Market Watch

January Review 2021

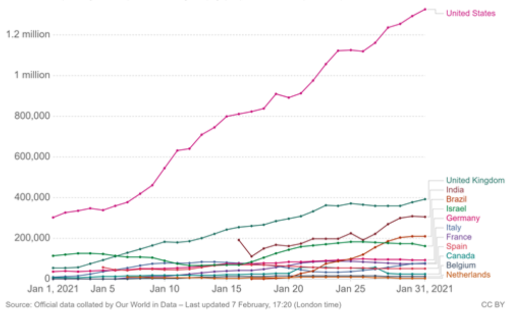
We look forward to 2021 being a year of recovery – both in a physical and economic sense. January saw the continued rollout across North America, Europe and Asia of three major vaccines, the second impeachment of former President Donald Trump, the inauguration of President Joe Biden and the rise of the Reddit community.

Development in Global Economy

COVID-19 Outlook

As many expected would happen, January saw a rise in COVID-19 case numbers around the world as many gathered for the western holiday season. While much of the northern hemisphere remains in some form of lockdown, the spread of the virus continues. As we spoke about last month, the vaccine role out in the US had been slower than previously planned.

Chart 1: Daily Vaccinations Administered – 7 day

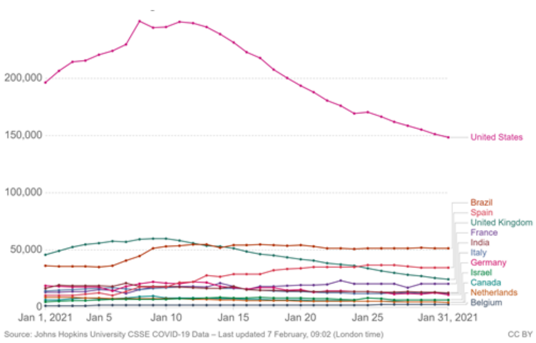


Source: BTIS/Bloomberg

However, since the inauguration of President Joe Biden, the daily inoculation rate was more than 1 million per day on a 7 day rolling basis by the end of January, and daily cases had fallen significantly off the early highs of over 250,000 to 150,000 confirmed per day.

Over in the Middle East, Israel has been leading the vaccine charge with nearly 50% of their population receiving the first dose. Initially there have been reports of a spike in people catching COVID-19 between the first and second dose, resulting in an additional factor countries must manage. Despite this, with close to 5 million doses administered of the 9 million population in Israel, they continue to take key steps forward in fighting the pandemic.

Chart 2: Daily Confirmed Cases – 7 Day rolling average.



Source: BTIS/Bloomberg

As for the UK, the highly contagious variant that was discovered in early December continues to spread around the country. Similar to the US, there are signs that the vaccination program combined with lockdowns have made a positive impact as daily case numbers have reduced towards the end of the month. In addition, for the first time the UK government has looked to introduce some form of hotel quarantine, a model we are familiar with in Australia, as well as shutting their borders to certain countries.

In Australia, we saw restrictions ease in Greater Sydney and Melbourne and state borders start to reopen post the pre-Christmas outbreak. Greater Brisbane faced a 3-day lockdown mid-month and Perth headed into a 5-day lockdown on the last day of January. At the end of the month, the Australian government announced the Therapeutic Goods Administration (TGA) had approved the Pfizer vaccine for use in Australia with expected rollout to commence in late February.

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Reddit

The final week of January was dominated by a 'short squeeze' in the US market instigated by members of a social media discussion group Wallstreetbets, part of the greater Reddit site.

The group of retail investors attempted to take on the Wall Street hedge funds by targeting stocks that these funds had large amounts of shorts in, particular one videogames retailer GameStop.

The action drove triple-digit price gains in the shorted companies. But the large gains prompted hedge funds to take profit (sell or close their long positions) on other stocks to cover potential losses. US online trading platform Robin Hood was a key player for these traders with hundreds of thousands of accounts being opened by retail traders.

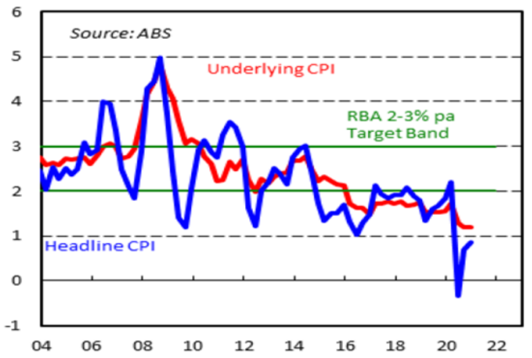
To avoid a liquidity event, Robin Hood pre-emptively restricted the level of trading in particular securities and while not the only cause, this led to a fall in the price of Gamestop as many margin traders were stopped out. In the coming days, the stock has fallen from its all-time highs but still remains well above its pre January 25 levels.

