Monthly Market Review –February 2017

Asset markets have generally rallied quite strongly in the prior three months, and over the full 12 months for the periods ending February 2017.

The initial reaction of share markets to the election in the United States of President Trump has been strongly positive, with investors buoyed by hopes that tax cuts and a big infrastructure spend in the US would help stimulate the US economy and share market.

Given the practical difficulties that come with actually implementing these new economic policies in the United States, we have some concerns that share markets may have run ahead of themselves.

Consequently, we would caution that some of these early gains may be reversed in the coming months. In the US, financial markets will also have to contend with rising interest rates as the US central bank begins the long process of moving interest rates back closer towards their long term normal levels.

How the different asset classes have fared *(As at 28th February 2017)*

Asset Class	10 Yr % p.a.	5 Yr % p.a.	3 Yr % p.a.	1 Yr %	YTD %	6 Mo %	3 Mo %	1 Mo %
Cash[1]	4.0	2.7	2.3	2.0	0.3	0.9	0.4	0.1
Australian Bonds[2]	6.1	5.1	4.8	1.4	0.8	-2.3	0.6	0.2
International Bonds[3]	7.3	5.8	5.7	3.1	0.7	-1.5	1.0	0.9
Australian Shares[4]	4.3	10.2	6.5	21.3	1.3	6.2	5.5	2.1
International Shares Unhedged[5]	4.6	17.3	10.8	12.4	-0.9	5.2	3.5	1.5
International Shares Hedged[6]	6.9	14.4	10.4	24.0	4.7	10.5	7.7	3.2
Emerging Markets Unhedged[7]	3.1	6.6	6.6	20.3	2.4	3.1	4.7	1.8
Listed Infrastructure Unhedged[8]	N/A	17.0	11.8	6.6	-0.9	0.7	4.0	2.2
Australian Listed Property[9]	0.0	16.6	15.9	8.2	-0.8	-5.7	5.9	4.1
Int. Listed Property Unhedged[10]	N/A	16.3	12.6	3.4	-3.1	-6.0	2.8	1.8

[1]Bloomberg AusBond Bank 0+Y TR AUD, [2]Bloomberg AusBond Composite 0+Y TR AUD, [3]JPM GBI Global Ex Australia TR Hdg AUD, [4]S&P/ASX All Ordinaries TR, [5]MSCI World Ex Australia NR AUD, [6]Vanguard Intl Shares Index Hdg AUD TR, [7]MSCI EM NR AUD, [8]S&P Global Infrastructure NR AUD, [9]S&P/ASX 300 AREIT TR, [10]FTSE EPRA/NAREIT Global REITs NR AUD

Australian Equities

The Australian share market has seen strongly positive returns. Materials and utilities have been the some of the best performing sectors of the Australian share market over the prior 12 months. Telcos and property trusts were amongst the worst sectors.

International Shares

International shares have rallied strongly, taking their lead from a strong US share market. Currency hedging has had a material effect on returns, with currency unhedged equities performing only half as well as currency hedged international equities. Our medium term view is that the Australian dollar is likely to fall, probably quite a long way, and this current pattern of performance should be reversed with unhedged international shares outperforming hedged shares.

Bonds and Cash

Within both Australian and Global bonds, corporate bonds have been the best performers over the 12 months to the end of February.

In Australia, government bonds eked out just 0.5%. This is the net result of capital losses sustained as bond prices decreased netted off against the regular coupons a bond pays. Bond prices move in the opposite direction of bond yields. With the US at full employment and the newly elected President Trump promising fiscal stimulus via tax cuts and infrastructure spend, inflation expectations and the prospect of higher interest rates in the US increased. This saw US bond yields rise. This flowed through to all bond markets including Australia's.

US government bonds returned 1.9% for the 12 months to the end of February. This is for an investment fully hedged into Australian dollars, which would have been a benefit over that period and accounts for much of the difference in return between Australian and US government bonds.

US corporate bonds (which is by far the biggest corporate bond market in the world) returned 7.6% over the 12 months. High yield (or less politely, junk bonds) returned a stunning 20.9%. This was driven by the recovery in the oil price with a decent slab of the high yield market being the debt of US frackers (the extraction of oil and gas from narrow fissures in underground rock).

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