Monthly Market Review – October 2018

How the different asset classes have fared:
(As at 31st October 2018)

Asset Class	10 Yr % p.a.	5 Yr % p.a.	3 Yr % p.a.	1 Yr %	YTD %	6 Mo %	3 Mo %	1 Mo %
Cash[1]	3.1	2.2	1.9	1.9	1.6	1.0	0.5	0.2
Australian Bonds[2]	5.4	4.4	2.9	3.1	2.7	2.2	0.9	0.5
International Bonds[3]	6.7	4.4	2.9	0.2	-0.2	0.2	-0.3	-0.2
Australian Shares[4]	8.6	6.2	8.3	3.1	-0.9	-0.5	-5.9	-6.5
Int. Shares Unhedged[5]	9.3	13.5	8.2	9.7	8.0	4.4	-1.0	-5.4
Int. Shares Hedged[6]	12.4	10.2	9.2	2.4	-0.4	-0.0	-4.8	-6.9
Emerging Markets Unhedged[7]	6.8	6.4	6.3	-5.7	-7.2	-11.2	-7.4	-6.8
Listed Infrastructure Unhedged[8]	-	12.5	6.7	5.2	6.7	5.8	0.6	0.0
Australian Listed Property[9]	9.3	11.3	7.4	7.3	1.8	4.1	-2.1	-3.1
Int. Listed Pty Unhedged[10]	8.4	11.0	2.9	9.3	6.9	7.7	0.6	-1.0

[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

Markets across the globe were rattled during October, with Australia being no exception. Along with other developed markets, the Australian market has seen much of the gains accumulated in the nine months leading up to October wiped out. The S&P/ASX 200 fell -6.1 percent as investors dumped expensive growth stocks; despite the economic backdrop being relatively robust based on strong gross domestic product data, solid unemployment numbers and a moderately priced Forward P/E. The stocks that fell hardest in the month had been some of the best performers up to that point. Every sector of the index dropped, with energy, information technology, healthcare and consumer discretionary sectors taking the brunt of the fall. Real Estate, utilities and consumer staples, the more defensive areas of the market, held up better.

Even with such declines, a fall in stocks does not necessarily translate to economic discomfort. Share markets have been strong for the past few years and the losses relative to the longer term gains were relatively minor. With that in mind, consumer sentiment remains strong, and employment growth continues to be solid.

A key issue for the Australian economy, is the future path of the once soaring property market. House prices are expected to continue to correct over the next 18 to 24 months, with Sydney falling around 10% peak to trough and Melbourne 8%. Tightening of credit by the banks is seen to be the primary reason for these declines. How this unfolds will be important in determining how the Australian economy and share market fare in the coming months.

The Australian dollar has proven quite resilient to the bad news thrown at it in October, having already tumbled 9 per cent this year due to record low interest rates, a sell-off in risk assets, political risk and concern a trade war with the US will affect growth in China - Australia's major trading partner. While the Chinese economy is beginning to crack under the pressure of US tariffs, President Trump is seeking to strike a "great deal" that ends the tariff conflict with China in the lead up to the G20 summit. The market is currently pricing in the RBA to maintain the cash rate at 1.5 percent until at least mid-2019, with a possible hike by the end of that year if the economy strengthens. Australia may also have its seventh political leader in eleven years when a general election takes place in 2019, adding to investor uncertainty.

Global share markets fell, following on from the decline of the US stock market, with investors probably needing to see a convincing armistice for the trade war and more stable US bond yields before regaining confidence in Wall Street. Emerging markets finished October in the red, triggered by declines in US equities. The MSCI Emerging Markets Index of equities fell 8.8 percent in October, its worst month since August 2015. Expectations for profit at emerging market companies, however, have jumped 39 percent, making them an attractive prospect for value investors.

While Australian equities fell sharply, domestic credit markets fared better with spreads little changed. Overall, the Australian bond market, as measured by the Bloomberg AusBond Composite 0+ Yr Index, gained 0.48% over October, with price appreciation from lower yields adding to the income return. Meanwhile in the US individual investors have reduced their exposure to fixed-income assets for three consecutive months as bond yields continue to rise. The perception of yields remaining low on an absolute basis and expectations for a further decline in bond prices are causing many individual investors to avoid bonds or otherwise limit their exposure to them