

Economic and market update

11 May 2017



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Bob reviews events in Australian and overseas markets during April.

How did markets perform in April?

Global shares made solid gains of 1.3% in local currency terms.

European shares made strong gains in April. The first round of the French Presidential election saw the centrist candidate Emmanuel Macron achieve the majority vote. European shares rallied awaiting the French election's second round on 7 May. Encouraging economic activity data and positive business surveys also favoured European shares.

US shares made solid gains in April given encouraging corporate earnings reports. President Trump's bold promises of tax cuts and higher infrastructure spending have also maintained optimism despite the lack of policy detail.

Chinese shares fell in April with signs that financial conditions were progressively being tightened in order to restrain exuberant credit growth.

Australian shares delivered a solid 1.0% return for April. There were strong sector performances from Industrials (4.4%), Utilities (3.1%), Health Care (3.2%) and Financials (1.9%). However lower prices for iron ore and energy weighed on Resources.

Global bond yields moved lower in April given falling energy prices and moderate US economic data.

Australian government bond yields fell in April given the mixed economic data. Australia's annual inflation rate edged higher to 2.1% in the March quarter, but the Reserve Bank of Australia again decided to keep the cash rate steady at 1.5%.

The Australian dollar (AUD) fell in April. Lower commodity prices (particularly iron ore and energy) served to soften the AUD.

What were the key factors driving markets?

The major themes driving markets in April continued to be President Trump's bold stimulus promises, the prospect of higher US interest rates and the political risks in Europe, the Middle East and North Korea.

President Trump's promises of corporate tax cuts and higher infrastructure spending continues to be supportive of US shares. However financial markets are keenly awaiting the specific detail of President Trump's policy agenda. Given positive business surveys and solid jobs growth, the US Federal Reserve is expected to continue raising interest rates in 2017.

The French Presidential election on 7 May and the British general election announcement for 8 June are the key political risks in Europe. Syria became prominent given a US missile attack in response to Syria's use of chemical weapons. North Korea's nuclear ambitions were also a concern for financial markets in April.

In Australia, our economic activity remains modest and mixed. Retail spending has been subdued with sedate results for consumer sentiment. Australia's unemployment rate remains stable at 5.9%, even with a strong rebound in jobs growth in March. The National Australia Bank business survey also indicates solid responses for confidence and conditions.

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