# Quarterly economic and market update

September quarter 2019


## Quarter in review

'Uncertainty is the only certainty' was a true statement for many market watchers this quarter.

Rising recession risks; Britain's unclear path towards Brexit and ongoing US-China trade tensions – these are just a few of the economic questions investors grappled with this quarter. In a broad sense, the third quarter was a continuation of the uncertainty so much a feature of the year to date.

The lack of clear answers on broad-picture questions (Brexit, US-China trade talks, etc) drove investors to seek relative 'safe haven' investments like fixed income, or bonds, over the quarter. Domestically, bond markets have returned close to double-digits so far in calendar 2019 and equities have performed strongly too returning around 20 per cent in the year-to-date. The rise is partly due to investors revising down their view of long-run interest rates in the world's major economies.

Central banks took more decisive action on interest rates this quarter, with the RBA making its third cut to the cash rate in five months. More broadly, downward revision to long-run policy rates was a feature of central bank behaviour in the world's major economies this quarter.

## Economic outlook

Vanguard's global economic outlook is for a more challenging and volatile environment ahead.

Locally, while the RBA's three rate cuts over the past five months should help to insulate Australia from a recession in the near-term, we are predicting a "muddle through" scenario for the domestic economy for the remainder of the year and further out in 2020.

Globally, we see a number of what we term "black swan" events on the horizon. These represent key global risks to watch, the most prominent of which is the trade and technology disputes between the US and China.

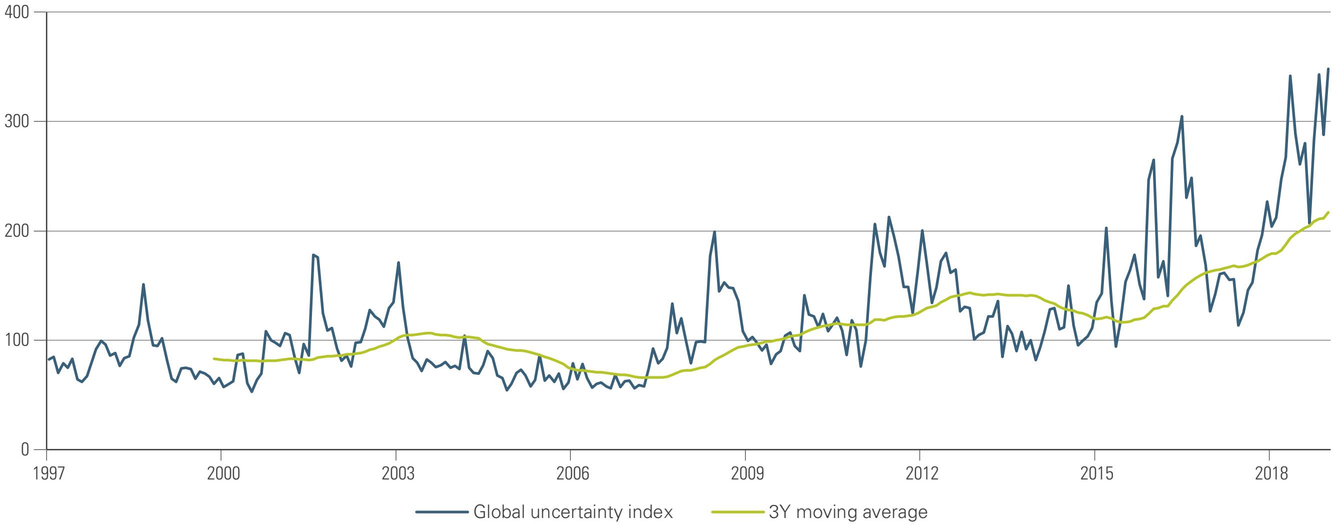
When it comes to trade talks we see little chance of a resolution between the world's superpowers. Our prediction is for a more protracted negotiation than conventional wisdom currently suggests.

In short, uncertainty is something investors should get used to in the near-term.

The below chart tells a story of just how "uncertain" markets have become when it comes to economic policy.

From this measure (Figure 1) we know we are indeed living through historically "uncertain" times – with this measure of "uncertainty" tracking at its highest since the last peak in 2012.

**Figure 1.** Economic uncertainty on the rise




**Notes:** The World Uncertainty Index is computed by counting the frequency of "uncertainty" (and its variants) in quarterly Economist Intelligence Unit country reports for 143 countries from 1996 onward, adjusting for scale. A higher number means higher uncertainty and vice versa.
**Sources:** Vanguard chart, based on data from policyuncertainty.com.

## What can investors control?

Managing uncertainty poses some challenges. But a look at the performance of equities and bonds in 2019 demonstrates the power of applying investment discipline to deal with unpredictable events.

Investors who chose to 'stay the course' this year and remain invested in bond and equity markets in the year-to-date, experienced a 20 per cent uplift in local equities and close-to-double digit returns for bonds. A sound result in a low-return environment.

The message is clear: do away with trying to predict how uncertain events may or may not unfold in favour of holding diversified assets while resisting the temptation to "time the market."

Markets can still present opportunities even as uncertainty flourishes. Investors that demonstrate a commitment to long-term outcomes, disciplined asset allocation and periodic portfolio rebalancing give themselves the best chance of investment success.

Goals, balance, costs, discipline. Putting your faith in these factors within your control are some of the best investment lessons for these uncertain times.

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