Market Watch

December Review 2020

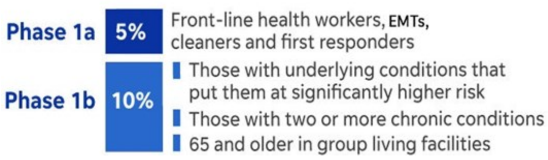
As 2020 drew to a close, the final month of what had been an unprecendented year on many levels well and truly ended with a bang. In the month of December we saw the US Share markets continue to trade at all time highs, a Brexit deal reached, Australia – China trade tensions boil, new strains of COVID-19 emerge and ongoing battles on the result of the November 3rd US Presidential Election.

Development in Global Economy

COVID-19 Outlook

The month of December saw the initial roll out of what has been the most anticipated vaccine in history - with the emergency approval of two key COVID-19 vaccines across the United States, Europe and the United Kingdom. While Pfizer was first past the post in the UK, it did not take long before Moderna was approved, and we expect many more in the coming months.

Chart 1: US Vaccine Rollout—Group 1 (15% total population)

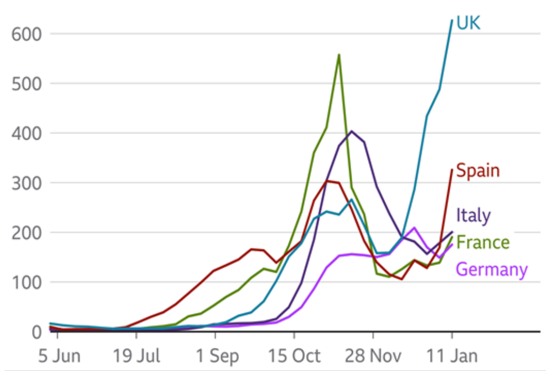


Source: National Academy of Medicine

While the available vaccines appear to be the light at the end of a very treacherous tunnel that was 2020, what we have learnt is that there still remains a long way to go as governments face the task of inoculating citizens and fighting mutating strains of the COVID.

To take the United States as a case study, the outgoing Trump administration has been vocal about its ambitious vaccine roll out plans. Initial estimates expected 20 million frontline workers and high risk individuals to be vaccinated over December. However, as at early January 2021 the actual figures are far closer to 10 million. A key issue has been managing group priorities and having sufficient vaccine available in high demand locations. As at the end of December the US has seen days with more than 250,000 daily cases and daily deaths exceeding 3000.

Chart 2: Daily COVID Cases per 100k—Europe



Source: ECDC

The UK, South Africa and now Japan have learnt, as many epidemiologists predicted, we are seeing mutations of the virus that are dangerously more contagious than the initial strain. As we mentioned last month, the UK government put the country into a 4-week lockdown in the hope of achieving a somewhat normal Christmas. However, off the back of the current virus mutation ripping through the country, reported to be up to 70% more contagious, the lockdown has been extended till mid-February.

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As at the end of December, Boris Johnson, the UK Prime Minister reported that 2% of the UK population had been infected, the 7 day rolling average of daily case numbers was in excess of 60,000 and daily death toll in excess of 1000. The UK now has a higher rate of infection per 100k resident than in the US.

US Election

While the events of November demonstrated that we did not expect a seamless transition of power from the outgoing Trump to incoming Biden administration. The events of December and the new year shocked many worldwide.

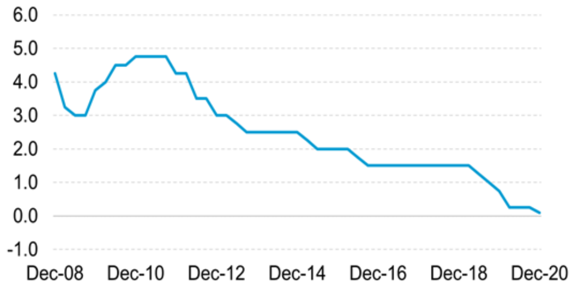
As this document was written, most likely we would have reached inauguration day on January 20th. December saw, what many expected as the end to many failed challenges by the Trump administration to overturn the election result as key states of Wisconsin and Georgia ratified their election results. On January 5th, the key contest in the runoff election for the remaining 2 Senate seats in Georgia saw the Democrats win a historic victory. This will mean the Democrats will take the Senate and the once highly anticipated 'Blue-Wave' materialise. As a result of this we expect Biden to push through many of his campaign reforms including higher corporate taxes and increased fiscal stimulus as he now has control of both houses.

