

Data as at 31 December 2019

# 2019 Year in Review

## MARKET OVERVIEW

### THEMES FOR THE YEAR

- Best Year for Global Equity Markets in Six Years
- Australian Market Hits Record High; Best Year in Decade
- NZ Market Rises for 8th Straight Year; Best Performance Since 1993
- Emerging Markets Lagged Developed; But Surged in Q4
- Large and Growth Stocks Beat Small and Value
- USD Posts Only Modest Gains
- Global Fixed Interest Posts Best Year Since 2014; Term and Credit Positive

# 2019



Click on each tab below for more information about the last quarter.

Global Summary

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Takeouts

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## GLOBAL SUMMARY

Global equity markets, after suffering their worst performance in seven years in 2018, staged a remarkable turnaround in 2019 to deliver returns of around 27% in AUD terms. In aggregate, it was the best year since 2013, with many indices at record highs.

The sturdy gains through the year came against a steady drumbeat of negative media headlines relating to the US-China trade war, the UK's prolonged battle over leaving the EU and forecasts of sharply slower global growth in the coming year.

Media commentary mid-year was also dominated by debate over the significance of an inversion in yield curves (where longer-dated interest rates dip below shorter-dated rates) and whether this was a signal of an approaching recession.

Sentiment improved in the final quarter as the US-China trade tensions eased, the UK general election outcome resolved some uncertainty over Brexit and central banks proclaimed that downside risks to growth had eased a little.

By the end of the fourth quarter, global stock markets, as measured by the MSCI All Country World Index, had risen nearly 27% to reach record highs. The US market again led the pack to gain around 30%, but other developed markets also posted double-digit gains.

While emerging markets again lagged developed markets over the year, they accelerated in the final months to eclipse their developed counterparts over the fourth quarter.

Australia's benchmark S&P/ASX-300 index in November passed the previous record highs set before the global financial crisis and ended the year up more than 23%. The local market has risen for eight years of the past decade and this was its best year since 2009.

The New Zealand market, as measured by the S&P/NZX 50 gross index, was a global standout, reaching record highs to end the year up by around 30%. This was its eighth consecutive year of gains and its top calendar year performance since 1993.

## WORLD INDICES WRAP UP

<b>FIXED INTEREST</b>	<b>1 Year</b>
Bloomberg AusBond Bank Bill Index	1.50%
Bloomberg AusBond Composite 0+ Yr Index	7.26%
Bloomberg Barclays Global Aggregate Bond Index (hedged to AUD)	7.19%

<b>AUSTRALIAN AND NEW ZEALAND EQUITIES</b>	<b>1 Year</b>
S&P/ASX 300 Index (Total Return)	23.77%
S&P/ASX Small Ordinaries Index (Total Return)	21.36%
S&P Australia BMI Value Index (gross div., AUD)	19.71%
S&P Australia BMI Growth Index (gross div.)	27.70%
S&P/NZX 50 Index (Gross)	30.42%

<b>GLOBAL EQUITIES</b>	<b>1 Year</b>
MSCI World ex Australia Index (net div., AUD)	27.97%
MSCI World ex Australia Index (net div., hedged to AUD)	26.81%
Hedging Premium	-1.16%
MSCI World ex Australia Small Cap Index (net div., AUD)	26.53%
MSCI World ex Australia Value Index (net div., AUD)	22.06%
MSCI Emerging Markets Index (net div., AUD)	18.60%

<b>REAL ESTATE</b>	<b>1 Year</b>
S&P/ASX 300 A-REIT Index (Total Return)	19.57%
S&P Developed REIT Index (net div., AUD)	23.55%

<b>WORLD MARKETS</b>	<b>1 Year</b>
S&P 500 Index	31.68%
MSCI United Kingdom Index (net div.)	21.23%
MSCI Europe ex UK Index (net div.)	24.99%
Japan Nikkei 225 Average Index (price-only)	19.51%
Shanghai Stock Exchange Composite Index	20.73%

<b>CURRENCIES (RELATIVE TO AUD)</b>	<b>1 Year</b>
British Pound	4.17%
Euro	-1.66%
Japanese Yen	1.11%
United States Dollar	0.15%

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### GLOBAL SUMMARY (continued)

In sectoral terms, healthcare was the top performer in Australia, while financials lagged the field amid continued bad publicity in the wake of the Hayne Royal Commission’s final report. Healthcare was also a standout in the NZ market, alongside utilities, real estate and consumer discretionary stocks.

