

Monthly Market Snapshot

December 2022

The Monthly Market Snapshot publication provides commentary on the global economy and the performance of financial markets.

Market commentary

The month of December saw a selloff of risk assets. Stocks and bonds took heavy losses amid reignited fear that surging interest rates would spark a global recession. The primary drivers of financial market volatility throughout 2022 were central banks' battle against inflation and the war in Ukraine.

The US economy is heading into 2023 on a mixed note. Inflation peaked in June and has been decelerating ever since – consumer price growth dropped to its lowest reading in November since December 2021. When volatile food and energy prices are excluded, core inflation is starting to decelerate as well. Away from the positive inflation figures, retail sales declined in November and Purchasing Manager Index (PMI) measures weakened for the third-consecutive month. The housing market generally showed further signs of deterioration in the face of rising borrowing cost. Labour markets continue to hold strong, and the widening gap between new job openings and unemployed has pushed wages higher which is good for workers but bad for inflation.

In Europe, the latest data suggests that inflation may have peaked, but the policy of tightening continues. Coupled with raising the interest rate, the European Central Bank (ECB) also intends to begin reducing the size of its balance sheet. Oil prices have been particularly volatile over December as investors struggled to figure out the potential outcome of EU efforts to cap prices and Russian efforts to undermine caps. In economic data, PMI measures in Europe improved in December.

Global central banks continued with aggressive monetary policy tightening. The US Federal Reserve (Fed), Bank of England (BoE) and ECB raised interest rates by 50 basis points (bps) as expected. These central banks predicted rates would continue to rise to tackle high inflation – despite the negative impact on the economy and the recent softening of prices.

The Bank of Japan (BoJ) tweaked its yield curve control policy in a surprise move at its December monetary policy meeting, widening the tolerance band for its 10-year Japanese government bond yield. The market reacted strongly to the news, producing large negative returns for Japanese equity and strengthening of Japanese Yen.

The Australian market finished December with losses in both stocks and bonds, but the selloff was relatively mild compared to other advanced economies. Utilities and industrials were the biggest losers, while the energy sector gained slightly. Domestic housing downturn extended into December. Listed real assets, property and infrastructure produced large negative returns.

China is rapidly easing its COVID-related restrictions including shortening quarantine periods, easing travel restrictions and lessening COVID testing requirements. November economic activity was especially soft due to soaring COVID cases. Export also fell significantly, likely reflecting weakening global demand. The disappointing economic data and concerns over geopolitical tension led to negative returns in China equity following a strong rebound in November.

The calendar year of 2022 suffered through a bear market in equities, the highest inflation surge since the 1970s, and the worst year on record for investment-grade fixed income. US stocks fell sharply with the technology sector taking the heaviest hit. The Treasury yield curve was the most inverted since the early 1980s, highlighting the risk of recession in 2023.

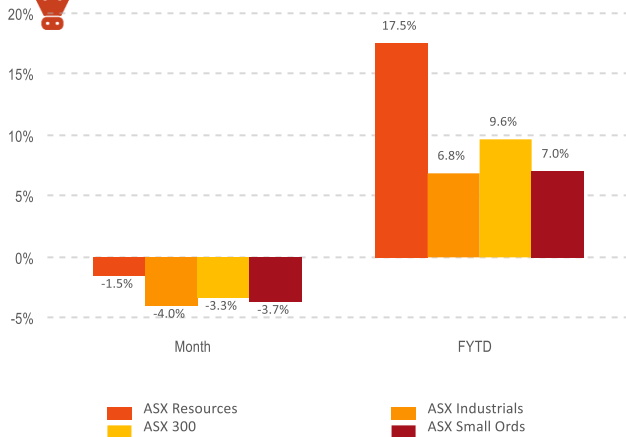
Emerging market stocks registered negative returns over 2022 in the face of tighter financial conditions and growth headwinds from the war in Ukraine and China's property sector. Debt levels of many emerging market countries have risen sharply in response to both the pandemic and cost-of-living crisis, resulting in weaker fiscal positions. At the same time, the reopening of these economies and the energy price shock have led to a deterioration in current account balances.

