December Monthly Market Review

GTM FINANCIAL SOLUTIONS

How the different asset classes have fared:
(As at 31st December 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	1.9	1.0	0.5	0.2
Australian Bonds[2]	5.2	4.7	3.7	4.5	4.5	2.8	2.2	1.5
International Bonds[3]	6.4	4.8	3.5	1.6	1.6	1.6	1.7	1.4
Australian Shares[4]	9.1	5.7	6.6	-3.5	-3.5	-7.3	-9.0	-0.4
Int. Shares Unhedged[5]	9.6	9.9	7.6	1.5	1.5	-4.5	-11.1	-4.3
Int. Shares Hedged[6]	12.2	7.5	7.0	-7.6	-7.6	-8.7	-13.6	-8.4
Emerging Markets Unhedged[7]	7.6	6.1	10.0	-5.7	-5.7	-4.6	-5.2	0.7
Listed Infrastructure Unhedged[8]	—	9.2	8.3	-1.9	-1.9	-2.7	-2.8	-4.1
Australian Listed Property[9]	10.7	12.5	7.6	3.3	3.3	0.2	-1.7	1.7
Int. Listed Pty Unhedged[10]	9.8	10.3	3.0	4.5	4.5	-1.6	-3.3	-2.7

[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

December was another difficult month for investors globally as negative economic data and rising trade tensions hit sentiment. Domestically, markets continued in their downward trajectory with the S&P/ASX200 falling 2.16% over the course of the month, closing the year down 6.08%.

Sentiment towards Australia's economic outlook remained particularly soft, largely driven by declining house prices. Nationwide prices fell a further 1.3% for the month, resulting in an overall decline of 6.1% since the start the year. APRA has responded by lifting their restrictions on interest-only loans and the RBA Governor has encouraged banks to lend more. If these measures fail to slow the decline, speculation that the RBA will cut rates in 2019 is likely to grow.

The Australian dollar remained strong, notwithstanding weaker economic momentum in China, rising US interest rates and a declining stock and housing market. Australia's central bank has confirmed that it is okay with the dollar weakening against its US counterpart, as this can stimulate growth and increase wages.

Weaker momentum in China, the world's second biggest economy, continues to cause concern. China's benchmark stock index is down almost 25% since the start of the year and recent data indicating a slowdown in industrial production has done little to support valuations. Chinese exporters have already front loaded shipments to the US to beat a possible jump in tariffs, though EM investors remain hopeful of positive outcome from US-China trade talks early in 2019.

Wall Street faced exceptional volatility in December. The S&P 500 dropped 8.7% for the month, recording its worst December performance since 1931 and biggest monthly loss since February 2009. Investors dumped stocks amid concerns about an economic slowdown in 2019 and fears over borrowing costs after the Federal Reserve raised interest rates again in December, taking its total interest-rate increase for 2018 to 100 basis points. The Federal Reserve nevertheless sought to soothe market concerns in December, holding out the prospect of fewer rate hikes than it previously anticipated in 2019.

Credit conditions for emerging markets continues to be challenging, particularly with a rising US dollar. Nevertheless, emerging market equities were already trading on low price-to-earnings multiples going into December and performed comparatively better than their DM counterparts during the sell-off.