In other developed markets, information technology, industrials and REITs were among the top performing sectors, while energy was among the worst.

In terms of factors, large cap stocks beat small cap stocks over the year, while growth stocks outpaced value.

For currencies, it was a relatively stable year. The US dollar index, as measured by Reuters, recorded its smallest-ever annual move, gaining just 0.24% over the full year. Earlier gains were reversed in December after breakthroughs on trade tensions and Brexit.

The Australian dollar moved in a range of 67.0 to 72.7 US cents over the year, rallying in the final weeks of December to end just above 70 cents. The New Zealand dollar ranged between 62.4 and 69.2 US cents, settling above 67 cents at year end.

Global fixed interest markets had their best year since 2014, although gains were pared in the final month as risk appetites returned with news of the US-China first phase trade deal. The Bloomberg Barclays Global Aggregate Bond index (hedged to AUD) rose more than 7% over the year. Both term and credit premiums were positive.

FIGURE 1  
GLOBAL EQUITY CLIMATE

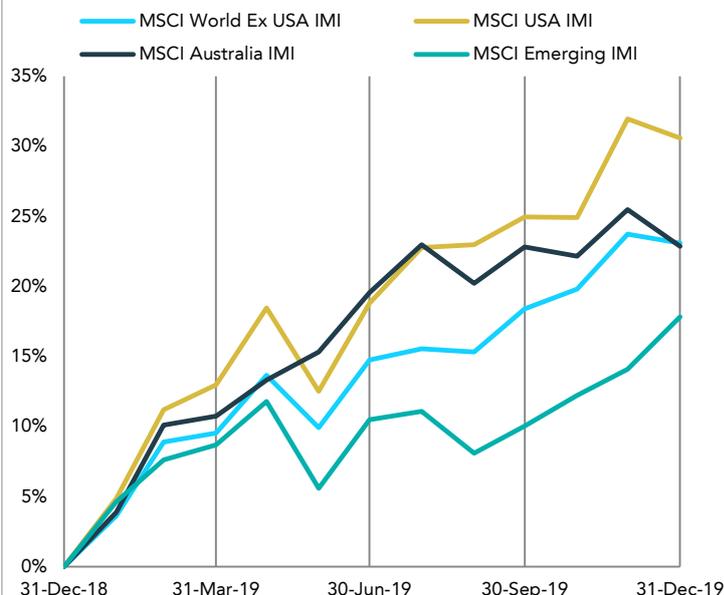


FIGURE 2  
DEVELOPED COUNTRY ANNUAL PERFORMANCE



Fig 1. Performance is shown in AUD and is based on the MSCI World ex USA IMI Index (net div.), MSCI USA IMI Index (net div.), MSCI Australia IMI Index (net div.), and MSCI Emerging Markets IMI Index (net div.). Past performance is not indicative of future results. MSCI data copyright MSCI 2020, all rights reserved. Indices are not available for direct investment. Their performance does not reflect the expenses associated with the management of an actual portfolio.

Fig 2. Countries added to the index throughout the year only show returns for their period of inclusion. Performance is shown in AUD and is based on the MSCI World IMI Index. Past performance is not indicative of future results. MSCI data copyright MSCI 2020, all rights reserved. Indices are not available for direct investment. Their performance does not reflect the expenses associated with the management of an actual portfolio.

