



2018 Year in Review

ECONOMY & MARKETS: OVERVIEW

Data as at 31 December 2018

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World Indices Wrap Up: 1 Year Figures

FIXED INTEREST	
Bloomberg AusBond Bank Bill Index	1.92%
Bloomberg AusBond Composite 0+ Yr Index	4.54%
Bloomberg Barclays Global Aggregate Bond Index (hedged to AUD)	1.65%
AUSTRALIAN EQUITIES	
S&P/ASX 300 Index (Total Return)	-3.06%
S&P/ASX Small Ordinaries Index (Total Return)	-8.67%
S&P Australia BMI Value Index (AUD, gross div.)	-2.63%
S&P Australia BMI Growth Index (gross div.)	-2.40%
GLOBAL EQUITIES	
MSCI World ex Australia Index (net div., AUD)	1.52%
MSCI World ex Australia Index (net div., hedged to AUD)	-7.58%
Hedging Premium	-9.10%
MSCI World ex Australia Small Cap Index (net div., AUD)	-4.20%
MSCI World ex Australia Value Index (net div., AUD)	-0.71%
MSCI Emerging Markets Index (net div., AUD)	-5.10%
REAL ESTATE	
S&P/ASX 300 A-REIT Index (Total Return)	3.27%
S&P Developed REIT Index (AUD, net div.)	5.13%
WORLD MARKETS	
S&P 500 Index	6.23%
MSCI United Kingdom Index (net div.)	-4.63%
MSCI Europe ex United Kingdom Index (net div.)	-5.72%
Japan Nikkei 225 Average Index (price-only)	0.29%
Shanghai Stock Exchange Composite Index	-20.54%
CURRENCIES (RELATIVE TO AUD)	
British Pound	4.88%
Euro	6.09%
Japanese Yen	14.21%
United States Dollar	10.78%

Performance is shown in AUD. Bloomberg indices copyright Bloomberg 2019. S&P data copyright S&P Dow Jones Indices LLC, a division of S&P Global, all rights reserved. MSCI data copyright MSCI 2019, all rights reserved. Individual country stock exchange indices provided by Datastream. Currency data provided by WM/Reuters.

Indices are not available for direct investment. Their performance does not reflect the expenses associated with the management of an actual portfolio.

Hedging premium – MSCI World ex Australia Index (net div., hedged to AUD) minus MSCI World ex Australia Index (net div., AUD).

KEY THEMES

- Worst Year for Global Equities Since 2011
- Volatility Intensifies in Q4 Amid Worries on Trade Tensions, Interest Rates
- Emerging Markets Lag Developed Markets
- Negative Size and Value Premiums in Developed Markets
- USD Broadly Stronger through the Year
- In Fixed Interest, Both Term and Credit Premiums Negative

GLOBAL SUMMARY

Global equity markets posted their worst performance in seven years in 2018, although most of the damage was done in the fourth quarter.

The step-up in volatility towards year-end was variously attributed in the media to US–China trade tensions, signs of a global economic slowdown and concerns about the US Federal Reserve’s plans for further interest rate increases in 2019.

For the Australian market, the 3% fall for the year was its first decline since 2011. The New Zealand market posted a positive return of just over 6% for the year, likewise its lowest return since 2011 but still representing a seventh consecutive year of gains.

In developed markets outside Australia and New Zealand, annual returns on an unhedged basis were modestly positive thanks to weaker local currencies, while emerging markets ended down around 5% for the year—although this followed a robust 27% gain in 2017.

In terms of individual premiums in the developed markets for the year, large caps outperformed small, while high relative price stocks outperformed low. This partly reversed the positive premiums delivered over the previous two years.

In emerging markets, while small caps also lagged large, value outperformed growth according to the MSCI measure.

In sectoral terms, financials, communication services and energy stocks were among the worst performers for the year in Australia and globally, while gains were made in healthcare, IT and real estate investment trusts (REITs).

REITs also beat the broad equity market in other developed markets, although this trend was reversed in emerging markets.

On currency markets, the US dollar maintained its broad-based strength over the year as the Federal Reserve carried on tightening rates while central banks elsewhere sat pat.

Only the Japanese Yen and Mexican Peso strengthened against the USD over the year.

