

Monthly Market Snapshot

OCTOBER 2019

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

FRONTIER
ADVISORS



Market Commentary

International equities produced positive returns in October to continue the strong run of returns in the 2019 year to date. An exception was the UK, which produced a negative return in the month. Emerging markets equities benefited from news that the US and China may agree a “Phase One Trade Deal” soon. Japanese equities performed particularly strongly in October, supported by the improved sentiment on the trade dispute.

The Australian equity market was another exception, producing a negative return over the month. The Resources sector was the key driver of the negative performance as commodity prices reversed. There are concerns about a squeeze on the profit margins of the major banks, amid a prolonged period of record low interest rates and weak credit growth.

US economic growth slipped in the third quarter, driven by further contraction in the manufacturing sector. The European economy remains fragile, while Japan showed a slight improvement, thanks to a sharp rise in retail sales and an increase in production. Although this is expected to be a temporary increase in activity in advance of the consumption tax increase at the start of October.

Global central banks continued to provide more monetary policy support. As expected, the US Federal Reserve lowered interest rates for the third time this year. However, the statement of monetary policy decision was interpreted as less dovish since key phrases such as “act as appropriate to sustain the expansion” were omitted. The European Central Bank and Bank of Japan left negative policy rates unchanged, and both continued to provide forward guidance, committing to maintain low interest rates until a meaningful pickup in inflation is observed.

The Reserve Bank of Australia (RBA) cut interest rates by 25 basis points to 0.75% at its October meeting. Headline inflation remained below the RBA target. While the unemployment rate came down, retail sales growth is weak and credit growth remains sluggish despite house prices picking up. The RBA continued to deliver a consistent message of further easing and an extended period of low interest rates, but it indicated it was unlikely to adopt negative rates.

The Australian dollar appreciated against most major currencies in October. The exception was the GBP which continues to experience heightened volatility caused by another Brexit delay and now an upcoming general election in December.

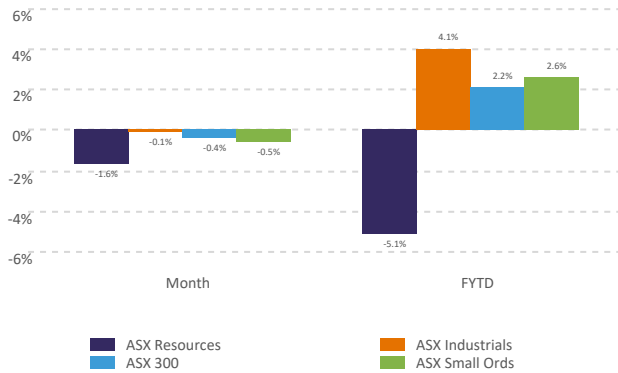
Bond markets produced a negative return in October. Bond yields ticked up across the globe but have still produced strong returns over the last 12 months.

Listed property and infrastructure followed the broad equity market and had positive returns in the month, although the global listed infrastructure index was flat.

