Month in Review as at January 2023

Australian Equities	1 mth	3 mth	6 mth	1 yr	3 yr	5 yr	10 yr
S&P/ASX 200 TR Index	6.23	9.59	10.32	12.21	5.96	8.51	8.79
S&P/ASX Small Ordinaries TR Index	6.56	7.64	2.35	-4.44	2.41	4.35	5.37
Global Equities							
MSCI World NR Index (AUD)	3.05	-0.49	1.16	-7.47	5.76	9.50	13.42
S&P 500 PR Index (USD)	6.18	5.28	-1.30	-9.72	8.12	7.62	10.53
FTSE 100 PR Index (GBP)	4.29	9.54	4.69	4.12	2.17	0.62	2.16
MSCI Emerging Markets NR Index (AUD)	3.84	10.85	3.90	-12.13	-0.31	1.30	6.15
Real Estate Investment Trusts							
S&P/ASX 300 A-REIT TR Index	8.07	9.73	0.42	-4.59	-0.28	6.11	8.86
FTSE EPRA/NAREIT Dev. NR Index (AUD Hgd)	8.01	9.01	-6.58	-13.31	-3.56	1.39	4.98
Fixed Interest							
Bloomberg Ausbond Composite 0+ Yr Index	2.76	2.20	-0.85	-6.26	-2.74	1.14	2.63
Bloomberg Ausbond Bank Bill Index	0.27	0.77	1.31	1.52	0.61	1.03	1.67
Bloomberg Global Aggregate TR Index (AUD Hgd)	2.10	3.15	-3.53	-8.94	-3.08	0.34	2.57

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).

Key Points

- Equity markets had a strong month with Australia's S&P/ASX 200 Index returning 6.2%. All sectors of the market finished the month in positive territory led by Consumer Discretionary, Materials and Property.
- Globally, developed markets performed strongly with the S&P 500 Index (USD) returning 6.3% and the FTSE Eurotop 100 Index (EUR) returning 6.6%.
- Likewise, in Asia the Hang Seng Index (HKD) generated a strong return of 10.4% and the CSI 300 Index (CNY) finished up 7.4%.

Australian equities

The Australian market commenced the year convincingly, with the S&P/ASX 200 Accumulation Index rising by 6.2% and every sector finishing positively apart from the Utilities (-3.0%) sector. In particular, the gain represents the best start to the year since the inception of the Index. The Consumer Discretionary (+9.9%) and Materials (+8.9%) sectors led the market as investor optimism around the future cash rate and inflation trajectory in an Australian and global context buoyed the broader market.

The Utilities sector was the biggest laggard as investors pivoted away from more defensive sectors in favour of more cyclical exposures. The Consumer Discretionary sector performed robustly as companies reported earnings. The Materials sector performed strongly as several commodities continued their recent rally on the back of the China re-opening demand. Further, the volatility in the Australian market was relatively subdued. Broadly speaking, the more 'growth' oriented and interest-rate sensitive sectors exhibited solid performance as investors weighed up the potential for central bank policy rate cuts in Australia and other global economies.

Global equities

Global equities started on a positive note as optimistic views around inflation fed through to possibilities around an ease in central bank tightening. Emerging markets outperformed developed market counterparts returning 3.8% (MSCI Emerging Markets Index (AUD)) versus a 3.0% gain according to the MSCI World Ex Australia Index (AUD).

Investor confidence was elevated during the month as global macro data surprised to the upside combined with China reopening earlier than expected. This was reflected by the Hang Seng Index and the CSI 300 Index, returning 10.4% and 7.4% respectively (in local currency terms) for the month. In the US, over a third of companies have reported, with earnings in aggregate being 0.6% above consensus and the S&P500 Index posting a monthly return of 6.3% (in local currency terms). Over in Germany, the DAX 30 Index reported a gain of 8.7% for the month (in local currency terms) as it continued to benefit from the easing of supply disruptions, a decline in the risk of gas rationing and further fiscal support.

Property

The S&P/ASX 200 A-REIT Accumulation index had a strong start to the calendar year advancing during January, with the index finishing the month 8.1% higher. Global real estate equities (represented by the FTSE EPRA/NAREIT Developed Ex Australia Index (AUD Hedged)) also finished strongly, advancing 8.2% for the month. Australian infrastructure performed well during January, with the S&P/ASX Infrastructure Index TR advancing 1.9% for the month.

