Monthly Economic Wrap

January 2021

Summary

- Share markets were mixed to start 2021 with developed markets such as the US and Europe falling while emerging markets rose strongly, led by China.
- Vaccine rollout continued to be a focus and at times, a point of tension, as countries looked to secure supply and distribute to their citizens with Israel remaining a global standout.
- Slowing case and death numbers saw the severity of the coronavirus pandemic soften during the month.
- Joe Biden was inaugurated as President of the United States and proceeded to unwind several policy stances by the Trump Administration immediately, committing to being proactive on climate change and signalling its goal for further fiscal policy.
- Data releases for the December quarter highlighted stronger-than-expected economic performance for China and Europe.

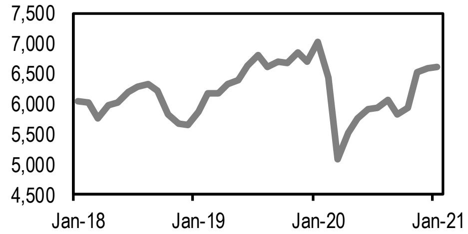
Markets

- Risk assets were mixed with global equities and bond proxies struggling while small cap and emerging market outperformance persisted (see Chart 4).
- Australian equities outperformed vs global peers (see Chart 2) while value stocks continued their recent rally, clawing back much of the relative underperformance in 2020 (see Chart 3).

Key economic news

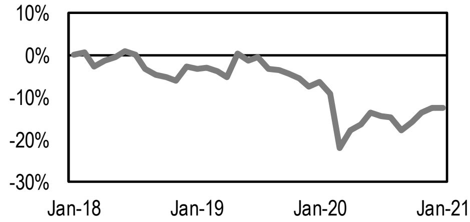
- The RBA committed itself further to the quantitative easing path to lower borrowing costs and weaken the Australian dollar. It also flagged its expectation for the cash rate to remain at 0.1% until 2024 at the earliest.
- The Biden Administration flagged its plans for $1.9tn in additional fiscal stimulus to support the coronavirus vaccine rollout and economic recovery. Negotiations remain underway.

1. S&P/ASX 200 Price Index



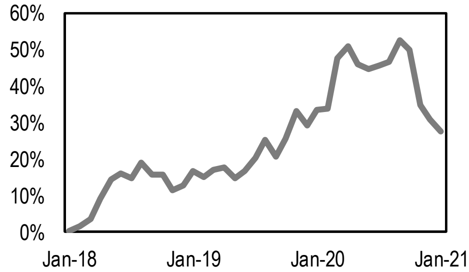
Source: Bloomberg, IOOF

2. ASX200 vs All-World, US$ terms



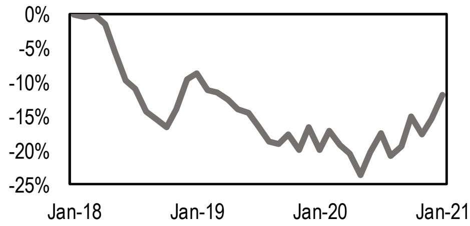
Source: Bloomberg, IOOF

3. Australia – Growth vs Value stocks



Source: Bloomberg, IOOF

4. Emerging markets vs Developed Markets, (In USD)



Sources: Bloomberg, MSCI, S&P, IOOF

Key company news

Company-specific factors dominated the best and worst performers. Bingo Industries soared following a takeover bid from private equity while Link Administration Holdings struggled following the withdrawal of a bid made during December. Zip Co benefitted from continued strength in its US rollout with strong performance during the December quarter.

Sector and stock returns

ASX/S&P 200 Sectors (GICS)				
	Monthly	**% ∆**	**Quarterly**	**% ∆**
▲	Consumer Discretionary	4.66	Consumer Discretionary	14.58
▲	Consumer Staples	2.10	Consumer Staples	3.56
▲	Energy	1.28	Energy	28.87
▲	Financials ex Property	2.20	Financials ex Property	17.15
▲	Financials	2.20	Financials	17.15
▼	Health Care	-1.85	Health Care	-4.09
▼	Industrials	-2.99	Industrials	5.60
▲	IT	0.38	IT	14.89
▼	Materials	-1.10	Materials	15.39
▼	Property Trusts	-4.09	Property Trusts	7.65
▲	Telecommunications	2.70	Telecommunications	15.96
▼	Utilities	-0.09	Utilities	-5.79

Source: Bloomberg, IOOF

Best and Worst S&P/ASX 200 Performers			
Top five stocks		**Bottom five stocks**	
Monthly			
Zip Co Ltd	+37.4%	Polynovo Ltd	-32.2%
Bingo Industries Ltd	+32.4%	Nanosonics Ltd	-14.8%
Pro Medicus Ltd	+25.4%	Adbri Ltd	-14.3%
Lynas Rare Earths Ltd	+20.1%	Link Administration Holdings	-13.9%
Nufarm Ltd	+18.3%	Resolute Mining Ltd	-13.2%
Quarterly			
Unibail-Rodamco-Westfield - CDI	+86.6%	Appen Ltd	-30.9%
Lynas Rare Earths Ltd	+68.9%	Silver Lake Resources Ltd	-23.9%
Credit Corp Group Ltd	+54.9%	Mesoblast Ltd	-22.2%
Oil Search Ltd	+51.0%	A2 Milk Co Ltd	-21.7%
Fletcher Building Ltd	+49.1%	Ramelius Resources Ltd	-20.7%

Source: Bloomberg, IOOF

Share Markets, January 2021

	Australian Indices	Jan-21 Price	1M return (%)	Oct-20 Price	3M return (%)
▲	S&P/ASX 200	6607	0.31	5928	11.47
▲	All Ordinaries	6871	0.30	6133	12.03
▼	Small Ordinaries	3081	-0.28	2736	12.59
US Indices					
▼	S&P 500	3714	-1.11	3270	13.59
▼	Dow Jones	29983	-2.04	26502	13.14
▲	Nasdaq	13071	1.42	10912	19.79
Asia Pacific Indices					
▲	Hang Seng	28284	3.87	24107	17.32
▲	Nikkei 225	27663	0.80	22977	20.40
UK & Europe Indices					
▼	FTSE 100	6407	-0.82	5577	14.89
▼	CAC40	5399	-2.74	4594	17.52
▼	DAX Index	13433	-2.08	11556	16.24

