

Market Summary

A year of uncertainty and anticipation closed on a mostly positive note in equity markets in the fourth quarter, despite persistent concerns over the coronavirus, resurgent inflation and speculation over the course of monetary policy.

Global developed markets delivered returns of around 7% in the December quarter, bringing full year gains to about 30% and outpacing emerging markets. Strong value and profitability premiums were key features of the year.

The Australian market posted modest returns for the quarter of a little over 2%, to bring its calendar year gains to more than 17%. The NZ market eased back just under 2% to post its first negative year of returns in a decade.

In terms of sectors, the best performers globally in the quarter were materials stocks, real estate investment trusts (REITs), information technology and utilities. Financials and energy were among the underperformers.

Looking at factors in Q4, it was a mixed story. The size premium was flat in Australia and negative elsewhere. The value premium was positive in emerging markets, but mixed in developed markets – positive among small stocks, but negative in large. The profitability premium was positive across the board.

What Dominated The News A Quick Recap – October to December

OCTOBER

- Pandora Papers Document Dump Links World Leaders to Secret Wealth
- IMF Cuts Global Growth Forecast, Citing Vaccine Divide
- Central Banks Begin to Withdraw Pandemic Stimulus as Inflation Rises
- Fumio Kishida Succeeds Yoshihide Suga as Japan's Prime Minister
- Gladys Berejiklian, Facing Corruption Inquiry, Resigns as NSW Premier

NOVEMBER

- Japan's LDP Secures Surprise Win in General Election
- World Leaders Secure New Climate Deal in Glasgow
- Jerome Powell Appointed to Second Term as Federal Reserve Governor Global Death Toll from COVID-19 Passes Five Million
- Omicron, a Virulent New COVID-19 Variant, Appears in South Africa

DECEMBER

- Australian Economy Shrinks 1.9% in Q3 as Lockdowns Bite
- US Announces Diplomatic Boycott of 2022 Winter Olympics in Beijing
- Bond Traders Stare at Worst Real Returns Since Volcker Era
- Amid Inflation Pressure, Federal Reserve Flags Three Rate Hikes in 2022
- Omicron Takes Off in Australia; Experts Warn of 200,000 Cases a Day

Despite the ongoing challenges from the virus, the world economy continued to recover from the initial shock of the pandemic – helped by supportive fiscal and monetary policies and increased vaccination coverage.

However, the sudden recovery in global demand for goods exerted pressure on strained supply chains, which - together with a run-up in energy prices - contributed to an upswing in inflation in many advanced economies.

Against that background, central banks began to unwind some of the stimulus added during the crisis. The US Federal Reserve started to scale back its bond purchases and flagged three interest rate hikes for 2022. Central banks in the UK and New Zealand were among the first to raise benchmark rates.

The RBA maintained its cash rate target at 10bps and pledged not to increase it until inflation is sustainability within its 2-3% target band. However, the bank in November formally abandoned its yield curve target under market pressure.

Fixed income markets experienced more tepid returns than equity markets, with yield curves finishing the year generally higher and steeper than at the start. As measured by the Bloomberg Global Aggregate bond index (hedged to AUD), the bond market posted its first full negative year of returns since 1994.

Market Movement World Indices Wrap Up

FIXED INTEREST	OTR	1 Year
Bloomberg AusBond Bank Bill index	0.01%	0.03%
Bloomberg AusBond Composite 0+ Yr Index	-1.46%	-2.87%
Bloomberg Global Aggregate Bond Index (hedged to AUD)	0.03%	-1.53%

AUSTRALIAN EQUITIES	OTR	1 Year
S&P/ASX 300 Index (Total Return)	2.21%	17.54%
S&P/ASX Small Ordinaries Index (Total Return)	2.03%	16.90%
S&P/ASX Australian BMI Value Index (gross div.)	0.58%	19.80%
S&P/ASX Australian BMI Growth Index (gross div.)	3.77%	18.92%

GLOBAL EQUITIES	OTR	1 Year
MSCI World ex Australia Index (net div., AUD)	7.19%	29.58%
MSCI World ex Australia Index (net div., hedge to AUD)	7.90%	23.88%
Hedging Premium	0.71%	-5.69%
MSCI World ex Australia Small Cap Index (net div., AUD)	1.43%	22.88%
MSCI World ex Australia Value Index (net div., AUD)	6.65%	29.73%
MSCI Emerging Markets Index (net div.,AUD)	-1.95%	3.44%

REAL ESTATE	OTR	1 Year
S&P/ASX 300 A-REIT Index (Total Return)	10.07%	27.03%
S&P Developed REIT Index (net div., AUD)	11.86%	40.00%