Month in Review

ISSUE DATE: 9-05-2016

Market Moves — as at 30•04•2016

RETURNS (%) P.A.	1 MTH	3 MTH	6 MTH	1 YR	3 YR	5 YR	10 YR
AUSTRALIAN EQUITIES							
S&P/ASX 200 ACCUMULATION INDEX	3.37	6.35	2.56	-4.93	5.00	6.47	4.52
S&P/ASX SMALL ORDINARIES ACCUMULATION INDEX	3.04	9.70	8.19	5.12	4.15	-0.97	0.53
GLOBAL EQUITIES							
MSCI WORLD ACC INDEX WITH GROSS DIV HEDGED AUD	2.55	0.46	-6.76	0.12	18.50	14.62	4.71
S&P 500 COMPOSITE ACCUMULATION INDEX HEDGED AUD	1.19	-0.77	-6.11	4.60	23.27	19.31	6.85
FTSE 100 ACCUMULATION INDEX HEDGED AUD	4.20	-0.37	-11.25	-8.22	11.54	9.26	1.84
MSCI EMERGING MARKETS FREE W/GROSS DIV HEDGED AUD	1.35	5.35	-6.64	-15.11	5.74	2.52	2.31
REAL ESTATE INVESTMENT TRUSTS (REITS)							
S&P/ASX 300 A-REIT ACCUMULATION INDEX	2.76	8.28	10.51	15.62	14.29	16.39	2.71
FTSE EPRA/NAREIT DEVELOPED NR INDEX HEDGED AUD	-0.74	6.38	1.97	2.40	6.97	10.91	5.02
FIXED INTEREST							
BLOOMBERG AUSBOND COMPOSITE 0+ YR INDEX	0.26	1.08	1.76	3.38	4.94	6.58	6.40
BLOOMBERG AUSBOND BANK BILL INDEX	0.20	0.58	1.14	2.26	2.55	3.19	4.41
BARCLAYS GLOBAL AGGREGATE BOND INDEX HEDGED AUD	0.31	2.34	4.14	5.20	5.75	7.55	7.84

Data source: IRESS & Financial Express. Returns greater than one year are annualised
Commentary regarding equity indices below references performance without including the effects of currency (unless specifically stated)

Australian equities

Following a brief retreat early in the month, the Australian share market continued to recover from its February lows, with the S&P/ASX 200 Index finishing at 5252.20 points at the end of April – only slightly below 2016's starting value of 5295.90. Returns on Australian equities, as measured by the S&P/ASX 200 Accumulation Index, were 3.37% in April and -4.93% over the year to end, down on March's returns but still promising for equities investors.

Large gains from Materials (14.19%) and Energy (7.65) drove returns, with softer growth from Financials (1.68%) as the market digested mixed earnings results from the big four. Industrials returned only 1.58% during the month, but are still the highest performing sector over a 12-month period, returning 15.26% to the end of April. Losses from Consumer Discretionary (-1.36) and Utilities (-0.39) weighed down index returns.

Small cap shares underperformed slightly in April, with the S&P/ASX Small Ordinaries Accumulation Index returning 3.04%, but small caps have continued their outperformance over a 12-month period, providing better protection against market falls through 2015 and into the start of 2016.

Global equities

With central banks holding the line on rates, global markets were largely flat or downward pointing towards the end of the month. Following the Federal Reserve's decision to keep rates on hold, the S&P 500 Index slid -1.42% to end the month up 0.27%. Likewise, European markets were down following inaction from the ECB, with the German Stock Index (DAX) losing -3.80% to end the month up 0.74%, and the FTSE 100 Index dropping -2.19% to finish up 1.09%.

European markets continued to brace for the UK's Brexit vote, to be held in June, with the Bank of England planning to offer additional liquidity options for banks around the date of the referendum. The Brexit vote has been blamed for some of the recent market turmoil, and the BoE faces a significant challenge in how it frames its messaging around future interest rates changes.

