

Market wrap

January 2022



Market perform well despite Omicron

- **Global shares** rose 4.0% and 1.7% in hedged and unhedged terms, respectively. Global emerging markets fell 0.6% over the month, based on continuing concerns around the Omicron variant.
- **Australian shares** performed reasonably well during December, with the S&P/ASX 200 returning 2.7%. The leading sectors were Utilities (up 6.88%) and Materials (up 6.43%). I.T. was the worst performing sector (down 5.35%).
- **Fixed income** returns ended the month fairly flat, returning 0.1% domestically and -0.4% globally.
- The **Australian dollar (AUD)** rose 1.9% against the US dollar and 3.8% against the Yen. Note given the more hawkish rhetoric from the Fed., the AUD has already given back about 1 cent of December's gain.

Inflation and Tapering

Globally

- The U.S. consumer price index rose 0.5% for the month of December, 7.0% on a year-on-year basis, the fastest rate since June 1982. It is now clear that some elements of inflation globally aren't transitory, while other elements will take significantly longer to dissipate than initially expected.
- The Fed will be buying \$60 billion of bonds each month starting in January, half the level prior to the November taper and \$30 billion less than it had been buying in December. The Fed was tapering by \$15 billion a month in November, then doubled the taper in December. It will accelerate the tapering further in 2022.

Locally

- The International Monetary Fund forecasts that Australia's GDP will grow 4.1% in 2022 on the back of increased business activity and international borders reopening. However, the Omicron outbreak, which has spread rapidly since mid-December, is likely to make a reasonable dent in economic activity, with some economists and fund managers already reducing Q1 2022 GDP forecasts.
- A key decision coming up for the RBA is whether or not to end QE in February. The next RBA meeting is on the 1st of February. It seems likely, based on the economy outperforming in a few key areas since November, that the RBA will decide to end QE.

Major asset class performance

Asset classes	1 month %	1 year %	5 years (p.a.) %
Australian shares	2.7	17.2	9.8
Australian small companies	1.4	16.9	11.2
Global shares (hedged)	4.0	23.9	14.0
Global shares (unhedged)	1.7	29.6	15.1
Global small companies (unhedged)	1.2	22.4	12.2
Global emerging markets (unhedged)	-0.6	3.4	9.8
Global listed property (hedged)	5.9	28.6	6.9
Cash	0.0	0.0	1.1
Australian fixed income	0.1	-2.9	3.4
International fixed income	-0.4	-1.5	3.2

Source: Bloomberg & IOOF, 31 December 2021

Indices used: Australian Shares: S&P/ASX 200 Accumulation Index, Australian small companies: S&P/ASX Small Ordinaries Accumulation Index, Global shares (hedged): MSCI World ex Australia Net Total Return (in AUD), Global shares (unhedged): MSCI World ex Australia Hedged AUD Net Total Return Index; Global small companies (unhedged): MSCI World Small Cap Net Total Return USD Index (in AUD); Global emerging markets (unhedged): MSCI Emerging Markets EM Net Total Return AUD Index; Global listed property (hedged): FTSE EPRA/NAREIT Developed Index Hedged in AUD Net Total Return; Cash: Bloomberg AusBond Bank Bill Index; Australian fixed income: Bloomberg AusBond Composite 0+ Yr Index; International fixed income: Bloomberg Barclays Global Aggregate Total Return Index Value Hedged AUD

Please note: Past performance is not indicative of future performance

Currency Markets

Exchange rates	At close on 31/12 %	1 month change %	1 year change %
USD/AUD	0.73	1.9	-5.6
Euro/AUD	0.64	1.7	1.5
Yen/AUD	83.7	3.8	5.3
Trade weighted index	61.1	4.5	-3.6

Source: Bloomberg & IOOF, 31 December 2021

All foreign exchange rates are rounded to two decimal places where appropriate.

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