

Monthly Market Snapshot

DECEMBER 2019

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

FRONTIER
ADVISORS



Market Commentary

International equity markets produced positive returns in December, with investor sentiment improving from the trade de-escalation between the US and China. The UK equity market benefited from the decisive election victory of the Conservative party, reducing Brexit uncertainty. The Chinese equity market performed particularly well, benefiting from the improved trade outlook and further loosening in monetary policy by the People's Bank of China. The Australian equity market was negative over the month. Australian banks continued to fall and supermarket stocks (Woolworths and Coles) retraced in the month after very strong performance over the year.

The Australian dollar appreciated against all major currencies in December as sentiment on the global economic outlook improved. The oil price increased materially in December amid tensions in the Middle East.

Bonds produced a negative return in December as bond yields increased. The US Federal Reserve left rates unchanged in the month and market expectations of future rate cuts moderated. The Australian government bond yield rise was more than for international bonds resulting in a larger negative return.

The rise in bond yields contributed to negative returns from listed property and Australian listed infrastructure, although international listed infrastructure was still a strong positive performer in the month.

The 2019 calendar year has been an extraordinary period of positive returns across the breadth of asset classes. A key theme over the year was the shift in monetary policy to a new round of global easing. The US Federal Reserve moved from hiking rates in 2018 to cutting in 2019; the ECB moved rates further negative and restarted quantitative easing (QE); and the RBA cut the cash rate in June, for the first time since 2016, reducing it three times to a record low of 0.75%.

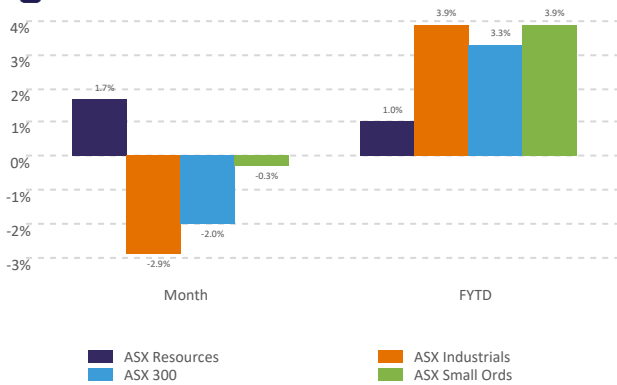
This shift in monetary policy supported equities, producing very strong returns over the year, even though amid a backdrop of slowing global economic growth and earnings growth was negative. Markets experienced bouts of volatility, driven by changes in the outlook on the trade dispute between the US and China, but most recently have benefited from a perceived de-escalation. Australian equities also produced very strong returns over the year, even though economic growth slowed. The RBA rate cuts provided support to the housing market moving from price falls to recent price appreciation. Bond markets also delivered strong returns for the calendar year as the lowering of global policy rates led to increases in bond prices and credit spreads also contracted. The implication of negative interest rates and government policy capacity came to the fore as more bonds entered negative yielding territory over the year. Currency markets had periods of volatility over the year but the Australian dollar was generally range bound with overall a small depreciation over 2019. An historically high trade surplus, especially the iron ore price, was offset by a continued decline in the relative yield differential. Geopolitical risks have been a key concern over the year including Middle East disputes, North Korea, Hong Kong protests and Brexit uncertainty.

Market performance over the financial year to date has been supported by central banks cutting rates. Equities have continued to produce very strong returns in the financial year to date, supported more recently by the trade de-escalation. However, Australian equities performance has lagged in the financial year to date, held back by resources, as the iron ore price fell materially, and bank share prices fell on the back of various regulatory issues. Bond returns have been more muted over the financial year, with yields rising in December as the outlook for further interest rate cuts has moderated.

