MONTHLY MARKETS

FRONTIER ADVISORS

JANUARY 2014

Market Overview

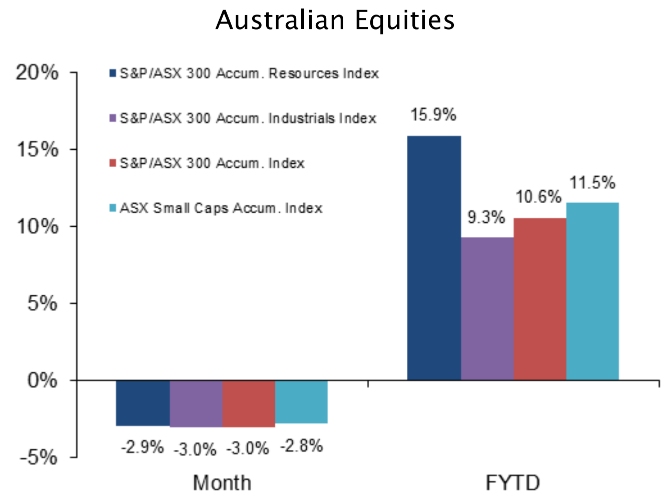
For much of January it appeared as if markets were headed for a positive start to 2014. However, data that showed manufacturing activity in China and the US weakened in January, renewed attention on the US Federal Reserve's tapering program and general concerns over emerging markets precipitated a succession of sell-offs in the final third of the month. Symptomatic of the market turbulence in emerging markets, Brazil's central bank raised interest rates for a 7th consecutive month. The central banks of India and South Africa followed suit, unexpectedly increasing rates in an effort to defend their currencies and guard against the resulting inflationary pressures. The central bank of Turkey went furthest, calling an emergency meeting and announcing a 4.25% increase in its overnight lending rate.

In the US, the January ISM survey, a measure of the manufacturing activity across the country, plunged from a revised 56.5 to 51.3. The result missed expectations by the widest margin in the history of the survey. The most concerning aspect was the 13.2 point fall in the forward looking new-orders index to 51.2. Other data points were more encouraging. Despite a disappointingly small increase in December non-farm payrolls of 113,000, the unemployment rate fell by 0.1% to 6.6% along with a 0.2% increase in the participation rate. Earnings season is nearing its conclusion. So far the proportion of positive surprises is in line with its long term average, although there are some signs of promising sales growth after several disappointing quarters. Towards the end of the month, in Ben Bernanke's final meeting as Chairman, the Fed unanimously decided to reduce its asset purchasing program by a further USD10 billion per month

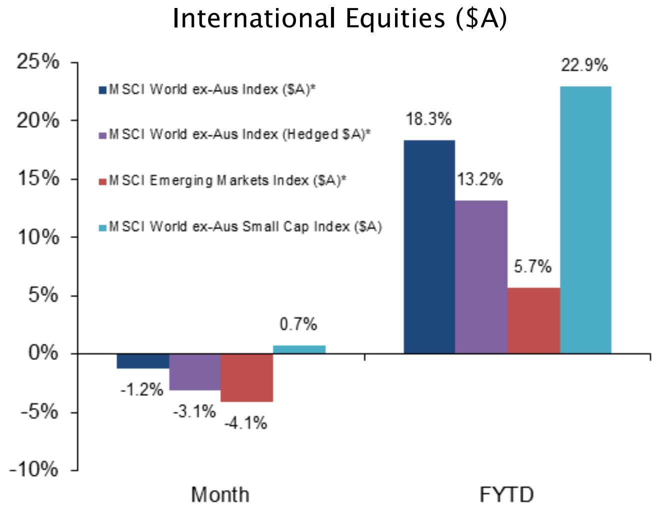
Over in Europe, deflationary concerns increased as the inflation rate unexpectedly slowed in January to 0.7% y/y, down from 0.8% a month earlier. Despite the reading, the European Central Bank kept interest rates on hold, citing unchanged inflation expectations in its statement.

In China, the Purchasing Manager Indices (PMIs) - measures of activity in the manufacturing and services sectors, from Markit and the official statistics agency - weakened over the month. However, the significant disruptions caused by Chinese new year and the resulting difficulties in effectively seasonally adjusting the data mean the latest readings should be treated with caution. Elsewhere, attention on China's shadow banking system intensified as the prospect of a first default emerged - the Credit Equals Gold product was marketed to wealthy investors, with its proceeds going to a coal miner that collapsed in 2012. Its distributor, Industrial and Commercial Bank of China, had refused to bail out investors. In the end, an unnamed third party stepped in, leaving investors with only a modest loss.

