

# Month in Review

## Market Moves — as at 30•4•2015

RETURNS (%) P.A.	1 MTH	3 MTH	6 MTH	1 YR	3 YR	5 YR	10 YR
<b>AUSTRALIAN EQUITIES</b>							
S&P/ASX 200 ACCUMULATION INDEX	-1.70	5.00	7.08	10.23	14.62	8.52	8.47
S&P/ASX SMALL ORDINARIES ACCUMULATION INDEX	1.66	8.10	5.41	5.31	-0.87	0.03	3.53
<b>GLOBAL EQUITIES</b>							
MSCI WORLD ACC INDEX WITH GROSS DIV (AS)	-1.22	5.01	17.34	26.87	25.18	14.74	7.36
S&P 500 COMPOSITE ACCUMULATION INDEX (AS)	-2.22	3.74	16.34	32.72	28.04	18.18	8.21
FTSE100 ACCUMULATION INDEX (AS)	3.43	5.56	15.96	13.76	19.16	12.18	5.20
MSCI EMERGING MARKETS FREE W/GROSS DIV (AS)	3.91	7.65	15.85	27.07	13.63	6.71	9.82
<b>REAL ESTATE INVESTMENT TRUSTS (REITS)</b>							
S&P/ASX 300 A-REIT ACCUMULATION INDEX	-0.99	0.65	12.99	25.97	20.03	13.31	2.92
UBS GLOBAL INVESTORS TR HEDGED (AS)	-3.12	-3.51	8.71	20.86	16.90	15.96	8.70
<b>FIXED INTEREST</b>							
BLOOMBERG AUSBOND COMPOSITE 0+ YR INDEX	-1.11	-0.08	4.55	8.91	6.15	7.27	6.52
BLOOMBERG AUSBOND BANK BILL INDEX	0.18	0.60	1.31	2.67	2.95	3.73	4.76
BARCLAY GLOBAL AGGREGATE INDEX HEDGED SA	-0.35	0.02	4.17	8.88	7.02	8.08	7.62

Data source: IRESS & Financial Express. Returns greater than one year are annualised

Commentary regarding equity indexes below references performance without including the effects of currency (unless specifically stated).

### Australian equities

The Australian 'broad cap' equity market, as measured by the S&P/ASX 200 Accumulation Index, was down -1.70% in April for the second consecutive month. Resource stocks outperformed as commodity prices, particularly oil and iron ore, began to rebound. Over 12 months, the Index produced double digit returns – up 10.23%.

April's trend did not materialise in the Australian 'small cap' market, as measured by the S&P/ASX Small Ordinaries Accumulation Index, which was up 1.66%. Over 12 months however, the 'small cap' market continues to materially lag the 'broad cap' index.

### Global equities

Emerging market equities strongly outperformed, aided by rising commodity prices, with China the best performing market due to stimulus measures from the People's Bank of China as well as speculation of possible upcoming quantitative easing. The MSCI Emerging Markets Index finished up 3.91% in April.

US equities lagged, although the S&P 500 Accumulation Index still managed to touch a new record high during April. The Index finished down -2.22% as the release of weaker than expected US payroll data dampened anticipation of the Federal Reserve raising interest rates in June. Across 12 months, the US equity market has significantly outperformed relative to its Australian counterpart, up 32.72%.

European equity markets were mixed. The German DAX and French CAC were down -4.56% and -0.31% respectively, while the UK FTSE gained 4.63%.

Equity markets across Asia were positive during April. The Japanese NIKKEI 225 Index returned 2.55%, while Hong Kong's Hang Seng Index and the Shanghai Composite Index returned 12.16% and 16.57% respectively. The Shanghai stock market has been a standout performer so far this year which has been largely spurred by aggressive monetary policy from authorities.

### REITS

The S&P/ASX 300 A-REIT Accumulation Index dropped -0.99% in April. Despite a consecutive month-to-month fall, A-REITs have experienced growth of 25.97% over the last 12 months. This is likely to soften as the economy faces headwinds from its dependency on resources, a weakening Australian dollar, and challenging leasing conditions driving elevated vacancy rates and incentives.

The G-REIT market, as measured by the UBS Global Investors TR Hedged (A\$), was down -3.12% in April. Over 12 months the sector underperformed its domestic counterpart by 5.11% yet still managed to return 20.86% for investors. This was driven by the continual 'search for yield' and stable earnings growth.

**We strongly recommend that potential investors read the product disclosure statement or investment statement.** Lonsec Research Pty Ltd ABN 11 151 658 561 AFSL No. 421445 This information must be read in conjunction with the warning, disclaimer, and disclosure at the end of this document. This report supersedes all prior reports.