Financial markets were supported by rising commodity prices, with crude oil sitting comfortably above US $45/b late in the month, although market returns have moderated since March. The MSCI World ex Australia NR Index gained 1.19% in April, with weak results from Asian markets. The Nikkei 225 Index lost -0.55%, the Shanghai Shenzhen CSI 300 Index lost 1.91%, while the Hong Kong Hang Seng Index gained a modest 1.40%.

REITs

The S&P/ASX 300 A-REIT Accumulation Index retuned 2.76% in April, underperforming the market but still an attractive source of yield for investors, helped by an even more dovish RBA following weak inflation figures at the end of the month. Concerns remained among some investors about the perceived risk associated with high A-REIT valuation multiples, including potentially unsustainable distributions, but property supply and demand fundamentals have continued to hold up outside of mining-exposed Perth and Brisbane.

Globally, REITs returned -0.86% in March (in AUD hedged terms), while the FTSE EPRA/NAREIT Developed NR Index lost -0.74%. In the US, REITs returned -2.19% in USD terms, although it remains one

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of the most resilient high-yield sectors and popular for dividend and retirement portfolios, attracting large inflows of foreign capital.

Fixed interest

Australian bonds returned a modest 0.26% in April as a rise in longer-dated yields constrained bond values. Recent declines in share and oil prices have made low risk assets attractive, although confidence is slowly returning to the market. The Australian 10-year Treasury yield rose from 2.49 to 2.52 after reaching a high of 2.65 during the month, while 2-year yields fell slightly from 1.89 to 1.86.

Global bonds, as measured by the Barclays Global Aggregate Bond Index, returned 0.31% in April amid falling yields on corporate investment grade and high yield bonds. Monthly returns on global corporate investment grade and high yield debt were 3.64% and 1.38% respectively. The Bank of America Merrill Lynch US High Yield Option-Adjusted Spread fell from 8.37 to 7.59 during April, easing recession worries.

Government bond yields underwent significant expansion in April, despite a softening in the Fed's outlook and the ECB's expanded asset purchase programme. The US 10-year Treasury yield rose from 1.77 to 1.83, and the UK 10-year Gilt yield rose from 1.41 to 1.60. The German 10-year Bund yield rose from 0.15 to 0.27, and the 5-year Bund yield moved slightly higher from -0.33 to -0.29. The Japanese government, by far the most indebted in the world, was the exception to rising yields, with the 10-year yield pushing further negative from -0.04 to -0.08.

ASX 200 Stock Movements

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

BEST PERFORMERS	
FORTESCUE METALS GROUP	33.73%
WORLEYPARSONS	29.93%
EVOLUTION MINING	28.95%
BROADSPECTRUM	24.89%
MINERAL RESOURCES	23.29%

WORST PERFORMERS	
NINE ENTERTAINMENT	-27.56%
QANTAS AIRWAYS	-20.88%
MANTRA GROUP	-18.32%
MESOBLAST	-14.79%
MYER HOLDINGS	-11.91%

S&P/ASX 200 Stock Performance for the Year to April

BEST PERFORMERS	
ST BARBARA	487.34%
ACONEX	190.87%
BELLAMY'S AUSTRALIA	189.37%
PACIFIC BRANDS	163.22%
BLACKMORES	153.07%

WORST PERFORMERS	
LIQUEFIED NATURAL GAS	-86.62%
WHITEHAVEN COAL	-53.33%
NINE ENTERTAINMENT	-51.29%
ORIGIN ENERGY	-50.74%
INDEPENDENCE GROUP	-48.14%

