

Monthly Market Snapshot

JANUARY 2017

The Monthly Market Snapshot publication provides commentary on the global economy and the performance of financial markets

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Key insights

The New Year continued with political headlines, from Donald Trump's inauguration and his executive orders in the US, to UK Prime Minister, Theresa May's speech on Brexit and the UK Supreme Court's ruling that Parliament was required to vote on triggering Article 50 to leave the EU.

Despite the political noise, markets were relatively subdued. In the US, equities continued to rise in the rally since the election in November, while equities were relatively flat in the UK and Japan, and declined in Europe and Australia.

Domestically, the Resources sector continued to rally strongly, diverging from the broader equities market decline in January. The Resources sector increased by more than 5% in January, and the sector has gained 65% over the last twelve months, driven by recovering commodity prices.

Global bonds produced a negative return driven by a sell-off in the UK and Europe, where 10-year bond yields rose in January. In Europe, rising inflation, due to increasing energy prices, and the potential for reduced asset purchases by the ECB, supported by ongoing economic growth was the driver of higher bond yields. In the UK, the surprisingly robust economic response to the Brexit vote and increased inflation (partly driven by the depreciation of the GBP) led to yield increases.

The US Federal Reserve at its meeting at the end of January/start of February, decided to keep interest rates unchanged after the increase in December. It has indicated a tightening of monetary policy with further interest rate hikes over the course of 2017. The US economy

posted somewhat disappointing 1.9% year-on-year growth during the fourth quarter of 2016, but forward looking survey results indicate improved growth in early 2017.

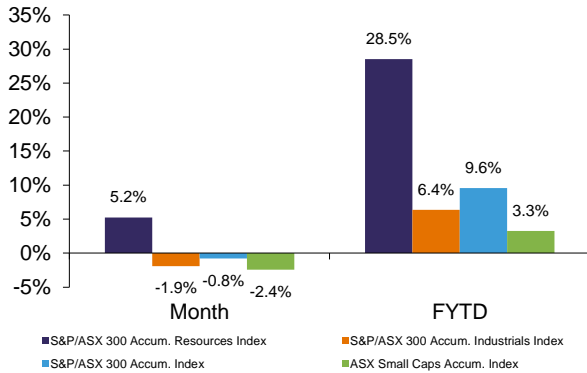
China's economy grew at a slower pace over 2016, but it continues to grow at a high rate and within the government's target range of between 6.5-7.0% p.a. Industrial production remains strong, and both Manufacturing and Services Purchasing Managers' Index (PMI) survey results are pointing to the expansionary direction, which indicate continued growth in the economy. The Chinese currency has continued its steady value depreciation and capital outflows have reaccelerated. In response, Chinese Authorities have announced a number of measures to limit capital outflows going forward.

The Australian dollar appreciated against all major foreign currencies in January, driven by the rally in commodity prices which has increased Australian's terms of trade.

Finally, following the declines in the second half of 2016, Australian Listed Property (A-REITs) had a plunge of -4.7% during the month.



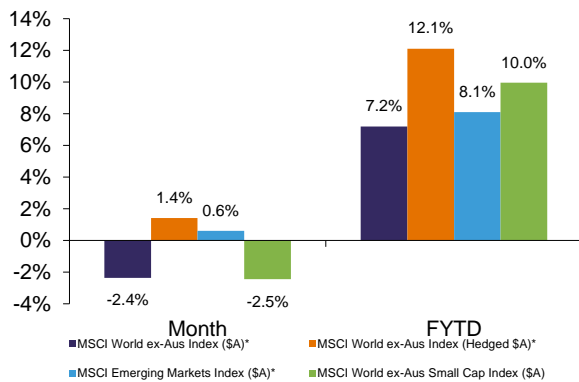
Australian equities



Australian equities fell in January, closing the month down by 0.8%, while the Resources sector posted strong returns.



