Market Update

FEBRUARY 2017

- In January, global equity markets continued to rise with the US share market making fresh record highs as investors continued to react positively to Donald Trump's election as 45th President of the United States.
- In the United States, the Dow Jones Industrial Average Index closed above 20,000 for the first time.
- US manufacturing indicators continued to rise and point to economic expansion.
- Chinese December quarter GDP growth was better than expected, rising 6.8% year-on-year.
- Australia's December quarter CPI came in below market expectations, rising 0.5% over the quarter and 1.5% year-on-year, below the Reserve Bank of Australia's target range of 2-3% per annum.

January market performance

Equity Markets – Price Indices	Index	At Close 31/01/2017	% Change 1 Month	% Change 12 Months
Australia	All Ordinaries	5675.00	-0.8%	12.2%
Japan	Nikkei	19041.34	-0.4%	8.7%
Hong Kong	Hang Seng	23360.78	6.2%	18.7%
UK	FTSE 100	7099.15	-0.6%	16.7%
Germany	DAX	11535.31	0.5%	17.7%
US	Dow Jones	19864.09	0.5%	20.6%
EMU*	Euro 100	1095.15	-1.5%	6.8%
World**	MSCI – Ex Aus (Gross) (Hedged)	1395.59	1.3%	14.4%

Property – Price Index	Index	At Close 31/01/2017	% Change 1 Month	% Change 12 Months
Listed Trusts	S&P/ASX 300 A-REITS	1306.32	-4.7%	1.9%

Interest Rates	At Close 31/01/2017	At Close 31/12/2016	At Close 31/01/2016
Aust 90 day Bank Bills	1.77%	1.81%	2.28%
Australian 10 year Bonds	2.71%	2.76%	2.58%
US 90 day T Bill	0.52%	0.50%	0.32%
US 10 year Bonds	2.46%	2.44%	1.92%

Currency***		At Close 31/01/2017	% Change 1 Month	% Change 12 Months
US dollar	A$/US$	0.76	4.84%	7.32%
British pound	A$/STG	0.60	2.97%	21.01%
Euro	A$/euro	0.70	2.32%	7.46%
Japanese yen	A$/yen	85.46	1.19%	-0.20%
Trade-weighted Index		65.80	2.97%	6.99%

* 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 continued their post-US election rally in January helped by optimism following the US election.

Most of the economic data released in January reflected trends that have been observed over the previous few months: improving sentiment and economic conditions in the United States, Europe and China.

Market Update

US

The initial estimate of fourth quarter US GDP growth was a little below expectations –1.9% annualised growth versus expectations of 2.2%. Household consumption and business investment showed reasonably good growth, however, the contraction in net exports detracted from the overall growth rate and was some payback from strong exports in the prior quarter.

US headline inflation rose 2.1% year-on-year, helped by higher energy prices, however the US Federal Reserve's measure of inflation, the core PCE deflator, remained below its 2% annual target at 1.7% and annual growth in average hourly earnings slipped back from 2.8% to 2.5% in January creating some uncertainty as to whether inflation pressures are rising.

Europe

In the Eurozone, the inflation rate jumped to 1.8% year-on-year in January from 1.1% in December. The lift was helped by energy prices which are up 8.1% year-on-year. Excluding energy costs, core inflation was steady at 0.9% year-on-year, in line with market expectations.

In the United Kingdom, the legislation to allow Britain to trigger Article 50, the first step in its effort to leave the European Union, was approved by the House of Commons and Article 50 is expected to be triggered in March. Despite the ongoing uncertainty surrounding Brexit, the UK economy continues to perform better than expected with annual GDP growth rising 2.2% in the fourth quarter.

China

In China, December quarter GDP growth was better than expected, rising 6.8% year-on-year. However, the activity indicators in December were mixed. Annual industrial production growth slowed to 6.0% from 6.2% in November, retail sales growth rose 10.9% year-on-year from 10.8% in November and year-to-date growth in fixed asset investment dropped to 8.1% from 8.3% in November.

Asia region

In Japan, the Bank of Japan (BoJ) left monetary policy unchanged at its January meeting, as expected. The BoJ remains committed to buying Japanese Government Bonds (JGB) each month in an effort to keep the yield on the 10-year JGB at zero. The BoJ also kept its annual inflation forecast for the 2017 financial year at 1.5%, below its 2.0% target, and it recognises that risks to its inflation forecasts remain to the downside.

Australia

In Australia, recent economic data has been a little soft. The unemployment rate ticked up for the second month in a row; from 5.7% in November to 5.8% in December. In addition Australia's December quarter CPI inflation came in below market expectations, rising 0.5% over the quarter and 1.5% year-on-year. Core inflation was also a little below expectations, rising 0.4% (0.5% was expected) and the annual rate of core inflation remained at 1.6%, which is still well below the RBA's 2-3% target band.

Against the weaker domestic conditions, Australia registered its first trade surplus since March 2014, with a surplus of $1.2 billion for November which was then beaten by December's surplus of $3.5 billion, a new record, reflecting rising export volumes and higher commodity prices.

Market Update

EQUITY MARKETS

- China's Shanghai Composite Index rose by 5.8% in January.
- Emerging market shares rose 4.0% in local currency terms.
- The German DAX Index gained 0.5%.
- The broader Euro 100 index fell 1.5%.
- The Japanese Nikkei Index lost 0.4%.
- The US Standard & Poor's 500 Index gained 1.9% over the month taking its three-month return to 7.8%.
- Australia's S&P/ASX All Ordinaries Index lost 0.8% in January.

