Market Update

FEBRUARY 2022

- Australia's S&P/ASX 200 Index declined by -6.4% with significant sell-offs experienced in Information Technology (-18.4%), Health Care (-12.1%) and Consumer Staples (-9.6%).
- Nonfarm payrolls rose 467,000 in January, well above of expectations of a 150,000 increase.
- Eurozone annual inflation rose to 5.3% amid continuing high energy prices.
- The RBA kept the cash rate on hold at 0.1% and will cease its $4-billion-a-week bond-buying stimulus program in early February.

January market performance

Equity Markets – Index Return*	Index	At Close 31/01/2022	% Return 1 Month	% Return 12 Months
Australia	S&P/ASX 200 Index	6971.63	-6.35%	9.44%
United States	S&P 500 Index	4515.55	-5.17%	23.29%
Japan	Nikkei 225 Index	27001.98	-6.21%	-0.76%
Hong Kong	Hang Seng Index	23802.26	1.73%	-13.64%
China	CSI 300 Index	4563.77	-7.62%	-13.21%
United Kingdom	FTSE 100 Index	7464.37	1.12%	20.72%
Germany	DAX 30 Index	15471.20	-2.60%	15.17%
Europe	FTSE Eurotop 100 Index	3500.12	-1.68%	26.24%

Property – Index Returns*	Index	At Close 31/01/2022	% Return 1 Month	% Return 12 Months
Listed Property	S&P/ASX 200 A-REIT Index	1587.50	-9.52%	18.97%

Interest Rates	At Close 31/01/2022	At Close 31/12/2021	At Close 31/01/2021
Australian 90 day Bank Bills	0.08	0.07	0.02
Australian 10 year Bonds	1.90	1.67	1.13
US 90 day T Bill	0.18	0.03	0.05
US 10 year Bonds	1.78	1.51	1.07

Currency**		At Close 31/01/2022	% Change 1 Month	% Change 12 Months
US dollar	AUD/USD	0.71	-2.77%	-7.61%
British pound	AUD/GBP	0.53	-2.12%	-5.74%
Euro	AUD/EUR	0.63	-1.49%	-0.05%
Japanese yen	AUD/JPY	81.31	-2.84%	1.59%
Australian Dollar Trade-weighted Index		59.30	-2.95%	-5.87%

* Closing index values are based on price indices. Index returns are expressed as total returns in local currency.
** All foreign exchange rates rounded to two decimal places.
Past performance is not a reliable indicator of future performance.

Global economies

Global Covid-19 cases continue to rise with numbers surpassing 380 million cases and ten billion vaccine doses administered as at the end of January. COVID, especially the Omicron variant, remains a drag on activity and consumer sentiment. The IMF sharply cut global growth forecasts for 2022 to 4.4% in its January update, with higher-than-expected inflation and the Omicron variant worsening the outlook for the global economy. The escalation in tension between Russia and Ukraine has put increased pressure on already high global energy costs.

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US

The Federal Reserve kept its policy rate unchanged at 0.00-0.25% at its January meeting and announced that with inflation well above 2% and a strong labour market, it expects it will soon be appropriate to raise the target range for the federal funds rate. The annual inflation rate accelerated to 7% in December, a fresh high since June 1982, but line with market expectations. Consumer sentiment dropped to 67.2 in January (68.8 expected), the lowest level since November 2011, with COVID concerns largely driving this fall. Non-farm payrolls rose 467,000 in January, well ahead of the market forecasts of 150,000, whilst the unemployment rate increased 10bps to 4.0% (3.9% expected). December saw personal income increase 0.3%, which is above the expected 0.4%. PPI increased 0.2% in December, below expectations of 0.4%, with the annual rate at 9.7%. The Markit Composite PMI slumped to 50.8 in January, signalling the slowest pace of expansion in business activity since July 2020. The Philadelphia Fed Manufacturing Index increased from 15.4 to 23.2 in January, above the expected 20.0. The trade deficit came in at US$80.7 billion deficit in December, a slight increase on the revised US$79.3 billion deficit in November and below the expected US$83.0 billion.

