

## Monthly Market Snapshot – May 2016

Asset Class	Asset Class	1 Mth (%)	3 Mths (%)	6 Mths (%)	1 Yr (% p.a.)	3 Yrs (% p.a.)	5 Yrs (% p.a.)	10 Yrs (% p.a.)
Aust Eq (lge)	S&P/ASX 200 (Accum)	3.1	11.6	6.5	-2.4	7.7	7.5	5.3
Aust Eq (sml)	S&P/ASX Sml Ords (Accum)	4.1	13.1	12.6	6.9	6.9	0.2	1.4
Aust Industrials	S&P/ASX 200 Industrials (Accum)	4.5	10.9	5.8	1.4	11.4	13.6	7.2
Aust Resources	S&P/ASX 200 Resources (Accum)	-5.3	16.3	10.7	-21.6	-8.7	-11.4	-1.7
Global Eq (unh)	MSCI World (unh) Accum	6.0	7.5	-0.1	6.0	17.2	15.3	5.0
Global Eq (hdg)	MSCI World (hdg) Accum	1.9	8.2	-1.1	1.9	10.4	11.3	6.7
Global EME (unh)	MSCI Emerging Markets (unh) Accum	-3.9	9.1	-0.8	-19.6	-7.2	-7.1	0.7
AREITs	S&P/ASX 200 AREIT (Accum)	2.6	8.0	16.8	15.3	16.8	17.1	3.3
GREITs	EPRA NAREIT (ex Aust) hdg (Accum)	1.4	8.4	4.0	3.6	9.5	10.5	6.2
Aust Fixed Income	BBerg AusBond Composite Index (0+ysr)	0.3	0.7	1.3	2.3	2.6	3.3	4.7
Global Fixed Income	Bar Cap Global Agg Index (AUD hdg)	0.6	1.8	4.5	6.1	6.4	7.4	7.9
Aust Cash	BBerg Aust Bond Bank Bill Index	0.2	0.6	1.2	2.3	2.5	3.2	4.4

Bond Mkts	3yr Yields (%)	Mthly Change (bps)	10yr Yields (%)	Mthly Change (bps)
Aust	1.64	-22	2.30	-23
US	1.03	10	1.85	8
UK	0.63	-8	1.43	-8
Japan	-0.23	-1	-0.11	-3
Europe	-0.53	-5	0.14	-9

Cash Rates	End of month (%)	Mthly change (%)	Cash Rates	End of month (%)	Mthly change (%)
Aust	1.75	-0.25	Sth Korea	1.50	-
US	0.50	-	Brazil	14.25	-
Europe	0.00	-	China (RRR)	17.00	-
Japan	0.00 – 0.10	-	India	6.50	-
UK	0.50	-	Mexico	3.75	-

Commodities	Close	Mthly Change (%)	3 Month Change (%)
Gold US\$/oz	1,215.33	-6.3	-1.9
Crude Oil (Brent) US\$/bbl	49.89	4.5	29.7
Copper	4,696.75	-7.3	-0.2
Silver	15.99	-10.4	7.3
Nickel	8,388.50	-10.9	-1.2
Iron Ore (Qingdao 62% fines)	50.15	-24.3	1.1

Currencies	FX Rate End of month	Mthly Change (%)	3 Month Change (%)	Yearly Change (%)
AUD/USD	72.34	-4.9	1.3	-5.4
AUD/GBP	49.95	-4.0	-2.7	-0.1
AUD/EUR	64.99	-2.1	-1.1	-6.6
AUD/JPY	80.0910	-1.1	-0.5	-15.6
GBP/USD	1.4483	-0.9	4.1	-5.3
EUR/USD	111.32	-2.8	2.4	1.3
USD/JPY	110.7300	4.0	-1.7	-10.8
Aust TWI	61.7000	-3.3	0.5	-3.1

Economic Surprise Index – US Outlook Moderating



Source: Bloomberg

## Market Commentary

- Higher risk assets continued their upward trajectory in May with equities rallying across most major markets. The ASX 200 (Accum) Index was up +3.1% m/m while global markets, other than EM, which continues its volatile m/m ride were also higher. The stronger USD continued to hamper EM equities.
- After touching a low in mid February, the local market is up ~14% over the period. The rally in the domestic market was driven by the defensive and interest rate sensitive sectors with Healthcare (+9.3%), IT (+6.5%), Consumer Disc (+5.8%) and Telcos (+5.0%) all higher, while the Materials (-3.3%) and Energy sectors (-1.9%) declined post a strong April.
- The rally in the domestic market was driven by the RBA's decision to cut the official cash rate by a further 0.25% (25bps) to 1.75%. The move was on the back of the weaker than expected inflationary outlook (1.3% y/y). This was despite the fact that GDP (y/y) continues to run above 3.0% over the last 2 quarters while the jobless rate remains steady at 5.7%. The major driver for the lack of inflationary expectations has been due to subpar wages growth as opposed to any material improvement in productivity.
- On the back of the move by the RBA the domestic bond market rallied with yields falling across the curve as expectations of further cuts in the official cash rate increased. However at the time of writing the RBA refrained from a June rate cut with the 1Q16 GDP number a healthy +3.1% y/y (+1.1% q/q). The resulting downward move in bond yields resulted in bond markets also delivering positive investment returns.
- Globally yields were also lower other than in the US where expectations of a Fed rate hike in June/July remains. However, the most recent comments from Fed Chair Janet Yellen indicate that the underlying strength of growth in the US is moderating. We remain of the view that despite the desire of the Fed to 'normalise' rates it will continue to adopt a cautious and measured approach to increasing rates thought the 2H16. In this regard we only see the possibility of a further 1-2 rate hikes for the remainder of 2016.
- The outlook for lower rates domestically saw the AUD fall against all major currencies with the largest move against the USD. At current levels we continue to see the AUD trading around FV, albeit longer term we expect further downward movements.
- Commodity markets were also weaker over the month. After a period of rising prices, markets moved lower, other than oil (+4.5%), which continues to push higher, although there was some technical trading in iron ore that resulted in the sharp downward move. We believe that commodity prices have now stabilised around current levels. However, with the global growth outlook still in a transitory phase we don't expect any major increases from current levels.

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