

Monthly Market Snapshot

January 2021

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

Market Commentary

Although there was significant volatility in sections of the market related to online day trading, notably the very large movements in the stock price of GameStop, at the aggregate level equity returns were more muted. Equity markets began strongly in January, but those returns had dissipated by month end. Emerging markets produced a positive return driven by strong returns in China, while developed markets were a small negative for the month and Australian equities provided a small positive return.

The new year saw increasing spread of COVID-19 cases and restrictions in response, most notably in Europe and the UK. The focus of attention is shifting to the efficiency of the rollout of vaccines and the efficacy against mutating strains of the virus.

China's latest GDP data revealed that its economy grew over 2020 and it is likely to be the only major economy to have achieved that last year. While other economies have been more impacted by government lockdowns, Chinese industrial production and exports have rebounded strongly. Although Chinese authorities continue to provide stimulus to the economy, the most recent infrastructure investment and credit growth figures suggest that the support is starting to fade.

Macroeconomic data out of the US has been mixed. COVID-19 continues to negatively impact the labour market, but economic activity is expanding from previous lows. Although it was a volatile process, ultimately there was a transition of power to new US President Joe Biden on 20 January, and this should provide a more stable political outlook going forward. Biden has outlined an additional rescue package that is close to 10% of GDP. If the full package is implemented, the total US fiscal support for COVID-19 will end up being close to 25% of GDP (approximately three times the size of the fiscal support during the GFC).

The US Federal Reserve left monetary policy on hold, recommitting to continue to do so until inflation moderately exceeds its target for a period and full employment has been reached.

The stricter lockdown measures in Europe and the UK have negatively impacted sentiment and economic output is contracting again. In addition, the transition period for the withdrawal of the UK from the Eurozone ('Brexit') ended on 31 December 2020, and is now operating under the new agreement, with material trade disruption occurring around this period.

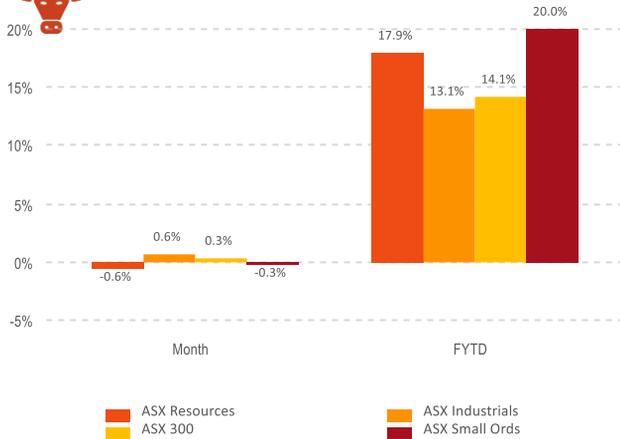
Domestically, the Reserve Bank of Australia (RBA) maintained that the cash rate will not rise for at least three years and announced further quantitative easing (increasing the size of asset purchases of government bonds by \$100 billion) to support the recovery of the Australian economy. Given subdued wage and price pressures, the RBA expects both inflation and wages growth will remain below 2% over the next couple of years. Government fiscal support remains large but is expected to start winding back in the year ahead.

The AUD fell against the USD and GBP while showing gains against the EUR and JPY. The iron ore price climbed to a level in January that was near the peak price seen in the commodities boom in 2011. Increased iron ore export value has so far offset declining exports in other sectors suffering from Chinese tariffs.

Government bond yields rose over the month on expectations of continued economic rebound as vaccine programs are rolled out. Bond indices therefore produced small negative returns and this likely flowed through to negative returns in listed real assets for the month.