Supported by strong demand for commodities and solid labor market, Australian economy remained resilient amid global slowdowns. On the back of strengthening US dollar, the Australian Dollar (AUD) has been in a downtrend over 2022. A deteriorating economic outlook, exposure to a slowing Chinese economy, fluctuations in commodity prices and inflation have collectively contributed to the decline of the AUD.

December 2022



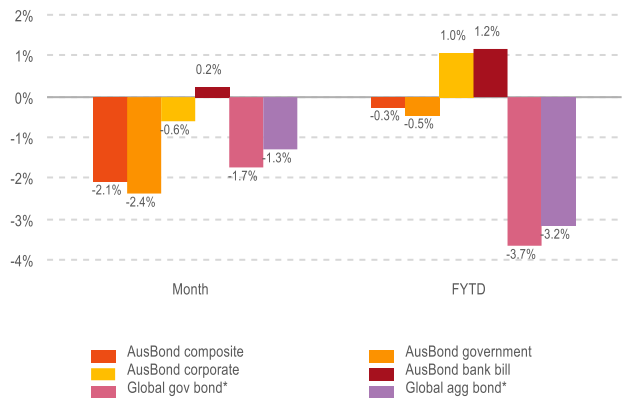
Australian equities



Source: Refinitiv Datastream



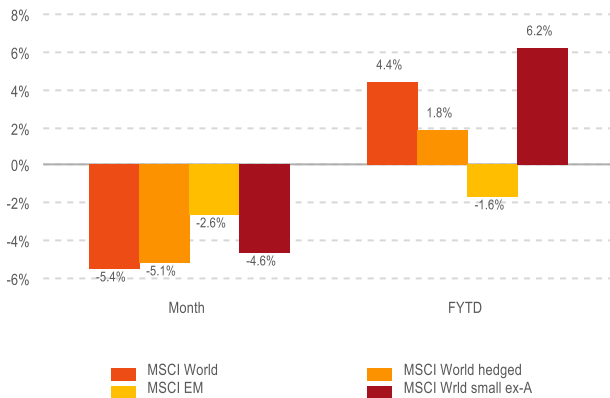
Fixed income



Source: Refinitiv Datastream



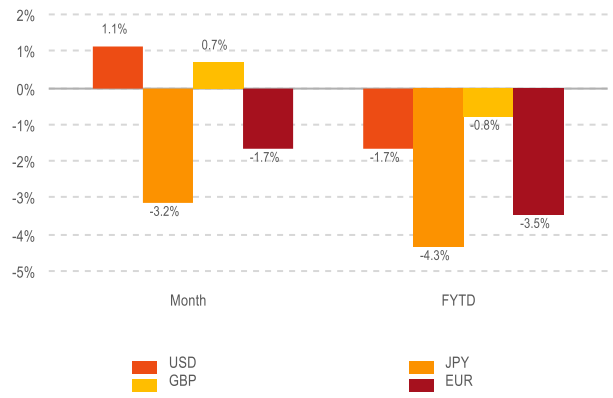
International equities (\$A)



