


GODFREY PEMBROKE
market
update

May 2017

- ▶ Equity markets rose in April helped by political developments in Europe and solid US corporate earnings reports.
- ▶ In the United States, the technology-laden NASDAQ Composite Index rose to all-time highs, boosted by strong earnings results from the major technology companies.
- ▶ US consumer and business sentiment surveys fell back from the recent highs reached following Donald Trump's election win.
- ▶ Chinese economic growth in the March quarter was stronger than expected and other activity indicators were also higher than in prior months.
- ▶ Australian economic data was relatively good with stronger-than-expected employment growth in March and a rise in inflation.

April market performance

| Equity Markets – Price Indices | Index | At Close 30/4/2017 | % Change 1 Month | % Change 12 Months |
|-----------------------------------|--------------------------------|-----------------------|---------------------|-----------------------|
| Australia | All Ordinaries | 5947.59 | 0.7% | 11.9% |
| Japan | Nikkei | 19196.74 | 1.5% | 15.2% |
| Hong Kong | Hang Seng | 24615.13 | 2.1% | 16.8% |
| UK | FTSE 100 | 7203.94 | -1.6% | 15.4% |
| Germany | DAX | 12438.01 | 1.0% | 23.9% |
| US | Dow Jones | 20940.51 | 1.3% | 17.8% |
| EMU* | Euro 100 | 1208.53 | 1.9% | 18.4% |
| World** | MSCI – Ex Aus (Gross) (Hedged) | 1460.32 | 1.0% | 15.3% |

| Property – Price Index | Index | At Close 30/4/2017 | % Change 1 Month | % Change 12 Months |
|---------------------------|---------------------|-----------------------|---------------------|-----------------------|
| Listed Trusts | S&P/ASX 300 A-REITS | 1393.24 | 2.6% | 1.3% |

| Interest Rates | At Close 30/4/2017 | At Close 31/3/2017 | At Close 30/4/2016 |
|--------------------------|-----------------------|-----------------------|-----------------------|
| Aust 90 day Bank Bills | 1.74% | 1.79% | 2.15% |
| Australian 10 year Bonds | 2.58% | 2.69% | 2.52% |
| US 90 day T Bill | 0.80% | 0.75% | 0.21% |
| US 10 year Bonds | 2.28% | 2.39% | 1.83% |

| Currency*** | | At Close 30/4/2017 | % Change 1 Month | % Change 12 Months |
|----------------------|----------|-----------------------|---------------------|-----------------------|
| US dollar | A\$/US\$ | 0.75 | -1.97% | -2.00% |
| British pound | A\$/STG | 0.58 | -5.25% | 10.96% |
| Euro | A\$/euro | 0.69 | -3.71% | 3.07% |
| Japanese yen | A\$/yen | 83.36 | -1.93% | 2.09% |
| Trade-weighted Index | | 64.50 | -2.57% | 1.10% |

* 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

Economic data was a little mixed in April with some seasonal softness in the US offset by stronger data elsewhere.

European equities were boosted by the results of the first round of the French Presidential Election which saw centrist candidate Emmanuel Macron become the most likely winner with a strong lead over Eurosceptic Marine Le Pen.

US

In the US the advance estimate of first quarter GDP was weaker than expected, rising at an annualised rate of just 0.7% with personal consumption growing at an annualised rate of only 0.3%. Non-farm payrolls were also weaker than expected with just 98,000 new jobs in March, which was the weakest reading since May 2016. The ISM manufacturing index was also weaker than expected in April as consumer and business sentiment declined from their recent post-US election highs.

At the US Federal Reserve's May FOMC meeting, the Fed acknowledged the softer economic data, which many economists have attributed to the colder weather, but remain convinced that the softness is transitory and they remain committed to increasing interest rates with the next move likely to be at the June FOMC meeting.

Europe

In the Eurozone, GDP grew 0.5% over the first quarter, or 1.7% over the past year, marking four straight years of economic growth. Core inflation (which excludes food and energy prices) was surprisingly strong rising from 0.7% year-on-year in March to 1.2% in April, which is a three-year high and increases the chances that the European Central Bank will consider stopping its bond purchases at the end of this year.