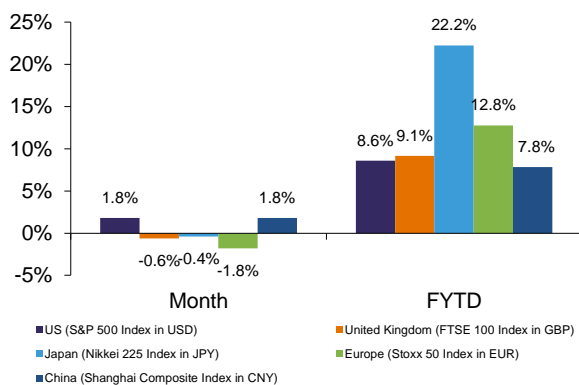
International equities (\$A)



The hedged MSCI World Index rose 1.4% in January, while the unhedged index fell by 2.4%, as the Australian dollar strengthened over the month. Emerging market equities rose marginally by 0.6% in Australian dollar terms.



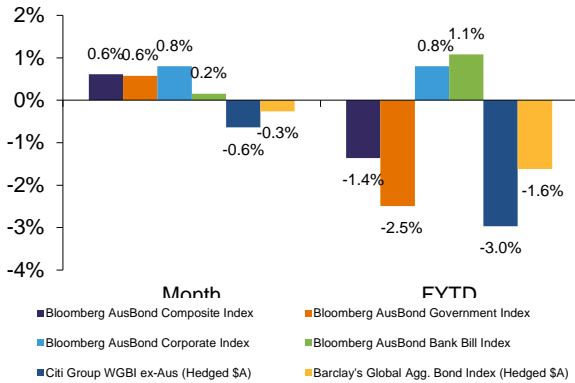
International equities (local currencies)



Major equity markets' performance was mixed in January with US and Chinese equities up by 1.8%, while UK and Japanese equities were down marginally, and European equities were down by 1.8%. All markets are positive for the financial year to date, with Japanese equities being particularly strong.



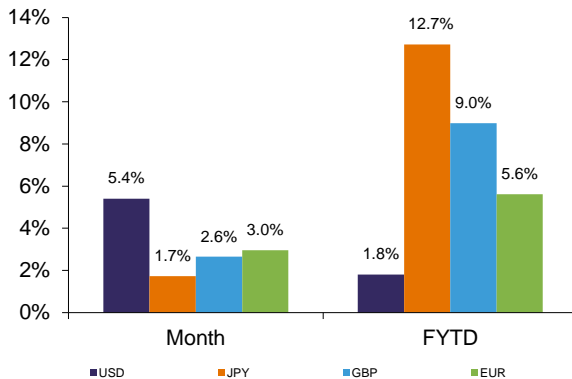
Fixed income



Australian bonds had a positive month with the composite index producing a 0.6% gain. Global bond markets on the other hand fell in January, driven by rising yields in the UK and Europe.



Australian dollar against major currencies

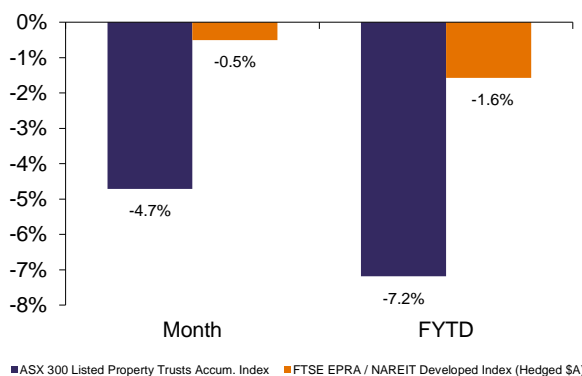


The Australian dollar (AUD) appreciated against all major foreign currencies in January, particularly against the US dollar where it increased by 5.4%.

For the financial year to date, the AUD has recorded gains against all major currencies, although it is a relatively minor increase against the USD.











Property



Australian and global listed property performance declined by 4.7% and 0.5%, respectively in January.