The events of January 6th saw an extreme right-wing support group of President Trump storm Capitol Hill during a joint ceremonial sitting of both houses to ratify the results of the November election. While we wait to see the outcome of this incident in the coming weeks, we will discuss this in further detail in our January monthly commentary.

Australia

After one of the strongest months in financial markets in over 3 decades, December saw a slightly quieter month in share markets as we headed towards the festive break. After the rate cut in November, the rhetoric of the RBA remained consistent at the 1st December meeting - keeping the cash rate at 10bps and reaffirming the quantitative easing policy. RBA governor Philip Lowe said, "In Australia, the economic recovery is under way and recent data has generally been better than expected." It appears to be a wait and see approach as we look to our next update at the February 2nd meeting.

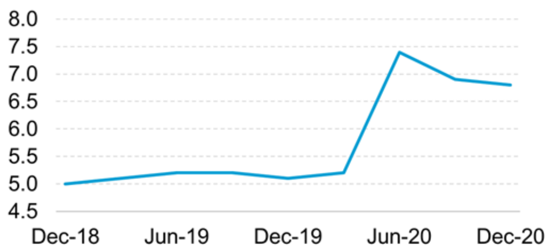
Chart 3: Australia Interest Rate



Source: BTIS/Bloomberg

The remainder of the month was plagued by geopolitical trade tensions between the Australian and Chinese governments. We saw China enact harsh restrictions on key Australian exports including wine, timber, barley and lobsters. However, the largest of them all coming on 15 December in the ban on Australian coal. There had been reports of more than 60 coal ships sitting off the coast of China unable to offload more than $700m worth of Australian coal. Australian Prime Minister Scott Morrison has since reported China to the World Trade Organisation (WTO) over this behaviour. Yet as we know, any decision the WTO may have on this may take many months or even years to play out meaning the Australian export heavy economy will need to find new markets for their goods.

Chart 4: Australia Unemployment Rate



Source: BTIS/Bloomberg

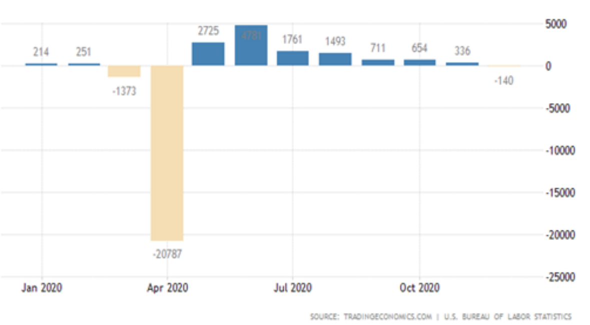
In Australia, the cash rate ended 2020 at a record low 0.1%; the Aussie dollar ended the year at US77 cents; unemployment stands at 6.8%; annual inflation is 0.7%; the S&P/All Ordinaries ended 2020 at 6,851 points, up 0.7% on the year; and the S&P/ASX 200 index ended the year at 6,587 points, down 1.5% for the year. Total returns on shares (includes dividends) rose 3.6% in 2020.

United States

The US market once again lead the charge with the S&P500 and Dow Jones finishing the month and year at an all-time high off the back of positive news on the next phase of a government stimulus. Physical and social lockdowns remain in place across states as the country braces through the winter months. California have enforced a stay at home order, while New York has closed all indoor dinning and bars. Despite these warnings, this did not stop many travelling across the country for the holiday season. The weekend leading up to Christmas saw daily air travellers exceed 1 million, this being the only time air travel has exceeded 1 million on 3 consecutive days since the pandemic started. The previous peak being Thanksgiving in November.

