

Monthly Market Snapshot

DECEMBER 2018

The Monthly Market Snapshot publication provides commentary on the global economy and the performance of financial markets



FRONTIER
ADVISORS



Market Commentary

Global financial markets reached record highs and experienced material lows in 2018. Many geopolitical events such as the US-China trade tensions, the North American Free Trade Agreement (NAFTA) rebrand, US mid-terms, the pace of US Fed tightening, China's deleveraging campaign, the end of Europe's quantitative easing (QE), Brexit and the Italian elections dominated headlines and shook the markets over the course of 2018. This was particularly evident in the final quarter of the year as risk-off sentiment intensified and equities were sold off by investors.

Equity markets in the US, Europe, United Kingdom, Japan, China and Australia all produced negative returns in December and finished the calendar year in negative territory.

In the fixed income sector, the negative sentiment saw yields decline over the month. Australian Government bond index was the best performer, followed by International Government bonds. Overall, the sector produced positive returns in December.

Australian listed property returns were positive, while global listed property produced negative returns over the month. Nevertheless, the listed property sector outperformed the broader equity market.

Across currencies, it was another challenging month for the Australian dollar as it fell against the US dollar, UK pound, Japanese Yen and the Euro in December. Higher interest rates in the US and economic slowdown in China will continue to place pressure on the Australian dollar.

Oil prices hit the highest price for the year in early October and tumbled very quickly, finishing the year at US\$45 dollars per barrel. This has been attributed to concerns of oversupply and slowing global demand.

However, the Organisation of the Petroleum Export Countries (OPEC) has more recently announced a sizable output fall as Saudi Arabia began cutting its production.

The US Federal Reserve lifted interest rates to the range of 2.25%-2.5% at its recent December meeting, bringing the total number of hikes for 2018 to four. The course of rate hikes has been a result of sustained economic growth seen throughout the year with robust job reports, wage growth and low unemployment. Furthermore, the US 10-year government bond also breached 3.2% in early October and early November before falling back below 3%.

Macroeconomic conditions in Europe have continued to lose steam, continuing a trend which began around the start of 2018. On a positive note, the Italian budget has finally been approved by the EU.

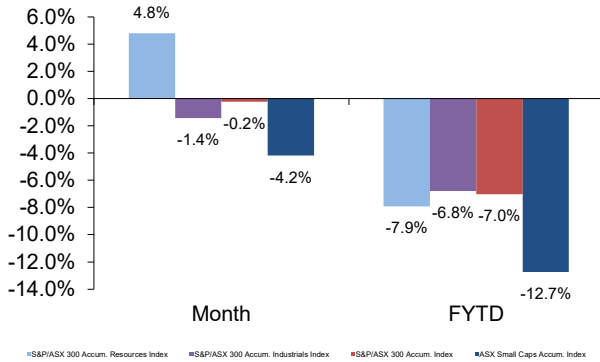
China's economy continues to slow, as it stays on course in managing its deleveraging campaign and faces headwinds from the ongoing trade dispute with the US. Retail sales growth has also been weakening in recent months. With efforts to defend its economic growth, the reserve requirement ratio has been cut four times to inject liquidity into the economy and fiscal policy measures such as tax cuts and infrastructure investment were introduced over the year.

Domestically, the Reserve Bank of Australia (RBA) has been cautious and kept cash rate unchanged at 1.5% throughout 2018. Economic growth has been strong over the year and jobs growth has been robust, but the housing market remains a concern. Sydney continues to lead house price declines followed by Melbourne. However, the Australian Prudential Regulation Authority (APRA) announced in December that it was dropping the cap on interest-only mortgage lending, loosening credit curbs that have contributed to the downturn.

