

# QUARTERLY MARKET UPDATE

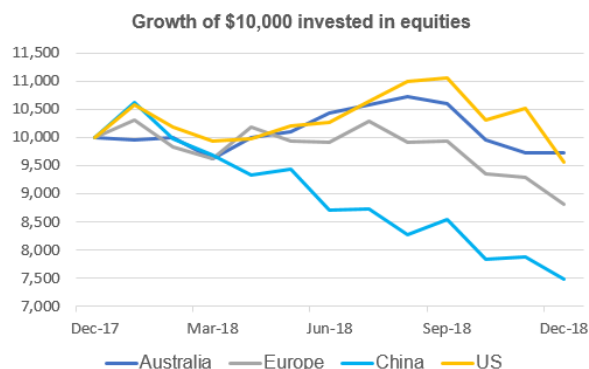
## December

2018

### Markets Tumble

October has a horror reputation amongst investors with the month historically playing host to some of the fiercest sell-offs in stock market history including the Great Crash of 1929 and Black Monday in 1987. October 2018 has lived up to the scary reputation and kicked off a torrid quarter for equity markets as many share markets experienced their worst monthly performance since 2011.

As 2018 drew to a close, the Australian equity market<sup>1</sup> finished the quarter down 8.2% and recorded a negative return (-2.8%) for the calendar year. US markets<sup>2</sup> were hit harder with falls (in USD) of 13.5% and 4.4% for the quarter and year respectively. European<sup>3</sup> (-12.0%) and Chinese<sup>4</sup> (-25%) plunged even further over the year as alarm bells rang over the growth outlook for the regions on the back of weak economic data.



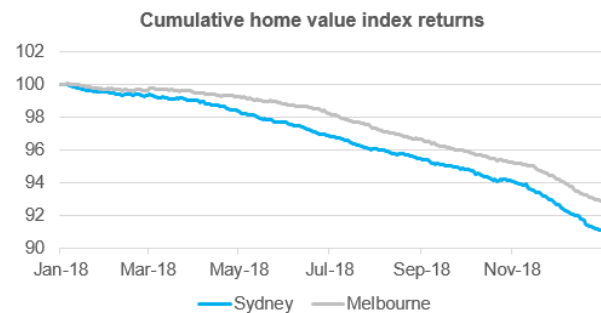
Source: Lonsec

Drivers of the global market declines included the ongoing trade ructions between the US and China, concern of a cooling US economy and the adjustment of financial markets to a world where central banks are turning off the tap for cheap money and ultra-low interest rates will be a thing of the past.

### House prices slide

House and unit prices across Australia continued their slide through the final quarter of

2018 with data to the end of December showing a national decline of 6.4% over the year<sup>5</sup>. Following years of stellar price increases, the East coast capital cities fared the worst in 2018 with house prices in Sydney and Melbourne falling 8.9% and 7.0% respectively over the year<sup>6</sup>.



Source: CoreLogic

For most home owners, there has been no actual financial impact from the fall in house prices, with the obvious exception being owners who sold during the period at a lower price. The real impact, however, is expected to be felt through the so-called *wealth effect*. People will typically spend more, not just when they are objectively wealthier, but also when they perceive themselves to be wealthier, for example, when the estimated value of their home has increased. A major worry stemming from the fall in house prices is that consumers will reduce their consumption spending, which in turn will flow through to lower levels of economic growth in Australia (in 2017 household consumption comprised 56.84% of GDP, the most widely used measure of economic growth<sup>7</sup>).

The Reserve Bank of Australia (RBA) called out continued house price weakness, along with low levels of income growth and high debt levels as the current major threats to household spending. This trio of risks should make the RBA less likely to increase interest rates in 2019, with a number of high-profile economists now forecasting that the next move in interest rates will be down.