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GLOBAL SUMMARY (continued)

FIGURE 3  
DEVELOPED MARKET SECTOR RETURNS

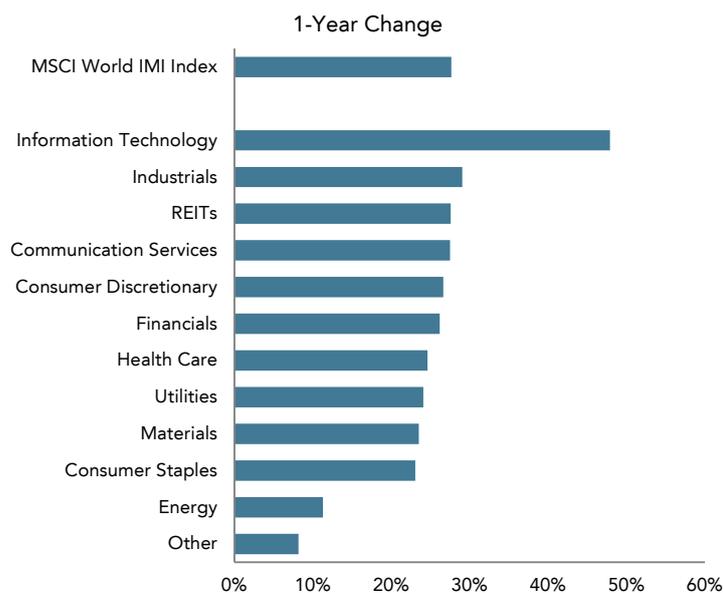


FIGURE 4  
FIXED INTEREST CLIMATE

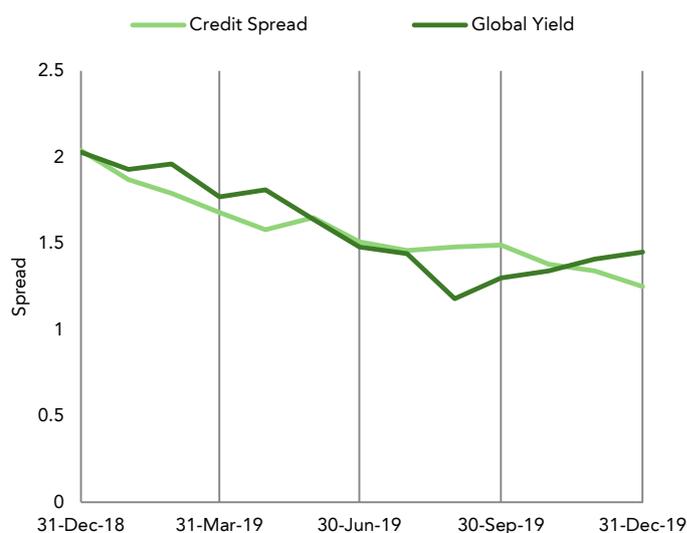


FIGURE 5  
AUSTRALIAN SECTOR RETURNS

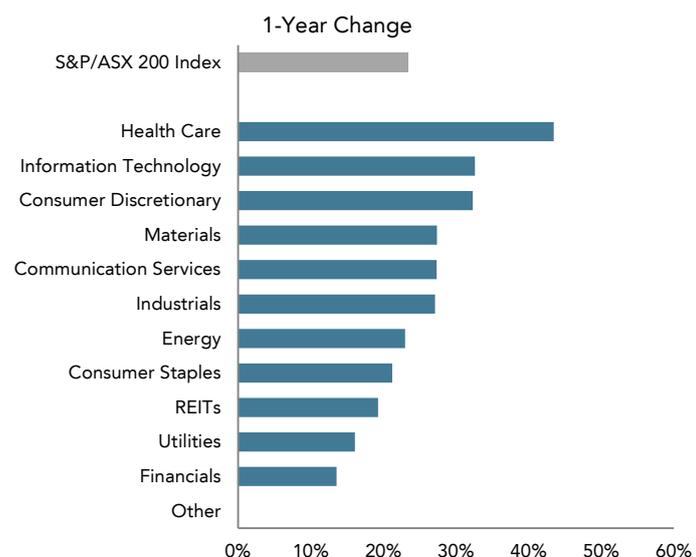


FIGURE 6  
CURRENCY MOVEMENT (Relative to AUD)

