


GODFREY PEMBROKE
market
update

JUNE 2016

- ▶ The recovery in equity and commodity prices from February lows continued into May with the third straight month of equity and commodity price rises.
- ▶ Oil prices continued to move higher, up another 7% in May. Iron ore prices gave back their recent gains with a 24% decline over the month.
- ▶ US economic data was fairly good leading to increased talk of impending rate hikes.
- ▶ Economic data in Europe has been stronger-than-expected, although inflation remains low.
- ▶ Australian growth was stronger than expected in the first quarter of 2016. However, pricing pressures in the economy are fairly low, reinforcing the RBA's early May decision to cut official interest rates to 1.75%.

May market performance

Equity Markets – Price Indices	Index	At Close 31/05/2016	% Change 1 Month	% Change 12 Months
Australia	All Ordinaries	5447.80	2.5%	-5.7%
Japan	Nikkei	17234.98	3.4%	-16.2%
Hong Kong	Hang Seng	20815.09	-1.2%	-24.1%
UK	FTSE 100	6230.79	-0.2%	-10.8%
Germany	DAX	10262.74	2.2%	-10.1%
US	Dow Jones	17787.20	0.1%	-1.2%
EMU*	Euro 100	1034.56	1.4%	-12.9%
World**	MSCI – Ex Aus (Gross) (Hedged)	1284.46	1.4%	-6.1%

Property – Price Index	Index	At Close 31/05/2016	% Change 1 Month	% Change 12 Months
Listed Trusts	S&P/ASX 300 A-REITS	1412.17	2.7%	9.9%

Interest Rates	At Close 31/05/2016	At Close 30/04/2016	At Close 31/05/2015
Aust 90 day Bank Bills	1.98%	2.15%	2.14%
Australian 10 year Bonds	2.31%	2.52%	2.73%
US 90 day T Bill	0.29%	0.21%	0.00%
US 10 year Bonds	1.85%	1.83%	2.13%

Currency***		At Close 31/05/2016	% Change 1 Month	% Change 12 Months
US dollar	A\$/US\$	0.72	-5.07%	-5.36%
British pound	A\$/STG	0.50	-4.46%	-0.78%
Euro	A\$/euro	0.65	-2.33%	-6.79%
Japanese yen	A\$/yen	80.35	-1.60%	-15.42%
Trade-weighted Index		61.70	-3.29%	-3.14%

* 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 further in May helped by marginally better economic data, stronger commodity prices and supportive monetary policies from the US Federal Reserve and European Central Bank.

In most of the major economies manufacturing activity indicators were in expansion territory and unemployment

rates continue to fall. Inflation and wage pressures are rising slowly in the United States. Housing construction and stronger activity in the services sector appears to be supporting growth in China, Australia and the United States.

US

In the United States, the unemployment rate fell from 5.0% in April to 4.7% in May and wages rose more than expected to be up 2.5% over the past year (compared to the same period to May 2015). Recent ISM surveys of activity in the manufacturing and non-manufacturing sectors have also picked up and new home sales rose nearly 24% over the past year, to the highest level in eight years. Given the reasonably good economic backdrop, recent speeches from US Federal Reserve officials suggest that the US will see a lift in interest rates again in coming months.

Europe

In Europe, economic data has been patchy. Core inflation ticked up a little – from 0.7% year-on-year in April, to 0.8% in May, and the unemployment rate remained steady. German first quarter GDP growth was better than expected, helped by the mild winter which brought forward construction activity. Eurozone manufacturing activity fell slightly with stronger readings in Germany and France offset by weakness in Spain and Italy. And Germany's IFO business climate survey rose one point to 107.7, its highest level so far this year.

China

In China, the data in the past month has been underwhelming. Manufacturing surveys showed flat to slightly weaker activity levels. Likewise, growth in industrial production, retail sales and fixed asset investment eased slightly, but the figures were still relatively strong, and the slower annual growth rates in April may be linked to the timing of the Chinese New Year in 2015. The Chinese housing market continues to drive overall growth, with new home sales rising 56% over the past year, and strong price rises for new homes in the major cities.

Asia region

In Japan, first quarter GDP growth rose from -0.4% in the fourth quarter of 2015, to +0.4%, in the first quarter of 2016, which was better than expected due to stronger household consumption and stronger net exports. The Japanese share market also received a boost from the Government decision to defer for two years the proposed increase in the sales tax rate, which had been due to rise from 8% to 10% next year.

Australia

In Australia, March quarter Gross Domestic Product (GDP) growth was stronger than expected. The Australian economy grew 1.1% over the quarter and 3.1% over the past year, which was the highest annual growth rate in three-and-a-half years. However, the stronger growth was primarily driven by a surge in net exports which is not expected to be sustained over the medium term.

Other indicators of economic activity have continued to hold up reasonably well. For example building approvals and house prices have resumed their upward trend after a period of flat growth. Consumer confidence also rose a strong 8.5% in May and business lending has accelerated in recent months.

EQUITY MARKETS

- ▶ The China Shanghai Composite Index fell 0.7% in May.
- ▶ After rising strongly in the prior months, Brazil's Bovespa Index fell 10.1%.
- ▶ The German DAX Index was 2.2% higher.
- ▶ The broader Euro 100 was 1.4% higher.
- ▶ The Japanese Nikkei Index rose by 3.4%.
- ▶ The US Standard & Poor's 500 Index returned 1.8% in May.
- ▶ Australia's S&P/ASX All Ordinaries Index rose 2.5% for the month.