October 2019



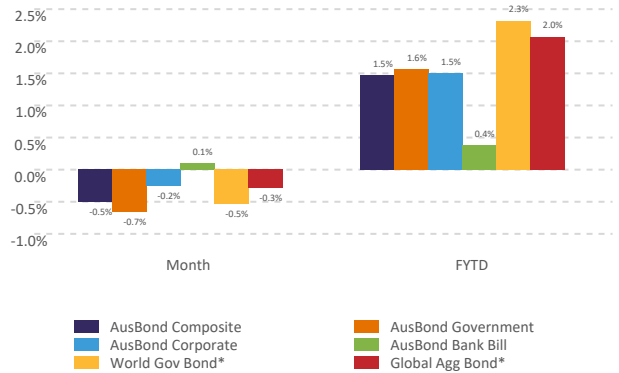
Australian Equities



Source: Refinitiv Datastream



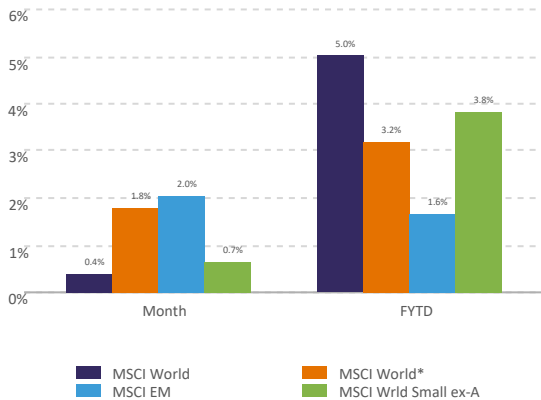
Fixed Income



Source: Refinitiv Datastream *Hedged A\$



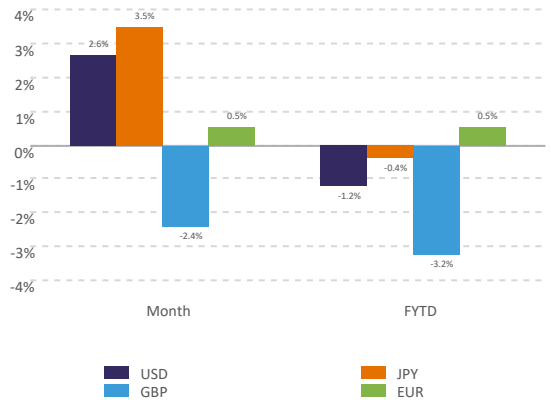
International Equities (\$A)



