

Monthly Market Review – April 2017

Most share markets experienced strong performance over the past 3 and 12 months. Investors remain positive about prospects for stronger global economic growth, particularly in the US. Fixed interest markets by contrast have experienced fairly subdued returns. We see the outlook as being balanced between a continued positive economic picture, and the risks of more increases in interest rates in the US. Rising interest rates have, at times in the past, led to some instability in share markets. Accordingly, we continue to believe that maintaining a balanced approach with a diverse mix of investments remains appropriate. That is, some investments that will do well under the positive scenario; and others that will mitigate risks should rising interest rates lead to rising volatility.

How the different asset classes have fared (As at 30th April 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	2.6	2.3	1.9	0.6	0.9	0.4	0.1
Australian Bonds ²	6.2	4.9	4.9	2.6	2.0	0.3	1.4	0.8
International Bonds ³	7.4	5.8	5.5	2.6	1.4	0.1	1.7	0.7
Australian Shares ⁴	4.0	10.6	7.4	16.6	5.3	12.4	6.1	0.8
International Shares Unhedged ⁵	5.1	17.7	13.7	16.9	4.5	14.1	7.0	3.6
International Shares Hedged ⁶	6.6	14.7	10.8	19.5	7.1	13.3	5.6	1.3
Emerging Markets Unhedged ⁷	3.6	8.4	9.3	21.6	10.3	10.8	9.6	4.2
Listed Infrastructure Unhedged ⁸	N/A	17.4	14.4	12.4	6.2	10.1	9.6	3.8
Australian Listed Property ⁹	0.4	16.2	15.6	6.1	2.5	10.2	7.5	2.6
Int. Listed Property Unhedged ¹⁰	N/A	14.5	13.2	3.0	-1.6	4.5	3.4	2.5

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

Australian Equities

Australian shares had another positive month, albeit underperforming offshore markets. Mining stocks were the main drag on the local market, with the S&P/ASX 200 Resources index ending the month down -1.6% and -4.3% over the last three months. This reflects a slide in commodity prices from their recent highs. Iron ore went from above USD90/tonne in mid-March toward USD60 in mid-April. Returns over a 1 year period in the sector still look very good though at 20%. In contrast listed property recovered some ground and were the best performing sector for the month; but still is one of the worst over 1 year.

International Shares

In April share markets in less developed economies performed better than their developed market counterparts as fears of trade wars faded. This reflects US President Trump meeting with his Chinese counterpart, Xi Jinping, and subsequently moving from a nakedly hostile tone to China to quite a conciliatory one. Both developed and emerging market share markets shrugged off any concerns about the economy or policy implementation risks with the new President and continued to move higher.

Bonds and Cash

In Australia the RBA continued to hold rates at 1.5%. The central bank is caught between the proverbial rock and a hard place. It is concerned about the potential destabilising effect on the economy from high residential property prices and the associated very high indebtedness of Australian households. But it can't hike rates to deflate housing markets, as it is concerned about the impact of that on other sectors of the economy which are still adjusting to the end of the mining boom. It can't cut rates either, to support the post mining boom economic rebalancing, for fear of adding fuel to already hot housing markets on the East coast. Instead, it is trying to use other tools, such as capping the amount of interest only loans the banks write, to address the risks it sees emerging for the wider economy from over leveraged property buyers.

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