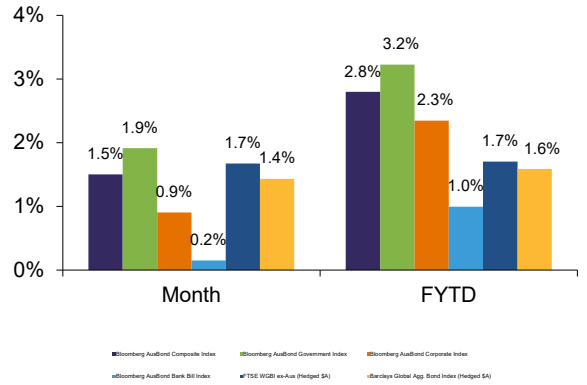
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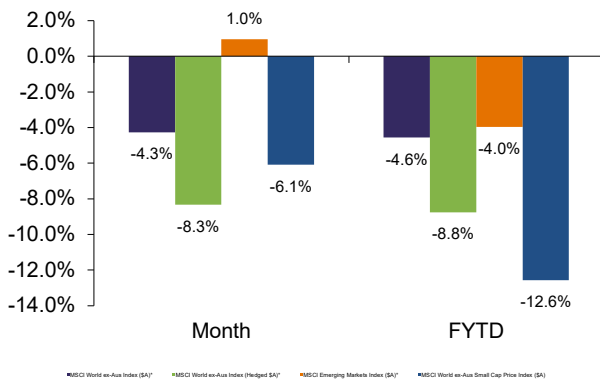
Australian Equities



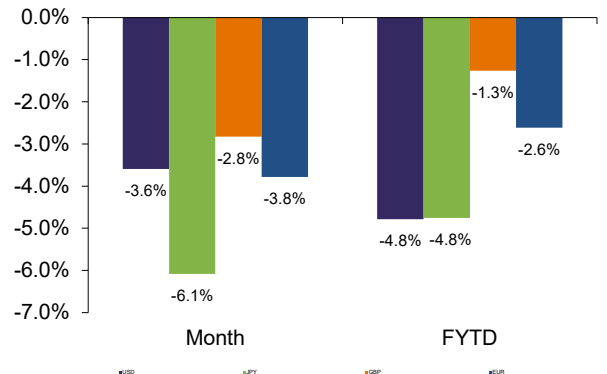
Fixed Income



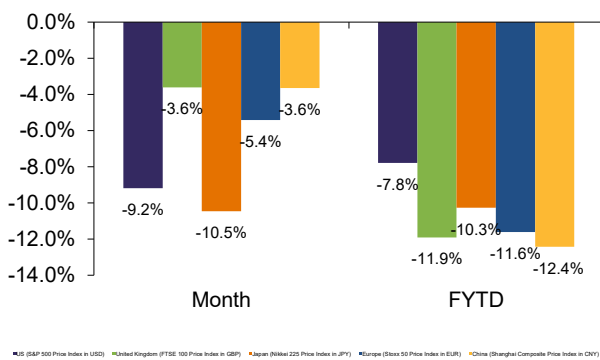
International Equities (\$A)