As for economic data, Manufacturing PMI's came in at 57.1 an increase on Novembers 56.7 and beating consensus by 0.6. However, Services PMI's fell to 54.8 in December which was below the November 5th ½ year high of 58.4. As discussed above, the latest reading pointed to a sharp slowdown in services activity growth amid rising COVID-19 cases and physical lockdowns. The US economy cut 140K jobs in December, well below market expectations of a 71K rise. This is the first drop in employment since the job market started to recover in May. Key areas hit include hospitality, private education and government. As of December, employment remains 9.8 mill or 6.5% below February 2020 levels. It is worth keeping in mind the 20.7mil jobs that were lost in the month of April alone.

Chart 5: US Monthly Non-farm payrolls



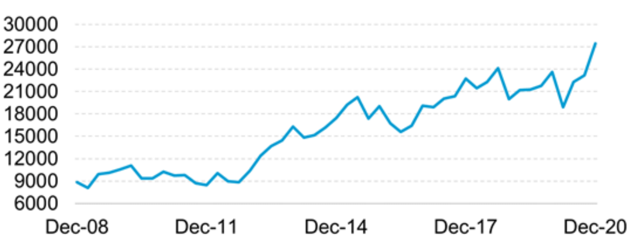
Source: BTIS/Bloomberg

The outlook for the US job market seems brighter in 2021 however, as a recently approved stimulus package of around $900 billion will provide support for around 19 million people receiving unemployment benefits and a new Democrat-led House and Senate and the new Biden administration are set to work on additional fiscal support.

Asia

Japan followed suit from the United States and continued to show strong market performance despite facing a similar fate to the UK with reports of further mutant virus strains. On December 7, the Japanese government announced additional economic stimulus measures. The three pillars of these measures are to prevent the spread of the new COVID, economic structural transformation in a post COVID world, and measures to strengthen the national land. Markets have seen this stimulus as a positive with the Nikkei closing at 30 year highs.

Chart 6: Nikkei 225

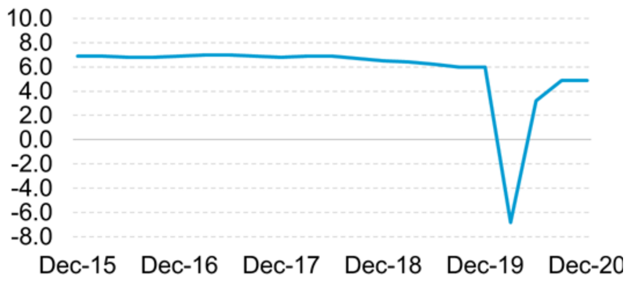


Source: BTIS/Bloomberg

China continued its trajectory of a strong recovery ahead of the rest of the developed world despite slightly weaker economic data. Given the clear signs of recovery that we have spoken about over the past few months, the Chinese government inferred they will look to reduce spending or quantitative easing in the coming months. A policy that is a long way off for the rest of the world. The Caixin China General Manufacturing PMI fell slightly in December from 54.9 to 53.0. This was also below market expectations of 54.8. Retail sales also came in 0.2% below consensus at 5%. While still up on the 4.3% growth in October, November included the largest shopping day of the year for China, 'Singles Day'.

India, despite officially entering a recession in November showed signs of improvement over the month. As predominately a producer of goods, December Manufacturing PMI's remain in expansionary territory at 56.4, up 0.1 from November but slightly below the consensus 56.6. The latest reading was consistent with a marked improvement in business conditions across the sector, as the economy continued to recover amid the loosening of COVID-19 restrictions, strengthening demand and improved market conditions. In addition, Employment declined for a ninth straight month. However, business confidence weakened to a four-month low as some firms were concerned about the lasting effect of the COVID-19 pandemic on the global economy.

