



Market and Economic Review December 2019

November saw investors embrace optimism for the first time this year as we inch closer to a trade deal and evidence builds of an emerging global growth rebound. Fund returns were strong this month, reflecting sharply higher share markets both locally and overseas.

For most of the year, investors have been concerned about the deteriorating global economic outlook, driven by the impact of the US-China trade war on global trade and the business sector. Recently there has been a pause in the escalation of tariffs and there is hope that a trade deal will be signed before Christmas, paving the way for improvements in business sentiment. This development has enticed investors off the sidelines and money has been put to work in shares across the globe, boosting prices.

When markets experience inflows it tends to be the larger stocks that benefit, and this was true in Australia and NZ this month with large cap stocks outperforming in both regions. However, November also saw plenty of opportunity for stock selection.

In NZ, positive trading updates from the likes of a2 Milk and Fisher and Paykel Healthcare saw these stocks up 19.4% and 15.7% respectively in the month. Elsewhere, a long-term shareholder in EBOS Group decided to sell a large stake at a discount offering investors a rare chance to buy the shares in good volume.

In Australia, the banks continue to strengthen their balance sheets and this time it was Westpac's turn to ask investors for A\$2bn of more capital. Only days later, the company announced that they had been accused of breaching money laundering laws, sending the share price down 3.5% on the day. Infrastructure company Atlas Arteria also raised capital, asking for A\$1.35bn to fund the purchase of a toll road in France. Despite these headwinds, the Australian market had a strong month, largely powered by the commodity stocks.

Looking ahead, the economic outlook has started to improve both domestically and further afield. However, we temper our expectations of future returns given share markets are already reflecting much of this improvement, and interest rates are already very low.