January

	Index value	Month	3 months	FYTD	1 year	
Australian equities						
	S&P/ASX 300 Accum. Index	52,943	-0.8%	6.4%	9.6%	17.3%
	S&P/ASX 300 Accum. Industrials Index	107,604	-1.9%	5.3%	6.4%	10.8%
	S&P/ASX 300 Accum. Resources Index	20,501	5.2%	12.5%	28.5%	65.2%
	ASX Small Caps Accum. Index	6,322	-2.4%	-0.1%	3.3%	16.4%
International equities						
	MSCI World ex-Aus Index (\$A)*	7,348	-2.4%	6.6%	7.2%	8.9%
	MSCI World ex-Aus Index (Hedged \$A)*	1,385	1.4%	7.3%	12.1%	18.3%
	MSCI Emerging Markets Index (\$A)*	528	0.6%	1.1%	8.1%	16.8%
	MSCI World ex-Aus Small Cap Index (\$A)	473	-2.5%	9.3%	10.0%	14.7%
	US (S&P 500 Index in USD)	2,279	1.8%	7.2%	8.6%	17.5%
	United Kingdom (FTSE 100 Index in GBP)	7,099	-0.6%	2.1%	9.1%	16.7%
	Japan (Nikkei 225 Index in JPY)	19,041	-0.4%	9.3%	22.2%	8.7%
	Europe (Stoxx 50 Index in EUR)	3,231	-1.8%	5.7%	12.8%	6.1%
	China (Shanghai Composite Index in CNY)	3,159	1.8%	1.9%	7.8%	15.4%
AUD versus ...						
	USD	0.76	5.4%	-0.3%	1.8%	7.1%
	JPY	85.93	1.7%	7.7%	12.7%	0.8%
	GBP	0.60	2.6%	1.0%	9.0%	22.4%
	EUR	0.71	3.0%	1.9%	5.6%	8.9%
Property						
	ASX 300 Listed Property Trusts Accum. Index	42,051	-4.7%	2.5%	-7.2%	6.8%
	FTSE EPRA / NAREIT Dev. Index (Hedged \$A)*	2,345	-0.5%	1.7%	-1.6%	9.4%
Oil and Commodities						
	Crude Oil (\$/bbl)	53	-1.7%	12.7%	9.3%	57.1%
	Copper Spot (\$/tonne)	5,994	8.5%	23.8%	23.8%	31.2%
	Gold Spot (\$/ounce)	1,211	4.9%	-5.4%	-9.1%	8.1%
Australian Fixed Interest						
	Bloomberg AusBond Composite Index	8,865	0.6%	-1.0%	-1.4%	2.3%
	Bloomberg AusBond Government Index	9,194	0.6%	-1.5%	-2.5%	1.7%
	Bloomberg AusBond Corporate Index	9,092	0.8%	0.0%	0.8%	3.7%
	Bloomberg AusBond Bank Bill Index	8,551	0.2%	0.4%	1.1%	2.0%
Global Fixed Interest						
	Citi Group WGBI ex-Aus (Hedged \$A)	2,207	-0.6%	-2.0%	-3.0%	2.1%
	Barclay's Global Agg. Bond Index (Hedged \$A)	-	-0.3%	-1.5%	-1.6%	3.3%
Fixed income (yields) as at ...						
		31-Jan-17	31-Dec-16	31-Oct-16	30-Jun-16	31-Jan-16
	Australia Bank Bill	1.77	1.80	1.75	1.94	2.26
	Australia 10 Year Government Bond	2.71	2.77	2.35	1.98	2.64
	US 10 Year Government Bond	2.45	2.44	1.83	1.47	1.92
	UK 10 Year Government Bond	1.42	1.24	1.25	0.87	1.56
	Germany 10 Year Government Bond	0.44	0.21	0.16	-0.13	0.33
	Japan 10 Year Government Bond	0.09	0.05	-0.05	-0.22	0.10

* Net dividends reinvested

Frontier Advisors

Level 16, 222 Exhibition Street

Melbourne, Victoria 3000

Tel: +61 3 8648 4300

www.frontieradvisors.com.au

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