In the United Kingdom, GDP growth in the March quarter was a little weaker than expected at 0.3% due to some softness in consumer spending, which has been impacted by the lower British Pound, which has increased prices for British consumers.

China

China's economic data has been relatively strong in April. GDP increased 6.9% year-on-year in the March quarter, up from 6.8% in the previous quarter and above expectations of a 6.8% increase. Monthly activity indicators were also stronger than expected: retail sales grew at an annual growth rate of 10.9%, above expectations of 9.7%. Industrial production growth increased from 6.3% to 7.6% year-on-year, above expectations of 6.3%, and fixed asset investment growth increased from 8.9% to 9.2% year-on-year, above expectations of 8.8%.

Asia region

In Japan, real household spending fell 1.3% year-on-year in March and core consumer prices have only increased 0.2% over the past year reflecting Japanese consumer caution. The Bank of Japan has kept official interest rates at -0.10% per annum and continues to buy significant volumes of Japanese government bonds each month with the aim of keeping the yield on the 10-year government bond at around zero.

Australia

In Australia, employment increased by 60,900 jobs in March, above expectations of an increase of 20,000 jobs, which took annual employment growth to a six-month high of 1.2% year-on-year. The unemployment rate remained steady at 5.9% - in line with market expectations. Australian inflation, which has been very low over the past few years, recovered marginally in the March quarter with the headline CPI 2.1% higher over the year and core annual inflation increased from 1.6% to 1.8%.

As expected, the Reserve Bank of Australia kept interest rates on hold at its May meeting. The post-meeting statement indicated that the RBA was a little more confident that core inflation would gradually rise back to its target range of 2 – 3% per annum and that the unemployment rate would decline over time. It also appeared more comfortable that the risks to financial stability from high household debt levels were being addressed through measures introduced by the bank regulator, APRA, and tighter bank lending standards.

EQUITY MARKETS

- ▶ China's Shanghai Composite Index lost 2.1% in April.
- ▶ Emerging market shares rose 2.3% in local currency terms.
- ▶ The German DAX Index gained 1.0 %.
- ▶ The broader Euro 100 index rose 1.9%.
- ▶ The Japanese Nikkei Index was 1.5% higher.
- ▶ The US Standard & Poor's 500 Index was up 1.0% over the month and the NASDAQ Composite Index rose 2.3%.
- ▶ Australia's S&P/ASX All Ordinaries Index rose 0.7%.

Australian equities

| | Index/Benchmark (% pa) | 1 Year | 3 Years | 5 Years | 7 Years |
|------------|-------------------------------|--------|---------|---------|---------|
| Australian | S&P/ASX 300 Acc. | 17.50% | 7.26% | 10.76% | 7.56% |
| | S&P/ASX 50 Acc. | 18.22% | 6.41% | 11.24% | 7.87% |
| | S&P/ASX Small Ordinaries Acc. | 10.04% | 6.80% | 2.42% | 2.12% |

The S&P/ASX 200 Accumulation Index returned 1.0% in April including dividends. Industrials, information technology and healthcare stocks posted the largest gains while consumer staples, energy and telecommunications were the weakest sectors, all recording losses in April. Smaller companies underperformed larger companies with a loss of 0.3%, including dividends.

| Sector | 1 Month | 3 Months | 1 Year |
|--------------------------|---------|----------|--------|
| Energy | -0.6% | 1.5% | 10.1% |
| Materials | -0.2% | -3.2% | 21.0% |
| Industrial | 4.1% | 12.3% | 11.1% |
| Consumer Discretionary | 0.7% | 7.1% | 14.5% |
| Consumer Staples | -2.5% | 9.0% | 13.4% |
| Health Care | 3.4% | 13.4% | 19.2% |
| Financials (ex Property) | 1.9% | 10.2% | 26.6% |
| Info Tech | 3.5% | 9.3% | 11.0% |
| Telcos | -9.5% | -12.1% | -19.7% |
| Utilities | 3.1% | 12.9% | 33.2% |
| Property | 2.6% | 7.5% | 6.1% |

