

## Monthly Market Update – January 2022

Asset Class total returns to:	31/01/2022	1M (%)	3M (%)	6M (%)	1Y (%)	3 Y (% p.a.)	5 Y (% p.a.)	Current Yield
Cash		0.0	0.0	0.1	0.1	0.7	1.1	0.1%
Fixed Term Bank Deposit (12M)		0.0	0.1	0.2	0.4	1.0	1.4	0.3%
Australian Bonds (composite)		-1.0	1.1	-3.9	-3.5	2.3	3.0	2.3%
Australian Bank Hybrids (gross yield to call)		-0.5	0.3	1.2	3.2	4.0	4.0	3.4%
Australian Property		-9.5	-0.9	4.0	19.9	7.6	8.8	3.7%
Australian Shares		-6.4	-4.3	-3.8	9.4	9.8	8.5	3.9%
Global Shares (unhedged)		-2.2	3.1	4.8	27.3	18.1	15.1	1.8%
Global Infrastructure (hedged)		-2.8	1.4	3.9	16.3	6.9	7.9	3.0%
Key indicator movement to:	31/01/2022	1M	3M	6M	1Y			
AUD/USD (cents)	<b>0.71</b>	-0.02	-0.05	-0.03	-0.06			
Aust. 10-year bond yield (%)	<b>1.91</b>	0.23	-0.16	0.72	0.81			
Gold US\$/ounce	<b>1,802</b>	-0.1%	0.6%	-0.7%	-2.4%			
Brent oil US\$/bbl	<b>91.2</b>	16.2%	8.1%	19.5%	63.2%			
Iron ore US\$/t	<b>131</b>	16.4%	8.3%	-38.5%	-22.1%			
Copper US\$/pound	<b>4.32</b>	-0.9%	-1.3%	-3.6%	20.8%			

Source: Refinitiv, relevant benchmark data. Note: Past performance is not a reliable indicator of future performance.

### Global

Market volatility increased in January on concerns over rising inflation and a hawkish US Federal Reserve (the Fed). At the same time, concerns are mounting over Russia preparing to invade Ukraine. The COVID pandemic remains a key issue but it seems the Omicron variant is likely to fade, after an initial spike, and populations are now building greater immunity to the virus and learning to live with it.

US inflation hit a 40-year high of 7.5% in January, putting further pressure on the Fed to act on interest rates. Markets are now pricing a 1.0% increase in the US cash rate by July 2022. Bond yields have also started to rise, although remain relatively contained thus far, with the US bond yield currently at 1.9%.

The US has been warning that Russia is preparing to invade Ukraine, ostensibly on concerns that it does not want NATO on its front door. The US does not seem to want to engage in military conflict, although such an act by Russia would raise alarm bells within Europe. A Russian invasion would test the NATO alliance between the US and Europe. Europe, led by France, has already been talking about the need for Europe to rearm. Gold and oil have continued to move higher as tensions in the Ukraine escalate. Europe relies on Russian gas for around 1/3 of its energy needs and there is a concern that Russia could use this as leverage in any conflict with NATO.

Growth stocks, led by Meta (Facebook), continued to derate in January on concerns over earnings and rising interest rates. Higher interest rates impact long duration assets like growth stocks, which trade on higher multiples than value stocks. There is a general market view that value stocks will outperform growth stocks in 2022.

China property issues seem to be on the back burner for now, with China providing monetary stimulus, once again, for its economy as it continues to slow from the impact of COVID lockdowns. China is currently hosting the Winter Olympics but has had time to support Russian Leader Putin in his geopolitical views.

### Australia

Australia has been dealing with the Omicron wave, which has seen infection rates soar and COVID testing sites become overwhelmed. Fortunately, the hospitalisation rate has remained relatively contained and governments are now rolling out 3<sup>rd</sup> dose vaccination and rapid testing regimes. To some degree, the Omicron wave seems to be net positive in that it has forced the States (except WA) to live with the virus and carry on!

In Australia, inflation has also increased to 3.5% but is much lower than in the US. The RBA wants to see another two inflation results (inflation comes out every quarter in Australia) before acting on interest rates. Markets are expecting the Australian cash rate to start rising by late 2022. However, the housing markets in Sydney and Melbourne seem to be slowing already.

The Federal Government is running into an election due by May 2022. Things don't seem to be going as well as the last election for the PM, Scott Morrison. There have been continued attacks on the Federal government's handling of the French submarine contract and the COVID pandemic (particularly its impact on the aged care sector). In addition, Liberal/National Party representatives seem increasingly divided on key issues. Even the Deputy Prime Minister, Barnaby Joyce, has been caught out calling the PM "a liar and a hypocrite!" The Federal government is likely to wait as long as it can before calling the election, so April 2022 seems likely.

### Outlook

The outlook has become decidedly more uncertain. That said, we remain cautiously optimistic as the worst of the COVID pandemic should be behind us in 2022, leading to a growth recovery during the year. Inflation is the key negative but Central Banks are unlikely to act too hastily on interest rates, due to the fear of sparking a recession or stock market crash. The Russia/Ukraine situation is also a worry but doesn't necessarily impact developed economies in a major way.

We expect a 'muddle through' situation during the year. The market correction could continue over the March quarter but we would see stocks as good value versus cash and bonds. The returns from cash and bonds are still going to be relatively low (negative in real terms). We would need to see a growth shock or an interest rate shock to be more bearish on stocks and we don't expect either at this stage.

The key known risks ahead seem to be:

1. COVID pandemic (should fade in 2022);
2. Inflation (supply bottlenecks, labour dislocation, ESG transition);
3. Fed tightening (wrapping up QE and the first rate hikes in 2022);
4. China (moving back to communist ideology and property market issues);
5. Regulatory interventions (related to market failures and/or ESG issues); and
6. Geopolitical tensions around trade, security and sovereignty.

The next key events on the calendar include:

- US 4Q21 reporting season – February 2022
- Australia 1H22 profit season – February 2022
- Australian Federal Election – due by May 2022
- Australian Federal Budget – May 2022

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## Warnings, Disclosure and Disclaimer

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