

Monthly Market Snapshot

December 2021

The Monthly Market Snapshot publication provides commentary on the global economy and the performance of financial markets



Market commentary

The more infectious COVID-19 variant, Omicron, has spread quickly, causing a large spike in the number of new cases. Early analysis indicates that the severity of Omicron is less than the previous key variant, Delta, and one of the early impacted countries, South Africa, was already reporting that new case numbers were falling by the end of December. Therefore, after the sell off in equities last month, equity markets across the globe rebounded to produce strong positive returns in December. However, even though less severe, given the scale of new cases, hospitalisation rates are rising in many countries. In addition, the high level of infections is having large disruptive impacts on the available workforce, leading to supply and service shortages in a number of industries.

Oil prices also rebounded in December after falling in November. In addition, the iron ore price, which has fallen sharply since the middle of 2021, increased in December. The increase in commodity prices drove particularly strong returns from the Australian Resources sector in the month. Listed real assets, property and infrastructure, also produced strong positive returns in December.

Central banks globally starting the process of monetary policy tightening in December. The central banks of UK, Norway, NZ and South Korea increased interest rates. The European Central Bank advised at its December meeting that it would reduce the pace of asset purchases, through its pandemic emergency purchase program. The US Federal Reserve, at its December meeting, announced it would slow its pace of bond purchasing. US Federal Reserve Chairman, Jerome Powell, made the comment that it was probably a good time to retire the word transitory in relation to inflation, as inflation has been well above the Fed's 2% target for some time. In response, government bond yields increased and returns were negative over the month. The RBA at its meeting in December made no changes to the interest rate or bond purchase program, noting that inflation pressures are less than in many other countries. Australian government bond returns were flat over the month.

The improved risk sentiment and increase in commodity prices helped the Australian Dollar rise over the month.

The 2021 calendar year produced large positive returns from global equities as the economic rebound continued with pandemic restrictions being lifted. However, there was significant volatility during the year, with countries such as Australia and Japan, that initially lagged on vaccination rates reintroducing lockdowns, and the emergence of the new Omicron variant late in the year. The start of 2021 began with the volatile transition of US President from Trump to Biden, there were new leaders in Germany and Japan during the year, increased tensions with China on trade and human rights, and at the end of the year a build-up of Russian military on the Ukraine border.

Emerging markets, particularly offshore Chinese equities, were an exception, producing negative returns in local currency over the year. Chinese equities were negatively impacted by a slowdown in the Chinese economy, and regulatory actions, particularly against companies in the internet sector. With the continued global economic expansion, oil prices rose by more than 50% over the year, but with the slowdown in Chinese construction activity the price of iron ore fell by more than 50% in the second half of 2021, and Australian Resources stocks' returns lagged over the year.

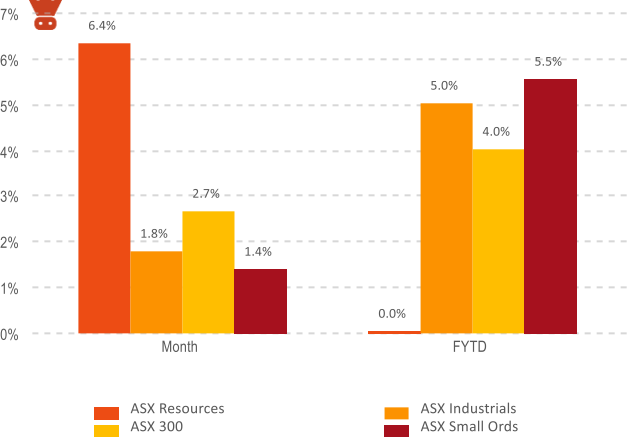
With the rebound in demand and supply chain bottlenecks, inflation increased markedly in 2021, specifically the US consumer price index (CPI) increased 7% over the calendar year, moving the focus to monetary policy tightening. Although monetary policy remains extremely supportive, quantitative easing (QE) programs have been signalled or started to taper, and some countries have had initial interest rate rises. This resulted in government bond yields rising and bonds delivering a negative return in 2021. Cash provided around 0% return for the year.

The expectation that the US Fed would be raising interest rates earlier than previously anticipated, contributed to a strengthening of the US Dollar in 2021. The British Pound also appreciated against the Australian Dollar, after the UK and Europe finalised Brexit at the end of 2020. However, with relative bond yields increasing, the Australian Dollar appreciated against the Japanese Yen and Euro. In aggregate, unhedged currency increased Australian Dollar global equity returns in 2021.