Source: Refinitiv Datastream *Hedged A\$



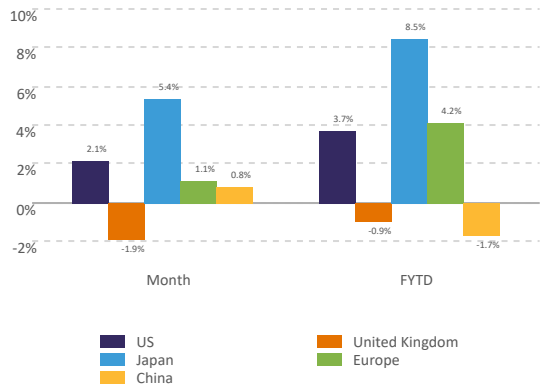
Australian Dollar



Source: Refinitiv Datastream



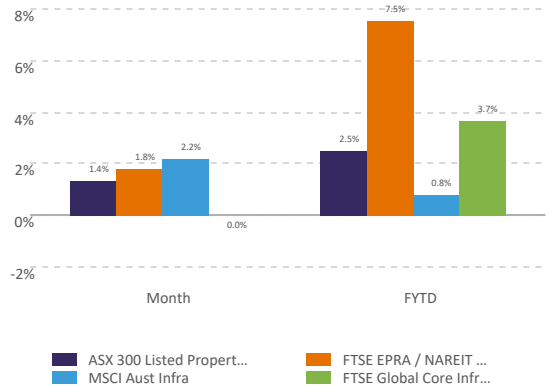
International Equities



Source: Refinitiv Datastream











Property



Source: Refinitiv Datastream *Hedged A\$

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

October 2019

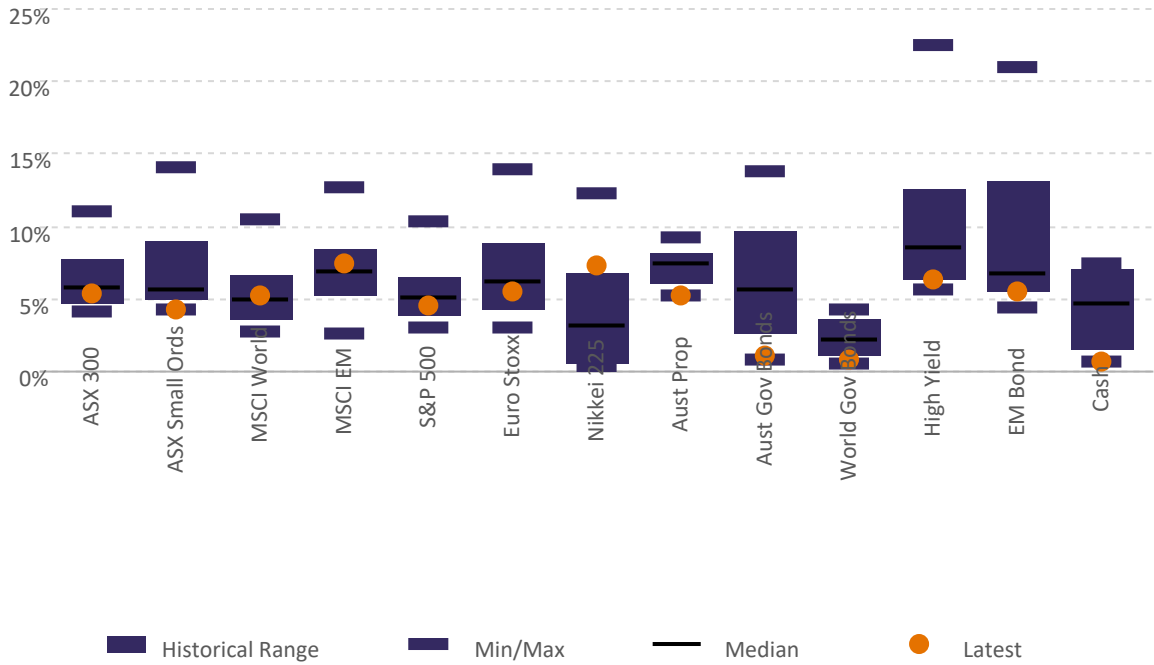
| | Index value | Month | 3 months | FYTD | 1 year |
|--|-------------|-------|----------|-------|--------|
| Australian Equities | | | | | |
|  S&P/ASX 300 Accum. Index | 70,885 | -0.4% | -0.8% | 2.2% | 19.5% |
| S&P/ASX 300 Accum. Industrials Index | 141,529 | -0.1% | 0.6% | 4.1% | 20.3% |
| S&P/ASX 300 Accum. Resources Index | 29,693 | -1.6% | -6.2% | -5.1% | 16.0% |
| ASX Small Caps Accum. Index | 8,512 | -0.5% | -1.8% | 2.6% | 14.4% |
| International Equities | | | | | |
|  MSCI World ex-Aus Index (\$A)* | 10,676 | 0.4% | 2.7% | 5.1% | 15.8% |
| MSCI World ex-Aus Index (Hedged \$A)* | 1,819 | 1.8% | 2.1% | 3.2% | 11.5% |
| MSCI Emerging Markets Index (\$A)* | 714 | 2.0% | 1.1% | 1.6% | 15.1% |
| MSCI World ex-Aus Small Cap Index (\$A) | 610 | 0.6% | 1.1% | 3.3% | 9.1% |
| US (S&P 500 Index in USD) | 3,038 | 2.0% | 1.9% | 3.3% | 12.0% |
| United Kingdom (FTSE 100 Index in GBP) | 7,248 | -2.2% | -4.5% | -2.4% | 1.7% |
| Japan (Nikkei 225 Index in JPY) | 22,927 | 5.4% | 6.5% | 7.8% | 4.6% |
| Europe (Stoxx 50 Index in EUR) | 3,604 | 1.0% | 4.0% | 3.8% | 12.7% |
| China (Shanghai Composite Index in CNY) | 2,929 | 0.8% | -0.1% | -1.7% | 12.5% |
| AUD versus ... | | | | | |