Europe

The European Central Bank made no change to interest rates at its January meeting, holding them at 0.0%, and pledged to reduce its bond purchases this year despite the record rise in inflation. The inflation rate increased 0.5% in December, with the annual rate staying at 5.2%. Economic sentiment for January was 112.7, 1.1pts lower than in December, with industrial sentiment dropping 0.7 pts to 13.9. The unemployment rate fell 10bps to 7.0% in December, which was slightly below market expectations of 7.1%. The Markit Composite PMI dropped to 52.3 in January, signalling the continued slowdown in the private sector as COVID-19 constrained activity. Retail sales fell 3.0% in December, the biggest decline in 8 months and far below the expected 0.5% increase. Annual retail sales came in at 2%, well below the expected 5.1%. PPI rose 2.9% in December, slightly above expectations of 2.8%, while the annual rate increased 26.2% (26.1% expected).

In the UK, the base interest rate remained at 0.25%, with an increase to 0.5% likely in February amid growing concern over the pressure on households from high inflation. GDP increased 0.9% in November, ahead of the 0.4% rise expected, with the annual rate rising from 5.1% to 8.0%. Inflation rose 0.5% in December, above the expected 0.3%, taking the annual rate to 5.4%, above the expected 5.2%. The November unemployment rate came in at 4.1%, the lowest rate since June 2020 and below market expectations of 4.2%. January saw consumer confidence drop to its lowest level in 11 months at -19, as consumer mood was dampened by persistently high inflation. The Markit/CIPS Composite PMI edged down to 53.4 in January from 53.6 in December, missing market expectations of 55.0. This is the slowest rate of output expansion since the recovery from lockdown began in March 2021. Retail Sales for December were down 3.7% on the prior month, well below expectations of a 0.6% fall. Annual retail sales were down 0.9%, far weaker than the 3.4% growth in the prior month and largely due to Omicron related disruptions.

China

GDP rose 1.6% in Q4 2021, above the expected 1.1% rise, with the yearly rate also coming in ahead of expectations at 4.0%. Industrial production rose year on year 4.1% in December, higher than the expected 3.6% and largely driven by an increase in energy production. The unemployment rate rose marginally to 5.1% in December, the highest rate since August 2021. Annual retail sales eased in December to 1.7%, well below the 3.7% expected. This was the lowest figure since August 2020, as consumption weakened due to sporadic COVID-19 outbreaks. The Caixin Manufacturing PMI fell to a 23-month low of 49.1 in January, below expectations of 50.4, while the Caixin composite PMI came in at 50.1, down on the 53.0 in December. The latest readings point to the second contraction in factory activity in three months, amid COVID-19 flare-ups and strict control under the country's zero coronavirus approach. Beijing has been preparing for the 2022 Winter Olympics, starting on 4 February, amid strict Covid restrictions that will effectively create an 'Olympic bubble' to separate it from the rest of the city.

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Asia region

The Bank of Japan left interest rates unchanged at -0.10% during its January meeting. It also stressed that it would maintain its ultra-loose monetary policy even as its global counterparts seek to exit from crisis-mode policies. CPI was 0.1% for December, slightly below the 0.2% expectation whilst yearly CPI was 0.8%, slightly ahead of the expected 0.7%. Japan's unemployment rate fell 10bps to 2.7% in December, against expectations of 2.8%. Japanese consumer confidence declined to a 5-month low of 36.7 in January, largely due to uncertainties caused by growing cases of the Omicron strain in most parts of the country. Retail sales decreased 1% in December, turning negative for the first time in four months, while the yearly rate improved 1.4%. Household spending increased to 0.10 percent in December from -1.30 percent in November, with the annual rate declining 0.2%, missing forecasts of a 0.3% increase.

Australia

The RBA left the cash rate unchanged at 0.1%, as widely expected, and decided to stop the A$275 billion bond-buying program with the final purchases to take place on February 10. The board emphasized that the halt in quantitative easing did not imply a near-term hike in interest rates as it was still prepared to be patient. Retail sales decreased 4.40% in December, in line with expectations. The unemployment rate in December was 4.2%, 40bps lower than expected and lower than the 4.6% the previous month. The Westpac consumer sentiment index declined 2% to 102.2 in January, with consumers in NSW and VIC appearing less unsettled by the rapid spread of the Omicron variant than those in states experiencing their first major wave of COVID infections. The Markit Composite PMI fell to 46.7 in January, pointing to the first contraction in private sector activity in four months due to the latest surge in COVID infections as operations were disrupted. Quarterly PPI increased 1.3% in December, 40bps above expectations and 20bps higher than the previous result whilst the yearly rate came in at 3.7%, 60bps above expectations and 80bps higher than the previous result. The trade surplus dropped to $8.36 billion in December from an upwardly revised $9.76 billion in the previous month, the smallest surplus since March 2021.

