Month in Review

ISSUE DATE: 9-05-2017

Market Moves — as at 30•04•2017

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	1.03	6.74	13.84	17.77	7.27	11.01	4.13
S&P/ASX SMALL ORDINARIES ACCUMULATION INDEX	-0.25	3.75	3.62	10.04	6.80	2.42	-1.35
GLOBAL EQUITIES							
MSCI WORLD TR INDEX (AUD)	3.57	7.18	14.41	17.66	14.14	18.12	5.63
S&P 500 TG INDEX (AUD)	3.05	6.75	15.31	20.33	18.65	21.45	8.31
FTSE 100 TR INDEX (AUD)	4.14	7.37	13.87	8.14	4.13	10.92	1.57
MSCI EMERGING MARKETS NET TR INDEX (AUD)	4.24	9.61	10.79	21.57	9.33	8.43	3.57
REAL ESTATE INVESTMENT TRUSTS (REITS)							
S&P/ASX 300 A-REIT (SECTOR) ACCUMULATION INDEX	2.56	7.55	10.22	6.11	15.61	16.23	0.40
FTSE EPRA/NAREIT DEVELOPED NET TR INDEX (AUD HEDGED)	1.05	2.80	4.57	5.73	8.98	11.32	2.66
FIXED INTEREST							
BLOOMBERG AUSBOND COMPOSITE 0+ YR INDEX	0.75	1.37	0.35	2.59	4.92	4.87	6.16
BLOOMBERG AUSBOND BANK BILL INDEX	0.15	0.43	0.88	1.88	2.27	2.60	3.97
BARCLAYS GLOBAL AGGREGATE TR INDEX (AUD HEDGED)	0.74	1.69	0.13	2.60	5.53	5.76	7.38

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 market had a mixed month in April, posting a return of 1.03%, weighed down by negative performance from the Materials (-0.15%) and Energy (-0.63%) sectors, and a challenging month for Consumer Staples (-2.58%). The main gains came from the Industrials sector (+4.37%), with strong gains from Brambles (+10.59%) following its announcement that it is on track to meet its 5% sales growth target. Brambles took a big hit in January due to challenges with its US pallets business, and again in February after disappointing earnings. After hitting a low of $9.04 in March, shares finished April at $10.34.

Another recovery story came from the much-maligned Bellamy's, which gained strongly late in the month to post a return of 22.38% with the installation of new management, as well as continued demand for Australian baby formula from the Chinese market. Meanwhile, the pain continued for telcos Vocus Communications (-21.99%) and TPG (-13.85%), with investors continuing to question key acquisitions, including Vocus's Nextgen purchase, while TPG's organic growth (excluding the performance of recent acquisition iiNet) has disappointed investors.

Global equities

The US market rally continued unabated through April, with the S&P 500 gaining 3.05% in AUD terms and the Dow Jones Industrial Average price index posting 3.59%. This despite a disappointing GDP reading of only 0.7% for Q1 2017. Gains came from the Information Technology (+4.80%) and Consumer Discretionary (4.71%) sectors, with strong performance from Alphabet Class A shares (+11.47%) and Western Digital (+10.32%). Industrials (+4.02%) also had a strong month, led by Caterpillar (+13.60%) and CSX (+11.64%). Interestingly, equity market gains have coincided with a fall in yields in major markets, as well as a fall in the US dollar. With valuations starting to look high in the US, investors are holding out for the President's proposed tax cuts to be made law, which are needed to consummate the reflation trade.

Globally, the MSCI World Index gained 3.57% in AUD terms, boosted by Europe and emerging markets. The EuroStoxx 600 Index rose 5.79%, with aircraft manufacturers Safran (+13.08%) and Airbus (+10.51%) leading the gains. The French CAC 40 returned 7.11% in April, gaining 8.49% from a mid-month low as Emmanuel Macron firmed as the likely victor in the French presidential election. In the UK, the FTSE 100 Index gained 4.14% in AUD terms but was down in sterling terms, losing 1.63%. In Asian markets, the Nikkei 225 Index gained 3.67% while the Shenzhen CSI 300 Index returned a more modest 1.50%. The MSCI Emerging Markets Index rose 4.24%, supported by gains from the Taiwanese and Indian markets.

