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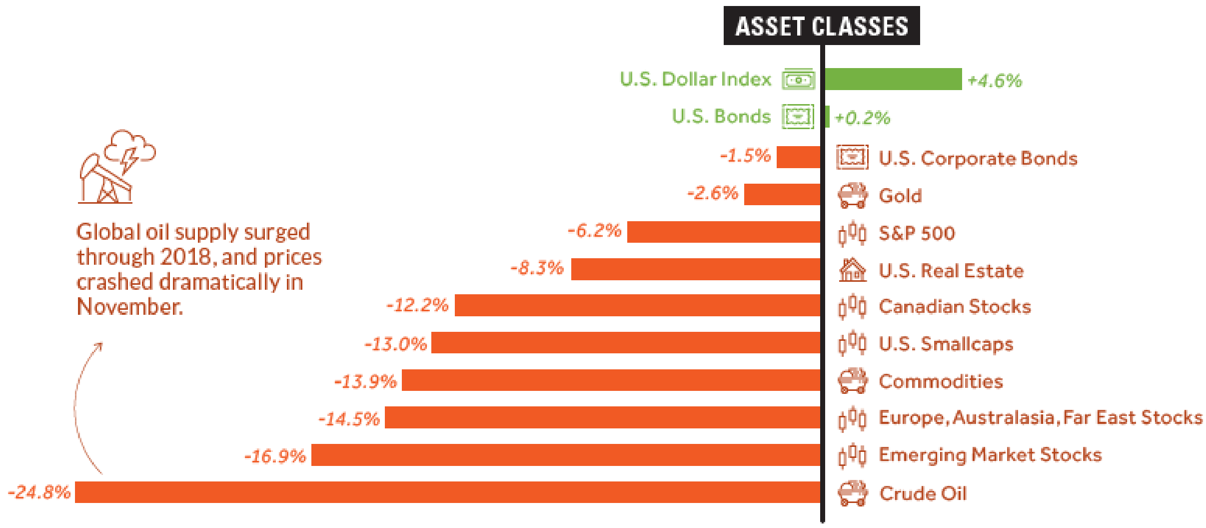
December 2018 Market Roundup

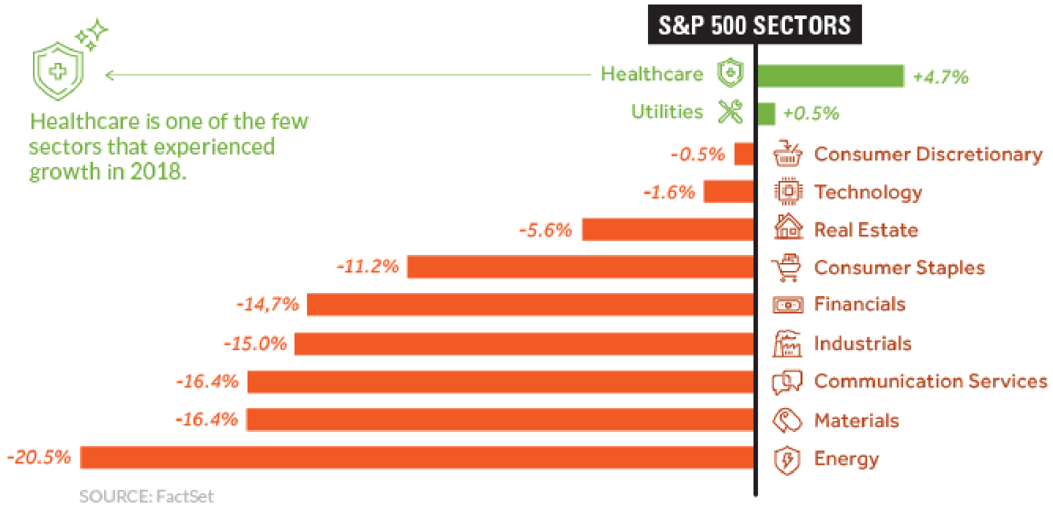
The ASX200 Index closed the month of December down 21 points (-0.37%) but was down as much as 257 points (-4.53%) before the Santa Claus rally took full effect. For those that don't know, the Santa Claus rally is sustained increase in the stock market that occurs in the last week of December through the first two trading days in January. There are numerous explanations for the causes of the rally which include a general feeling of optimism, happiness on Wall Street and the investing of bonuses. Either way the phenomenon held true for the Australian market.

As we look back on the year, there have been some noteworthy themes that have played out, such as the US-China trade war, rising interest rates in the US and the Royal Banking Commission, affecting global markets both positively and negatively. Both the US and Australian markets hit its highs around the end of August and began to correct there-after due to several economic and political events. Overall though, 2018 was the worst year for shares since the GFC. The US Dow Jones closed the year down -5.6%, Germany's Dax was down -18.3%, UK FTSE -12.5%, Japan's Nikkei -12.1% and the ASX 200 index closed the year down -6.9%.



Source: FactSet

US markets in December started in positive territory following a trade peace deal between Trump and Jinping. Investors are seeking a broader trade agreement that will see an end to an increase from 10% to 25% on Chinese goods. However, market gains quickly evaporated heading into the final week of December after the Federal Reserve raised rates for the fourth time, budget funding concerns and softer US company earnings forecasts played havoc on investor sentiment. To make matters worse, the US Government temporarily shut down after Donald Trump and congressional leaders fail to reach a funding deal. Trump is refusing to budge over his demand for billions of dollars to build a wall along the border with Mexico. The Democrats too, are refusing to fund the scheme, sending a partial US government into shutdown. At the time of writing the Government was into its 13th day of being shutdown effectively leaving thousands of government employees unpaid while Trump is adamant, he will keep the shutdown "for as long as it takes". All in all, it was a horrible month for the US market, which closed -8.65%.



Source: FactSet

According to Commsec, out of the of 73 global share markets, only 17 stand in positive territory for 2018. The Australian share market ranked mid-level, coming in 39th position with the All Ordinaries down around -8%. The RBA cash rate was unchanged in 2018. The Australian dollar vs the US dollar fell -8.5% in 2018. The softer dollar has been a positive for the economy and Australian export businesses. It also supports inbound tourism, consumers to spend more domestically and ensures our industries remain competitive.

January - February market Outlook

While 2018 was a volatile year that finished up in the red, 2019 is likely to be a lot more stable, especially in the second half. Whilst the US-China trade spat is still a risky event, both countries have a 90-day peace deal which expires in March. A deal could here, could provide the markets with the positive catalyst it needs for a sharp recovery. There are still overhanging worries such as Brexit, rising US interest rates and a domestic housing collapse. However, the biggest threat to global markets remains the US-China trade war. If it escalates and no deal is made, we expect markets to fall in a similar fashion to 2018. On the bright side, the US Federal Reserve won't be required to raise rates by as much as 2018. Rates are close to its target band. Overall the US and Australian economies are in good shape. Unemployment is falling, GDP is OK, interest rates are still low, and inflation is contained. The Australian economy is resilient and stable and has not experienced a recession since July 1991.