

Market Review

December 2020

How the different asset classes have fared:

(As at 31 December 2020)

| Asset Class | 10 Yr % p.a. | 5 Yr % p.a. | 3 Yr % p.a. | 1 Yr % p.a. | YTD % | 6 Mth % | 3 Mth % | 1 Mth % |
|---|-----------------|----------------|----------------|----------------|----------|------------|------------|------------|
| Cash ¹ | 2.44 | 1.52 | 1.26 | 0.37 | 0.37 | 0.05 | 0.02 | 0.00 |
| Australian Bonds ² | 5.59 | 4.56 | 5.42 | 4.48 | 4.48 | 0.92 | -0.10 | -0.27 |
| International Bonds ³ | 5.85 | 4.55 | 4.62 | 5.09 | 5.09 | 1.47 | 0.79 | 0.26 |
| Australian Shares ⁴ | 7.89 | 9.26 | 7.44 | 3.64 | 3.64 | 15.69 | 14.43 | 1.75 |
| Int. Shares Unhedged ⁵ | 13.30 | 11.03 | 11.24 | 5.75 | 5.75 | 9.68 | 5.71 | -0.55 |
| Int. Shares Hedged ⁶ | 12.00 | 11.49 | 9.12 | 10.58 | 10.58 | 18.90 | 11.72 | 3.38 |
| Emerging Markets Unhedged ⁷ | 6.23 | 11.05 | 6.13 | 6.28 | 6.28 | 16.50 | 10.91 | 2.36 |
| Listed Infrastructure Unhedged ⁸ | 11.51 | 7.19 | 5.18 | -12.31 | -12.31 | -0.64 | 0.26 | -3.72 |
| Australian Listed Property ⁹ | 11.25 | 7.39 | 5.85 | -3.96 | -3.96 | 21.60 | 13.24 | 0.60 |
| Int. Listed Pty Unhedged ¹⁰ | 8.84 | 1.72 | 1.30 | -19.24 | -19.24 | 2.83 | 5.56 | -0.88 |

1 Bloomberg AusBond Bank 0+Y TR AUD, 2 Bloomberg AusBond Composite 0+Y TR AUD, 3 Bloomberg Barclays Global Aggregate TR Hdg AUD, 4 S&P/ASX All Ordinaries TR, 5 Vanguard International Shares Index, 6 Vanguard Intl Shares Index Hdg AUD TR, 7 Vanguard Emerging Markets Shares Index, 8 FTSE Developed Core Infrastructure 50/50 NR AUD, 9 S&P/ASX 300 AREIT TR, 10 FTSE EPRA/NAREIT Global REITs NR AUD

The ASX All Ords was on track for a stellar December prior to the emergence of a new cluster of COVID-19 cases in Sydney's northern beaches on 9 December 2020, which saw markets tempering expectations of a swift recovery. Despite this, the ASX All Ords returned 1.75% in December 2020. Markets were buoyed by strong commodity prices; iron ore rose 20.0% over the month and is up an astounding 152.9% since its April lows, driven by strong demand from China and supply disruptions in Brazil. The surge in commodity prices and overall weakness in the US dollar has seen the Australian dollar trade to \$0.76, levels not seen since 2018.

Meanwhile, tensions between Australian and China continued to flare during December 2020, with China banning Australian coal exports and Australia taking up action with the World Trade Organisation. Given China's high reliance on Australia's iron ore exports, the impact is expected to be limited. In addition, the incoming Biden administration is anticipated to resolve the US/China tension in a more diplomatic way, paving the way for Australia to resolve tensions with China too.

New global coronavirus cases continued to climb although at a slower pace. While the mortality rate in developed countries has dropped from 8.5% to around 2.0%, the number of deaths is approaching April highs and some hospitals are at or near capacity. Alarming, in the UK, a new strain of COVID-19 was discovered to be more infectious, but not necessarily more severe. This led to more than 40 countries suspending travel with the United Kingdom and a nationwide lockdown. Thankfully, the vaccines are still expected to be effective on the new strain. Across the globe, vaccines were rolled out; however, supply and transport issues meant the rate of roll out was below expectations. The vaccine rollout is not expected to help with the current wave but should significantly help the recovery in the second half of 2021.

With the continued rise in global coronavirus cases, major governments around the world continued to reiterate their support for the economy with the ECB and the US committing to stimulus support. The ECB increased its pandemic emergency purchase program from €1.35tn to €1.85tn and extended the program to March 2022. The US also passed a nearly \$900bn stimulus bill, while not as large as many had expected, the stimulus is big enough to hold off a recession. Markets reacted positively to these announcements. Finally, after years of negotiation, the Brexit agreement was completed and signed between the UK and the European Union.

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