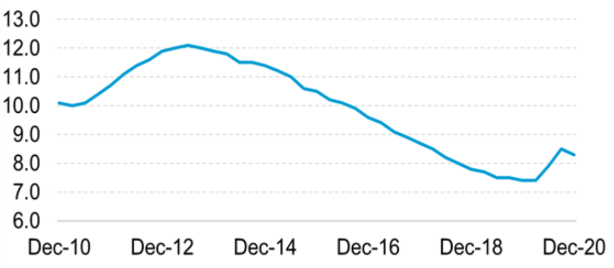
Chart 7: China GDP—Annualised



Source: BTIS/Bloomberg

Europe

Chart 8: Eurozone Unemployment



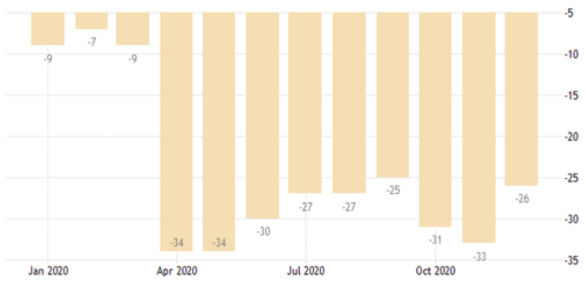
Source: BTIS/Bloomberg

After nearly 4 long years and what seemed near impossible the UK and European Union reached an agreement on Brexit. What came as an early Christmas present on 24th December, provided new rules on how the UK and EU will live, work and trade together as of 1st January 2021. There will be no taxes on goods (tariffs) or limits on the amount that can be traded (quotas) between the UK and the EU from 1st January but there will be additional checks, custom declarations and ultimately paperwork. As with all trade deals, we expect this to evolve over the coming months and years.

Despite this achievement markets fell on the news as the rapid spread of a new strain of the COVID forced more stringent restrictions in the UK and border closures from several countries. Like the UK, many European nations remained in lockdown over the Christmas break.

The Euro Area seasonally-adjusted unemployment rate edged down to 8.3% in November 2020, from 8.4% in the previous month, and moving further away from an over two-year high of 8.7% hit back in July. However despite this Youth unemployment rate, measuring job-seekers under 25 years old, rose to 18.4% in November, from 18% in the previous month. Amongst the largest Euro Area economies, the highest jobless rates were recorded in Spain, Italy, and France, while the lowest rates were recorded in the Netherlands and Germany.

Chart 9: UK Consumer Sentiment



Source: Trading Economics

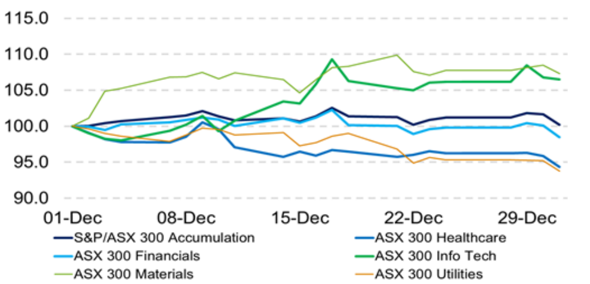
The UK's Consumer Confidence improved to -26 in December from -33 in the previous month and compared to consensus of -31. It was also the biggest jump in the indicator in eight years as the launch of the country's COVID vaccine programme nudged sentiment. However as a result of the country lockdowns Services PMI's remained in contractionary territory at 49.4.

Development in Financial Markets

Australian shares

Australian financial markets consolidated on the prior strong market gains of the last 2 quarters ending the year in the black. The ASX Small Ordinaries Accumulation rose 2.76% over the month; with the ASX300 Accumulation returning 1.32% and ending up 1.73% on the year. The strongest performers over the month were Technology (+9.01%) and Materials (+7.27%), with Utilities (-6.98%) and Healthcare (-5.84%) lagging. As expected, technology was the hottest sector over 2020 ending the year up +48.25%.