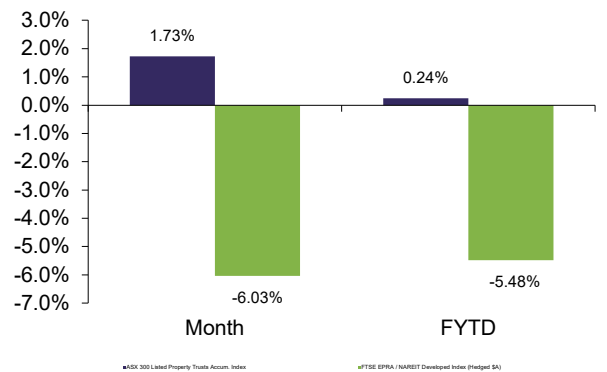
Australian Dollar



International Equities











Property



Details of the indexes are in the table on the next page

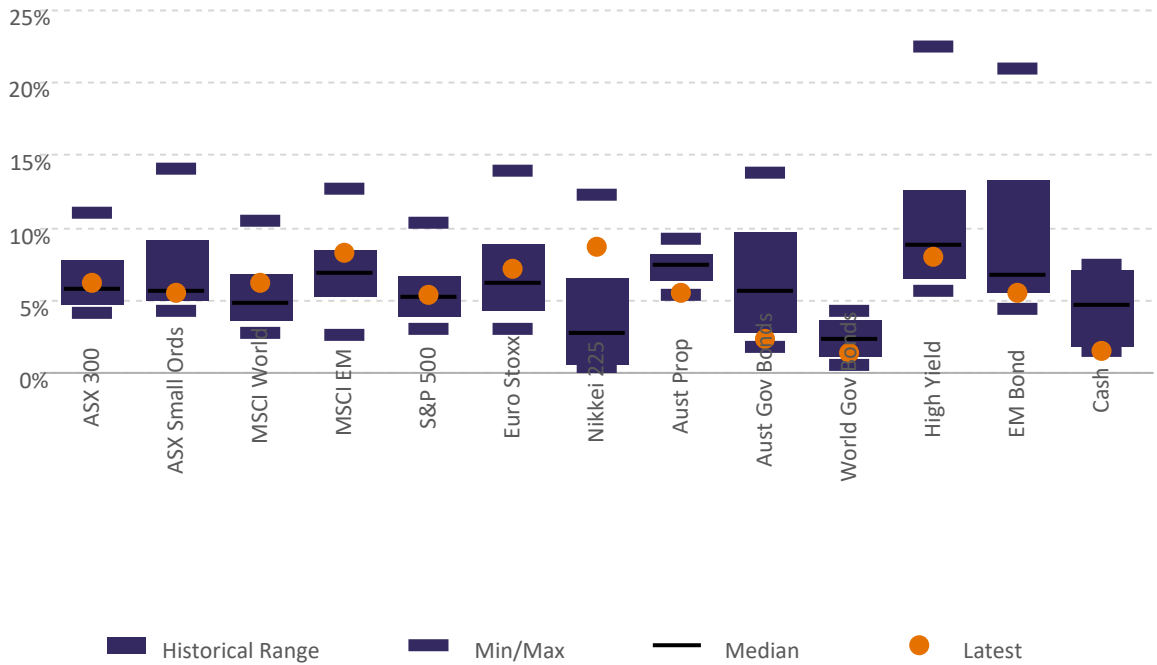
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	Index value	Month	3 months	FYTD	1 year
Australian Equities					
 S&P/ASX 300 Accum. Index	57,896	-0.2%	-8.4%	-7.0%	-3.1%
S&P/ASX 300 Accum. Industrials Index	114,682	-1.4%	-8.4%	-6.8%	-4.3%
S&P/ASX 300 Accum. Resources Index	25,060	4.8%	-8.5%	-7.9%	2.3%
ASX Small Caps Accum. Index	7,103	-4.2%	-13.7%	-12.7%	-8.7%
International Equities					
 MSCI World ex-Aus Index (\$A)*	8,662	-4.3%	-11.1%	-4.6%	1.5%
MSCI World ex-Aus Index (Hedged \$A)*	1,514	-8.3%	-13.6%	-8.8%	-7.6%
MSCI Emerging Markets Index (\$A)*	633	1.0%	-4.9%	-4.0%	-5.1%
MSCI World ex-Aus Small Cap Index (\$A)	512	-6.1%	-15.8%	-12.6%	-5.6%
US (S&P 500 Index in USD)	2,507	-9.2%	-14.0%	-7.8%	-6.2%
United Kingdom (FTSE 100 Index in GBP)	6,728	-3.6%	-10.4%	-11.9%	-12.5%
Japan (Nikkei 225 Index in JPY)	20,015	-10.5%	-17.0%	-10.3%	-12.1%
Europe (Stoxx 50 Index in EUR)	3,001	-5.4%	-11.7%	-11.6%	-14.3%
China (Shanghai Composite Index in CNY)	2,494	-3.6%	-11.6%	-12.4%	-24.6%
AUD versus ...					
 USD	0.71	-3.6%	-2.4%	-4.8%	-9.7%