REITs

The S&P/ASX 300 A-REIT Accumulation Index added 2.56% in April as investors returned to yield. Generation Healthcare led with a return of 10.73% after responsible entity APN Funds Management announced it had received an off-market bid from NWH Australia Asset Co. Abacus Property (+6.48%) gained as investors saw continued demand for industrial property, and Goodman Group (+4.78%) moved closer to selling more than $800 million in assets in the UK. Amazon is considering Goodman's $50m Oakdale Industrial Estate for its first Australian warehouse.

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Global REITs also gained in April, with the S&P Global REIT NTR Index returning 0.97% (in AUD hedged terms), while the FTSE EPRA/NAREIT Developed NR Index gained 1.05% as global yields tracked lower through the month. With the market expecting two further Fed rate rises for 2017, cap rates and leasing spreads may continue to come under pressure, but if the tightening path remains on the dovish side, yield-producing asset classes like REITs may continue to be in demand.

Fixed income

Global yields fell in April, continuing a downward trend started in the previous month. While rates have been trending higher since October 2016 and yield curves have steepened, investors have appeared to embrace duration again, reflected in longer-term fund flow. The US 10-year Treasury yield fell from 2.39% to 2.28% after reaching an intra-month low of 2.17%. While recent CPI releases in both Europe and the US have been promising, the numbers have moderated in recent months, and core inflation remains below central bank targets. The return on US corporate investment grade bonds was 1.03% in April, while US high-yield debt returned 1.17%. After some moderate expansion in March, the BofA Merrill Lynch US High Yield OAS narrowed from 3.92% to 3.81%.

Global bonds, measured by the Barclays Global Aggregate TR Index, returned 0.74% in April (in AUD hedged terms). Returns on Australian corporate bonds were 0.62% while government bonds returned 0.79%. The Australian 10-year Treasury yield fell 12 bps from 2.70% to 2.58%, after reaching a low of 2.46% – the lowest level since November 2015 but still above the historic low of 1.87%. The UK 10-year Gilt yield fell from 1.14% to 1.08% in April – softer since its post-Brexit high of 1.51% in January. The German 10-year Bund yield was steady at 0.32%, while the 5-year Bund remained around -0.39%. The Japanese 10-year yield fell from 0.07% to 0.01%, where it threatens to again turn negative after six months in the black.

ASX 200 Share Movements

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

BEST PERFORMERS		WORST PERFORMERS	
BELLAMY'S AUSTRALIA	22.38%	VOCUS COMMUNICATIONS	-21.99%
BT INVESTMENT MANAGEMENT	19.40%	SYRAH RESOURCES	-19.43%
ST BARBARA	13.45%	FORTESCUE METALS GROUP	-14.77%
OROCOBRE	13.31%	TPG TELECOM	-13.85%
A2 MILK CO	13.14%	COCA-COLA AMATIL	-13.40%

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

BEST PERFORMERS		WORST PERFORMERS	
WHITEHAVEN COAL	255.84%	VOCUS COMMUNICATIONS	-60.50%
ARISTOCRAT LEISURE	96.40%	ISENTIA GROUP	-60.06%
A2 MILK CO	93.15%	SYRAH RESOURCES	-51.80%
WEBJET	91.55%	BELLAMY'S AUSTRALIA	-48.96%
SEVEN GROUP HOLDINGS	89.57%	SIRTEX MEDICAL	-47.75%

Economic News

Australia

On 2 May, the RBA left the cash rate on hold at 1.50%, where it has been since the August 2016 cut. While unemployment is expected to continue to decline, wage growth is low and will remain so "for a while yet." Inflation was 0.5% in Q1 2017, unchanged on the previous quarter. The CPI reached 2.1% over the year, rising above the target and in line with the RBA's expectations. Underlying inflation is running at 1.75% and is expected to pick up as the economy strengthens.

The housing market continues to be a source of consternation, with continued growth in the Melbourne and Sydney markets. While arrears rates are low, slow wage growth is a drag on the ability of households to pay down debt. In a speech delivered on 4 May, Governor Lowe focused on the issue of a rising debt-to-income ratio: "Given the high levels of debt and housing prices, relative to incomes, it is likely that some households respond to a future shock to income or housing prices by deciding that they have borrowed too much." While the RBA has no targets for debt-to-income or house prices, this is something that will continue to occupy Board members for some time, with current research focused on the impact on spending and the transmission of monetary policy.

