Economic update

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John reviews events in Australian and overseas markets during April.

How did markets perform in April?

Despite a late in the month sell-off in response to the Bank of Japan's (BoJ) decision not to extend its monetary policy stimulus program, share market returns in April were largely positive, though modest in nature.

European share markets did well with the French and German markets rising by 1.0% and 0.7% respectively in response to better economic growth data. In the UK, the FTSE100 Index was up 1.1%. The US market rose a marginal 0.3% as economic data was mixed and growth has slowed.

Japan's Nikkei Index weakened in the final week to close 0.6% lower for the month. This reflected widespread market disappointment that the BoJ left current monetary stimulus measures unchanged. In contrast, Hong Kong's market delivered another creditable performance, rising 1.4% in April. However, the Shanghai Composite Index was down by 2.2%.

Despite the recent recovery in commodity prices, the Australian dollar fell 6.2% against the yen and 0.7% compared to the US dollar in April.

Australia's share market did very well, outperforming its global peers. The S&P/ASX200 Accumulation Index was up 3.4% in April. Most of this rise was due to the price strength of many resources and energy stocks as the oil price increased 18% and the iron ore price rallied a further 15%.

What were the key factors driving global markets?

Global economic data improved in April and has partly mitigated investors' recent concerns.

China's economic activity has shown signs of stabilising with a revival in industrial production and stronger retail sales last month. However, recent manufacturing and service sector surveys suggest a further moderation in economic growth is likely in coming months.

Elsewhere in Asia, the surge in the Japanese yen has dented business confidence and industrial production. The BoJ disappointed market expectations by keeping monetary policy steady at its April meeting.

European economic data improved in April with the March quarter's 0.6% economic growth result the strongest for five years. Europe's unemployment rate is down to 10.2% which is the lowest jobless rate since 2011. However, consumer prices fell 0.2% in the past year, well below the European Central Bank's (ECB) 2% inflation target. Not surprisingly, the ECB is maintaining their assertive policy stimulus program.

US economic data was mixed in April. On the positive side, there was significant job creation last month and the unemployment rate stayed at 5%, which is near a seven year low. However US economic growth was very subdued in the March quarter, up just 0.5% annualised reflecting a pullback in business investment and exports. Inflationary pressures also remain subdued. Given this modest US activity data, the US Federal Reserve (Fed) held interest rates steady at their April meeting. Their commentary is still suggestive of a cautious and gradual path for raising US interest rates in 2016.

Australia recorded moderate activity data but of greatest significance was the surprising 0.2% fall in consumer prices recorded in the March quarter, bringing Australia's annual inflation to just 1.3%, well below the Reserve Bank of Australia's (RBA) 2% to 3% target range. Not surprisingly, the RBA responded early in May by cutting the official cash interest rate by 0.25% to 1.75%.

How are MLC's portfolios positioned?

We continue to believe it is appropriate to be defensively positioned where possible in our MLC Horizon and Inflation Plus portfolios.

This defensiveness has been achieved by holding more cash than is normal and increasing the allocation to alternative strategies which we believe will help preserve investors' capital in volatile markets and provide potentially better returns for the level of risk we take.

While these and other positions are unlikely to be enough to prevent negative returns in the current market conditions, it should be providing a degree of insulation.

However, it's worth acknowledging there are many investors who may have time on their side from a wealth accumulation perspective because they have many years before they enter retirement and commence drawing from their superannuation. For those investors, weak and volatile share markets represent an opportunity to buy at cheaper prices.