Month in Review

ISSUE DATE: 8-04-2016

Market Moves — as at 31•03•2016

RETURNS (%) P.A.	1 MTH	3 MTH	6 MTH	1 YR	3 YR	5 YR	10 YR
AUSTRALIAN EQUITIES							
S&P/ASX 300 ACCUMULATION INDEX	4.78	-2.64	3.72	-9.27	5.29	5.45	4.32
S&P/ASX SMALL ORDINARIES ACCUMULATION INDEX	5.47	1.03	12.47	3.72	1.50	-2.08	0.33
GLOBAL EQUITIES							
MSCI WORLD ACC INDEX WITH GROSS DIV (A$)	-0.40	-5.15	-3.61	-3.57	18.92	13.75	4.14
S&P 500 COMPOSITE ACCUMULATION INDEX (A$)	-0.85	-4.15	-0.96	1.08	23.75	18.38	6.20
FTSE100 ACCUMULATION INDEX (A$)	-2.53	-7.70	-10.10	-8.90	11.29	8.65	1.39
MSCI EMERGING MARKETS FREE W/GROSS DIV (A$)	5.57	0.50	-2.59	-12.31	6.12	2.16	2.64
REAL ESTATE INVESTMENT TRUSTS (REITS)							
S&P/ASX 300 A-REIT ACCUMULATION INDEX	2.50	6.38	12.78	11.40	16.26	15.83	2.41
FTSE EPRA/NAREIT DEVELOPED NR INDEX HEDGED A$	7.59	3.30	8.53	0.69	9.89	11.82	4.86
FIXED INTEREST							
BLOOMBERG AUSBOND COMPOSITE 0+ YR INDEX	-0.21	2.05	1.80	1.97	5.39	6.63	6.32
BLOOMBERG AUSBOND BANK BILL INDEX	0.20	0.58	1.13	2.24	2.57	3.23	4.44
BARCLAYS GLOBAL AGGREGATE INDEX HEDGED $A	0.92	3.71	4.33	4.51	6.11	7.75	7.78

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

The Australian share market staged a modest comeback in March, only to retreat late in the month as investors refocused on risks to the global economy. The S&P/ASX 200 Index ended the month at 5082.79 points, recovering some of the ground lost in February, but still down 15% on its April 2015 high.

Australian equities, as measured by the S&P/ASX 300 Accumulation Index, returned 4.78% during the month, and -9.27% over the year to March. All sectors were positive, with strong retracements from Resources (6.66%), Energy (6.16%) and Materials (6.05%), and a rebound in Financials (5.89%) following significant declines in the start of the year. Industrials (2.27%) were the underperformers in March, but still the highest-returning sector over a one-year period, recording 12.75%.

Small cap shares again outperformed the market in March, with the S&P/ASX Small Ordinaries Accumulation Index returning 5.47%. Small cap indices have provided better protection against market falls over the past year, returning 3.72% over the past 12 months (versus the S&P/ASX 200 Accumulation Index return of -9.59%).

Global equities

Markets rallied in mid-March in response to a dovish turn from Fed Chair Janet Yellen, which appeared at odds with some of her more hawkish colleagues. The FOMC left rates on hold in March, however it provided a lower path for expected future rate rises, with the median expectation for the funds rate at the end of 2016 lowered by 50 bps to 0.75-1.00%.

The US market rose 2.10% following the announcement, which was carried through to the end of the month. The S&P 500 Index finished the month up 6.60%, boosted by positive manufacturing and revised GDP growth data.

Meanwhile in Europe, extraordinary monetary policy settings keep getting more extraordinary. In action evoking President Draghi's fateful "whatever it takes" speech some four years ago, the ECB cut its deposit rate a further 20 bps to -0.40%, while the main refinancing rate was cut to zero. The European market rallied 3.57% in response to the decision, before falling 5.05% to end the week lower. In the UK, the FTSE 100 gained a modest 1.28% in March, and the German DAX added 4.95% despite subdued manufacturing output.

Financial markets were supported by rising commodity prices, with crude oil ducking above US $40/b towards the end of the month. The MSCI World ex Australia NR Index gained 6.27% in March, with strong growth from Asian markets. The Nikkei 225 Index gained 4.57%, the Shanghai Shenzhen CSI 300 Index gained 11.84%, and the Hong Kong Hang Seng Index gained 8.71%.

REITs

The S&P/ASX 300 A-REIT Accumulation Index retuned 2.50% in March, underperforming the market but still an attractive asset class for yield hunters. Concerns remain among some investors about the perceived risk associated with high A-REIT valuation multiples, including potentially unsustainable distributions. In the acquisitions space, Investa urged shareholders of its Investa Office Fund (IOF) to vote against a $2.5 billion bid from DEXUS Property Group, arguing the bid undervalues the trust.

Month in Review

Globally, REITs returned 9.47% in March (in USD terms), while the FTSE EPRA/NAREIT Developed NR Index (AUD Hedged) gained 7.59%. In the US, REITs returned 10.08% in USD terms, with free-standing retail, data centre, specialty, and self-storage REITS the top performers. Growth in cloud computing and data has driven demand for third-party IT infrastructure, which has been reflected in the REIT market. Self-storage fundamentals remain solid as a result of limited new supply, capital constraints and increased barriers to entry.

