

# Monthly Market Snapshot

MARCH 2018

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



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# Key insights

Global trade disputes, mainly between the US and China, have been a key driver of financial market volatility over recent weeks. Both sides have put forth restrictive trade policies. As of writing, the policies put forth by the US includes:

- Tariffs on imported aluminium (10%) and steel (25%) with many countries exempted (does not include China)
- 25% duties on around US\$50 billion worth of imported Chinese products
- Restriction on Chinese investments in critical US industries

The US has also taken a case against China to the World Trade Organisation (WTO) for Chinese technology licensing.

In response, China has threatened to impose their own tariffs on around US\$50 billion worth of imported US goods on top of other measures. At this stage, these measures remain as proposals. No tariffs have been implemented by either side as yet.

Despite the global trade disputes, global growth broadly continues to improve. Solid US economic growth convinced the US Federal Reserve to raise their benchmark interest rate, the Federal Funds Rate (FFR), by another 0.25% to the 1.5-1.75% range. This is the sixth interest rate hike in this cycle having started in late 2015. Short-term interest rates in the US are now above Australia for the first time since 2000. Longer term (10-year) government bond yields in the US are also now above Australia at 2.7% and 2.6% respectively.

The key themes from the US Federal Open Market Committee (FOMC) announcement remain broadly unchanged. Labour market and economic activities continue to improve while inflation remained below their 2% targets.

Quarterly economic projections by the US FOMC were also released as part of their March meeting. The Federal Reserve's expectation is for economic growth to continue to accelerate for 2018 and for the FFR to finish the year between 2% and 2.25%, effectively indicating another two hikes this year.

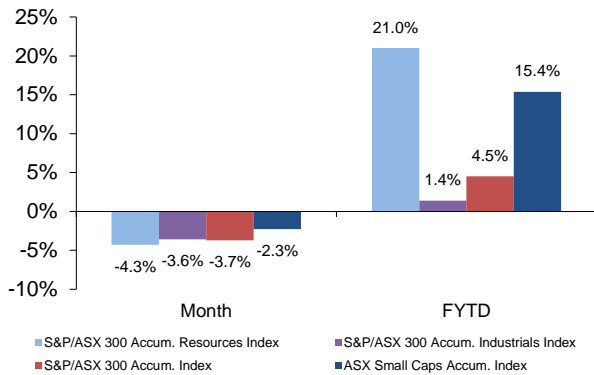
Elsewhere, the economic situation continues to improve in Europe with the unemployment rate declining further. The unemployment rate for the European Union was 7.1% for February.

In Japan, there has been a sharp decline in the approval rating of Prime Minister Shinzo Abe and his cabinet due to the "Moritomo Gakuen" scandal. This poses a risk to the continuation of "Abenomics" if there is to be a leadership change. However, the economic front remains positive with business conditions at around pre-global financial crisis levels, economic growth at a reasonable pace of 2% and headline inflation accelerating to 1.5%.

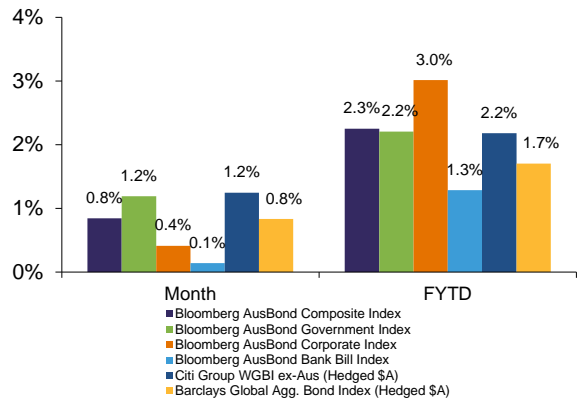
Domestically, the Reserve Bank of Australia (RBA) left the cash rate unchanged at 1.5%. The RBA statement suggests that further improvement in the labour market and inflation would need to occur before the RBA would consider hiking the cash rate. The Australian labour market continued to improve, adding 17,500 new jobs in February. Despite this, the unemployment rate rose to 5.6% from 5.5% due to an increase in the labour participation rate (more workers re-entering the workforce).