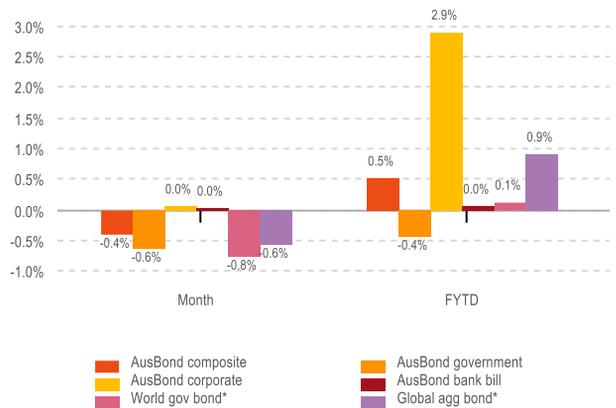
Australian Equities



Source: Refinitiv Datastream



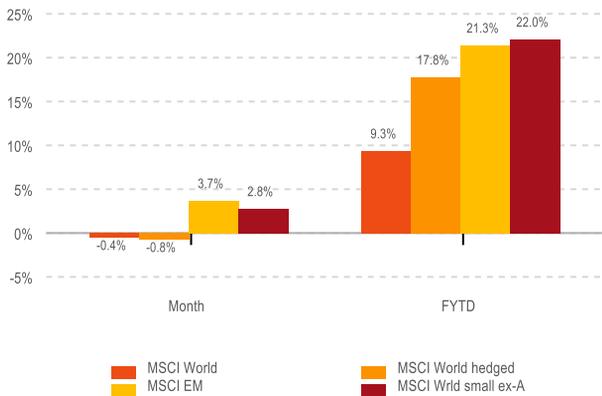
Fixed Income



Source: Refinitiv Datastream



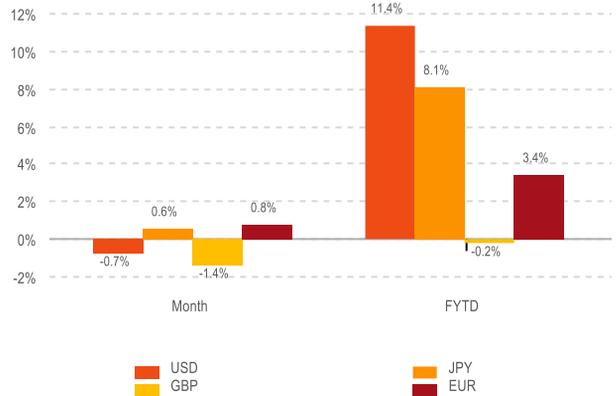
International Equities (\$A)