December 2019



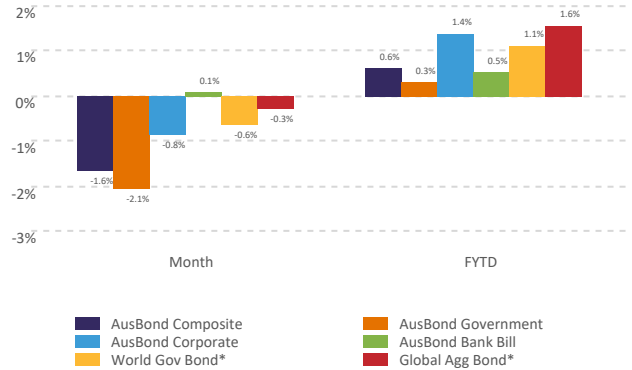
Australian Equities



Source: Refinitiv Datastream



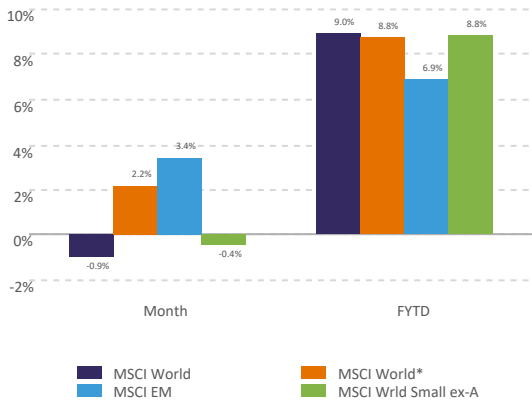
Fixed Income



Source: Refinitiv Datastream *Hedged AS



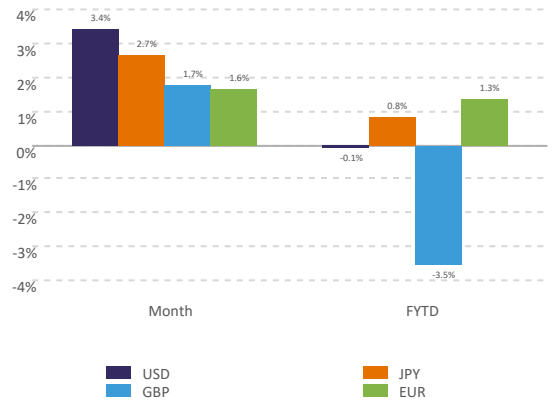
International Equities (\$A)



