December 2020

GLOBAL OVERVIEW

2020 was one of the most unpredictable years on record for financial markets. Most governments around the world also embarked on massive fiscal programmes designed to cushion the economy from the impact of the shutdowns. I was fascinated when the economy was put to sleep and then awoken in what proved to be a deep but short nap (read recession). Even though both monetary and fiscal policy had the desired effect, we will begin to count the cost over the next three to five years. For now, news of a vaccine against COVID-19 was positive. In terms of fundamentals the Australian economy continues to recover however, as we saw pre-Christmas, until enough people have been vaccinated, it is likely that we will see a stop start economy.

The US saw a change in government following a disorderly exit by the Trump Administration and despite the threat of higher corporate taxes and an increase in the basic wage by the Biden administration, the share market remained focused on the vaccine rollout and the return to normal economic times. The profit reporting season in the United States has so far surprised to the upside and leading economic indicators such as the Markit service and manufacturing purchasing managers indexes which are based on five major surveys of new orders, stock levels, production, supplier deliveries, and employment (PMI) remained at levels indicating solid ongoing improvement. U.S. economic growth increased by 4%, following a 33% post-lockdown surge in the September quarter. Inflation remains benign and the message from the central bank is that policy will remain firmly accommodative.

In China, growth continued to recover with data showing that exports were strong and should remain so in the first half of 2021. Despite the better health of the economy, China like the rest of the world, will remain dependant on a vaccine as the renewed outbreak of coronavirus in January in the Hebei province and the lockdown of 22 million people was a reminder how quickly the situation can flair up. The flare-ups remain small compared with the devastation facing other countries but could still threaten to undercut the success the government had in subduing the virus.

Emmanuel Calligeris

Chairman of the
Investment Committee

The UK and Europe

have found ways to cope with restrictions however the outlook remains for low growth in the short term.

With rising numbers of Covid-19 cases in the last quarter of 2020, several eurozone countries were forced to tighten lockdown measures and extend them into the first quarter of this year whilst in the UK the Covid mutation has thrown a further spanner in the works. Manufacturing has remained relatively strong however, consumption spending will likely be weaker as bars and restaurants stay closed. Brexit is likely to have boosted exports as UK retailers built up inventories, however the reverse will be seen in the first quarter of 2020 as it will not be repeated. With the more contagious strain of Covid-19 now reaching the continent, the risk of a third wave in unfortunately, cannot be excluded and result in the recession continuing. The European Central Bank (ECB) has extended rather than increased its monetary stimulus into 2022 where it believes herd immunity will be reached thanks to a roll out of a vaccine.

Global shares

as measured by the MSCI World Index gained +14% for the year,

rallying strongly after most central banks around the world cut interest rates to record lows while also embarking on huge quantitative easing and other measures to ensure their banking systems held up in the face of the economic fallout and closure of many parts of the economy caused by the pandemic. Technology companies outperformed the broader market both domestically and internationally as many benefitted from a change in consumer behaviour during the pandemic.

US Technology companies increased +43% at the sector level, which far exceeded the +18% gain in the S&P500 over the year. The strength in the IT sector also saw the Nasdaq break all records and finish the year up +45% as speculative activity took hold of certain segments of the market.

Share markets outside the US did not fare as well with the European Stoxx 50 declining by -3%, while the FTSE 100 ended the year down -12% weighed down by Brexit uncertainties.

Over the last quarter 2020,

the Australian share market ended 13.8% higher with the 1-year return 1.7%.

Over 5 years, the market has returned 8.8%. Banks, property trusts and resource and energy companies all performed well over the quarter. Unibail Rodamco (Westfield) increased 103% over the quarter. Much of the price action had to do with a short squeeze in the market for the shares but shows just how lopsided some share prices had become. The news that lockdowns would be lifted which would likely see consumers returned to shopping centres was the catalyst.

The major bank's share price increased up to 30% (ANZ Bank) as data showed that defaults on home loans would be much lower than feared at the height of the pandemic and because of the brighter employment picture.

Energy companies performed well on the back of the higher oil price whilst materials companies increased because of the fiscal stimulus in China which saw the iron ore price reach USD160 per ton. It benefits the share prices of Fortescue Metals (+40.5%), RIO Tinto (+20%) and BHP (+17%). On the negative side of the ledger the share price of biotech company Mesoblast fell 56% over the quarter following its announcement that a potential treatment for COVID-19 will be wound up because of unexpectedly poor clinical data. This followed the announcement that a long-running trial into a heart failure treatment had failed to meet its primary objective.

Commodity markets

experienced a volatile year given the economic uncertainty.

