SHERLOCK WEALTH

January Monthly Market Review

How the different asset classes have fared:
(As at 31st January 2019)

Asset Class	10 Yr % p.a.	5 Yr % p.a.	3 Yr % p.a.	1 Yr %	YTD %	6 Mo %	3 Mo %	1 Mo %
Cash[1]	3.05	2.14	1.91	1.95	0.18	0.98	0.49	0.18
Australian Bonds[2]	5.11	4.58	3.50	5.49	0.64	3.29	2.40	0.64
International Bonds[3]	6.52	4.67	3.28	3.34	0.97	2.55	2.87	0.97
Australian Shares[4]	10.12	7.14	10.01	0.65	3.99	-4.75	1.20	3.99
Int. Shares Unhedged[5]	10.06	11.09	10.25	3.94	4.16	-3.06	-2.12	4.16
Int. Shares Hedged[6]	13.80	9.66	11.52	-4.58	7.20	-5.28	-0.54	7.20
Emerging Markets Unhedged[7]	7.87	8.28	13.18	-5.14	5.22	-0.89	6.99	5.22
Listed Infrastructure Unhedged[8]		11.55	9.22	14.16	4.03	3.87	3.28	4.03
Australian Listed Property[9]	12.43	13.74	9.30	13.10	5.96	5.21	7.50	5.96
Int. Listed Pty Unhedged[10]	11.23	10.90	5.62	17.72	7.20	5.33	4.71	7.20

[1]Bloomberg AusBond Bank 0+Y TR AUD, [2]Bloomberg AusBond Composite 0+Y TR AUD, [3]Bloomberg Barclays Global Aggregate TR Hdg AUD, [4]S&P/ASX All Ordinaries TR, [5]Vanguard International Shares Index, [6]Vanguard Intl Shares Index Hdg AUD TR, [7]Vanguard Emerging Markets Shares Index, [8]FTSE Developed Core Infrastructure 50/50 NR AUD, [9]S&P/ASX 300 AREIT TR, [10]FTSE EPRA/NAREIT Global REITs NR AUD

After falling sharply in December 2018 most share markets rebounded strongly in January, good news for many investors.

Australian shares recovered almost 4% and have continued to rally in the period following the release of the Royal Commission report. Investors were relieved upon learning the outcome of the Royal Commission findings, which were not as bad as expected. However we caution investors to be aware that volatility may well continue over the next few months and quarters. The property market in Australia continues to drift lower, and while good for new home buyers who can start to find affordable housing, it is likely to keep the Australian share market under some pressure.

The RBA kept cash rates unchanged, however the Governor of the RBA did change his tune on the future direction of cash rates. Previously the RBA had been indicating the next move would be a rate rise in the not so distant future. Now the RBA is adopting a more balanced approach with an equal probability being given to both a rate rise and rate cut. We think this means in practice that the RBA is much more likely to ultimately be cutting rates rather than raising them.

The Australian dollar has been exceptionally volatile over the past few months falling briefly to 68 cents then rallying back to 74 cents in the space of a few months. Over time with lower Australian interest rates a distinct possibility, we would expect a lower Australian dollar. This will be good news for investors in unhedged international shares with the lower Australian dollar likely to boost investment returns.

International shares also experienced strong returns with most markets across the globe rallying sharply. The first signs of the U.S. economy being harmed by the trade tension with China emerged in January and business survey data plunged on a weaker outlook for exports and orders. However, equity markets were buoyed by the truce between the U.S. and China, which remains in place until 1 March.

Europe has been caught in the cross-fire and weakening demand from China is hurting exporters. Data from the region continue to be weak and manufacturing data is sliding on trade fears. Meanwhile, domestic pressures are weighing on certain countries in the single currency bloc. In France the "yellow vest" protests, while slowing, have caused significant disruption to the country. In Italy, the country narrowly avoided being placed into the European Commission's effective deficit procedure after a last minute agreement on its budget. Elsewhere in Europe, the Brexit debate rumbled on.

Concerns over a slowdown in the Chinese economy have not dissipated. The economy expanded by 6.4% compared to a year ago in the fourth quarter of last year, dipping below the 6.5% target for the first time. In the face of rising uncertainty emanating from the domestic slowdown, as well as with the U.S., Chinese authorities provided further stimulus to the economy. The People's Bank of China (PBoC) cut the Reserve Requirement Ratio by 100bps throughout January, effectively injecting RMB 800billion into the economy (0.8% of GDP). Further easing is to be expected over the course of 2019.

Despite the slowdown in economic activity, both retail sales and industrial production beat market expectations over the month. Meanwhile, there was further proof that infrastructure spending will continue to increase helping to stabilise the growth outlook in the world's second largest economy.