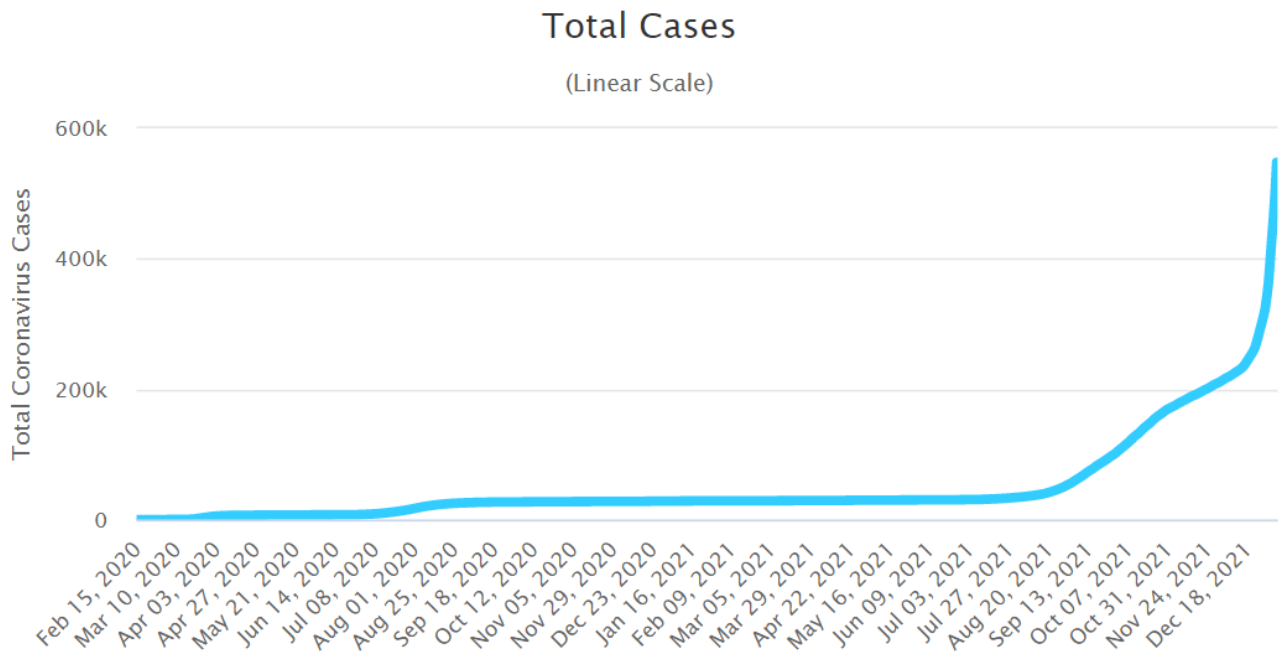


Living with COVID19

There seems to have been a subtle change in the willingness of governments to tolerate infections in the community...

This chart is for Australia:



Source: Worldometers

Readers with long memories (by financial market standards) may recall more stringent anti-COVID measures being employed at smaller caseloads than this. To put it mildly.

2022 opens with hard decisions for governments. For example, UK has a wave with triple the cases of last winter's wave – but (so far) **a tenth of the death toll**.

A base case is that:

- Vaccine efficacy against infection declines much more rapidly than originally thought, and **with mutations the efficacy is closer to zero than 100%**.
- Vaccines are of **great value against severe infection** – extremely low fatality rates cannot be attributed to mildness of omicron. Otherwise, people would still be dying from delta.
- Less sick / vaccinated people have a **higher R0** (transmission factor) – while their viral loads are lower, they are more mobile. Comparatively few gravely ill people on ventilators go to nightclubs, for example.

Europe is inching back towards the conditions of 2020. France has shut the border to the UK, even though slightly less populous France has more daily cases. Severe restrictions against those without antibodies (Europe, unlike Australia, accepts either vaccination or previous infection for a Green Pass).

2021 began with the euphoria of a new cure-all; in 2022, the bull case is not as clear.

Leading Markets

Stocks soared as the omicron variant appeared mild. Despite record COVID19 cases, vaccination and/or a less deadly variant meant only moderate policy responses. However, international movements are being restricted again.

The US Dow Jones and S&P500 set records rising +5.5% and +4.5%, with NASDAQ +0.7%. MSCI World ex-AUS gained +4.3% in local terms.

