

2019

YEAR IN REVIEW

A year of highs and lows

It was a year of extremes, with shares hitting record highs and interest rates at historic lows. Yet all in all, 2019 delivered far better returns than Australian investors dared hope for at the start of the year.

The total return from Australian shares (prices and dividend income) was 24 per cent in the year to December.ⁱ When you add in positive returns from bonds and a rebound in residential property, Australians with a diversified investment portfolio had plenty to smile about.

Humming along in the background, Australia entered a record-breaking 29th year of economic expansion although growth tapered off as global pressures mounted.

Global economy slowing

The US-China trade war, the Brexit impasse and geopolitical tensions weighed on the global economy in 2019. Yet late in the year optimism grew that US President Donald Trump would sign the first phase of a trade deal with Beijing.

The re-election of Boris Johnson's Conservatives in the UK also raised hopes that the Brexit saga may finally be resolved.

The US economy is in good shape, growing at an annual rate of 2.1 per cent in line with inflation and a jobless rate of just 3.5 per cent. China has fared worse from the trade tensions, with annual growth of 6 per cent its weakest since 1992.

In Australia, growth slipped to an annual rate of 1.7 per cent in the September quarter. Inflation, at 1.7 per cent, is well below the RBA's target and unemployment is stuck around 5.2 per cent.ⁱⁱ

Despite the global slowdown, higher commodity prices were a major contributor to Australia's healthy trade surplus in 2019.ⁱⁱⁱ

Australian Key Indices as at 31 Dec 2019

| | |
|---------------------------|-------|
| GDP annual growth rate* | 1.7% |
| RBA cash rate | 0.75% |
| Inflation | 1.7% |
| Unemployment | 5.2% |
| Consumer confidence index | 95.1 |

Share Markets (% change) Jan - Dec 2019

| | |
|--------------------|-------|
| Australia ASX 200 | 18.4% |
| US S&P 500 | 28.6% |
| Euro Stoxx 50 | 24.5% |
| Shanghai Composite | 22.3% |
| Japan Nikkei 225 | 17.8% |

*Year to September 30, 2019
Sources: RBA, Westpac Melbourne Institute, Trading Economics

Commodities prices mixed

Iron ore prices rose 28.7 per cent in 2019 following a mine disaster in Brazil which reduced global supply. Other major Australian exports to receive a boost were gold, up 18.5 per cent, and beef, up 32 per cent.^{iv}

At the other end of the scale, thermal coal prices fell 34 per cent and liquefied natural gas (LNG) was down 44 per cent.^v

Middle East tensions and tighter supply led to a surge in crude oil prices, with Brent crude up almost 21 per cent.^{vi} As Australia is a net importer of oil, a jump in oil prices coupled with a fall in the Aussie dollar filtered through to higher petrol prices for motorists.

Interest rates at new lows

In an effort to stimulate the economy, the Reserve Bank cut the cash rate three times in 2019 to an historic low of 0.75 per cent. The US Federal Reserve also cut rates to a target range of 1.50-1.75 per cent. This was the main reason the Australian dollar lifted from its decade low of US67c in October to finish the year where it started, around US70c.^{vii}

Rate cuts flowed through to yields on Australian 10-year government bonds which fell to just 1.37 per cent.^{viii} However, falling bond yields result in higher bond prices and this lifted total returns from government bonds by around 8 per cent.^{ix}

Retirees and others who rely on income from bank term deposits had another difficult year, with interest rates generally below 2 per cent. After inflation, the real return was close to zero.^x It's little wonder then that many looked elsewhere for a better return on their money.

Bumper year for shares

The hunt for yield was one reason Australian shares jumped 18.4 per cent in 2019, the best performance in a decade.^{xi} The market climbed a wall of worries to hit a record high in November on optimism about a US-China trade deal, then eased back on concerns about slowing economic growth.

Despite low interest rates and personal tax cuts, consumers are reluctant to spend.

The Westpac/Melbourne Institute survey of consumer sentiment fell to 95.1 in December – anything below 100 denotes pessimism.^{xii}

Property prices recovering

Australian residential property prices rebounded strongly in the second half of 2019, driven by lower mortgage interest rates, a relaxation of bank lending practices and renewed certainty around the taxation of investment property following the May federal election.

According to CoreLogic, property prices rose 2.3 per cent on average, led by Melbourne and Sydney, both up 5.3 per cent. Also up were Hobart (3.9 per cent), Canberra (3.1 per cent) and Brisbane (0.3 per cent). The only capitals to fall in value were Darwin (-9.7 per cent), Perth (-6.8 per cent) and Adelaide (-0.2 per cent).

When rental income is included, the total return from residential property was 6.3 per cent.^{xiii}

Looking ahead

Property prices are expected to recover further this year but with shares looking fully valued and bond yields near rock bottom, returns could be more modest.

The Australian government is under pressure to do more to stimulate the economy in the short term to head off further rate cuts by the Reserve Bank. More fiscal stimulus could inject fresh life into the local economy and financial markets.

Overseas, the US-China trade war is far from resolved and could remain up in the air until after the US Presidential election in November. There is also uncertainty over the Brexit deal and its impact on trade across Europe.

The one thing we do know is that a diversified investment portfolio is the best way to navigate unpredictable markets.

If you would like to speak to us about your overall investment strategy, give us a call.

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i Economic Insights: Sharemarket winners and losers, CommSec Economics, 2 January 2019

ii Trading Economics, viewed 1 Jan 2020, <https://tradingeconomics.com/indicators>

iii <https://dfat.gov.au/trade/resources/trade-statistics/Pages/australias-trade-balance.aspx>

iv Trading Economics, prices as at 31 Dec 2019 viewed 1 Jan 2020, <https://tradingeconomics.com/commodities>

v Economic Insights: Sharemarket winners and losers, CommSec Economics, 2 January 2019

vi Trading Economics, as at 31 Dec 2019 viewed 1 Jan 2020, <https://tradingeconomics.com/commodities>

vii Trading Economics, as at 31 Dec 2019, viewed 1 Jan 2020, <https://tradingeconomics.com/currencies>

viii RBA, <https://www.rba.gov.au/statistics/tables/#interest-rates>

ix Economic Insights: Year in Review; Year in Preview, CommSec 2 January 2020.

x Canstar, <https://www.canstar.com.au/term-deposits/highest-term-deposit-rates/>

xi Trading Economics, viewed 1 January 2020, <https://tradingeconomics.com/stocks>

xii <https://www.westpac.com.au/content/dam/public/wbc/documents/pdf/aw/economics-research/er20191211BullConsumerSentiment.pdf>

xiii <https://www.corelogic.com.au/news/corelogic-december-2019-home-value-index-strong-finish-housing-values-2019-corelogic-national>

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