Monthly Market Insights December 2019

Australia

The Australian economy enters 2020 growing well below potential growth rates, with excess capacity in the labour market and inflation slightly under 1.0%, below the target rate. This suggests the RBA maintains a bias to cutting cash rates further. Indeed, RBA Governor Lowe signalled that the "effective lower band" for the cash rate was 0.25%, and against a background of weak capex, wages and GDP data, markets moved to factor in further policy easing towards this level by mid- to late2020.

September quarter inflation data showed core inflation of 1.5%, with little sign of upward pressure. Despite the weak growth trends, Australia is on track to achieve a budget surplus in 2019-20, although the Mid-Year Economic and Fiscal Outlook (MYEFO) revealed that the forecast budget surplus was cut from $7.1 billion to $5 billion, and included a downgraded forecast for economic growth from 2.75% to 2.25%.

It's not yet clear what the full economic impact of the bushfires is, but they have likely created significant disruption to supply chains and infrastructure, as well as directly harming industries such as tourism and farming. Prime Minister Morrison announced that the government will invest $2 billion in the new National Bushfire Recovery Agency (NBRA), which involve a joint effort between states, territories and local governments.

November's employment figures showed a rise of 4,200 full-time jobs and 35,700 part-time jobs (seasonally adjusted), bringing the unemployment rate down 0.1 points to 5.2%.

Australia's manufacturing sector underwent its second consecutive month of contraction, according to the AIG Manufacturing Index. While the food and beverages sector is performing well and is above its long-term average, every other sector is struggling.

Australia's consumers can't seem to shake their negative mindset, which has seen consumer spending deteriorate in September's national accounts, despite recent tax cuts and a series of RBA rate cuts.

Global

There remains a great deal of geopolitical uncertainty, but markets are more upbeat about the economy than they were in August 2019 when the yield curve inverted. However, while an economic recovery is possible, earnings per share (EPS) growth is muted, tax cuts in the US have not had a sustained impact on spending, and China's stimulus measures remain relatively modest.

By the end of 2019 markets were optimistic that a 'phase one' trade deal could be reached between the US and China, which would see a lowering of tariffs with an agreement signed in early January.

September quarter GDP growth for the US was revised up to 2.1% from 1.9%. The record expansion is now 41 quarters long, although the compound annual growth rate of 2.3% p.a. is the slowest expansion of the post-war period. The US payrolls data for November was better than expected, with 266,000 jobs added (versus an expected 190,000), which saw the unemployment rate drop to 3.5%. Wages growth for the private sector eased back to 3.1%, although for non-supervisory production workers wages growth is now running at 3.7%.

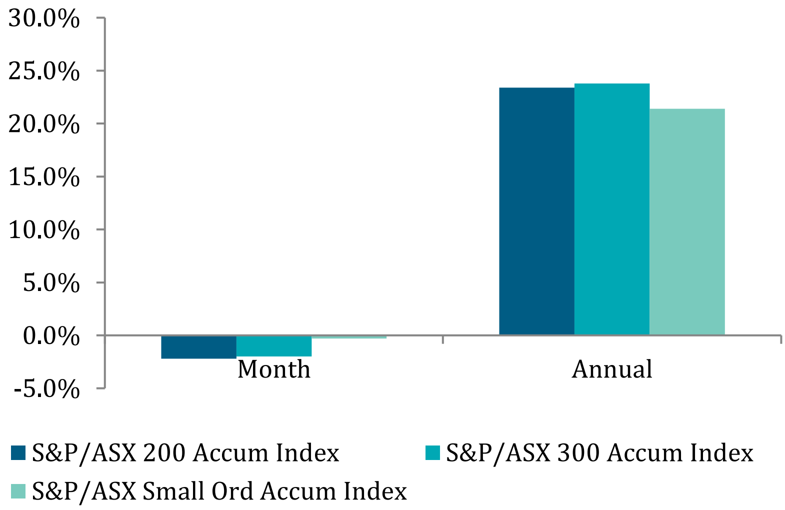
Europe's manufacturing sector continues its decline. In Germany it is contracting at its fastest rate since the GFC and only in France and Greece is the sector seeing any growth. The German car industry has been in a slump since the diesel scandal and is now facing falling sales while having to meet the cost of investing in electric vehicles. Calls for a boost in government spending have come from a range of sources including Christine Lagarde, the new president of the ECB, as well as the OECD and, surprisingly, the Bundesbank.

