Month in Review

Index returns at end December 2020 (%)

Australian Equities	1 mth	3 mth	6 mth	1 yr	3 yr	5 yr	10 yr
S&P/ASX 200 TR Index	1.21	13.7	13.2	1.40	6.73	8.73	7.84
S&P/ASX Small Ordinaries TR Index	2.76	13.83	20.28	9.21	6.57	10.46	3.77
Global Equities							
MSCI World TR Index (AUD)	-0.43	5.96	9.97	6.12	11.65	11.50	13.66
S&P 500 TR Index (AUD)	-0.84	4.17	9.00	7.86	14.69	13.87	17.17
FTSE 100 TR Index (AUD)	0.98	8.88	5.03	-16.86	-1.01	2.00	6.39
MSCI Emerging Markets NR Index (AUD)	2.51	11.18	17.01	7.77	6.65	11.49	6.61
Real Estate Investment Trusts							
S&P/ASX 300 A-REIT TR Index	0.60	13.24	21.60	-3.96	5.85	7.39	11.25
FTSE EPRA/NAREIT Dev. NR Index (AUD Hgd)	2.50	10.63	11.31	-13.74	0.13	2.86	7.25
Fixed Interest							
Bloomberg Ausbond Composite 0+ Yr Index	-0.27	-0.10	0.92	4.48	5.42	4.56	5.59
Bloomberg Ausbond Bank Bill Index	0.00	0.02	0.05	0.37	1.26	1.52	2.44
Barclays Global Aggregate TR Index (AUD Hgd)	0.26	0.79	1.47	5.09	4.62	4.55	5.85

Data source: Bloomberg & Financial Express. Returns greater than one year are annualised.
Commentary regarding equity indices below references performance without including the effects of currency (unless specifically stated).

Australian equities

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. The IT sector was the best performing in December, returning 9.5% over the month and 57.8% over the year. Unsurprisingly it was Afterpay that led the tech pack in 2020, tripling in value as consumers continued to flock online and ditch their credit cards. Afterpay announced that it exceeded $2 billion of monthly underlying sales in November—more than double the $1 billion of underlying sales in November 2019. Machine learning and AI specialist Appen downgraded its 2020 earnings guidance, citing the impact of lockdowns globally—especially in California where its heavyweight technology clients reside—and a weaker US dollar.

CSL announced in December that its Covid-19 vaccine, developed with the University of Queensland, will not proceed to phase 2 and 3 trials 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. Domino's was a clear Covid winner, rising 65.6% in 2020 and reporting a year-on-year jump in online sales of 21% in FY20.

Global equities

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% and the MSCI Emerging Markets Index returning 7.8% 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. Wall Street was preoccupied with election-related news in January, with the Georgia runoffs deciding control of Congress and the fate of the incoming Biden administration's economic policy.

European shares fared considerably worse over 2020 compared to the US and Asia. The UK's FTSE 100 Index was down 11.6% over the year and France's CAC finished 5.0% lower, while Germany's DAX managed a modest gain of 3.6%. Cyclical sectors like energy and financial services were the hardest hit, along with exposed sectors such as travel and leisure, while technology shares were the best performing. The pan-European STOXX 600 Index rose 2.5% in December but came under pressure amid concerns of a fast-spreading Covid-19 mutation. The outlook for 2021 is supported by very accommodative monetary and fiscal policy and the start of Covid-19 vaccine rollouts.

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%. However, some diversified trusts saw impressive growth over 2020. Charter Hall bucked the trend with a $3.5 billion outlay on real estate deals over the year and benefitted from higher demand for

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access to industrial and logistics assets during the pandemic. This was in stark contrast to shopping centre REITs Vicinity Centres and Scentre Group, which fell 35.5% and 27.4% respectively over the year. 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.

The US experience has been marked by the permanent closure of well-known chain-store branches and iconic brands filing for bankruptcy. With the holiday season over, a further wave of bankruptcies is expected. The pandemic has prompted investors to diversify into alternative assets such as childcare, healthcare, and data centres, which are less tied to the broader economy than mainstream commercial sectors and office space.

Fixed income

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. The US 10-year Treasury yield rose from 0.84% to 0.93% in December, before lifting above 1.0% in early January on the back of Democrat victories in the Georgia runoff. 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.

The Fed will continue to increase its holdings of Treasury securities by at least $80 billion per month and agency mortgage-backed securities by $40 billion until substantial progress is made towards achieving the inflation objective. Central bank officials have indicated they are less concerned about potential overshooting of inflation. The Fed's Charles Evans said, "getting inflation moving up with momentum and delivering rates around 2.5% is important for achieving our inflation objective in as timely a manner as possible." Central bank bond buying programs have helped soak up high levels of government debt issuance in the fight against the pandemic. 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.