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EQUITY MARKETS

- Australia's S&P/ASX 200 Index declined by -6.4% with significant sell-offs experienced in Information Technology (-18.4%), Health Care (-12.1%) and Consumer Staples (-9.6%).
- Offshore markets also had a challenging month with falls across a range of markets including the US, Europe, and Asia.
- The increase in volatility was likely caused by growing fears of inflation and prospective rate hikes while growing geopolitical tensions in Eastern Europe increased uncertainty and reduced market sentiment.

Australian equities

	Index/Benchmark (% pa)	1 Month	1 Year	3 Years	5 Years	7 Years
Australian	S&P/ASX 200 Acc. Index	-6.35%	9.44%	9.76%	8.50%	7.47%
	S&P/ASX 50 Acc. Index	-5.57%	9.72%	9.19%	7.91%	6.68%
	S&P/ASX Small Ordinaries Acc. Index	-9.00%	6.65%	10.12%	9.63%	9.67%

The Australian share market closed out January 2022 with the S&P/ASX 200 losing -6.4% with eight out of the eleven sectors within the Index finishing lower. Specifically, Energy was the standout sector with a return of +7.9%, whilst Utilities (+2.6%) and Materials (+0.8%) also finished positive. A heavy decline in the Information Technology sector (-18.4%) and Health Care sector (-12.1%) led what was a dismal month for the broader market.

The Energy sector was boosted by surging prices and a bullish outlook for Brent and Crude Oil in light of various tailwinds for the sector such as tight supply, geopolitical tensions and reduced fear around future lockdowns. Once again, the Information Technology sector suffered substantial losses as investors rotated from growth stocks. The catalysts included rising rates along the yield curve and several central banks indicating forward guidance of tightening monetary policy and quantitative easing to combat inflationary pressures.

Growth and Equal Weight led the decline amongst factors for the month with losses of -8.4% and -7.9% respectively. All factors finished with negative returns with growth providing the largest fall. Over the past 12 months, value is the leading factor (+14.2%), with Equal Weight (-5.7%) delivering the lowest 3-month returns.

Investment Index/Benchmark returns*

S&P/ ASX 200 Index

Sector	1 Month	3 Months	1 Year
Energy	7.88%	1.15%	7.09%
Utilities	2.56%	14.97%	12.68%
Materials	0.79%	14.10%	16.04%
Financials ex-Property	-6.53%	-9.30%	14.49%
Industrials	-7.59%	-3.04%	8.47%
Communications	-8.02%	-2.46%	18.75%
Consumer Discretionary	-8.69%	-8.81%	8.42%
Property	-9.52%	-0.82%	18.97%
Consumer Staples	-9.59%	-7.77%	-2.44%
Health Care	-12.13%	-13.03%	-2.11%
Information Technology	-18.43%	-24.99%	-20.52%

*Total returns based on GICS sector classification

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BIG MOVERS THIS MONTH

Going up

⇑	Energy	+7.9%
⇑	Utilities	+2.6%
⇑	Materials	+0.8%

Going down

⇓	Consumer Staples	-9.6%
⇓	Health Care	-12.1%
⇓	Information Technology	-18.4%

Global Equities

	Index/Benchmark (% pa)	1 Month	1 Year	3 Years	5 Years	7 Years
Global	MSCI World Ex Australia Index (AUD)	-2.20%	27.30%	18.09%	15.11%	12.68%
	MSCI World Ex Australia Index (LCL)	-4.91%	19.18%	16.87%	13.17%	11.22%
	MSCI World Ex Australia Small Cap Index (AUD)	-4.59%	13.53%	13.49%	11.63%	11.04%
Emerging	MSCI Emerging Markets Index (AUD)	1.24%	1.03%	8.42%	9.92%	7.25%
	MSCI AC Far East Index (AUD)	-1.14%	-3.42%	8.35%	9.12%	7.82%

Subsequent to a positive end to 2021, global markets struggled in the first month of the year, challenged primarily by prospective interest rate hikes and geopolitical tensions in the Ukraine. As the AUD fell over the month of January, all of the following figures are in local currency terms for relative comparability. Developed markets slumped over the month of January declining by -4.9%, Global small caps continued to lag their broad cap counterparts posting a -7.0% loss for the month. Emerging and Asian markets fared somewhat better with monthly returns of -1.8% and -3.8% respectively.