Source: Refinitiv Datastream



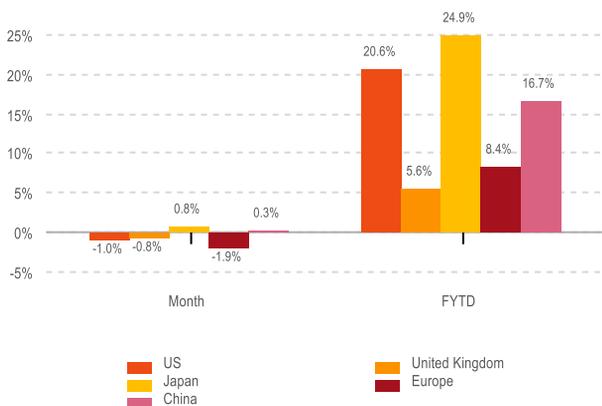
Australian Dollar



Source: Refinitiv Datastream



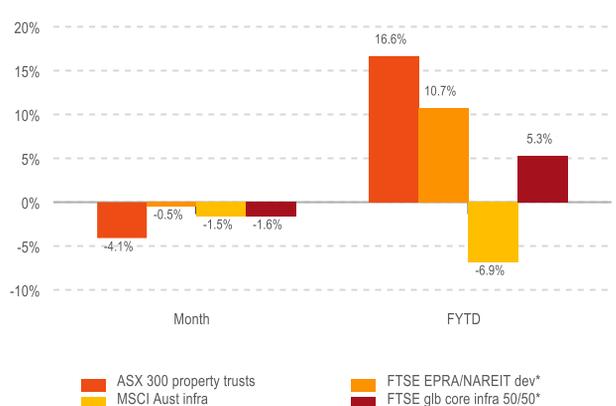
International Equities



Source: Refinitiv Datastream



Real Assets



Source: Refinitiv Datastream *Hedged A\$

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

Jan 2021

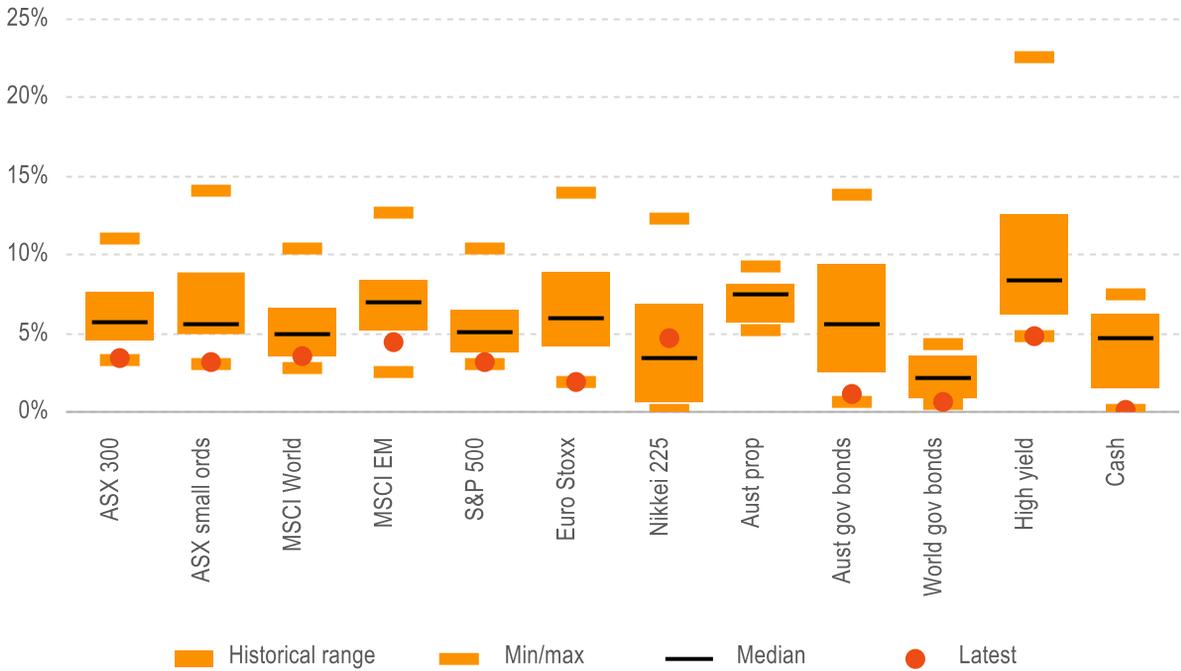
	Index Value	Month	3 Months	FYTD	1 Year	5 Yr p.a.
Australian Equities						
	S&P/ASX 300 Accum. Index	6,596	0.3%	11.4%	14.1%	10.1%
	S&P/ASX 300 Accum. Industrials Index	10,065	0.6%	9.5%	13.1%	7.9%
	S&P/ASX 300 Accum. Resources Index	5,080	-0.6%	19.5%	17.9%	22.5%
	ASX Small Caps Accum. Index	3,081	-0.3%	11.5%	20.0%	11.6%
International Equities						
	MSCI World Index (\$A)	3,885	-0.4%	5.1%	9.3%	11.5%
	MSCI World Index (Hedged \$A)	3,454	-0.8%	10.8%	17.8%	12.4%
	MSCI Emerging Markets Index (\$A)	1,251	3.7%	8.7%	21.3%	13.2%
	MSCI World ex-Aus Small Cap Index (\$A)	541	2.8%	14.7%	22.0%	12.2%
	US (S&P 500 Index in USD)*	3,714	-1.1%	12.2%	19.8%	13.9%
	US Tech (NASDAQ Index in USD)*	13,071	1.4%	16.9%	29.9%	23.2%
	United Kingdom (FTSE 100 Index in GBP)*	6,407	-0.8%	14.8%	3.9%	-14.4%
	Japan (Nikkei 225 Index in JPY)*	27,663	0.8%	18.6%	24.1%	9.6%
	Europe (Stoxx 50 Index in EUR)*	3,481	-2.0%	17.6%	7.6%	-6.8%
	China (Shanghai Composite Index in CNY)*	3,483	0.3%	6.4%	16.7%	4.9%
AUD versus ...						
	USD	0.76	-0.7%	8.3%	11.4%	12.9%