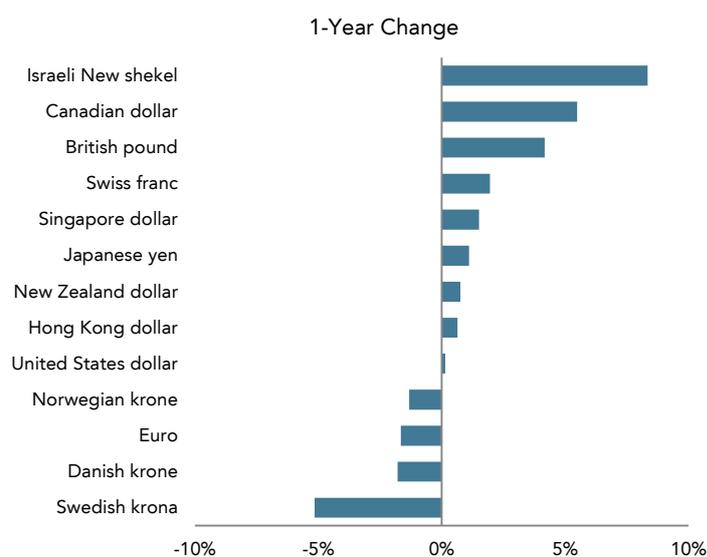


Fig 3. Performance is shown in AUD and is based on the MSCI World IMI Index. Past performance is not indicative of future results. MSCI data copyright MSCI 2020, all rights reserved. Indices are not available for direct investment. Their performance does not reflect the expenses associated with the management of an actual portfolio.

Fig 4. Credit Spread is defined as Bloomberg Barclays Global Aggregate Corporate Yield to Worst minus Bloomberg Barclays Global Aggregate Treasuries Yield to Worst. Global Yield is defined as Bloomberg Barclays Global Aggregate Yield to Worst. Past performance is not indicative of future results. Data provided by Bloomberg. Indices are not available for direct investment. Their performance does not reflect the expenses associated with the management of an actual portfolio.

Fig 5. Performance is shown in AUD and is based on the S&P/ASX 200 Index. Past performance is not indicative of future results. S&P data copyright 2020 S&P Dow Jones Indices LLC, a division of S&P Global. All rights reserved. Indices are not available for direct investment. Their performance does not reflect the expenses associated with the management of an actual portfolio.

Fig 6. Performance is shown in AUD. Currency data provided by MSCI 2020, all rights reserved. Past performance is not indicative of future results.

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## TAKEOUTS

The performance of equity and fixed income markets in 2019 highlights once again the folly of using news headlines as an indicator of future investment performance.

Calendar 2018 ended with intense volatility and a wave of pessimism by commentators responding to ongoing news events like the US-China trade war, Brexit and the IMF's downgrades of the global economic outlook.

The chart below shows the growth of wealth from a dollar invested in global share markets over the decade of the 2010s, using the MSCI World IMI in AUD terms as a proxy.

While market volatility can create anxiety for some investors, the record shows that reacting emotionally and changing long-term investment strategies in response to immediate news and short-term declines can prove more harmful than helpful.

Now, as a new year begins, the media's focus inevitably turns to speculating about possible developments in 2020. Recently, we have seen many opinions about possible path of geopolitical events, economic trends, currencies, commodities and interest rates.

While it is natural to have an opinion on any of these issues, it is worth remembering that all these views and expectations from market participants are already built into prices.

The news that moves prices changes every day. And even if you could forecast events, you still need to anticipate how the market will react.

**The major news headlines for 2019, listed below, are not offered to explain market returns, but to remind investors about the importance of maintaining a long-term perspective and avoiding making investment decisions purely on today's news.**

### JANUARY

- British pound rebounds as Brexit deal rejected in parliament
- IMF cuts global growth forecast for second time in three months
- Euro area back on the brink of recession

### FEBRUARY

- Hayne Royal Commission urges shake-up of Australian financial sector
- Federal Reserve flags end to balance sheet run-off, patience on rates
- US trade chief sees long-term China challenges

### MARCH

- Trump's second summit with North Korea's Kim collapses
- Boeing in crisis as carriers ground 737 Max
- Federal Reserve signals no further rate hikes in 2019

### APRIL

- IMF Downgrades global economic outlook; sees risks to downside
- Easter Sunday bombings in Sri Lanka leave more than 250 dead
- Massive fire consumes historic Notre Dame cathedral in Paris

### MAY

- Reserve Bank of NZ cuts official cash rate to 1.5%
- Defying pollsters, Liberal-National Coalition retains power in Australian election
- China-US tensions heighten as US applies 25% tariff hike on Chinese imports