# Month in Review

ISSUE DATE: 7-05-2015

## Fixed Interest

The Australian fixed interest market, as measured by the Bloomberg AusBond Composite Index, fell by -1.11% in April. While the Bloomberg AusBond Bank Bill Index, which comprises lower risk and shorter dated securities, finished up 0.18%.

The Global Fixed Interest market, as measured by the Barclays Global Aggregate Index (Hedged A\$), was down -0.35%. European government long bond yields dipped to a new all-time low mid-month before rising sharply to finish April higher on improving Eurozone credit data.

## ASX 200 Stock Movements

### S&P/ASX 200 Stock Performance for the Month of April 2015

BEST PERFORMERS		WORST PERFORMERS	
LIQUEFIED NATURAL GAS	+44.30	GREENCROSS	-16.77
SUNDANCE ENERGY AUSTRALIA	+34.44	BLUESCOPE STEEL	-16.27
SENEX ENERGY	+28.57	RESMED	-13.23
KAROON GAS AUSTRALIA	+27.31	SIMS METAL MANAGEMENT	-12.77
UGL	+19.93	SLATER & GORDON	-10.43

### S&P/ASX 200 Stock Performance for the Year to March 2015

BEST PERFORMERS		WORST PERFORMERS	
LIQUEFIED NATURAL GAS	+596.18	ARRIUM	-83.08
QANTAS AIRWAYS	+177.87	MMA OFFSHORE	-67.29
M2 GROUP	+94.68	KATHMANDU HOLDINGS	-59.47
NORTHERN STAR RESOURCES	+88.89	FORTESCUE METALS GROUP	-57.03
DOMINO'S PIZZA ENTERPRISES	+85.00	BRADKEN	-56.38

## Economic News

### Overview

Following the volatility experienced across domestic and global markets during the first quarter of 2015, April was comparatively stable. The price of crude oil began to revert, China eased their monetary policy, and the Eurozone announced a quantitative easing program with Japan signalling more of the same. Yet, April delivered a few surprises to the market. The US turnaround saw economic data repeatedly undershoot market expectations which was attributable to the apprehension surrounding forecasted interest rates hikes, the RBA stunned analysts by leaving April rates on hold in Australia, whilst the UK came under inflationary pressure in the lead up to its general election. Globally, monetary policy setting remained loose.

### Australia

The RBA left rates unchanged at its April meeting despite adopting a strong easing bias. The sharp fall in commodity prices since the start of the year and the high Australian dollar were at the top of the agenda. The minutes to the meeting show the Bank contemplated a further cut but held off in order to get more data, Q1 CPI in particular (which was essentially benign), and to allow time for the economy to respond to February's cut to 2.25%. Notably the minutes also pointed to a likely

downgrade to the RBA's growth forecasts stemming from weaker prospects for business investment.

Australia's Consumer Price Index (CPI) (excluding volatile returns) rose 0.2% during the March quarter to be 2.3% p.a. higher over the past year. The largest price rises in Q1 were driven by domestic holiday travel and accommodation, tertiary education and medical services. Petrol prices fell -12.2% over the three months to March, helping slice -0.4% from the overall headline rate. This was the largest quarterly price fall for petrol since December 2008 according to the Australian Bureau of Statistics. The CPI remains at the lower end of the RBA's 2-3% target band.

Consumer sentiment continued to fall in April ahead of the Commonwealth Budget. The Westpac - Melbourne Institute Index of Consumer Sentiment dropped -3.2% in April to 96.2. Other contributing factors included: the retracement of petrol prices, failure to meet the market's expectations surrounding the overnight cash rate cut, and sharp fall in iron ore prices. Collectively, these factors affected sentiment surrounding jobs and the economy.

Australia's March unemployment rate was announced in April. The 37,700 rise in employed persons caused the indicator to drop by 10 basis points in trend terms to 6.1%. However, it is worth noting that once rounding is removed, March's rate of 6.12% does not vary significantly from February's

## Month in Review

ISSUE DATE: 7-05-2015

rate of 6.15%. Positive momentum continued around the participation rate.

Latest dwelling price data showed continued solid growth nationally in early 2015 with some measures even indicating a slight pick-up over the last six months. The CoreLogic RP Data measure showed a 0.9% rise in the month of April, lifting the six month annualised pace to 11.8%, notably higher than the annual growth rate of 8.1% p.a. The city and segment details show gains are confined to Sydney houses, Sydney units and Melbourne houses with more subdued price gains elsewhere.

### Global

US economic data releases during the month of April were noticeably weaker, possibly due in part to extreme weather in March and the stronger dollar. The manufacturing and non-manufacturing ISM Indices for March both fell to a worse-than-expected 51.5 and 56.5 respectively, albeit still signalling expansion at these levels. While retail sales, industrial production and housing starts all underperformed analysts' estimates. This trend continued with Real GDP for Q1 up 0.2% p.a. significantly missing forecasts of 1.0% p.a.