Chart 10: Australian Shares (rebased to 100)

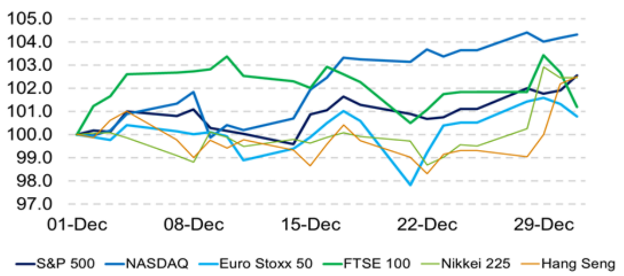


Source: BTIS/Bloomberg

International shares

International markets also saw very strong positive performance off the back of the positive vaccine news over November. The MSCI World ex Australia Unhedged index climbed 7.43% over the month. The United States lead the charge, noticeably a clear rotation from growth to value off the back of confirmation that President-Elect Joe Biden will become the 46th President. The DOW closed up 12.14% and the S&P 500 was up 10.95%. European shares were similar, the Euro STOXX gaining 13.73%. France's CAC 40 and Germany's DAX Index continued to trend higher ending the month up 20.12% and 15.01% respectively.

Chart 11: Major Market Indices (rebased to 100)



Source: BTIS/Bloomberg

Asia's markets continued to consolidate on recent strong performance throughout the month. Japan's Nikkei hit all-time highs, ending the month up 15.05%. China's Shanghai Composite

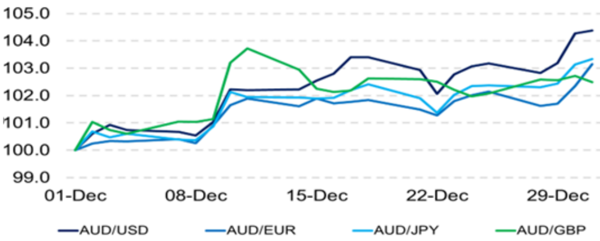
Fixed interest

Government bonds' yields remained at all-time lows, anchored to central bank policy rates and with no signs of short-term cash rates being lifted in the developed world for the foreseeable future. In Australia, bonds remained relatively flat with the Bloomberg AusBond Composite (0+Y) index down -0.27%. For international fixed interest markets, the Barclays Global Aggregate TR Hedged index gained some ground as its one-month numbers closed at 0.26% Longer term bond yields gained momentum early in the month following northern hemisphere vaccine approvals but fell towards the end of the month. The 10-year Treasury bond yields in Australia added 9 bps finishing the month at 0.98%, while the US added nearly 7bps to 0.91%.

Currencies

The AUD/USD went from strength to strength over December, hitting its highest level in 2 years. Finishing the month at 0.7694, the AUD/USD experienced a 4.77% appreciation over the month. Additionally, the Euro regained ground against the USD, with a 2.42% gain to 1.2216. Moreover, the GBP consolidated on last month's appreciation against the USD, up 2.60% to 1.367.

Chart 12: Major Currencies (rebased to 100)

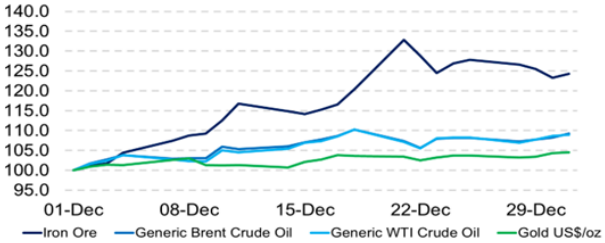


Source: BTIS/Bloomberg

Commodities

Commodities saw strong positive returns across December. Iron Ore was the market darling ending the month up 23.74% to a month end price of US$152.94. This month's price action was somewhat a result of potential supply issues down the track given the evolving trade dispute between Australia and China. Despite the strong AUD/USD, we are still yet to see any negative impact to the Iron Ore price. While Gold erased last month's fall ending up 6.83%, ending the month at $1898.36 oz. Oil continued to consolidate on November gains as OPEC continued to restrict oil supply. In the coming months Saudi Arabia will take the brunt of the reduced production in an attempt to stabilise the market after the previous price dive earlier in the year. Over November, Brent Crude Oil was up 8.85% to US$51.80 while WTI Oil also made strong gains up 7.01% to US$48.52. However, calendar year returns remain negative but far off the March lows with Brent and WTI down -21.52% and -20.54% respectively for the year. The Bloomberg Commodity Index reported gains of 4.97% up to 78.05.

Chart 13: Major Commodities (rebased to 100)



Source: BTIS/Bloomberg