### JUNE

- Reserve Bank of Australia cuts official cash rate to 1.25%
- UK PM Theresa May resigns as Conservative Party leader amid Brexit stalemate
- Anti-extradition bill protests in Hong Kong draw more than a million people

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## 2019 HEADLINES

### JULY

- Reserve Bank of Australia cuts official cash rate to 1.0%
- UK Conservatives choose Boris Johnson as PM as Brexit deadline looms
- IMF cuts global economic growth forecast to lowest rate since GFC

### AUGUST

- US Federal Reserve cuts interest rates for first time since GFC
- China lets yuan weaken, escalating trade war and hitting stocks
- US Treasury yield curve inverts for first time in 12 years

### SEPTEMBER

- US-China trade war escalates as Trump slaps tariffs on \$110B of goods
- Spike in 'repo' market rate sparks US Federal Reserve intervention
- US House of Representatives launches Trump impeachment inquiry

### OCTOBER:

- RBA cuts cash rate to 0.75%; IMF slashes Australia GDP outlook
- US Federal Reserve cuts rates for third time in 2019; signals pause
- UK PM Boris Johnson secures Brexit deal with EU

### NOVEMBER:

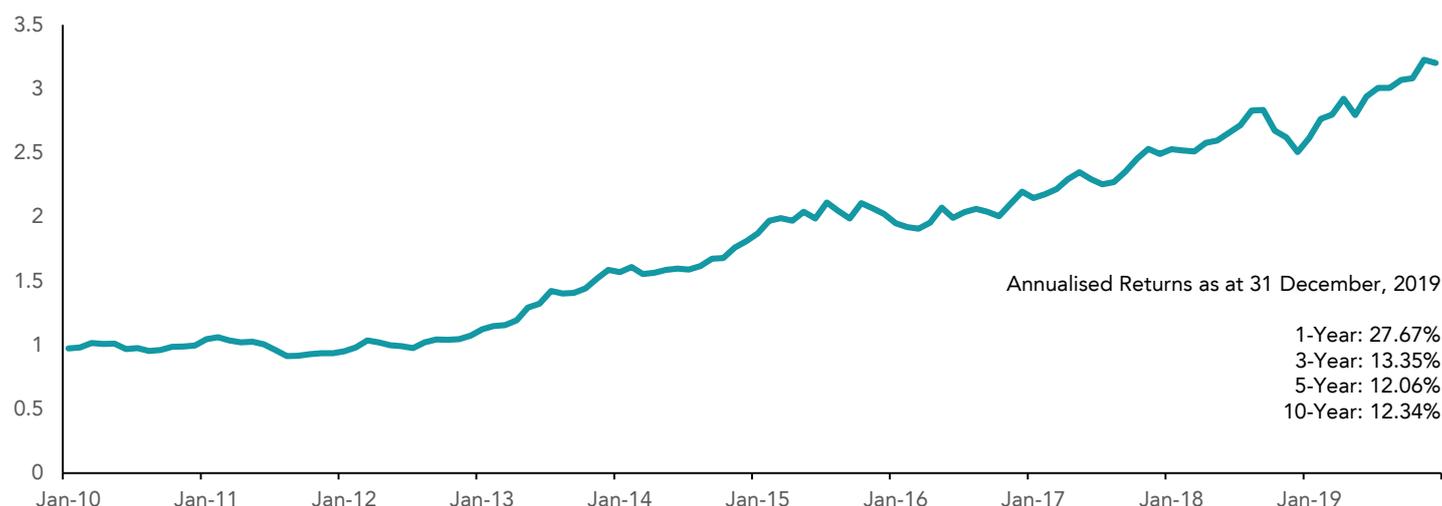
- Trump implicated in campaign to pressure Ukraine to investigate rival Biden
- Unprecedented chaos in Hong Kong as street protests escalate
- Westpac accused of 23m breaches of anti-money laundering laws

### DECEMBER:

- UK Conservatives secure Brexit with landslide election win
- Trade war eases as US and China announce "phase one" deal
- Eastern Australia engulfed by severe bush fires

## GROWTH OF WEALTH - 2010-2019

MSCI World IMI Index (net div, AUD)



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