Market Review January 2019

US markets had their best January in 4 decades with the S&P 500 up 7.9% for the month, shrugging off the dismal end to 2018. The broader MSCI All Country World Index rose 7.9% while the MSCI Emerging Markets delivered a 8.77% return. The Straits Times Index rose by 4.0% (in SGD).

The month started off badly, with one of the rarest of revenue warnings from Apple, saying that weaker than expected iPhone sales (particularly in China) would cause it to miss previous revenue estimates. This caused the share price to fall almost 10%, and brought down the broader tech sector. But since then, the market has been steadily climbing throughout the month as the data supported the view that economic growth in the US remains intact. For example, Non-farm payrolls coming in at 312,000 (vs 176,000 expected) for December and wages rising 3.2% Year-On-Year (best increase since April 2009), was a positive signal on the health of the US economy.

This has propelled US banks to be one of the best performers in January, and along with smaller companies (that are more focused on the US domestic market). The Russell 2000 index, which tracks smaller companies in the US is up 11.25%, while the S&P 500 financials index is up 8.8%, outperforming the broader index for the month.

Supporting the market recovery was the U.S. Federal Reserve Chairman, Jerome Powell, stating that the Fed would be "patient" in its approach to monetary policy and the Fed dropping the language about "further gradual increases" to the Feds Funds rate in its latest statement. Investors took this to mean that the Fed was signaling a possible pause in its current rate hike trajectory. This pushed bond yields lower with the 10-year yield settling at 2.63% from a high of 2.78% earlier in the month. Similarly, 10-year yields in Singapore went from 2.27% to 2.145%. (Yields fall as bond prices rise).

All this would have impacted your portfolios positively as both equities and bonds rallied in January, after what has been one of the worst December periods in markets on record.

As a recap of December 2018, the MSCI All Country World Index—which measures both developed and emerging markets—declined by 7.0%. The S&P 500 fell by 9.0%, with the MSCI Emerging Markets Index also falling by 2.66%. Back home, the Straits Times Index fell 3.39% (in SGD). The Bloomberg Barclays Global Aggregate (that tracks bonds) was up 1.26% though, providing stability for our portfolios with a fixed income component.

A fall that sharp does cause some distress, so we looked at what the evidence shows after a market decline. After declines of 10% or more as we saw in Q4 2018, equity returns over the following 12 months have been positive 71% of the time in U.S. markets and 72% of the time in other developed markets[1]. In the U.S., which makes up about 55% of global equities, the average returns for the following three years are 10.2% per annum[2].

While we cannot predict what the market will do next, what we do know is that over time the market delivers a positive expected return. Reacting to short term market movements however, is unlikely to help capture that expected return. Staying invested however does, and has already paid dividends in January.

[1] *Source: Dimensional Fund Advisors.*
[2] *Source: Dimensional Fund Advisors.*

Returns mentioned in the article are in USD unless otherwise noted.

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