Greenwich Wealth
A member of Partners Wealth Group

Monthly Perspective

March 2019

As the rebound continues, the S&P/ASX 200 is now within 5% of last year's high, though the rally has slowed a little. The U.S. S&P 500 also moved up about 1.5% over the past four weeks while the Euro STOXX outperformed, up 3.8% in the same period.

Bonds were mostly flat for the month as the U.S. 10-year yield held steady, though European and Australian bond yields fell on weak economic data and a stimulus package from the European Central Bank (ECB) was announced.

Commodities stabilised following the rebound over the past couple of months as global economic data showed a significant slowdown in recent months.

The Australian Dollar fell to about 70.5 U.S. cents as worries over Australia's economy surfaced.

Economic overview

Global growth continues to show signs of slowing, as the Organisation for Economic Co-Operation and Development (OECD) followed the International Monetary Fund (IMF) in cutting forecasted global economic growth rates.

Australia's property market data for the last quarter of 2018 confirmed ongoing weakness in the sector. Gross Domestic Product (GDP) fell to 2.3% and retail sales figures disappointed. Many economists are now forecasting a cut in interest rates by the Reserve Bank of Australia (RBA) as the domestic picture remains bleak. Earnings season has been lacklustre as well, with only about a third of companies beating expectations, well below the historical average.

The U.S. economy also showed signs of fatigue as manufacturing activity indicators disappointed, and employment figures were a big miss following last month's extremely strong figure. Jerome Powell of the Federal Reserve continued to reiterate that the interest rates were now on hold but wage gains continue to tick higher and could leave the Fed between a rock and a hard place if wage gains flow through to inflation.

Meanwhile, the U.S. extended the deadline for tariff suspensions, citing progress made towards a trade deal with China. This is welcome news for China as activity data continued to disappoint, especially in the trade numbers, with exports falling 20.7% over the past year. China also announced further stimulus measures with a cut to the Value Added Tax (VAT) for a multitude of products from autos to groceries.

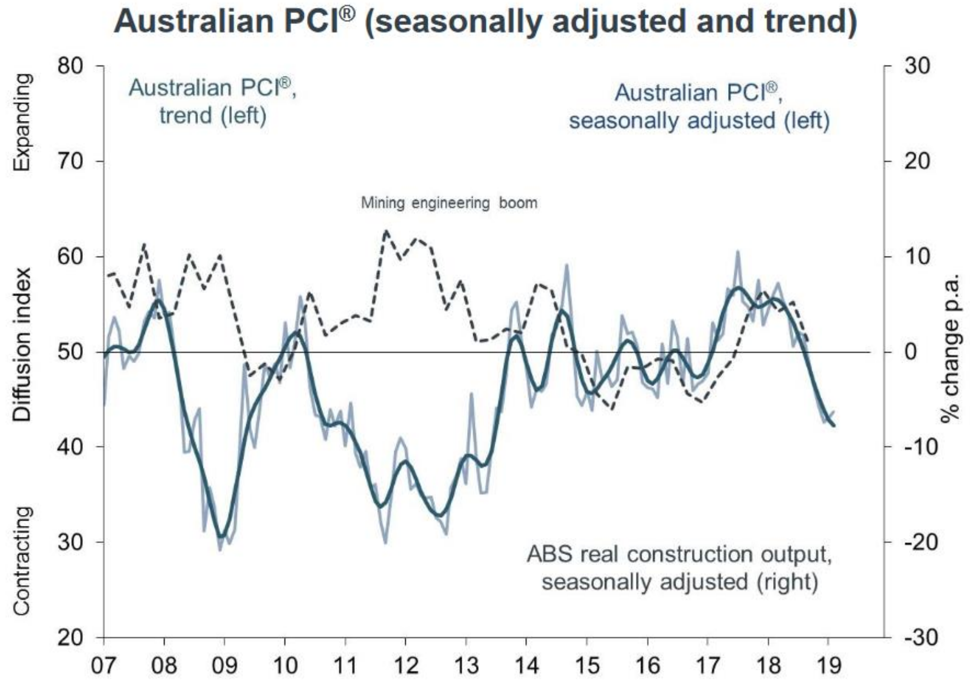
Europe did not fare any better as the ECB cut growth forecasts and announced new stimulus measures including the boosting of bank lending to shore up European economies.

In all, the data confirmed the doom and gloom at the end of 2018 and early 2019. In order to sustain the recent risk-on moves, economic growth needs to improve again. With stimulus from China and Europe, along with the possible resolution of the trade war between the U.S. and China, there will hopefully be some uptick in activity indicators in the next few months, otherwise we may be in for a repeat of December in the markets.

Is the party ending for Australia?

Australia has gone 27 years without a recession, the longest stretch for any country globally on record, but given the recent data, is the party about to end? Over the past couple of weeks, there have been whispers of recession. The definition is when there are two quarters of negative growth as measured by GDP. In the final quarter of 2018, Australia's GDP growth was a meagre 0.2%, far below consensus expectations of 0.5%.

Looking deeper, not everything is bad. Exports have been boosted by tighter commodity prices, while the Australian consumer has not been shy either and the government has been spending. It has been housing, construction and business investment that have been dragging the economy. Housing and construction have been particularly bad with approvals falling off a cliff. Things don't look to be getting better either as the chart below shows.

