MARKETWRAP

September 2018

At a glance

Global stocks in September rose for a third consecutive month after reports showed the US economy is flourishing and Japan's economy has rebounded. The Federal Reserve reaffirmed that monetary policy would only be tightened gradually in coming years, and Sweden's mainstream parties held off a populist right-wing party in elections, even if they proved inconclusive. Higher US bond yields and an escalation in the China-US trade war, however, limited the advance. A slight increase in the Australian dollar reduced gains for those who have unhedged investments in global equities. During the month, seven of the 11 sectors rose in US-dollar terms. Energy (+2.9%) rose most due to higher oil prices while real estate fell most (-2.3%) as bond yields rose. The Morgan Stanley Capital International (MSCI) World Index rose 0.6% in US dollars and 0.5% in Australian currency.

Australia

Australian stocks fell for the first time in six months after the announcement of a royal commission into aged care undermined health stocks, consumer stocks fell on signs of economic weakness and bond yields rose. Health stocks dropped 8%, to lead declines by sector, after Prime Minister Scott Morrison said the royal commission would focus on residential and in-home aged care for seniors and younger people with disabilities. Consumer discretionary was the next worst performer, dropping 4%, after retail sales failed to expand in July from June, the Westpac-Melbourne Institute's gauge of consumer confidence in September lost 3% to drop to 100.5 (where 100 is the neutral level), and capital city home prices fell 0.7% in the June quarter, which could reverse the 'wealth effect' whereby rising housing prices prompt people to spend more. Among other notable news, a report showed Australia's economy expanded 0.9% in the June quarter, to give a 12-month reading of 3.4%, the fastest annual pace in six years. Treasurer Josh Frydenberg said faster growth would help reduce the federal deficit for 2018-19 to $10.1 billion, nearly half the $18.2 billion shortfall predicted in the budget in May. Ratings company Standard & Poor's restored to 'stable' the outlook on Australia's highest-possible triple-A rating - two years after it had warned of a possible downgrade. As expected, the Reserve Bank of Australia's policy-setting board kept the cash rate at the 1.5% on which it has sat since August 2016. Ten-year Australian government bond yields rose 11 basis points to 2.67% over the month. The S&P 200 Accumulation Index lost 1.3%.

US

US stocks reached record highs as they gained for a sixth consecutive month. Reports showed the US economy is humming and the Fed stopped describing monetary policy as "accommodative" when it raised the key rate for an eighth time since the global financial crisis erupted in 2008. The Fed raised the US cash rate by a quarter point to bring the target rate to between 2% and 2.25%. The Fed, as expected, foreshadowed another rate increase before year end, three more in 2019 and another in 2020, which would boost the key rate to between 3.25% and 3.5%, assuming quarter-point increases. The third reading on GDP reconfirmed that the US economy expanded at an annualised 4.2% in the June quarter, its fastest pace in four years. The US jobless rate stayed at 3.9% in August, just above the 18-year low of 3.8% set in May. US consumer confidence reached an 18-year high, as measured by the private Conference Board's index, which rose from 134.7 in August to 138.4 in September (1985=100). Gains were capped when the US and China tit-for-tat tariff enactments widened to about half their traded goods and 10-year US government bond yields rose 18 basis points to 3.06% on inflation concerns. The S&P 500 Index added 0.4%.

Europe

European stocks eked out their second gain in three months after Sweden's centrist parties did better than expected in the country's election to prevent the populist Sweden Democrats from holding a pivotal, rather than nuisance, position in negotiations to form a government, even though the mainstream parties failed to win enough support to immediately form a workable coalition. Gains were capped when Italy's new populist government said it was aiming for a budget deficit of 2.4% in 2019, three times the shortfall of the previous government and in breach of EU budget requirements for indebted governments. In economic news, a report reaffirmed that the eurozone and EU economies only expanded 0.4% in the second quarter, the same rate as for the first quarter. The Euro Stoxx 50 Index edged up 0.2%.

Asia and emerging markets

Japanese stocks surged to record their fourth consecutive gain after Prime Minister Shinzō Abe overcame a corruption scandal to win a third term as the leader of the ruling Liberal Democratic Party, a reappointment that signalled continued monetary and fiscal stimulus in coming years. Chinese stocks recorded their second gain in three months as reports on retail sales and industrial production showed government stimulus was helping the economy. Emerging markets notched their seventh decline in eight months, as Brazil's presidential election in October created uncertainty, though losses were limited after Argentina came to an agreement with the IMF on a bailout package. Japan's Nikkei 225 Index rallied 5.5%. China's CSI 300 Index rose 3.1%. The MSCI Emerging Markets Index fell 0.8% in US dollars.

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.