<sup>1</sup> S&P/ASX 200 TR Index AUD

<sup>2</sup> S&P 500 TR Index USD

<sup>3</sup> Euro STOXX 50 NR Index

<sup>4</sup> Shanghai Shenzhen CSI 300 PR Index RMB

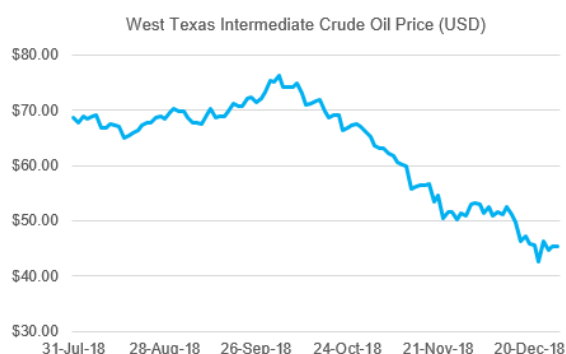
<sup>5</sup> CoreLogic RP Data Daily Home Value Index 5 capital city aggregate

<sup>6</sup> CoreLogic RP Data Daily Home Value Index Sydney & Melbourne

<sup>7</sup> The World Bank

## Oil and petrol prices fall

Contrasting the doom and gloom of falling stock markets and property prices, Australian household budgets were provided with some much-needed relief in the form of substantially lower petrol prices as 2018 drew to a close. The average national petrol price fell from \$1.59 per litre in mid-October to \$1.12 per litre by New Year's Eve. The falling petrol prices were a direct result of the fall in oil price (as measured by the West Texas Intermediate Crude Oil Price in the chart below) which plummeted 40.6% between early October and the year end.



Source: Refinitiv

The price of oil hit a four year high in early October on the back of renewed US sanctions on Iranian oil exports, however Washington swiftly granted waivers on the sanctions to top buyers of Iranian oil which resulted in Iran continuing to sell as much oil as it desired.

### Disclaimer

The information provided in this communication has been issued by Centrepoint Alliance Ltd, Alliance Wealth Pty Ltd (AFSL 449221) and Professional Investment Services (234951).

The information provided is general advice only has not taken into account your financial circumstances, needs or objectives. This publication should be viewed as an additional resource, not as your sole source of information. Where you are considering the acquisition, or possible acquisition, of a particular financial product, you should obtain a Product Disclosure before you make any decision to invest. Past performance does not necessarily indicate a financial product's future performance. It is imperative that you seek advice from a professional registered financial adviser before making any investment decisions.

© Copyright 2018 - 2019 Centrepoint Alliance Ltd. All rights reserved. Whilst all care has been taken in the preparation of this material, no warranty is given in respect of the information provided and accordingly neither Centrepoint Alliance Ltd nor its related entities, guarantee the data or content contained herein to be accurate, complete or timely nor will they have any liability for its use or distribution.

For more information, refer to the FSG for Alliance Wealth and Professional Investment Services (available at <http://www.centrepointalliance.com.au/fsg>)

On the supply side, the dynamics quickly shifted from a potential oil shortage to an excess supply as Russia, Saudi Arabia and the US shale producers continued to increase production output. The oil price began to tumble as a result of this excess supply.

Adding to the downward pressure were concerns of a fall in demand for oil as a result of slowing global economic growth.

## Outlook & portfolios

We expect the recent experiences of volatility in equity markets will continue into 2019. While we don't view the recent sell off as the beginning of Armageddon, we think that the era of easy equity market gains is coming to an end. The concerns that we expect to weigh on markets include the slowing Australian housing market, increasing US interest rates, ongoing trade disputes and the slowdown in global economic growth.

Despite the headwinds facing equity markets, we do not recommend allocating capital away from growth assets and into cash. It is extremely difficult to time the market and taking this type of action may cost portfolios dearly in the event of markets continuing to rise. More than ever the quality of investment managers is of crucial importance and we recommend incorporating equity strategies with a specific focus on downside protection and capital preservation. The recent market performance is a timely reminder of the importance of diversifying a portfolio across asset classes with low correlations to one another.