Sources: Bloomberg, MSCI, FTSE, S&P, IOOF
Note: return is reported on a price basis and in local currency terms e.g. S&P500 performance is in US dollars and excluding dividends

Global equity markets

Chinese equities were amongst the strongest performers for the month, followed by US tech names with the Hang Seng and Nasdaq indices both up. Key return drivers included:

- Strong performance in Chinese tech names with Alibaba up over 6% and Tencent up over 20%. Tencent benefitted from anticipation at investment Kuaishou's IPO (which is up over 200% from its listing price as at 10 February)
- Continued anticipation of fiscal stimulus in the US with initial details of the Biden Administration's mooted $1.9trn deal.
- Strong beats on Dec-20 revenue and earnings by major tech giants supported Nasdaq returns with Microsoft beating consensus revenue estimates by 7.2% and earnings estimates by 23.8%.

At a regional level, exposure to emerging markets (EM) continued to support client returns with outperformance persisting in January. The EM benchmark was up 3.7% compared to 0.4% fall for developed markets (see page 12)

	1-mth	3-mth	6-mth	1-yr	3-yr	5-yr
MSCI World	-0.4%	6.5%	8.6%	0.7%	10.3%	11.5%
Value	-0.4%	8.3%	8.5%	-11.7%	2.4%	6.6%
Value-Weighted	0.2%	11.8%	13.1%	-5.6%	5.1%	9.5%
Momentum	1.5%	6.1%	8.6%	10.4%	16.1%	16.4%
Growth	-0.3%	5.8%	8.9%	14.2%	17.9%	16.5%
Quality	-1.4%	3.1%	5.5%	4.3%	15.5%	14.4%
Low volatility	-0.9%	-0.3%	-0.5%	-12.3%	7.0%	#N/A
Equal weight	-0.3%	10.9%	13.8%	-2.3%	6.9%	11.9%
Small caps	2.7%	16.1%	22.2%	6.7%	9.4%	12.3%

Source: Bloomberg, IOOF, MSCI

At a style level, January saw a rotation-trade away from Growth and Quality towards both value and small caps which showed strong relative outperformance continue to persist from the December quarter. Progress in vaccine rollouts continues to underpin cyclical sectors such as energy.

We also saw unusual retail behaviour contribute to sizeable short squeeze events for heavily shorted small caps within the US market predominantly. Coordination amongst retail investors initiated a "short squeeze" (where short sellers must enter the market to purchase the shorted stock to reduce their losses, reinforcing the price rise). This was across several names including most prominently Gamestop (GME). Anecdotal reports suggest other institutional investors followed retail into some of these positions looking to profit from the trading opportunity at hand. While the subject of much spilled ink the strength of retail to repeat these efforts is unlikely to be particularly material for the broader market given its concentration in a handful of small names (it is much more difficult for the same trick to repeat in large caps).

Australian equity markets

The Australian market continued to rise, up 0.3%. At a sector level, the benchmark was driven higher by the financials (up 2.2%) and consumer discretionary sectors (up 4.7%).

	1-mth	3-mth	6-mth	1-yr	3-yr	5-yr
MSCI Australia	0.6%	12.6%	13.2%	-5.1%	6.6%	9.8%
Value	1.8%	21.5%	20.7%	-2.7%	3.0%	7.8%
Value-Weighted	1.6%	17.8%	18.1%	-5.4%	4.6%	9.1%
Momentum	-0.4%	3.9%	5.6%	0.3%	8.1%	10.5%
Growth	-0.3%	5.9%	9.1%	15.0%	18.4%	17.0%
Quality	-1.4%	3.1%	5.6%	3.6%	15.8%	14.6%
Low volatility	0.2%	7.9%	6.8%	-9.5%	5.1%	7.9%
Equal weight	-0.3%	10.9%	13.8%	-2.3%	6.9%	11.9%
Small caps	-0.3%	13.0%	18.3%	5.4%	6.7%	11.6%

Source: Bloomberg, IOOF, MSCI

At a style level, value stocks (particularly the major banks) were the standout with all other styles lagging the benchmark. It is likely only value exposures in client portfolios will have held up relative to the index.

Fixed Income

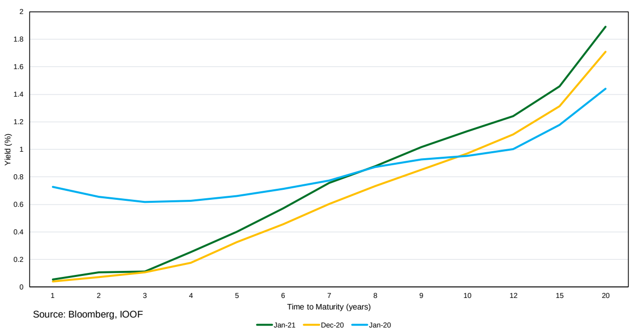
	Fixed Income	Jan-21 yield	1M mvt (bps)	Oct-20 yield	3M mvt (bps)
	Australian Cash rate	0.10	--	0.25	-0.15
▲	10-year Bond Yield	1.13	0.16	0.83	0.31
▲	3-year Bond Yield	0.11	0.01	0.12	-0.01
▼	90 Day Bank Bill Yield	0.01	-0.01	0.06	-0.05
▲	US 10-year Bond Yield	1.07	0.15	0.87	0.19
▲	US 3-year Bond Yield	0.17	0.01	0.20	-0.03
▲	US Investment Grade spread	1.12	0.03	1.41	-0.29
▼	US High Yield spread	3.24	-0.03	4.91	-1.67

Source: Bloomberg, IOOF

Australian bond market

The Australian yield curve steepened during January particularly at the long end of the curve which is now steeper than this same time last year.