Fixed interest

Australian bonds returned -0.21% in March as a moderate rise in yields pushed bond values down. The Australian 10-year Treasury yield rose from 2.40 to 2.49, after reaching a high of 2.69 during the month, while 2-year yields rose from 1.77 to 1.90. Global bonds, as measured by the Barclays Global Aggregate Bond Index, returned 0.92% in March amidst falling yields on corporate investment grade and high yield bonds. Monthly returns on global corporate and high yield debt were 2.34% and 4.33% respectively.

Softer economic growth forecasts have again pushed out expectations for a Fed rate increase, while the ECB took action to address persistent weakness in the European economy, cutting the deposit rate further into negative territory and expanding its asset purchase programme. Central bank credibility was on the line in March, although bond markets have reflected a more moderate risk environment compared to the start of the year. Non-investment grade yields came down from 8.64 to 7.83, providing some comfort to recession watchers.

Government bond yields underwent a modest expansion in March. The US 10-year Treasury yield rose from 1.74 to 1.77, and the UK 10-year Gilt yield rose from 1.34 to 1.41. The Japanese government, by far the most indebted in the world, is still borrowing at negative 10-year rates, with yields rising slightly from -0.04 to -0.03 in March. In Europe, government bond yields experienced mild expansion despite further easing from the ECB, with the German 10-year Bund yield rising from 0.11 to 0.15, and the 5-year Bund yield moving slightly higher from -0.41 to -0.33.

ASX 200 Stock Movements

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

BEST PERFORMERS	
MESOBLAST	33.85%
SIMS METAL MANAGEMENT	28.57%
PREMIER INVESTMENTS	28.38%
WORLEY PARSONS	28.10%
SIGMA PHARMACEUTICALS	27.71%

WORST PERFORMERS	
EVOLUTION MINING	-13.14%
LIQUEFIED NATURAL GAS	-12.40%
NORTHERN STAR RESOURCES	-12.05%
SIRTEX MEDICAL	-9.62%
SYRAH RESOURCES	-8.35%

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

BEST PERFORMERS	
ST BARBARA	809.09%
BELLAMY'S AUSTRALIA	282.96%
BLACKMORES	224.75%
ACONEX	206.83%
PACIFIC BRANDS	123.91%

WORST PERFORMERS	
LIQUEFIED NATURAL GAS	-83.23%
WHITEHAVEN COAL	-54.04%
ORIGIN ENERGY	-48.56%
INDEPENDENCE GROUP	-45.99%
SPOTLESS GROUP HOLDINGS	-44.49%

Month in Review

Economic News

Australia

The Australian economy is continuing to rebalance, with improvements labour market conditions reflective of moderate economic growth, despite the contraction in mining investment.

Unemployment fell back down to 5.8% in February, after an unexpected rise to 6.0% in January. The Australian economy added 300 seasonally adjusted jobs, with full-time employment up 15,900 and part-time employment down 15,600. The participation rate decreased slightly from 65.2% to 64.9%, and monthly hours worked fell by 2 million hours.

Unemployment fell strongly in Queensland, Victoria and New South Wales, while there was a significant rise in South Australia (from 6.8% to 7.7%) and further increases in Tasmania and Western Australia.

The Westpac Melbourne Institute Index of Consumer Sentiment fell back in March by -2.2%, from 101.3 to 99.1, bringing it back around its average reading over the past six months, and broadly holding gains off its November high. Financial market volatility has continued to play on consumers' minds, however responses to the 'news items recalled' question indicates that consumers were less focused on international conditions in March and more focused on budget and taxation policy, and domestic economic conditions.

February retail sales were disappointing, unchanged since January and below the market's expectation of 0.4% There were positive signs in household goods (0.4%), department stores (0.4%), clothing, footwear and personal accessory retailing (0.1%), while sales in the food retailing (0.0%), cafes, restaurants and food retailing (-0.2%) and other retailing (-0.1%) segments were either steady or falling.

The Reserve Bank of Australia kept rates on hold in the start of March, with the cash rate unchanged at 2.00% since cutting by 25 bps in May 2015. The Bank drew attention to slower than expected global growth, including moderating growth in China and heightened volatility. While the Bank noted recent rises in commodity prices, these follow very substantial falls over the past two years.

Inflation still remains low, giving the Reserve Bank some room to move if required. Headline inflation for December 2015 was 1.7% y/y, slightly higher than previous months, but still below the Reserve Bank's target range. Even core inflation, which excludes volatile items, remains relatively low at 2.1%. Inflation for the March quarter is due on 27 April 2016.

Australia's trade deficit widened slightly to $3.41 billion in February, a $0.25 billion increase on January's deficit of $3.16 billion. A stronger Australian dollar constrained exports, with significant falls in goods and services credits, rural and non-rural goods, as well as non-monetary gold, which fell $290 million (-20%). On the import side, consumption goods rose by $272 million.

