


GODFREY PEMBROKE
market
update
MAY 2016

- ▶ The recovery in equity and commodity prices continued in April helped by reasonable economic data and commentary from central banks that implied interest rates would remain lower for longer
- ▶ Oil prices continued to move higher, up another 20% in April. Iron ore prices rose 23% over the month
- ▶ China growth figures were reasonably solid
- ▶ US economic data was on-balance somewhat mixed, in part due to the stronger US Dollar which has hurt certain industry sectors such as exporters
- ▶ Economic data in Europe has been stronger-than-expected, although inflation remains low
- ▶ Australian business conditions and employment levels have remained strong, but inflation in early 2016 was very weak
- ▶ RBA cuts the cash rate from 2.00% to 1.75%

April market performance

Equity Markets – Price Indices	Index	At Close 30/04/2016	% Change 1 Month	% Change 12 Months
Australia	All Ordinaries	5316.00	3.2%	-7.9%
Japan	Nikkei	16666.05	-0.6%	-14.6%
Hong Kong	Hang Seng	21067.05	1.4%	-25.1%
UK	FTSE 100	6241.89	1.1%	-10.3%
Germany	DAX	10038.97	0.7%	-12.4%
US	Dow Jones	17773.64	0.5%	-0.4%
EMU*	Euro 100	1020.47	0.4%	-14.8%
World**	MSCI – Ex Aus (Gross) (Hedged)	1266.66	0.6%	-6.5%

Property – Price Index	Index	At Close 30/04/2016	% Change 1 Month	% Change 12 Months
Listed Trusts	S&P/ASX 300 A-REITS	1375.37	2.8%	10.0%

Interest Rates	At Close 30/04/2016	At Close 31/03/2016	At Close 30/04/2015
Aust 90 day Bank Bills	2.15%	2.29%	2.25%
Australian 10 year Bonds	2.52%	2.49%	2.65%
US 90 day T Bill	0.21%	0.21%	0.01%
US 10 year Bonds	1.83%	1.77%	2.03%

Currency***		At Close 30/04/2016	% Change 1 Month	% Change 12 Months
US dollar	A\$/US\$	0.76	-0.79%	-3.25%
British pound	A\$/STG	0.52	-2.66%	1.50%
Euro	A\$/euro	0.67	-1.30%	-5.34%
Japanese yen	A\$/yen	81.65	-5.56%	-13.49%
Trade-weighted Index		63.80	-0.93%	-2.30%

* Top 100 European stocks trading on the FTSE

** Price Index (Source: msci.com)

*** All foreign exchange rates rounded to two decimal places (Source: FactSet)

Past performance is not a reliable indicator of future performance.

Global economies

Developed market equities rose marginally in April helped by cautious commentary from the US Federal Reserve and European Central Bank and reasonable economic data in Europe and China.

Also helping equity markets was slightly better than expected economic data in the United States and, to a lesser extent, in China.

The weaker inflation reading in Australia meant that the Reserve Bank of Australia (RBA) cut interest rates from 2.0% to 1.75% to try to get the inflation back into its 2-3% target range. The lower interest rates also helped to place downward pressure on the Australian Dollar which the RBA previously acknowledged was at a level that was not helpful to the on-going adjustment in the economy.

US

In the United States, the initial estimate of Gross Domestic Product (GDP) growth in the first quarter of 2016 was a little disappointing with annualised growth of just 0.5%, down from 1.4% in the prior quarter. Business investment and net exports continue to drag while personal consumption and residential investment were positive contributors to growth. At its April meeting the US Federal Reserve kept interest rates unchanged, as expected, but the changes to the wording in the accompanying statement suggest that although the Fed is less worried about global economic and financial market risks, there is no evidence that it's contemplating another interest rate rise in the month ahead.

