Market Wrap

June 2018

At a glance

Global stocks in June fell for the first time in three months as European and Chinese threats to retaliate against US tariffs heightened the prospect of a global trade war. Germany's coalition government threatened to collapse, and higher US interest rates and a rising US dollar hampered emerging markets. The decline was slight, however, as economic reports pointed to the US economy expanding over the second quarter. A drop in the Australian dollar turned losses into gains for those who have unhedged investments in global equities. During the month, only four of the 11 sectors fell in US-dollar terms. Industrials (-2.7%) and financials (-1.9%) fell most while consumer staples (+2.4%) was the best performer. The Morgan Stanley Capital International (MSCI) World Index fell 0.1% in US dollars while the index rose 2.4% in Australian currency.

Australia

Australian stocks rose for the fourth month in five after a report showed the economy was growing strongly. Higher oil prices boosted energy stocks and the country enjoyed a haven status in looming trade wars as none of its goods were threatened. A report showed that Australia's economy expanded a higher-than-expected 3.1% in the 12 months to March due to rising consumer spending and higher exports. In other news, the jobless rate fell to 5.4% in May, its lowest in six months. The Reserve Bank's policy-setting board kept the cash rate at the 1.5%, where it has sat since August 2016. The S&P 200 Accumulation Index rose 3.3%.

US

US stocks fell for the first month in three as trading partners prepared retaliatory tariffs and the White House, in turn, escalated tensions by threatening to strike back against any retaliations. Bank stocks struggled as the leveling out of short- and long-term interest rates eroded bank lending margins. In economic news, the Federal Reserve, as expected, raised the cash rate by 25 basis points to between 1.75% and 2%, the seventh rate increase since the onset of the global financial crisis. The central bank once again signaled four rate increases would be made over 2018, implying another two before the end of the year. A report showed a key Fed gauge of inflation, the core personal consumption expenditure price index, hit 2% in the 12 months to May, the first time it has hit the Fed's price target since 2011. While economic growth in the March quarter was revised down from 2.2% to 2% annualised, other reports pointed to the US economy expanding briskly in the June quarter. Among highlights, the jobless rate fell to an 18-year low of 3.8% in May, while retail sales grew 0.8% over the same month, their biggest gain in six months. The S&P 500 Index lost 0.6%.

Europe

European stocks dropped for the fourth month in five on trade concerns, intensifying political uncertainty in Germany and Italy, and on signs the economy is slowing. The cost of global trade impediments was exemplified after Daimler became the first big company to issue a profit warning after the German car maker assessed the hit to revenue of a 40% Chinese tariff on Mercedes cars produced at a US plant. In Germany, Angela Merkel's ruling coalition threatened to break up over immigration policy. In Italy, two Eurosceptics dubbed the 'lira twins' gained control of budget committees in parliament's upper and lower houses, fanning concerns that the Italian populist coalition would flaunt EU budget laws, while Interior Minister Matteo Salvini goaded the EU over immigration. In economic news, higher oil prices boosted eurozone inflation to 2% for the 12 months to June, the European Central Bank's target. The ECB had earlier said by year end it would halt its asset-buying program that was designed to stave off deflation, even as signs emerged the economy was slowing. Reports showed the eurozone economy only grew 0.4% in the first quarter, down from 0.7% in the December quarter, while industrial production dropped 0.9% in April from March. The Euro Stoxx 50 Index slid 1.7%, while the UK's FTSE 100 Index shed 0.8% as uncertainty increased over how the country would quit the EU, its first decline in three months.

Asia and emerging markets

Japanese stocks rose for the second month in three after the Bank of Japan said it would persist with monetary stimulus, reports on employment and manufacturing showed the economy might rebound from a contraction in the first quarter and, like Australia, the country was judged insulated from any trade wars. Chinese stocks plunged on concerns about the growing clash with the US on trade and when a US ban on telecom ZTE exposed how overly reliant China is on foreign technology. Chinese companies with large foreign debts were marked down as the yuan fell 3.3% against the US dollar, the currency's largest decline over a calendar month since China established a foreign-exchange market in 1994. Beijing responded to signs the economy is slowing by reducing the amount of reserves banks must keep at the central bank. China's struggles added to the decline in emerging markets, which fell as tighter US monetary policy boosted the US dollar and countries such as Argentina toiled. Japan's Nikkei 225 Index added 0.6%, China's CSI 300 Index plummeted 6.9% while the MSCI Emerging Markets Index shed 4.6% in US dollars, its fifth consecutive decline.

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, 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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