5. Australian yield curve changes to Jan-21



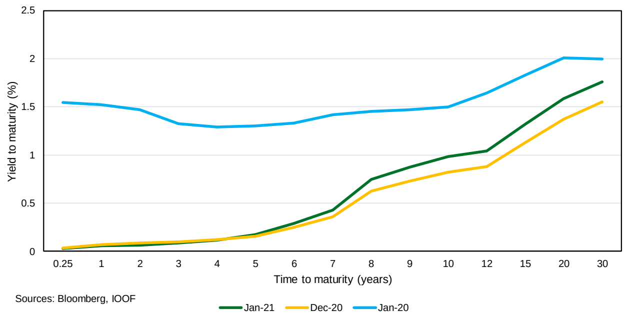
The RBA yield curve control at the short end of the curves remains in place with short-term rates continuing to hover at the 0.1% rate. In its early February meeting, the RBA announced additional bond purchases to the tune of $100bn to keep longer-term borrowing costs contained and reduce pressure on the Australian dollar. The Bank also slightly extended its guidance on the cash rate by stating it did not anticipate conditions requiring a hike being reached until 2024 at the earliest. This was a shift from earlier remarks anticipating no hikes for “at least three years”. This extends the window for low expected returns on cash, term deposits and short-duration debt domestically.

The shift favouring riskier assets on vaccine rollouts from the December quarter persisted into January. This saw corporate bonds in the Australian market rally further with 0.5% outperformance over government bonds in January (see page 12). Bond prices fell (and yields rose) in anticipation of stronger growth particularly following the positive jobs report for December. This saw weakness in government bond returns as a result.

US bond market

US Treasury yields rose particularly for the 10-year yield as the yield curve steepened. The prospect of additional stimulus and rapid vaccine rollout stoked investor optimism with the US one of the highest countries in the world in terms of number of doses already administered (as of early February). Falling coronavirus cases were also a support with a sizeable decline following a mid-January peak.

6. US yield curve movement to Jan-21



US credit spreads expanded for investment grade credit (which were tight relative to historic ranges) but contracted further for high yield (still arguably room to contract further relative to historic ranges). Stronger oil prices supported further high yield contraction (energy companies have a higher weight in the high yield benchmark).

January and subsequently February has seen some concerns regarding the prospect of inflation. As discussed in the monthly webinar, the picture is more mixed than necessarily implied by any single indicator. We are following these dynamics closely given the materiality for client investment outcomes. The latest miss in US inflation and weak levels elsewhere suggest we should not be overly alarmist at present.

Currencies

	Currencies	Jan-21 Price	1M return (%)	Oct-21 Price	3M return (%)
▼	$A vs $US	76.44	-0.65	70.28	8.76
▼	$A vs GBP	55.76	-0.95	54.27	2.74
▲	$A vs YEN	80.03	0.71	73.56	8.80
	$A vs EUR	62.98	--	60.35	4.36
▼	$A vs $NZ	106.38	-0.66	106.25	0.12
▼	$A TWI	63.00	-0.63	59.50	5.88
▲	$US vs EUR	82.39	0.65	85.86	-4.04
▼	$US vs CNY	6.43	-1.50	6.69	-3.92
▼	$US vs GBP	72.97	-0.29	77.22	-5.50
▲	$US vs JPY	104.68	1.38	104.66	0.02
▲	$US vs CHF	89.03	0.58	91.70	-2.91
▲	US Dollar Index	90.58	0.72	94.04	-3.67
▼	EM Currency Index	57.07	-1.48	54.29	5.12

Source: Bloomberg, IOOF

The Australian dollar (AUD) fell 0.65%% against the US Dollar (USD) during January, from USD 0.7694 to USD 0.7644

The Australian dollar traded in a narrower range for the month. Increased speculation of further quantitative easing (bond purchasing) by the RBA also came to fruition shortly after month-end. A down week for equities at month-end with MSCI World Index falling 3.2% also triggered a risk-off move to end the month as an additional detractor. Finally, the decline in US coronavirus cases and strong relative economic data surprises also supported the USD for its stronger relative economic outlook.

Conversely the month-end move in equities supported USD. USD remains heavily shorted and widespread in its use as a funding currency for more attractive, speculative plays in other currencies. This leaves it susceptible to strong performance from short-covering in a broader risk-off move. The JPM Emerging Market Currency Index slipped in January led by weak South American country performance led by Brazil (down 5.6%).

Commodities

	Commodities	Jan-21 Price	1M return (%)	Oct-20 Price	3M return (%)
▼	Aluminium	1973	-0.11	1851	6.61
▲	Copper	356	1.05	305	16.49
▲	Nickel	17659	6.46	15166	16.43
▼	Zinc	2562	-6.58	2527	1.39
▲	Crude Oil - Brent	55.88	7.88	37.46	49.17
▲	Natural Gas	2.56	0.98	3.35	-23.55
▼	Metallurgical Coal	126	-2.26	129	-2.26
▲	Thermal Coal	89	1.49	60	47.50
▲	Iron Ore	168.13	7.89	120.19	39.89
▼	Gold	1850	-2.60	1892	-2.22
▲	Silver	27	1.90	24	13.09

Source: Bloomberg, IOOF

Most commodities rallied during across the energy and base metals spectrum. Notable exceptions lay in zinc and gold.

Zinc prices fell following a sudden surge in available supply with a sizeable delivery at the London Metals Exchange (a major repository for a variety of base metals).

Nickel by contrast benefitted from a range of drivers including supply disruptions following political unrest in New Caledonia (the world's fourth-largest producer accounting for 9% of global output). In addition the demand picture is strong with continued growth in Chinese stainless steel production as well as a renewed focus on both current and future demand for battery production with investor interest in the electric vehicle market soaring, stoked by news items such as the Biden Administration's plans to turn the federal government fleet of some 645k vehicles electric.

Stronger inventory drawdowns driven by rising demand helped push **oil** prices higher.