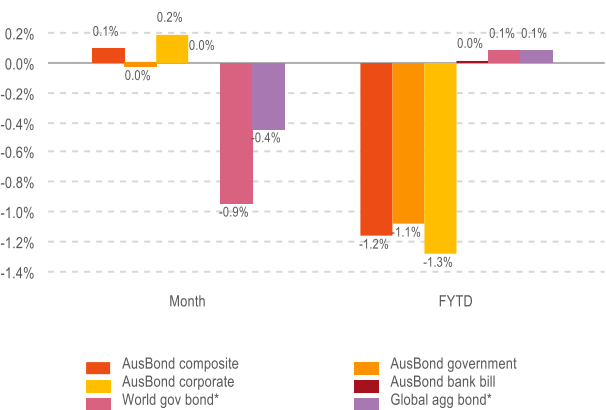
December 2021



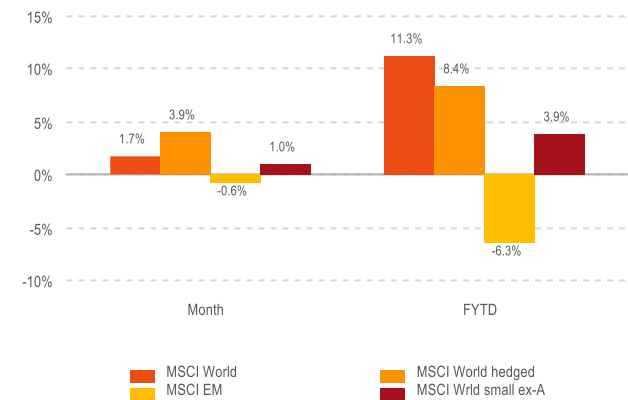
Australian equities



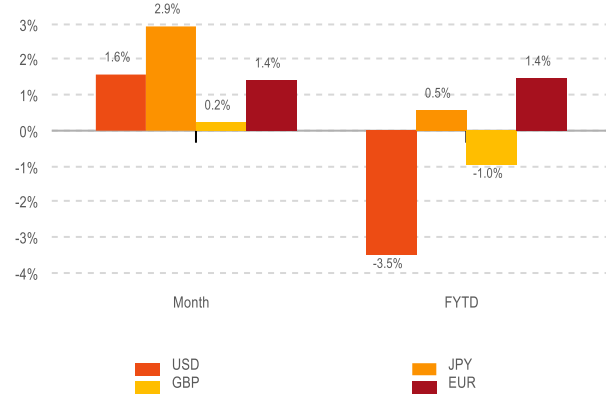
Fixed income



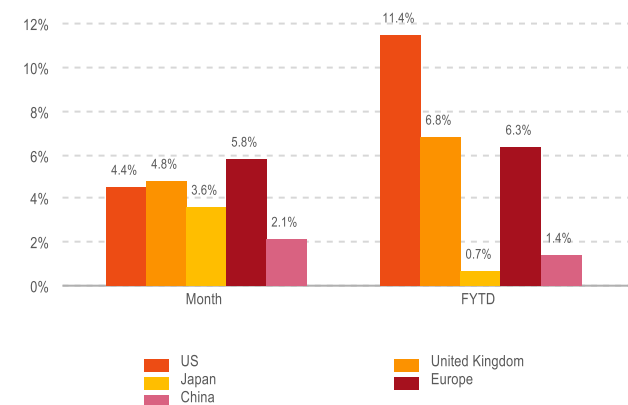
International equities (\$A)