Recent economic news out of China has been more upbeat. A range of better-than-expected data releases and, of course, the expectation of a 'phase one' trade deal with the US, supported the view that a more significant downturn in Chinese growth could be averted (at least for now). These positive developments also mitigate the immediate need for additional stimulus to support growth targets.

Commodities

Metals moved higher in December with gains from Copper, Tin, Nickel and Aluminium, while Lead and Zinc were mostly flat. Gold rose 4.0% to US $1,522.20/oz. Crude oil prices also rose.

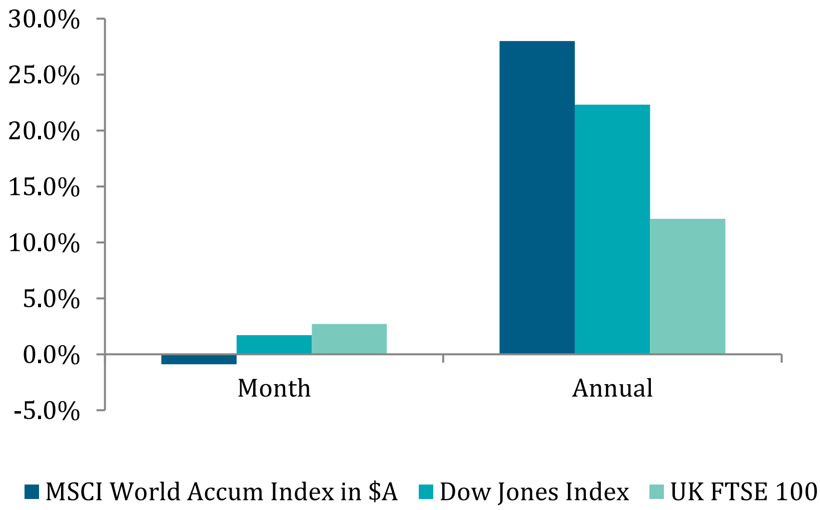
Australian Shares



Australian shares sold off in December, ending 2019 on a sour note for what was otherwise a stellar year for equities. The S&P/ASX 200 Index returned 23.4% over 2019, with the strongest performance coming from the Health Care sector.

Although it represents a smaller proportion of the index, the IT sector also had a very strong 2019.

International Shares

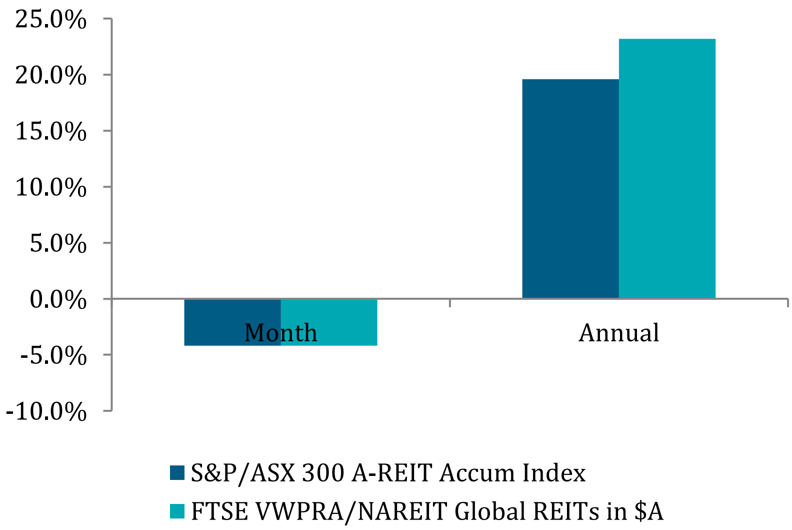


Global share markets had a strong finish to 2019, at least in local currency terms, with developed markets returning 2.4% in December and 27.4% over the year.