Source: Refinitiv Datastream *Hedged AS



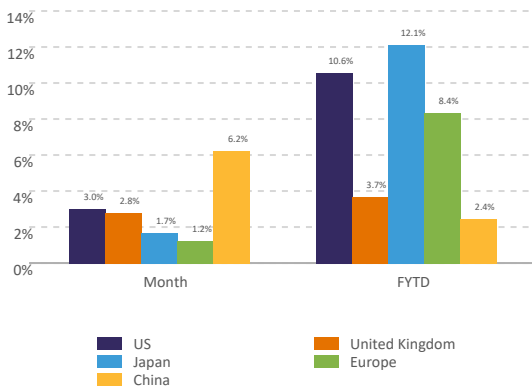
Australian Dollar



Source: Refinitiv Datastream



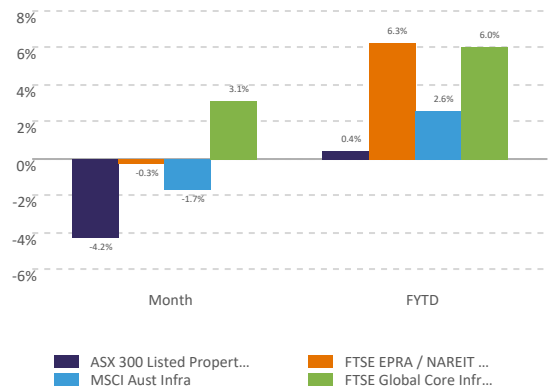
International Equities



Source: Refinitiv Datastream











Property



Source: Refinitiv Datastream *Hedged AS

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

December 2019

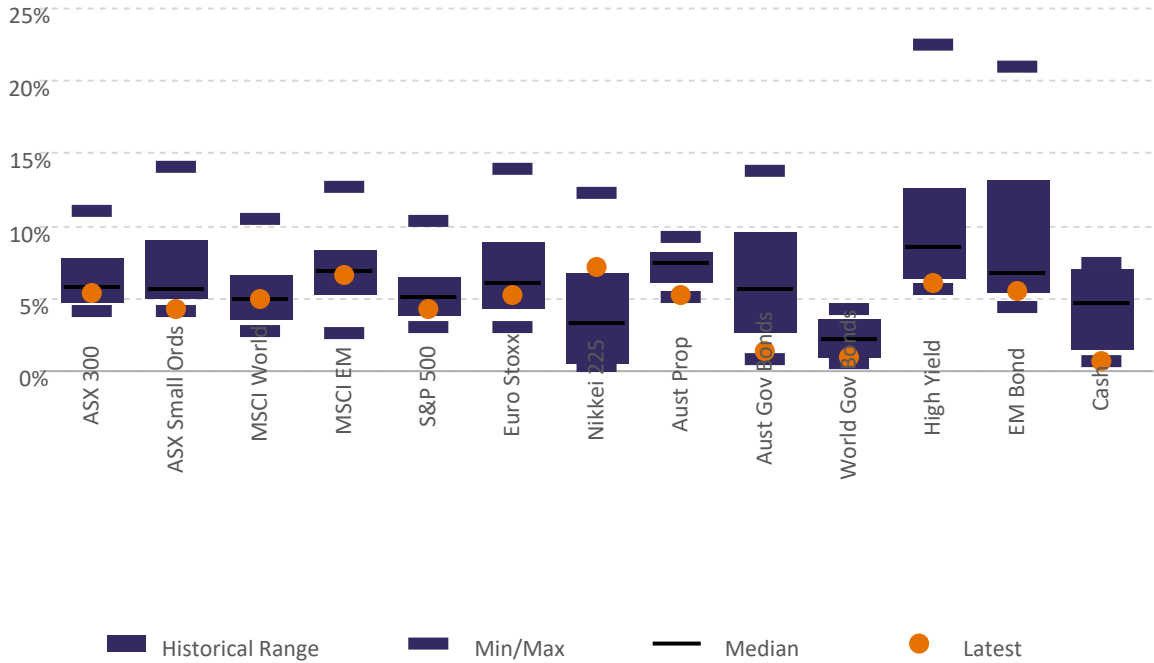
	Index value	Month	3 months	FYTD	1 year
Australian Equities					
 S&P/ASX 300 Accum. Index	71,659	-2.0%	0.7%	3.3%	23.8%
S&P/ASX 300 Accum. Industrials Index	141,276	-2.9%	-0.3%	3.9%	23.2%
S&P/ASX 300 Accum. Resources Index	43,769	1.7%	4.7%	1.0%	26.1%
ASX Small Caps Accum. Index	8,620	-0.3%	0.8%	3.9%	21.4%
International Equities					
 MSCI World ex-Aus Index (\$A)*	11,086	-0.9%	4.3%	9.1%	28.0%
MSCI World ex-Aus Index (Hedged \$A)*	1,920	2.3%	7.5%	8.9%	26.8%
MSCI Emerging Markets Index (\$A)*	750	3.4%	7.3%	6.9%	18.6%
MSCI World ex-Aus Small Cap Index (\$A)	637	-0.6%	5.2%	8.1%	24.5%
US (S&P 500 Index in USD)	3,231	2.9%	8.5%	9.8%	28.9%
United Kingdom (FTSE 100 Index in GBP)	7,542	2.7%	1.8%	1.6%	12.1%
Japan (Nikkei 225 Index in JPY)	23,657	1.6%	8.7%	11.2%	18.2%
Europe (Stoxx 50 Index in EUR)	3,745	1.1%	4.9%	7.8%	24.8%
China (Shanghai Composite Index in CNY)	3,050	6.2%	5.0%	2.4%	22.3%