	JPY	79.90	0.6%	8.3%	8.1%	-1.3%
	GBP	0.56	-1.4%	2.7%	-0.2%	2.4%
	EUR	0.63	0.8%	5.1%	3.4%	-0.6%
Real Assets						
	ASX 300 Listed Property Trusts Accum. Index	1,381	-4.1%	8.6%	16.6%	-13.3%
	FTSE EPRA / NAREIT Dev. Index (Hedged \$A)	1,549	-0.5%	13.4%	10.7%	-16.0%
	MSCI Australia Infrastructure	1,121	-1.5%	-0.3%	-6.9%	2.5%
	FTSE Global Core Infra 50/50 Index (Hedged \$A)	2,198	-1.6%	4.4%	5.3%	-11.1%
Oil and Commodities						
	Crude Oil (US\$/bbl)	52.3	8.3%	45.3%	33.2%	-1.9%
	Copper Spot (US\$/tonne)	7,862	1.5%	17.1%	30.9%	40.1%
	Gold Spot (US\$/ounce)	1,858	-2.1%	-0.8%	4.2%	18.3%
Australian Fixed Interest						
	Bloomberg AusBond Composite Index	10,654	-0.4%	-0.8%	0.5%	1.7%
	Bloomberg AusBond Government Index	11,085	-0.6%	-1.3%	-0.4%	0.6%
	Bloomberg AusBond Corporate Index	11,107	0.0%	0.8%	2.9%	3.6%
	Bloomberg AusBond Bank Bill Index	9,020	0.0%	0.0%	0.0%	0.3%
Global Fixed Interest						
	FTSE WGBI ex-Aus (Hedged \$A)	2,630	-0.8%	-0.5%	0.1%	2.7%
	Barclay's Global Agg. Bond Index (Hedged \$A)	1,106	-0.6%	0.1%	0.9%	2.9%
Fixed Income (yields) as at ...						
		Jan 2021	Dec 2020	Oct 2020	Jun 2020	Jan 2020
	Australia Bank Bill	0.01	0.02	0.05	0.09	0.81
	Australia 10-Year Government Bond	1.10	0.97	0.82	0.88	1.03
	US 10-Year Government Bond	1.09	0.94	0.84	0.65	1.59
	UK 10-Year Government Bond	0.33	0.21	0.22	0.17	0.52
	Germany 10-Year Government Bond	-0.52	-0.58	-0.64	-0.46	-0.37
	Japan 10-Year Government Bond	0.05	0.02	0.03	0.03	-0.04