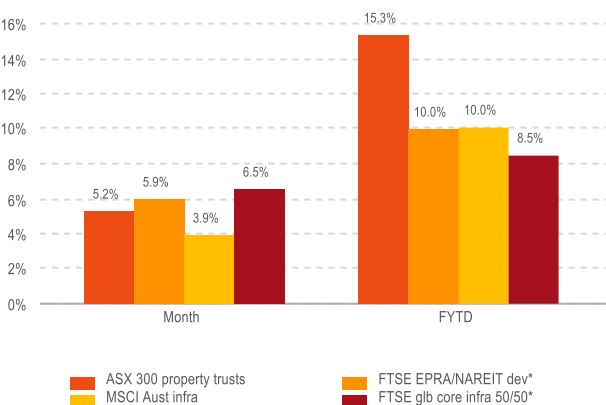
Australian dollar



International equities











Real assets



Details of the indices are in the table on the next page

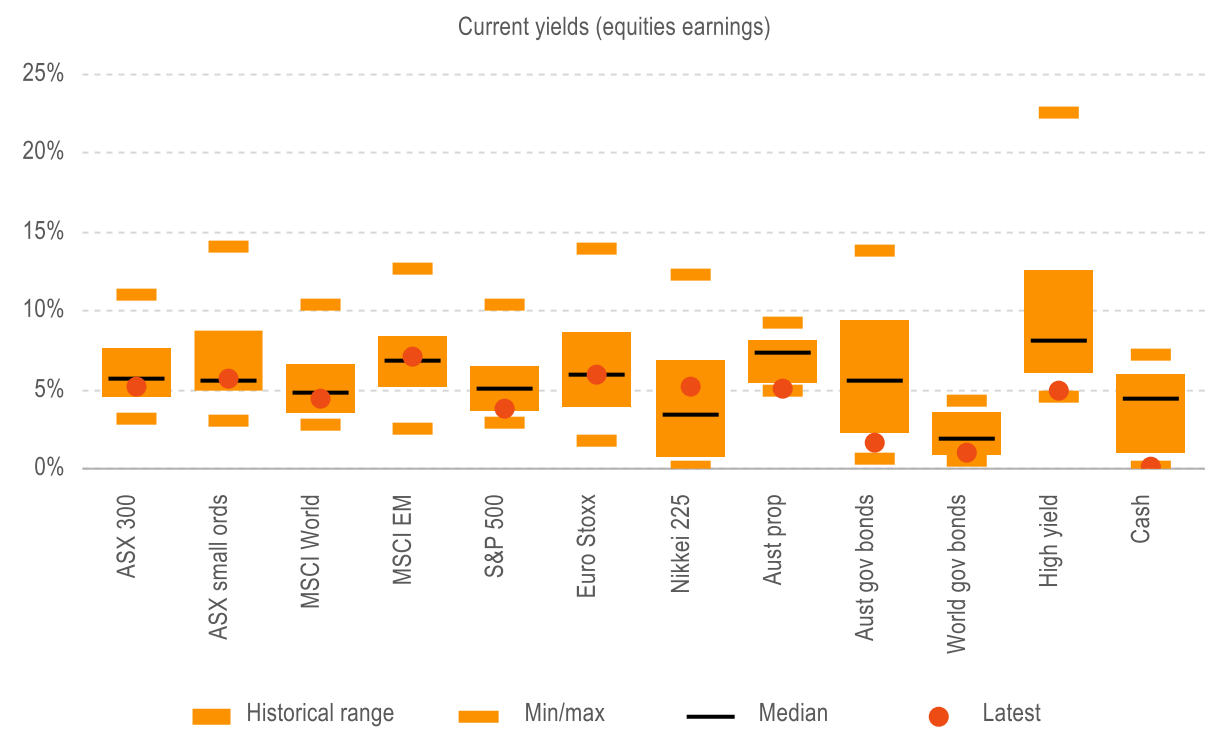
December 2021

	Index Value	Month	3 Months	FYTD	1 Year	5 Yr p.a.
 Australian Equities						
S&P/ASX 300 Accum. Index	7,454	2.7%	2.2%	4.0%	17.5%	9.9%
S&P/ASX 300 Accum. Industrials Index	11,603	1.8%	0.5%	5.0%	19.5%	9.0%
S&P/ASX 300 Accum. Resources Index	5,296	6.4%	9.9%	0.0%	10.2%	14.3%
ASX Small Caps Accum. Index	3,529	1.4%	2.0%	5.5%	16.9%	11.2%
 International Equities						
MSCI World Index (\$A)	4,978	1.7%	7.1%	11.3%	29.3%	14.9%
MSCI World Index (Hedged \$A)	4,307	3.9%	7.8%	8.4%	23.7%	13.9%
MSCI Emerging Markets Index (\$A)	1,223	-0.6%	-1.9%	-6.3%	3.4%	9.8%
MSCI World ex-Aus Small Cap Index (\$A)	639	1.0%	1.4%	3.9%	22.9%	12.2%
US (S&P 500 Index in USD)*	4,766	4.4%	10.6%	10.9%	26.9%	16.3%
US Tech (NASDAQ Index in USD)*	15,645	0.7%	8.3%	7.9%	21.4%	23.8%
United Kingdom (FTSE 100 Index in GBP)*	7,385	4.6%	4.2%	4.9%	14.3%	0.7%
Japan (Nikkei 225 Index in JPY)*	28,792	3.5%	-2.2%	0.0%	4.9%	8.5%
Europe (Stoxx 50 Index in EUR)*	4,298	5.8%	6.2%	5.8%	21.0%	5.5%
China (Shanghai Composite Index in CNY)*	3,640	2.1%	2.0%	1.4%	4.8%	3.2%
 AUD versus ...						
USD	0.73	1.6%	0.7%	-3.5%	-5.8%	0.1%
JPY	83.52	2.9%	3.6%	0.5%	5.1%	-0.2%
GBP	0.54	0.2%	0.3%	-1.0%	-5.0%	-1.8%
EUR	0.64	1.4%	3.2%	1.4%	2.3%	-1.4%
 Real Assets						