AUD versus ...					
 USD	0.70	3.7%	4.0%	0.0%	-0.5%
JPY	76.16	2.7%	4.7%	0.8%	-2.3%
GBP	0.53	1.7%	-2.7%	-3.5%	-4.0%
EUR	0.63	1.6%	1.3%	1.3%	1.2%
Property					
 ASX 300 Listed Property Trusts Accum. Index	58,001	-4.2%	-0.7%	0.4%	19.6%
FTSE EPRA / NAREIT Dev. Index (Hedged \$A)*	2,968	-0.3%	0.6%	6.3%	21.2%
Oil and Commodities					
 Crude Oil (\$/bbl)	61	10.7%	12.9%	4.4%	34.5%
Copper Spot (\$/tonne)	6,149	5.2%	8.0%	2.8%	3.4%
Gold Spot (\$/ounce)	1,523	3.4%	2.9%	6.5%	15.5%
Australian Fixed Interest					
 Bloomberg AusBond Composite Index	10,240	-1.6%	-1.3%	0.6%	7.3%
Bloomberg AusBond Government Index	10,721	-2.1%	-1.9%	0.3%	7.8%
Bloomberg AusBond Corporate Index	10,546	-0.8%	-0.4%	1.4%	7.1%
Bloomberg AusBond Bank Bill Index	8,987	0.1%	0.2%	0.5%	1.5%
Global Fixed Interest					
 FTSE WGBI ex-Aus (Hedged \$A)	2,496	-0.7%	-1.7%	1.1%	6.6%
Barclay's Global Agg. Bond Index (Hedged \$A)		-0.3%	-0.8%	1.6%	7.2%
Fixed Income (yields) as at ...					
 Australia Bank Bill	0.91	0.89	0.94	1.21	2.09
Australia 10-Year Government Bond	1.37	1.03	1.02	1.32	2.32
US 10-Year Government Bond	1.92	1.78	1.66	2.01	2.68
UK 10-Year Government Bond	0.82	0.70	0.49	0.83	1.28
Germany 10-Year Government Bond	-0.19	-0.36	-0.57	-0.33	0.24
Japan 10-Year Government Bond	-0.01	-0.07	-0.21	-0.16	0.00