Europe

In Europe, the economic data has been reasonably positive recently. First quarter GDP growth came in at 1.6% for the year, which was higher than expected, with the Spanish economy continuing to grow strongly. Unemployment in the Eurozone was also better than expected in March, falling to 10.2%, which compares with 11.2% at the same time last year. However, inflation in Europe remains very soft with annual core inflation of 0.7% which is well below the European Central Bank's 2% target.

China

In China, GDP growth in the March quarter rose to be 6.7% higher over the past year. There were stronger-than-expected rebounds in industrial production, retail sales and fixed asset investment. It appears that government stimulus measures and the strong rise in house prices are helping support economic growth.

Asia region

In Japan, deflation pressures have continued with the consumer price index falling 0.1% year-on-year in March pointing to deflationary pressures in Japan. Excluding food and energy prices the annual rate of core inflation slipped to 0.7% in March. However the Japanese Yen has continued to strengthen which is hurting many exporters and one of the reasons that Japanese equities have struggled in recent months.

Australia

In Australia, March quarter CPI was much weaker than expected. The headline CPI recorded a 0.2% decline in prices over the quarter while underlying inflation rose just 1.6% over the year, lower than expected, and the lowest ever recorded. As a result of the softer-than-expected inflation and the more subdued increase in property prices, the RBA elected to reduce interest rates at its May board meeting from 2.00% to 1.75%.

Despite the softer inflation outlook, Australian employment rose by 26,100 jobs in March, which was better than expected and the unemployment rate fell from 5.8% to 5.7%, which was also better than expected. The NAB business survey for April showed that the business conditions index fell from +12 to +9 in April but this is still an above average reading.

EQUITY MARKETS

- ▶ The China Shanghai Composite Index fell 2.2% in April
- ▶ Brazil's Bovespa Index rose 7.7% to be 33% higher over the past three months
- ▶ The German DAX Index was up 0.7%
- ▶ The broader Euro 100 was 0.4% higher
- ▶ The Japanese Nikkei Index fell 0.6%
- ▶ The US Standard & Poor's 500 Index returned 0.4% in April
- ▶ Australian S&P/ASX All Ordinaries Index rose 3.2% for the month

Australian equities

	Index/Benchmark (% pa)	1 Year	3 Years	5 Years	7 Years
Australian	S&P/ASX 300 Acc.	-4.67%	4.97%	6.21%	9.42%
	S&P/ASX 50 Acc.	-7.13%	4.09%	6.62%	9.55%
	S&P/ASX Small Ordinaries Acc.	5.12%	4.15%	-0.97%	5.62%

The S&P/ASX 200 Accumulation Index returned 3.4% in April. Cyclical sectors generally outperformed defensive sectors: materials and energy were the best-performing sectors while consumer discretionary was the worst-performing sector. Small caps slightly underperformed with a total return of 3.0% including dividends.

Sector	1 Month	3 Months	1 Year
Energy	7.5%	14.4%	-25.9%
Materials	14.3%	32.3%	-6.6%
Industrial	1.5%	9.9%	13.7%
Consumer Discretionary	-1.7%	1.7%	3.0%
Consumer Staples	1.1%	-1.0%	-3.8%
Health Care	3.3%	4.4%	9.6%
Financials (ex Property)	1.5%	0.6%	-11.8%
Info Tech	2.6%	2.4%	2.6%
Telcos	0.5%	-0.6%	-5.6%
Utilities	-0.3%	2.2%	8.7%
Property	2.8%	8.3%	15.6%

BIG MOVERS THIS MONTH

Going up

↑	Materials	14.3%
↑	Energy	7.5%
↑	Healthcare	3.3%

Going down

↓	Consumer Discretionary	-1.7%
↓	Utilities	-0.3%

Global Equities

	Index/Benchmark (% pa)	1 Year	3 Years	5 Years	7 Years
Global	MSCI World Ex Aus (Gross) in AUD	-0.21%	18.90%	14.82%	11.74%
	MSCI World Ex Aus (Gross) in Local Currency	-4.12%	8.93%	8.78%	12.49%
	MSCI World Small Cap (\$A)	1.17%	19.56%	14.52%	14.36%
	MSCI World Ex Aus (Gross) AUD Hedged	-2.88%	11.07%	11.29%	N/A
Emerging	MSCI Emerging Mkts Free	-12.41%	2.28%	1.50%	8.25%
	MSCI AC Far East Free (ex Japan)	-17.09%	1.06%	0.87%	0.08%

