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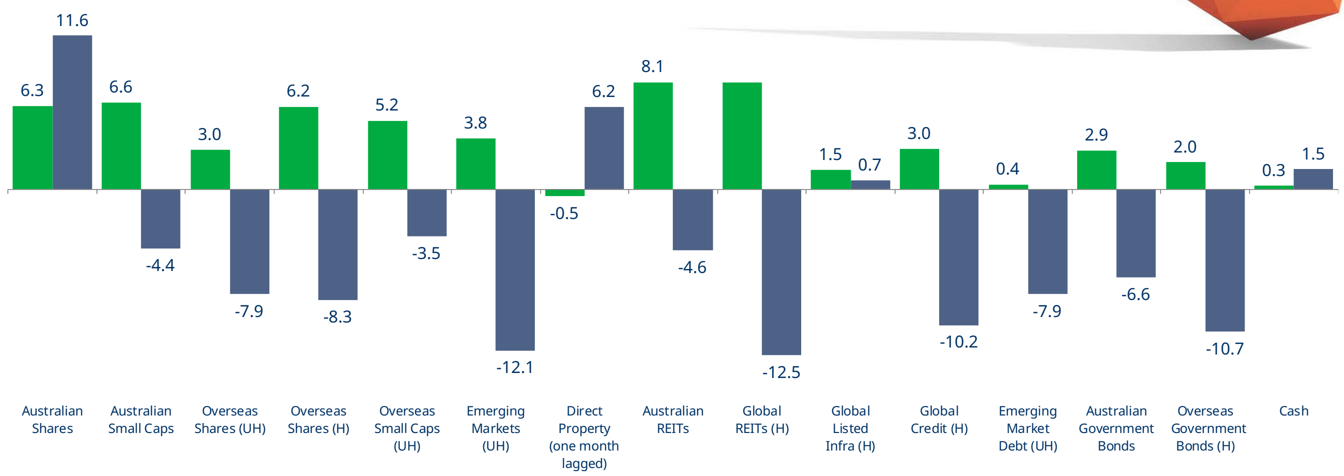
January 2023

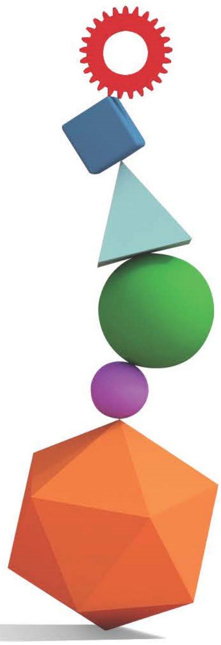
Australian monthly market review

Selected market indicators commentary

Asset class returns as at 31 January 2023



Data source: Refinitive Datastream; MSCI. Data provided 'as is'
Please see Notes for details.



Market recap

Markets started 2023 on an optimistic note. Equities, bonds and alternatives generally rose. Rates and spreads declined and equity market volatility fell to its lowest level in almost a year. Positive market sentiment was helped by US CPI inflation falling for the sixth month in a row. It also seems to have peaked in other developed countries. Investors are still hoping for an end to the monetary tightening cycle, even if central banks remain cautious. Consumer confidence also improved over the month, as the University of Michigan consumer sentiment index unexpectedly rose to the highest level since April 2022.

Over January, Hedged Developed Markets Overseas Shares returned 6.2% on receding inflation and falling interest rates. Fundamentals were otherwise unfavorable. The first month of the 2022 Q4 earnings season yielded disappointing results from a number of companies in a quarter that could see its first decrease in earnings since 2020 Q3. Analysts still expect low single digit positive earnings growth for 2023 as a whole.

Emerging markets outperformed unhedged Overseas Shares over the month, posting a 3.8% gain for the month of January as they were buoyed by risk-on environment. The ongoing reopening of the Chinese economy and better than expected Q4 GDP growth benefitted the index, meanwhile India and Brazil detracted.

Hedged Overseas Government Bonds returned 2.0% over the month. Ten-year yields in developed countries fell by 20-30 basis points over the month which led to positive returns for defensive fixed income. Falling credit spreads, especially for high yield, were an additional return boost for credit. Inflation expectations in the US, as measured by the 10-year break-even rate, fell to 2.2%.

Australian shares returned 6.3% and again outperformed their overseas counterparts in January, adding to the strong outperformance of the ASX300 over the last twelve months, whilst Australian bonds also produced positive returns with bond yields ending the month lower.

Significant Developments

- Australian seasonally adjusted employment decreased by 14,600 in December, below expectations for an increase of 25,000 and below the prior month's increase of 64,000. The unemployment rate increased in December at 3.5%, above expectations of 3.4%. The participation rate decreased to 66.6%, below expectations of 66.8%. Part time jobs decreased by 32,200 and full time jobs increased by 17,600.
- Australian building approvals increased by 18.5% month-on-month to December, compared to the decrease of -8.8% (revised) for November.
- The Institute for Supply Management (ISM) Manufacturing Index recorded 47.4 in January, below consensus for 48 and below the 48.4 recorded in December. The two manufacturing industries that reported growth in January were Miscellaneous Manufacturing and Transportation Equipment. There were 15 industries that recorded contraction in January compared to December.
- The ISM Services Index recorded 55.2 in January, above consensus for 50.5 and above the 49.6 recorded in December. Of the 10 services industries, the top performers were Agriculture, Forestry, Fishing & Hunting and Utilities. There were eight industries that reported a decrease in the month of January.
- US Non-Farm Payrolls increased by 517,000 in January, above the 233,000 increase recorded for December. The unemployment rate decreased to 3.4% over January, below expectations of 3.6%.
- US GDP first estimate for Q4 2022 is 2.9% quarter on quarter (QoQ) annualised, above expectations of 2.6%.
- The Caixin Manufacturing PMI in China recorded 49.2 in January, below expectations of 49.8, with production levels moving closer to stabilisation as COVID-19 measures relaxed.
- The preliminary estimate of the European Core CPI recorded 5.2% over the year to January, above expectations of 5.1%.
- The Eurozone composite PMI increased to 50.2 in January, above expectations for 49.3.
- The first estimate recorded for Q4 2022 Eurozone seasonally adjusted GDP is 0.1% QoQ and 1.9% YoY.