Global

In the Eurozone, low inflation continued to pose a challenge to monetary policy. Year-on-year CPI throughout the Eurozone hit negative territory in February, recording -0.2%, and estimated inflation for March is only slightly higher at -0.1%. Euro area unemployment fell slightly in February from 10.4% to 10.3% – the lowest rate recorded since August 2011. Similarly, youth unemployment fell from 22.7% to 21.6%, which remains unacceptably high for policy makers. In Germany, manufacturing growth remains subdued, with the BME/Markit Manufacturing PMI posting 50.7 in March, barely changed from the 15-month low of 50.5 in February.

On 10 March, the ECB announced further monetary stimulus in response to weak inflation and growth. The main refinancing rate was cut by 5 bps to 0.00%, the marginal lending rate by 5 bps to 0.25%, and the deposit rate by 10 bps to -0.40%. The Bank also announced an expansion to the asset purchase programme, increasing the value of net purchases from €60 billion to €80 billion, and adding investment grade euro-denominated bonds issued by non-bank corporations to the list of eligible assets. The expanded programme will run until the end of March 2017 or beyond, depending on the path of inflation.

Data released for the US in March were mostly positive, including a bump in PMI and revised GDP figures reflecting higher than expected growth in Q4 2015. However, a slight increase in unemployment and continued risk in the global economy will make the timing of a future interest rate rise more uncertain. The ISM Manufacturing PMI rose from 49.5 to 51.8 in March – the first above-50 reading since October 2015.

US payrolls were strong in March, with the non-farming economy adding 215,000 jobs, although this was slightly down on the 242,000 jobs added in February. The US unemployment rate rose to 5.0%, surprising the market, which expected the rate to remain steady at 4.9%. Overall, the employment picture in the US remains positive and in line with the Federal Reserve's baseline expectations, although involuntary part-time employment remains elevated.

Month in Review

March also saw an upward revision in Q4 GDP from 1.0% to 1.4%, based on more complete data sources. The increase in real GDP reflected positive contributions from PCE, residential fixed investment, and federal government spending. US inflation remains robust, with core CPI for March unchanged at 0.3% m/m, bringing the annual rate to 2.3% – well inside the Federal Reserve's target range. On 16 March, the FOMC decided to leave the federal funds rate at 0.25-0.5%, reflecting continued risk in the global economic and financial outlook. It remains to be seen whether core inflation will be sustained throughout 2016.

February retail sales fell -0.1%, and January's positive move of 0.2% was revised to a fall of -0.4%. Despite this, consumer confidence remains a relatively high levels, with the CB Consumer Confidence Index recording 96.2 in March, up from 92.2 in February and beating expectations.

Chinese economic data was sparse for March, but included positive signs in the PMI numbers. The official indicator rose to 50.2, which follows seven straight months of sub-50 prints. The Caixin China Manufacturing PMI rose to 49.7, up from 48.0 in February and well ahead of the market's expectation of 48.2. China's CPI for February was 1.6% m/m, and y/y CPI was 2.3%, significantly higher than the forecast 1.9% and the highest reading since August 2015.

For emerging markets, data was mixed. Brazilian inflation fell slightly to 10.4% y/y in February, while unemployment rose from 7.6% to 8.2%. Russian inflation was down further in March 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. Unemployment remained steady at 5.8%, and manufacturing PMI fell to 48.3 in March, versus 49.3 in February. Indian CPI recorded 5.2% in February, while industrial production fell by -1.5%.

Commodities

Energy prices stabilised in February, with the WTI crude oil spot price rising from US $32.74/b to $36.94/b and the end of March (12.8%), after hitting an intra-month high of $41.45. Brent crude oil gained, rising from US $35.92 to $36.75/b (2.3%). According to a Reuters survey, OPEC crude output rose in March to 32.47 million bpd from 32.37 million bpd in February. Energy prices have lifted ahead of a key OPEC meeting in April to discuss a deal to freeze oil production.

Metals had mixed movements in March, with Tin (5.7%), Copper (3.2%) and Zinc (3.0%) gaining, while Lead (-2.7%), Gold (-0.5%) and Nickel (-0.4%) were down on the start of the month. The price of iron ore delivered to Qingdao in China rose from US $49.62 per tonne to $53.75 (8.3%) after spiking at $63.74 early in the month following China's announcement of a growth target for 2016 of between 6.5 and 7.0%.

Currencies

The AUD experienced a significant appreciation in March, rising from USD 71.28 to end the month at 76.61 (a rise of 7.5%). Recent increases have come without the RBA's customary chastisement of traders, with Governor Glenn Stevens saying only that the currency "might be getting a bit ahead of itself". The AUD was up strongly against major currencies, including USD (6.7%), EUR (2.5%), GBP (3.9%), JPY (7.1%) and NZD (2.3%).

Foreign exchange markets provided some stability during the month, supported by a bounce in the price of oil. The US Dollar Index closed March -3.7% lower, down against major currencies, including EUR (-4.5%), GBP (-3.1%), JPY (-0.1%) and CHF (-3.7%).

Month in Review