Source: Refinitiv Datastream

*Price Index

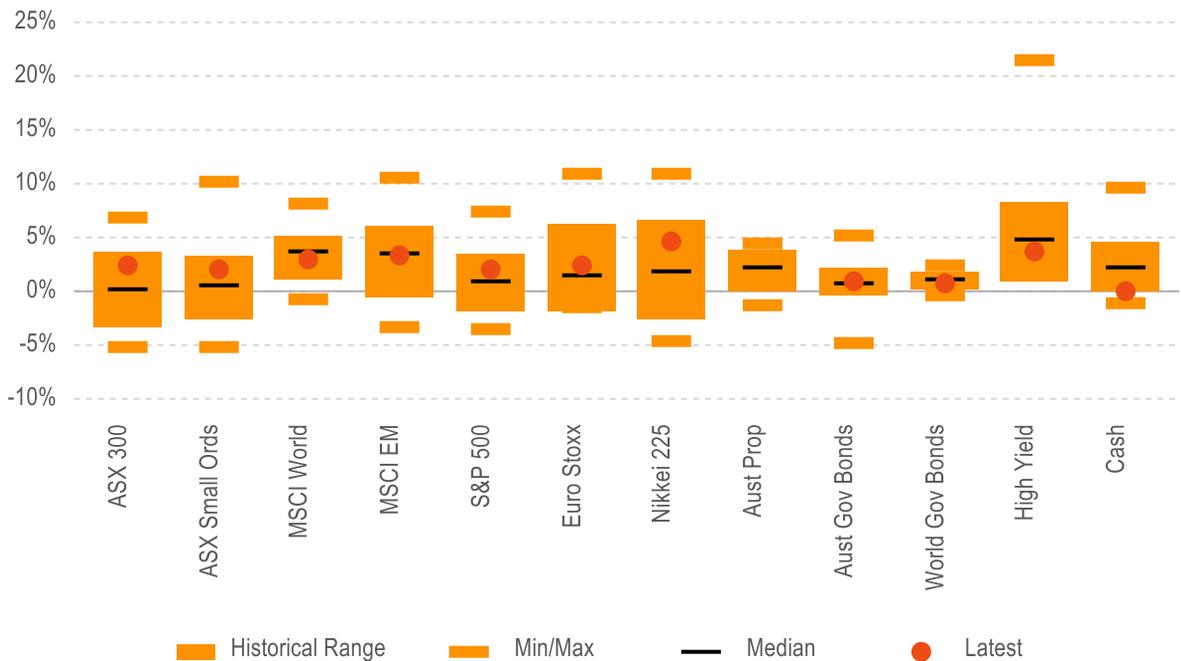
Asset class yields relative to history

Current yields (equities earnings)



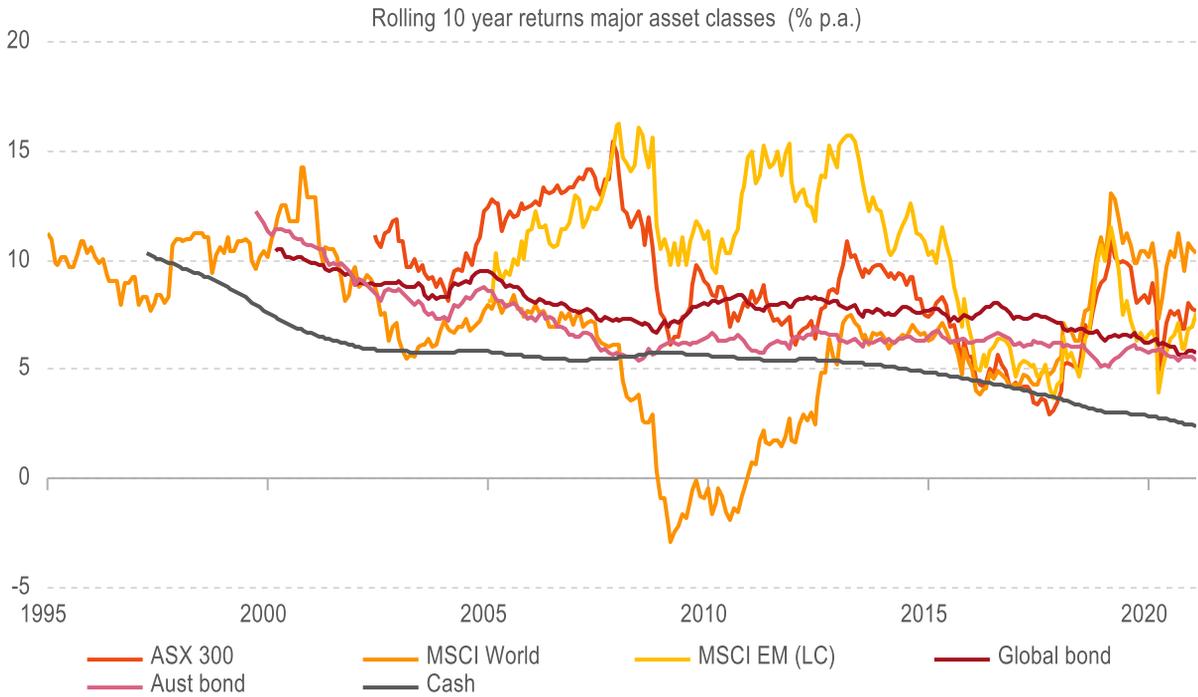
Source: Refinitiv Datastream

Relative Yields (vs bond or cash yield)

