

Monthly Market Snapshot

MAY 2017

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

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Key insights

May was a favourable month for overseas equity markets, particularly for Emerging Markets, but a negative month for Australian equities. Despite various political turmoil, low market volatility on the back of monetary policy normalization and gradual fiscal stimulus has and will continue to drive the global economy.

In the US, the Fed has taken a more gradual approach and left the Funds Rate unchanged. It believes that strong economic updates and falling unemployment at 4.3%, the lowest in 16 years, are supportive of growth and has regarded the slowdown of Q1 GDP to 1.2% p.a. driven by soft consumer spending and inventory investment as “transitory”. The Fed also continues to support the case of central bank’s reduction in the size of its balance sheet as a sign of its growing confidence in the strength of the economic recovery. Equities produced robust earnings growth despite the political antics on the key elements of Trump’s fiscal stimulus policy platform, particularly relating to corporate tax cuts and the infrastructure proposals.

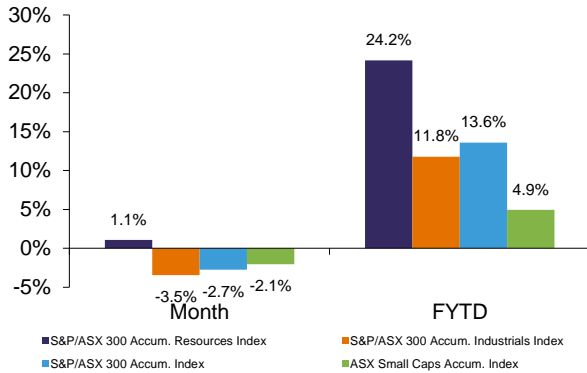
In Europe, market optimism was reflected in an increase in the Euro currency as a result of Emmanuel Macron’s victory in the French elections as he promised greater economic reforms in areas including fiscal policy. The European Central Bank (ECB) is focused on scaling back its asset purchase program as the economic outlook in Eurozone continues to gradually recover and inflation starts to pick up. Sterling continues to be influenced by political concerns in the UK, particularly after Theresa May’s Conservative Party lost its majority in Parliament. Negotiation terms for Brexit appear to be more challenging going forward with increasing political concerns and its impact on the UK economy.

In May, China’s growth remains patchy, led by industrial production output and urban fixed asset investment below market expectations as the China Bank Regulatory Commission imposed tighter regulations to curb the impact of rising shadow-banking activities. China’s measures to restrict credit and deleverage have also driven most of the commodity prices lower as shown in the sell-off in equity, bonds and commodity markets.

Domestically, GDP posted the weakest year-on-year growth of 1.7% since the GFC, dragged by softening dwelling investment and fall in resources exports impacted by Cyclone Debbie. Equities also suffered their largest monthly decline since January 2016, driven by a -9.2% correction in Banks following the announcement of the Bank Levy in the Federal Budget. The Reserve Bank of Australia (RBA) has left the cash rate unchanged again at 1.5%, maintaining its expectations that Australia’s economy will grow to above 3% over the next few years.



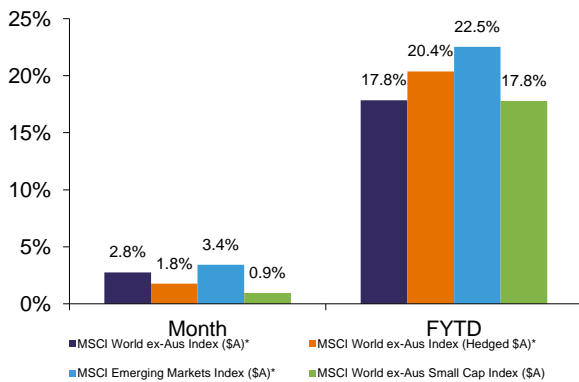
Australian equities



Australian equities fell in May, closing the month down by 2.7%, while the Financial sector fell by 7.7% balanced by the Resources sector.