Australia

January is historically a quieter month for economic data and company announcements in Australia. As such the RBA does not hold its regular first Tuesday of the month meeting. Of the available data, we saw headline CPI rise by 0.9% (trimmed 0.4%) in the December quarter.

The result was impacted by a range of state and federal government policies rolling off in Q3 and Q4 in particular child-care, excises, housing and electricity. With an annual trimmed mean rate of just 1.2%, inflation remains subdued and below the RBA 2-3% target band. The difficult economic conditions that we have spoken about in previous months have contributed to the below target inflation outcome.

Chart 3: Consumer Price Index (CPI) annual %



Source: BTIS/Bloomberg

The unemployment rate fell to 6.6% in December from 6.8% in November and below market consensus of 6.7%. This was the lowest jobless rate since April 2020. Both the full-time and part-time unemployment rates fell, and the participation rate increased to a 16 month high of 66.2%.

Chart 4: Australia Unemployment Rate (%)

Source: BTIS/Bloomberg

In addition to this, the underemployment rate fell by 0.8% to 8.5%, and the underutilization rate dropped 1.1% to 15.1%.

Despite some short-term lockdowns in major east coast capital cities over the Christmas break, these are key indicators that show individuals that have been unable to work due to physical lockdowns are getting back out there and finding jobs. Similarly we have seen those that have been stood down are working more hours. The real test for employment and the broader economy will come in March this year when the final round of JobKeeper and JobSeeker roll off.

United States

As the world looked towards the inauguration of the 46th President Joe Biden on January 20, the transition of power still had a few bumps in the road. As we mentioned last month, on January 5, the key contest in the runoff election for the remaining 2 Senate seats in Georgia saw the Democrats win a historic victory.

This now means the Democrats have majority in the Senate and the once highly anticipated 'Blue-Wave' materialised.

On January 6, during a ceremonial sitting of both houses to ratify the election result, the US Capitol Building was flooded by supporters of President Trump, mainly members of the extreme right wing group Qanon.

Despite the insurrection, later that week the election result was ratified, the S&P500 and Dow Jones once again hit all time highs as investors reacted to the prospect of a significant stimulus package being agreed by the new administration.

After President Biden entered the White House on the afternoon of January 20, he spent the following days reversing many of the decisions his predecessor made – including re-joining the WTO and the Paris Climate agreement. We look to the next few months to see the roll out of his economic, foreign and climate change agenda.

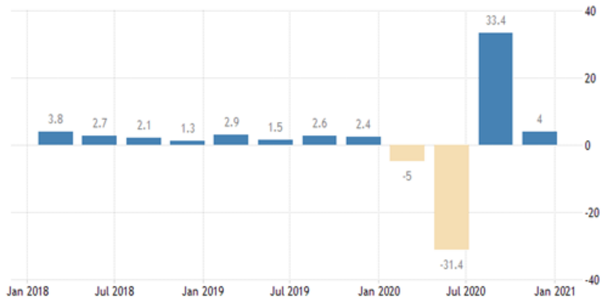
As for economic data, the US economy expanded at an annualized rate of 4% in Q4, slowing from a record 33.4% expansion in Q3. As the continued rise in COVID-19 cases and restrictions on activity moderated consumer spending.

The ISM Manufacturing PMI fell to 58.7 in January from 60.5 in December and below market consensus of 60. December's manufacturing PMI was the highest reading since February of 2018. Still, the reading pointed to an 8th consecutive month of growth at a robust pace in factory activity.

The University of Michigan's Consumer Sentiment Index came in at 79 in January below the 80.7 reading in December. The overall variation in level of consumer sentiment has been relatively benign since the start of the pandemic, averaging 81.5 for calendar year 2020.

Needless to say, sentiment levels were well below the average of 97.0 from 2017 to 2019. Importantly, the level of key confidence indicators remained well above prior cyclical lows despite the sudden historic collapse in economic activity.

Chart 5: US GDP growth rate (%)



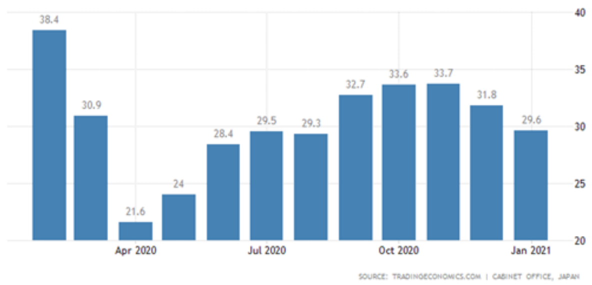
Source: BTIS/Bloomberg

Asia

After two very solid months of gains to the Japanese stock market in November and December, January saw that trend continue with the Nikkei 225 hitting all-time highs on January 25. However, some ground was lost towards the end of the month.

