L6, 121 King William St
Adelaide SA 5000
bakeryoung.com.au
ABN 92 006 690 320 AFSL 246735

IMP MONTHLY REPORT | JANUARY 2021

For the most part, January was a relatively quiet month on the macro-economic and political front, allowing markets to continue their pre-Christmas trend higher amidst continued confidence in a global recovery aided by continued (and further) monetary and fiscal policy stimulus.

Despite a significant pull-back at the end of the month, the Australian share market (as measured by the S&P/ASX 200 Index) managed to post a 0.31% gain in January for its fourth consecutive monthly rise. This compared favourably with weaker market performances in the US (Dow Jones Industrial Average -2.04%, S&P 500 Index -1.11%, although of note the Nasdaq did post a healthy 1.42% gain) and European markets (FTSE -0.82%, Germany -1.98%), but trailed solid returns in the Asian region (Nikkei +0.80%, Honk Kong +3.87%), and in line with China's Shanghai Composite 0.29%.

Against the continued positive trend our IMP models posted mixed performances during the month. Our two more aggressive models (200 & 300) delivered solid wins outperforming their benchmarks by 71bp and 29bp respectively. Meanwhile, our more conservative 100I & 100T models lagged slightly with the 100I missing by 11bp and the 100T suffered a 107bp miss (impacted by two company specific developments: LNK's takeover collapse and technical issues which hit Tyro Payments... a factor that also affected our 200 and 300 models, but these were offset by other more favourable moves).

Despite a significant pull-back at the end of the month, the Australian share market managed to post a 0.31% gain in January for its fourth consecutive monthly rise.

One clear area of under-performance has come from our under-weight exposure to retail which has proven far stronger and durable than we anticipated. While holding large positions in Wesfarmers across the board and a minor turn-around play in Kathmandu in the 300 (remains a laggard due to travel restrictions), we have not held significant exposures to consumer electronics, housing related goods and autos. We acknowledge the upcoming reporting season will undoubtedly deliver very strong results in the space, and we are watching for potential ways to play it, but are very much mindful of the extreme high watermark the sector has in general enjoyed, and will likely be cautious as a result.

Meanwhile our YMP model missed by 24bp in the month, and continues to lag what has been a very strong equities recovery post the April 2020 lows. We know that with circa 27% of the portfolio only loosely or non-correlated with markets (17% income securities, ~10% cash which we actually reduced in January with the purchase of Computershare), it is unlikely to match strong gains, but we also see it hold up exceptionally well in draw downs. Of course, with cash currently returning 0.1% pa, the model's 0.45% gain in the month clearly delivered superior income.

Market outlook and commentary

Notwithstanding the very recent bout of weakness and concern triggered by extreme moves in highly shorted US names (which we have also seen emerge in other markets including our own to a far lesser extent), and the

continued battle regions are having with COVID-19 (which we think has now swung to being a net negative relative the market expectations – and threatens to continue so with new variants a particular risk), we also feel the extreme monetary policy setting globally (with recent confirmation of commitment and potential for further easing measures), and inevitable emergence from the pandemic (bringing a global economic and earnings recovery) provide an outstanding backdrop for risk assets like Equities. Unless something changes that paradigm (and it is possible - either a new COVID-19 variant that is resistant to vaccines, a major financial system collapse due to over-liquidity and we are watching the GameStop issue closely, or to the upside as we have spoken many times) the reality is if we put COVID-19 behind us and economies continue to recover more strongly than expected, then we see inflation becoming an issue sooner and risks to tighter monetary policy earlier than currently promised.

But for now we appear to be moving through a favourable 'Goldilocks' environment where economic activity is doing slightly better than we thought, company earnings are coming in ahead of (stale and limited) forecasts, but there is enough residual concern and real issues surrounding COVID-19 to at least maintain stimulus support. Hence we see the current weakness as more likely a 'buy the dip' opportunity than the beginning of a major change in trend for markets. That being said, during November, vaccine news combined with central bank easing and political developments all spurred major positive signals. Since then we have seen COVID-19 conditions deteriorate (roll out delays, renewed restrictions particularly in Europe, new variants etc) and some unwind in the political/fiscal front (it now appears a major US stimulus package is less likely, and certainly no fait accompli, and the numbers may be lower than initially touted - here in Australia both Prime Minister Scott Morrison and Treasurer Josh Frydenberg have warned the Federal Government does not intend to bank-roll the economy much further).

At this point we are favouring a smaller, and in actual fact, positive consolidation that lets off steam and unwinds froth before once again resuming the uptrend created by ever reliable monetary policy distortion.