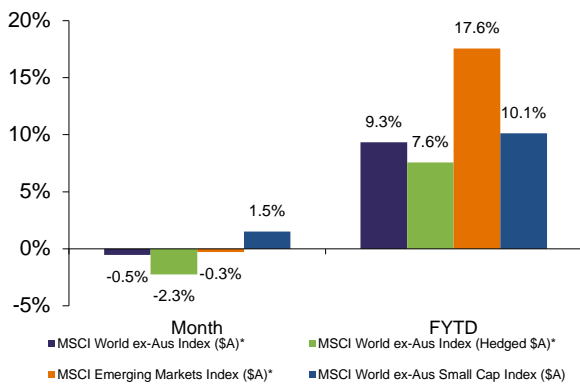
## Australian equities



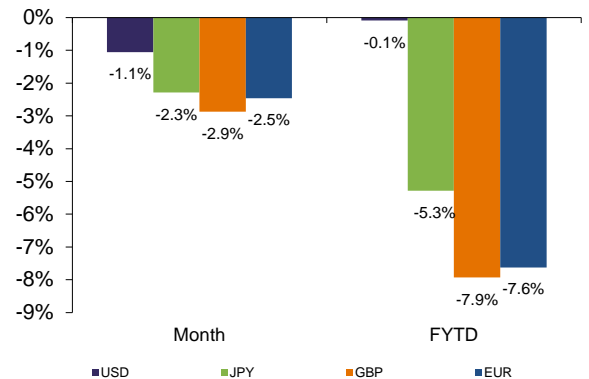
## Fixed income



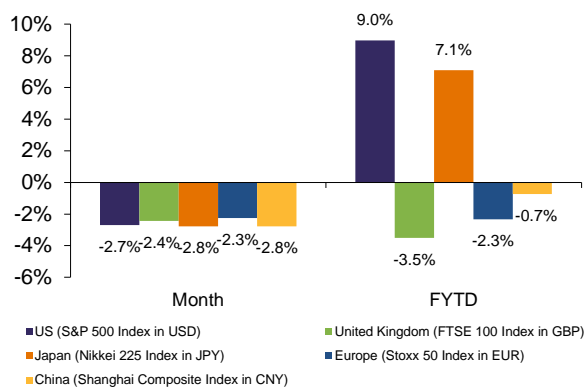
## International Equities (\$A)