The Bank of Japan (BOJ) left its key short-term interest rate unchanged at -0.1% and maintained the target for the 10-year Japanese government bond yield at around 0% during its January meeting.

Chart 6: Japan Consumer Confidence



Source: BTIS/Bloomberg

In the BOJ's quarterly outlook report, the central bank revised higher its GDP growth projection for the next fiscal year beginning in April to a 3.9% growth from an estimate of 3.6% made in October. This was to reflect the impact of multiple rounds of government stimulus in managing the impact of COVID-19.

The Japanese consumer confidence index decreased to 29.6 in January, the weakest since August. This was amid a resurgence of COVID-19 in the country with many areas remaining in lockdown.

Despite the rise in case numbers and new deadly variant the country is facing, Japan still expects to host the postponed 2020 summer Olympics come July this year.

China, the poster child for recovery from COVID 19 also faced increasing case numbers ahead of the February Lunar New Year holiday. While case numbers have not deteriorated to the initial first wave in January 2020, many impacted provinces have been placed into varying levels of lockdown.

This impact appears evident in Caixin Manufacturing PMI's that fell to a seven month low in January of 51.5, coming in below expectations of 52.7 and the previous month of 53. The corresponding Services PMI's also fell to a 9 month low of 52 from 56.3 in November.

While both manufacturing and services PMI's remain in expansionary territory, many continue to watch closely for any changes to the speed of recovery of the Chinese economy.

India on the other hand, while still in recession until the Q4 GDP figures are released in February, showed continuing signs of recovery.

Both the manufacturing and Services PMI improved month on month to 57.7 and 52.8 respectively as restrictions continue to ease around the country.

Europe

As much of Europe still remains in lockdown and adjusts to their new way of trading with the UK, now that Brexit has officially occurred, the EU now turn their efforts to vaccine roll out and the economic recovery ahead. While the vaccine discussion remains an evolving issue, we saw members of the EU look to nationalize the COVID-19 vaccine.

As the Pfizer and Astra Zeneca vaccines are both made in Europe, the EU was looking to block further exports of the vaccine until sufficient supply had been met in Europe. At one point, there was talk of a hard border between Ireland and the UK to stop any vaccine making its way to the UK. At the time of writing, this was only initial comments, and no further action has been taken on the matter.

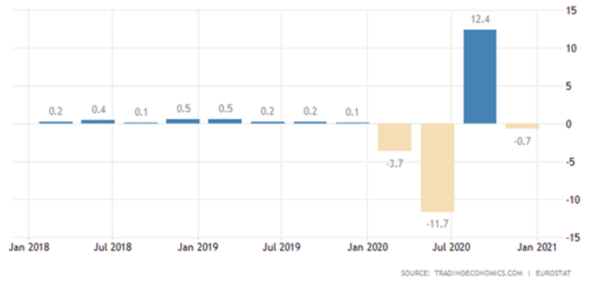
The Euro area economy shrank 0.7% in the last three months of 2020, slightly less than forecasts of a 1 % plunge, and following a 12.4% record growth in the previous period.

Preliminary estimates showed that the contraction was due to COVID-19 containment measures. Among the bloc's biggest economies, Italy contracted 2% and France 1.3% while Germany at +0.1% and Spain at +0.4% managed to avoid the contraction.

As for the UK, their efforts were focussed on the vaccine roll out to inoculate as many citizens with the first jab of the COVID-19 vaccine as quickly as possible. Services PMI came in at 39.5 in January compared to 49.4 in December.

Unfortunately, the reading pointed to the sharpest contraction in the services sector since May of 2020 due to the impact of restrictions on trade and temporary business closures during the third national lockdown.

Chart 7: Eurozone Unemployment



Source: BTIS/Bloomberg

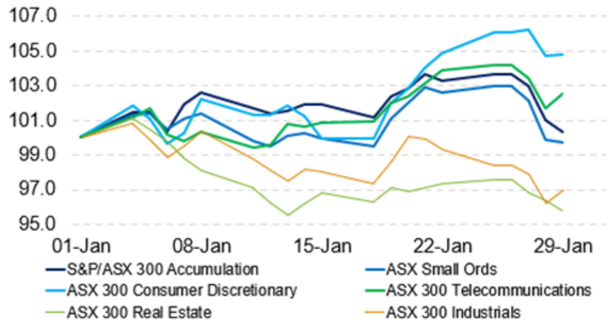
Manufacturing PMI's remained in expansionary territory coming in at 54.1, still a decrease on December's 57.5 as weaker export demand from COVID-19 and new Brexit paperwork requirements caused supply chain disruption particularly at ports.

