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Market Wrap

March 2018

At a glance

Global stocks in March fell for a second consecutive month after US President Donald Trump imposed import restrictions that could lead to trade wars (especially with China). Material prices fell on concerns that trade friction could slow the global economy and worries gripped that regulators would crack down on US technology companies. A decline in the Australian dollar trimmed losses for those who have unhedged investments in global equities. During March, seven of the 11 sectors fell in US-dollar terms. Financials (-4.1%) and materials (-3.7%) fell most while utilities (+4.1%) rose most. The Morgan Stanley Capital International (MSCI) World Index fell 2.2% in US dollars and 0.6% in Australian currency.

Australia

Australian stocks fell for a second month after banks fell on speculation that the Royal Commission investigation into financial misconduct would result in tougher and costly regulation. Declines in commodity prices hit material stocks and reports pointed to a slowing in economic growth. Spot iron ore prices slumped 18% in March and coal prices dropped 17%, while the LME Metals Index lost 4% to the detriment of material companies, though an average 7% rise in benchmark oil prices limited losses for energy stocks. Key economic news released over the month was largely downbeat. The economy expanded only 0.4% in the December quarter, retail sales rose just 0.1% in January, while business investment (new capital expenditure) eased 0.2% in the December quarter. On a more positive note, the Westpac Melbourne Institute Index of Consumer Sentiment index rose 0.2% to 103 in March, where 100 is the neutral level, and the NAB survey showed business conditions were at a record high in February. 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. The S&P 200 Accumulation Index shed 3.8%.

US

US stocks slid for a second consecutive month as concerns mounted about trade wars, the stability of the Trump administration and tech regulation. The White House imposed tariffs on steel (25%) and aluminum (10%), prompting Trump's top economic adviser Gary Cohn to resign, and targeted China with US$60 billion worth of tariffs. The clouds over tech stocks included privacy breaches over data and moves by the EU to tax their revenues. Over the month, economic reports showed the jobless rate stayed at a 17-year low of 4.1% for a fifth straight month in February and the US economy expanded a revised 2.9% in the fourth quarter. The Federal Reserve, as expected, raised the US cash rate by 25 basis points to between 1.5% and 1.75%, its highest range since the global financial crisis began, and still flagged only another two rate increases this year. The S&P 500 Index lost 2.7%.

Europe

European stocks fell for the fourth month in five after 55% of Italian voters favoured eurosceptic and anti-establishment parties in elections that left the debt-heavy country with a hung parliament. Economic news released over the month was generally positive, even if annual inflation eased to 1.1% in the 12 months to February. Reports showed the eurozone economy had its best year in a decade when it expanded 2.3% in 2017 while the jobless rate fell to 8.6% in January, its lowest level since December 2008. The European Central Bank signalled it was on track to end its asset-purchase program by the end of September. The Euro Stoxx 50 Index lost 2.3% while the UK's FTSE 100 Index shed 2.4%, its third consecutive decline.

Asia

In Asia, Japanese stocks fell for a second straight month as a cronyism scandal enveloping Prime Minister Shinzō Abe could see him lose a party leadership election this September while Chinese stocks slid for a second month as China's parliament approved the abolition of presidential term limits for Xi Jinping. Japan's Nikkei 225 Index fell 2.8% while China's CSI 300 Index lost 3.1%.

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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