Australian equities

	Index/Benchmark (% pa)	1 Year	3 Years	5 Years	7 Years
Australian	S&P/ASX 300 Acc.	-2.10%	7.71%	7.31%	9.67%
	S&P/ASX 50 Acc.	-4.67%	6.72%	7.68%	9.84%
	S&P/ASX Small Ordinaries Acc.	6.91%	6.93%	0.21%	5.14%

The S&P/ASX 200 Accumulation Index returned 2.4% in May. Healthcare and IT were the best performing sectors, while materials and energy shares declined over the month. Consumer discretionary stocks reversed their poor performance in April with a rise of nearly 6% in May. Small cap shares slightly outperformed larger companies with a total return of 4.1% including dividends.

Sector	1 Month	3 Months	1 Year
Energy	-1.6%	12.2%	-27.2%
Materials	-3.0%	17.6%	-11.4%
Industrial	2.6%	6.5%	10.6%
Consumer Discretionary	5.6%	9.2%	6.8%
Consumer Staples	-0.9%	3.2%	-2.6%
Health Care	9.4%	13.4%	16.9%
Financials (ex Property)	5.2%	13.8%	-5.7%
Info Tech	7.0%	16.0%	5.6%
Telcos	5.0%	10.4%	-0.7%
Utilities	3.5%	4.5%	10.6%
Property	2.7%	8.1%	15.6%

BIG MOVERS THIS MONTH

Going up

↑	Healthcare	9.4%
↑	IT	7.0%
↑	Consumer Discretionary	5.6%

Going down

↓	Materials	-3.0%
↓	Energy	-1.6%
↓	Consumer Staples	-0.9%

Global Equities

	Index/Benchmark (% pa)	1 Year	3 Years	5 Years	7 Years
Global	MSCI World Ex Aus (Gross) in AUD	2.23%	17.86%	16.01%	12.66%
	MSCI World Ex Aus (Gross) in Local Currency	-3.71%	8.94%	9.42%	11.86%
	MSCI World Small Cap (\$A)	3.19%	18.54%	15.86%	15.45%
Emerging	MSCI Emerging Mkts Free	-10.87%	1.72%	1.66%	6.32%
	MSCI AC Far East Free (ex Japan)	-15.32%	1.02%	1.00%	0.06%

Global developed market equities returned 1.9% in May, in local currency terms, helped by economic data that was, on balance, positive. Also boosting share prices were supportive central bank policies and improved investor sentiment. IT was the best performing sector, rising 5.2% in May. The energy and materials sectors were the worst performing sectors with both posting negative returns in May.

Emerging markets shares fell 0.8% due to falls in Brazil, China and Mexico. Price-to-earnings ratio valuations in developed markets have returned to the 16-17 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	15.56%	16.75%	17.02%	16.74%
Global	FTSE EPRA/NAREIT Dv ex AUS TR Hdg AUD	4.50%	10.39%	11.34%	16.73%

The S&P/ASX 300 A-REIT Accumulation Index (which includes distributions) was up 2.7% in April and 15.6% over the 12 months to 31 May 2016. The S&P/ASX 300 A-REIT Index was also up 2.7% in April and up 9.9% over the one-year period ended 31 May 2016.

Over one, three and five years, the A-REITs outperformed Global REITs, while Global REITs had almost identical performance to A-REITs over a seven-year period. Currency-hedged global property, as represented by the FTSE EPRA/NAREIT Index, was up 4.5% over a one-year period.

Fixed Interest

	Index/Benchmark (% pa)	1 Year	3 Years	5 Years	7 Years
Australian	Bloomberg AusBond Composite 0+ Yr	4.64%	5.41%	6.57%	6.43%
	Australian 90 Day Bank Bill	2.21%	2.47%	3.03%	3.42%
Global	BarCap Global Aggregate Index	11.28%	11.34%	9.32%	4.55%
	BarCap Global Agg. Index Hedged	6.07%	6.42%	7.38%	8.03%

Australian bonds returned 1.26% in April as bond yields fell by around 20 basis points in May following the RBA's rate cut earlier in the month. The 10-year bond yield fell from 2.52% to 2.32% and the three-year bond yield fell from 1.86% to 1.66% per annum.

In the United States, bond yields rose marginally as the market increased chances of a Fed rate rise in coming months. In Europe, government long bond yields generally finished the month lower as investors sought lower risk assets ahead of the June referendum on whether the United Kingdom would leave or remain in the European Union. The Barclays Global Aggregate Bond Index (A\$ hedged) returned 0.57% in May helped by gains from the tightening of investment-grade credit spreads.

Australian dollar

The US Dollar strengthened against most currencies in May as US Federal Reserve officials began to discuss possible interest rate rises in coming months. The Euro, British Pound and Yen all weakened against the US Dollar. The stronger US Dollar and the decision by the RBA to cut interest rates in early May saw the Australian Dollar fall nearly four US cents over the month, from US\$0.7632 to US\$0.7245.

Against the US Dollar, the Australian Dollar fell about 5.1% for the month, and on a Trade-Weighted Index basis, the Australian Dollar was 3.3% weaker.

The information contained in this Market Update is current as at 6/6/2016 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.

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