
1S&P/ASX 300 Accumulation Index		0.3	12.1	13.4	-2.7	10.1	
S&P/ASX Small Ordinaries Accumulation Index		-0.3	13.0	18.3	5.4	11.6	
S&P/ASX 300 Industrials Index		0.6	10.3	13.6	-5.2	7.9	
S&P/ASX 300 Resources Index		-0.6	19.3	12.8	7.9	22.5	
International Shares		Value	%	%	%	%	
MSCI World ex Australia Accumulation Index in \$A			-0.5	6.4	8.5	0.9	11.6
MSCI World ex Australia Accumulation Index (\$A hedged)			-0.8	14.5	14.2	10.1	12.5
MSCI World Small Cap Index			2.7	15.7	22.2	6.2	12.2
MSCI Emerging Markets Index in \$A			3.7	10.6	16.0	11.6	13.2
Dow Jones Index in \$US	29,983		-2.0	13.1	13.5	6.1	12.7
S&P 500 Index in \$US	3,714		-1.1	13.6	13.6	15.2	13.9
FTSE 100 Index in £	6,407		-0.8	14.9	8.6	-12.1	1.0
Deutsche Boerse DAX Index in €	13,433		-2.1	16.2	9.1	3.5	6.5
Nikkei 225 Index in ¥	27,663		0.8	20.4	27.4	19.2	9.6
Hang Seng Index in HKD	28,284		3.9	17.3	15.0	7.5	7.5
Shanghai Shenzhen CSI 300 Index in RMB	5,352		2.7	14.0	14.0	33.7	12.8
Property			%	%	%	%	
S&P/ASX 200 A-REIT Accumulation Index			-4.1	9.1	15.5	-14.0	5.9
S&P/ASX 300 A-REIT Accumulation Index			-4.1	8.9	15.9	-13.3	6.3
FTSE EPRA/NAREIT Developed NR Index (\$A Hedged)			-0.5	13.9	9.4	-15.3	3.5
Fixed Interest			%	%	%	%	
Bloomberg Ausbond Bank Bill Index			0.0	0.0	0.0	0.3	1.5
Bloomberg Ausbond Composite Bond Index			-0.4	-0.8	0.1	1.7	4.2
Barclays Global Aggregate Index (\$A Hedged)			-0.6	0.2	-0.1	2.6	4.1
Currencies (relative to \$A)		Value	%	%	%	%	
\$US	0.7644		-0.9	8.5	6.7	13.9	1.5
Japanese ¥	80.0320		0.7	8.8	5.9	10.4	-1.4
Euro €	0.6298		0.0	4.4	3.8	4.4	-0.8
Sterling £	0.5576		-1.0	2.7	2.1	10.0	2.3
Commodities		Value	%	%	%	%	
S&P Goldman Sachs Commodity Index (\$US)			5.3	26.5	26.8	10.9	7.5
Oil (\$US/barrel)	55.88		7.6	45.9	29.6	1.2	9.2
Gold (\$US/ounce)	1,847.65		-2.7	-1.7	-6.5	16.3	10.6
Iron Ore (\$US/tonne)	155.20						
Inflation			%	%	%	%	
Australia CPI			0.1	0.2	1.8	0.2	1.4

Sources: Lonsec