BIG MOVERS THIS MONTH

Going up

| | | |
|---|------------------------|------|
| ↑ | Industrials | 4.1% |
| ↑ | Information Technology | 3.5% |
| ↑ | Healthcare | 3.4% |

Going down

| | | |
|---|--------------------|-------|
| ↓ | Energy | -0.6% |
| ↓ | Consumer Staples | -2.5% |
| ↓ | Telecommunications | -9.5% |

Global Equities

| | Index/Benchmark (% pa) | 1 Year | 3 Years | 5 Years | 7 Years |
|----------|---|--------|---------|---------|---------|
| Global | MSCI World Ex Aus (Gross) in AUD | 17.61% | 14.36% | 18.34% | 13.12% |
| | MSCI World Ex Aus (Gross) in Local Currency | 18.19% | 9.27% | 12.84% | 10.53% |
| | MSCI World Small Cap (\$A) | 20.39% | 15.14% | 19.30% | 14.11% |
| Emerging | MSCI Emerging Mkts Free | 18.27% | 6.87% | 6.06% | 5.53% |
| | MSCI AC Far East Free (ex Japan) | 21.33% | 6.84% | 6.33% | 0.06% |

Developed share markets gained 1.2% in April in local currency terms. Despite some geopolitical tensions in the Korean peninsula during April, equities were boosted late in the month following the first round of the French Presidential election. The US S&P 500 index finished April 1.0% higher, European shares rose 1.9% and Japanese shares gained 1.5% over the month. Globally, industrials, information technology and consumer discretionary were the best-performing sectors, while the telecommunications and energy sectors were the worst performing sectors with losses over the month.

Property

| | Index/Benchmark (% pa) | 1 Year | 3 Years | 5 Years | 7 Years |
|------------|---------------------------------------|--------|---------|---------|---------|
| Australian | S&P/ASX 300 A-REIT Acc | 6.11% | 15.61% | 16.23% | 12.58% |
| Global | FTSE EPRA/NAREIT Dv ex AUS TR Hdg AUD | 6.74% | 9.54% | 11.94% | 11.91% |

The S&P/ASX 300 A-REIT Accumulation Index (which includes distributions) gained 2.6% in April as yield-sensitive sectors continued to recover ground after recent weakness, helped by lower bond yields. Over the past year, property securities have returned 6.1%, down from the double digit annual returns seen several months ago.

A-REITs have outperformed currency-hedged Global REITs over three, five and seven years.

Fixed Interest

| | Index/Benchmark (% pa) | 1 Year | 3 Years | 5 Years | 7 Years |
|------------|-----------------------------------|--------|---------|---------|---------|
| Australian | Bloomberg AusBond Composite 0+ Yr | 2.59% | 4.92% | 4.87% | 6.03% |
| | Australian 90 Day Bank Bill | 1.82% | 2.21% | 2.52% | 3.16% |
| Global | BarCap Global Aggregate Index | -0.10% | 6.98% | 7.24% | 5.42% |
| | BarCap Global Agg. Index Hedged | 2.60% | 5.53% | 5.76% | 6.87% |

Australian bonds returned 0.75% in April after government bond yields fell. Over the month the two-year Australian Commonwealth Government bond yield fell from 1.77% to 1.67% per annum and the ten-year government bond yield fell from 2.71% to 2.59% per annum.

Internationally, the Barclays Global Aggregate Bond Index (A\$ hedged) returned 0.74% as bond yields fell in the United States, the United Kingdom and Japan. In the US, 10-year Treasury bond yields fell from 2.40% per annum to 2.28% and in Germany 10-year Bund yields remained flat at 0.33% per annum. During April, the credit spreads on high-yield corporate bonds fell from 392 to 381 basis points above US treasury bonds.

Australian dollar

Against the US Dollar and Japanese Yen, the Australian Dollar fell about 2% for the month due to lower commodity prices – especially iron ore prices which fell from US\$87 to US\$70 per tonne. On a Trade-Weighted Index basis, the Australian Dollar fell 2.6%.

The information contained in this Market Update is current as at 05/05/2017 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 a member of the National group of companies.

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