The US S&P 500 Index posted 31.5% for the year—its best annual return since 2013. Perhaps unsurprisingly, 3 of the top 50 performing shares over 2019 were from the Information Technology sector.

Markets watched trade developments between the US and China closely and appeared optimistic that a ‘phase one’ deal would be successful.

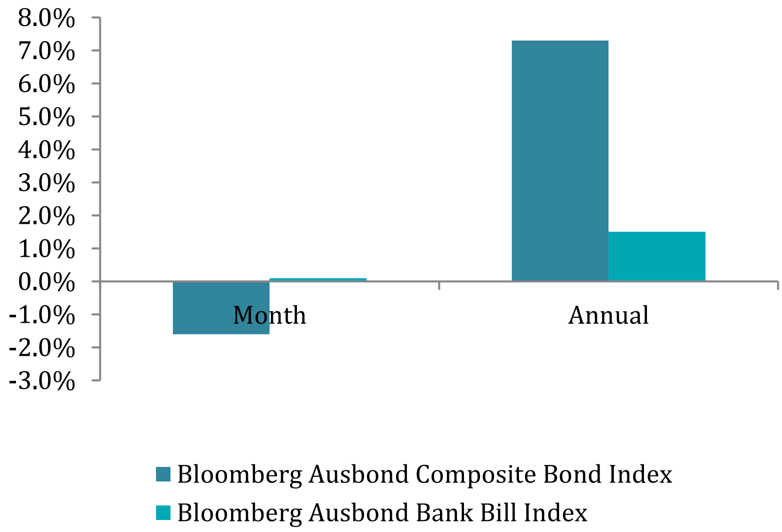
Property



The S&P/ASX 200 A-REIT Index lost 4.4% in December in a horrid month for listed property, taking the shine off an impressive 2019 marked by the success of large diversified managers.

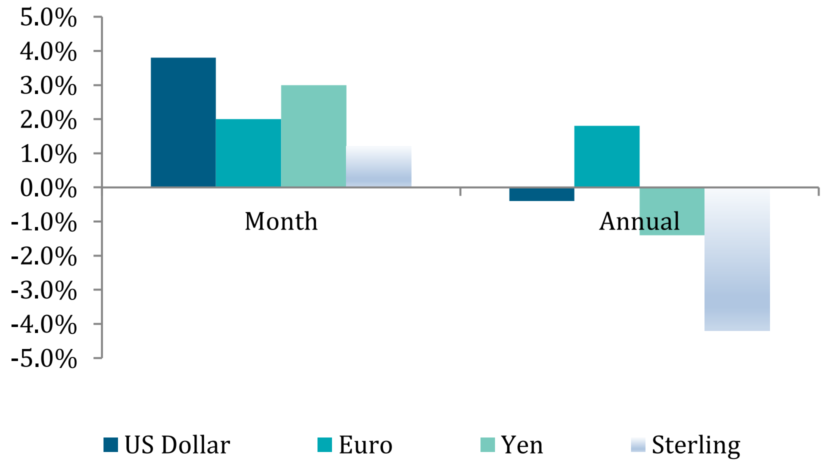
Dwelling approvals were down 3.8% over the past 12 months but are up 3.3% on a rolling three-month basis, the first positive gain since April 2019. While this is broadly consistent with the improvement in the property market witnessed in the second half of 2019, the sector is fairly volatile, mostly due to the high-rise segment.

Fixed Interest



Through 2019 the yield on the Australian 10-year Treasury fell from 2.32% to 1.37%, reflecting weakening economic conditions and a reversal in monetary policy as the RBA shifted into an easing cycle with three rate cuts. Australian government bonds returned -1.9% in December but were up 7.6% through 2019, compared to 7.1% from corporate bonds.