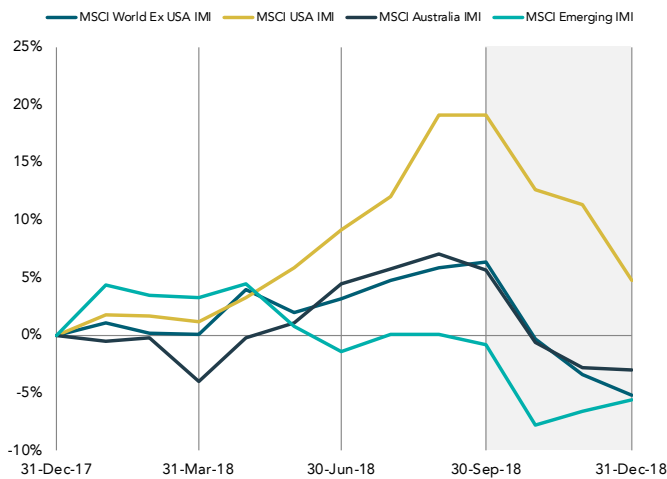
Locally, both the AUD and NZD fell about 5% over the year to US70.5c and US67.2c respectively. Counter to the forecasts of many economists, the Reserve Bank of Australia maintained its official cash rate throughout the year at 1.5%. Likewise, the Reserve Bank of New Zealand kept its cash rate at 1.75%, where it has been for two years.

On fixed interest markets, term premiums were generally negative in 2018. The US Treasury yield curve ended the year

mostly upwardly sloped, although flatter than it was at the beginning of the year and modestly inverted in the one year-to-five-year segment.

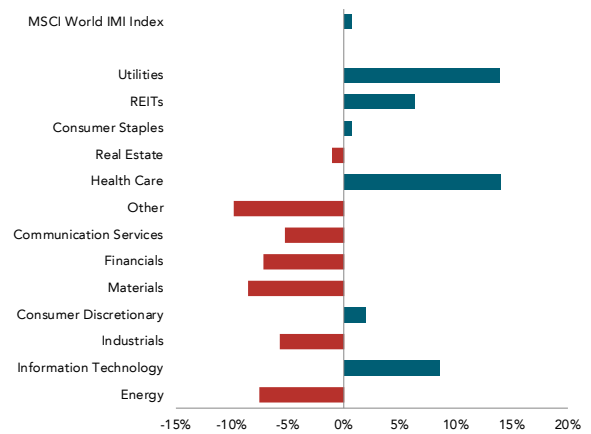
Credit premiums were generally negative in global fixed interest markets. In general, corporate bonds underperformed government bonds. Within corporate bonds, those rated single-A and BBB mostly lagged their AAA and AA counterparts.

Global Equity Climate



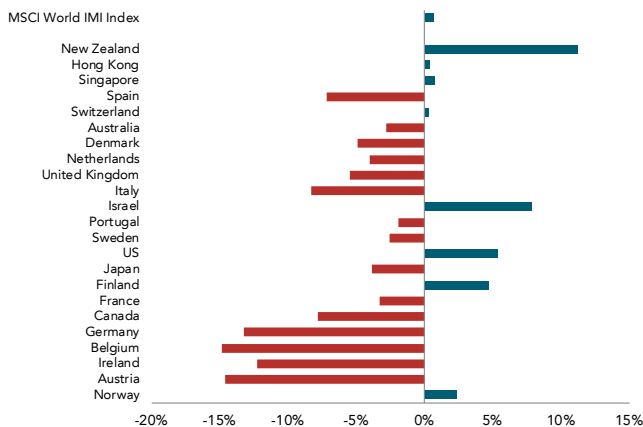
As at 31 December 2018. Performance is shown in AUD and is based on the MSCI World ex USA IMI Index (net div.), MSCI USA IMI Index (net div.), MSCI Australia IMI Index (net div.), and MSCI Emerging Markets IMI Index (net div.). Past performance is not indicative of future results. MSCI data copyright MSCI 2019, 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.

Developed Market Sector Returns



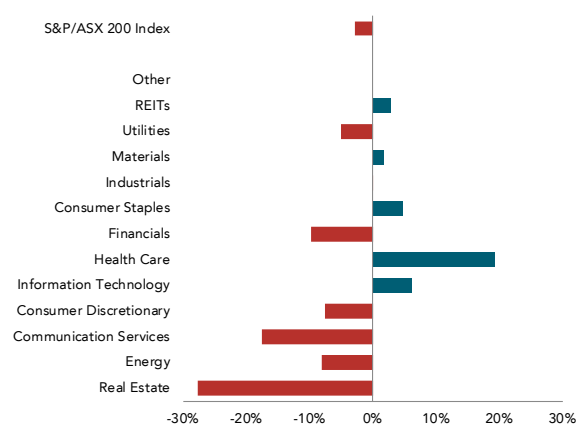
1 year change, as at 31 December 2018. Performance is shown in AUD and is based on the MSCI World IMI Index. Past performance is not indicative of future results. MSCI data copyright MSCI 2019, all rights reserved. Indices are not available for direct investment. Their performance does not reflect the expenses associated with the management of an actual portfolio.