JPY	77.93	-6.1%	-4.9%	-4.8%	-11.4%
GBP	0.56	-2.8%	0.8%	-1.3%	-4.0%
EUR	0.62	-3.8%	-0.4%	-2.6%	-5.4%
Property					
 ASX 300 Listed Property Trusts Accum. Index	48,510	1.7%	-1.7%	0.2%	3.3%
FTSE EPRA / NAREIT Dev. Index (Hedged \$A)*	2,450	-6.0%	-5.8%	-5.5%	-4.0%
Oil and Commodities					
 Crude Oil (\$/bbl)	45	-10.8%	-38.0%	-38.8%	-24.8%
Copper Spot (\$/tonne)	5,949	-4.5%	-5.0%	-10.2%	-17.5%
Gold Spot (\$/ounce)	1,281	4.5%	6.6%	0.7%	-4.2%
Australian Fixed Interest					
 Bloomberg AusBond Composite Index	9,547	1.5%	2.2%	2.8%	4.5%
Bloomberg AusBond Government Index	9,941	1.9%	2.8%	3.2%	5.1%
Bloomberg AusBond Corporate Index	9,851	0.9%	1.5%	2.3%	3.9%
Bloomberg AusBond Bank Bill Index	8,854	0.2%	0.5%	1.0%	1.9%
Global Fixed Interest					
 FTSE WGBI ex-Aus (Hedged \$A)	2,341	1.7%	2.3%	1.7%	2.5%
Barclay's Global Agg. Bond Index (Hedged \$A)	-	1.4%	1.7%	1.6%	1.7%
Fixed Income (yields) as at ...					
 Australia Bank Bill	2.09	1.95	1.93	2.10	1.78
Australia 10-Year Government Bond	2.32	2.59	2.67	2.63	2.63
US 10-Year Government Bond	2.68	2.99	3.06	2.86	2.41
UK 10-Year Government Bond	1.28	1.36	1.57	1.28	1.19
Germany 10-Year Government Bond	0.24	0.31	0.47	0.30	0.43
Japan 10-Year Government Bond	0.00	0.09	0.13	0.04	0.05

*Net dividends reinvested

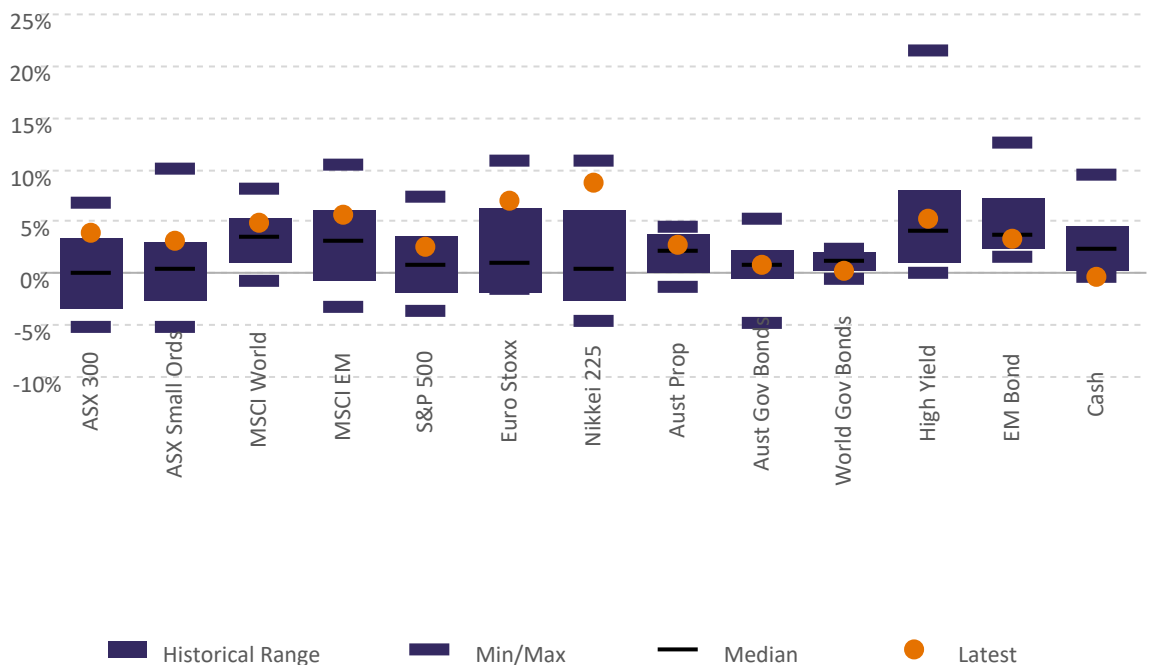
Asset Class Yields Relative to History

Current Yields (equities earnings)



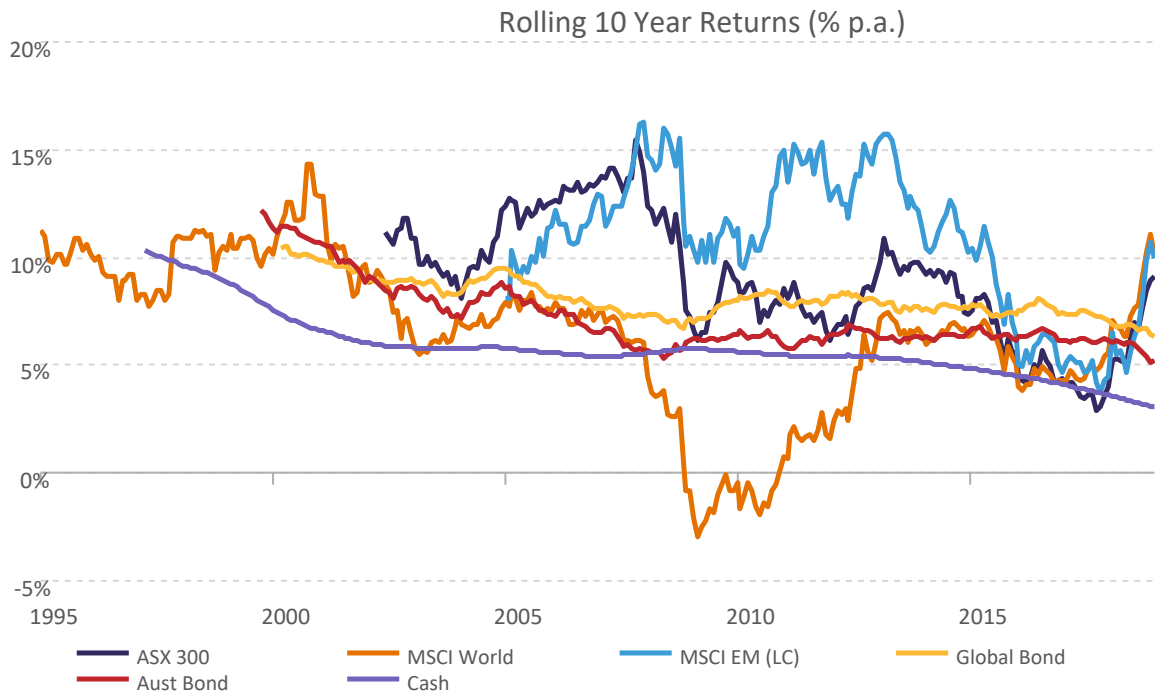
Source: Thomson Reuters Datastream

Relative Yields (vs bond or cash yield)