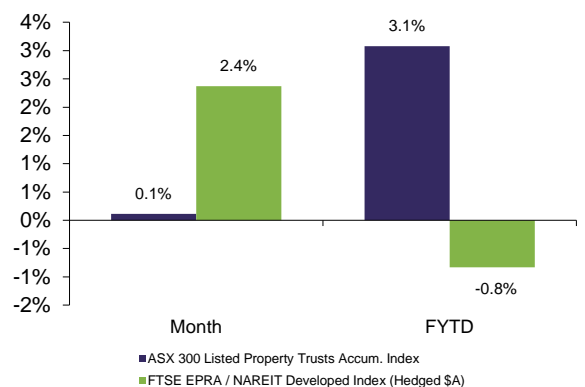
## Australian dollar











## International Equities



## Property



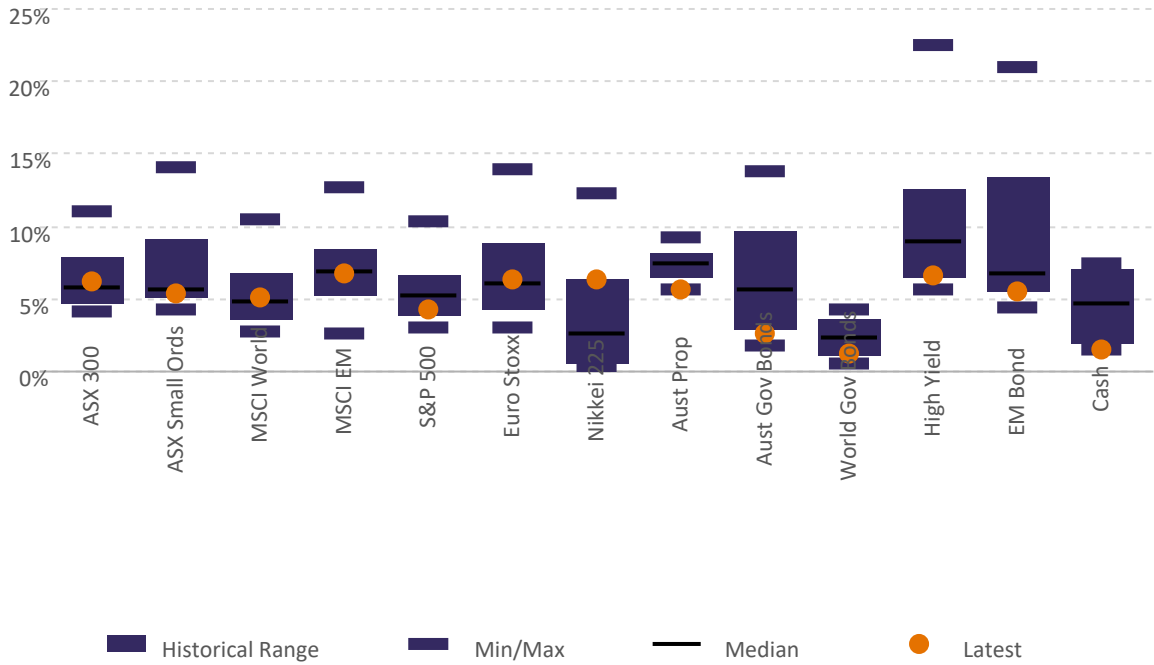
# March

	Index value	Month	3 months	FYTD	1 year
 <b>Australian equities</b>					
S&P/ASX 300 Accum. Index	57,468	-3.7%	-3.8%	4.5%	2.9%
S&P/ASX 300 Accum. Industrials Index	115,420	-3.6%	-3.7%	1.4%	0.0%
S&P/ASX 300 Accum. Resources Index	23,464	-4.3%	-4.2%	21.0%	17.8%
ASX Small Caps Accum. Index	7,560	-2.3%	-2.8%	15.4%	15.0%
 <b>International equities</b>					
MSCI World ex-Aus Index (\$A)*	8,601	-0.5%	0.8%	9.3%	13.3%
MSCI World ex-Aus Index (Hedged \$A)*	1,602	-2.3%	-2.3%	7.6%	11.0%
MSCI Emerging Markets Index (\$A)*	689	-0.3%	3.4%	17.6%	24.2%
MSCI World ex-Aus Small Cap Index (\$A)	549	1.5%	1.2%	10.1%	13.7%
US (S&P 500 Index in USD)	2,641	-2.7%	-1.2%	9.0%	11.8%
United Kingdom (FTSE 100 Index in GBP)	7,057	-2.4%	-8.2%	-3.5%	-3.6%
Japan (Nikkei 225 Index in JPY)	21,454	-2.8%	-5.8%	7.1%	13.5%
Europe (Stoxx 50 Index in EUR)	3,362	-2.3%	-4.1%	-2.3%	-4.0%
China (Shanghai Composite Index in CNY)	3,169	-2.8%	-4.2%	-0.7%	-1.7%
 <b>AUD versus ...</b>					
USD	0.77	-1.1%	-1.7%	-0.1%	0.7%
JPY	81.61	-2.3%	-7.2%	-5.3%	-4.7%
GBP	0.54	-2.9%	1.0%	-7.9%	-11.1%
EUR	0.62	-2.5%	-4.8%	-7.6%	-13.2%
 <b>Property</b>					
ASX 300 Listed Property Trusts Accum. Index	44,065	0.1%	-6.2%	3.1%	-0.1%
FTSE EPRA / NAREIT Dev. Index (Hedged \$A)*	2,415	2.4%	-5.3%	-0.8%	1.2%
 <b>Oil and Commodities</b>					
Crude Oil (\$/bbl)	65	5.4%	7.5%	41.1%	28.3%
Copper Spot (\$/tonne)	6,679	-3.1%	-7.3%	12.7%	14.8%
Gold Spot (\$/ounce)	1,327	0.3%	0.7%	5.4%	4.4%
 <b>Australian Fixed Interest</b>					
Bloomberg AusBond Composite Index	9,212	0.8%	0.9%	2.3%	3.3%
Bloomberg AusBond Government Index	9,557	1.2%	1.0%	2.2%	3.3%
Bloomberg AusBond Corporate Index	9,555	0.4%	0.8%	3.0%	4.2%
Bloomberg AusBond Bank Bill Index	8,725	0.1%	0.4%	1.3%	1.7%
 <b>Global Fixed Interest</b>					
Citi Group WGBI ex-Aus (Hedged \$A)	2,298	1.2%	0.6%	2.2%	3.2%
Barclay's Global Agg. Bond Index (Hedged \$A)	-	0.8%	-0.1%	1.7%	2.9%
 <b>Fixed income (yields) as at ...</b>					
	<b>31-Mar-18</b>	<b>28-Feb-18</b>	<b>31-Dec-17</b>	<b>30-Jun-17</b>	<b>31-Mar-17</b>
Australia Bank Bill	2.02	1.79	1.78	1.71	1.79
Australia 10 Year Government Bond	2.60	2.81	2.63	2.60	2.70
US 10 Year Government Bond	2.74	2.86	2.41	2.30	2.39
UK 10 Year Government Bond	1.35	1.50	1.19	1.26	1.14
Germany 10 Year Government Bond	0.50	0.66	0.43	0.47	0.33
Japan 10 Year Government Bond	0.05	0.05	0.05	0.09	0.07