With this in mind, and given the extent of market gains and time since the past significant correction, it is entirely possible the current 'dip' could be one of material size (we see strong support around 6,300 – refer charts for technical view). However, at this point we are favouring a smaller, and in actual fact, positive consolidation that lets off steam and unwinds froth before once again resuming the uptrend created by ever reliable monetary policy distortion.

Amidst this backdrop, and referencing what appears to be consensus, 2021 should deliver solid (if not smaller than long-term average) returns, and we remain relatively well invested with cash around 5.3%. We note tactical favouring of banks, mining (moving out of bulks into base metals) and energy for what should be very strong half-yearly reports as of next week, and associated improved dividend payments.

Overall earnings are forecast to rise ~20% over the next 12 months and hit new all-time highs six to 12 months sooner than many expected just six months ago. This is expected to enable a recovery in overall dividend yield to around 4% (from ~3% in 2020). That should see our market, currently trading at around 20x, ease back to less elevated multiples which would also be encouraging.

What we do feel, however, is that the better than expected outcome in FY21 will involve some drag forward of FY22 and beyond recovery – potentially setting up earnings risk in outer years, particularly if the COVID-19 pandemic is not largely overcome in the next six to nine months, as currently viewed. And while overall earnings estimates are likely to benefit from the lack of guidance and generally better than expected conditions in FY21 thus far, we have seen the pandemic issues affect certain companies unexpectedly hard, and there will likely be single name disappointments – WOR today is a great example. The upcoming reporting season will likely result in greater single name volatility than usual, simply because guidance/forecasts are more limited and margin for error larger than usual. That should provide some interesting trading opportunities.

From a technical perspective, the market remains comfortably within the recovery uptrend channel. It has, however, broken through a major pivot line within that channel, and the 20 Day Moving Average – no doubt adding to the sharpness of recent selling. We see major support coming in around 6,300 (Trend channel, 23.6% Fibonacci Retracement, 100 Day MA, and potentially the rising 200 Day MA in time). However, the trend remains positive and we continue to expect a retest of 7,200 in time. It's worth noting the recent pull-back has now completely extinguished the overbought momentum indicators back to a healthy 47 on the 14 day RSI.

The long term chart also depicts the Index well within the established uptrend channel. Minor support at the pivot line within the channel (currently ~ 6,400) and the numerous support levels around ^,300 as noted above. The trend remains favourable as long as the bottom of the channel holds at ~5,850.

It should be another positive year, but after much went right in 2020, we may have some consolidation to endure - and risks are high too - so 2021 will require vigilant monitoring of portfolios.

Good luck as we get 2021 into full swing. It should be another positive year, but after much went right in late 2020, we may have some consolidation to endure before we once again respond to the most powerful determinants – Earnings recovery/growth and super easy Monetary Policy – both of which should be generally supportive of higher markets in the year ahead. Naturally, risks are high too, and 2021 will require vigilant monitoring of portfolios.

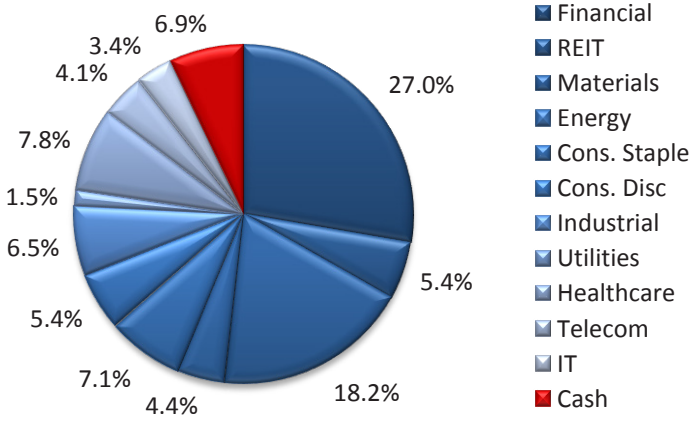
TOP 100 BLUE CHIP INVESTMENT PORTFOLIO: 31st January 2021