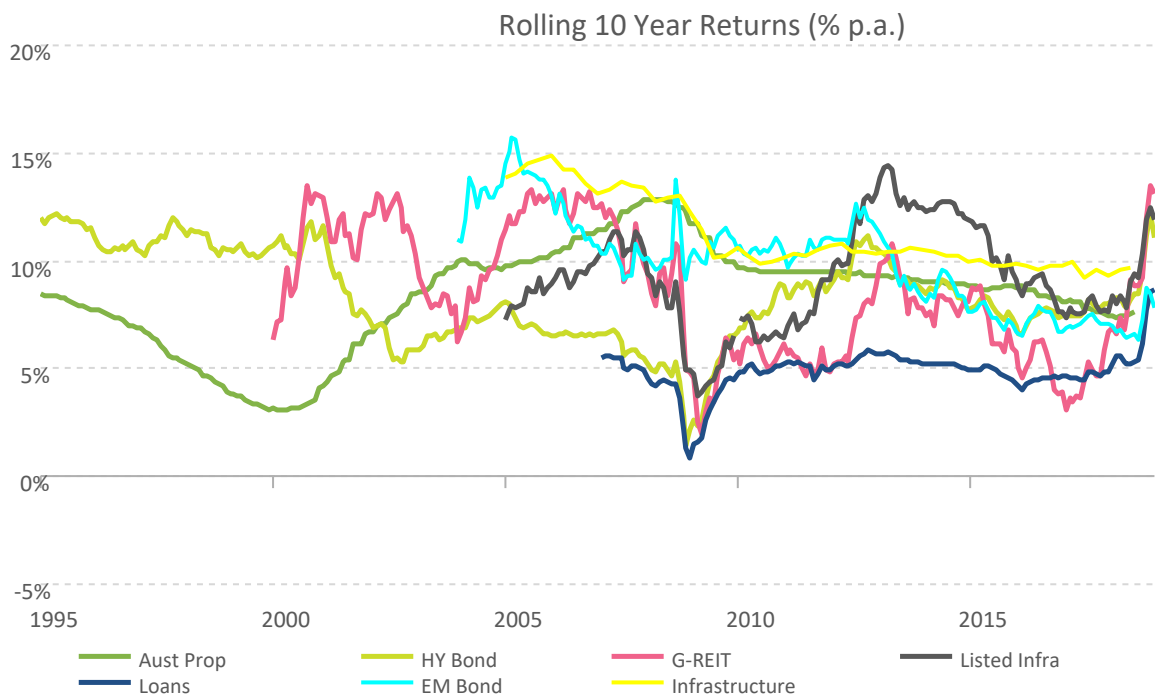


Source: Thomson Reuters Datastream

Asset Class Long-Term Returns



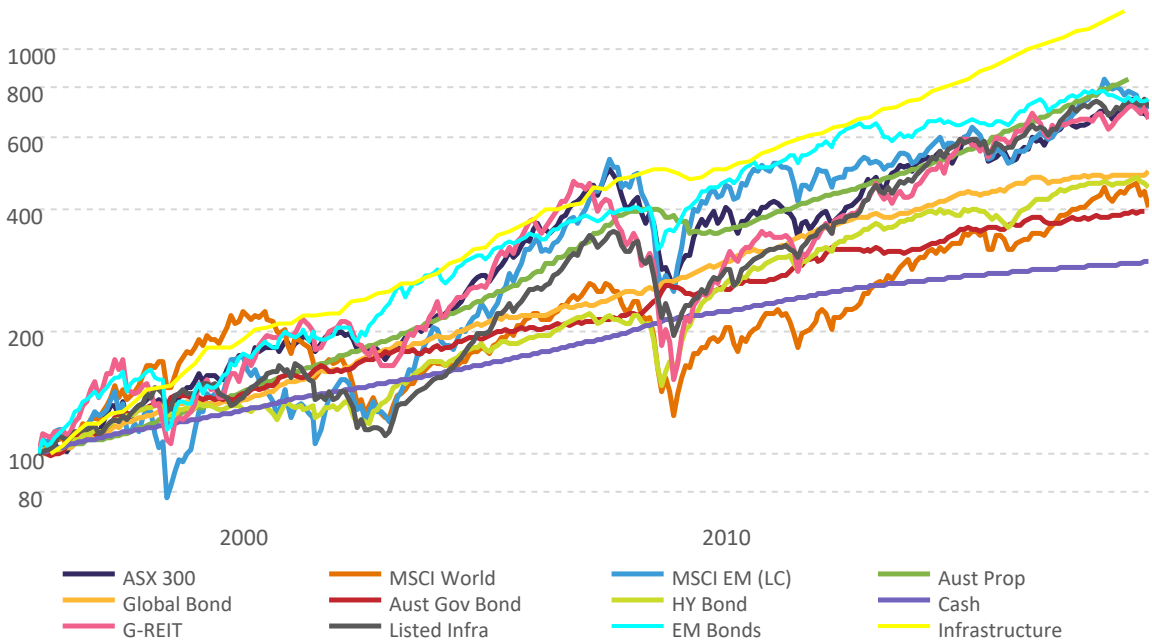
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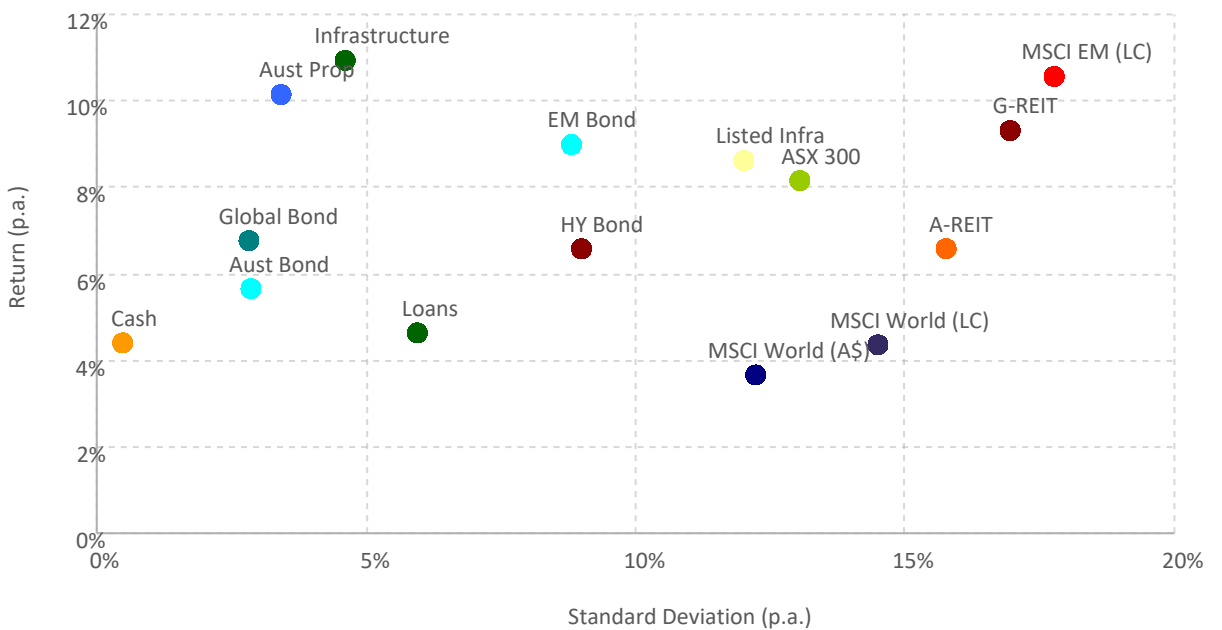
Asset Class Long-Term Returns

Cumulative Values since 1/1/1996 (\$100 reinvested)



Source: Thomson Reuters Datastream

Return-Risk Profile over 20 Years (p.a.) to Dec 18



Source: Thomson Reuters Datastream

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