Source: Bloomberg

*Net dividends reinvested

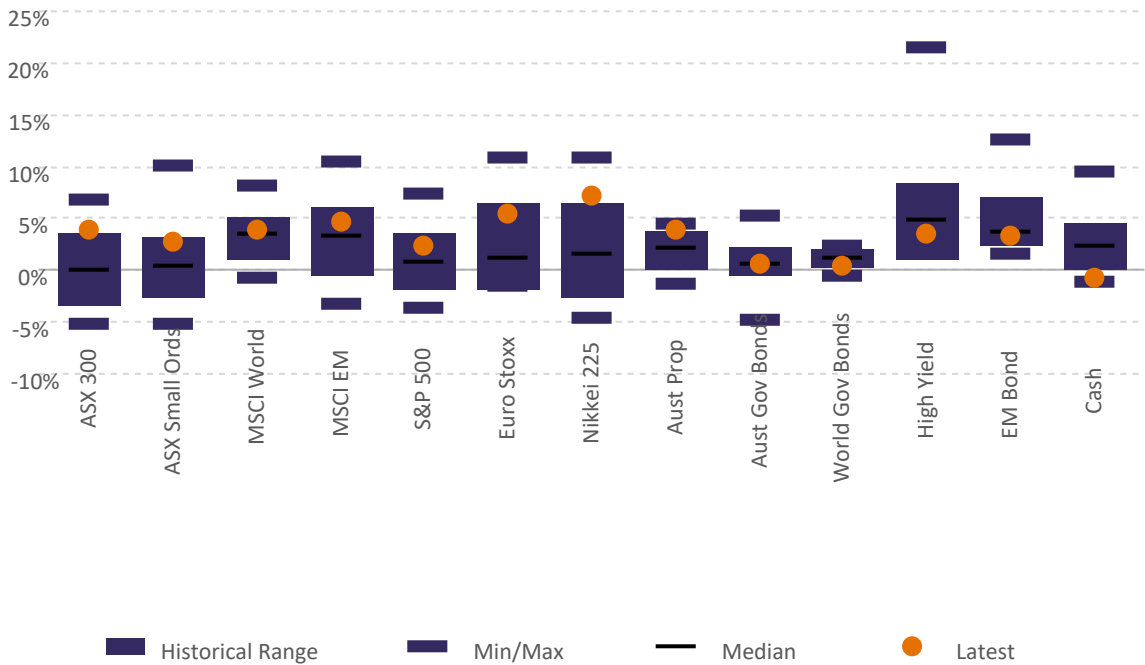
Asset Class Yields Relative to History

Current Yields (equities earnings)



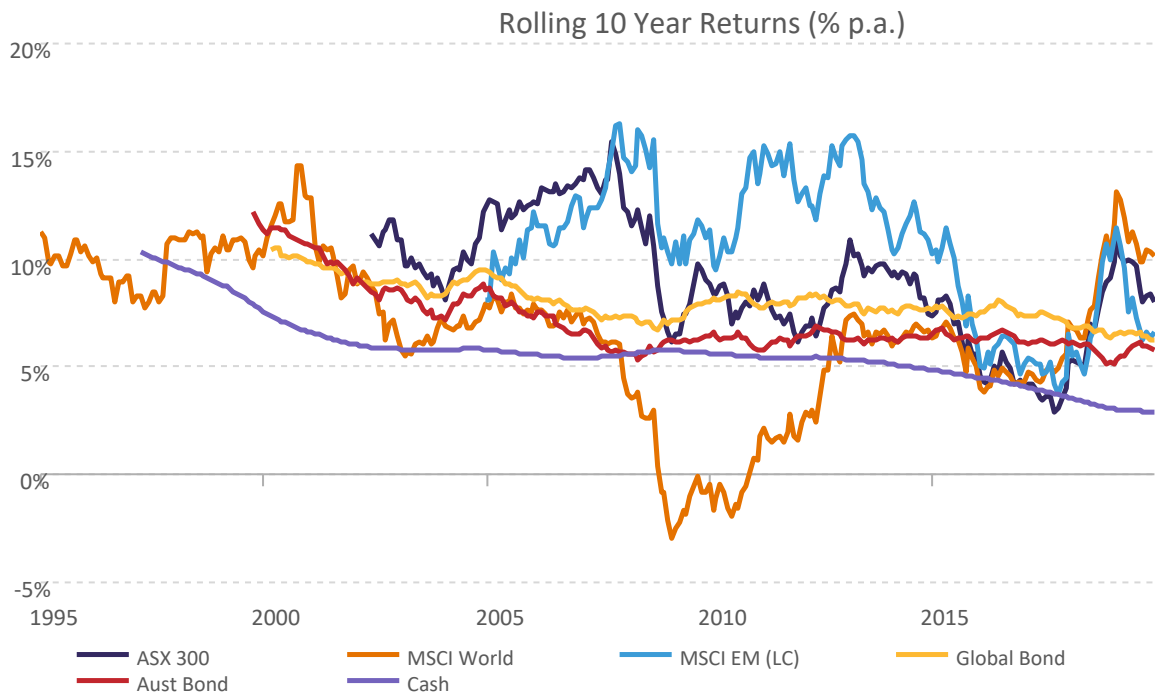
Source: Refinitiv Datastream

Relative Yields (vs bond or cash yield)

