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MONTHLY UPDATE ON THE INVESTMENT ENVIRONMENT

January 2021



primesuper
surprisingly straightforward



MARKET UPDATE

2021 commenced on an overall positive note for both the Australian and global economies, with data suggesting an ongoing recovery amid an increasing rollout of COVID-19 vaccinations. That said, the COVID-19 pandemic continues to have a significant economic and human toll; by early February, there were over 2.3 million confirmed deaths. However, the start of vaccine rollouts in a number of countries (thus far skewed to developed nations) has been significant; by early February, the number of vaccine first doses given eclipsed 100 million; more than the number of confirmed global cases. The global rollout of vaccines has not been without controversy, however. Slower than expected vaccine production has led to spats between nations and blocs about distribution of the vaccines, and could potentially impact Australia's program.

The IMF released revised forecasts in January, upgrading the 2021 global GDP growth figure by 0.3% to 5.5%. The commencement of vaccination roll-outs and US fiscal stimulus were key drivers, with divergence in revisions depending on the pace of national vaccinations; for example, the US and UK growth forecasts were revised upward, while the Eurozone growth outlook was cut.

Australian economic data was relatively strong over January, with unemployment continuing to fall and – impressively – underemployment falling to pre-pandemic levels. Inflation also increased at a healthy rate, albeit due largely to transient factors, some linked to the government's pandemic-driven subsidies. The economy is also likely to benefit from the RBA's surprisingly dovish tone in February, announcing a further round of A\$100 billion in quantitative easing and noting limited scope for policy tightening until inflation substantially improves; a challenging task given current spare economic capacity and tepid wage growth.

In the US, newly inaugurated President, Democrat Joe Biden, set about reversing some of his predecessor's policies, issuing executive orders including returning the US to the Paris climate accord. Meanwhile, Donald Trump became the first President to be impeached twice following violence on Capitol Hill by some of his supporters in early

January 2021; although it appears unlikely the impeachment will gain sufficient Senate support for Trump to be convicted.

President Biden also proposed US\$1.9 trillion stimulus package, including both cash for individuals and aid for state and local governments. With GDP slowing to an annualised 4.0% over the fourth quarter and core inflation rising to 1.4%, Biden's proposals – if approved by Congress – will likely provide a further tailwind for the US economy.

China's economy continued to lead the global economic recovery, with its robust fourth quarter GDP print taking its annual growth rate to 2.3%; an impressive result in a year where most national economies contracted. Both rising domestic consumption and export demand contributed. That said, geopolitical tensions remain a concern; recent posturing in the South China Sea led to Chinese warplanes entering Taiwanese airspace to undertake a simulated attack on a US aircraft carrier.

The Eurozone's December quarter GDP print reflected the region's protracted battle with COVID-19, as lockdown restrictions led to a quarterly contraction of 0.7%, driving down the annual print to -5.1% and rendering a double-dip recession highly likely. While inflation surprised to the upside, rising to 0.9%, it was attributable to temporary factors.

While January was generally a positive month for risk assets amid the vaccine rollout and expectation of US government stimulus, a late-January downturn led to equities being relatively flat over the month. The late decline was driven primarily by the significant and unexpected impact of retail investors on so-called 'meme stocks', leading to a detachment between market prices and fundamentals for some stocks. However, by early February markets had recovered, with the S&P 500 and Nasdaq Composite Indices hitting fresh record highs. The impact of retail investors also contributed to a spike in silver prices, which hit an eight-year high, while cryptocurrency bitcoin surged to record highs following Tesla's US\$1.5 billion investment.

Rising inflation expectations saw US 10-year Treasury yields rise 0.25% over the month to an eleven-month high of 1.17%, leading to negative returns for government bonds.



Table: Index Returns to 31 January 2021

	MONTH (%)	THREE MONTHS (%)	FYTD (%)	ONE YEAR (%)
Australian Equities				
S&P/ASX 300 Accumulation Index	0.3	12.1	14.1	-2.7
S&P/ASX Small Ordinaries Accumulation Index	-0.3	13.0	20.0	5.4
International Equities				
MSCI World (ex Australia) Index (hedged A\$)	-0.8	14.5	17.9	10.1
MSCI World (ex Australia) Index (unhedged A\$)	-0.4	6.4	9.2	0.9
MSCI Emerging Markets Index (unhedged A\$)	3.7	10.6	21.3	11.6
Property				
S&P/ASX 200 A-REIT Accumulation Index	-4.1	9.1	16.3	-14.0
Australian Fixed Interest				
Bloomberg AusBond Composite Index	-0.4	-0.8	0.5	1.7
Global Fixed Interest				
FTSE WGBI ex-Aust (hedged A\$)	-0.8	-0.5	0.1	2.7
Barclay's Global Capital Aggregate Bond Index (hedged A\$)	-0.6	0.2	0.9	2.6
Cash				
Bloomberg AusBond Bank Bill Index	0.0	0.0	0.0	0.3
Commodities				
Gold (US\$ per ounce)	-1.9	-1.0	5.0	17.6
Copper (US\$ per metric tonne)	1.2	16.9	30.6	41.1
WTI Crude Oil (US\$ per barrel)	7.6	45.9	32.9	1.2
RBA Index of Commodity Prices (A\$)	4.8	12.4	15.3	11.4

Table 1: Australian Dollar versus Foreign Currencies to 31 January 2021

AUSTRALIAN DOLLAR VERSUS	AS AT 31 JANUARY 2021	MONTH (%)	THREE MONTHS (%)	FYTD (%)	ONE YEAR (%)
US Dollar	0.77	-1.0	8.8	11.8	14.4
British Pound Sterling	0.56	-1.1	3.1	0.2	9.5
Euro	0.63	0.2	4.6	3.3	4.0
Japanese Yen	80.19	0.6	9.1	8.7	10.0