Precious metals specifically gold struggled against a stronger real yield (bond yield after inflation) environment following the trend of rising government bond yields persisting into January. Silver prices potentially benefitted from speculative investor flows into Silver ETFs in the US.

Australia

The bounce back in economic activity following the Victorian lockdown continued. Another sharp lockdown in Victoria poses a downside risk to the economy. However strong consumer sentiment and an improving labour market suggest growth as a base case for the near-term.

Coronavirus pandemic

Case growth in New South Wales declined in January as the Northern Beaches cluster was brought under control with restrictions gradually easing as of early February. However there have been several scares of transmission in hotel quarantine particularly of the UK variant. This triggered sharp but brief lockdowns in Brisbane and Perth. In early February a growing cluster emerged linked to the Holiday Inn hotel near Melbourne airport. As of 12 February, Victoria entered a sharp lockdown severely constraining freedom of movement and shutting down schools amongst other restrictions. While the full spread of this cluster is unknown these measures should help constrain further growth but at an economic cost for businesses particularly those reliant on “in person” presence. If it is a shorter episode akin to what we saw in Brisbane and Perth it should not materially drag on the economy for the March quarter but does pose a near-term downside risk.

Australian authorities are aiming to commence vaccinations later in February led by doses of the Pfizer vaccine with an initial goal of 80,000 people receiving doses per week at regional and urban hospitals. As with the UK and elsewhere, the most vulnerable (e.g. the elderly) and frontline healthcare staff are the priority groups for vaccination. Health Minister Greg Hunt has indicated the government believes it is on track to reach four million vaccine doses by April.

Growth outlook

The Westpac-Melbourne Institute Leading Index fell to 4.18% in December, down from 4.94% in November. While it suggests economic momentum has slowed slightly it still suggests above trend growth for the first half of 2021. Key drivers of the stronger result include stronger industrial production in the US, an improvement in the labour market domestically and stronger consumer sentiment expectations.

Longer-term, structural challenges still loom however as current policy support unwinds (e.g. JobKeeper concluding in March), and immigration levels remain low (adding more people tends to boost economic activity and overall growth in aggregate). In the near-term, vaccine rollout from late February promises to potentially support growth momentum further particularly for the sectors that are yet to recover to pre-coronavirus levels e.g. tourism.

Consumer sentiment

The Westpac-Melbourne Institute Consumer Sentiment Index rose 1.9% in February to 109.1, up from 107 in January. This remains at a sizeably elevated level with readings last this high in 2013. Key drivers include optimism about the jobs market with unemployment expectations falling while economic expectations also improved both for the next year and longer term. This stronger level of confidence is important for the year ahead as it should underpin higher consumer spending and a falling savings rate (from near record levels to end 2020). This will be key to offset the potential drag of fiscal policy such as JobKeeper ending in 2021.

Labour market

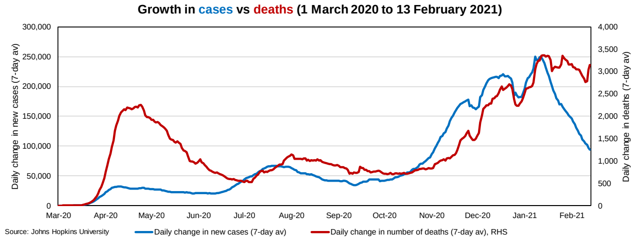
The jobs market gained 50,000 jobs in net terms with the unemployment rate falling to 6.6% as well in December. Pleasingly we saw the participation rate climb to a record high of 66.2% with hours worked (another measure of labour market activity) improving to be only down 1.2% year-on-year. This latter measure, hours worked, is a better hint of the damage still done to Australian workers given JobKeeper is keeping some people employed (but not actively working). The overall result remains positive and on an improving trajectory.

To add to this, we saw job vacancies continue to recover with a 1.6% rise in online jobs ads during January according to the National Skills Commission. This saw total ads rise to 175,100 nationally, 11.1% above the level we saw in January 2020 (pre-coronavirus). Rising vacancy rates points to increased demand for labour amongst businesses and should act as a tailwind for the current jobs recovery. This should help offer some offset to concerns that JobKeeper ending will see rising job losses particularly in parts of the labour market still to recover to pre-pandemic levels such as tourism.

United States

The coronavirus pandemic appears to have reached a near-term peak and sharp subsequent decline with lockdown restrictions and vaccine rollout taking effect. Leading indicators remain supportive of continued growth momentum with signs of bottlenecks triggering rising inflation.

Coronavirus pandemic



Since mid-January US cases, hospitalisations and fatalities have been making a rapid decline. The 7-day average of new cases has fallen to Nov-20 levels while fatalities have fallen but remain elevated. Further vaccination rollout should continue to apply downward pressure on new cases. Currently the country is distributing over 1m vaccine doses per day (at times in excess of 1.6m) with over 48m already administered of which over 13m people have already received the required second dose.

Policy

Negotiations for additional fiscal stimulus by the Biden administration remain underway. At present the stimulus appears to be below the initial target of $US1.9 trillion with market observers citing a $1.5-1.7T range with the aim of securing approval before extended unemployment benefits expire on 14 March. Key tenets include extending direct cheques to households, expanding a child tax credit, a proposal offering relief to embattled airlines and more funding to ensure the vaccination process continues smoothly. This will likely be passed via what is known as a “budget reconciliation process” which is a procedural measure enabling bills to pass by simple majority in the US Senate (within a limited window of time). This would be a net positive to US growth prospects. It does raise potential concerns over stronger inflation although this is not yet evident in current figures with the latest CPI print missing on the downside. We continue to observe inflation closely as it does carry the downside risk of policy overreaction by raising rates or reducing government spending.

There is also renewed discussion of a follow-up package to target the extensive infrastructure renewal required across much of the US with talk pitching such efforts as high as a further $2T although concerns lie in how such efforts will be funded with higher corporate taxes cited as one possible source). Politically contentious subjects such as tax reform will likely be deferred with stimulus the near-term priority.