Development in Financial Markets

Australian shares

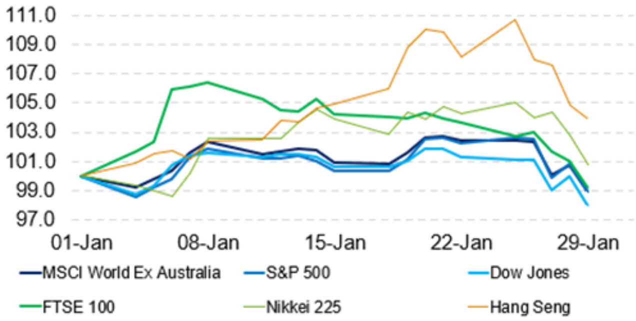
Australian financial markets started the year off strongly, consolidating on the gains of November and December, however pulled back in the last week ending broadly flat. The ASX300 Accumulation returned 0.33%, while the ASX Small Ordinaries Accumulation fell -0.25% over the month. The strongest performers over the month were Consumer Discretionary (+2.83%) and Telecommunications (+1.80%), with Real Estate (-6.65%) and Industrials (-4.22%) lagging. We look to February for the half yearly reporting season of most ASX listed companies. This will be the first reporting season with the entire 6 months of earnings impacted by COVID 19.

Chart 8: Australian Shares (rebased to 100)



Source: BTIS/Bloomberg

Chart 9: Major Market Indices (rebased to 100)



Source: BTIS/Bloomberg

International shares

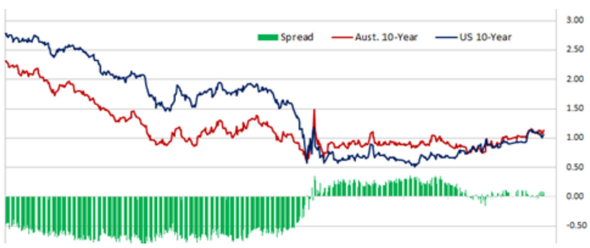
The majority of international markets lost ground towards the end of the month, with many caught up in the momentum of the Reddit fiasco we addressed earlier in the piece. The MSCI World ex Australia Unhedged ended the month down -0.45%. The United States, while having a strong intra month rally on hopes of additional stimulus ended the month down with the Dow Jones -1.95%, the S&P 500 -1.01%. The NASDAQ fared a little better ending the month up +1.44% off the back of strong earnings from many of the tech giants. European shares were similar, the Euro STOXX fell -0.80%. France's CAC 40 and Germany's DAX Index ended down -2.74% and -2.08% respectively.

Asia's markets told a bit of a different story. Japan's Nikkei once again hit all-time highs, before falling back to end the month up 0.80%, this brings the return since the start of November to 20.56%. China's Shanghai Composite finished the month up 0.29% and the Hang Seng up 3.87%. The Korean KOSPI continued its upward trajectory ending up 3.58%, bringing its one-year return to 40.45%.

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%.

Chart 10: Australian & US 10 Yield Bond Yields

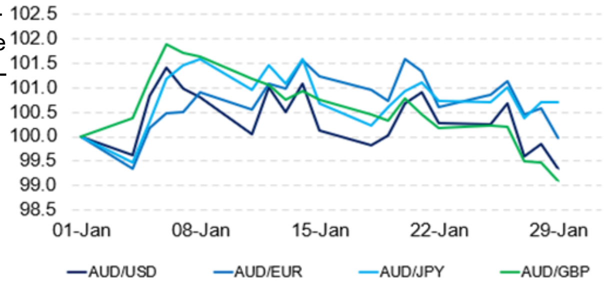


Source: BTIS/Bloomberg

Currencies

After a few strong months, the AUD/USD experienced a 0.65% deprecation over the month. Additionally, the Euro lost ground against the USD, with a -0.65% loss to 1.2136. Moreover, the GBP ended up 0.28% to 1.3708. The benign month in currency performance is somewhat a function of lower trading volumes and less central bank rhetoric due to the holiday season.

Chart 11: Major Currencies (rebased to 100)



Source: BTIS/Bloomberg

Commodities

Commodities saw strong positive returns across January. Oil continued to consolidate on November and Decembers gains, reaching pre COVID levels. Over January, Brent Crude Oil was up 7.88% to US$55.88 while WTI Oil also made strong gains up 7.58% to US$52.20. This brought the 1 year returns to -3.92% and 1.24% respectively, a very long way off the sub $20 lows we saw in early 2020. Iron Ore continues to consolidate on prior quarter gains ending up 2.04% to US$156.06. Gold lost some ground ending the month down -2.67% to US$1847.65. The Bloomberg Commodity Index reported gains of 2.62% up to 80.10.