The unemployment figures for March showed an increase in employed persons of 60,900 in seasonally adjusted terms, following a fall of 6,400 in February.

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Full-time employment continues to grow after falling through much of 2016, increasing by 74,500 in March, while part-time employment fell by 13,600. The unemployment rate increased slightly by less than 0.1 points to 5.9% and is expected to decline gradually as the economy improves. The employment-to-population ratio appears to have steadied at around 61%, still lower than the decade average of 61.6% and the high of 62.9% reached in early 2008.

The AIG Manufacturing Index expanded for a seventh consecutive month in April, climbing 1.7 points to 59.2. All seven activity sub-indices were comfortably in expansion, with gains from New Orders (61.5) and a surge in Sales (65.5), while Production (60.7), Exports (58.6) and Employment (55.9) were all higher on March. Higher prices for coal and other commodities, along with large infrastructure projects, have been supportive of manufacturing activity.

The Westpac Melbourne Institute Index of Consumer Sentiment fell 0.7% in April, from 99.7 to 99.0, marking the fifth consecutive month of sub-100 readings (indicating that pessimists slightly outnumber optimists). The lower sentiment has reflected mixed labour market conditions, a retracement in key commodity prices including iron ore, and continued uncertainty globally. Interestingly, the 'finances versus a year ago' sub-index lifted by 8.5% while the 'finances next 12 months' sub-index improved by 2.4%, although unsurprisingly confidence in the housing market deteriorated, with the 'time to buy a dwelling' index falling by 3.3% to 96.3.

Australia's balance on goods and services recorded a surplus of $3.1b in March, slightly lower compared to February's surplus of $3.7b. The largest increases in Australia's goods exports came from non-monetary gold (+$443m), metals, ores and minerals (+$359m) and general merchandise (+$290m), while coal, coke and briquettes (-$341m) saw a large decline on February.

Global

The advance estimate of US Q1 GDP showed annual growth at 0.7%, down from 2.1% recorded in Q4 2016 and considerably lower than the consensus estimate of 1.2%. Consumer spending – the main engine room of the economy – rose only 0.3% versus 3.5% in Q4, representing the worst performance since 2009. The slowdown is partly due to transitory forces such as warm weather and volatility in inventories. The Atlanta Fed's 'GDPNow' tracker closed out its Q1 forecast at 0.2%, while the forecast for Q2 GDP is currently around 4.2%.

The ISM manufacturing PMI fell further in April from 57.2 to 54.8, and lower than the expected 56.5. New Orders continued to fall, registering 57.5 compared to 64.5 in March, but remains firmly in expansion. The Production index rose slightly from 57.6 to 58.6, while Inventories moved into expansion from 49 to 51.

The Prices index reached 68.5 in April, down 2 points on March's reading of 70.5, but still indicative of inflationary pressure moving through the supply chain.

Non-farm payrolls recorded 211,000 new jobs in April, making up for the disappointing 98,000 figure in March. The number of persons employed part time for economic reasons declined by 281,000. Employment in leisure and hospitality rose the most, adding 55,000 jobs, followed by health care and social assistance (37,000) and financial activities (19,000). The broader U-6 measure of unemployment that includes discouraged workers and those marginally attached to the labour force continued to fall from 8.9% in March to 8.6%.

US consumer prices saw further moderation in March, with the CPI falling overall after rising only slightly in February. Prices for all items fell by 0.3% in March, the first monthly fall in the index since February 2016. The index for all items less food and energy fell 0.1%, marking its first decline since January 2010. Energy prices fell 3.2%, with the largest fall coming from gasoline, which fell 6.2% following February's fall of 2.8%. The core PCE index – the Fed's preferred measure – fell to an annual 1.6%, down from 1.8% in February and moving slightly further from the Fed's 2% target.

