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MONTHLY UPDATE ON THE INVESTMENT ENVIRONMENT

January 2020

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MARKET UPDATE

2020 started on a high note for the global economy, with a Sino-US trade deal and Brexit removing two key uncertainties that had plagued markets in 2019. However, the emergence of a potential global pandemic toward the end of January provides a potential 'black swan' risk, particularly in its country of origin, China.

Coronavirus cases started to soar in the Chinese city of Wuhan in late January. By mid-February, the virus strain had infected at least 60,000 people and killed 1,400. While the overwhelming majority of cases are concentrated on the Chinese mainland, cases have also been confirmed in small numbers in other continents. The economic impact of the virus on global supply chains, consumer spending and business sentiment is likely to weaken the global economy in the short term. A key question is how long the disruption continues into 2020.

The potential effects of the new coronavirus are likely to weigh on the Australian economy. Following major bushfires at the start of the year, the virus outbreak pushed the Australian dollar to an eleven-year low against the US dollar. Chinese demand for Australian commodities and services means the local currency is frequently considered a proxy for the state of the Chinese economy.

January saw stronger-than-expected Australian inflation and employment data. The unemployment rate declined to a nine-month low of 5.1%, while headline inflation of 1.8% was the highest in a year. The strong data compelled the RBA keep the cash rate unchanged at its February meeting.

Meanwhile, low rates saw Australian house prices continue to rally in tandem with rising home loan origination, while sentiment indicators for business and consumers remained subdued.

The US economy recorded overall positive data during the month. Fourth quarter GDP growth pushed the annual rate to 2.3%. While the lowest annual figure in three years, it does not yet factor in any increased economic optimism following the 'Phase 1' trade deal between the US and China. Headline inflation increased to 2.3% year-on-year; its best calendar year reading since 2011. The jobs market also remained healthy, with the unemployment rate edging up from its 50-year low to a still-low 3.6%. The major upside surprise for the month was private sector payrolls data, which saw a five-year-high of 291,000 jobs added in January.

As widely expected, US President Donald Trump was acquitted by the Senate of pressuring the Ukrainian government to dredge up political dirt on political rival Joe Biden. The Senate voted along party lines with one exception – Trump's one-time Presidential primary rival, Mitt Romney, who to remove Trump from office. On the other side of the spectrum, the first Democratic primary for the 2020 elections, held in Iowa, saw outsider Peter Buttigieg narrowly defeat leftist Bernie Sanders; although the latter won the next primary in New Hampshire.

The Chinese economy endured a month of poor data. 2019 GDP growth of 6.1% was the slowest rate in thirty years, with manufacturing investment declining by 3.1%. Concurrent with trade tensions, unemployment has increased and consumer spending has weakened – the former will be of particular concern to the Chinese authorities.

European economic data remained disappointing overall, with fourth quarter GDP growth of 0.1% taking the annual rate to a six-year low of 1.0%. While headline inflation increased to 1.4% as energy costs increased, the more stable core inflation reading declined from 1.3% to 1.1%. Sentiment indicators remain subdued, particularly manufacturing PMI. UK economic data was similarly poor overall, however with Brexit now having finally occurred, attention will focus on UK trade negotiations – in particular with the EU.

Global markets rallied over most of January, with the 'Phase 1' Sino-US trade deal and Brexit certainty generating considerable optimism. However, by month-end, coronavirus fears reversed much of this increase. The S&P/ASX 200 Index soared to new highs, reaching a record close of 7,132, while in the US the S&P 500 and Nasdaq Composite Indices similar hit new all-time highs. The decline in the Australian dollar helped push unhedged global equities returns firmly into positive territory, while coronavirus concerns saw investors retreat to 'safe harbour' late in the month, pushing down the 10-year US Treasury yield from over 1.9% to 1.5%.

Table: Index Returns to 31 January 2020

	MONTH (%)	THREE MONTHS (%)	FYTD (%)	ONE YEAR (%)
Australian Equities				
S&P/ASX 300 Accumulation Index	4.9	6.0	8.3	25.0
S&P/ASX Small Ordinaries Accumulation Index	3.4	4.7	7.4	18.8
International Equities				
MSCI World (ex Australia) Index (hedged A$)	-0.4	5.1	8.5	17.9
MSCI World (ex Australia) Index (unhedged A$)	4.3	8.3	13.9	28.3
MSCI Emerging Markets Index (unhedged A$)	0.1	5.3	7.0	13.1
Property				
S&P/ASX 200 A-REIT Accumulation Index	6.4	4.0	6.3	19.6
Australian Fixed Interest				
Bloomberg AusBond Composite Index	2.3	1.5	3.0	9.1
Global Fixed Interest				
FTSE WGBI ex-Aust (hedged A$)	2.3	1.1	3.4	8.2
Barclay's Global Capital Aggregate Bond Index (hedged A$)	1.8	1.3	3.4	8.1
Cash				
Bloomberg AusBond Bank Bill Index	0.1	0.2	0.6	1.4
Commodities				
Gold (US$ per ounce)	3.7	4.9	11.7	19.4
Copper (US$ per metric tonne)	-9.8	-4.0	-7.1	-9.8
WTI Crude Oil (US$ per barrel)	-15.6	-4.8	-11.8	-4.1
RBA Index of Commodity Prices (A$)	1.0	-1.4	-8.0	-0.9

Table 1: Australian Dollar versus Foreign Currencies to 31 January 2020

AUSTRALIAN DOLLAR VERSUS	AS AT 31 JANUARY 2020	MONTH (%)	THREE MONTHS (%)	FYTD (%)	ONE YEAR (%)
US Dollar	0.67	-4.5	-2.9	-4.5	-8.0
British Pound Sterling	0.51	-4.0	-4.1	-7.5	-7.7
Euro	0.61	-2.9	-1.9	-1.4	-4.2
Japanese Yen	72.91	-4.2	-2.3	-3.3	-7.7