ASX 300 Listed Property Trusts Accum. Index	1,762	5.2%	10.1%	15.3%	27.0%	9.9%
FTSE EPRA / NAREIT Dev. Index (Hedged \$A)	1,958	5.9%	10.2%	10.0%	28.6%	6.9%
MSCI Australia Infrastructure	1,246	3.9%	3.5%	10.0%	13.1%	4.9%
FTSE Global Core Infra 50/50 Index (Hedged \$A)	2,544	6.5%	7.4%	8.5%	17.3%	9.5%
 Oil and Commodities						
Crude Oil (US\$/bbl)	75.2	13.6%	0.0%	2.2%	55.8%	7.0%
Copper Spot (US\$/tonne)	9,741	2.4%	8.9%	4.2%	25.7%	12.0%
Gold Spot (US\$/ounce)	1,822	2.4%	3.5%	3.2%	-4.0%	9.5%
 Australian Fixed Interest						
Bloomberg AusBond Composite Index	10,391	0.1%	-1.5%	-1.2%	-2.9%	3.4%
Bloomberg AusBond Government Index	10,805	0.0%	-1.5%	-1.1%	-3.1%	3.4%
Bloomberg AusBond Corporate Index	10,922	0.2%	-1.5%	-1.3%	-1.6%	3.9%
Bloomberg AusBond Bank Bill Index	9,022	0.0%	0.0%	0.0%	0.0%	1.1%
 Global Fixed Interest						
FTSE WGBI ex-Aus (Hedged \$A)	2,588	-0.9%	0.1%	0.1%	-2.4%	3.0%
Barclay's Global Agg. Bond Index (Hedged \$A)	1,095	-0.4%	0.0%	0.1%	-1.5%	3.2%
 Fixed Income (yields) as at ...						
	Dec 2021	Nov 2021	Sep 2021	Jun 2021	Dec 2020	Dec 2016
Australia Bank Bill	0.02	0.02	0.01	0.01	0.01	1.64
Australia 10-Year Government Bond	1.68	1.73	1.49	1.51	0.98	2.77
US 10-Year Government Bond	1.50	1.44	1.53	1.44	0.91	2.43
UK 10-Year Government Bond	0.97	0.81	1.02	0.72	0.20	1.24
Germany 10-Year Government Bond	-0.18	-0.34	-0.19	-0.20	-0.57	0.21
Japan 10-Year Government Bond	0.07	0.06	0.06	0.05	0.02	0.05