Global developed market equities returned 0.9% in April in local currency terms helped by reasonable economic data, supportive central bank policies and improved sentiment. Shares in Brazil, Australia and Canada rose the most helped by higher commodity prices – particularly iron ore and oil.

Emerging markets shares fell 0.1% in April with gains in Brazil and India offset by falls in China. Price-to-earnings ratio valuations in developed markets have returned to the 15-17 times range with Europe and Japanese shares at lower multiples than the US market

Property

	Index/Benchmark (% pa)	1 Year	3 Years	5 Years	7 Years
Australian	S&P/ASX 300 A-REIT Acc	15.62%	14.29%	16.39%	16.99%
Global	FTSE EPRA/NAREIT Dv ex AUS TR Hdg AUD	2.52%	7.39%	11.42%	18.06%

The S&P/ASX 300 A-REIT Accumulation Index was up 2.8% in April and 15.6% over the 12 months to 30 April 2016. The S&P/ASX 300 A-REIT Index was also up 2.8% in April and up 10% over the one-year period ended 30 April 2016.

Over one, three and five years, the A-REITs outperformed Global REITs, while Global REITs outperformed A-REITs over the seven-year period. Currency-hedged global property, as represented by the FTSE EPRA/NAREIT Index, was up 2.5% over a one-year period.

Fixed Interest

	Index/Benchmark (% pa)	1 Year	3 Years	5 Years	7 Years
Australian	Bloomberg AusBond Composite 0+ Yr	3.38%	4.94%	6.58%	6.13%
	Australian 90 Day Bank Bill	2.22%	2.49%	3.08%	3.44%
Global	BarCap Global Aggregate Index	8.36%	11.74%	9.04%	3.23%
	BarCap Global Agg. Index Hedged	5.20%	5.75%	7.55%	8.00%

Australian bonds returned 0.26% in April – mostly from income – as bond yields saw little change during the month. The 10-year bond yield rose from 2.50% to 2.52% and the three-year bond yield fell from 1.91% to 1.86% the market began to price in a possible interest rate cut from the RBA.

Global government long-term bond yields generally finished the month marginally higher, as yields rose in the US, UK and Germany. The Barclays Global Aggregate Bond Index (A\$ hedged) returned 0.31% in April helped by gains from the tightening of investment-grade credit spreads.

Australian dollar

The US Dollar weakened against most currencies in April as the US Federal Reserve continued to hold a more cautious tone about the pace of interest rate rises in 2016. The Euro, British Pound and Yen all rose against the US Dollar. Despite the rise in commodity and equity prices in April, the Australian Dollar was marginally weaker against a range of currencies due to the low inflation reading which heightened the chances of a May rate cut.

Against the US Dollar, the Australian Dollar fell about 0.8% for the month to US\$0.76 at month end. On a Trade-Weighted Index basis the Australian Dollar was 0.9% weaker.

The information contained in this Market Update is current as at 10/05/2016 and is prepared by GWM Adviser Services Limited ABN 96 002 071749 trading as ThreeSixty Research, registered office 105-153 Miller Street North Sydney NSW 2060. This company is part of the National Australia Bank Group of Companies. Any advice in this Market Update has been prepared without taking account of your objectives, financial situation or needs. Because of this you should, before acting on any advice, consider whether it is appropriate to your objectives, financial situation and needs. Past performance is not a reliable indicator of future performance. Before acquiring a financial product, you should obtain a Product Disclosure Statement (PDS) relating to that product and consider the contents of the PDS before making a decision about whether to acquire the product.