Source: Refinitiv Datastream



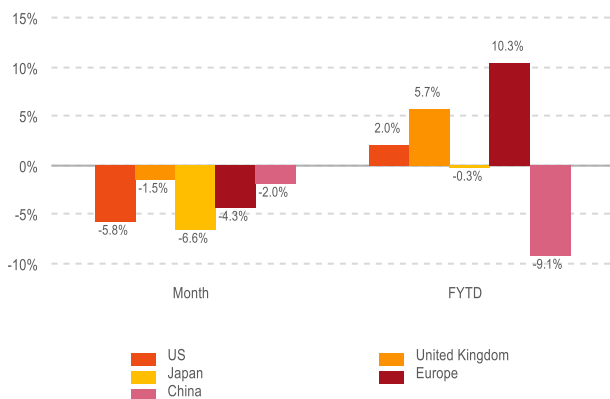
Australian dollar



Source: Refinitiv Datastream



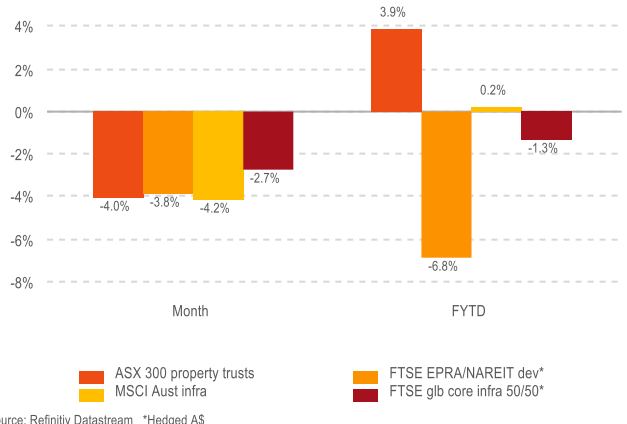
International equities



Source: Refinitiv Datastream











Real assets



Source: Refinitiv Datastream *Hedged A\$

Details of the indices are in the table on the next page

December 2022

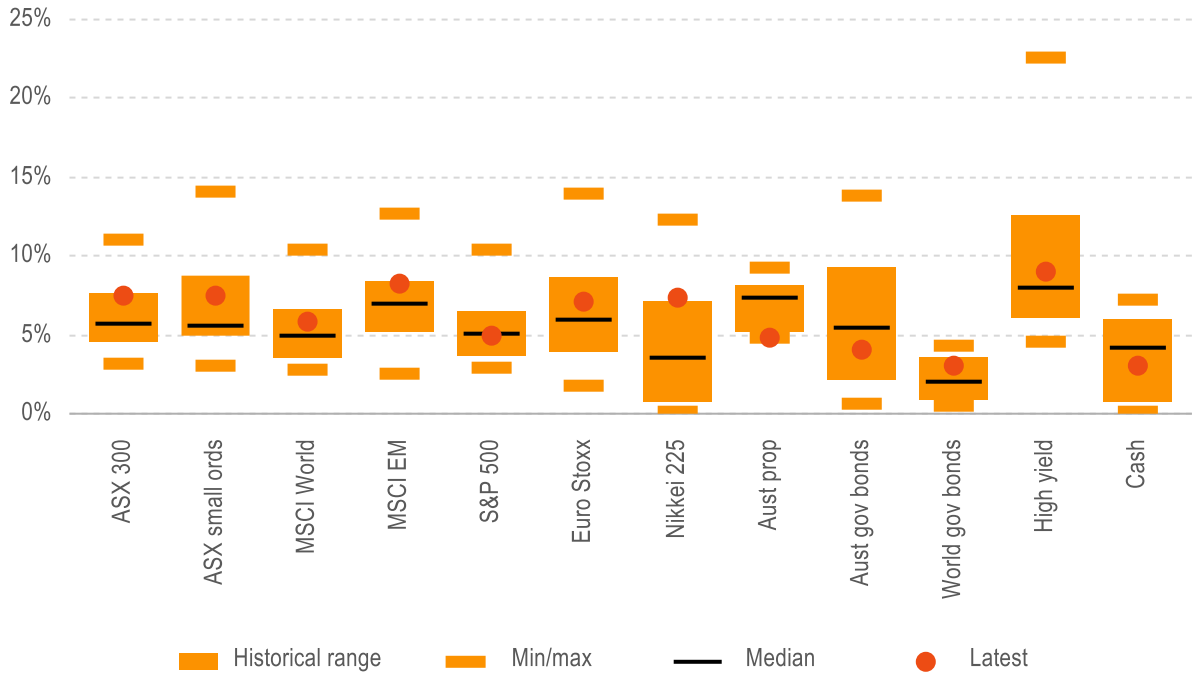
	Index Value	Month	3 Months	FYTD	1 Year	5 Yr p.a.	
Australian Equities							
	S&P/ASX 300 Accum. Index	7,003	-3.3%	9.1%	9.6%	-2.6%	7.1%
	S&P/ASX 300 Accum. Industrials Index	10,313	-4.0%	7.2%	6.8%	-9.0%	5.3%
	S&P/ASX 300 Accum. Resources Index	5,937	-1.5%	14.2%	17.5%	20.6%	13.4%
	ASX Small Caps Accum. Index	2,798	-3.7%	7.5%	7.0%	-18.9%	2.9%
International Equities							
	MSCI World Index (\$A)	4,298	-5.4%	4.1%	4.4%	-12.6%	9.2%
	MSCI World Index (Hedged \$A)	3,545	-5.1%	7.2%	1.8%	-14.5%	5.7%
	MSCI Emerging Markets Index (\$A)	1,018	-2.6%	4.0%	-1.6%	-13.9%	1.5%
	MSCI World ex-Aus Small Cap Index (\$A)	548	-4.6%	4.9%	6.2%	-13.1%	6.4%
	US (S&P 500 Index in USD)*	3,840	-5.9%	7.1%	1.4%	-19.7%	7.5%
	US Tech (NASDAQ Index in USD)*	10,466	-8.7%	-1.0%	-5.1%	-33.5%	8.7%
	United Kingdom (FTSE 100 Index in GBP)*	7,452	-1.6%	8.1%	3.9%	0.7%	-0.6%
	Japan (Nikkei 225 Index in JPY)*	26,095	-6.7%	0.6%	-1.1%	-9.4%	2.8%
	Europe (Stoxx 50 Index in EUR)*	3,794	-4.3%	14.3%	9.8%	-11.9%	1.6%
	China (Shanghai Composite Index in CNY)*	3,089	-2.0%	2.1%	-9.1%	-14.6%	-1.4%
AUD versus ...							
	USD	0.68	1.1%	4.2%	-1.7%	-6.7%	-2.8%
	JPY	89.88	-3.2%	-4.3%	-4.3%	7.6%	0.4%