Australian equities

	Index/Benchmark (% pa)	1 Year	3 Years	5 Years	7 Years
Australian	S&P/ASX 300 Acc.	17.32%	7.37%	10.36%	7.54%
	S&P/ASX 50 Acc.	16.81%	6.48%	10.74%	7.83%
	S&P/ASX Small Ordinaries Acc.	16.35%	6.36%	2.81%	2.48%

The S&P/ASX 200 Accumulation Index returned -0.80% in January with mixed performance depending on the sector. Materials shares rose 4.8% helped by marginally higher iron prices and strong quarterly production figures from the major miners. Healthcare shares returned 4.6% for the month after several months of underperformance. Property securities, industrial shares, information technology and consumer discretionary shares lost 4.2 – 4.7% over the month as many companies announced earnings downgrades. Smaller companies underperformed larger companies again with a loss of 2.4%, including dividends.

Sector	1 Month	3 Months	1 Year
Energy	0.7%	10.4%	24.0%
Materials	4.8%	11.2%	65.4%
Industrial	-4.4%	-0.8%	8.6%
Consumer Discretionary	-4.3%	-0.6%	8.8%
Consumer Staples	-1.0%	1.2%	3.1%
Health Care	4.6%	3.7%	9.7%
Financials (ex Property)	-2.0%	9.5%	15.6%
Info Tech	-4.2%	-0.2%	4.1%
Telcos	-1.7%	-1.6%	-9.2%
Utilities	1.1%	13.9%	20.6%
Property	-4.7%	2.5%	6.8%

Market Update

BIG MOVERS THIS MONTH

Going up

⇑ Materials 4.8%

⇑ Healthcare 4.6%

⇑ Utilities 1.1%

Going down

⇓ Property -4.7%

⇓ Industrial -4.4%

⇓ Consumer Discretionary -4.3%

Global Equities

	Index/Benchmark (% pa)	1 Year	3 Years	5 Years	7 Years
Global	MSCI World Ex Aus (Gross) in AUD	9.54%	11.74%	18.42%	12.46%
	MSCI World Ex Aus (Gross) in Local	17.38%	9.22%	12.78%	11.08%
	MSCI World Small Cap ($A)	17.04%	11.60%	19.39%	14.52%
Emerging	MSCI Emerging Mkts Free	20.79%	6.16%	5.33%	5.54%
	MSCI AC Far East Free (ex Japan)	20.85%	5.47%	5.54%	0.06%

Developed share markets gained 1.3% in January in local currency terms. Shares in the United States once again made fresh record highs late in January with the Dow Jones Industrial Average Index closing above 20,000 for the first time ever. The US S&P 500 index gained 1.9% while shares in Europe were, on average, lower with losses in Italy, France and the UK partially offset by rises in German and Spain. Globally, energy stocks were the worst performing sector, losing 3.9% for the month as the oil price eased back by around 2%. The materials sector was the best performing sector with a gain of 4.7% for the month.

In an absolute sense, price-earnings ratios are full, but compared with returns from bonds or cash, valuations do not seem excessive. Moderate economic growth should be sufficient to support mid-to-high single digit earnings growth for the key US and European indices in 2017.

Property

	Index/Benchmark (% pa)	1 Year	3 Years	5 Years	7 Years
Australian	S&P/ASX 300 A-REIT Acc	6.83%	15.92%	16.15%	12.25%
Global	FTSE EPRA/NAREIT Dv ex AUS TR Hdg AUD	10.58%	10.99%	13.15%	13.73%

The S&P/ASX 300 A-REIT Accumulation Index (which includes distributions) lost 4.7% in January as yield-sensitive sectors lost momentum once again. Over the past year, property securities have returned 6.8%, down from the double digit annual returns seen in previous months.

Over three and five years, A-REITs have outperformed Global REITs. However, currency-hedged global property securities outperformed in January and also over the past one year and seven years.

Market Update

Fixed Interest

	Index/Benchmark (% pa)	1 Year	3 Years	5 Years	7 Years
Australian	Bloomberg AusBond Composite 0+ Yr	2.30%	4.89%	5.05%	5.89%
	Australian 90 Day Bank Bill	1.95%	2.28%	2.64%	3.25%
Global	BarCap Global Aggregate Index	-4.63%	4.58%	7.07%	4.14%
	BarCap Global Agg. Index Hedged	3.26%	5.60%	5.79%	6.94%

Australian bonds returned 0.6% in January after government bond yields fell marginally. Over the month the two-year Australian Commonwealth Government bond yield fell from 1.92% to 1.80% per annum and the ten-year government bond yield fell from 2.77% to 2.72% per annum.

Internationally, the Barclays Global Aggregate Bond Index (A$ hedged) lost 0.3% as bond yields rose marginally in the United States and Japan and rose more substantially in the United Kingdom and Germany due to stronger economic data. In the US, 10-year Treasury bond yields rose from 2.43% per annum to 2.45% as economic news did little to shift the market's expectations for two to three rate hikes in the United States in the next year. During December, the credit spread on high-yield corporate bonds fell from 421 to 400 basis points above US treasury bonds, helped by the better US economic outlook which should keep default rates at low levels.

Australian dollar

The Australian Dollar rose 3.5 US cents to US$0.7592 as the trade-weighted US Dollar index fell back from its recent 14-year highs.

Against the US Dollar, the Australian Dollar rose 4.8% for the month, due to the weaker US Dollar and higher iron ore price. On a Trade-Weighted Index basis, the Australian Dollar rose 3.0% in January.