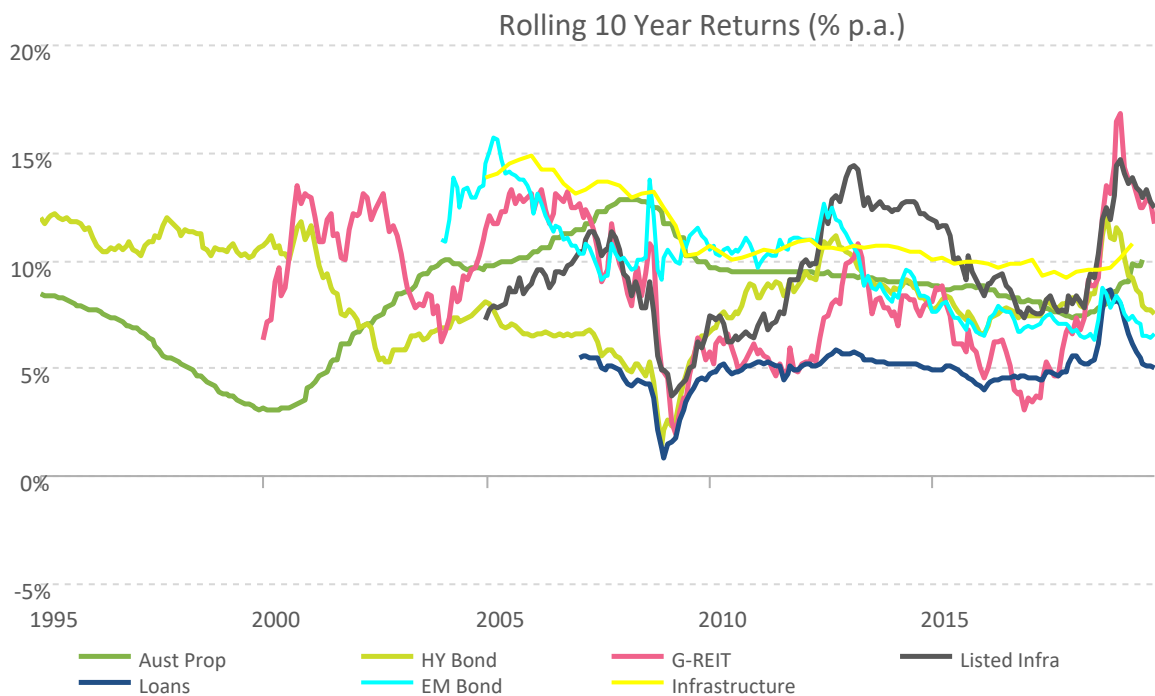


Source: Refinitiv Datastream

Asset Class Long-Term Returns



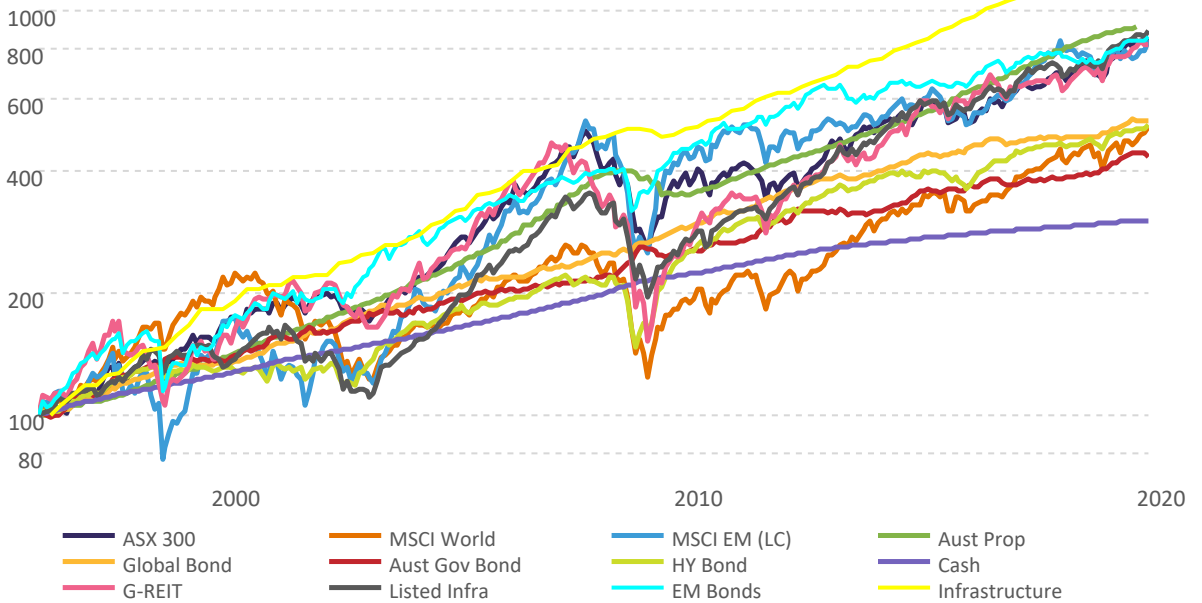
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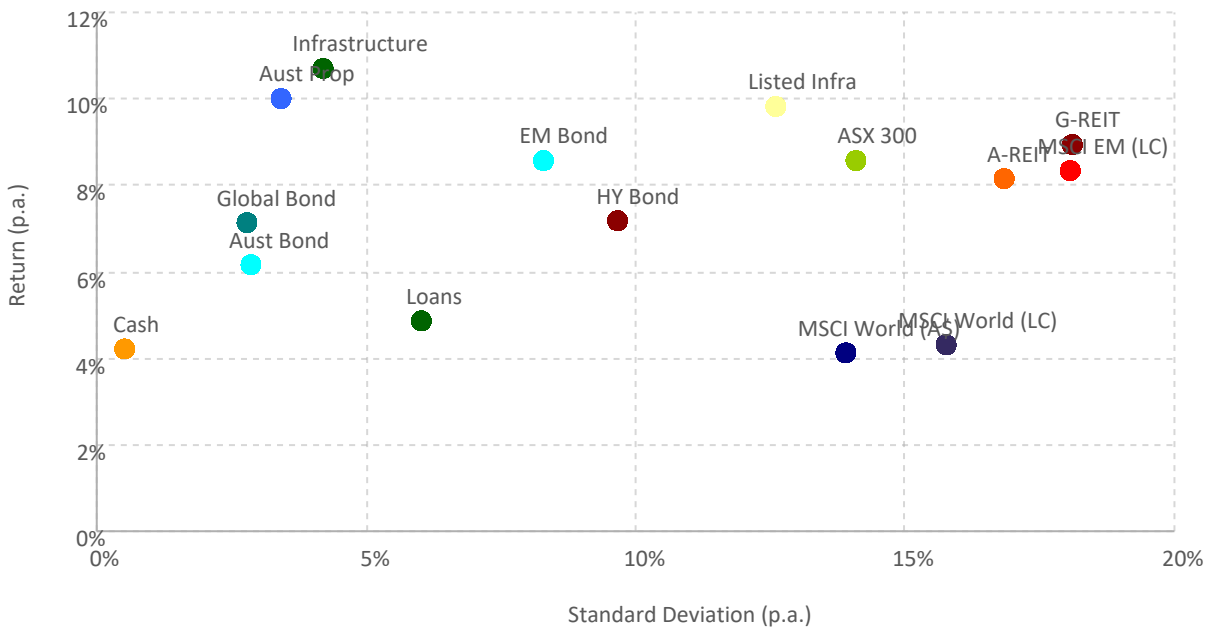
Asset Class Long-Term Returns

Cumulative Values since 1/01/1996 (\$100 reinvested)



Source: Refinitiv Datastream

Return-Risk Profile over 20 Years (p.a.) to Dec 19



Source: Refinitiv Datastream

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