Growth outlook

Leading indicators including the Conference Board Leading Economic Index and the ECRI Weekly Leading Index suggest growth momentum should continue improving in the near term. The Weekly Economic Index product by ECRI entered positive year-on-year growth for the first time in February suggesting the US will officially exit recession during the March quarter.

Business sentiment

The US manufacturing PMI strengthened further in January, rising to 59.2, up from 57.1 in December. New orders climbed at the fastest pace in over six years with new export orders also rising at their fastest speed since September 2014. Pleasingly the relaxation of coronavirus restrictions saw relief for manufacturers with confidence remaining elevated for the next twelve months and employment rising at the strongest rate in two years. One point of concern lies in rising input costs and stronger inflation in finished goods as firms passed on the rising costs to end customers. The key drivers were raw material and trucking shortages (to transport input goods). This led to production lagging demand with work backlogs building. These inflationary pressures should ease when we see the supply situation improving.

The Services PMI also signalled strength with a rise to 58.3, up from 54.8. Strength in new orders was a key driver from both domestic and overseas clients with the latter returning to growth. Business confidence remains strong as well, recording its second-highest level since May 2015 on anticipation of a successful vaccine rollout and end to the pandemic in 2021. Points of caution lie in higher input costs due to greater fuel and supplier costs particularly for protective health equipment. The overall picture suggests a strong March quarter for the US although somewhat plagued by what should be temporary inflationary pressures as more supply is brought online amongst businesses according to IHS Markit.

China

Business surveys suggest continued improvement into January albeit at a more moderate place. Deceleration of credit growth remains a potential headwind in 2021 with concerns that Chinese firms and households cannot persist with current trends in growing leverage.

Business activity and sentiment

Chinese economic momentum softened in January. The Manufacturing PMI, a measure of strength in the manufacturing sector, declined to 51.5 in January, down from 53.0 in December. The export backdrop was a key factor with new export orders falling for the first time in six months, linked to the resurgence in coronavirus cases globally (with growth trends only peaking in mid-late January). The labour market for manufacturers remained challenged with firms still cautious about adding new hires. Overall momentum slowed to start 2021.

The Services PMI also fell to 52.0 in January, down from 56.3 in December. Weaker overseas demand was one factor while concerns over the ultimate end of the pandemic for customers weighed on overall confidence. Input cost inflation was also a factor for services firms with rising raw material and, labour and transportation prices being largely absorbed instead of being passed on to end customers.

The overall Composite PMI fell to 52.2 in January signalling the softest growth rate in the past nine months. Rising input cost inflation was one point of concern as was a weaker overseas demand backdrop. Fiscal stimulus efforts in the US and the commencement of European Recovery Fund payments may pose useful tailwinds to improve overseas demand.

Credit growth

Broad M2 money supply rose 9.4% in the year to January (consensus: 10%) and outstanding yuan loans rose 12.7% over the same period. Focus has shifted to anticipating tightening by the People's Bank of China to slow debt growth. For example, at one juncture a withdrawal of liquidity saw interbank lending rates (rates banks charge other banks) spike to 3.3278%, its highest since March 2015 in late January. This sparked concerns of a shift to a tighter monetary policy stance. Partly this is a seasonal effect with the PBOC usually injecting more liquidity into the system to meet demand for cash ahead of the February Lunar New Year holiday period. However, the injection was insufficient compared against other years, sparking concerns amongst market participants.

Any signs of slowing credit growth will be watched for closely as it may bode poorly for key exports such as iron ore as it signals less willingness to lend to fringe projects to create economic activity.

Economic growth

The Chinese economy strengthened in the December quarter with 6.5% growth (consensus: 6.1%).

The Chinese consumer remains a point of weakness, however. Retail sales fell 3.9% in 2020, marking the first decline since 1968 according to the official statistics agency, the NBS.

By contrast, more traditional growth engines continued form strength-to-strength. Exports grew 18.1% year-on-year (consensus: 15%) while imports showed much weaker growth, up 6.5% (consensus: 5.3%). The import trend arguably confirms the weaker consumption backdrop (stronger import growth would suggest more confidence by consumers to spend more). Industrial output rose 7.3% year-on-year to December (consensus: 6.9%), its strongest rate since March 2019.

Inflation

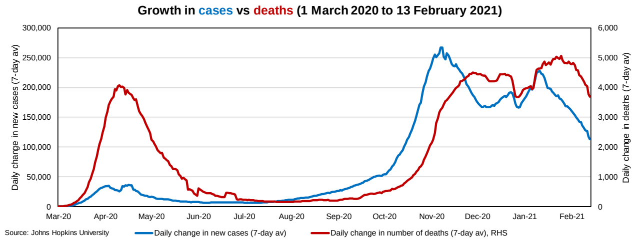
Chinese producer prices rose 0.3% from January 2020 (consensus: 0.4%), the first annual increase observed since the start of last year and the fastest since May 2019. Consumer prices however slipped into deflation with a decline of 0.3% over the year to January 2021. The divergence was partly driven by increases in raw material inputs for Chinese producers as noted in the business surveys. Another factor was what economists call "base effects" which reflect unusual items inflating the numbers we are comparing against. On that note, Capital Economics has been reported as citing demand from the Lunar New Year celebrations as providing an inflationary boost that will likely reverse the deflation currently in the reported data.

Overall while there are some signs of rising inflation observed in producer prices (which tend to lead prices for consumer goods) it remains at a subdued level unlikely to trigger a sharp monetary policy response.

Europe

The coronavirus pandemic has declined from recent peak levels, but logistical issues are plaguing vaccine distribution. This will likely weigh on near-term growth even as governments moderate lockdown restrictions with further fiscal and monetary stimulus likely required.

Coronavirus pandemic



In Europe a similar near-term peak in both cases and fatalities was reached in January with a sharp decline in both since that point. This includes within the UK as well even with the presence of the mutant B.1.1.7 strain. Lockdown restrictions and vaccine distribution success particularly in the UK played an important role in achieving this albeit at considerable economic cost for certain countries and the services sector.