Market Outlook

There have been some positive developments recently, including slowing in US inflation and the Fed shifting into lower gear in tightening monetary policy. These are supportive of our base case of a soft landing. However, risks surrounding our base case remain, with inflation remaining a notable wildcard. Meanwhile, earnings growth expectations remain optimistic given the current slowing in economic activity and valuations now offer less compensation for less benign scenarios than our base case. Consequently, we have retained a neutral view on global equities.

Further, whilst the Australian market should benefit from the re-opening of the Chinese economy, local headwinds temper our view and consequently we have retained a neutral view on Australian equities, albeit we continue to favour Australian equities compared to global equities given the relative valuations and sectorial composition. We have also retained a neutral view on property & infrastructure and defensive fixed income, although our view has become slightly less attractive on the former and slightly more attractive on the latter in light of our Australian macro outlook. Within defensive fixed income, we have downgraded our view on investment grade credit to neutral in light of the contraction in spreads, albeit remaining our most preferred asset classes in the defensive fixed income space.

Australian Shares

The Australian share market marginally outperformed its hedged overseas counterpart over the month, as the S&P/ASX300 Index returned 6.3%. The S&P/ASX Small Ords Index was the strongest relative performer, returning 6.6%, while the S&P/ASX Mid 50 Accumulation was the weakest, returning 6.0% over the month.

The best performing sectors were Consumer Discretionary (10.1%) and Materials (8.9%), while the weakest performing sectors were Utilities (-3.0%) and Energy (1.5%). The largest positive stock contributors to the index return were BHP, Macquarie Group and Goodman Group with absolute returns of 9.1%, 12.6% and 15.2%, respectively. In contrast, the most significant detractors were CSL, Westpac and Woodside Energy with absolute returns of 3.7%, 2.0% and 3.1%, respectively.

Overseas Shares

The broad MSCI World ex Australia Accumulation Index returned 6.2% in hedged terms and 3.0% in unhedged terms over the month as the AUD appreciated against most major world currencies. In AUD terms, the strongest performing sectors were Consumer Discretionary (10.3%) and Communication Services (8.8%), while Healthcare (-4.5%) and Utilities (-3.6%) were the weakest performers. In AUD terms, the MSCI Small Caps Total Return Index was up by 5.2%, while the MSCI Emerging Markets Accumulation Index was up by 3.8% over January.

Over the month, the S&P500 Composite Index (6.3%), the Dow Jones Industrial Average (2.9%) and the NASDAQ (10.7%) increased, all in USD terms. In local currency terms, for the major European share markets the FTSE 100 (UK) (4.3%), the DAX 30 (Germany) (8.7%) and the CAC 40 (France) (9.6%) all increased. In Asia, the Chinese SSE Composite (5.4%), the Hong Kong Hang Seng (10.4%), and the Japanese TOPIX (4.4%) increased, while the Indian S&P BSE 500 (-3.4%) decreased, all in local currency terms.

Real Assets

The listed real assets sector produced mostly positive returns over January. Over the month, the FTSE EPRA/NAREIT Developed (Global REITs) increased by 8.0% and the FTSE Global Core Infrastructure 50/50 Index increased by 1.5% (both in AUD hedged terms). S&P/ASX 300 Industry Group: A-REIT (Domestic REITs) increased by 8.1% over January, whilst the MSCI/Mercer Australia Core Wholesale Monthly PFI NAV Post Fee (Australian Direct Property) returned -0.5% (on a one month lagged basis).

Fixed Interest

Global bond markets were positive over January, with the Barclays Capital Global Aggregate Bond Index (Hedged) returning 2.1% and the FTSE World Government Bond (ex-Australia) Index (Hedged) returning 2.0%. Ten-year bond yields moved lower over the month, decreasing in the UK (-33bps to 3.34%), Germany (-32bps to 2.25%), the US (-30bps to 3.53%) and Japan (-19bps to 0.22%). Two-year bond yields also declined over the month, decreasing in Germany (-3bps to 2.65%), Japan (-5bps to -0.02%), the UK (-26bps to 3.45%) and the US (-26bps 4.28%).

Returns for Australian bondholders were positive over January, with 10-year bond yields decreasing (-50bps to 3.55%), five-year bond yields (-42bps to 3.28%) and two-year bond yields (-24bps to 3.17%).

Currency Markets

The AUD Trade Weighted Index increased to 62.4 over January, up by 1.6% from December. The AUD appreciated against the US Dollar (3.9%) and the Pound Sterling (1.5%), the Euro (2.1%) and the Japanese Yen (2.4%).

Commodities

Iron Ore increased by 9.8%, finishing the month at US$129.0 per metric tonne. The S&P GSCI Commodity Total Return Index decreased by 3.8% over the month. Gold prices increased by 6.2% at US$1,928.19 per ounce and the oil price increased by 0.2% to US$85.07 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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- The value of Gilts, bonds, and other fixed income investments including unit trusts can go down as well as up and you may not get back the amount you have invested.
- Investments denominated in a foreign currency will fluctuate with the value of the currency.
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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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