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German Index Engineering

Equity Markets in 2019: Double-Digit Returns in a Year of Rebounds

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In 2019, global central banks loosened their monetary policy once more. On top of that, there seems to be progress regarding a trade deal between the United States and China as well as in the Brexit saga. Although these topics are still far from being solved, some positive steps towards their resolution during year-end helped the markets.

Against this backdrop, most global, regional, and local equity indices yielded double-digit returns.

Spectacular Returns in a Year of Rebounds

The sheer performance numbers are spectacular for 2019. The broad **Solactive GBS Developed Markets Large & Mid Cap USD Index TR** returned +28.4%, marking its best year since 2009. With relatively low volatility of 9.98%, the Sharpe ratio of the broadly diversified index stands quite high at 2.84 for 2019.

Similar to the sound recovery after the financial crisis, 2019 was a rebound year. The global index for developed markets plunged almost 18% from its peak in September 2018 until December 25, 2018 – finally ending the year with a return of -8.2%. Compared to the 2018-highs, equities of the global developed markets were up +10.7% until the end of 2019. Still solid, but just in the double-digit range.

The kick-off in January was representative for the whole year – on each downturn, the market responded with an even greater upswing. For instance, January and June 2019 – typically not among the best months for stock returns – were the best two months with +7.75% in January after -7.61% in December 2018, and +6.53% in June after -5.71% in May. The performance pattern is similar for the different benchmark indices shown in the table below.

Big Tech leading the Way

Almost all shown indices – except the ones tracking German and Spanish equities – reached new record highs during or after Christmas time 2019. With a pure focus on performance, the **Solactive United States Technology 100 Index TR** is clearly on top of the list, followed by the broad stock index for US equities (**Solactive US Large Cap Index (GTR)**). The performance of the US-indices was largely driven by the tech giants. For instance, the five stocks that contributed the most to the very positive performance of the US technology index were Apple, Microsoft, Facebook, Amazon, and Alphabet. However, the technology index also wins the undesired title of the highest volatility.

Table 1: 2019 performance of different Solactive benchmark indices. The figures are based on gross total return versions of the indices.

2019 (in local currency)	Constituents	Return	Max. Drawd.	Volatility	Sharpe Ratio	Div. Yield
Solactive United States Technology 100 Index TR (DE000SLA9KX5)	99	40.20%	-11.01%	16.52%	2.43	1.09%
Solactive US Large Cap Index (GTR) (DE000SLA0Q47)	494	31.56%	-6.59%	12.49%	2.53	1.99%
Solactive Swiss Large Cap Index (GTR) (DE000SLA0Q39)	20	30.80%	-4.41%	10.69%	2.88	3.25%
Solactive Euro 50 Index TR (DE000SLA6W27)	50	28.93%	-7.73%	12.72%	2.27	3.74%
Solactive GBS DM Large & Mid Cap USD Index TR (DE000SLA41C4)	1588	28.40%	-5.88%	9.98%	2.84	2.51%
Solactive Europe 600 Index TR (DE000SLA9G32)	599	28.28%	-6.91%	11.59%	2.44	3.67%
Solactive Australia 200 Index (GTR) (DE000SLA5FG8)	199	23.33%	-6.07%	11.00%	2.12	4.22%
Solactive Germany 30 Index TR (DE000SLA7XQ6)	30	23.20%	-10.38%	14.11%	1.64	3.42%
Solactive Canada Large Cap Index (GTR) (DE000SLA5AC8)	61	21.68%	-4.23%	7.66%	2.83	3.29%
Solactive United Kingdom 100 Index TR (DE000SLA8HK0)*	101	18.02%	-7.00%	11.54%	1.56	4.68%
Solactive Spain 40 GTR Index (DECA00000003)	40	14.32%	-11.37%	13.00%	1.10	4.38%

*Index will be live soon.

Source: Solactive

Widespread Double-Digit Returns

When considering the performance in relation to the standard deviation, the Swiss and Canadian stock indices outperform their peers with Sharpe ratios above 2.8. While the **Solactive Swiss Large Cap Index (GTR)** shows an impressive +30.8% performance with a 10.69% volatility, the **Solactive Canada Large Cap Index (GTR)** delivers a very good Sharpe ratio due to the lowest volatility among its peers.

Whereas the US-market outperformed with its best year since 2013, European indices trailed shortly behind (in local currency terms). Both the **Solactive Euro 50 Index TR** and the **Solactive Europe 600 Index TR** had a total return of close to 30% in 2019. For the broad European market, it was the best year since 2009. This rise may partially be attributed to potential clarity in the Brexit uncertainty, which boosted European stock performances.

This is also observable for UK stocks, although the **Solactive United Kingdom 100 Index** lagged with a +18.02% performance. However, due to the strong British Pound, this number looks better in US Dollar or Euro terms.

The performance pattern of the **Solactive Germany 30 Index TR** differs from that of its peers to some extent. The benchmark for German equities yielded +23.20% in 2019, which was lower than its returns in 2012 and 2013 – when the European Central Bank made clear that it would do everything necessary to save the Euro. Despite being backed by loose monetary policy in 2019 again, the German benchmark did not reach the record highs of 2018 – potentially due to the slowdown in the manufacturing sector and overall economic growth.

The **Solactive Spain 40 GTR Index** is at the bottom of the pile with +14.32%. Spanish equities suffered from political uncertainty around the formation of a government. The general election in November 2019, in which Spanish Prime Minister Pedro Sanchez lost some ground and thus has faced ongoing difficulties to form a coalition, caused further volatility in the Spanish equity market.

As the table above shows, three indices have a dividend yield of above 4%. These are the **Solactive United Kingdom 100 Index TR**, the **Solactive Spain 40 GTR Index**, and the **Solactive Australia 200 Index (GTR)**.

Final Remarks

An increase in capital markets' liquidity during 2019 reduced the fears of recession, which in combination led to an outstanding year for equities. In spite of the overall very positive developments, investors should keep in mind that the strong index performances are based mainly on an expansion of the price earnings multiple. Thus, the price increases relative to earnings growth in 2019 already took positive earnings expectations for 2020 and 2021 into consideration. If these expectations don't materialize, sustaining elevated index levels could become a challenge.

It may be difficult to draw conclusions for 2020 from the performance figures of 2019. Such big rallies with a bull run lasting over ten years, as well as equity returns of over 25% during a calendar year, are just too rare to make generalizations from them. But if we dare to analyze the few historic return patterns that are similar to what we have observed in 2019, there is good news. In most occurrences, a positive year for equities followed a performance of +25% and more. Things in motion stay in motion – hopefully, capital markets continue to do so in 2020 as well.

Please note: All mentioned benchmark indices are available in price, net, and total return versions. We are happy to provide more details. Just get in touch with us at sales@solactive.com.

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Disclaimer

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