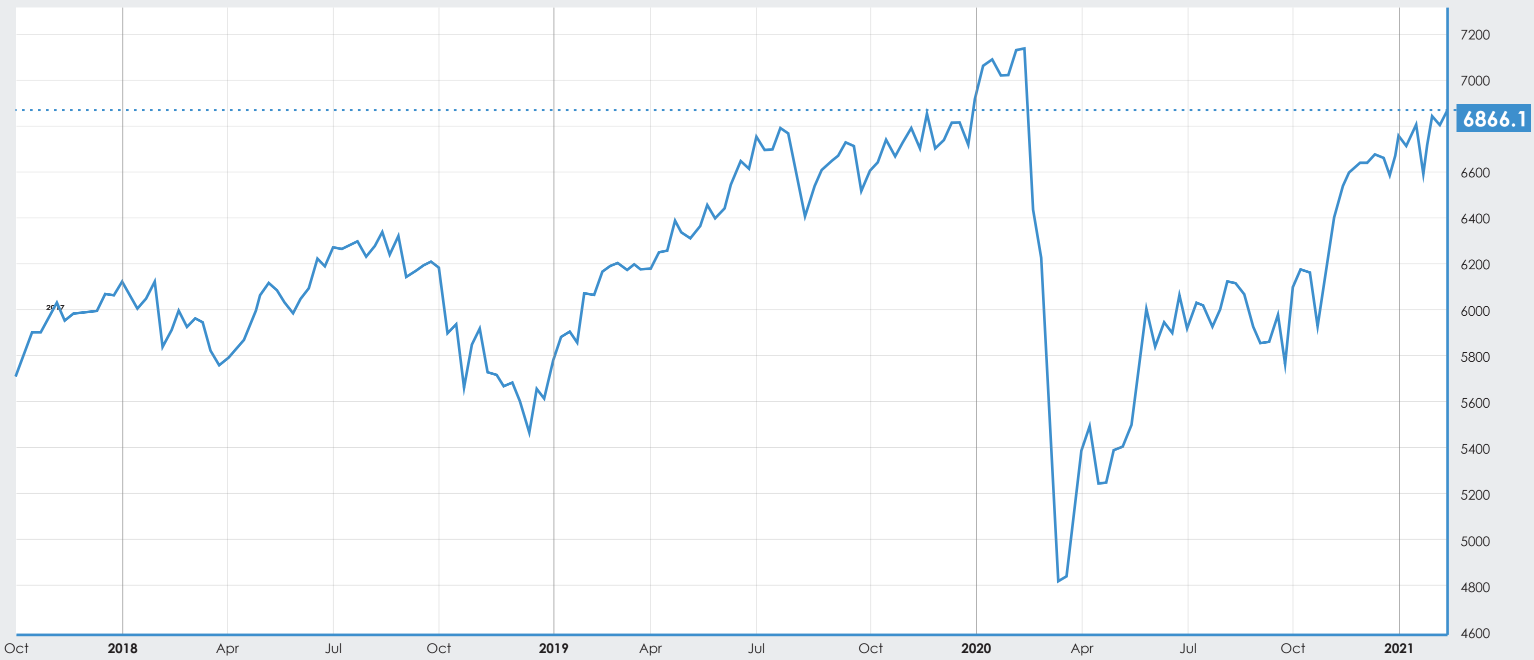
The oil price at one point traded in negative territory however finished the year down -22% recovering from its lows as lockdowns and travel bans impacted demand throughout the year particularly the airline industry. Iron ore increased 70% over the year driven by strong demand from China but a lack of supply as Brazilian mines closed due to the outbreak of COVID. Base metals fell heavily early in the year but then also recovered strongly, thanks to a combination of COVID-induced supply disruptions, a weaker US dollar and continued strong demand from China.

The actions of central banks

to drive real (inflation adjusted) interest rates lower makes cash and government bonds less attractive.

This is likely to be the status quo for quite a few years to come. Falling bond yields, the cumulative effect of past policy stimulus measures, the low level of energy prices, and high household savings rates in the U.S., China, and Europe (which indicate pent-up spending power) point to a sustained global economic recovery in the first half of 2021. To date, single country recoveries have been stronger than expected and economic policymakers throughout the world want to cushion any economic slippage. They remain focused on supporting a full recovery in employment. This is also the case in Australia where the Reserve Bank will likely keep rates suppressed for the next 3 years. This level of fiscal and monetary stimulus creates an economic backdrop that is unprecedented and highly accommodative. The stimulus has leaked into asset prices here as well with shares and property forging ahead. The promising Coronavirus vaccines will continue to underpin the share market however the uptrend in prices will remain volatile as valuations look stretched.

S&P/ASX 200 - MARKET CLOSE OF 6866.1 ON 19/02/2021



RETURNS

31st DECEMBER 2020

ASSET CLASS RETURNS ARE BASED ON

Australian Cash
RBA Bank accepted Bills 90 Days

Australian Bonds
Bloomberg AusBond Composite 0+ Yr TR AUD

Australian Listed Property
S&P/ASX 200 A-REIT TR

International Property Hedged
FTSE EPRA/NAREIT Dv REITS TR Hdg AUD

Australian Shares
S&P/ASX 200 TR

International Shares
MSCI World Ex Australia NR AUD

Emerging Market Shares
MSCI EM GR AUD

RETURNS TO THE 31st DECEMBER 2020

	3 Month	1 Year	3 Years	5 Years	10 Years
Australian Cash	0.01	0.26	1.18	1.45	2.35
Australian Bonds	-0.10	4.48	5.42	4.56	5.59
International Bonds Hedged	0.79	5.09	4.62	4.55	5.85
Australian Listed Property	13.30	-4.61	5.42	6.98	11.07
International Property Hedged	11.57	-14.22	0.89	3.32	8.70
Australian Shares	13.70	1.40	6.73	8.72	7.84
International Shares	5.68	5.73	11.16	10.94	13.20
Emerging Market Shares	11.18	7.77	6.65	11.48	6.61

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