	GBP	0.56	0.7%	-3.6%	-0.8%	4.5%	-0.6%
	EUR	0.64	-1.7%	-3.9%	-3.5%	-0.7%	-0.5%
Real Assets							
	ASX 300 Listed Property Trusts Accum. Index	1,346	-4.0%	11.6%	3.9%	-21.2%	3.8%
	FTSE EPRA / NAREIT Dev. Index (Hedged \$A)	1,443	-3.8%	4.0%	-6.8%	-24.1%	-0.4%
	MSCI Australia Infrastructure	1,240	-4.2%	12.2%	0.2%	3.2%	4.5%
	FTSE Global Core Infra 50/50 Index (Hedged \$A)	2,379	-2.7%	6.6%	-1.3%	-3.3%	5.6%
Oil and Commodities							
	Crude Oil (US\$/bbl)	80.2	-0.3%	0.4%	-25.5%	4.2%	5.8%
	Copper Spot (US\$/tonne)	8,365	1.7%	8.9%	1.3%	-14.0%	3.0%
	Gold Spot (US\$/ounce)	1,816	3.6%	8.5%	0.5%	0.3%	6.9%
Australian Fixed Interest							
	Bloomberg AusBond Composite Index	9,383	-2.1%	0.4%	-0.3%	-9.7%	0.5%
	Bloomberg AusBond Government Index	9,698	-2.4%	0.2%	-0.5%	-10.2%	0.5%
	Bloomberg AusBond Corporate Index	10,186	-0.6%	1.1%	1.0%	-6.7%	1.4%
	Bloomberg AusBond Bank Bill Index	9,136	0.2%	0.7%	1.2%	1.3%	1.0%
Global Fixed Interest							
	Bloomberg Global Gov. Bond Index (Hedge \$A)	332	-1.7%	-0.2%	-3.7%	-11.7%	-0.2%
	Bloomberg Global Agg. Bond Index (Hedge \$A)	961	-1.3%	0.6%	-3.2%	-12.2%	-0.2%
Fixed Income (yields) as at ...							
		Dec 2022	Nov 2022	Sep 2022	Jun 2022	Dec 2021	Dec 2017
	Australia Bank Bill	3.01	2.95	2.71	1.14	0.02	1.71
	Australia 10-Year Government Bond	4.04	3.54	3.95	3.69	1.63	2.67
	US 10-Year Government Bond	3.83	3.70	3.80	2.97	1.52	2.41
	UK 10-Year Government Bond	3.67	3.16	4.09	2.24	0.98	1.19
	Germany 10-Year Government Bond	2.56	1.95	2.11	1.37	-0.18	0.42
	Japan 10-Year Government Bond	0.42	0.25	0.25	0.23	0.07	0.05