Emerging Markets rose +1.9% in \$US with Asia and Eastern Europe outperforming. Frontier added +1.5%. Investors remain concerned about Russian troop movements near Ukraine, and its rhetoric.

US 10-year bonds weakened to 1.52% (+9bp). High yield firmed to 310bp spread (-57bp), near cyclical records.

Other Highlights

COVID19 deaths approach 5½m (+250k) from over 295m cases (+35m, compared to 12m in November). The world reached 49% 2nd vaccination (+6%). Daily global deaths are the lowest since October 2020.

US unemployment dived to 4.2% (-0.4%) in November, despite anaemic Non-farm Payrolls of +235k vs October's +628k. Participation rose to 61.8%. Youth unemployment fell to 8.6% (-0.1%).

With Build Back Better blocked, the US is examining radical Senate reforms.

Inflation jumped to +6.8% YoY (+0.6%) after a +0.8% month; core inflation soared to +4.9%, both 39-year highs. Retail sales rose +0.3%. Supply chain blockages remain as tight as ever.

Eurozone unemployment eased to 7.3% (-0.1%) in November. Prices rose +0.4% in November and are a record +4.9% YoY. Bank of England raised the cash rate from 10bp to 25bp, predicting inflation to rise from 5.1% to 6% by Easter.

China saw a record \$3.8bn of offshore bond defaults in December with Kaisa defaulting. The property crisis and slower growth forced the Peoples Bank to ease again, cutting bank reserve ratios.

Turkish inflation hit 36%, with the Erdoganomics approach of lowering interest rates not working. The lira halved in a year, touching US6c in December.

Domestic

With no meeting in December, the RBA next meets in February – there is no signalling of a dramatic shift.

Election campaigning has begun, with massive commitments already rolling out.

Australia is one of relatively few countries at 90% adult vaccination / 75% population (currently 91.6% / 77%).

As daily COVID19 cases jump to 20x their previous record, governments are sticking with "endemic phase" rhetoric. However, they are admitting pressure on hospitals, as well as access to testing.

Australia walked back some domestic and international border easing, on omicron fears despite being 87% vaccinated and 92% 1st dosed.

2-year yields soared to 60bp, from 34bp as it appeared less likely omicron would force extreme measures. 10-year bonds closed 1.68% (-7bp).

The ASX200 added +2.8% and the Small Ordinaries soared +5.4%.

CoreLogic reported +0.6% property gains in December, +21% YoY and in line with ABS figures over 12 months.

October saw a \$11.2% trade surplus (-5% on weaker iron ore).

November unemployment fell to 4.6% (-0.6%) on 66.1% participation (+1.4%). Employment jumped +366k (fulltime +128k) to a record 13.2m with 40% working from home. Underemployment fell -2% to 7.5%. Youth unemployment eased to 10.9% (-2.2%).

Labour force tightness should be resolved as students and temporary workers return in 2022.

Household wealth set a record \$13.9tr (+4.4%), primarily on property gains.

Population grew +0.2% YoY, but fertility of 1.58 per woman was a record low.

Commodities and Currency

WTI oil bounced to \$US75/bbl (+12%). Gold rose to \$1829/oz (+3%). Iron ore recovered to \$120/t (+17%).

Base metals mostly firmed, with Nickel (+4%), Zinc (+8%), Copper (+1%) and Aluminium (+6%) up but Tin (-2%) down.

The \$A appreciated to US72.56c (+1.6%).

KEY FINANCIAL MARKET DATA – AS AT 31ST DECEMBER 2021 (UNLESS SPECIFIED)**Interest Rate Markets**

Index Performance	1 month	3 months	6 months	1 year	2 year	3 year	5 year
					p.a.	p.a.	p.a.
Bloomberg AusBond Bank	0.00%	0.01%	0.01%	0.03%	0.20%	0.63%	1.11%

Key Rates	Dec-21	Nov-21	Oct-21
Australian Cash Rate	0.10%	0.10%	0.10%
90 day BBSW	0.07%	0.05%	0.07%
3 Yr Commonwealth Bonds	0.92%	0.92%	1.24%
10 Yr Commonwealth Bonds	1.68%	1.75%	1.95%
CDX North American 5 Yr CDS	49bp	58bp	52bp
iTraxx Europe 5 Yr CDS	48bp	58bp	51bp
iTraxx Australia 5 Yr CDS	63bp	74bp	65bp
US Fed Funds Rate	0-0.25%	0-0.25%	0-0.25%
US 10 Yr Bond Rate	1.52%	1.43%	1.55%