\* Net dividends reinvested

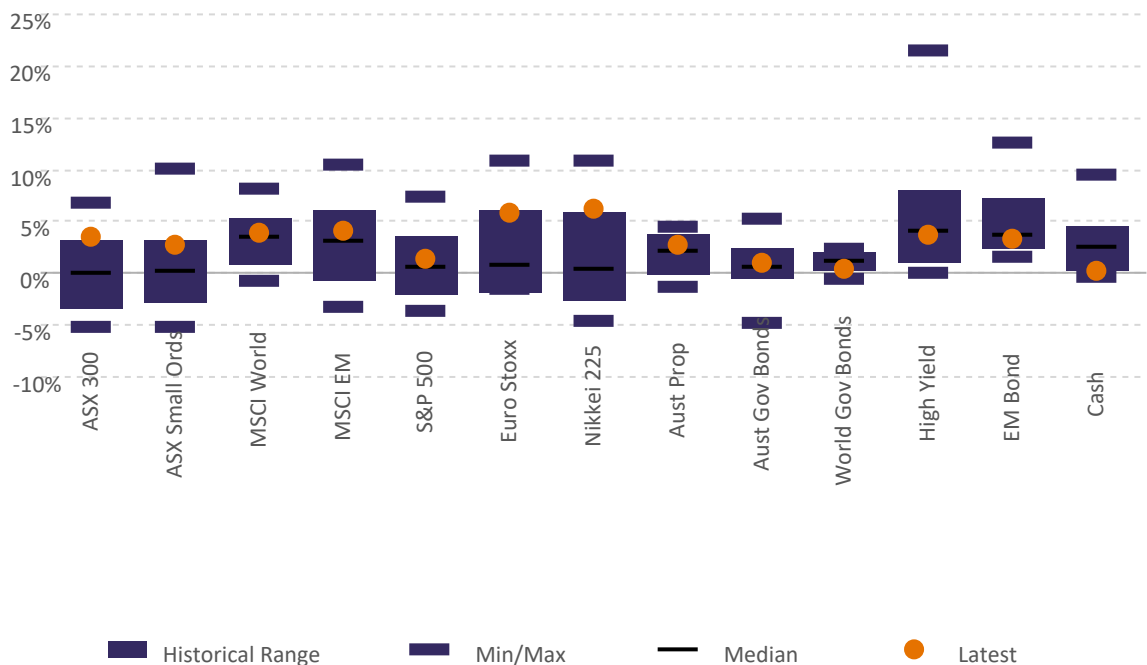
# Asset Class Yields Relative to History

Current Yields (equities earnings)



