MARKETWRAP

June 2019

At a glance

Global stocks in June rose for the fifth month in six after the Federal Reserve and the European Central Bank flagged fresh stimulus to protect their economies and investors grew hopeful the China-US trade war would be contained. A rise in the Australian dollar trimmed returns for those who have unhedged investments in global equities. During the month, all 11 sectors rose in US-dollar terms. Materials (+10.7%) climbed the most while real estate (+1.9%) rose least. The Morgan Stanley Capital International (MSCI) World Index rose 6.6% in US dollars and 5.2% in Australian dollars.

Australia

Australian stocks hit record highs as they rose for a sixth consecutive month after the Reserve Bank cut the cash rate for the first time since August 2016 to prod an economy growing at its slowest pace in five years. Higher iron ore and oil prices helped commodity and energy stocks. The RBA trimmed the cash rate by 25 basis points in June, and then again in early July to a fresh record low of 1.00%, to help limit the damage falling home prices and the uncertainty surrounding global trade might do to the economy. A report showed the economy expanded only 0.4% in the March quarter, and only 1.8% over the 12 months to March. Concerns about the economy were reflected in the drop in the Westpac-Melbourne Institute consumer sentiment index in June of 0.6 points to 100.7, where 100 is the neutral level. Energy stocks rose after attacks on oil tankers and other clashes in the Middle East bolstered oil prices. Commodity stocks rallied after a dam collapse and poor weather in Brazil, along with booming demand for steel boosted iron ore prices to their highest in five years. The S&P/ASX 200 Accumulation Index rose 3.7%.

US

US stocks reached record highs as they rose for the fifth month in six after the Federal Reserve hinted it would cut rates if trade tensions drag on the US economy. Even as trade tensions fanned speculation the Fed would cut the cash rate as soon as July, stocks rose on hopes that China and the US would settle differences. Such optimism rose when President Trump tweeted he "had a very good telephone conversation with President Xi (Jinping)" and the two would meet at the G20 summit in Japan on June 29 and 30. The Fed, as it held the US cash rate steady at its meeting in June, downgraded its assessment of US economic activity from "solid" to "moderate". Reports released over the month showed US housing starts dropped 0.9% in May, jobs growth slowed to just 75,000 jobs in the same month, and consumer sentiment as measured by The Conference Board fell to a 21-month low in June. The Fed's preferred measure of inflation, the core personal consumption expenditure index, held steady at 1.6% in the 12 months to May, which is below the Fed's 2% target. The S&P 500 Index rallied 6.9%.

Europe

European stocks gained for the fifth month in six after ECB President Mario Draghi said the central bank was prepared to "use all the instruments that are in the toolbox" to help the eurozone's weak economy. A report showed the eurozone economy expanded only 0.4% in the March quarter, to give a 12-month reading of 1.2%. Other reports showed that industrial production of euro users fell 0.5% in April while inflation eased to 1.2% in the 12 months to May. The Euro Stoxx 50 Index added 5.9%.

Other markets

Japanese and Chinese stocks rose on prospects of easier monetary policies and on hopes that Trump and Xi would de-escalate tensions at the G20 meeting. The two leaders duly met and agreed to restart trade talks and the US delayed new tariffs and lifted a ban on US companies selling items to Chinese telco Huawei (though share markets had already closed for the month). Japan's Nikkei 225 Index jumped 3.3%. China's CSI 300 Index leapt 5.4%. The MSCI Emerging Markets Index added 5.7%.

Movement in benchmark indices are in local currency unless stated otherwise. As is common practice, all indices mentioned are price indices apart from the MSCI indices and the S&P 200 Accumulation Index.

Sources: J.P. Morgan, FactSet, The Financial Times, Bloomberg and national statistical including the Australian Bureau of Statistics, Eurostat, the US Department of Commerce and the US Department of Labor.

FINANCIAL WISDOM