ASX 200 share movements

S&P/ASX 200 share performance for the month to December

Best performers		Worst performers	
IGO	37.44%	Mesoblast	-45.91%
Fortescue Metals Group	28.52%	Appen	-21.74%
Credit Corp Group	24.95%	Service Stream	-20.13%
Afterpay	24.20%	IDP Education	-18.88%
Whitehaven Coal	24.15%	a2 Milk Co	-17.15%

S&P/ASX 200 share performance for the year to December

Best performers		Worst performers	
Afterpay	303.01%	Southern Cross Media Group	-62.03%
Fortescue Metals Group	150.32%	Avita Therapeutics	-61.71%
Mineral Resources	136.07%	Flight Centre Travel Group	-60.04%
Netwealth Group	106.94%	Unibail-Rodamco-Westfield	-49.35%
PolyNovo	96.95%	IOOF Holdings	-48.50%

Economic News

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. Prime minister Morrison said "Australia should not be at the front of the queue" when it comes to vaccines given the relative success of Australia's containment measures and the more pressing need in other countries to bring the virus under control. 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

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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, including 84,200 full-time jobs. Employment in Victoria increased by 74,000 following October's increase of 82,000. The **unemployment rate** decreased 0.2 points to 6.8% (1.7 points higher than a year ago) and hours worked increased by 42.8 million hours (2.5%) to 1,752 million hours.

Retail trade rose a seasonally adjusted 7.1% in November, following a 1.4% rise in October, 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. At the industry level, clothing, footwear and personal accessory retailing saw the biggest rise (+26.7%), department stores had a strong comeback (+21.1%), and household goods retailing benefitted from strong growth post-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. The 'economy, next 12 months' sub-index rose 9.9% to 111.9, a ten-year high, thanks to Australia's relative success in combatting the pandemic. The 'economy, next five years' sub-index rose 5.9% to 121.1, the strongest reading since December 2009.

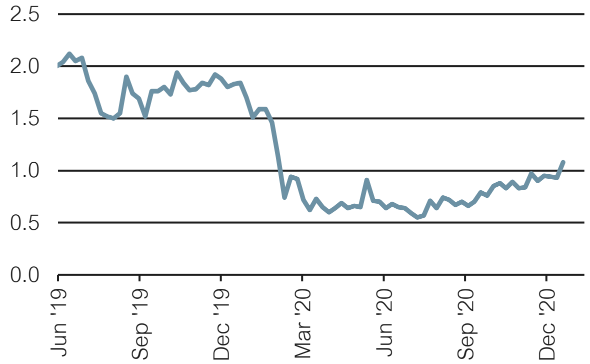
Global

The global economy continues to recover as investors weigh the impact of further lockdowns against the optimism of vaccine rollouts and fiscal support. **Covid-19 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 projected 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. President-elect Biden described the $900 billion stimulus passed in December as a "down payment", and will call on congress to pass additional measures, including more direct payments and aid to cities and states. More election drama ensued as the House and Senate formalised Biden's electoral college win. The Senate voted against the objections raised by a group of Republican members and senators, paving the way for Biden's inauguration on 20 January.

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 of 1.53 million, 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.

US 10-year yield rose back above 1.0%



Source: ABS

The UK has been inoculating people with the Pfizer vaccine on an emergency basis and became the first country in the world to start deploying the AstraZeneca vaccine. The UK expects to have inoculated its most vulnerable groups by mid-February. The EU approved the Pfizer vaccine on 21 December and is set to approve the Moderna vaccine, however distribution efforts have been stymied by logistical issues.

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 0.1% to an annual rate of 7.0% in November and in line with expectations,

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boosted by fiscal stimulus measures, while year-on-year retail sales rose 0.7% to 5.0% (versus 4.4% expected). The Caixin manufacturing PMI for December fell from 54.9 to 53.0, running below expectations of 54.8 but still posting its eighth consecutive month of expansion. The unemployment rate came in at 5.2%, below expectations of 5.5%.

Japan's September quarter GDP was upgraded from an annualised real 21.4% to 22.9%. Private consumption, which accounts for more than half of Japan's GDP, was revised from a drop of 4.7% to a sizeable rebound of 5.1%. According to a survey conducted by Japan's Center for Economic Research, the world's third largest economy is projected to grow 3.4% over the next fiscal year (running to March 2022). Japan's government is hoping for a significant improvement in consumer spending once vaccines become widely available, boosted by fiscal incentives to get the retail economy moving.

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. In January Saudi Arabia pledged additional, voluntary oil cuts of 1 million barrels per day in February and March. The production cuts are part of a deal under which most OPEC+ producers will hold production steady in the face of new coronavirus lockdown restrictions.

Metals were mixed in December, with gains in Tin (+9.2%), Nickel (+3.6%) and Copper (+2.5%), and falls in Lead (-3.7%), Aluminium (-3.2%) and Zinc (-1.4%). The Gold spot price rebounded over the month, rising 6.5% to US$1,894.36.

Currencies

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.

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