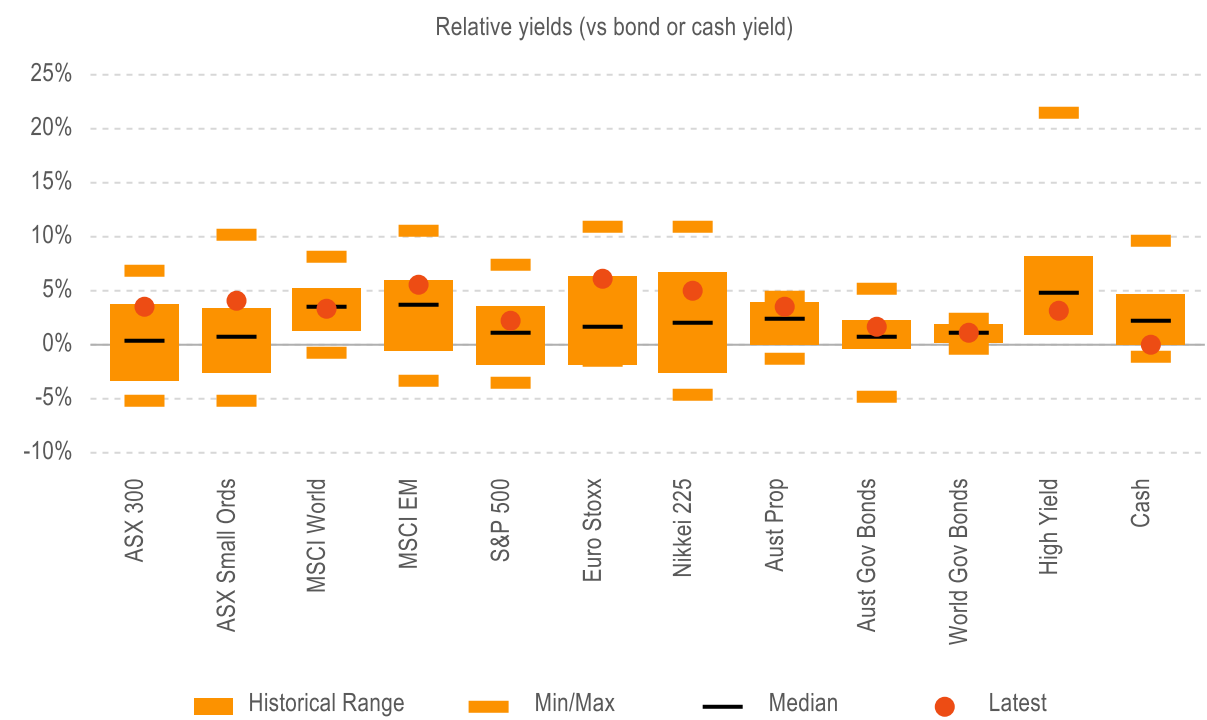
Source: Refinitiv Datastream

*Price Index

Asset class yields relative to history

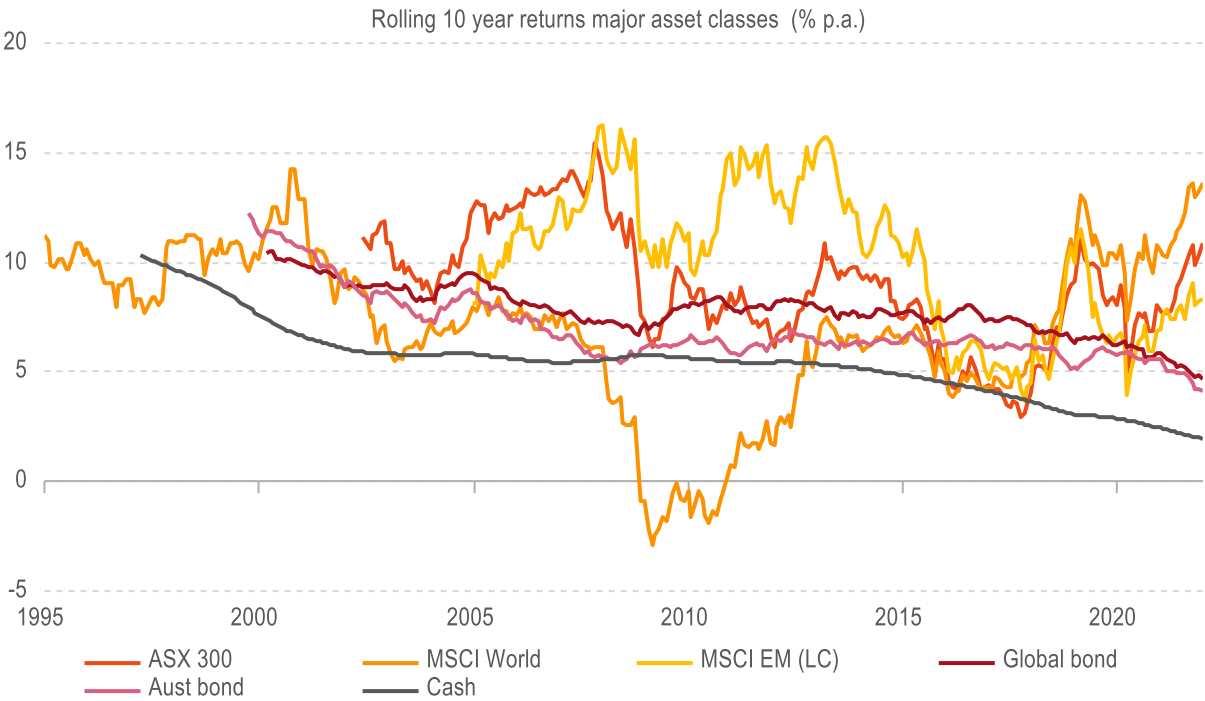


Source: Refinitiv Datastream