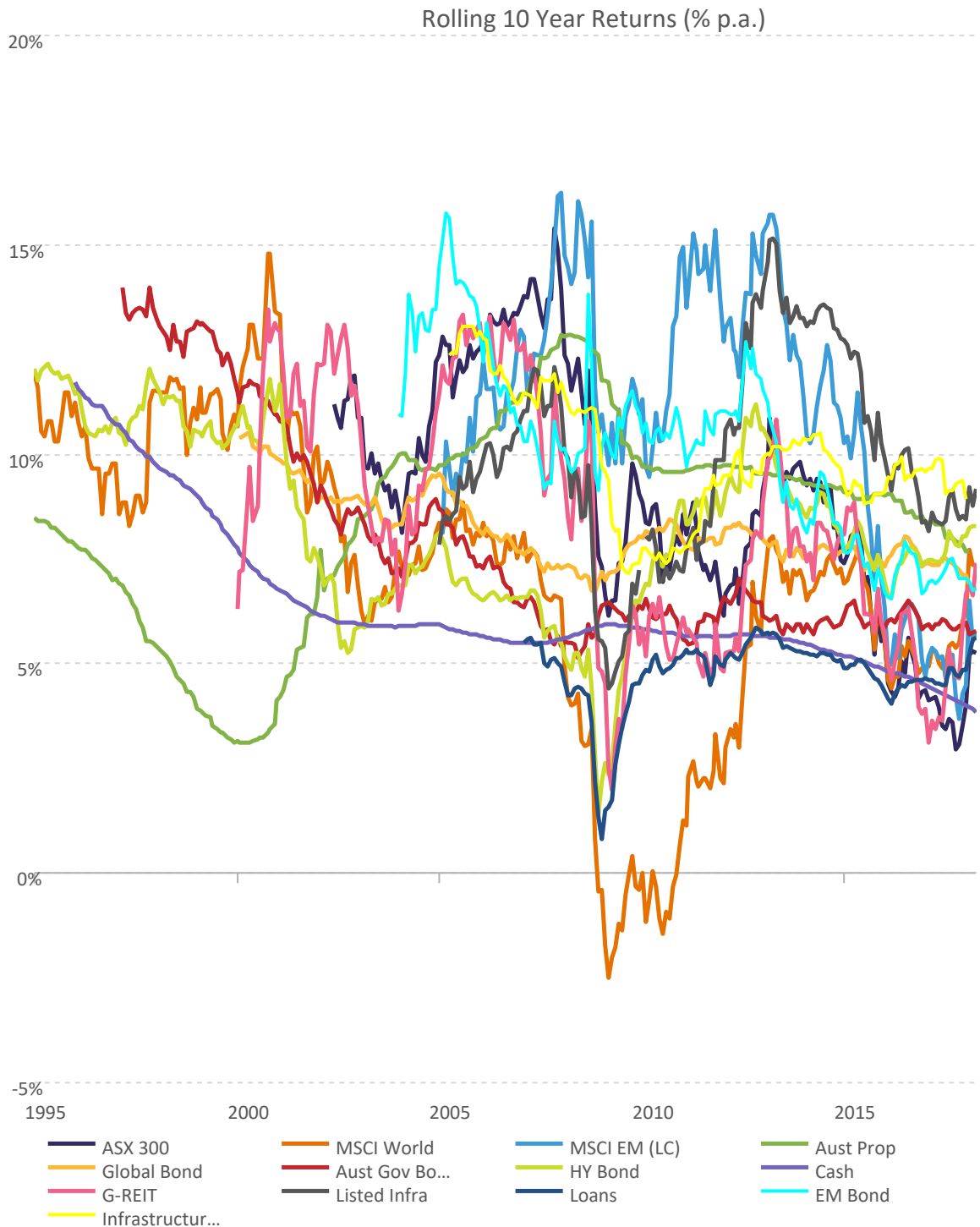
Source: Thomson Reuters Datastream

Relative Yields (vs bond or cash yield)



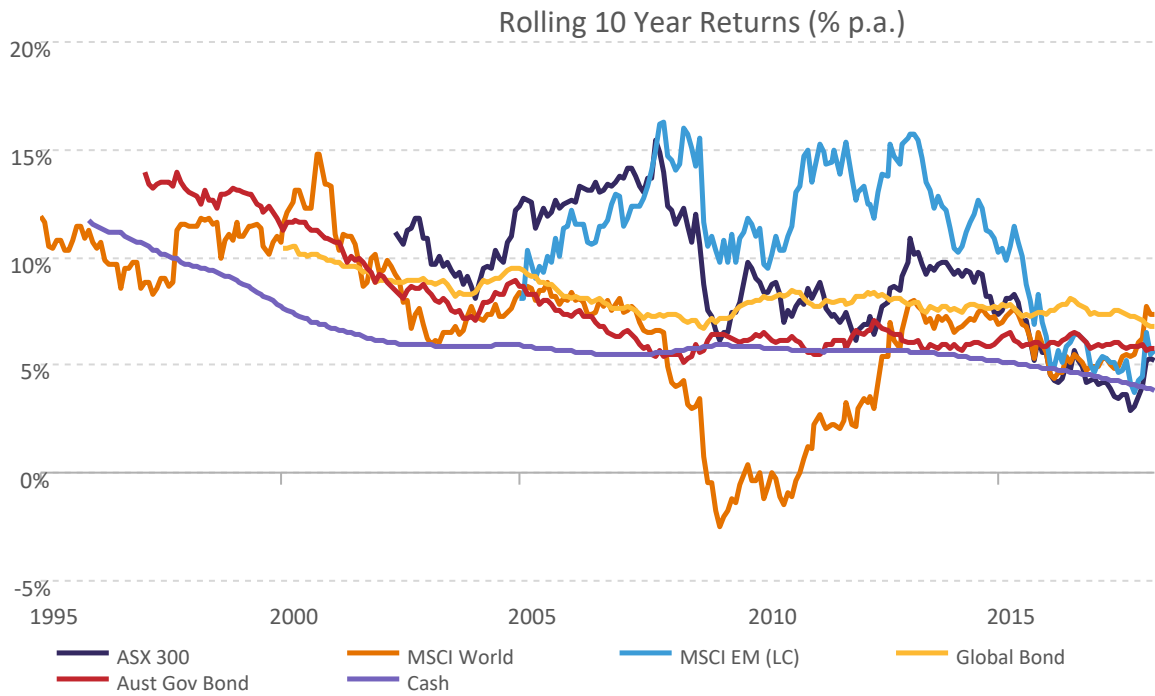
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# Asset Class Returns