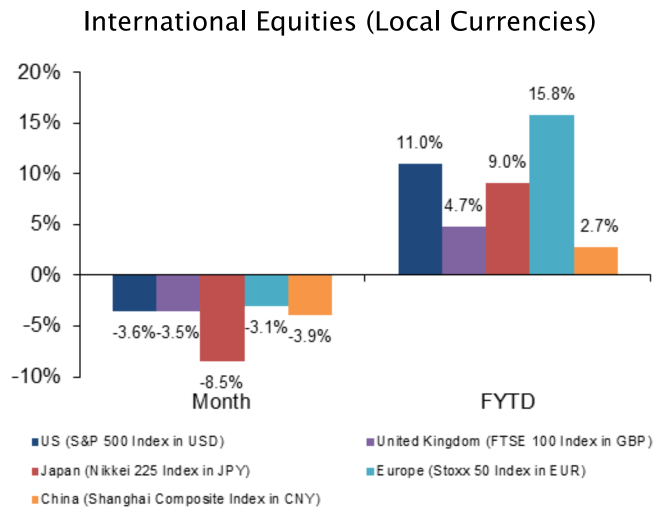
In Australia, inflation unexpectedly picked up over the December 2013 quarter to 2.7% y/y. In the immediate aftermath, the dollar jumped as the market reassessed the likely future path of interest rates. It reacted even more when the Reserve Bank of Australia left interest rates on hold, rising by more than US 1c although the reaction was likely more due to the wording of the document than the decision itself. In its statement, the Board omitted the reference to an "uncomfortably high" dollar and hinted that its easing bias may have given way to holding rates steady.



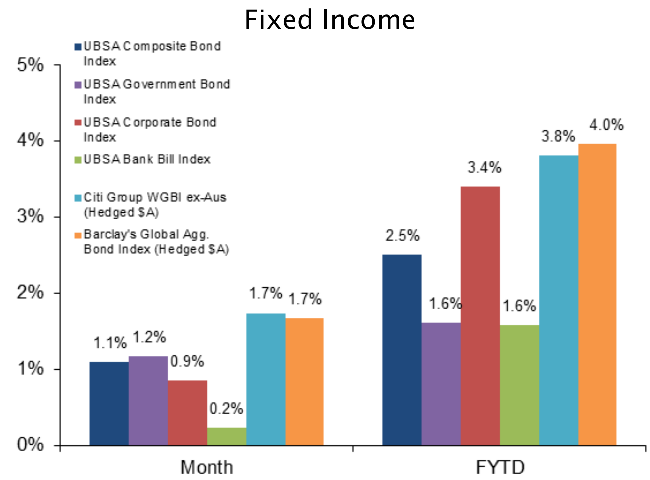
Australian equities began the year poorly with only the Health Care and Utilities sectors recording positive returns over the month. Small caps outperformed their broad cap counterparts, continuing the trend for the financial year to date.



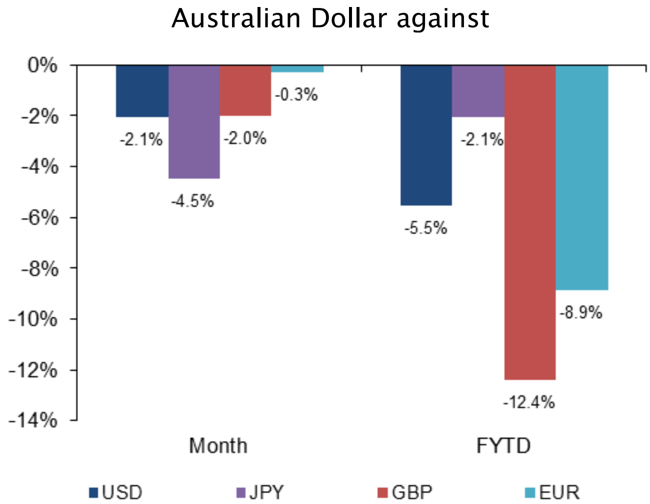
Developed market equities came off much better than their emerging market peers in January, mostly due to strong performance for the first 2-3 weeks of the month. Weakness in the Australian dollar over the month also contributed to poor returns, particularly in emerging markets which experienced a broad and significant sell off in their currencies.



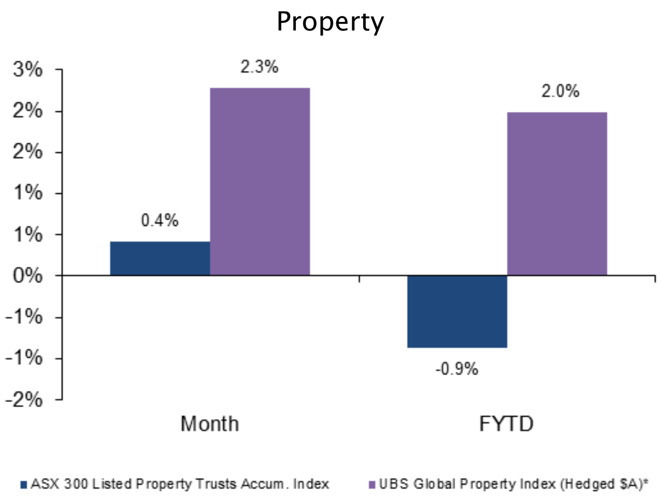
Undoing the strong performance from a month earlier, Japanese equities, in local currency terms, were the hardest hit amongst developed equity markets. No one event seemed to have driven the fall, although a strengthening yen was likely an outsized contributor. Europe performed comparatively better as markets in Spain and Italy recorded the only positive returns of any major developed market over the month.