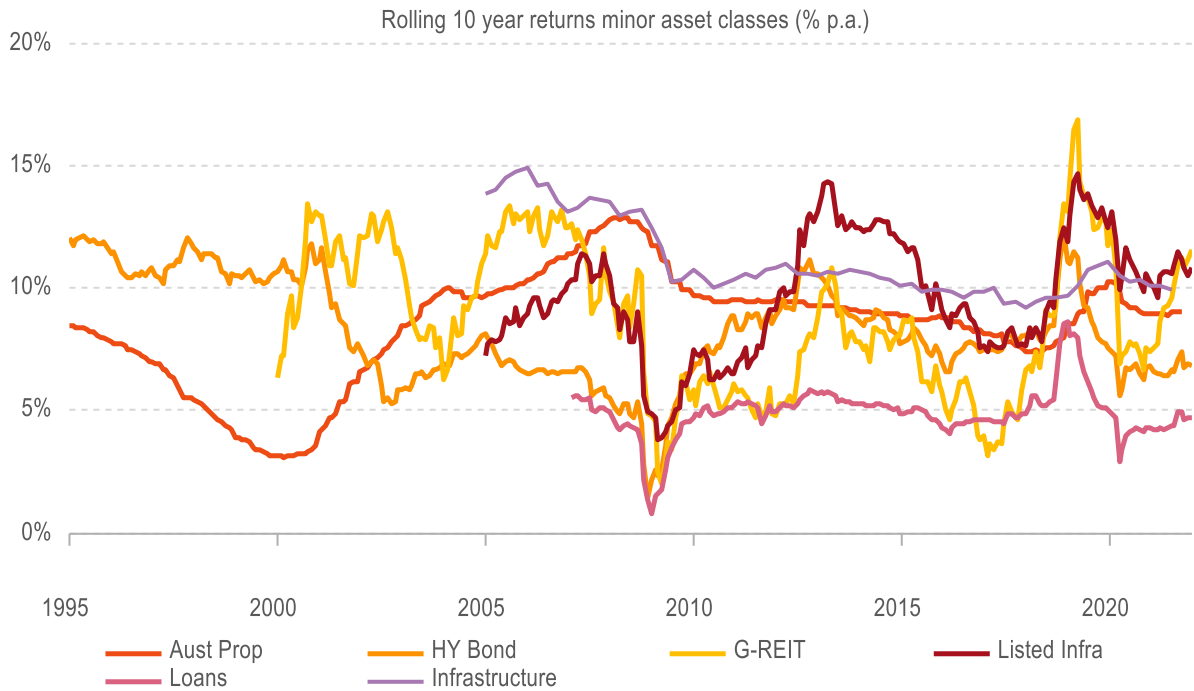


Source: Refinitiv Datastream

Asset class long-term returns

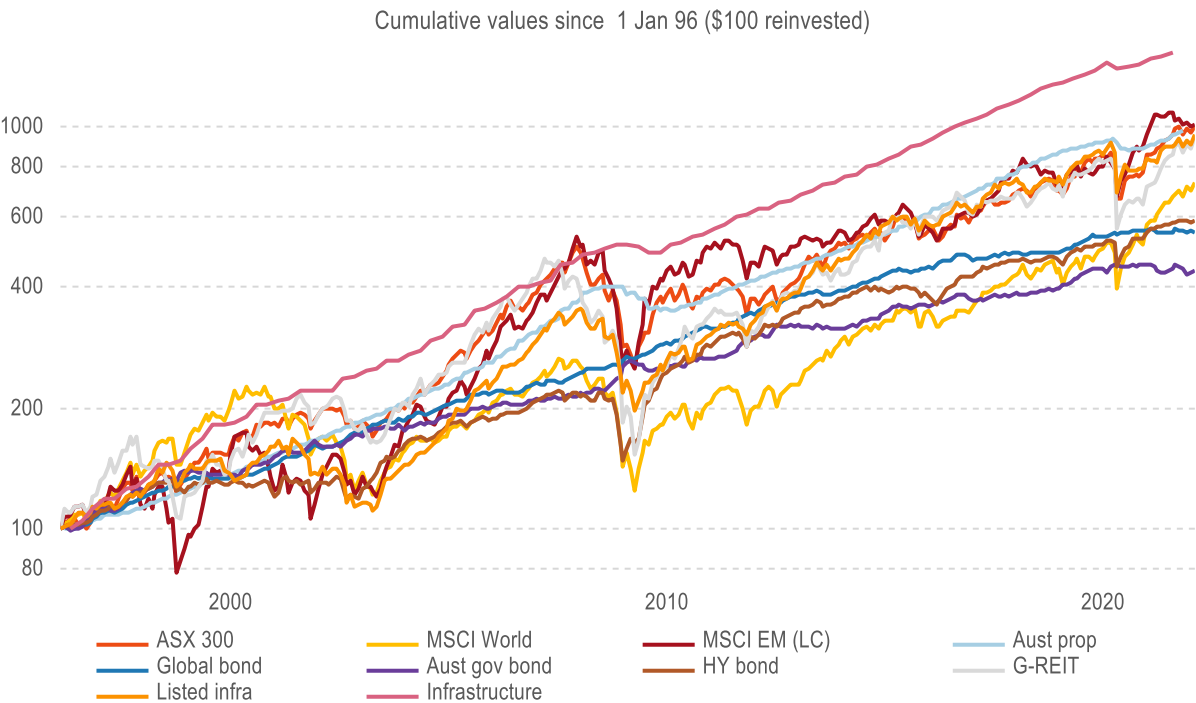


