

# Market review

October 2019

How the different asset classes have fared:  
(As at 31 October 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 <sup>1</sup>	2.92	1.98	1.77	1.65	1.34	0.65	0.25	0.08
Australian Bonds <sup>2</sup>	5.95	4.97	4.86	10.06	8.16	4.28	0.52	-0.49
International Bonds <sup>3</sup>	6.39	4.71	3.87	9.75	7.71	4.79	1.35	-0.28
Australian Shares <sup>4</sup>	8.34	8.76	12.42	19.39	22.68	7.72	-0.50	-0.37
Int. Shares Unhedged <sup>5</sup>	12.69	13.21	15.79	16.03	23.48	5.77	2.72	0.41
Int. Shares Hedged <sup>6</sup>	12.41	9.51	12.21	11.77	20.46	2.87	2.08	1.84
Emerging Markets Unhedged <sup>7</sup>	6.36	7.66	10.50	14.58	12.69	0.42	0.94	1.98
Listed Infrastructure Unhedged <sup>8</sup>		12.50	14.45	23.82	24.72	8.47	3.34	-1.47
Australian Listed Property <sup>9</sup>	12.34	12.67	13.01	23.87	22.09	9.24	-0.09	1.37
Int. Listed Pty Unhedged <sup>10</sup>	13.30	11.45	11.91	24.81	27.78	12.23	7.61	0.30

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



International and emerging market share markets rallied in October, while the Australian share market underperformed and declined slightly. Bond markets fell modestly and the Australian dollar appreciated by around 2 per cent against the US dollar.

## Cash and Fixed Income

Australian and international bond yields rose in October, resulting in modest losses for bond markets. Despite the modest move higher in bond yields, interest rates around the world remain very low.

International bond yields moved higher in early October following news that the United States and China had reached a “Phase 1” trade agreement. As part of the agreement, China will reportedly purchase US\$40-50 billion in US agricultural products annually, strengthen intellectual property provisions, and issue new guidelines on how it manages its currency. In return, the US delayed a tariff increase scheduled to go into effect on October 15 on US\$250 billion of Chinese goods. The details of the agreement still need to be finalised and signed off by both sides which could take several weeks.

US bond yields partly reversed lower at the end of the month after the Federal Reserve cut the federal funds rate for the third time this year by 25 basis points to 1.5-1.75%. The reasons for the cut were: downside risks to the global outlook stemming from weakness in manufacturing activity and trade uncertainty; weak business investment; and insurance against lower growth ahead. However, the Federal Reserve also indicated that rates are likely now at or close to the low since the US labour market remains strong and household spending continues to rise at a strong pace.

In early October, the Reserve Bank of Australia (RBA) cut the cash rate by 25 basis points to 0.75%, taking this year’s cumulative cash rate cuts to 75 basis points. The RBA remains concerned about weaker-than-expected domestic economic growth, particularly weakness in consumption growth and subdued wages growth. The RBA also continued to emphasise downside risks to the global economy, including the US-China trade dispute. On a more positive note, they think that a “gentle turning point” has been reached for the Australian economy and the low level of interest rates, recent tax cuts, ongoing spending on infrastructure and the upswing in housing prices in some markets should all support growth. Despite these positives, the RBA stated that they are prepared to ease monetary policy further and that it is reasonable to expect an extended period of low interest rates in Australia. After the RBA cut the cash rate in October, the four major banks only passed through an average of 14 basis points to mortgage rates, meaning that the rate cuts are becoming less effective.

Australian government bond yields rose in October, despite the RBA cutting the cash rate. This was partly due to an increase in international bond yields following positive news about the US-China trade deal (see above). However, Australian yields also rose following a sharp fall in market expectations for further RBA rate cuts. This was due to a combination of: strong local employment data, more optimistic comments from RBA Governor Lowe and the RBA Minutes including a discussion on the arguments against further rate cuts. While the market is now pricing in a lower probability of further rate cuts, the economists at the four major banks are continuing to expect another 25 basis point rate cut by early next year.

## Australian Shares

Australian share markets fell by 0.4% in October, led by losses in information technology and financials. WiseTech Global finished the month almost 25 per cent lower following a report by a research company

which accused the company of inflating growth and overstating profits. ANZ released its full-year result at the end of the month, with profit down 7% over the year due to margin pressure from record low interest rates, regulatory changes, increased remediation charges and increased competition.

Economic data in Australia was mixed over the month. Retail sales were weaker-than-expected, consumer confidence declined and while the employment report was strong, ANZ job ads were down around 10% over the year which is consistent with slower jobs growth ahead. CPI data were broadly in-line with expectations, with inflation pressures remaining subdued. Housing credit growth continued to slow but CoreLogic data for September showed a further recovery in house prices in Sydney and Melbourne.

## International Shares

International share markets fell in early October due to concerns about US and global growth following weak global manufacturing data. However, international share markets rebounded over the rest of the month following the announcement of a “Phase 1” trade deal between the US and China and better-than-expected US earnings results. Around 70% of companies in the S&P500 reported Q319 earnings in October and the earnings results were around 4.5% better than expected. Emerging market shares outperformed developed market shares in October.

## The Australian Dollar

The Australian dollar appreciated by around 2% against the US dollar over the month amid broad USD weakness; this reduced the return from investing in offshore share markets. The Australian dollar was supported by a narrowing in the differential between Australian and US interest rates, while the iron ore price weakened but remained elevated. We expect the Australian dollar to resume its downtrend over the next year as the Australian economy is expected to underperform the US economy and iron ore prices should retrace further.

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