Market Overview 2018

Bank of Ireland
Investment Markets

Tom McCabe, Global Investment Strategist with Bank of Ireland Investment Markets shares his view on stock market performance in 2018.

2018 in Review

There were three key themes that drove equity market movements in 2018

Greater global economic uncertainty

Slower global growth was visible in the Euro zone and China in particular, denting investor confidence and holding back those regional equity markets in particular

US Interest rate hikes and their consequences

The US economy grew strongly in 2018, helped by the US tax cuts enacted at the end of the previous year. However this meant the US Federal Reserve regularly raised interest rates through the year, which pushed up US bond yields. Rising US bond yields were the main cause of the corrections in equities in February and October.

Higher US interest rates also pushed the dollar up, a factor in the rise in volatility in emerging market equity and currency markets in 2018

Trade relations between the US and the rest of the world

The trade spat between the US and China in particular stalked markets throughout 2018. The trade uncertainty added to already growing concerns about slowing growth in the Euro zone and China. Later in the year it also contributed to the sell off in the technology sector as investors questioned how rising tariffs would affect technology companies that manufacture goods in China for sale in the US.

Bonds in 2018

Bond returns in most markets were negative in 2018. The performance in government bond market however was more mixed across the various regions. US bonds were generally down in 2018 thanks to the combination of strong economic growth and regular interest rate increases from the US Fed. In contrast the performance in the Euro zone was better given the greater uncertainty around the economic outlook.

Corporate bonds struggled as credit spreads rose consistently through 2018. In the high yield market, the collapse in oil prices also hurt late in the year.

Emerging market bonds also registered negative returns in 2018 with the combination of the stronger dollar and trade uncertainties pushing returns into the red.

What to watch out for in 2019

Trade – The March 1 deadline for US-Sino trade talks is a key one for investors. Were US tariffs on China to be increased and/or broadened out, it is likely to reignite investor concerns about economic growth.

US Interest Rates – The US Federal Reserve (Fed) is expected to continue to increase interest rates in early 2019. However, as global growth slows investors will hope that the Fed becomes less aggressive in increasing interest rates. A slowing in the pace of rate hikes would be viewed positively by investors.

Stock market profits – Stock market profit growth is expected to slow in 2019 compared to the bumper performance in 2018 when profits grew by around 15%. At present profit growth of 8-9% is expected. We think this is slightly optimistic but if profits can grow by around 5% then it boosts the chances of investors seeing positive returns in 2019.

Warning: The value of your investment may go down as well as up.
Warning: Past performance is not a reliable guide to future performance.

December 2018