Portfolio Holdings & Yield Forecast

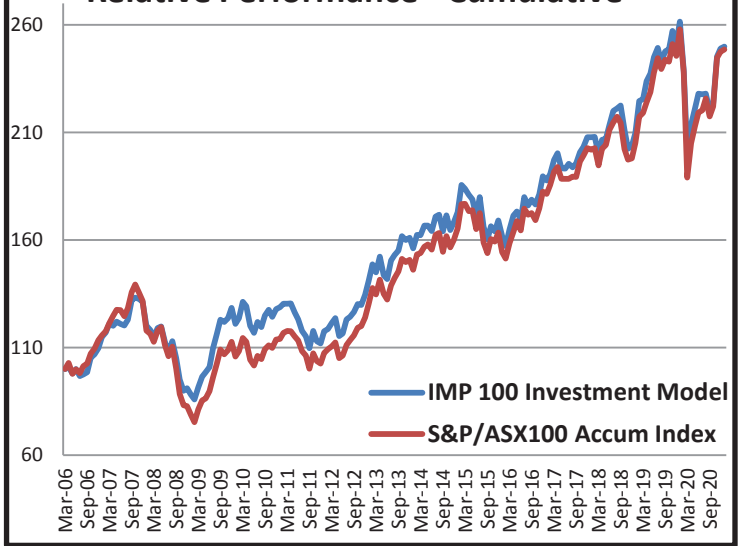
Name	Sector	P/E Ratio	Div. Yield %	Franking	Gross Yield	Weight
Commonwealth Bank of Aust. Ltd	Financial	18.9	3.7	100.0%	5.3	7.3%
National Australia Bank Ltd	Financial	15.1	4.5	100.0%	6.4	2.5%
Westpac Banking Corporation	Financial	13.5	4.8	100.0%	6.8	4.3%
ANZ Banking Group Ltd	Financial	13.5	4.7	100.0%	6.7	4.6%
Macqaurie Group Ltd	Financial	17.1	4.0	40.0%	4.7	2.3%
ASX Ltd	Financial	29.0	3.1	100.0%	4.4	2.9%
Medibank Private Ltd	Financial	20.3	4.1	100.0%	5.8	3.1%
Lend Lease Group	REIT	13.9	3.7	0.0%	3.7	2.0%
Mirvac Group Ltd	REIT	15.9	4.4	0.0%	4.4	3.4%
BHP Group Ltd	Materials	12.7	5.8	100.0%	8.3	8.1%
Rio Tinto Ltd	Materials	9.3	7.1	100.0%	10.1	3.4%
Amcor Ltd	Materials	14.8	4.4	0.0%	4.4	2.5%
South 32 Ltd	Materials	16.9	2.9	100.0%	4.2	2.1%
Newcrest Mining Ltd	Materials	14.6	1.3	100.0%	1.9	2.1%
Woodside Petroleum Ltd	Energy	19.2	4.2	100.0%	6.0	2.7%
Origin Energy Ltd	Energy	16.6	5.0	100.0%	7.1	1.7%
Woolworths Ltd	Cons. Staple	26.2	2.8	100.0%	4.0	4.0%
Coles Group Ltd	Cons. Staple	23.1	3.7	100.0%	5.2	3.1%
Wesfarmers Ltd	Cons. Disc	28.9	3.1	100.0%	4.4	3.9%
Crown Resorts Ltd	Cons. Disc	35.5	3.1	50.0%	3.8	1.5%
Brambles Ltd	Industrial	20.6	3.1	30.0%	3.4	2.2%
Qube Holdings Ltd	Industrial	38.9	1.8	0.0%	1.8	2.8%
AGL Energy Ltd	Utilities	16.1	5.9	100.0%	8.4	1.5%
CSL Ltd	Healthcare	39.5	1.1	0.0%	1.1	4.5%
Sonic Healthcare Ltd	Healthcare	20.0	3.6	20.0%	3.9	3.3%
Xero Ltd	IT	242.1	0.0	0.0%	0.0	1.7%
Computershare Ltd	IT	20.1	2.5	100.0%	3.6	3.4%
Telstra Corporation Ltd	Telecom	22.3	4.7	100.0%	6.8	4.1%
Cash - Adelaide Bank CMT			0.10%	0.0%	0.1%	6.9%
PORTFOLIO TOTAL		**22.2**	**3.5%**		**4.7%**	

*Source Thompson Reuters Eikon Forecasts

Sectoral Exposure



Relative Performance - Cumulative



Period	Measure	Cumulative Return
1 Month	**Model**	**0.31%**
	Index	0.42%
3 Month	**Model**	**11.85%**
	Index	11.91%
1 Year	**Model**	**-4.46%**
	Index	-3.66%
3 Year	**Model**	**20.29%**
	Index	23.09%
5 Year	**Model**	**54.42%**
	Index	60.96%
10 Year	**Model**	**94.05%**
	Index	117.94%
Since Inception	**Model**	**149.88%**
	Index	148.53%

Period	Measure	Annualised Return
1 Year	**Model**	**-4.46%**
	Index	-3.66%
3 Year	**Model**	**6.35%**
	Index	7.17%
5 Year	**Model**	**9.08%**
	Index	9.99%
10 Year	**Model**	**6.85%**
	Index	8.10%
Since Inception*	**Model**	**6.37%**
	Index	6.33%

* 31/3/2006

*** All Model Performance statistics are Total Return before fees. Actual client holdings may differ and Management Fees & Transaction costs would reduce reported returns.**