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2022 December Market Wrap — Tuesday 3 January 2023

A 3% drop in December dragged Australia's S&P/ASX 200 into just-negative territory for the year, with the Australian blue-chip benchmark slipping 1% in 2022. Having said that, Australian equity investors fared much better than their international peers, with the S&P Global BMI down 12% over the year.

Australian sectors' performance diverged enormously in 2022, with 83% separating best-performing Energy, up 49%, from laggard Information Technology, down 34%. Perhaps surprisingly in a year of rising interest rates, Utilities also had a great year, up 30%, while Real Estate's 21% drop was a textbook performance in a year when bonds suffered steep losses.

It was a turbulent year for Australia's bond markets: Australian 10-year benchmark yields began the year at 1.75%, rose to 4.2% in mid-June, fell back to below 3% in August, then spiked again to 4.2% by late October, before declining and rising once more to finish the year just above 4%. The broad-based S&P/ASX Fixed Interest shed 11%, its worst year on record, and our broad indices for corporate, investment grade and sovereign bonds also ended the year deep in the red on both sides of the Tasman Sea.

Big tech's fall from grace has also been one for the history books with the past decade's darlings ending this year as meaningful laggards. While Tesla (TSLA) sold off this week due to idiosyncratic issues, its ~65% decline this year has been emblematic of the sector-wide reckoning that may continue in 2023. Even Apple (AAPL), which has arguably been the most consistently well-loved name in tech, has come under immense pressure, ending the year down ~28%.

What's astonishingly still ongoing, though, is the impact of Covid on the world as China's border reopening decision drove global equity, credit, and commodity markets this week. With ~1.5B people coming back "online," it remains to be seen if increased demand will prove to be the earnings tailwind that the market hopes for or an inflationary headwind globally. Coupled with a push towards deglobalization, where onshoring and vertical integration become the "new normal," the companies that benefit the most may be those that can pass pricing… are they the new winners?

2023 should see the peak in interest rate increases from the Fed and the RBA, with stage two being the slow down in growth as higher rate feed into the system. The slow down in growth becomes the bigger concern for stocks. Of course, no discussion about 2023 would be complete without considering consumer health. With consumers continuing to spend, while credit card debt rises rapidly (US), investors certainly seem to be nervous – both can't continue forever. Nevertheless, unemployment lies merely at 3.7% and consumer confidence remains buoyant, underscoring underlying economic strength.

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Despite this so-called earnings recession, the GDP trough looks to be Q3 2023, the market will then look to the FED for policy divot in Q1 2024 and economic pick up the back end of 2024. Note Australia looks to be six to nine month behind the US economic and policy moves, so I would expect we see a lag when compared in the US.

If you have any questions do not hesitate to contact me.

Summary of Major share indices

Index	1 Month	52 Weeks	YTD
DJIA	-3.73%	-8.78%	-8.78%
Nasdaq	-8.68%	-33.10%	-33.10%
S&P 500	-5.70%	-19.44%	-19.44%
Russel 2000	-6.95%%	-21.56%	-21.56%
Europe 600 Index	-4.15%%	-12.90%	-12.90%
UK FTSE 100 Index	-1.38%%	+0.91%	+0.91%
Hong Kong Hang Seng	+5.92%	-15.46%	-15.46%
Japan Nikkei 225	-6.06%	-9.37%	-9.37%
China Shanghai Composite	-2.12%	-15.12%	-15.12%
India S&P BSE Sensex	-3.23%	+4.44%	+4.44%
ASX 200 (Australia)	-3.21%	-5.45%	-1.08%

Australian Dollar

	Close	52-week Range
AUD	0.6815%	0.6170-0.7662%

Government Bonds

	Close	52-week Range
US 3 Month Bill	4.42%	0.035-4.482%
US 10 Years Note	3.88%	1.500 – 4.325%
US 30 Years Bond	3.971%	1.887 – 4.424%
Australia 10 years	4.038%	1.615-4.256%

Source: Wall Street Journal.

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