



## January 2020

As 2020 gets underway and holidaymakers return to work, we wish everyone a happy and prosperous New Year. Our thoughts are also with our fellow Australians caught up in the catastrophic bushfires around the country; we wish you all a safe and speedy recovery.

December provided a busy end to an eventful 2019. Federal Treasurer, Josh Frydenberg announced a downgrade to near-term forecasts of economic growth, inflation, wages and business investment in the Mid-Year Economic and Fiscal Outlook (MYEFO). The Government now expects growth to return to the long-term average of around 3 per cent by 2021/22. The Federal Budget was on track to deliver Australia's first surplus in 12 years, however, a much needed \$2billion assistance package was announced for bushfire recovery. Rightly in the face of the pain caused by the bushfires, the Government has relaxed the focus on achieving a budget surplus and it is now questionable as to whether it will be achieved this year and next. Not achieving a budget surplus in the near term is not a major problem in the scheme of things given the relatively good state of Australia's public finances. However the total hit to government budgets from the bushfires is likely to be much greater than the above mentioned \$2 billion, given the amount of assistance under existing disaster programs, extra expenses associated with fighting the fires and the impact of slower growth in the short term on revenue flows.

The Australian dollar finished the year close to where it started against the greenback, at US70c after fluctuating between US67.08c and US72.68c over the year. This is supporting our trade surplus which stood at \$4.5 billion in October, slightly down on the previous month.

Business and consumer confidence faltered before Christmas, as tax cuts and rate cuts failed to boost spending. For example, new vehicle sales fell 9.8 per cent in the year to November. The Westpac/Melbourne Institute survey of consumer sentiment fell to 95.5 points in December (below 100 denotes pessimism). While the NAB business confidence index fell from +2 in October to +0.1 in November (long-term average +5.8).

After its December meeting, the Reserve Bank said it would reassess the economic outlook in February 2020 and provide additional stimulus if needed. The bushfires have only added to the need for more policy stimulus, with the market probability of another rate cut increasing from 36% before Christmas, to 53.4% now. This would bring the cash rate down to 0.50%.

### Guardian Investments

52A Old Cleveland Road  
Stones Corner Qld 4120

PO Box 1284  
Coorparoo DC  
QLD 4151

**P** 07 3394 3755

**F** 07 3394 3360

**E** [info@guardianinvestments.com.au](mailto:info@guardianinvestments.com.au)

**W** [www.guardianinvestments.com.au](http://www.guardianinvestments.com.au)

# 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.

Australian shares had a strong year of performance overall in 2019, however, most of the heavy lifting was done in the first half of the year off the back of a recovery from a significant market correction in the last quarter of 2018. In the second half of 2019, returns on Australian shares were much more subdued with the ASX all ordinaries index return at 1.5% for the period. Overall in 2019, 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 29<sup>th</sup> 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. 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.<sup>i</sup>

Despite the global slowdown, Australia continued its run of healthy trade surpluses thanks largely to a 29 per cent increase in iron ore prices.<sup>ii</sup>

### Interest rates at new lows

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.<sup>iii</sup>

Rate cuts flowed through to yields on Australian 10-year government bonds which fell to just 1.37 per cent.<sup>iv</sup> Total returns from government bonds (yields plus prices) were up by around 8 per cent.<sup>v</sup>

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. It's little wonder many looked elsewhere for a better return on their money.

### Bumper year for shares

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.<sup>vi</sup>

### 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. When rental income is included, the total return from residential property was 6.3 per cent.<sup>vii</sup>

### 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.*

- i Trading Economics, viewed 1 Jan 2020, <https://tradingeconomics.com/indicators>
- ii <https://dfat.gov.au/trade/resources/trade-statistics/Pages/australias-trade-balance.aspx>
- iii Trading Economics, as at 31 Dec 2019, viewed 1 Jan 2020, <https://tradingeconomics.com/currencies>
- iv RBA, <https://www.rba.gov.au/statistics/tables/#interest-rates>
- v Economic Insights: Year in Review; Year in Preview, CommSec 2 January 2020.
- vi <https://www.westpac.com.au/content/dam/public/wbc/documents/pdf/aw/economics-research/er20191211BullConsumerSentiment.pdf>
- vii <https://www.corelogic.com.au/news/corelogic-december-2019-home-value-index-strong-finish-housing-values-2019-corelogic-national>