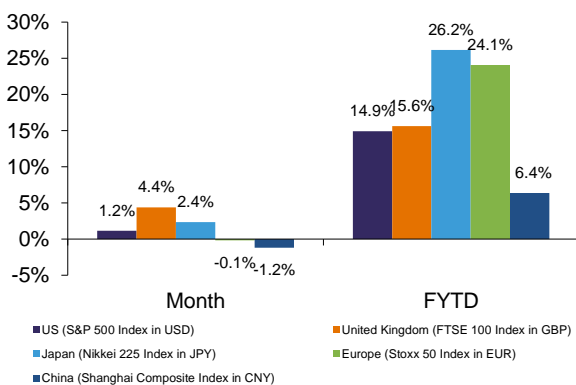
International equities (\$A)



The hedged MSCI World Index gained 1.8% in May, while the unhedged index gained 2.8%, as the Australian dollar weakened marginally over the month. Emerging market equities posted strong returns, closing the month up by 3.4% in Australian terms.



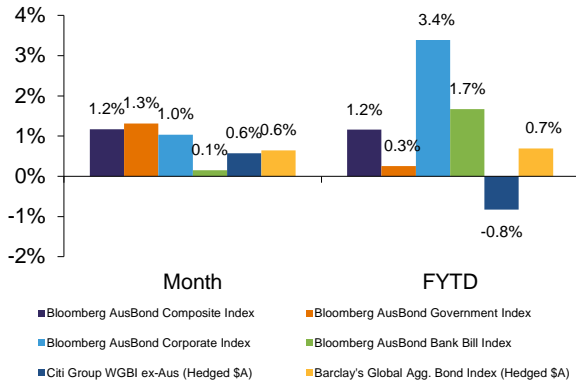
International equities (local currencies)



Major equity markets gained over the month, with the exception of China which fell by 1.2% and Europe by 0.1%. All major markets have posted positive returns for the current financial year to date.



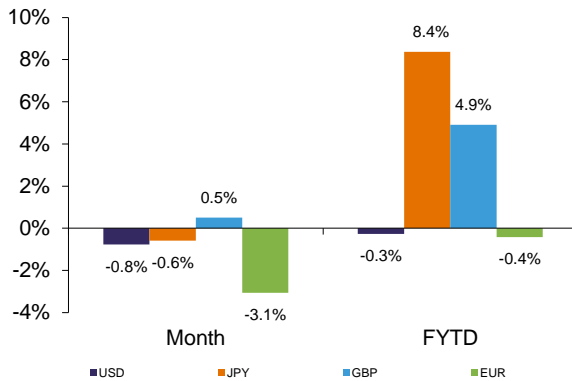
Fixed income



Both Australian and global bonds had a positive month with the domestic composite index rising 1.2% and global composite index rising 0.6%.



Australian dollar against major currencies

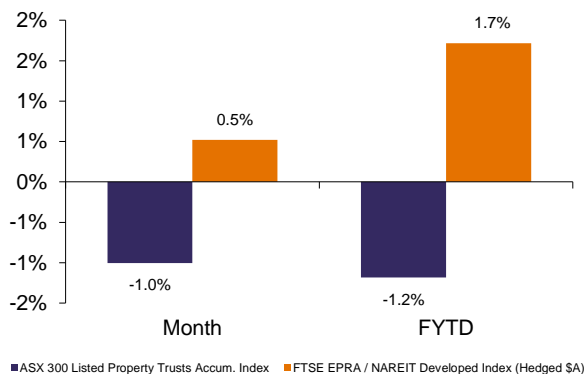


The Australian dollar (AUD) depreciated against all major foreign currencies in May, particularly against Euro where it decreased by 3.1% but has appreciated marginally against the Sterling by 0.5%.

For the financial year to date, the AUD has recorded gains against all GBP and JPY, although it is a relatively flat against the USD and EUR.











Property



In May, Australian listed property declined by 1.0% while Global listed property increased by 0.5%.