The vaccine rollout has been problematic for mainland Europe however with countries there failing to adequately secure enough supply to commence mass vaccination programs. Despite for example the AstraZeneca option being approved on 29 January there have been production issues leading the company to reduce EU deliveries by an estimated 61% in the March quarter. Other issues have complicated Pfizer production for the bloc. This will slow the rollout in the EU but thankfully the declining case count has seen lockdown relaxations being gradually announced for Germany and signalled for the UK as well.

United Kingdom

Lockdown restrictions exacted a sharp toll on the services sector with the Services PMI slipping from mild contraction (49.4) in December to a deeper slump (39.5) in January (a reading of 50 is neutral). A national lockdown in January was the key driver impacting activity for hospitality and travel businesses especially. Thankfully however the vaccine has stoked business optimism with ~60% of surveyed firms anticipating stronger activity over the next year and overall private sector confidence at its highest level since May 2014.

Business activity and sentiment

The Eurozone Manufacturing PMI fell to 54.8, down from 55.2 in December. Manufacturing strength remained across the majority of surveyed countries with Italy showing its best performance in almost three years. New orders continued to increase although supplier delivery times also expanded for a twelfth successive month putting strain on producer prices due to rising raw material costs. According to IHS Markit these are seen as transitory resulting from short-term capacity shortfall and shipping delays. The services sector contracted further with a reading of 45.4 in January, down from 46.4 in December. Lockdown restrictions were the key driver with overall activity falling for a fifth consecutive month. These results suggest a further contraction in GDP is likely for the March quarter and, given the slow vaccine rollout, this risk may persist into the June quarter.

Further fiscal and monetary support will likely be required particularly for services sectors such as hospitality and tourism that have been amongst the worst-affected by the pandemic.

Economic growth

Eurozone economic growth surprised with a smaller-than expected decline of 0.7% for the December quarter (consensus: -1%) and -5.8% for 2020 (but still a record shock compared to 2009's -4.3%). This suggests, in line with earlier reports, that the Eurozone has weathered the second major wave of cases better than the April-May experience last year. Germany and Spain, up 0.1% and 0.4% were key offsets as was the more limited nature of restrictions in place (i.e. less severe than in the first wave).

Inflation

Eurozone inflation picked up in January, rising 0.2% for an overall 0.9% annual increase (consensus: 0.5%). While subdued it still marked a notable bounce compared to the 0.3% annual decline recorded in December. Core inflation which excludes more volatile food and energy prices was up 1.4%. Key drivers of the better-than-expected but still not excessive levels included strength in consumer price growth for Germany and the Netherlands. Another sign to watch for the future was stronger producer prices (which tend to lead to higher inflation). These only declined 1.1% for the year to December (consensus: -1.2%) suggesting the deflationary impulse from manufacturers is weakening.

Company news - best and worst performers during January 2021

Zip Co (Z1P, +37.4%)

Zip Co (Z1P) rallied significantly in January as investors gained confidence that Z1P would bridge the valuation gap relative to APT after a successful capital raising that allowed Z1P to gain a footprint in the US, Europe, and Middle East. The valuation gap widened as a result of APT's large success internationally while Z1P remained predominately a local phenomenon. Furthermore, Z1P is considering a US listing to increase appetite and momentum by US investors – through either a secondary listing or issuing American Depositary Receipts (ADRs).

Bingo Industries (+32.4%)

Bingo Industries (BIN) rallied on the news that a private equity consortium led by CPE Capital had made a formal offer to acquire the company for $2.6bn, valuing BIN at $3.50 per share and 20x FY21 EV/EBITDA, however would come under close scrutiny of the ACCC and conditional acceptance from the Tartak family which hold c.34% of the shares.

Pro Medicus (+25.4%)

Pro Medicus (PME) surged on news that it secured its largest contract to date, a 7-year deal with Salt Lake City-based US healthcare group Intermountain, worth US$40m. The company's flagship Visage software lets radiologists view reports and large image files generated by X-rays and other medical scans on-the-go from their mobile devices, and has had a string of success over the past 6 months, securing contracts with prestigious US hospitals and healthcare groups.

Polynovo (-32.2%)

Polynovo (PME) provided a trading update and suggested sales in the key US market would be challenging after revealing revenue growth for its skin regeneration technology had slow in 2Q21 as hospital capacity filled with surging COVID-19 cases. Although 1Q21 sales in the US jumped +70%, 2Q21 sales slowed to just +16%, dragging first-half US sales down to an aggregate +41% growth rate. The short-term outlook remains challenging however management have highlighted the medium-term prospects remain strong.

Nanosonics (-14.8%)

Nanosonics (NAN) continued to slide as the medical device company pushed back the launch date of its much anticipated second product (of which little has been revealed) to 2022 as the business continues to struggle to get representatives access to hospitals in the US amid the pandemic. Sales of NAN's flagship device, Trophon, which sterilises ultrasound probes without chemicals, is expected to experience a challenging first-half as both device sales and consumable components are expected to fall.

Adbri (-14.3%)

Adbri (ABC) declined over January on little news. A broker report by Morgan Stanley, downgrading the building products company to underweight and a price target of $3.30 may be responsible for the decline. Management are progressing well on a $199m restructure that is aiming to consolidate and modernise its cement-making operations in Perth, boosting annual production capacity by 400,000 tonnes to 1.5m tonnes.

