What happened in the market?

Market Commentary from our investment manager, State Street Global Advisors

The Australian equity market ended a strong 2019 with a mildly positive fourth quarter; the S&P/ASX 300 up +0.7% in Q4-19 and +23.8% over the calendar year. Financials was the major sector which lagged during the quarter, as weak operating trends, capital raisings and civil proceeds against Westpac dragged down the banking sector. REITS and Staples came under pressure, buffeted by the headwind of rising treasury yields. On the other hand, Health Care (CSL) performed strongly while robust commodity prices supported Materials.

During the quarter, the RBA kept cash rates at 0.75%, this decision was widely anticipated by market participants. Central banks globally are becoming more transparent with their reasoning and view on future direction of interest rate policies. The RBA continued to flag to the market that it was still waiting to see what impact the substantial monetary policy stimulus in 2019 was going to have on the domestic economy, but by the same token left no one in doubt as to the direction of future interest rate policy, by stating that "the Board is prepared to ease monetary policy further if needed". The RBA emphasising that "it would be important to reassess the economic outlook in February 2020, when the bank would prepare updated forecasts", at which point the Board "had the ability to provide further stimulus to the economy, if required."

GDP (Gross Domestic Product) and CPI (Consumer Price Index) data released for Q3 in late 2019 with inflation well beneath the RBA's target band of 2-3%, with results coming in at 1.7%, GDP also stubbornly remaining well below the RBA target band of 3-4% with figures at 1.7%. The market also knows that the RBA is targeting an unemployment rate of 4.5%. The latest gauge on the state of the labour market was the November 2019 employment release in December and the unemployment rate was 5.2% well above the RBA's target.

In overseas markets, December proved to be a risk-on quarter with many risk assets registered strong gains in USD terms, such as Crude Oil, Gold and Copper. Global equities (MSCI World ex Aus) advanced 4.26% in AUD over the quarter, capping off their best year (28% in 2019) since 2013. A few major positive developments evolved over the quarter to keep the risk-on sentiment alive. Investors reacted positively to the progress of the US-China Phase 1 trade deal, presuming that it marked the peak escalation point between the world's two largest trading partners. The decisive victory of the Conservative Party in the UK elections provided a relief to a prolonged uncertainty overhanging the UK economy. Closer to home, investors took comfort in the outcome of the annual Chinese Central Economic Work Conference which concluded with a mild shift towards easier policy settings. The best performing sector over the quarter was IT, health care and financials whilst real estate, utilities and consumer staples lagged.

31 December 2019	3 Month Return	1 Year
S&P/ASX 300 TR	0.70%	23.8%
MSCI World Ex Australia	4.26%	28%
Bloomberg AusBond Composite Bond	-1.32%	7.26%
FTSE World Gov Bond Index ex Australia (100% hedged to AUD)	-1.68%	6.60%

Source: Bloomberg
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