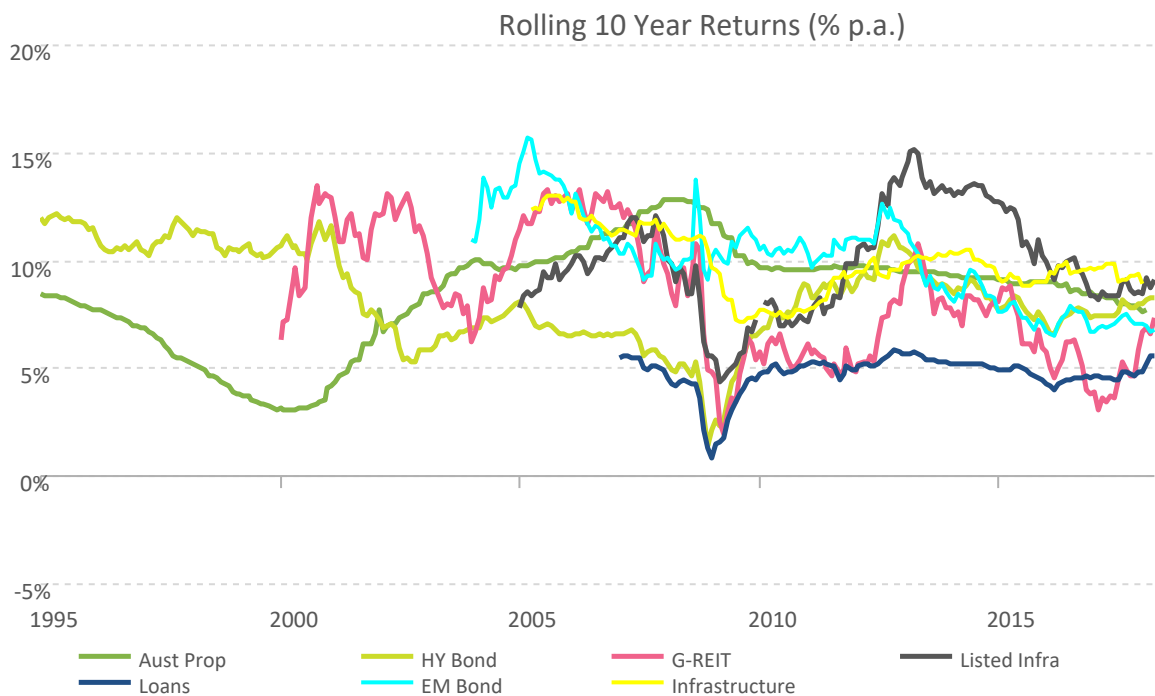


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# Asset Class Returns



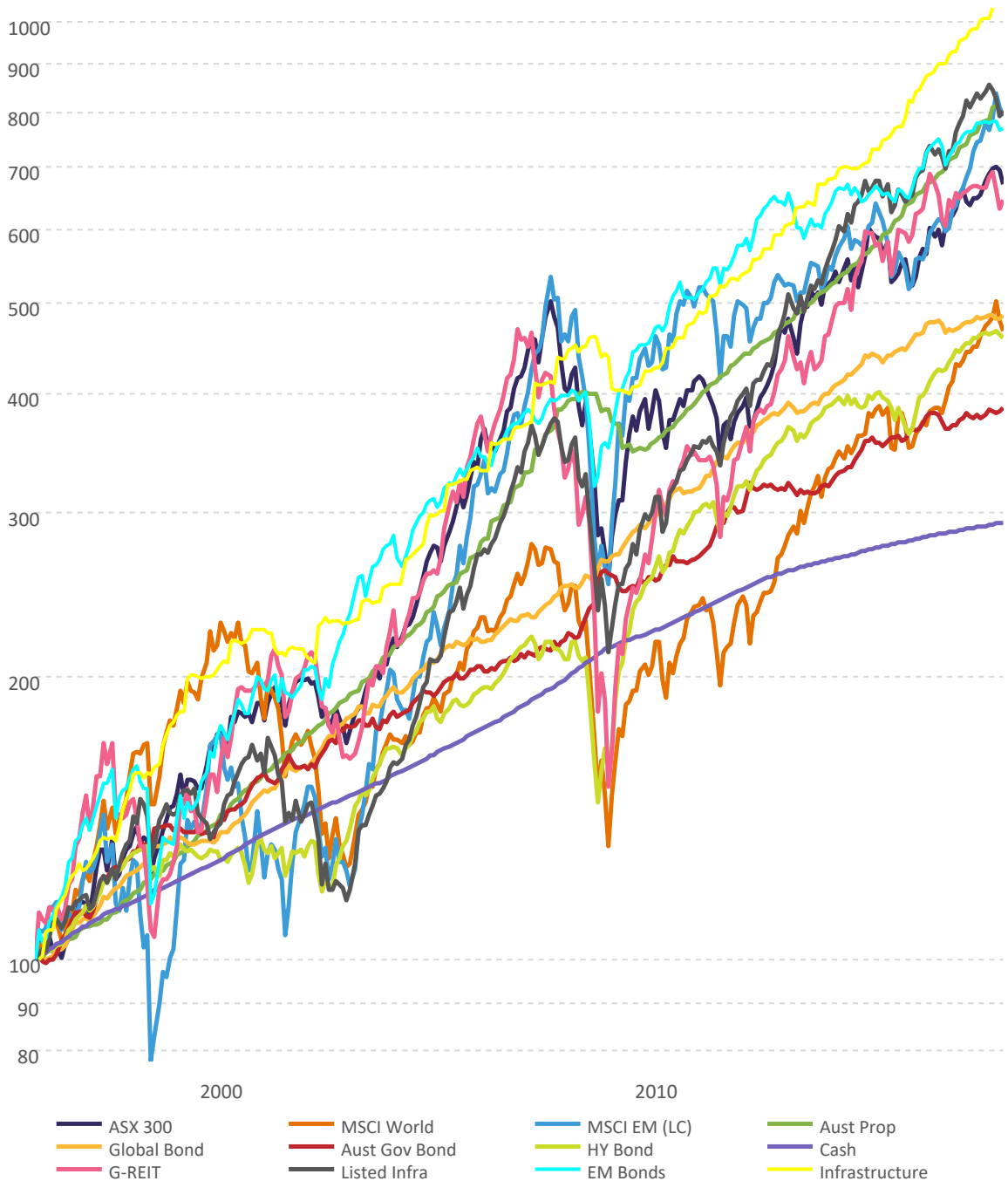