May

	Index value	Month	3 months	FYTD	1 year	
Australian Equities						
	S&P/ASX 300 Accum. Index	54,872	-2.7%	1.4%	13.6%	10.8%
	S&P/ASX 300 Accum. Industrials Index	113,103	-3.5%	1.7%	11.8%	8.3%
	S&P/ASX 300 Accum. Resources Index	19,808	1.1%	0.0%	24.2%	26.9%
	ASX Small Caps Accum. Index	6,424	-2.1%	0.3%	4.9%	3.5%
International Equities						
	MSCI World ex-Aus Index (\$A)*	8,078	2.8%	8.4%	17.8%	13.3%
	MSCI World ex-Aus Index (Hedged \$A)*	1,487	1.8%	4.1%	20.4%	19.0%
	MSCI Emerging Markets Index (\$A)*	598	3.4%	11.4%	22.5%	24.0%
	MSCI World ex-Aus Small Cap Index (\$A)	507	0.9%	6.3%	17.8%	12.1%
	US (S&P 500 Index in USD)	2,412	1.2%	2.0%	14.9%	15.0%
	United Kingdom (FTSE 100 Index in GBP)	7,520	4.4%	3.5%	15.6%	20.7%
	Japan (Nikkei 225 Index in JPY)	19,651	2.4%	2.8%	26.2%	14.0%
	Europe (Stoxx 50 Index in EUR)	3,555	-0.1%	7.1%	24.1%	16.0%
	China (Shanghai Composite Index in CNY)	3,117	-1.2%	-3.8%	6.4%	6.9%
AUD Versus...						
	USD	0.74	-0.8%	-2.9%	-0.3%	2.7%
	JPY	82.61	-0.6%	-4.5%	8.4%	2.5%
	GBP	0.58	0.5%	1.0%	4.9%	17.9%
	EUR	0.67	-3.1%	-8.1%	-0.4%	2.5%
Property						
	ASX 300 Listed Property Trusts Accum. Index	44,770	-1.0%	2.2%	-1.2%	2.3%
	FTSE EPRA / NAREIT Dev. Index (Hedged \$A)	2,424	0.5%	0.1%	1.7%	4.8%
Oil and Commodities						
	Crude Oil (\$/bbl)	48	-2.0%	-10.5%	0.0%	-1.6%
	Copper Spot (\$/tonne)	5,658	-0.9%	-5.2%	16.9%	20.5%
	Gold Spot (\$/ounce)	1,275	0.3%	1.2%	-4.5%	3.5%
Australian Fixed Interest						
	Bloomberg AusBond Composite Index	9,091	1.2%	2.4%	1.2%	2.5%
	Bloomberg AusBond Government Index	9,453	1.3%	2.7%	0.3%	2.1%
	Bloomberg AusBond Corporate Index	9,326	1.0%	2.2%	3.4%	4.1%
	Bloomberg AusBond Bank Bill Index	8,601	0.1%	0.4%	1.7%	1.8%
Global Fixed Interest						
	Citi Group WGBI ex-Aus (Hedged \$A)	2,256	0.6%	1.3%	-0.8%	1.6%
	Barclay's Global Agg. Bond Index (Hedged \$A)	-	0.6%	1.4%	0.7%	2.7%
Fixed Income (Yields) as at ...						
		31-May-17	30-Apr-17	28-Feb-17	30-Jun-16	31-May-16
	Australia Bank Bill	1.73	1.75	1.78	1.94	1.99
	Australia 10 Year Government Bond	2.39	2.58	2.72	1.98	2.30
	US 10 Year Government Bond	2.20	2.28	2.39	1.47	1.85
	UK 10 Year Government Bond	1.05	1.09	1.15	0.87	1.43
	Germany 10 Year Government Bond	0.30	0.32	0.21	-0.13	0.14
	Japan 10 Year Government Bond	0.05	0.02	0.06	-0.22	-0.11

* Net dividends reinvested

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