The positive start to the year is a welcome sight for REIT investors, as the listed property sector suffered a material decline in 2022. 2022 was the worst-performing year for REITs since the global financial crisis. Capital raising is expected to be a prominent theme in Q1 this year with the significant change in debt markets and cost of capital. In the global REITs market, we have already seen eight capital offering instruments in January, raising a total of $4.1bn in capital, in contrast to the $250m raised in December.

The Australian residential property market experienced a –1.1% change month on month in January represented by Core Logic's five capital city aggregate. Brisbane (- 1.4%), Sydney (-1.2%), Melbourne (-1.1%) and Adelaide (-0.3%) all performed poorly whilst (0%) stayed relatively neutral.

Fixed Income

With no RBA meeting in January, there has been a pause on rate hikes, with rates expected to rise once again in February. This led to Australian 2- and 10- year Government bond yields falling by 23bps and 50bps, respectively. The fall in bond yields resulted in almost every fixed income sector being in the green, resulting in the Bloomberg AusBond Composite 0+ Yr Index to return 2.7% over the course of the month. Inflation has now risen to 7.8%, over the past 12 months to December, and CPI rose 1.9% this December quarter according to ABS data.

Globally, fixed income markets showed a mixed story, with US markets bracing for another rate hike in the next Federal Reserve Meeting on February 1. US 10-year Bond yields rose 37bps and US 90 Day T-Bill yields rose 30bps. In the United Kingdom, markets also await the return of the BoE meetings in February, with the current January bank rate sitting at 3.50%. Over January, U.K. 2 Year Gilt yields fell 11bps and U.K. 10 Year Gilt yields by 34bps.

Key points

- World Bank projects the global economy to grow by 1.7% in 2023 and 2.7% in 2024.
- Australian inflation for Q4 2022 rose to 7.8%, putting pressure on the RBA to increase the cash rate at its next meeting.
- The IMF forecasts the UK economy will contract by 0.6% in 2023 and be the only advanced economy to be in recession.

Australia

No RBA meeting was held in January, so the cash rate remained at 3.1%. However, as inflation remains high, the RBA is expected to raise rates when it meets in early February. The annual inflation rate for the December quarter rose to 7.8%, above the market forecast 7.5%, driven by rising food, fuel and new dwelling construction costs.

The unemployment rate rose marginally to 3.5% in December, above the market estimate of 3.4%. Retail sales fell 3.9% in December, amid high cost of living pressures and a change in buying patterns as shoppers took advantage of heaving discounting in November.

The Westpac-Melbourne Institute Index of Consumer Sentiment for January increased to 84.3, the largest monthly gain since April 2021. However, Westpac expects the Reserve Bank Board to continue its interest rate policy tightening in February which may impact future consumer sentiment. Composite PMI rose to 48.5 in January, with a contraction in services and the Services PMI below the 50.0 neutral level. The NAB business confidence index rose 3 points to -1 in December, staying in negative territory for a second month and below its long-run average.

The trade surplus narrowed to $12.2 billion in December, just below the market forecasts of $12.5 billion.

Global

The World Bank released its Global Economic Prospects report, projecting the global economy to grow by 1.7% in 2023 and 2.7% in 2024. This sharp downturn in growth will be widespread in the face of elevated inflation, higher interest rates, reduced investment, and disruptions caused by Russia’s invasion of Ukraine.

The Bank projects growth in advanced economies to slow from 2.5% in 2022 to 0.5% in 2023, with the US forecast at 0.5%, the Euro-zone at 0% and China at 4.3% for 2023. Over the past two decades, slowdowns of this scale have foreshadowed a global recession.

US

The Federal Reserve did not meet in January, so rates remained at 4.5%. Non-farm payrolls unexpectedly added 517,000 new jobs in January, well ahead of expectations of 185,000, led by gains in leisure and hospitality, profession and business services and health care. The unemployment rate was lower than expected at 3.4%. Consumer confidence unexpectedly dropped to 107.1 in January as households continued to worry about the economy's prospects over the next six months. Retail sales declined 1.1% month-on-month in December, greater than the expected 0.8% fall, as holiday shopping was pulled forward into October.