Source: Refinitiv Datastream

*Price Index

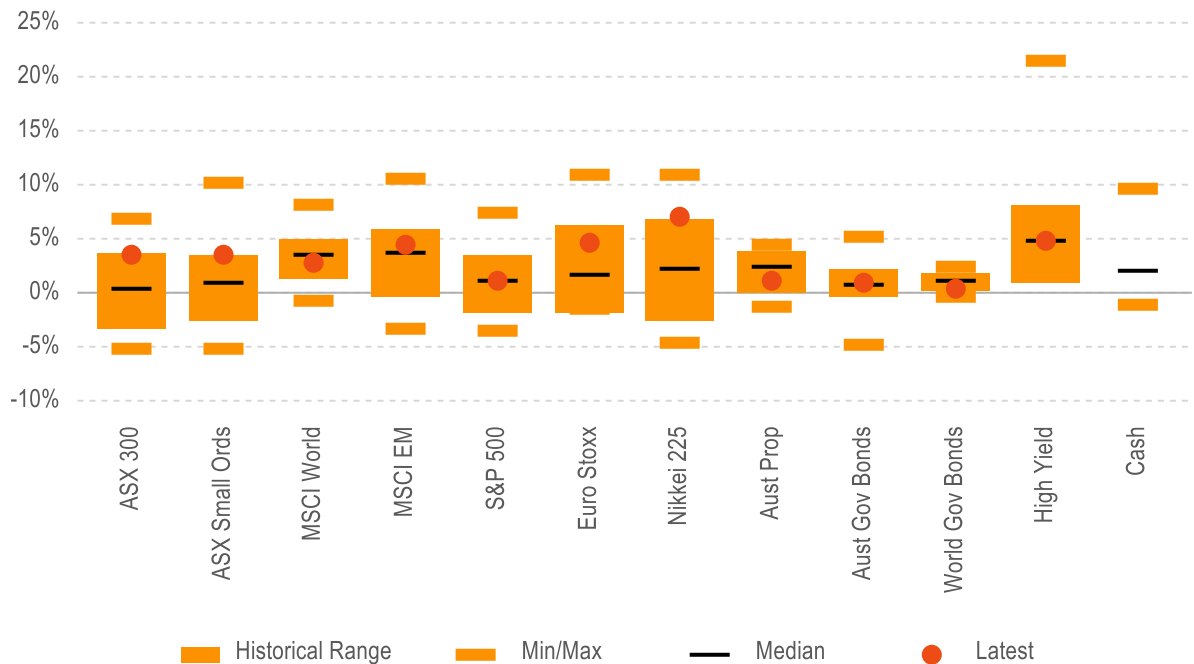
Asset class yields relative to history

Current yields (equities earnings)