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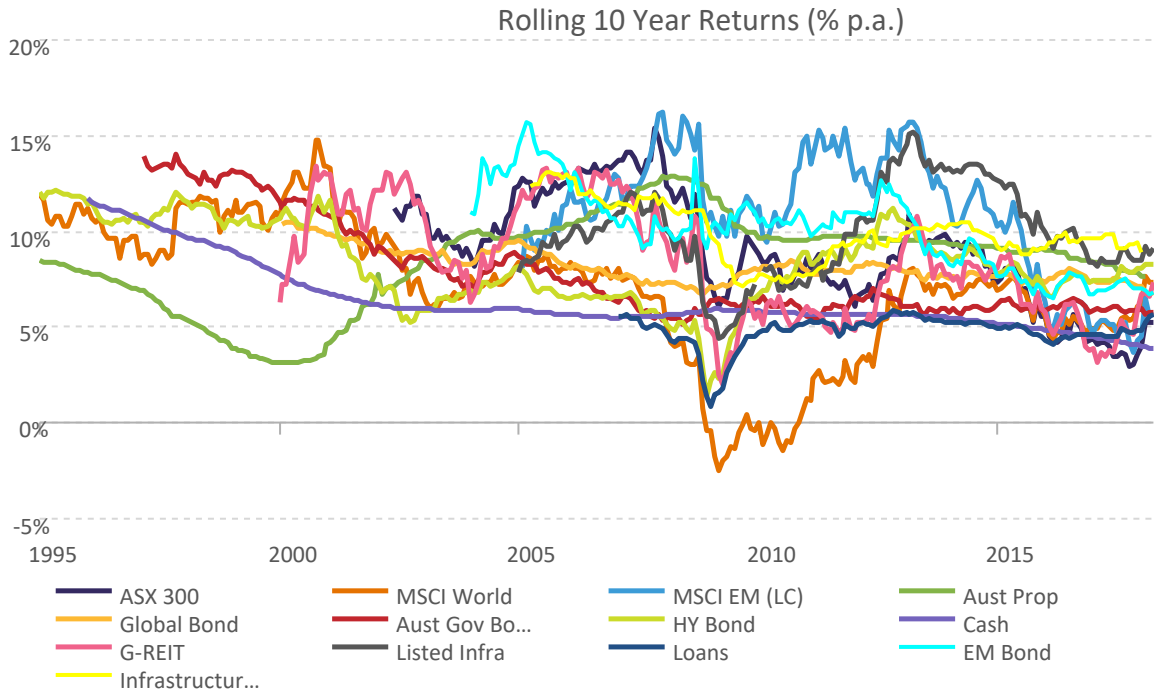
Cumulative Values since 1/01/1996 (\$100 reinvested)



