

Market wrap

December 2021



Sentiment sours

- **Global shares** fell 1.6% and rose 3.7% in hedged and unhedged terms, respectively. Global markets fell (in local currency terms) driven by concerns over a new coronavirus variant, Omicron, emerging from southern Africa.
- **Australian shares** underperformed global shares, falling 0.5% in November. The leading sectors were Materials (up 6.2%) and Communication Services (up 5.2%). Energy (down 8.2%) and Financials (down 8%) were the worst performers. Energy stocks declined in line with the fall in oil and gas prices on Omicron fears.
- **Fixed income** returns bounced back particularly for the Australian market. Investors sought safe haven assets which underpinned demand for bonds, particularly government bonds (which comprise most of the Australian market).
- The **Australian dollar (AUD)** fell 4.6% against major currencies and 5.2% against the US dollar. The more aggressive positioning by US Fed officials increased expectations of higher rates relative to Australia, driving AUD weakness.

Omicron and a hawkish Fed arise

Globally

- Global business surveys suggest economic growth improved in November. Supply chain disruptions remain an ongoing feature in business surveys impacting inflation.
- The Omicron variant emerged from Southern Africa. There have been initial concerns over the ability of this new variant to re-infect people who had recovered from earlier strains as well as vaccine effectiveness against Omicron.
- Comments by Federal Reserve (Fed) Board members suggested a faster reduction in bond purchases and perhaps also set the stage for rate hikes in response to elevated inflation levels in the US. We also saw Chairman Powell stating inflation is no longer seen as “transitory” (implying higher rates may be required).

Locally

- Sep-21 GDP figures showed economic growth contracting in the September quarter as expected given the restrictions imposed in NSW and Victoria in particular.
- However, going forward recent data and leading indicators suggest the economy is continuing to bounce back strongly. Easing restrictions has helped notably with retail sales rising 4.9% in October, returning to pre-pandemic levels in NSW.
- The RBA left its policy settings unchanged with the cash rate remaining at 0.1% in December. In addition, it maintained its bond purchases at \$4bn per week.

Major asset class performance

Asset classes	1 month %	1 year %	5 years (p.a.) %
Australian shares	-0.5	15.5	10.1
Australian small companies	-0.3	18.4	11.7
Global shares (hedged)	-1.6	23.3	13.8
Global shares (unhedged)	3.7	26.8	15.7
Global small companies (unhedged)	0.6	24.1	13.0
Global emerging markets (unhedged)	1.6	6.7	10.4
Global listed property (hedged)	-1.5	24.5	6.4
Cash	0.0	0.0	1.1
Australian fixed income	2.1	-3.2	3.3
International fixed income	0.7	-0.8	3.3

Source: Bloomberg & IOOF, 30 November 2021

Indices used: Australian Shares: S&P/ASX 200 Accumulation Index, Australian small companies: S&P/ASX Small Ordinaries Accumulation Index, Global shares (hedged): MSCI World ex Australia Net Total Return (in AUD), Global shares (unhedged): MSCI World ex Australia Hedged AUD Net Total Return Index; Global small companies (unhedged): MSCI World Small Cap Net Total Return USD Index (in AUD); Global emerging markets (unhedged): MSCI Emerging Markets EM Net Total Return AUD Index; Global listed property (hedged): FTSE EPRA/NAREIT Developed Index Hedged in AUD Net Total Return; Cash: Bloomberg AusBond Bank Bill Index; Australian fixed income: Bloomberg AusBond Composite 0+ Yr Index; International fixed income: Bloomberg Barclays Global Aggregate Total Return Index Value Hedged AUD

Please note: Past performance is not indicative of future performance

Currency markets

Exchange rates	At close on 30/11 %	1 month change %	1 year change %
USD/AUD	0.71	-5.2	-3.0
Euro/AUD	0.63	-3.4	2.1
Yen/AUD	80.7	-5.9	5.3
Trade weighted index	60.2	-4.6	-2.1

Source: Bloomberg & IOOF, 30 November 2021

All foreign exchange rates are rounded to two decimal places where appropriate.

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