


GODFREY PEMBROKE
market
update

MARCH 2017

- ▶ In February, global equity markets continued to trend higher boosted by optimism about US growth and reasonably good economic and corporate earnings data.
- ▶ In the United States, the Standard & Poor's 500 equity index rose 4.0% over the month pushing its 12-month return to 25%.
- ▶ US business sentiment indicators rose further with small business optimism jumping significantly.
- ▶ Chinese activity indicators suggest that economic conditions have bounced back and the economy is being supported by robust global demand.
- ▶ Australia's December quarter GDP was stronger than expected, rising 1.1% over the quarter reversing the weather-affected 0.5% contraction in the economy in the prior quarter.

February market performance

Equity Markets – Price Indices	Index	At Close 28/02/2017	% Change 1 Month	% Change 12 Months
Australia	All Ordinaries	5761.04	1.5%	16.4%
Japan	Nikkei	19118.99	0.4%	19.3%
Hong Kong	Hang Seng	23740.73	1.6%	24.2%
UK	FTSE 100	7263.44	2.3%	19.1%
Germany	DAX	11834.41	2.6%	24.6%
US	Dow Jones	20812.24	4.8%	26.0%
EMU*	Euro 100	1123.91	2.6%	13.3%
World**	MSCI – Ex Aus (Gross) (Hedged)	1436.58	2.9%	19.8%

Property – Price Index	Index	At Close 28/02/2017	% Change 1 Month	% Change 12 Months
Listed Trusts	S&P/ASX 300 A-REITS	1350.04	3.3%	3.3%

Interest Rates	At Close 28/02/2017	At Close 31/01/2017	At Close 29/02/2016
Aust 90 day Bank Bills	1.78%	1.77%	2.29%
Australian 10 year Bonds	2.73%	2.71%	2.39%
US 90 day T Bill	0.61%	0.52%	0.32%
US 10 year Bonds	2.39%	2.46%	1.76%

Currency***	At Close 28/02/2017	% Change 1 Month	% Change 12 Months	
US dollar	A\$/US\$	0.77	1.28%	7.37%
British pound	A\$/STG	0.62	2.39%	19.61%
Euro	A\$/euro	0.72	3.00%	10.40%
Japanese yen	A\$/yen	86.02	0.66%	5.44%
Trade-weighted Index		66.70	1.37%	7.58%

* 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 extended their post-US election rally in February driven by solid quarterly earnings reports in the US and strong economic data in the US and Europe.

Most of the major economies reported higher inflation boosted by stronger energy and food prices.

US

In the US, the headline CPI rose 0.6% in January, which was double market expectations and the annual inflation rate rose to 2.5% year-on-year, which is the highest rate since March 2012. In addition, the manufacturing ISM index rose for the sixth straight month to a robust level of 57.7 in February, which was the best reading since August 2014.

The stronger US data has placed more pressure on the US Federal Reserve to continue unwinding its “emergency” level of monetary stimulus and investors are now pricing in another interest rate rise in March and a total of two or three interest rate rises in 2017.

Europe

In the Eurozone, the manufacturing PMI for February came in at 55.4, the highest level in six years. In Germany, the harmonised measure of inflation rose 0.7% in February, which was stronger than expected, and this pushed annual inflation to 2.2%, which is the highest annual rate since August 2012.

In the United Kingdom, the economy grew faster than predicted in the fourth quarter of 2016, growing 0.7% over the final three months of the year rather than the 0.6% initial growth estimate. UK GDP has now grown for 16 consecutive quarters, despite Treasury forecasts for a steep contraction in economic activity following the Brexit decision.

China

China’s official manufacturing PMI rose to 51.6 in February, which is a three-month high and suggesting that the recent pick-up in global demand is supporting China’s manufacturing recovery. China’s CPI inflation was also stronger than expected in January, with CPI rising 2.5% year-on-year (a 32-month high) from 2.1% in the previous month. The rise was helped by a rise in non-food prices, which rose 2.5% year-on-year, a five-year high.

Asia region

Japan’s economy still remains stuck in low gear despite zero long-term interest rates. Japan’s GDP in the December quarter rose 0.2% quarter-on-quarter, below expectations of a 0.3% increase, but the fourth consecutive quarter of growth. However, retail sales rose 1.0% year-on-year in January and housing starts increased 12.8% year-on-year, both of which were stronger than expected.

Australia

In Australia, after a period of softness in economic data, some of the indicators have rebounded, in some cases helped by higher commodity prices. The unemployment rate ticked down from 5.8% in December to 5.6% in January. GDP growth was stronger than expected in the fourth quarter of 2016, rising 1.1% for the quarter and 2.4% year-on-year, beating expectations of a 0.8% rise and helped by strong corporate profits and investment. Australia’s current account deficit was the smallest in 15 years in the December quarter, at \$3.9 billion, thanks to a surge in prices for Australia’s exports.

The most recent NAB business survey reported the highest levels of Australian business conditions since the global financial crisis, the highest business confidence since 2014 and the strongest employment conditions since December 2011.

EQUITY MARKETS

- ▶ China's Shanghai Composite Index rose by 2.6% in February.
- ▶ Emerging market shares rose 1.7% in local currency terms.
- ▶ The German DAX Index gained 2.6%.
- ▶ The broader Euro 100 index returned 2.6%.
- ▶ The Japanese Nikkei Index bounced back by 0.4%.
- ▶ The US Standard & Poor's 500 Index gained 4.0% taking its 12-month return to 25%.
- ▶ Australia's S&P/ASX All Ordinaries Index rose 1.5% in February.

