

Market Review

January 2020

How the different asset classes have fared:
(As at 31 January 2020)

Asset Class	10 Yr % p.a.	5 Yr % p.a.	3 Yr % p.a.	1 Yr % p.a.	YTD %	6 Mo %	3 Mo %	1 Mo %
Cash ¹	2.84	1.88	1.70	1.40	0.08	0.49	0.24	0.08
Australian Bonds ²	5.85	4.32	5.73	9.06	2.33	2.00	1.47	2.33
International Bonds ³	6.32	4.13	4.86	8.09	1.81	2.69	1.32	1.81
Australian Shares ⁴	9.01	9.64	12.40	24.88	4.69	5.33	5.86	4.69
Int. Shares Unhedged ⁵	13.22	12.57	16.41	28.39	4.29	11.25	8.30	4.29
Int. Shares Hedged ⁶	12.54	10.13	11.46	18.10	-0.42	7.28	5.10	-0.42
Emerging Markets Unhedged ⁷	6.48	7.30	11.77	12.75	-0.53	6.27	5.28	-0.53
Listed Infrastructure Unhedged ⁸	13.72	11.32	17.39	29.97	7.96	12.03	8.41	7.96
Australian Listed Property ⁹	12.65	10.98	13.60	19.95	6.30	4.00	4.10	6.30
Int. Listed Pty Unhedged ¹⁰	12.94	7.58	12.26	21.63	5.83	9.81	2.05	5.83

1 Bloomberg AusBond Bank 0+Y TR AUD, 2 Bloomberg AusBond Composite 0+Y TR AUD, 3 Bloomberg Barclays Global Aggregate TR Hdg AUD, 4 S&P/ASX All Ordinaries TR, 5 Vanguard International Shares Index, 6 Vanguard Intl Shares Index Hdg AUD TR, 7 Vanguard Emerging Markets Shares Index, 8 FTSE Developed Core Infrastructure 50/50 NR AUD, 9 S&P/ASX 300 AREIT TR, 10 FTSE EPRA/NAREIT Global REITs NR AUD

Australian shares rallied sharply in January, while international share markets (hedged) were broadly unchanged. Australian and international bond yields fell, and the Australian dollar depreciated against the US dollar.

Cash and Fixed Income

Australian and international bond yields steadily fell in January (bond prices rose). Bonds yields initially fell modestly following an escalation in tensions between the US and Iran early in the month, before extending lower after the outbreak of the coronavirus as investors flocked to safe-haven assets (pushing bond prices up and bond yields down).

The release of generally stronger-than-expected Australian economic data appeared to have little impact on bond yields over the month. Retail sales rebounded in November (boosted by Black Friday sales which likely pulled sales forward from December) and employment data was stronger-than-expected (driven by part-time jobs) which resulted in a slight fall in the unemployment rate. Inflation was also a touch higher than expectations but still well below the RBA's 2-3% target. With economic data generally better than expected, the market pared back expectations of a rate cut by the RBA at its February meeting to only a 10-20% chance. House prices strengthened further in December, led by strong gains in Sydney and Melbourne. Housing loan approvals also continued to increase, while housing credit growth remained subdued. The devastating bushfires in Australia over the summer are expected to negatively impact growth in the short-term due to significant disruption in the affected areas and the impact on tourism. However, there will likely be a positive impact from rebuilding in the medium-term.

The US Federal Reserve and the European Central Bank kept monetary policy unchanged in January.

Australian Shares

The Australian share market rallied by 4.7% in January, more than reversing its December losses, led by gains in the healthcare and information technology sectors. The share market rose strongly in the first half of the month, although there was little news behind the move, other than signs that global growth appeared to be stabilising and the signing of the 'phase one' trade deal between the US and China. However, Australian shares pared gains later in the month following the outbreak of the coronavirus. Since China accounts for nearly one-third of Australia's exports, there will be a negative impact on Australian economic growth due to a temporary disruption to tourism, education and commodities exports.

International Shares

International share markets (hedged) finished the month slightly lower, with early gains eroded later in the month following the outbreak of the coronavirus. However, unhedged international shares performed strongly as the Australian dollar fell over the month. Asian shares were hit particularly hard later in the month due to the coronavirus. Coronavirus has already impacted the level of economic activity in China and will likely result in significantly lower economic activity for the region in the March and June quarters (due to lower retail spending, travel and closed or not fully operational businesses).

The US reporting season started in January, with around 45% of companies reporting Q419 results over the month. Most companies that reported earnings surprised to the upside.

The Australian Dollar

The Australian dollar depreciated by around 4% against the US dollar over the month, more than reversing its appreciation in December. The Australian dollar was weighed down by negative risk sentiment due to the coronavirus, lower iron ore prices (due to concerns about the impact of the coronavirus on Chinese demand for iron ore) and a widening in the differential between Australian and US interest rates.

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