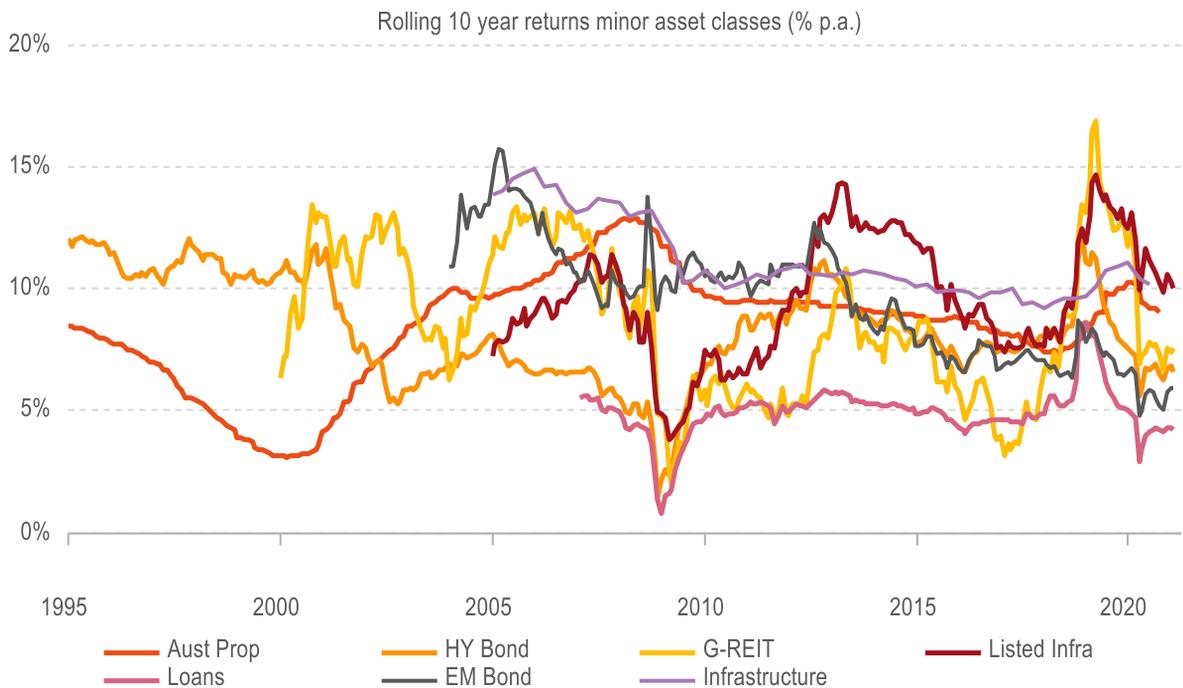


Source: Refinitiv Datastream

Asset class long-term returns



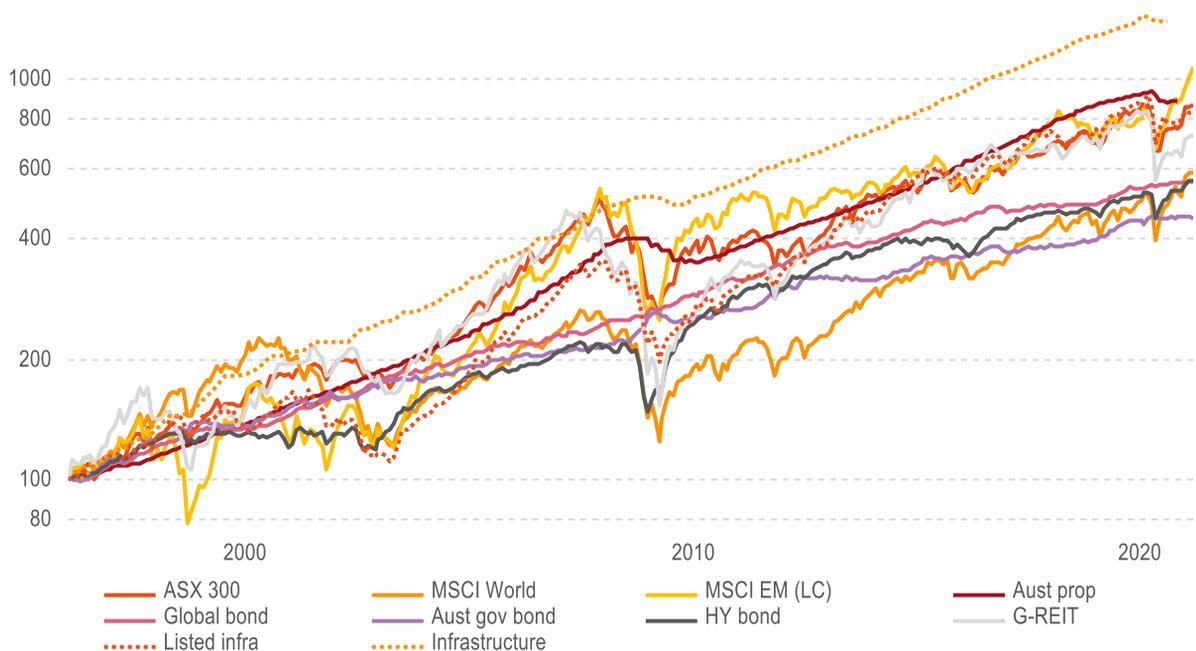
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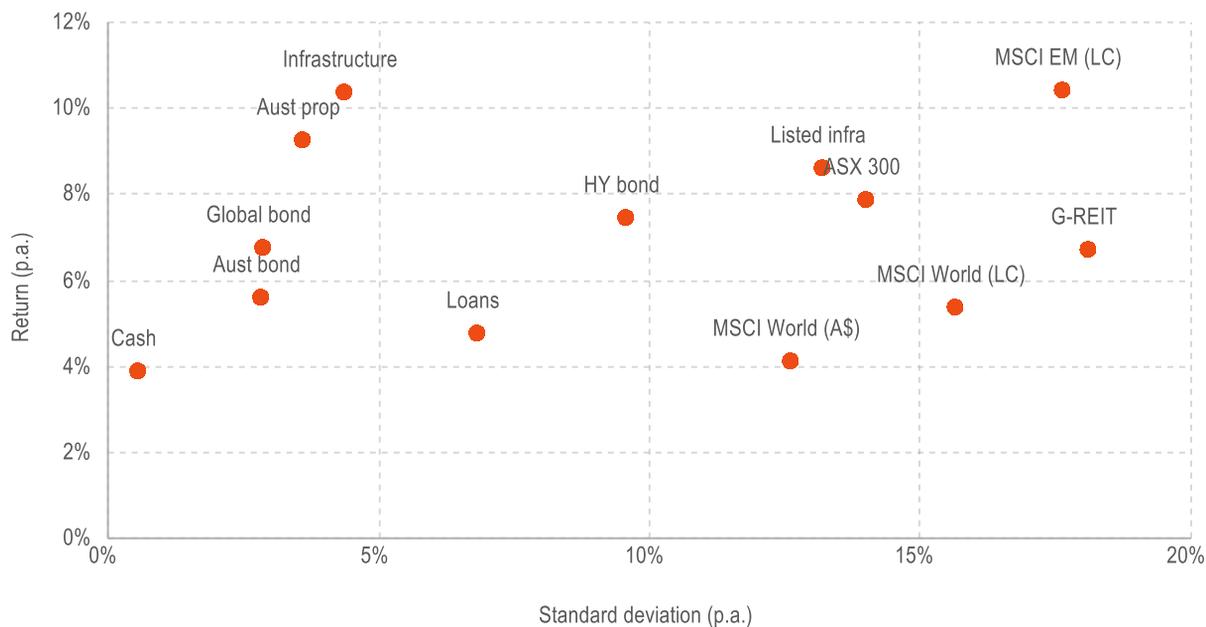
Asset class long-term returns

Cumulative values since 1 Jan 96 (\$100 reinvested)



Source: Refinitiv Datastream

Return-risk profile over 20 years (p.a.) to Jan 2021



Source: Refinitiv Datastream



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