Australian equities

	Index/Benchmark (% pa)	1 Year	3 Years	5 Years	7 Years
Australian	S&P/ASX 300 Acc.	21.99%	6.43%	10.39%	7.56%
	S&P/ASX 50 Acc.	22.66%	5.71%	10.98%	7.81%
	S&P/ASX Small Ordinaries Acc.	16.77%	5.11%	1.78%	2.74%

The S&P/ASX 200 Accumulation Index returned 2.3% in February with most sectors higher over the month. Consumer staples shares were the strongest performers helped by rises from Wesfarmers and Woolworths. Financial stocks and Property Securities also had a good month with both sectors returning 4.1%. Energy and Materials shares underperformed with losses of 2.1% and 3.2% respectively as investors took profits following earnings reports from the major miners. Telecommunications stocks also incurred losses over the month after Telstra reported disappointing earnings. Smaller companies underperformed larger companies with a gain of 1.3%, including dividends.

Sector	1 Month	3 Months	1 Year
Energy	-2.1%	4.6%	21.1%
Materials	-3.2%	5.3%	46.7%
Industrial	3.4%	1.3%	6.1%
Consumer Discretionary	1.5%	1.2%	12.2%
Consumer Staples	6.0%	6.7%	14.8%
Health Care	3.9%	9.6%	13.2%
Financials (ex Property)	4.1%	7.6%	29.4%
Info Tech	1.9%	1.5%	12.2%
Telcos	-3.1%	-4.3%	-6.9%
Utilities	3.1%	13.2%	22.8%
Property	4.1%	5.9%	8.2%

BIG MOVERS THIS MONTH

Going up

↑	Consumer Staples	6.0%
↑	Financials	4.1%
↑	Property	4.1%

Going down

↓	Materials	-3.2%
↓	Telecommunications	-3.1%
↓	Energy	-2.1%

Global Equities

	Index/Benchmark (% pa)	1 Year	3 Years	5 Years	7 Years
Global	MSCI World Ex Aus (Gross) in AUD	13.03%	11.42%	18.01%	12.60%
	MSCI World Ex Aus (Gross) in Local Currency	22.89%	8.84%	12.40%	11.26%
	MSCI World Small Cap (\$A)	18.35%	10.95%	18.93%	14.41%
Emerging	MSCI Emerging Mkts Free	22.74%	5.98%	4.75%	5.82%
	MSCI AC Far East Free (ex Japan)	23.28%	5.21%	4.82%	0.06%

Developed share markets gained 3.1% in February in local currency terms. Shares in the United States once again made fresh record highs late in February with the Dow Jones Industrial Average Index closing above 20,800 after rising above 20,000 for the first time ever in late January. The US S&P 500 index gained 4.0% while shares in Europe were, on average, 2.5% higher. Globally, energy stocks were the worst performing sector, losing 1.6% for the month after losing 3.9% in January. Healthcare was the best performing global sector with a gain of 6.2% for the month.

Equity valuations appear somewhat stretched in the United States, particularly if the US Federal Reserve is more aggressive in lifting interest rates. However, 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	8.20%	15.87%	16.57%	12.67%
Global	FTSE EPRA/NAREIT Dv ex AUS TR Hdg AUD	14.83%	10.89%	13.03%	13.67%

The S&P/ASX 300 A-REIT Accumulation Index (which includes distributions) gained 4.1% in February as yield-sensitive sectors recovered ground after recent weakness. Over the past year, property securities have returned 8.2%, 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 over the past one year and seven years.

Fixed Interest

	Index/Benchmark (% pa)	1 Year	3 Years	5 Years	7 Years
Australian	Bloomberg AusBond Composite 0+ Yr	1.43%	4.83%	5.13%	5.84%
	Australian 90 Day Bank Bill	1.90%	2.26%	2.60%	3.22%
Global	BarCap Global Aggregate Index	-6.55%	4.70%	7.26%	4.12%
	BarCap Global Agg. Index Hedged	3.08%	5.69%	5.84%	6.97%

Australian bonds returned 0.2% in February after government bond yields rose marginally. Over the month the two-year Australian Commonwealth Government bond yield rose from 1.80% to 1.83% per annum and the ten-year government bond yield rose from 2.72% to 2.75% per annum.

Internationally, the Barclays Global Aggregate Bond Index (A\$ hedged) returned 0.9% as bond yields fell marginally in the United States and Japan and declined more substantially in the United Kingdom and Germany. In the US, 10-year Treasury bond yields fell from 2.45% per annum to 2.36% as investors began to unwind some of their inflation expectations on news that Donald Trump's spending and tax policies may take longer to come into effect. During February, the credit spreads on high-yield corporate bonds fell from 400 to 374 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 almost 1.0 US cent to US\$0.7689 despite the trade-weighted US Dollar index rising over the month as expectations of a March rate hike increased.

Against the US Dollar, the Australian Dollar rose 1.3% for the month, helped by higher commodity prices and stronger risk appetite from international investors. On a Trade-Weighted Index basis, the Australian Dollar rose 1.4% in February.

The information contained in this Market Update is current as at 06/03/2017 and is prepared by GWM Adviser Services Limited ABN 96 002 071749 trading as ThreeSixty Research, registered office 105-153 Miller Street North Sydney NSW 2060. This company is a member of the National group of companies.

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