The key focus for investors worldwide continues to be the impact that inflation will have on markets. This has seemingly created favourable market conditions for value stocks over the last month, with value displaying monthly outperformance of over 7.4% relative to growth according to the respective MSCI ACWI Value and Growth indices in local currency terms. This is only the second time since the inception of the index that Value has outperformed growth in excess of 5%.

Property

	Index/Benchmark (% pa)	1 Month	1 Year	3 Years	5 Years	7 Years
Australian	S&P/ASX 200 A-REIT Acc	-9.52%	18.97%	6.96%	8.24%	7.85%
Global	FTSE EPRA/NAREIT Developed Ex Australia Index (AUD Hedged)	-5.41%	23.66%	6.04%	6.82%	5.48%

The S&P/ASX 200 A-REIT Index (AUD) started off the year with a material drawdown, finishing the first month of 2022 down -9.5%. Global real estate equities (represented by the FTSE EPRA/NAREIT Developed Ex Australia Index (AUD Hedged)) also had a poor month, closing -5.4% lower in January. The sell-off likely stemmed from the growing concern of the Omicron variant and a hawkish Federal Reserve.

M&A activity was quieter during January across the ASX200 A-REIT sector. Centuria Capital Group (ASX: CNI) announced it has secured, off-market, the West Village in Brisbane, for $202 million, as part of an existing institutional mandate on behalf of an international sovereign wealth fund. Centuria Industrial REIT (ASX: CIP) announced a portfolio acquisition of six high-quality industrial assets across the eastern seaboard of Australia totalling $132m in value.

Despite the volatility in financial markets during January, the Australian domestic housing market advanced, with all CoreLogic reported cities experiencing positive growth during the month. Brisbane led the charge, advancing 2.3% in January. Brisbane (incl Gold Coast)

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is on top for YoY returns, up 30.1%, closely followed by Brisbane with 29.2%. The CoreLogic 5 capital city aggregate rose by 0.8% in January.

Fixed Interest

	Index/Benchmark (% pa)	1 Month	1 Year	3 Years	5 Years	7 Years
Australian	Bloomberg AusBond Composite 0+ Yr Index	-1.02%	-3.46%	2.30%	3.02%	2.80%
	Bloomberg AusBond Bank Bill Index	0.01%	0.03%	0.57%	1.08%	1.38%
Global	Bloomberg Barclays Global Aggregate Index (AUD)	1.08%	2.55%	3.54%	4.24%	3.41%
	Bloomberg Barclays Global Aggregate Index (AUD Hedged)	-1.64%	-2.58%	2.62%	2.88%	2.93%

Fixed Income markets performed poorly throughout January, as concerns surrounding high rates of inflation and tight labour markets resulted in increasing yields. The Reserve Bank of Australia recently announced an end to their quantitative easing program on 10 February, but Governor Phillip Lowe has not given any indication of an increase to the cash rate in the short term, with the Board wanting to see inflation sustainably within their 2-3% target range, and increased wage growth first. Despite these statements, markets are currently pricing in 3-4 rate hikes before the end of 2022.

Over the course of January, yields for 10-year Australian Government Bonds increased by more than 20bps. This was the primary driver behind the Bloomberg AusBond Composite 0+ Year Index’s performance of -1.0% throughout January. Credit spreads also widened over the course of the month, further contributing to the Index’s poor performance.

Internationally, the US has been facing high levels of both inflation and wage growth, which has driven the Federal Reserve to adopt a more hawkish stance. While there has been no rate hike yet, the Federal Reserve’s forward guidance suggests that an increase will occur within the next few months, which is in-line with current market expectations. This, among other events, resulted in the Bloomberg Barclays Global Aggregate Index (AUD Hedged) returning -1.6% over the course of January, with currency fluctuations resulting in the unhedged variant returning 1.1%.

Australian dollar

The Australian dollar waned over the month of January closing -2.8% lower relative to the greenback and -2.9% in trade-weighted terms. The dollar experienced tailwinds early in the month due to disjointed behaviour between the US dollar and US bond yields reaching a high of 0.73. Hawkish commentary from the federal reserve surfaced later in the month, driving the USD to above its 2021 highs, washing away gains made by the AUD early in the month.