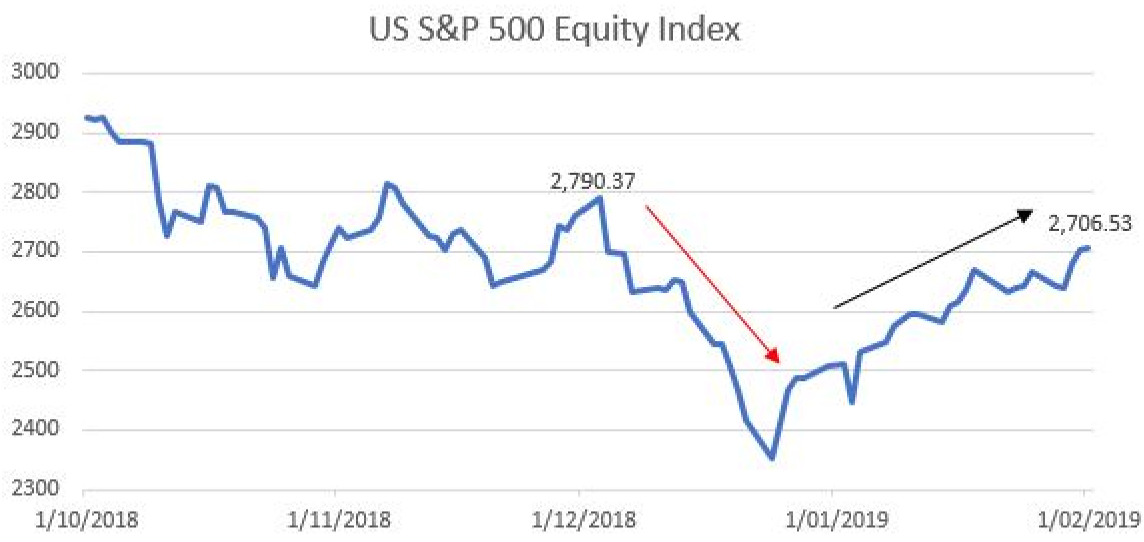
## Financial Market Conditions

Financial markets remained volatile over the past month as the US Federal Government shutdown, the ongoing US-China trade dispute and issues around legislating Brexit created uncertainty around the globe.

The US Federal Government shutdown in January after the democrat-controlled congress failed to pass federal funding legislation because it contained funding for President Trump's US-Mexico border wall. The issue remains unresolved and despite government workers not being paid during the shutdown many economists feel it made little difference to US economic output. There has been no resolution to the US China trade dispute and if a compromise is not reached by the 1st of March the US have threatened to raise tariffs on Chinese goods from 10% to 25%.

The UK parliament has not accepted the deal negotiated with the European Union by Prime Minister May. If no compromise is reached, the British could enact a no deal 'hard' Brexit on the 29th of May this year.

In January, global equity markets recovered some of the losses experienced in December with the US S&P 500 index rising 7.7%, the UK FTSE rising 3.5%, the German DAX index rising 5.6% and the Japanese Nikki index rising 6.2%.




Global bond yields did not experience the same volatility over the past month highlighted by the US 10-year Treasury bond yield which remained relatively steady closing the month 0.01% higher at 2.63%.

The Australian equity market also experienced a rebound in January with the ASX 200 index rising 5.5%. Australian unemployment fell from 5.1% to 5% in December to its lowest level since June 2011. Despite this strong data, falling housing prices and a sharp reduction to business conditions in December points to a challenging economic environment in 2019. The Australian dollar recovered some of the losses experienced in December and is currently trading at around $0.71 USD.

The Reserve Bank (RBA) met in early February and left the official cash rate unchanged at 1.5%. The statement remained relatively unchanged noting that the labour market remained strong while inflation remained low. In early February Governor Lowe spoke at the Nation Press Club in Canberra about the year ahead. During his speech he spoke about the accumulation of downside risk within the global economy and recent housing price declines, especially in Sydney and Melbourne. The governor also stated that future changes to monetary policy was more evenly balanced than what it was a few months ago and that the RBA has the flexibility to cut rates if required. The market took this as a more dovish tone and increased the probability of a cut to the official cash rate in the future.

Implied RBA Cash rate as at 31/01/2019: