


GODFREY PEMBROKE
market
update

APRIL 2017

- ▶ In March, global equity markets were quite mixed. US shares and bonds traded sideways as Donald Trump's promise to repeal of the Affordable Care Act failed to gain congressional support, which has called into question whether his other policies, such as tax reform, can also be approved.
- ▶ On equity markets the Dow Jones Industrial Average equity index fell 0.6% in the US over the month while shares in Europe rose 3.5% and Australian shares returned 3.3%.
- ▶ US consumer sentiment indicators rose to their highest levels in 16 years and business surveys have also remained at high levels reflecting optimism about future growth.
- ▶ Chinese activity indicators suggest that economic conditions continue to improve and the economy is being supported by robust global demand.
- ▶ Australian economic data softened a little in the past month with a fall in retail sales and a rise in unemployment as well as softer business conditions. However, the economy continues to perform relatively well, supported by higher commodity prices and strong housing construction activity.

March market performance

Equity Markets – Price Indices	Index	At Close 31/03/2017	% Change 1 Month	% Change 12 Months
Australia	All Ordinaries	5903.83	2.5%	14.6%
Japan	Nikkei	18909.26	-1.1%	12.8%
Hong Kong	Hang Seng	24111.59	1.6%	16.1%
UK	FTSE 100	7322.92	0.8%	18.6%
Germany	DAX	12312.87	4.0%	23.6%
US	Dow Jones	20663.22	-0.7%	16.8%
EMU*	Euro 100	1185.47	5.5%	16.7%
World**	MSCI – Ex Aus (Gross) (Hedged)	1445.98	0.7%	14.8%

Property – Price Index	Index	At Close 31/03/2017	% Change 1 Month	% Change 12 Months
Listed Trusts	S&P/ASX 300 A-REITS	1358.48	0.6%	1.5%

Interest Rates	At Close 31/03/2017	At Close 28/02/2017	At Close 31/03/2016
Aust 90 day Bank Bills	#N/A	1.78%	2.29%
Australian 10 year Bonds	2.69%	2.73%	2.49%
US 90 day T Bill	0.75%	0.61%	0.21%
US 10 year Bonds	2.39%	2.39%	1.77%

Currency***	At Close 31/03/2017	% Change 1 Month	% Change 12 Months	
US dollar	A\$/US\$	0.76	-0.78%	-0.83%
British pound	A\$/STG	0.61	-1.26%	13.99%
Euro	A\$/euro	0.71	-1.43%	5.66%
Japanese yen	A\$/yen	85.00	-1.18%	-1.68%
Trade-weighted Index		66.20	-0.75%	2.80%

* 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

Global equity markets were mixed in March with strong rises in Europe offset by declines in Japan and relatively flat performance in the United States.

Economic data was, on the whole, relatively good – particularly “soft” economic indicators such as business and consumer sentiment surveys that suggest that economic growth could rise significantly.

US

In the US, the Federal Reserve increased the Fed Funds Target range from 0.50 -0.75% to 0.75 - 1.00% per annum, as expected, and subsequent speeches from Federal Reserve Open Markets committee members suggested that two to three more rate rises are likely in 2017.

The February reading of consumer confidence from the US Conference Board rose to its highest level since December 2000, and the jobs plentiful sub-index saw the largest monthly rise in 43 years. The widely-watched non-farm payrolls report for February showed that the number of people employed rose by 235,000 jobs, which was higher than market estimates for an increase of 200,000 jobs. This pushed down the unemployment rate to 4.7% in February, from 4.8% in January, and average hourly earnings climbed 2.8% year-on-year, which was stronger than the 2.5% growth recorded in January.

Europe

In the Eurozone, the aggregate manufacturing PMI increased to 56.2 in March, up from 55.4 in February, and the highest reading since April 2011. In Germany, the IFO business climate index rose to 112.3 in March (from 111.0 in February), the highest level in six years and back towards pre-financial crisis highs.

In the United Kingdom, headline inflation increased 0.7% in February, lifting annual inflation to 2.3% year-on-year, which is the highest inflation rate since September 2013. The core rate of inflation (which removes more volatile items such as fuel prices) increased to 2.0% year-on-year, from 1.6% previously, and well above market expectations of 1.7%.

China

China's official manufacturing PMI rose to 51.8 in March from 51.6 in February, higher than economist expectations, and the highest level in five years, suggesting that the world's second largest economy is gathering momentum. China's industrial production and fixed asset investment also grew faster than expected in February, helped by strong factory activity as well robust infrastructure and property investment.

Asia region

In Japan, real household spending fell 3.8% year-on-year in February, showing Japanese consumers are reluctant to spend. This is despite the unemployment rate falling from 3.0% in January to 2.8% in February. However, a survey of Japan's larger manufacturers by the Bank of Japan showed that confidence rose to the highest level in 18 months in March. Meanwhile Japan's core rate of inflation fell from +0.1% to -0.1% year-on-year meaning that it is unlikely that inflation will reach the Bank of Japan's 1% per annum target in the near future.

Australia

In Australia, employment fell by 6,400 jobs in February which was below expectations and the unemployment rate increased to 5.9% from 5.7%. The total number of hours worked slumped 1.2% over the month suggesting that there is some excess capacity in the labour market which is holding down wages growth. The February NAB business survey reported a drop in business conditions after a short-lived spike in the previous month to post-financial crisis highs. However, both business conditions and business confidence remain at above their long-term average levels.

As expected, the Reserve Bank of Australia kept interest rates on hold at its April meeting and in recent months RBA speakers have been talking about concerns that low interest rates are rapidly pushing up house prices and mortgage debt, which could create financial instability should interest rates subsequently rise. In late March, Australia's banking regulator, APRA, added additional macro-prudential rules to slow bank lending to property investors.

EQUITY MARKETS

- ▶ China's Shanghai Composite Index lost 0.6 in March.
- ▶ Emerging market shares rose 2.0% in local currency terms.
- ▶ The German DAX Index gained 4.0 %.
- ▶ The broader Euro 100 index returned 5.5%.
- ▶ The Japanese Nikkei Index lost 0.4%.
- ▶ The US Standard & Poor's 500 Index was up only 0.1% in March.
- ▶ Australia's S&P/ASX All Ordinaries Index rose 2.5%.

Australian equities

	Index/Benchmark (% pa)	1 Year	3 Years	5 Years	7 Years
Australian	S&P/ASX 300 Acc.	20.24%	7.51%	10.83%	7.20%
	S&P/ASX 50 Acc.	21.12%	6.73%	11.38%	7.45%
	S&P/ASX Small Ordinaries Acc.	13.67%	6.44%	2.28%	2.16%

The S&P/ASX 200 Accumulation Index returned 3.3% in March with every sector higher over the month. Utilities, healthcare and consumer staples stocks posted the largest gains while property, telecommunications and materials were the weakest sectors but still managed to post small gains in March. Smaller companies underperformed larger companies with a gain of 2.6%, including dividends.

Sector	1 Month	3 Months	1 Year
Energy	4.3%	2.8%	19.0%
Materials	0.2%	1.6%	38.7%
Industrial	4.3%	3.1%	8.3%
Consumer Discretionary	4.7%	1.7%	11.8%
Consumer Staples	5.5%	10.6%	17.6%
Health Care	5.6%	14.7%	19.2%
Financials (ex Property)	3.9%	6.0%	26.0%
Info Tech	3.6%	1.1%	10.0%
Telcos	0.3%	-4.5%	-10.9%
Utilities	6.3%	10.7%	28.8%
Property	0.7%	-0.1%	6.3%

BIG MOVERS THIS MONTH

Going up

↑ Utilities
6.3%

↑ Healthcare
5.6%

↑ Consumer Staples
5.5%

Going down

↓ None

Global Equities

	Index/Benchmark (% pa)	1 Year	3 Years	5 Years	7 Years
Global	MSCI World Ex Aus (Gross) in AUD	16.24%	13.41%	17.11%	12.33%
	MSCI World Ex Aus (Gross) in Local Currency	17.77%	9.11%	12.21%	10.40%
	MSCI World Small Cap (\$A)	19.36%	13.00%	18.07%	13.85%
Emerging	MSCI Emerging Mkts Free	15.49%	6.00%	5.45%	5.20%
	MSCI AC Far East Free (ex Japan)	17.16%	6.03%	5.83%	0.06%

Developed share markets gained 1.0% in March in local currency terms. After several months of strong gains, the US S&P 500 index traded sideways over the month with a gain of just 0.1%, while shares in Europe were, on average, 3.5% higher and Japanese shares lost 1.1%. Globally, Information Technology and Consumer Discretionary were the two best-performing sectors, while the Financial and Energy sectors were the worst performing sectors, although they still managed to eke out small gains for the month.

Property

	Index/Benchmark (% pa)	1 Year	3 Years	5 Years	7 Years
Australian	S&P/ASX 300 A-REIT Acc	6.31%	16.76%	16.87%	12.79%
Global	FTSE EPRA/NAREIT Dv ex AUS TR Hdg AUD	4.71%	10.19%	12.13%	12.17%

The S&P/ASX 300 A-REIT Accumulation Index (which includes distributions) gained 0.7% in March as yield-sensitive sectors recovered ground after recent weakness. Over the past year, property securities have returned 6.3%, down from the double digit annual returns seen several months ago.

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

Fixed Interest

	Index/Benchmark (% pa)	1 Year	3 Years	5 Years	7 Years
Australian	Bloomberg AusBond Composite 0+ Yr	2.09%	4.98%	5.05%	6.00%
	Australian 90 Day Bank Bill	1.86%	2.24%	2.56%	3.19%
Global	BarCap Global Aggregate Index	-1.08%	6.29%	6.72%	4.74%
	BarCap Global Agg. Index Hedged	2.16%	5.59%	5.80%	6.89%

Australian bonds returned 0.44% in March after government bond yields fell marginally. Over the month the two-year Australian Commonwealth Government bond yield fell from 1.82% to 1.77% per annum and the ten-year government bond yield fell from 2.75% to 2.71% per annum.

Internationally, the Barclays Global Aggregate Bond Index (A\$ hedged) returned 0.03% as bond yields rose marginally in the United States, Germany and Japan and declined in the United Kingdom. In the US, 10-year Treasury bond yields rose from 2.36% per annum to 2.40% and in Germany 10-year Bund yields rose from 0.21% per annum to 0.33% helped by stronger economic data. During March, the credit spreads on high-yield corporate bonds rose from 374 to 392 basis points above US treasury bonds due to weaker risk sentiment.

Australian dollar

Against the US Dollar, the Australian Dollar fell 0.8% for the month and was 1.2 - 1.4% lower against the Yen, Euro and British Pound, due to lower commodity prices and weaker risk appetite from international investors. On a Trade-Weighted Index basis, the Australian Dollar also fell 0.8%.

The information contained in this Market Update is current as at 06/04/2017 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.

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.