

January Market Update 2022

the purposeful investor



Callum McPherson

Posted 13.02.2022 in Industry Updates

[vc_row][vc_column][vc_column_text]Inflation was the topic of the month for January as inflationary pressures took their toll on markets following the latest data to come out of the U.S. and Australia. Headline inflation topped 7% in the U.S and 3.5% in Australia, on the back of worldwide labour and material shortages. For the month, the ASX 300 dropped by 6.45%, and the S&P 500 fell by 5.20%, its worst month since March 2020, ending a very choppy start to the year.

The U.S

The higher than expected inflationary figures and the threat of higher interest rates caused significant daily swings in markets in the latter half of the month and sent growth stocks, primarily the technology sector, into a tumble. The technology-heavy Nasdaq fell as much as 16.3%, as typically these growth

companies are more sensitive to rates. This was further compounded with reducing federal stimulus in the U.S and the Federal Reserve signalling it would seek to combat inflation aggressively. Some analysts are projecting 3 rate rises over the course of 2022, and an immediate rate rise of 50 basis points has been suggested.

Australia

Not even the falling unemployment rate in Australia, which recently hit 4.2%, was sufficient to offset the fear of rising inflation in January, as we saw the technology and healthcare sectors drag the market down with returns of -18.4% and -12.1% respectively for the month. This outweighed the solid gains in the energy and resource sector. The energy sector was by far the best performer increasing by 7.9% for the month, with materials and utilities (the only other two positive sectors) rising by 2.6% and 0.8% respectively. While the concerns of possible rate rises have been a drag on markets, it is a typical sign of strong economic growth. It has sparked a strong swing towards value stocks over the recent months, as evidenced by the strong outperformance of both the Dimensional Fund Advisers (DFA) Australian Value Trust of 3.49% and the Global Value Trust of 5.87% for the month. The Global Value Trust now sits 8% ahead of the index for the previous 12 month period.

The Bond Market

While the RBA has until now has held steadfast on their view that they would not raise local interest rates before 2024, they have now suggested that we may see a rate rise before the end of 2022. Expected rate rises have been the case in many countries around the globe. Respective bond yields have begun to factor in these potential rate rises pushing the price of existing bonds down, leading to the Barclays Global Bond aggregate Index falling by 1.64% over the period. While this has been an uncomfortable ride for our fixed interest allocation, the benefit of rising yields is that we can also expect higher returns from bonds in the future.

Emerging Markets

In other sectors, emerging markets also outperformed the wider market for the month of January, with the index showing a positive return of 1.24%. Pleasingly the value focus in Dimensional Emerging Markets Trust leads a monthly return of 4.43%, comfortably beating the index, and lifting the 12-month return to 23.58% for the year.



Callum McPherson

Posted 13.02.2022 in Industry Updates

Callum is always looking to build on his already formidable knowledge to deliver solutions that enable clients to fulfil their ambitions.

Disclaimer: The information contained in this website is believed to be current at the time of publication. While it is believed to be accurate and reliable, no

guarantee is provided. This website provides general advice only and may not be relevant to your particular circumstances. The circumstances of each investor are different and you should seek advice from a financial planner who can consider if the strategies and products are right for you.