

# Market Wrap

January 2019

## At a glance

Global stocks in January staged their best month in more than three years after the Federal Reserve signalled that it no longer held to the forecasts it issued in December when it indicated it expected to conduct two rate increases in 2019. The Fed's apparent shift towards a 'neutral' interest-rate policy overcame doubts about China's economy, a record disruption to US government services due to a political fight over funding to build a wall along the Mexican border, an economic slowdown in Europe, and heightened uncertainty about the UK's impending departure from the EU. An increase in the Australian dollar reduced gains for those who have unhedged investments in global equities. During the month, all 11 sectors rose in US-dollar terms. Real estate (+10.5%) and energy (+10.3%) surged most while consumer staples (+4.9%) rose least. The Morgan Stanley Capital International (MSCI) World Index rallied 7.8% in US dollars, its best performance since October 2015, and added 4.1% in Australian currency.

## Australia

Australian stocks rose for the first time in five months on the Fed boost, as higher oil and iron ore prices helped energy (+11.5%) and materials (+7.0%) stocks. Iron ore rose 16% after a deadly dam burst in Brazil upset production at a plant owned by the world's biggest producer, Vale, while US benchmark oil prices gained 18% on the political turmoil in Venezuela. Stocks rose even though reports showed that the decline in house prices is accelerating. CoreLogic said house prices in the capitals fell 6.1% over 2018, as Sydney prices dropped the most, declining 8.9%. In other news on the economy, the Westpac-Melbourne Institute index of consumer sentiment fell 4.7% to 99.6 in January, the first reading below the neutral level of 100 since November 2017. Consumer prices only rose 1.8% in 2018, to be below the Reserve Bank of Australia's 2% to 3% target. As expected, the RBA's policy-setting board kept the cash rate at the 1.5% on which it has sat since August 2016. The S&P 200 Accumulation Index added 3.9%.

## US

US stocks recorded their biggest rally in more than three years after the Fed repeatedly signalled it didn't expect to pursue the two rate increases it predicted in December that it would enact in 2019. On January 5, 10 and 30, the Fed said it would be "patient" when determining the US cash rate, which it left at 2.25% to 2.5% at its policy-setting meeting on the second-last day of the month. In another shift that was a boost for stocks, the Fed said it would be flexible in reducing its balance sheet that was swollen by three spurts of quantitative easing or asset buying since the financial crisis of 2008. Previously, the Fed said it would reduce its balance sheet to a set timetable. Stocks rose over January even though the US set a record for the length of a partial government shutdown as budget bills were blocked due to a stand-off between the Democrat-controlled House of Representatives and Republican President Donald Trump over the money to build a wall along the Mexican border. On January 26, Trump signed a bill to fund the government until February 15 to end the partial shutdown, which lasted for 35 days and disrupted, among other things, the release of reports on the US economy. One report issued on schedule showed the US jobless rate rose to 3.9% in December, from a 49-year low of 3.7% in September and November. The S&P 500 Index soared 8.0%, its biggest monthly gain since October 2015.

## Europe

European stocks rose for the first month in four thanks to the Fed's efforts, even as angst built over how, or even if, the UK would depart from the EU on March 29, and economic reports showed the eurozone economy is stagnating. In the UK, the government lost a parliamentary vote on its agreement with the EU on leaving the bloc by a record majority, a result that heightened the likelihood that the UK will quit the EU without any agreement. In economic news, a Eurostat release showed the eurozone economy only grew 0.2% in the fourth quarter of 2018, the same pace as for the third quarter, and expanded just 1.8% in 2018. Adding to the gloom, official Italian preliminary data revealed the Italian economy contracted 0.2% in the fourth

quarter, after a decline of 0.1% in the third quarter. The Euro Stoxx 50 Index gained 5.3%.

### **Asia and emerging markets**

Asian and emerging market stocks more broadly rose on the Fed's action. Chinese stocks rose after the People's Bank of China cut reserve requirements for commercial banks to encourage lending and the government appeared to approve new investment to stimulate the economy. During the month, a report showed China's economic growth slowed to 6.6% in 2018, the slowest pace since 1990, while results added to gloom about the economic outlook. Japan's Nikkei 225 Index jumped 6.2%. China's CSI 300 Index rallied 7.8%. The MSCI Emerging Markets Index gained 8.7%.

*Movement in benchmark indices are in local currency unless stated otherwise. As is common practice, all indices mentioned are price indices apart from the MSCI indices and the S&P 200 Accumulation Index.*

*Sources: J.P. Morgan, FactSet, The Financial Times, Bloomberg and national statistical including the Australian Bureau of Statistics, Eurostat, the US Department of Commerce and the US Department of Labor.*

## Speak to us for more information

If you have any questions, please speak to your Count Financial Adviser.

This document has been prepared by Magellan Asset Management Limited ABN 31 120 593 946, AFSL 304 301 ("Magellan"). This document is not advice and provides information only. It does not take into account your individual objectives, financial situation or needs. You should assess whether the information is appropriate for you and consider talking to a financial adviser before making an investment decision. Magellan, its officers, employees, agents and associates believe in good faith that this information is correct at the time of compilation but do not warrant the accuracy or currency of the information and material. You should carefully check the date of compilation of the information and material (where relevant) to determine its currency.

Count Financial Limited ABN 19 001 974 625, AFSL 227232 (Count) is a wholly-owned, non-guaranteed subsidiary of Commonwealth Bank of Australia ABN 48 123 123 124. While care has been taken in the preparation of this market update, no liability is accepted by Count, its related entities, agents and employees for any loss arising from reliance on this market update.