Developed Country Annual Performance



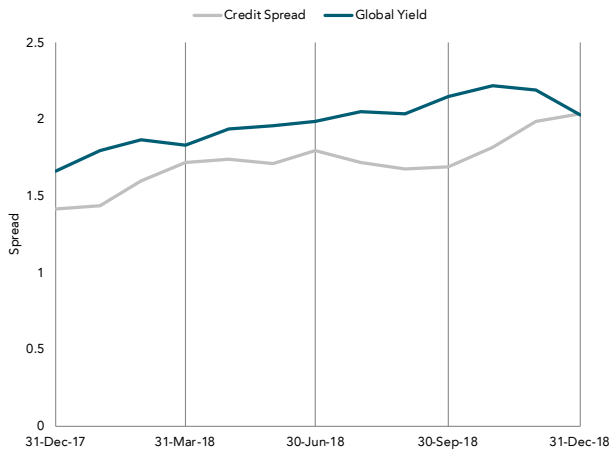
1 year change, as at 31 December 2018. Countries added to the index throughout the year only show returns for their period of inclusion. Performance is shown in AUD and is based on the MSCI World IMI Index. Past performance is not indicative of future results. MSCI data copyright MSCI 2019, all rights reserved. Indices are not available for direct investment. Their performance does not reflect the expenses associated with the management of an actual portfolio.

Australian Sector Returns



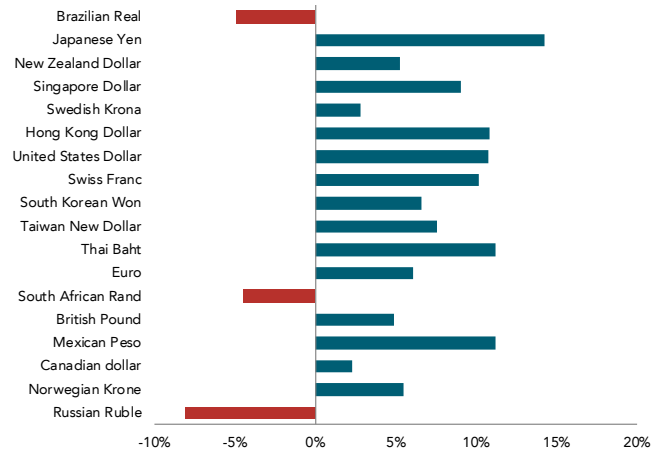
1 year change, as at 31 December 2018. Performance is shown in AUD and is based on the S&P/ASX 200 Index. Past performance is not indicative of future results. S&P data copyright S&P 2019 Dow Jones Indices LLC, a division of S&P Global. All rights reserved. Indices are not available for direct investment. Their performance does not reflect the expenses associated with the management of an actual portfolio.

Fixed Interest Climate



As at 31 December 2018. 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.

Currency Movement (Relative to AUD)



As at 31 December 2018. Performance is shown in AUD. Currency data provided by WM/Reuters. Past performance is not indicative of future results.

TAKEOUTS

While 2018 was a rockier year for equity markets than we have seen in recent years, with volatility increasing towards the end of the year, a longer-term perspective shows the virtues of a patient approach.

The chart below shows the growth of wealth from a dollar invested in global share markets going back to the mid-1990s, using the MSCI World IMI index as a proxy. The past year is highlighted towards the end of the line.

Some of the headlines that dominated media coverage in 2018 are included below in a separate table. These headlines are not offered to explain market returns, but to provide a reminder of the importance of viewing events from a long-term perspective and to avoid making investment decisions based solely on the news.

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 2019. Recently, we have seen many opinions about the possible outcome of trade tensions, Brexit, interest rate cycles, geopolitics and commodity prices.

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.

Growth of Wealth: 1995–2018

MSCI World IMI Index (net div., AUD)



Source: Bloomberg. Bloomberg Barclays data provided by Bloomberg Finance L.P. Returns in multiple currencies and no conversion selected.

2018 IN HEADLINES

- **March:** Ex-Russian agent poisoned in UK as Putin elected for fourth term
- **May:** Trump says US will withdraw from Iran nuclear deal
- **June:** Trump and Kim meet in Singapore in first US-North Korea summit
- **July:** US applies tariffs on \$34 billion of Chinese goods
- **August:** Scott Morrison succeeds Malcolm Turnbull as Australian PM
- **September:** Earthquake and tsunami hits Sulawesi, killing more than 2,000 people
- **October:** Saudis accused of murdering Washington Post journalist in Istanbul
- **November:** UK and EU reach deal on Brexit, but PM May faces internal backlash
- **December:** France experiences worst civil unrest since 1968

These headlines are not offered to *explain* market returns, but to remind investors the importance of viewing events from a long-term perspective and to avoid making investment decisions based solely on the news.