China's economic data continued to weaken, with the preliminary HSBC Manufacturing PMI for April falling to 49.2 – a 12 month low. Other data releases were uniformly weak: Q1 GDP growth slowed to 7.0% y/y and industrial production for March rose a weaker-than-expected 5.6% (10.9% forecasted). Weakening economic data prompted the Chinese central bank to provide further stimulus, sharply cutting its Reserve Requirement Ratio by 1% to 18.0%.

The Eurozone's credit squeeze seemingly came to an end with private sector lending for March up 0.1% y/y – the first positive reading since May 2012.

### Currency

The Australian dollar was stronger against all major currencies in April: USD +4.55%, JPY +3.21%, EUR +1.81%, GBP +0.27% and NZD +3.02%.

P 3-3

**Important notice:** This document is published by Lonsec Research Pty Ltd ABN 11 151 658 561, AFSL No.421445 (Lonsec). Please read the following before making any investment decision about any financial product mentioned in this document.

**Disclosure at the date of publication:** Lonsec receives a fee from the fund manager or product issuer(s) for researching the financial product(s) set out in this document, using comprehensive and objective criteria. Lonsec may also receive a fee from the fund manager or product issuer(s) for subscribing to research content and other Lonsec services. Lonsec's fee is not linked to the rating(s) outcome.

Lonsec does not hold the product(s) referred to in this document. Lonsec's representatives and/or their associates may hold the product(s) referred to in this document, but details of these holdings are not known to the Analyst(s).

**Disclosure of Investment Consulting services:** Lonsec receives fees for providing investment consulting advice to clients, which includes model portfolios, approved product lists and other financial advice and may receive fees from this fund manager or product issuer for providing investment consulting services. The investment consulting services are carried out under separate arrangements and processes to the research process adopted for the review of this financial product.

For an explanation of the process by which Lonsec manages conflicts of interest please refer to the Conflicts of Interest Policy which is found at: <http://www.lonsec.com.au/asp/IndexedDocs/general/LonsecResearchConflictsofInterestPolicy.pdf>

**Warnings:** Past performance is not a reliable indicator of future performance. Any express or implied rating or advice presented in this document is a "class service" (as defined in the Financial Advisers Act 2008 (NZ)) or limited to "General Advice" (as defined in the Corporations Act 2001 (Cth)) and based solely on consideration of the investment merits of the financial product(s) alone, without taking into account the investment objectives, financial situation and particular needs ('financial circumstances') of any particular person. It is not a "personalised service" (as defined in the Financial Advisers Act 2008 (NZ)) and does not constitute a recommendation to purchase, redeem or sell the relevant financial product(s).

Before making an investment decision based on the rating(s) or advice, the reader must consider whether it is personally appropriate in light of his or her financial circumstances, or should seek independent financial advice on its appropriateness. If our advice relates to the acquisition or possible acquisition of particular financial product(s), the reader should obtain and consider the Investment Statement or Product Disclosure Statement for each financial product before making any decision about whether to acquire a financial product. Lonsec's research process relies upon the participation of the fund manager or product issuer(s). Should the fund manager or product issuer(s) no longer be an active participant in Lonsec's research process, Lonsec reserves the right to withdraw the document at any time and discontinue future coverage of the financial product(s).

**Disclaimer:** This document is for the exclusive use of the person to whom it is provided by Lonsec and must not be used or relied upon by any other person. No representation, warranty or undertaking is given or made in relation to the accuracy or completeness of the information presented in this document, which is drawn from public information not verified by Lonsec. Financial conclusions, ratings and advice are reasonably held at the time of completion but subject to change without notice.

Lonsec assumes no obligation to update this document following publication. Except for any liability which cannot be excluded, Lonsec, its directors, officers, employees and agents disclaim all liability for any error or inaccuracy in, misstatement or omission from, this document or any loss or damage suffered by the reader or any other person as a consequence of relying upon it. Copyright © 2015 Lonsec Research Pty Ltd (ABN 11 151 658 561, AFSL No. 421445) (Lonsec). This report is subject to copyright of Lonsec. Except for the temporary copy held in a computer's cache and a single permanent copy for your personal reference or other than as permitted under the Copyright Act 1968 (Cth), no part of this report may, in any form or by any means (electronic, mechanical, micro-copying, photocopying, recording or otherwise), be reproduced, stored or transmitted without the prior written permission of Lonsec.

This report may also contain third party supplied material that is subject to copyright. Any such material is the intellectual property of that third party or its content providers. The same restrictions applying above to Lonsec copyrighted material, applies to such third party content.