In the French presidential election, En Marche! Candidate Emmanuel Macron claimed victory in the second round of voting, with 65.1% of the vote, defeating right-wing candidate Marine Le Pen with 34.9%. The result may be seen as promising for Germany's Chancellor Angela Merkel, who is facing pressure from a resurgent SPD along with right-wing party Alternative for Germany (AfD). The most recent state election, held in Schleswig-Holstein, saw Merkel's CDU extend its vote by 2.0 points to 32.8% and 24 seats, while the SPD lost 3.7 points to 26.7% and 20 seats. AfD, contesting for the first time, gained 5.9%, giving it four seats in a parliament of 69.

GDP in the Euro area grew by 0.5% in Q1 2017, unchanged from Q4 2016 and providing further support to Europe's recovery story. Growth on Q1 2016 is now at 1.7%, considerably higher than the current US growth rate, which is sitting at an annual 0.7%. Although the gap between the two regions is probably overstated, the euro area economy is clearly building speed, with a jump in car sales in March and manufacturing growing at its fastest pace in six years.

Euro area inflation fell to an estimated 1.5% for March, down from 2.0% in February. The energy component was again a major contributor to inflation, rising 7.4%, while non-energy industrial goods rose only 0.3%. Core inflation (excluding energy, food, alcohol and tobacco) moved from 0.9% to 0.7%, and has remained stubbornly low since the GFC. The euro area unemployment rate was steady at 9.5% in March, remaining the lowest rate since May 2009. Youth unemployment is still very high but falling (from 19.4% to 17.2% in March), while significant dispersion still exists between member states.

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China's GDP rose to an annual 6.9% in Q1 2017, up from 6.8% in Q4 2016 and beating the expected 6.8%. Growth was driven by industrial production, retail sales and fixed asset investment, all of which gained strongly in March. However, concerns remain about Chinese debt and housing, which is still running hot despite efforts to cool it down. China's official PMI survey showed Chinese manufacturing softening in April, but still entering its ninth month of expansion, with the March figure coming in at 51.2, slightly lower than the expected 51.6. The Caixin PMI, based on a survey of smaller manufacturers, fell from 51.2 to 50.3 and lower than the expected 51.2.

In other emerging markets, Brazil's unemployment rate rose in March, from 13.2% to 13.8%, and has been rising steadily from a low of 6.9% in January 2016. Russia's inflation continues to fall, pushing from 4.3% y/y to 4.1% in March – the lowest rate since July 2012, while unemployment has moved lower from 5.6% to 5.4%. India's inflation rate rose slightly from 3.7% to 3.8% in March, moving closer to the Reserve Bank of India's medium-term target of 4%. Guidance from the RBI that it will stick to the 4% target, rather than tolerate a looser band of 2–6%, may mean interest rates rise sooner than the market anticipates.

Commodities

Base metals were lower in April, with Nickel (-5.7%) continuing its March slide and Zinc (-5.3%) falling heavily. Lead (-3.9%) tumbled mid-April, finding a low of US $2,101/t before recovering to end the month at US $2249/t. Copper (-1.8%) has been flat since the end of January and now starting to cool after building heavily since November 2016. Tin (-1.4%) was down, while Aluminium (-2.6%) also fell but remains near its recent highs. The price of iron ore delivered to Qingdao in China tumbled 14.4% in April after falling 11.9% in March, ending the month at US $68.80/t, much reduced from its February high of $94.86.

Following a rocky month in March, Gold had a positive April, gaining 1.5% and reaching a mid-month high of US $1,289.76/oz – the highest since November 2015. The Brent crude oil spot price moved lower from US $52.20/b to $49.46 (-5.3%), while the WTI crude price fell from US $50.54/b to $49.31 (-2.4%).

Currencies

The AUD fell 1.9% against the USD in April, from 0.7629 to 0.7488, hitting a late month low of 0.7465. The AUD fell 2.6% in trade-weighted terms, losing against most major currencies, including EUR (-4.0%), JPY (-1.7%), GBP (-4.9%), but gaining slightly against the NZD (+0.1).

The US Dollar Index closed the month 1.3% lower, falling against major currencies including EUR (-2.2%), GBP (-3.1%), CHF (-0.8%) and gaining against JPY (+0.1%). After gaining in the wake of the US election, the USD took a breather through Q1 2017 and continued its downward trend in April despite the market's expected rate path in 2017. The EUR fell against the USD early in the month but recovered heading into the final of French presidential election voting.

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