The S&P Global Composite PMI rose to 46.8 in January indicating a softer contraction than in previous months. PPI fell 0.5% in December, adding to signs that inflationary pressure is easing, with the annual rate increasing to 6.2%, the lowest rate since March 2021.

The US trade deficit widened to $67.4 billion in December, against the forecast $68.5 billion.

Euro zone

The annual inflation rate in the Euro area fell to 8.5% in January, below the expected 9.0% with energy prices rising at a slower pace but food, alcohol and tobacco rising by 13.8%.

Consumer confidence rose to -20.9 in January, the highest since February 2022 on hopes lower energy prices and recovery fund spending might help avoid a recession. Retail sales declined 2.7% in December, while the annual rate dropped 2.8%, in a sign that rising prices and interest rates are weighing on consumer spending. November’s unemployment rate was stable at 6.6%, above market forecasts of 6.5%.

The Composite PMI rose to 50.3 in January, pointing to the first month of expansion in private sector since June 2022, helped by a rebound in services activity.

PPI rose 1.1% in December, well above the expected 0.4% with the annual rate easing further to 24.6%, well above the expected 22.5%.

UK

Inflation eased to 10.5% in December, the lowest rate in three months and matching the market forecast. Inflation is projected to fall to around 8.0 percent by mid-2023, and to around 4.0% towards the end of the year.

Consumer confidence fell to -45 in January, well below the expected -40, as consumers continue to grapple with persistently high inflation and soaring energy bills. Retail sales dropped 1.0% in December as consumers cut back on spending due to increased prices and affordability concerns. The annual rate dropped 5.8%, well below the forecast 4.1% decline.

The composite PMI index fell to 48.5, marginally below the 49 in December.

The IMF predicts that the UK economy will contract 0.6% in 2023 and be the only advanced economy to be in recession this year. It tempered this news by stating that it now believes the country is on the right track and expects the economy to grow 0.9% in 2024.

China

China’s economy slowed sharply only growing 3% in 2022, well below the official target of 5.5% for the year. The population also shrank for the first time since 1961 and combined with an ageing population, will have implications for future economic growth.

Prices were stable in December, with the annual rate rising to 1.8%, which is line with forecasts.

The unemployment rate dropped to 5.5% in December amid easing of zero-COVID policy restrictions.

Composite PMI rose to 51.1 in January, buoyed by the removal of harsh pandemic measures. Retail sales fell 0.14% in December, with the annual rate dropping 1.8%, much better than the expected 8.6% fall.

Asia region

The Bank of Japan maintained its key short terms interest rate at -0.1% at its January meeting. In its quarterly report, the bank lowered its FY23 GDP outlook from 1.9% to 1.7%.

Inflation increased 0.3% month on month and 4.0% annually in December, the highest reading since January 1991, amid higher process for imported raw commodities and continued weakness of the yen.

The unemployment rate was unchanged 2.5% in December, in line with forecasts. Wage growth jumped 4.8% in December on the back of a surge in special payments which helped overall wage growth.

The consumer confidence index in Japan increased to 31.0 in January as the economy continues to

recover from pandemic disruptions. Retail Sales in Japan rose 1.1% in December, almost double the market consensus of a 0.6% rise, with the annual rate rising 3.8%.

The Composite PMI rose to 50.7 in January, with growth in the service sector due to the National Travel Discount Program.

Currencies

The Australian dollar (AUD) gained ground over the first month of 2023, closing 1.6% higher in trade weighted terms to 62.4. Additionally, the AUD appreciated against all four major currencies referenced in this update.

Volatility over the month was generally moderated as January welcomed positive risk sentiment among investors with equity and bond markets alike experiencing a lift. Given the broad shift of inflation into decline across the globe, investor confidence has buoyed as an end to the rate hike cycle seemingly approaches. This sentiment, coupled with strong expectations of growth from the reopening Chinese economy in 2023 has provided support to Australian exported commodities and consequently the AUD.

Relative to the AUD, the Pound Sterling (GBP) led the pack in January, albeit with a negative return of -1.5%. Conversely, the US dollar (USD) was the laggard of the month falling by -3.5%. Year-on-year, the AUD remains ahead of the Japanese Yen (JPY), GBP and now the Euro (EUR) by 12.9%, 8.8% and 3.1% respectively. However, the AUD continues to modestly trail the USD by -0.2%.