

Economic and market update

10 April 2017



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Bob reviews events in Australian and overseas markets during March.

How did markets perform in March?

Global shares made solid gains of 1.1% in local currency terms.

US shares ended flat after making a new record high in early March. President Trump's bold promises have maintained investor optimism despite the lack of policy detail. US economic data has been generally positive with strong jobs growth as well as positive business and consumer sentiment surveys. Yet consumer price pressures are building, with inflation at a 5 year high. Hence the US Federal Reserve (Fed) raised interest rates in March by 0.25% to a target range of 0.75% to 1.0%.

European shares made strong gains in March. Encouraging European data in terms of solid economic growth and positive business surveys supported shares. The Dutch parliamentary election did not cause any political shock given fading support for the 'populists' anti-Europe candidates.

Australian shares delivered a strong 3.3% return for March. Health Care (5.5%) and Consumer Staples (5.4%) were the standouts. There were also strong gains for the Consumer Discretionary (5.0%) and Energy (4.8%) sectors.

Global government bond yields essentially drifted sideways in March. US government bond yields absorbed the Fed's 0.25% interest rate hike in March given the forward guidance that future interest rate rises should be "gradual". European government bond yields edged higher as political concerns softened with the Dutch election result. Solid European economic data also placed mild upward pressure on yields.

Yet Australian government bond yields moved modestly lower in March. Softer employment data and the Reserve Bank of Australia's (RBA's) decision to keep the cash rate steady at 1.5% in March favoured lower yields.

What were the key factors driving markets?

The major themes driving markets in March continued to be President Trump's bold stimulus promises, the prospect of higher US interest rates and the political risks in Europe. Australia's modest economic data but strong housing markets in Sydney and Melbourne were also key issues.

President Trump's bold promises of corporate tax cuts and higher infrastructure spending has been supportive of US shares. However financial markets are keenly awaiting the specific detail of President Trump's policy agenda. Given solid US economic data and rising inflationary pressures, the Fed is expected to continue raising interest rates in 2017.

The coming French Presidential election (April-May 2017) as well as Britain's complex negotiations to exit the European Union over the next two years are key political risk factors to watch.

In Australia, our economic activity remains modest and mixed. Australia's unemployment rate edged higher to 5.9% with a small decline in employment. The National Australia Bank survey still indicates solid responses for business confidence and conditions. Notably Sydney and Melbourne's housing markets continue to make robust price gains. Accordingly, the RBA highlighted concern over the "build-up of risks associated with the housing market" with APRA announcing increased scrutiny on interest only housing investment loans.

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