Source: Thomson Reuters Datastream

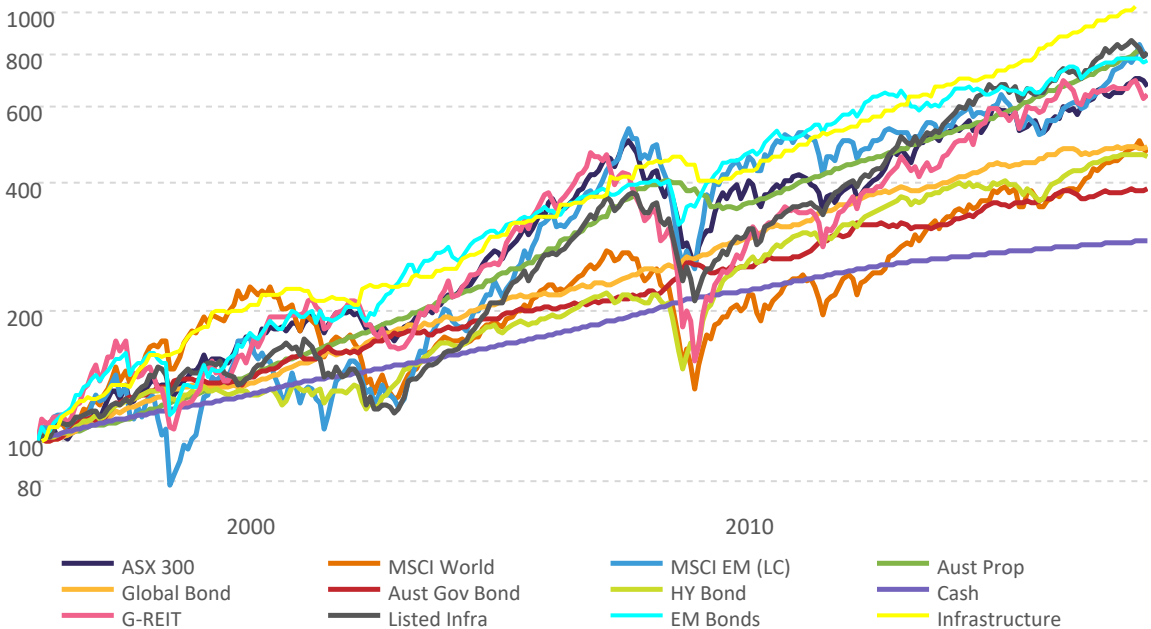


# Asset Class Returns



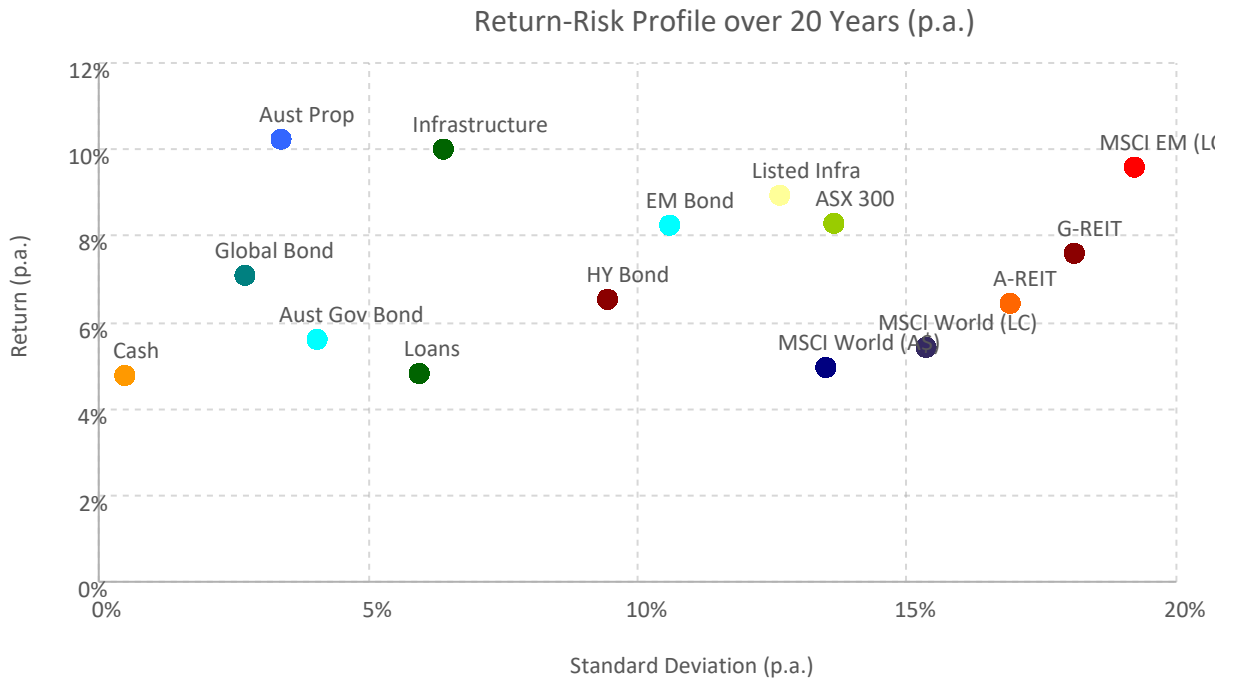
Source: Thomson Reuters Datastream

Cumulative Values since 1/01/1996 (\$100 reinvested)



Source: Thomson Reuters Datastream

# Asset Class Risk and Return



Source: Thomson Reuters Datastream

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