Australian Dollar



The Australian dollar moved higher in December from US$0.68 to $0.70, responding to positive trade news, but faded at the start of 2020 as the bushfires gave rise to the possibility of an RBA rate cut as early as February. Drought- and fire-stricken farmers will be hoping for a lower dollar to help boost the value of agricultural products overseas.

Over the three months to the end of December 2019 the Australian dollar rose 4.1% against the US dollar, 1.1% against the euro and 4.5% against the Japanese yen and fell 3.5% against the British pound.

Key Investment Indices

As at 31 December 2019		1 month	3 months	6 months	1 year	5 years
Australian Shares		%	%	%	%	%
S&P/ASX 200 Accumulation Index		-2.2	0.7	3.1	23.4	9.0
S&P/ASX 300 Accumulation Index		-2.0	0.7	3.3	23.8	9.1
S&P/ASX Small Ordinaries Accumulation Index		-0.3	0.8	3.9	21.4	10.7
S&P/ASX 300 Industrials Index		-2.9	-0.3	3.9	23.2	8.4
S&P/ASX 300 Resources Index		1.7	4.7	1.0	26.1	11.7
International Shares	**Value**	%	%	%	%	%
MSCI World Accumulation Index in $A		-0.9	4.3	9.1	28.0	12.2
MSCI World Accumulation Index ($A hedged)		2.3	7.5	8.9	26.8	10.0
MSCI Emerging Markets Index in $A		3.4	7.3	6.9	18.6	8.9
Dow Jones Index in $US	28,635	1.7	9.0	7.3	22.3	9.9
S&P 500 Index in $US	3,235	2.9	8.5	9.8	28.9	9.4
FTSE 100 Index in £	7,622	2.7	1.8	1.6	12.1	2.8
Deutsche Boerse Index in €	13,219	0.1	6.6	6.9	25.5	6.2
Nikkei 225 Index in ¥	23,771	1.6	8.7	11.2	18.2	6.3
Hang Seng Index in HKD	28,452	7.0	8.0	-1.2	9.1	3.6
Shanghai Shenzhen CSI 300 Index in RMB	4,145	7.0	7.4	7.1	36.1	3.0
Property		%	%	%	%	%
S&P/ASX 200 A-REIT Accumulation Index		-4.4	-1.0	-0.1	19.4	10.9
S&P/ASX 300 A-REIT Accumulation Index		-4.2	-0.7	0.4	19.6	11.2
FTSE EPRA/NAREIT Global REITs in $A		-4.2	-3.3	6.4	23.2	8.6
Fixed Interest		%	%	%	%	%
Bloomberg Ausbond Bank Bill Index		0.1	0.2	0.5	1.5	1.9
Bloomberg Ausbond Composite Bond Index		-1.6	-1.3	0.6	7.3	4.2
Barclays Global Aggregate Index ($A Hedged)		-0.3	-0.8	1.6	7.2	4.2
Inflation		%	%	%	%	%
Australia CPI		0.1	0.4	0.9	1.6	1.7
Currencies (relative to $A)	**Value**	%	%	%	%	%
$US	0.6950	3.8	4.0	0.0	-0.4	-3.0
Japanese ¥	75.1300	3.0	4.5	0.7	-1.4	-4.9
Euro €	0.6228	2.0	1.1	1.4	1.8	-1.5
Sterling £	0.5312	1.2	-3.6	-4.3	-4.2	0.2
Chinese Yuan		2.9	1.7	1.6	1.3	-0.7
Commodities	**Value**	%	%	%	%	%
S&P Goldman Sachs Commodity Index ($US)		6.6	8.1	2.6	16.5	0.9
Oil ($US/barrel)	68.60	10.7	12.9	4.4	34.5	2.8
Gold ($US/ounce)	1,552.20	3.6	3.0	7.6	18.3	5.1
Iron Ore ($US/tonne)	93.41					

Sources: Lonsec, Atchison Consulting