Sources: ASX company announcements, Bloomberg, Fund manager disclosures, Australian Financial Review, Sydney Morning Herald

Movers and Shakers for month of January 2021

ASX Code	Company Name	Closing price ($)	Month ago, close ($)	Month price return (%)	Quarter ago close ($)	Quarter Price return (%)	Year ago, close ($)	Annual Price Return (%)
Z1P	Zip Co Ltd	7.27	5.29	37.4	5.72	27.1	4.04	80.0
BIN	Bingo Industries Ltd	3.23	2.44	32.4	2.45	31.8	2.80	15.4
PME	Pro Medicus Ltd	42.84	34.16	25.4	32.39	32.3	24.00	78.5
LYC	Lynas Rare Earths Ltd	4.78	3.98	20.1	2.83	68.9	2.16	121.3
NUF	Nufarm Ltd	4.85	4.10	18.3	3.44	41.0	5.53	-12.3
IPL	Incitec Pivot Ltd	2.64	2.28	15.8	1.92	37.5	3.28	-19.5
IEL	IDP Education Ltd	22.98	19.85	15.8	19.28	19.2	17.77	29.3
APT	Afterpay Ltd	135.10	118.00	14.5	96.69	39.7	38.55	250.5
ARB	Arb Corp Ltd	35.15	30.80	14.1	30.77	14.2	18.60	89.0
HVN	Harvey Norman Holdings Ltd	5.34	4.69	13.9	4.44	20.3	4.23	26.2

Source: Bloomberg, IOOF

ASX Code	Company Name	Closing price ($)	Month ago, close ($)	Month price return (%)	Quarter ago close ($)	Quarter Price return (%)	Year ago, close ($)	Annual Price Return (%)
PNV	Polynovo Ltd	2.63	3.88	-32.2	2.60	1.2	2.80	-6.1
NAN	Nanosonics Ltd	6.84	8.03	-14.8	5.15	32.8	6.94	-1.4
ABC	Adbri Ltd	2.87	3.35	-14.3	2.83	1.4	3.64	-21.2
LNK	Link Administration Holdings	4.78	5.55	-13.9	4.77	0.2	6.81	-29.8
RSG	Resolute Mining Ltd	0.69	0.80	-13.2	0.80	-13.8	1.15	-40.0
XRO	Xero Ltd	129.89	146.82	-11.5	110.15	17.9	85.58	51.8
IFL	IOOF Holdings Ltd	3.12	3.52	-11.4	2.92	6.8	7.29	-57.2
FLT	Flight Centre Travel Group L	14.08	15.85	-11.2	11.26	25.0	35.39	-60.2
WGX	Westgold Resources Ltd	2.35	2.64	-11.0	2.57	-8.6	2.19	7.3
SYD	Sydney Airport	5.72	6.41	-10.8	5.45	5.0	8.18	-30.1

Source: Bloomberg, IOOF

Asset class performance to January 2021 (Total returns in AUD)

				Annualised						
Asset class	**1-mth**	**3-mth**	**6-mth**	**1-yr**	**3-yr**	**5-yr**	**7-yr**	**10-yr**	**15-yr**	**20-yr**
Australian equities (S&P/ASX 200)	0.3%	11.9%	13.0%	-3.1%	7.0%	10.0%	7.9%	7.9%	6.4%	7.9%
Australian equities - Mid caps	-1.1%	9.0%	19.1%	10.5%	9.3%	14.2%	13.6%	10.2%	7.4%	10.7%
Australian equities - Small caps	-0.3%	13.0%	18.3%	5.4%	6.7%	11.6%	8.6%	4.0%	4.1%	6.3%
Australian equities - Micro caps	3.9%	20.4%	38.5%	27.6%	10.7%	16.0%	10.5%	2.3%	4.7%	#N/A
International equities	-0.4%	6.4%	8.5%	0.9%	10.4%	11.6%	11.8%	12.6%	6.9%	4.1%
International equities (Hedged)	-0.8%	14.5%	14.2%	10.1%	7.4%	12.5%	10.8%	11.6%	8.1%	6.8%
International equities - Small caps	2.7%	16.1%	22.2%	6.7%	9.4%	12.3%	11.2%	12.7%	7.5%	7.5%
Emerging Markets equities	3.7%	10.6%	16.0%	11.6%	6.3%	13.2%	9.7%	7.0%	6.0%	7.2%
Australian REITs	-4.1%	9.1%	15.5%	-14.0%	5.1%	5.9%	10.0%	10.3%	3.5%	6.5%
Global REITs	-0.2%	6.4%	4.3%	-21.9%	3.1%	2.8%	6.5%	8.0%	3.8%	#N/A
Global REITs (Hedged)	-0.5%	13.9%	9.4%	-15.3%	0.4%	3.5%	5.6%	7.0%	4.5%	#N/A
Global Infrastructure	-1.3%	-1.9%	-1.4%	-19.6%	6.0%	6.6%	8.7%	10.6%	5.9%	#N/A
Global Infrastructure (Hedged)	-1.6%	4.7%	3.4%	-11.3%	4.1%	7.5%	8.0%	10.0%	8.9%	#N/A
Trend following (USD)	-0.3%	6.3%	1.8%	5.8%	-1.2%	-2.0%	2.6%	0.8%	3.3%	5.5%
Australian bonds	-0.4%	-0.8%	0.1%	1.7%	5.4%	4.2%	4.8%	5.4%	5.6%	5.6%
Australian bonds - government	-0.5%	-1.1%	-0.2%	1.3%	5.5%	4.2%	4.8%	5.5%	5.6%	5.6%
Australian bonds – corporate	0.0%	0.8%	2.0%	3.6%	5.4%	4.8%	5.0%	5.8%	6.0%	6.0%
Australian bonds - floating rate	0.1%	0.3%	0.7%	1.7%	2.3%	2.7%	2.8%	3.6%	4.2%	4.6%
Global bonds (Hedged)	-0.6%	0.2%	-0.1%	2.6%	4.7%	4.1%	4.9%	5.8%	6.4%	6.8%
Global bonds - government (Hedged)	-0.7%	-0.4%	-0.7%	2.1%	4.6%	3.8%	4.8%	5.7%	6.2%	6.6%
Global bonds - corporate (Hedged)	-0.8%	1.7%	0.9%	4.0%	5.5%	5.8%	5.7%	6.8%	6.9%	7.4%
Global bonds - High Yield (Hedged)	-0.1%	6.2%	6.2%	3.2%	3.8%	7.7%	6.1%	7.9%	8.7%	#N/A
Emerging Market bonds (Hedged)	-1.4%	4.3%	2.5%	0.6%	3.5%	6.4%	6.5%	7.2%	7.9%	9.8%
Cash (AUD)	0.0%	0.0%	0.0%	0.3%	1.2%	1.5%	1.8%	2.4%	3.5%	3.9%

Sources: Bloomberg, IOOF calculations
* AUD total returns as at Nov-20 assuming reinvestment of dividends unless otherwise specified
** Returns reflect index performance excluding any fees; Actual ETF/managed fund performance will vary due to both fees and tracking error.