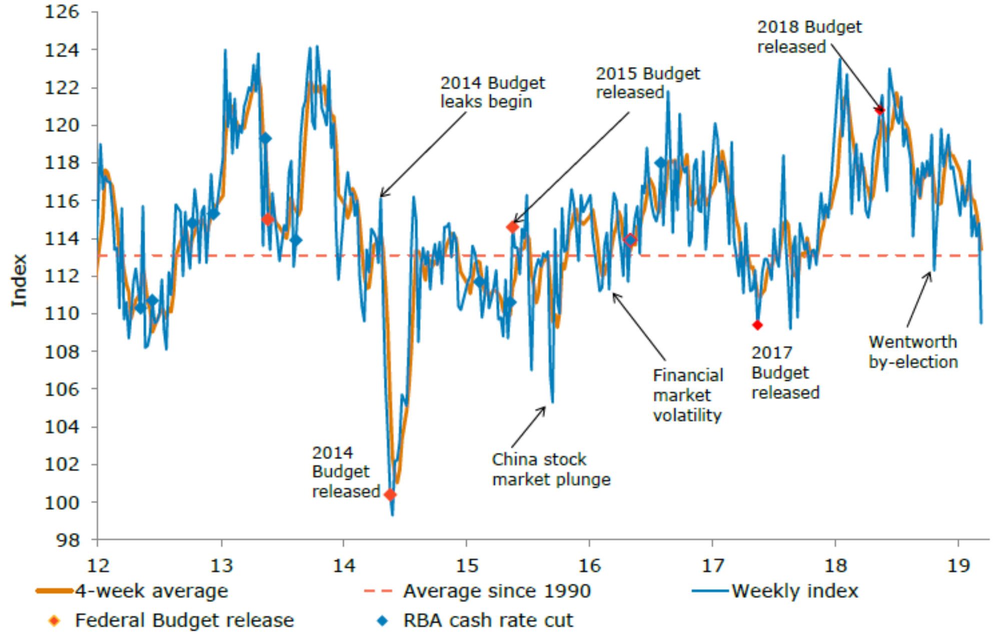


Source: Australian Industry Group

This is the Performance of Construction Index which surveys construction and housing conditions. As seen above, the chart has fallen since late 2017 and we are unlikely to see a sharp recovery. So can the consumer, businesses and exports prevent us from seeing the end to our record-setting streak?

Looking at the consumer, things don't look so cheery. Consumer confidence was strong for most of 2018 but has taken a turn for the worse as the chart below shows. Therefore, consumer spending is likely to weaken this year, turning from a tailwind to a headwind for the economy.

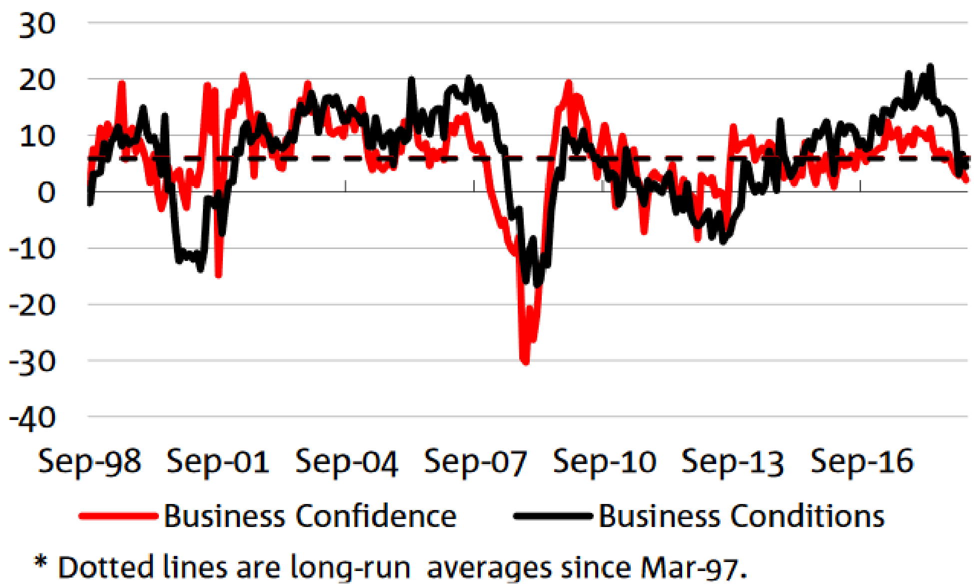
Confidence took a 4.6% hit



Source: ANZ-Roy Morgan

Business confidence was already weak but the outlook points to further slowing ahead as the chart below shows.

CHART 1: CONFIDENCE AND CONDITIONS FALL



Source: NAB

This leaves us with exports and government spending. The boost in commodity prices owes much to several one-off factors such as another dam disaster in Brazil which is unlikely to repeat but with China back in stimulus mode, exports could continue to contribute strongly to the economy. Government spending could also be boosted as infrastructure spending is expected to rise while the government has the ability to implement tax cuts and further spending measures which could potentially be seen in the April budget. The RBA also still has scope to cut rates from the current 1.5% and most economists are now starting to forecast one or two cuts by year end.

Overall, the risk of a recession in Australia is rising and it would be no surprise if one does materialise. China may come to the rescue and the Australian government still has some ammunition left to battle the slowdown, but caution is warranted. Further signs that Australia is edging towards recession may result in an equity market sell-off as worries start to permeate, whilst domestic bonds have already started to price in higher chances of rate cuts.

Want more information?

This month's perspective highlights that market sentiment on all asset classes is constantly changing. It is important for us to quickly recognise any threats, to preserve your investment capital or to identify early investment opportunities to maximise any return advantages. At **Greenwich Wealth** we don't get complacent with the current state of play and constantly monitor investments and your portfolios.

If this article has raised questions regarding your personal situation, please contact your Greenwich Wealth advisor directly or on 08 6555 9500.