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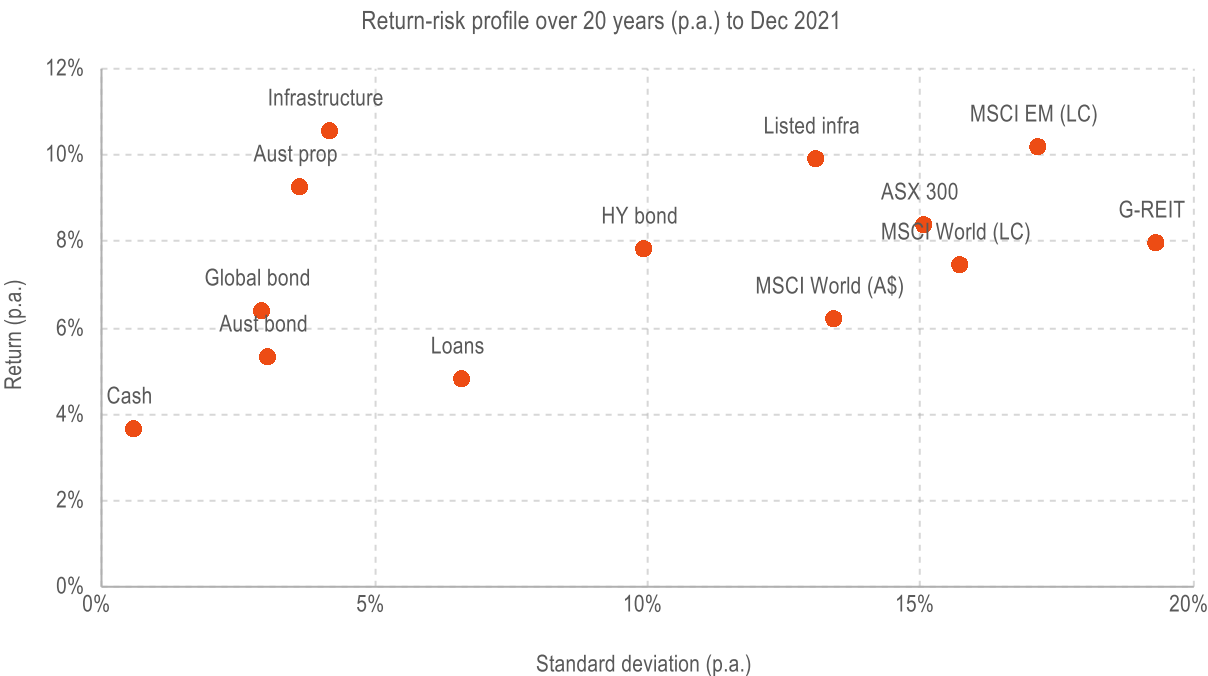


Source: Refinitiv Datastream

Asset class long-term returns



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