|  USD | 0.69 | 2.1% | 0.7% | -1.8% | -2.5% |
| JPY | 75.26 | 3.5% | 0.6% | -0.4% | -6.2% |
| GBP | 0.54 | -2.4% | -5.5% | -3.2% | -3.9% |
| EUR | 0.62 | 0.5% | 0.4% | 0.5% | -0.7% |
| Property | | | | | |
|  ASX 300 Listed Property Trusts Accum. Index | 59,226 | 1.4% | -0.1% | 2.5% | 23.9% |
| FTSE EPRA / NAREIT Dev. Index (Hedged \$A)* | 3,003 | 1.8% | 6.5% | 7.5% | 19.3% |
| Oil and Commodities | | | | | |
|  Crude Oil (\$/bbl) | 54 | 0.2% | -7.5% | -7.3% | -17.0% |
| Copper Spot (\$/tonne) | 5,770 | 1.3% | -2.2% | -3.6% | -4.4% |
| Gold Spot (\$/ounce) | 1,515 | 2.8% | 5.4% | 6.3% | 21.1% |
| Australian Fixed Interest | | | | | |
|  Bloomberg AusBond Composite Index | 10,326 | -0.5% | 0.5% | 1.5% | 10.1% |
| Bloomberg AusBond Government Index | 10,853 | -0.7% | 0.6% | 1.6% | 11.6% |
| Bloomberg AusBond Corporate Index | 10,560 | -0.2% | 0.5% | 1.5% | 8.3% |
| Bloomberg AusBond Bank Bill Index | 8,973 | 0.1% | 0.2% | 0.4% | 1.7% |
| Global Fixed Interest | | | | | |
|  FTSE WGBI ex-Aus (Hedged \$A) | 2,525 | -0.5% | 1.6% | 2.3% | 10.4% |
| Barclay's Global Agg. Bond Index (Hedged \$A) | - | -0.3% | 1.3% | 2.0% | 9.7% |
| Fixed Income (yields) as at ... | | | | | |
|  Australia Bank Bill | 0.94 | 0.94 | 1.04 | 1.21 | 1.91 |
| Australia 10-Year Government Bond | 1.14 | 1.02 | 1.19 | 1.32 | 2.63 |
| US 10-Year Government Bond | 1.69 | 1.66 | 2.01 | 2.01 | 3.14 |
| UK 10-Year Government Bond | 0.63 | 0.49 | 0.61 | 0.83 | 1.44 |
| Germany 10-Year Government Bond | -0.41 | -0.57 | -0.44 | -0.33 | 0.39 |
| Japan 10-Year Government Bond | -0.13 | -0.21 | -0.15 | -0.16 | 0.13 |