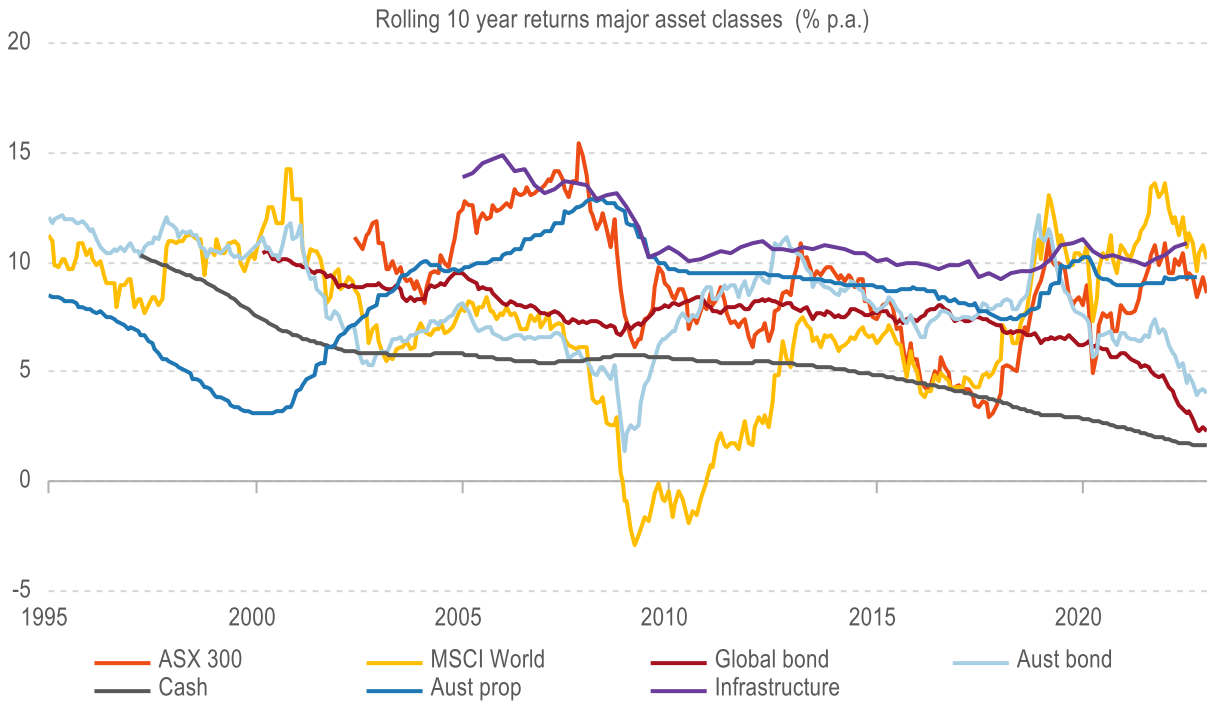
Source: Refinitiv Datastream

Relative yields (vs bond or cash yield)