Fixed interest investments, both here and overseas, outperformed equities in January as bond yields compressed. In Australia, the 10 year government bond yield fell by more than 20 basis points, finishing the month just above 4%. It was a similar story in the likes of Germany, UK and France. In the US, 10 year government bond yields fell from above 3% to around 2.65% despite a further tapering in the Fed's QE program.



The Australian dollar finished the month lower against all the major currencies. However, in early February, key local data and news flow in the form of the higher than expected inflation reading and a change in the RBA's rhetoric saw the market reassess its view on the likely future path of interest rates, reversing some of the losses.



Reversing the trend in recent months, property trusts generated positive returns as safer assets were sought after in January. It wasn't enough to bring the financial year to date returns for Australian property trusts in positive territory though as they continued to underperform their international equivalents.

JANUARY 2014

31-Jan-14	Index Value	Month	3 Months	FYTD	1 Year
Australian Equities					
S&P/ASX 300 Accum. Index	42,768	-3.0%	-3.5%	10.6%	10.6%
S&P/ASX 300 Accum. Industrials Index	82,363	-3.0%	-3.5%	9.3%	16.0%
S&P/ASX 300 Accum. Resources Index	21,136	-2.9%	-3.6%	15.9%	-6.3%
ASX Small Caps Accum. Index	5,254	-2.8%	-5.5%	11.5%	-7.4%
International Equities					
MSCI World ex-Aus Index ($A)*	5,359	-1.2%	9.1%	18.3%	39.8%
MSCI World ex-Aus Index (Hedged $A)*	1,026	-3.1%	1.7%	13.2%	21.4%
MSCI Emerging Markets Index ($A)*	440	-4.1%	-1.4%	5.7%	7.4%
MSCI World ex-Aus Small Cap Index ($A)	359	0.7%	11.2%	22.9%	46.4%
US (S&P 500 Index in USD)	1,783	-3.6%	1.5%	11.0%	19.0%
United Kingdom (FTSE 100 Index in GBP)	6,510	-3.5%	-3.3%	4.7%	3.7%
Japan (Nikkei 225 Index in JPY)	14,915	-8.5%	4.1%	9.0%	33.9%
Europe (Stoxx 50 Index in EUR)	3,014	-3.1%	-1.8%	15.8%	11.5%
China (Shanghai Composite Index in CNY)	2,033	-3.9%	-5.1%	2.7%	-14.8%
AUD Versus...					
USD	0.88	-2.1%	-7.7%	-5.5%	-15.7%
JPY	89.75	-4.5%	-3.9%	-2.1%	-4.9%
GBP	0.53	-2.0%	-10.2%	-12.4%	-19.1%
EUR	0.65	-0.3%	-6.6%	-8.9%	-15.6%
Property					
ASX 300 Listed Property Trusts Accum. Index	26,999	0.4%	-3.6%	-0.9%	3.2%
UBS Global Property Index (Hedged $A)*	1,658	2.3%	-1.3%	2.0%	4.4%
Australian Fixed Interest					
UBSA Composite Bond Index	7,682	1.1%	1.5%	2.5%	3.3%
UBSA Government Bond Index	7,993	1.2%	1.3%	1.6%	1.9%
UBSA Corporate Bond Index	7,873	0.9%	1.5%	3.4%	5.0%
UBSA Bank Bill Index	7,978	0.2%	0.7%	1.6%	2.8%
Global Fixed Interest					
Citi Group WGBI ex-Aus (Hedged $A)	-	1.7%	1.4%	3.8%	4.6%
Barclay's Global Agg. Bond Index (Hedged $A)	-	1.7%	1.4%	4.0%	4.3%
Oil and Commodities					
Crude Oil ($/bbl)	97	-0.9%	1.2%	1.0%	0.0%
Copper Spot ($/tonne)	7,096	-3.8%	-2.0%	5.4%	-12.7%
Gold Spot ($/ounce)	1,240	3.1%	-6.4%	1.0%	-25.9%

Fixed Income (Yields) as at ...	31-Jan-14	31-Dec-13	31-Oct-13	30-Jun-13	31-Jan-13
Australia Bank Bill	2.61	2.60	2.58	2.79	2.93
Australia 10 Year Government Bond	4.00	4.24	4.02	3.76	3.45
US 10 Year Government Bond	2.64	3.03	2.55	2.49	1.98
UK 10 Year Government Bond	2.71	3.02	2.62	2.44	2.10
Germany 10 Year Government Bond	1.66	1.93	1.67	1.73	1.68
Japan 10 Year Government Bond	0.62	0.74	0.60	0.85	0.75

* Net Dividends reinvested