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Market Wrap

August 2018

At a glance

Global stocks in August rose for a third consecutive month after companies posted earnings that beat estimates, reports showed the US economy is thriving and that Japan's economy is expanding again, and trade tensions eased. A decline in the Australian dollar magnified gains for those who have unhedged investments in global equities. During the month, only four of the 11 sectors rose in US-dollar terms. Information technology (+6.5%) and healthcare (+3.0%) rose most while energy fell most (-3.5%). The Morgan Stanley Capital International (MSCI) World Index added 1.2% in US dollars and 4.1% in Australian currency.

Australia

Australian stocks rose for the fifth consecutive month as companies posted decent earnings for the period ended June 30, while the Liberal Party leadership tussle that resulted in Treasurer Scott Morrison replacing Malcolm Turnbull as Prime Minister failed to cause any lasting concerns. Gains were capped as falling commodity prices hurt material and energy stocks and reports pointed to a lacklustre economy. By J.P.Morgan's count of how earnings results fared against expectations, 'beats' at 29%, the lowest rate in three years, just topped 'misses' at 28%. Reports on the economy pointed to cooler growth, albeit from decent levels. Among reports, the Westpac-MI Consumer Sentiment index for August fell 2.3% to 103.6, where 100 is the neutral level. The NAB business conditions index for July fell from +14 to +12, the jobless rate fell from 5.4% to 5.3% in July and retail sales rose 0.4% in June. Perhaps more telling for the economic outlook, higher global bond yields prompted several mortgage lenders to raise mortgage rates. 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. Central bank Governor Philip Lowe said the key rate is likely to remain at a record low "for a while yet". The S&P 200 Accumulation Index rose 1.4%.

US

US stocks rose for the fourth month in five after companies posted robust earnings and reports showed the economy was booming. Financial research and data company FactSet said that 80% of S&P 500 companies announced earnings per share for the second quarter that beat estimates – a 'beat rate' that is the highest since FactSet began tracking this measure in 2008. Global trade tensions eased when the US announced a revised trade agreement with Mexico, even if Canada, the other signatory to the North American Free Trade Agreement, was still negotiating with Washington. Among upbeat economic reports, US economic growth for the second quarter was unexpectedly revised up from an annualised 4.1% to 4.2%, its fastest pace in four years. The US Conference Board's measure of consumer confidence reached 133.4 for August, its highest level since 2000 while the jobless rate fell to 3.9% in July, just above May's 18-year low of 3.8%. An inflation barometer regarded as a bellwether by the Federal Reserve, the personal-consumption-expenditure price index, rose 2.3% in the 12 months to July, its biggest increase since 2012, to keep it above the Fed's inflation target of 2%. The S&P 500 Index added 3.0%.

Europe

European stocks fell for the third month in four after concerns mounted about Italy's finances and signs emerged that the eurozone economy is only growing slowly. Fitch Ratings lowered Italy's rating outlook from stable to negative on concerns that Italy's new government might push the budget deficit beyond EU rules to keep its campaign promises. Such worries pushed Italian 10-year bond yields to a five-year high of just under 300 basis points over their German equivalent. In economic news, a report showed the eurozone and EU economies only expanded 0.4% in the second quarter, the same rate as for the first quarter. Another report showed eurozone industrial production fell 0.7% in June from May. The Euro Stoxx 50 Index lost 3.8%.

Asia and emerging markets

Japanese stocks recorded a third consecutive gain after a report showed the economy unexpectedly expanded in the second quarter when it grew 1.9%, the jobless rate eased to 2.3%, companies posted healthy earnings and a weaker yen helped exporters. Chinese stocks fell for the second month in three on concerns about a widening trade war with the US and on signs the economy is slowing. Emerging markets overall declined as the collapse in Argentina's and Turkey's currencies presaged financial crises in these countries and Brazil's presidential election in October created uncertainty. Japan's Nikkei 225 Index rose 1.4%. China's CSI 300 Index fell 5.2%. The MSCI Emerging Markets Index lost 2.9% in US dollars, its sixth decline in seven months.

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.

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