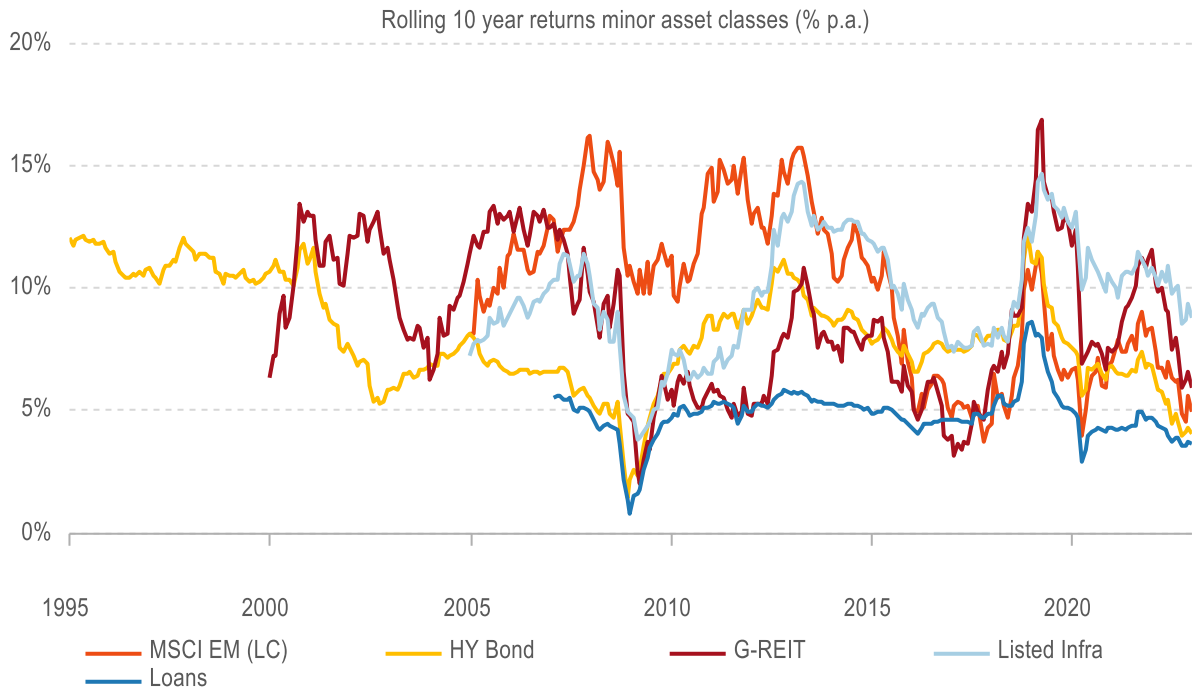


Source: Refinitiv Datastream

Asset class long-term returns

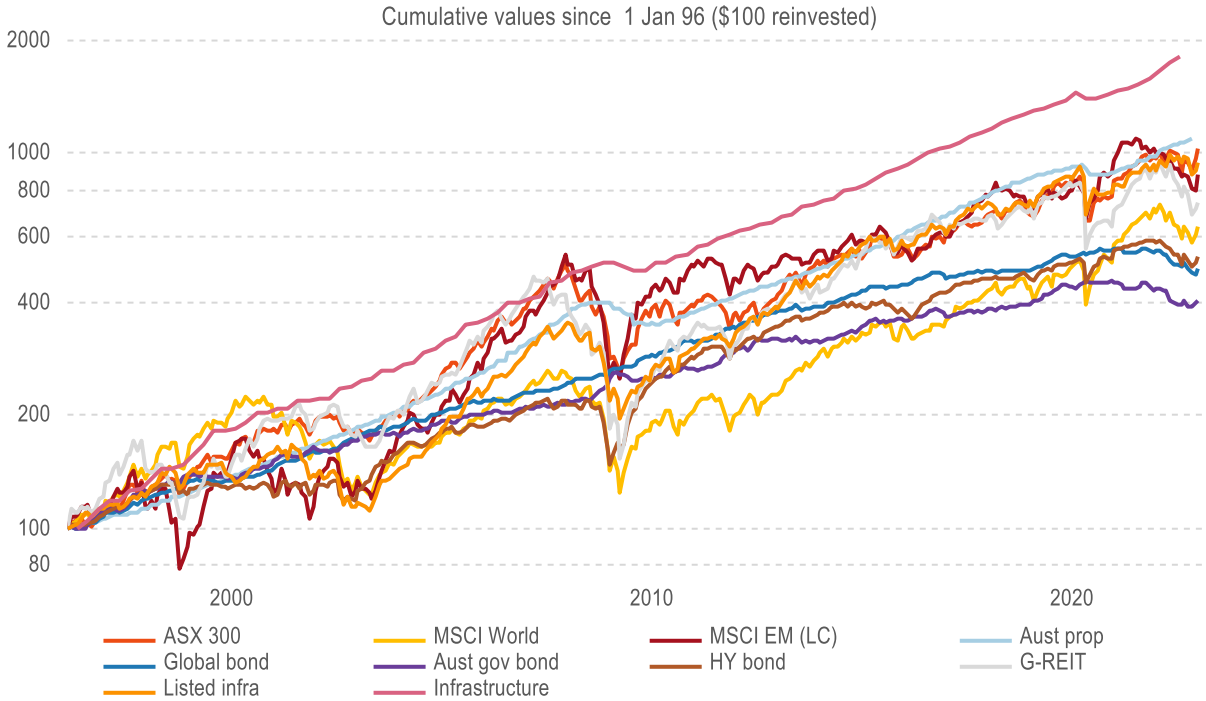


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Asset class long-term returns





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