

Market Review

December 2019

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

Asset Class	10 Yr % p.a.	5 Yr % p.a.	3 Yr % p.a.	1 Yr % p.a.	YTD %	6 Mo %	3 Mo %	1 Mo %
Cash ¹	2.87	1.91	1.72	1.50	1.50	0.52	0.24	0.07
Australian Bonds ²	5.74	4.18	5.14	7.26	7.26	0.63	-1.32	-1.64
International Bonds ³	6.27	4.20	4.15	7.19	7.19	1.56	-0.76	-0.28
Australian Shares ⁴	7.86	9.30	10.41	24.06	24.06	3.59	0.75	-1.90
Int. Shares Unhedged ⁵	12.42	12.30	13.91	28.23	28.23	9.13	4.27	-0.86
Int. Shares Hedged ⁶	12.24	10.11	12.19	27.14	27.14	8.97	7.48	2.29
Emerging Markets Unhedged ⁷	6.04	8.68	12.48	19.27	19.27	7.49	7.93	4.12
Listed Infrastructure Unhedged ⁸	12.62	10.91	13.23	25.23	25.23	5.14	-1.06	-0.05
Australian Listed Property ⁹	11.63	11.21	9.54	19.57	19.57	0.40	-0.73	-4.24
Int. Listed Pty Unhedged ¹⁰	11.93	8.60	8.36	23.21	23.21	6.37	-3.29	-4.17

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

Australian shares fell in December, partly reversing their November gains, while international share markets (hedged) continued to rally. Australian and international bond markets fell (bond yields rose), while the Australian dollar strengthened against the US dollar.

Cash and Fixed Income

Australian bond yields rose in December (bond prices fell), despite generally weak Australian economic data.

Australian GDP data was weaker than expected, with economic growth slowing in the September quarter and private spending growth continuing to decline. Retail sales also disappointed market participants, suggesting that the tax cuts in 2019 have failed to provide much of a boost to consumer spending. Consistent with these data, Australian business and consumer confidence readings remained weak. On a positive note, local employment data was stronger than expected in November. House prices also continued to increase, and housing loan approvals rose. However, housing credit growth slowed further in November, with year-ended growth the slowest on record (suggesting a faster repayment of existing loans). Conditions in the new housing construction market remained subdued, with residential construction activity expected to continue to contract for several quarters.

In early December, the RBA kept the cash rate unchanged at 0.75%, as expected. The RBA Board noted that it would be important to reassess the economic outlook in February 2020. Financial market pricing implies that market participants are expecting a further 25 basis point reduction in the cash rate by mid 2020. The US Federal Reserve and the European Central Bank also kept monetary policy unchanged in December.

Australian Shares

The Australian share market fell by 1.9% in December, in contrast to gains across international share markets. Australian shares were weighed down by year-end profit taking and a more uncertain outlook for the Australian economy relative to other global economies. All sectors except the materials sector fell over the month.

International Shares

International share markets continued to rally in December, supported by news that the US and China had reached a "Phase One" trade deal (although the legal text of the deal is yet to be finalised and signed). The deal resulted in the US cancelling a proposed tariff hike on December 15 and reducing existing tariffs on US\$120 billion of Chinese imports from 15% to 7.5%. In return, China agreed to make substantial additional purchases of US agriculture products and to change their rules related to intellectual property, financial market access and technology transfers. The de-escalation of the US-China trade war is good news for markets as it reduces concerns about downside risks to the global economy. International share markets were also boosted by signs of stabilisation in recent economic indicators.

News that US President Trump had been impeached by the US House of Representatives had little impact on markets since it was widely expected, and it remains unlikely that the US Senate will support the removal of President Trump at a trial in January.

UK share markets rallied in December following news that the Conservative Party had won the general election with an overwhelming majority. This outcome provided certainty that the UK would leave the EU by January 31 2020 but retain current trading arrangements, before finalising a new trade deal with the EU by the end of December 2020.

Emerging market shares outperformed developed market shares in December, rallying strongly as concerns about the global economy receded.

The Australian Dollar

The Australian dollar appreciated by around 3.5% against the US dollar over the month, supported by a narrowing in the differential between Australian and US interest rates and a modest increase in the iron ore price.

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