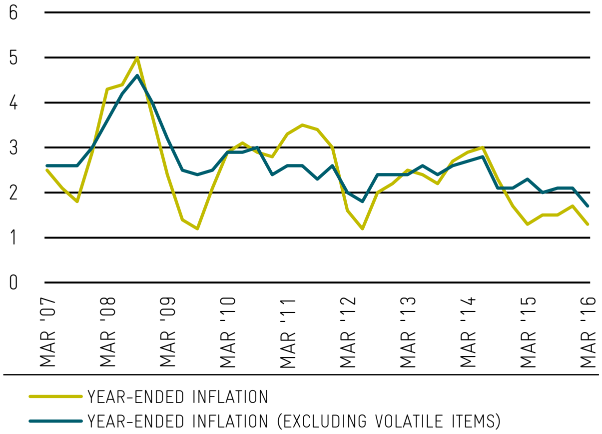
Economic News

Australia

While the Australian economy continues to improve gradually, with a strengthening labour market and strong expansion in the manufacturing sector, the March quarter inflation figures, released late in April, showed an unexpected drop in inflation. The Reserve Bank moved quickly to cut the cash rate by 25 bps to a new historic low of 1.75%, keen to exorcise the deflation genie before it has a chance to take hold. The Bank noted that accommodative monetary policy has been successful in supporting demand and a lower exchange rate, which has had a positive impact on Australia's export sector, but resolved a further rate cut was required to support prices.

Inflation over the March quarter fell by -0.2%, with y/y CPI growing by only 1.3%. The largest declines came from clothing and footwear (-2.6%) and transport (-2.5%), with falls in petrol prices contributing significantly to a lower price basket. However, even core inflation, which excludes volatile price items, is still very low at only 1.7%, well outside the Bank's target range.

Year-ended inflation



Source: RBA

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Unemployment fell further in March from 5.8% to 5.7%, with the economy adding 26,100 seasonally adjusted jobs. However, underlying the headline figures was a fall in full-time employment by 8,800, with the overall rise in employment predominantly driven by part-time jobs, which rose by 34,900. The participation rate remained steady at 64.9%, while monthly hours worked declined by 17.5 million hours. Unemployment rates fell in most states, but rose significantly in Queensland (from 5.6% to 6.1%) and was steady in New South Wales at 5.3%.

The Westpac Melbourne Institute Index of Consumer Sentiment fell by 4.0% in April, from 99.1 to 95.1, with the index below 100 points for two consecutive months (a reading below 100 means pessimists outnumber optimists). Market uncertainty at home and overseas has continued to play on consumers' minds, while sentiment towards housing fell sharply. The component tracking expectations for 'family finances over the next 12 months' fell by 6.6%.

Retail turnover rose 0.4% in March, beating expectations and higher than the 0.1% rise in February. Food retailing (0.6%), clothing, footwear and personal accessory retailing (1.1%), and other retailing (0.4%) drove the increase. Department stores were down -0.5%.

Australia's trade deficit narrowed in March to $2.16 billion, a $0.88 billion drop on February's deficit of $3.04 billion. Despite a rise in the AUD, higher commodity prices lifted the value of exports, with a large gain of $1.08 billion in goods and services credits (4.0%), as well as rises in non-monetary gold and non-rural goods. On the import side, goods and services debits rose by $0.20 billion (1.0%), along with small increases in non-monetary gold and capital goods.

Global

US non-farm payrolls rose 160,000 in April, the weakest reading in seven months and below the expected rise of 200,000. The unemployment rate is unchanged at 5.0% but the size of the labour force, which has been rising in recent months, fell in the latest reading, and the participation rate slipped two tenths of a point to 62.8%.

US real GDP rose at an annual rate of 0.5% in Q1 2016, based on initial estimates. GDP was lower than the market's expected rise of 0.7%, and significantly lower than the previous quarter's growth rate of 1.4%. The deceleration in GDP growth reflected a larger decrease in non-residential fixed investment, slowing personal consumption expenditure (the largest component of GDP), lower federal government spending and an upturn in imports. The April ISM Manufacturing PMI fell from 51.8 to 50.8, remaining above 50 for the second month in a row but adding to concerns about the US growth outlook.

US consumer prices rose less than expected in March, creating more uncertainty around any future rate hike from the Federal Reserve. CPI for March grew at only 0.1% m/m, with the food index falling 0.2%, offset by a rise in the energy index by 0.9%. Core CPI, which excludes food and energy, inched forward by 0.1% m/m, the smallest increase since August 2015.

On 27 April, the FOMC decided to leave the federal funds rate on hold within its current range of 0.25–0.5%, reflecting continued risk in the global economic and financial outlook. Lower than expected inflation and an uncertain growth environment will make it harder for the Fed to move rates higher in 2016, and the market's expectations of longer-term inflation remain little changed.