Equity Markets

Domestic	1 month	3 months	6 months	1 year	2 year	3 year	5 year
					p.a.	p.a.	p.a.
S&P/ASX 200 TR	2.75%	2.09%	3.84%	17.23%	9.03%	13.62%	9.76%
S&P/ASX Small Ordinaries TR	1.41%	2.03%	5.54%	16.90%	12.99%	15.71%	11.17%
S&P/ASX 200 A-REIT TR	4.88%	10.07%	14.74%	26.14%	9.69%	12.82%	9.34%

International	1 month	3 months	6 months	1 year	2 year	3 year	5 year
					p.a.	p.a.	p.a.
US: S&P 500 (\$US)	4.48%	11.03%	11.67%	28.71%	23.44%	26.07%	18.47%
US: NASDAQ (\$US)	0.74%	8.45%	8.20%	22.18%	33.06%	34.26%	24.97%
MSCI World Acc. (Local Currency)	4.00%	8.11%	8.74%	24.17%	18.70%	21.51%	14.51%
MSCI World Acc. (AUD)	1.69%	7.07%	11.27%	29.29%	16.84%	20.40%	14.94%
FTSE 100 (£)	4.75%	4.74%	6.79%	18.44%	2.35%	7.12%	4.66%
MSCI Emerging Markets (\$US)	1.88%	-1.31%	-9.30%	-2.54%	7.38%	10.94%	9.87%

Fixed Interest Markets

Bonds	1 month	3 months	6 months	1 year	2 year	3 year	5 year
					p.a.	p.a.	p.a.
Bloomberg Global Agg TR AUD	-2.61%	-1.31%	1.66%	1.14%	0.31%	2.49%	3.28%
Bloomberg AusBond Composite	0.09%	-1.46%	-1.15%	-2.87%	0.74%	2.87%	3.36%
ICE BofA US High Yield TR USD	1.88%	0.66%	1.60%	5.36%	5.76%	8.57%	6.10%

Data*	Current Period		Previous Period	
<i>Employment Data</i>				
Employment Growth	November	366,100	October	-46,300
Unemployment Rate	November	4.60%	October	5.20%
Participation Rate	November	66.10%	October	64.70%
<i>Lending Finance</i>				
Housing Finance	October	-2.50%	September	-1.40%
Personal Finance	October	4.70%	September	0.40%
Business Finance	October	3.60%	September	13.00%
<i>Other</i>				
Balance on goods and services	October	11,220m	September	11,824m
Retail Sales	October	4.90%	September	1.30%
Building Approvals	October	-12.90%	September	-4.30%

*All data is seasonally-adjusted.

Median Fund Manager Returns (Morningstar)	1 month	3 month	6 month	1 year	2 year p.a.	3 year p.a.	5 year p.a.
Australian Equity Large Cap	2.87%	1.56%	4.50%	17.94%	9.75%	13.70%	8.73%
Australian Equity Small Cap	2.63%	2.83%	8.68%	20.94%	16.15%	17.79%	12.00%
Global Equity Large Cap	1.92%	4.03%	6.92%	23.66%	14.61%	18.15%	14.16%
Global Equity Small Cap	1.87%	1.40%	3.73%	24.45%	15.68%	18.13%	11.20%
Australian Fixed Income	0.15%	-1.46%	-1.19%	-3.01%	0.74%	2.79%	3.15%
Global Fixed Income	-0.24%	-0.28%	-0.47%	-2.11%	1.49%	3.30%	2.84%
Australian Listed Property	4.87%	9.37%	14.30%	25.10%	9.00%	12.65%	8.80%
Australian Cash	0.00%	0.00%	0.00%	0.04%	0.17%	0.55%	1.04%
Conservative ¹	0.53%	-0.18%	0.20%	1.15%	1.55%	3.23%	2.94%
Moderate ²	0.96%	1.04%	1.71%	5.47%	3.94%	5.53%	4.34%
Balanced ³	1.53%	1.93%	2.92%	9.63%	6.29%	8.36%	6.21%
Growth ⁴	1.97%	2.76%	4.14%	13.97%	8.20%	10.76%	7.72%
Aggressive ⁵	2.41%	3.73%	5.10%	18.62%	10.08%	13.51%	9.59%

¹ Growth Assets 0% - 20%

² Growth Assets 21% - 40%

³ Growth Assets 41% - 60%

⁴ Growth Assets 61% - 80%

⁵ Growth Assets 80%+

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