Appendix – Index sources

Asset class	Index
Australian equities (S&P/ASX 200)	S&P/ASX 200 Accumulation Index
Australian equities - Mid caps	S&P/ASX Accumulation Midcap 50 Index
Australian equities - Small caps	S&P/ASX Accumulation Small Cap Ordinaries Index
Australian equities - Micro caps	S&P/ASX Emerging Companies Total Return Index
International equities	MSCI World ex Australia Net Total Return (in AUD)
International equities (Hedged)	MSCI World ex Australia Hedged AUD Net Total Return Index
International equities - Small caps	MSCI World Small Cap Net Total Return USD Index (in AUD)
Emerging Markets equities	MSCI Emerging Markets EM Net Total Return AUD Index
Australian REITs	S&P/ASX 200 A-REIT Accumulation Index
Global REITs	FTSE EPRA/NAREIT Developed Index Net Total Return (in AUD)
Global REITs (Hedged)	FTSE EPRA/NAREIT Developed Index Net Total Return (Hedged to AUD)
Global Infrastructure	FTSE Global Core Infrastructure 50/50 Net Total Return in AUD
Global Infrastructure (Hedged)	FTSE Global Core Infrastructure 50/50 100% Hedged to AUD Net Tax Index
Trend following	SGI Cross Asset Trend Following Index (USD)
Australian bonds	Bloomberg AusBond Composite 0+ Yr Index
Australian bonds - government	Bloomberg AusBond Govt 0+ Yr Index
Australian bonds – corporate	Bloomberg AusBond Credit 0+ Yr Index
Australian bonds - floating rate	Bloomberg AusBond Credit FRN 0+ Yr Index
Global bonds (Hedged)	Bloomberg Barclays Global Aggregate Total Return Index Value Hedged AUD
Global bonds - government (Hedged)	Bloomberg Barclays Global Aggregate Treasuries Total Return Index Hedged AUD
Global bonds - corporate (Hedged)	Bloomberg Barclays Global Aggregate Corporate Total Return Index Hedged AUD
Global bonds - High Yield (Hedged)	Bloomberg Barclays Global High Yield Total Return Index Hedged AUD
Emerging Market bonds (Hedged)	J.P. Morgan EMBI Global Core Hedged Index Level AUD
Cash (AUD)	Bloomberg AusBond Bank Bill Index

Research Analyst – Cameron Curko

Approved By – Matt Olsen

Research Analyst Disclosures:

I, Cameron Curko, hereby certify that all the views expressed in this report accurately reflect my personal views about the subject investment theme and/or company securities. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

I, Cameron Curko, and/or entities in which I have a pecuniary interest, have an exposure to the following securities and/or managed products mentioned in this report: Nil

Important Information

This report is prepared by Bridges Financial Services Pty Limited ABN 60 003 474 977 AFSL 240837 (Bridges). Bridges is an ASX Market Participant and part of the IOOF group of companies. This report is prepared by the IOOF Research team for:
Bridges Financial Services Pty Limited ABN 60 003 474 977 AFSL 240837, Consultum Financial Advisers Pty Ltd ABN 65 006 373 995 AFSL 230323, Elders Financial Planning ABN 48 007 997 186 AFSL 224645, Financial Services Partners ABN 15 089 512 587 AFSL 237 590, Millennium3 Financial Services Pty Ltd ABN 61 094 529 987 AFSL 244252, RI Advice Group Pty Ltd ABN 23 001 774 125 AFSL 238429, Shadforth Financial Group Ltd ABN 27 127 508 472 AFSL 318613 ('Advice Licensees'). The Advice Licensees are part of the IOOF group comprising IOOF Holdings ABN 49 100 103 722 and its related bodies corporate (IOOF group).

The Advice Licensees and/or their associated entities, directors and/or employees may have a material interest in, and may earn brokerage from, any securities or other financial products referred to in this document, or may provide services to the company referred to in this report. The document is not available for distribution outside Australia and may not be passed on to any third person without the prior written consent of the Advice Licensees. The Advice Licensees and associated persons (including persons from whom information in this report is sourced) may do business or seek to do business with companies covered in its research reports. As a result, investors should be aware that the firms or other such persons may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as a single factor in making an investment decision.

The document is current as at the date of issue but may be superseded by future publications. You can confirm the currency of this document by checking the intranet site (links below).

The information contained in this report is for the sole use of advisers and clients of AFSL entities authorised by the Advice Licensees. This report may be used on the express condition that you have obtained a copy of the Advice Licensees Financial Services Guide (FSG) from their respective website.

Disclaimer: The information in this report is general advice only and does not take into account the financial circumstances, needs and objectives of any particular investor. Before acting on the advice contained in this document, you should assess your own circumstances or seek advice from a financial adviser. Where applicable, you should obtain and consider a copy of the Product Disclosure Statement, prospectus or other disclosure material relevant to the financial product before making a decision to acquire a financial product. It is important to note that investments may go up and down and past performance is not an indicator of future performance.

The contents of this report should not be disclosed, in whole or in part, to any other party without the prior consent of the IOOF Research Team and Advice Licensees. To the extent permitted by the law, the IOOF Research team and Advice Licensees and their associated entities are not liable for any loss or damage arising from, or in relation to, the contents of this report.

For information regarding any potential conflicts of interest and analyst holdings; IOOF Research Team's coverage criteria, methodology and spread of ratings; and summary information about the qualifications and experience of the IOOF Research Team please visit https://www.ioof.com.au/adviser/investment_funds/ioof_advice_research_process