Retail sales in March fell unexpectedly by 0.3%, following little change in the previous month. The decrease was led by the largest fall in demand for autos in a year, with a drop of -2.1% on February, as well as decreases in clothing, food services, and department stores. Lower levels of spending were matched by softer consumer confidence, with the CB Consumer Confidence Index recording 94.2 in April, missing expectations and down from the March figure of 96.2.

GDP in the Euro area grew by 0.6% in Q1 2016, beating expectations and providing hope to policymakers and investors that recovery may be taking hold. However, low inflation continues to plague the continent, and unemployment, while it has been reduced from its 2013 high, remains at high levels. Inflation throughout the Eurozone fell further into negative territory in April, with y/y CPI hitting -0.2%. Euro area unemployment fell from 10.3% to 10.2% in March – the lowest rate recorded since August 2011.

In Germany, the BME/Markit Manufacturing PMI reached a three-month high, rising from 50.7 to 51.8 in April, driven by growth in new orders. However, while German manufacturing has been expanding, growth in both the PMI and output has been mostly flat since 2013 and well below pre-2008 levels.

The ECB left its key rates on hold at its 21 April meeting, with the rates on main financing operations, as well as the marginal lending facility and deposit facility, unchanged at 0.00%, 0.25% and -0.40% respectively. The Bank also released further details on its asset purchase programme, which was increased from €60 billion to €80 billion per month at its March meeting and now includes purchases of non-bank corporate debt.

Chinese PMI figures disappointed in April, with the official indicator falling from 50.2 to 50.1, below the expected 50.4 figure. The Caixin China Manufacturing PMI shows a consistent contraction in the manufacturing economy since March 2015, with the PMI falling from 49.7 to 49.4 in April. Chinese GDP for Q1 2016 was reported as 6.7% y/y, down on the Q4 growth figure of 6.8% and in line with market expectations. CPI for March remained relatively strong at 2.3% y/y, remaining steady since February but below the market's expected rise of 2.5%.

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In emerging markets, Russian inflation was steady in April to 7.3% y/y, having fallen from the August 2015 high of 15.8%, with commodity price falls still reflected in the price index. The Russian economy continues to struggle, with officials announcing that GDP was unlikely to grow in 2016 and the World Bank predicting a contraction of 1.9%. Indian CPI recorded 4.8% in March, down from 5.2% in February. While reported GDP is outpacing the Chinese economy, growing 7.3% in 2015, questions remain over the reliability of the data.

Commodities

Energy prices pushed higher in April, with the WTI crude oil spot price rising from US $36.94/b to $45.98/b (24.5%), after hitting a high of $46.03. Brent crude oil also gained, rising from US $36.75 to $45.64/b (24.2%). The Energy Information Agency forecasts crude oil prices to remain in line with current levels, with global oil inventory builds expected to average 1.4 million b/d in 2016. Oil stocks fell in mid-April after the world's largest oil exporters failed to reach an agreement in Doha to freeze output at January levels.

Metals were higher in April, with Aluminium (10.5%), Copper (4.2%), Lead (5.9%), Nickel (11.3%), Tin (3.1%) and Zinc (6.7%) all gaining strongly. Gold also moved higher, gaining 4.9% to US $1293.53/oz.

The price of iron ore delivered to Qingdao in China shot from US $53.75/t to $66.24, after closing above US $70 mid way through the month. While higher iron ore prices are stimulatory for the Australian economy, the gains have been partly offset by recent rises in the AUD.

Currencies

The AUD rose against the USD to a high of 0.7813, only to soften at end the month, down -0.7% to close at 0.7603. The AUD was down against other major currencies, including EUR (-1.7%), GBP (-2.4%), JPY (-6.1%) and NZD (-1.7%).

The US Dollar Index closed April -1.7% lower, driven down by disappointing manufacturing data. The USD fell against major currencies including EUR (-0.6%), GBP (-1.7%), JPY (-5.4%) and CHF (-0.2%).

The JPY continued to move within a wide range alongside changes in expectations about further policy easing by the Bank of Japan, appreciating 4.5% against the USD in April. The EUR continued to appreciate in April despite ultra-loose monetary policy in the Eurozone, rising 0.2% against the USD.

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