Source: Bloomberg

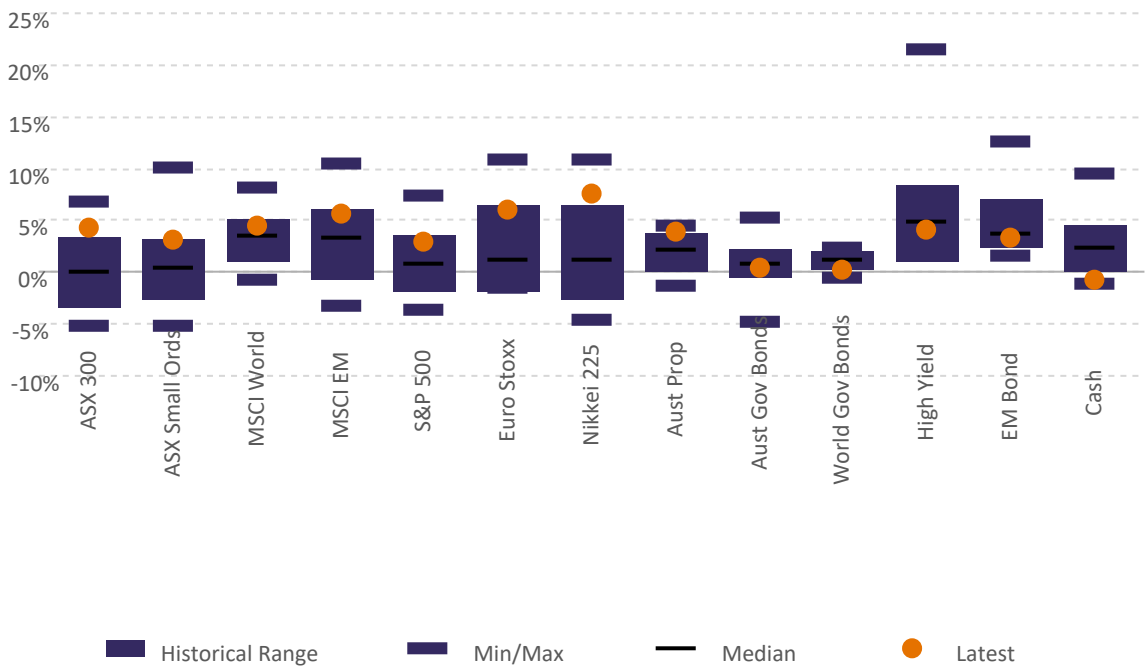
*Net dividends reinvested

Asset Class Yields Relative to History

Current Yields (equities earnings)

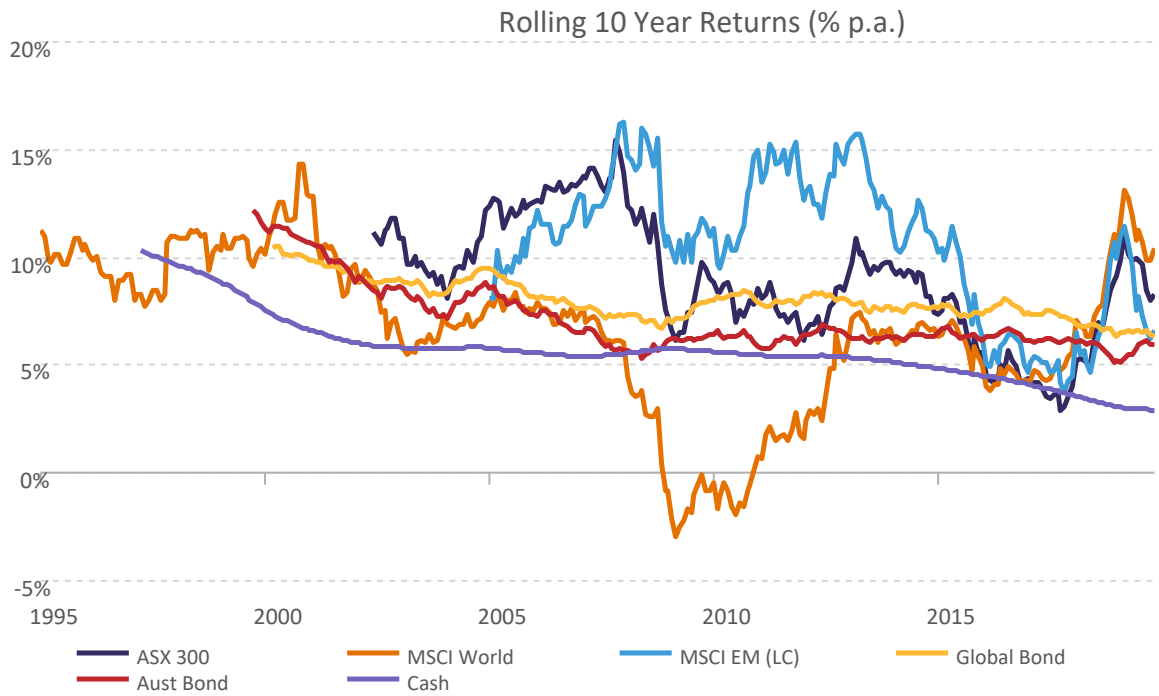


Relative Yields (vs bond or cash yield)

