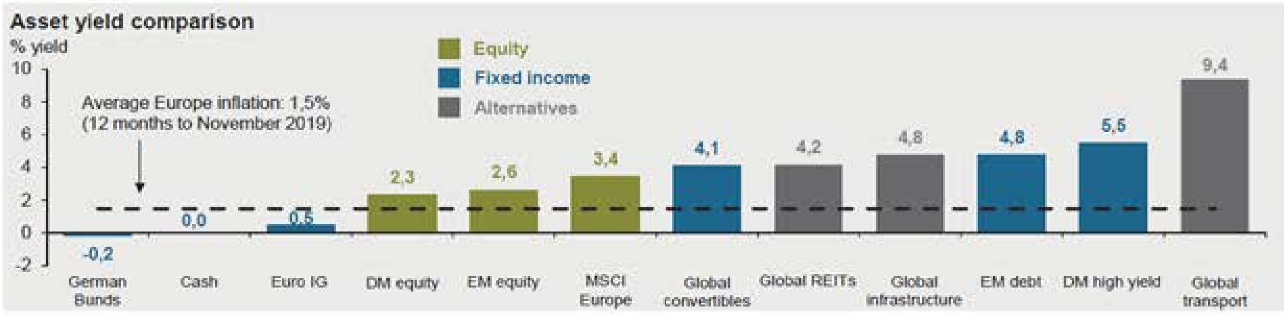
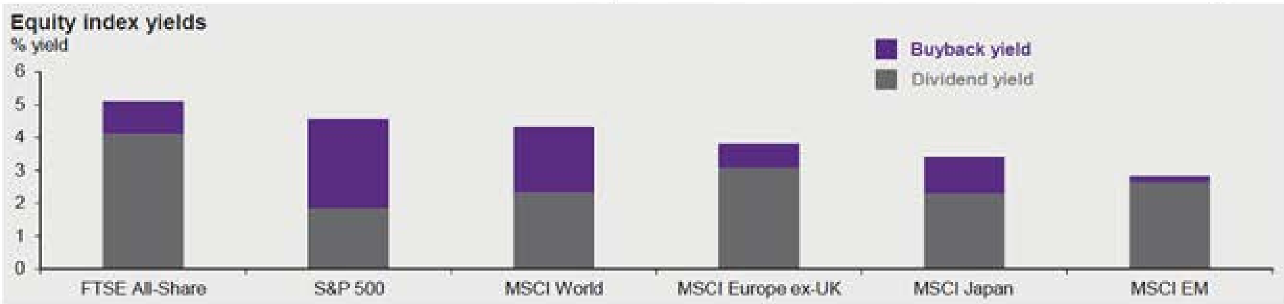
After a very shaky end to 2018, the year 2019 turned out to be fantastic for international equity markets. This was lead by the US with the S&P500 (large cap equity index) returning 29.6% only to be usurped by the NASDAQ Composite index which returned a stellar 35.9% because of its tech laden / 4th Industrial Revolution components.

Index	2019 Y % change	P/E Multiple (x)
JSE All Share	10	15,95
FTSE 100	12,7	18,36
S&P 500	29,6	21,53
Nasdaq Composite	35,9	33,41
Hang Seng	9,1	11,09

The fundamental change was due to the Fed's about turn regarding US interest rates during 2019. In the beginning of the year it was broadcast that there would be 3 interest rate increases of probably 0.25% through the year, but by mid year this policy completely reversed resulting in 3 interest rate decreases of the same percentage. This underpinned equity valuations and counteracted concerns of slowing economic growth which could lead to earnings slowdowns.

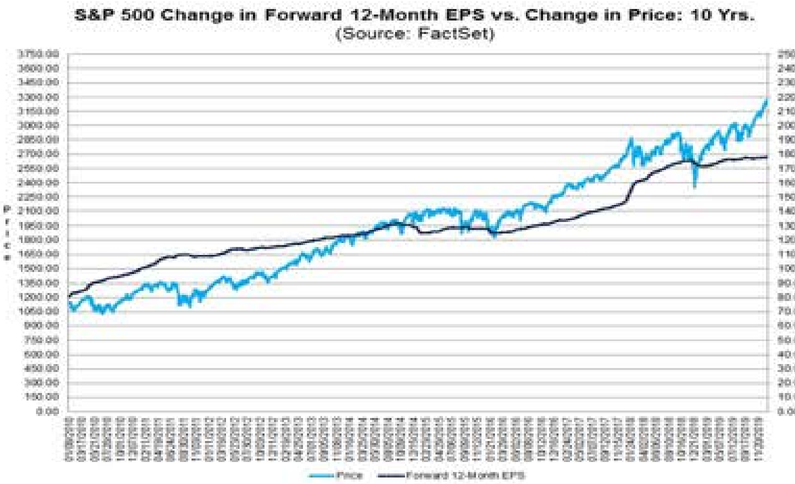
Equity markets entered 2020 with some momentum and as shown in the graphs below cash yields (risk free) are virtually non-existent compared to dividend yields. This persuades investors to chase yield through equity and other risk investments.





Source: JP Morgan

It is probable that this status quo will continue into 2020, BUT equity price appreciation has caused valuations to become more expensive. The graph below shows the price appreciation of the S&P500 (indicated by the light blue line) has outpaced earnings growth, shown by the forward 12-month EPS (dark blue line).



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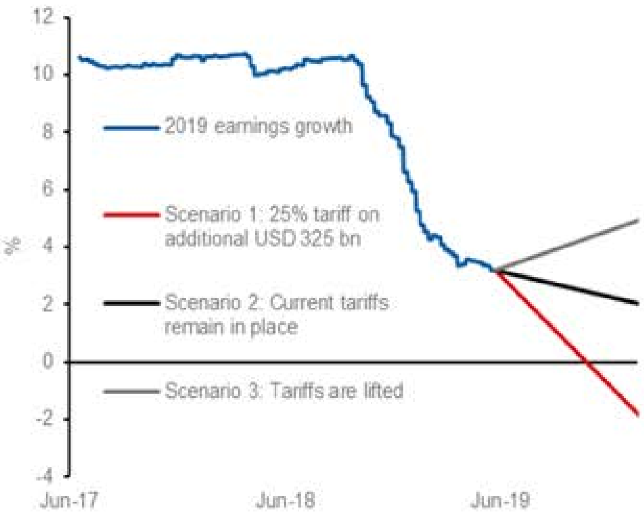
This has caused US PE's to move from cheap to expensive (see graph), with the UK and emerging markets remain slightly cheap being below average, and there might be opportunities in Europe and the UK but Brexit needs to be put to bed.

Emerging markets remain attractive as a high yield destination but Investors need to be wary of currency risk relative to the USD.

These valuations need to be supported by earnings growth which, if forthcoming, will justify equity values. This is the big question, and Investors will need to exercise some patience to see this play out.

Apart from interest rates, economic growth and valuations, markets have the extraneous factor of the US/China trade dispute. This appears to be dissipating as a risk but nonetheless is still an uncertainty in Investors' minds.

SOURCE: JP MORGAN



Although the graph alongside is a call back from 2019, it is more likely that the upside scenario of 2019 Earnings Growth is now in place as the threat of the 25% tariff (red line) has been eliminated. This should bode well for equities as Trump makes his next move towards the end of 2020 to solidify his political capital from the tariff spat. Again, patience is required.

The photo below is of the regrowth of plants seen in bushland that was destroyed by bushfires, in Kulnura, New South Wales, 15 January 2020 – and is a good reminder that there is always recovery after trying times. We are patiently optimistic on equity markets.

SOURCE: THE DAILY MAVERICK