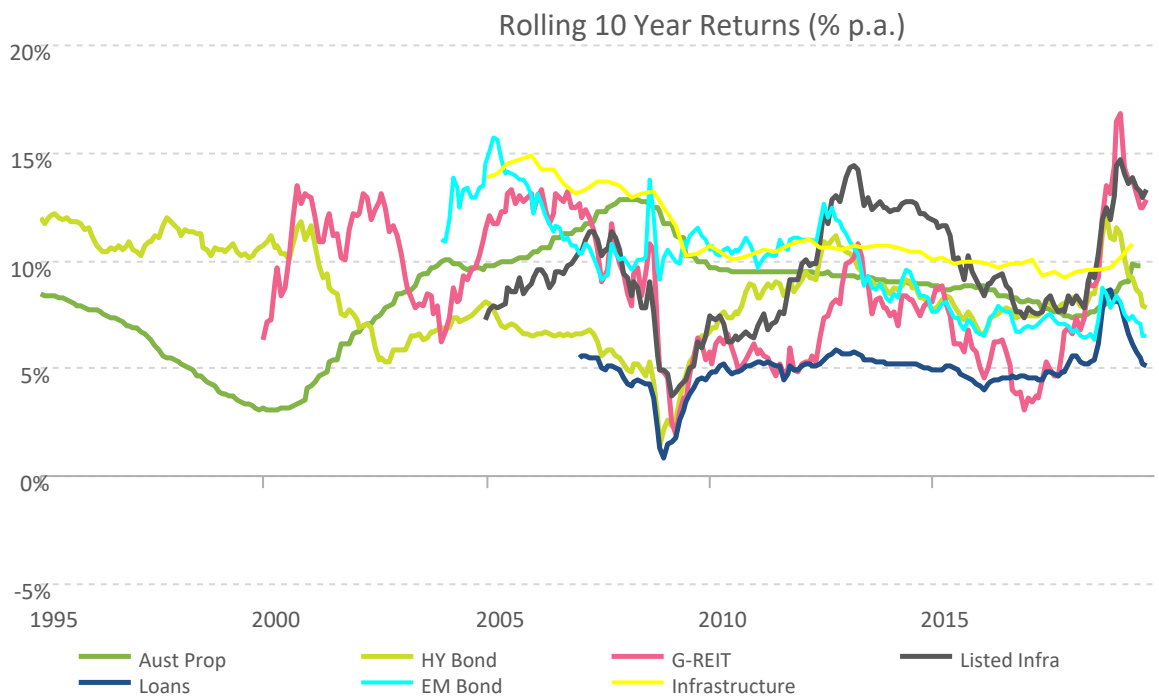


Source: Refinitiv Datastream

Asset Class Long-Term Returns



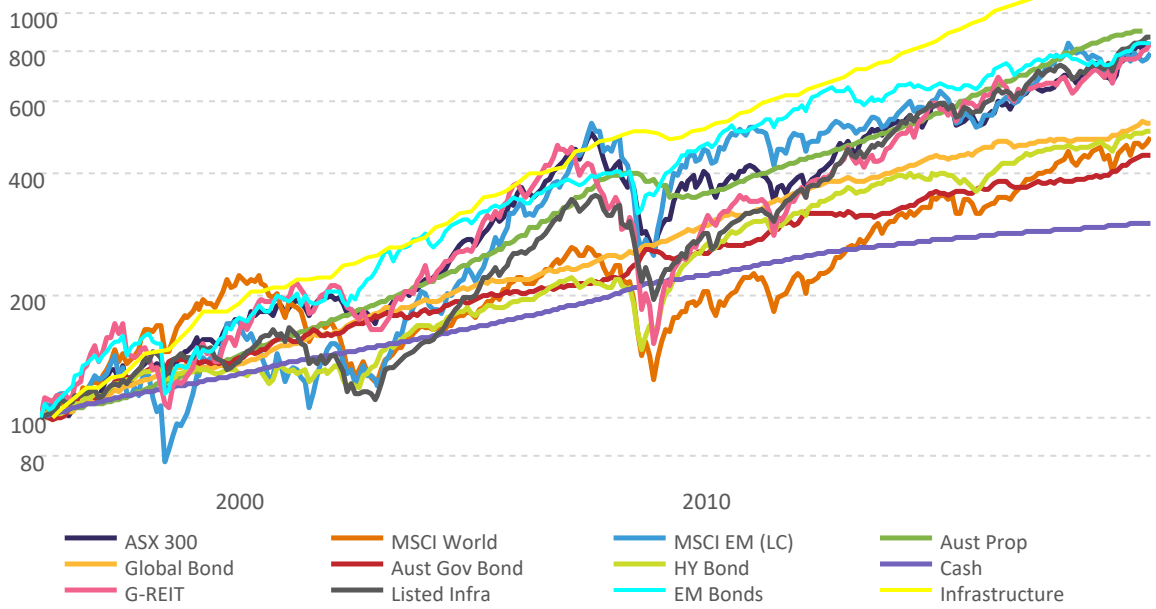
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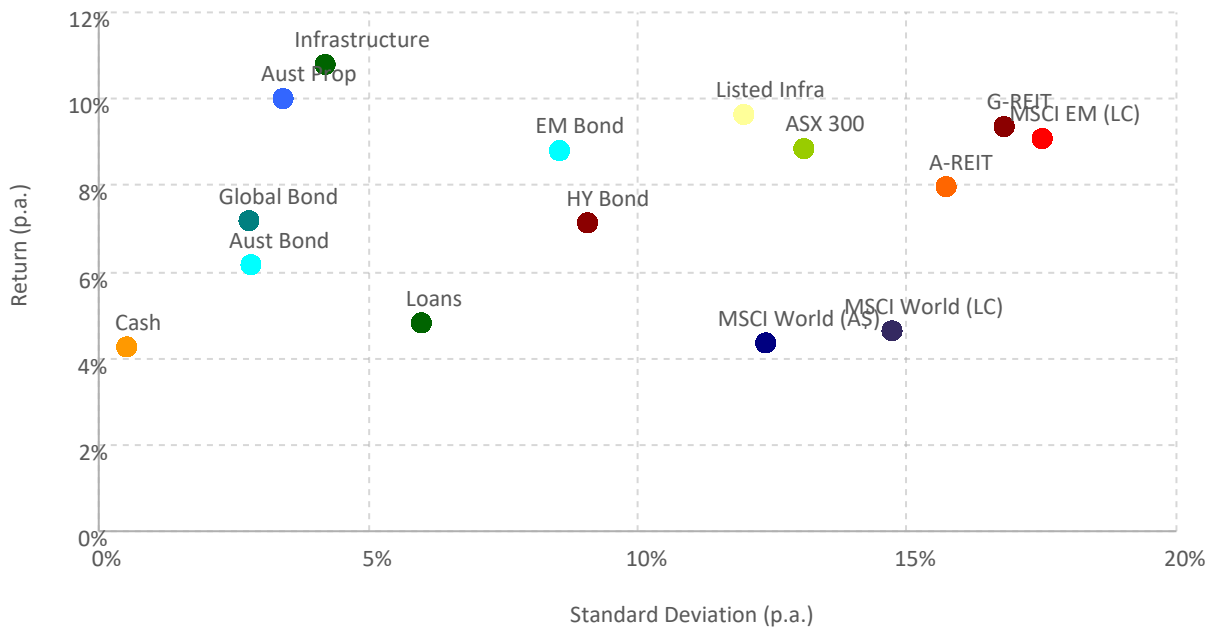
Asset Class Long-Term Returns

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



Source: Refinitiv Datastream

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



Source: Refinitiv Datastream

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