View from the hill

APRIL 2015

Market update

The table below provides details of the movement in average investment returns from various asset classes for the period up to 31 **March 2015.**

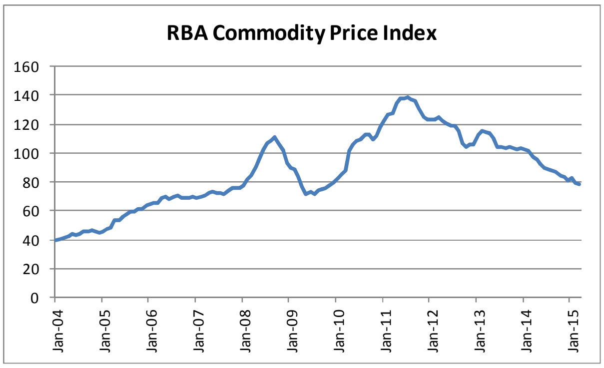
Asset class (% change)	1 month	3 months	1 year	3 years (%pa)
Australian shares	-0.1	10.3	14.1	15.8
Smaller companies	-1.9	7.3	2.3	-1.7
International shares (unhedged)	1.0	9.8	29.7	25.1
Emerging markets (unhedged)	1.1	9.6	22.7	11.6
Property - Australian listed	-2.0	9.2	34.4	22.6
Property - global listed	0.7	7.3	29.6	19.2
Australian fixed interest	0.8	2.7	11.1	7.1
International fixed interest	0.8	2.6	10.3	7.5
Australian cash	0.2	0.7	2.7	3.0

Overview & Outlook

Despite fears that healthy levels of economic growth in the United States would lead to increased interest rates, the low interest rate environment across the globe became further entrenched last month. With the absence of any tangible sign of inflation, bond yields declined again over March. Contributing to this decline was a statement by the U.S. central bank implying that there were no short term plans to raise interest rates. The Federal Reserve stated that *"economic conditions may, for some time, warrant keeping the target federal funds rate below levels the Committee views as normal in the longer run."*

Adding to the lack of inflation across the globe has been the significant weakness in commodity prices. The Reserve Bank's Commodity Price Index has declined by 20% over the past year. Falling iron ore prices have weighed heavily on the Australian economy and equity market. There was no respite to this trend in March, with the iron ore price hitting new cyclical lows.

The low interest rate regime has arguably been successful in maintaining positive economic growth across the major developed economies. This is particularly so in the United States; and there is growing confidence that the latest expansionary policy in Europe will have a positive impact on growth.



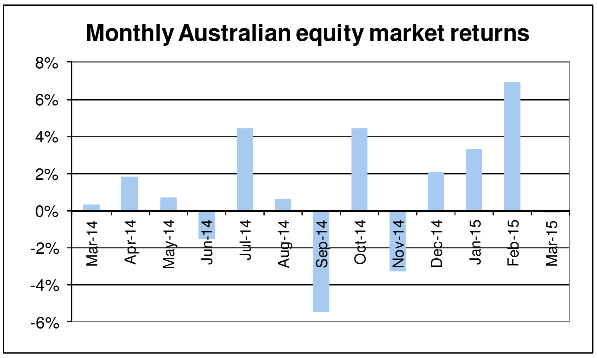
Source: Reserve Bank of Australia. In SDR currency equivalent.

In Australia, although growth remains subdued, there are some areas of the economy responding positively to low interest rates. The housing construction industry is operating at record high levels. In addition, recent household consumption spending indicators have surprised on the upside. In the months of January and February this year, retail sales have increased 0.5% and 0.7% respectively. This pick up in spending is consistent with the lift in consumer sentiment that has been recorded from the lows of late 2014.

The most recent Australian employment data was also slightly stronger than expected. During February, there was an increase of 15,600 in the number of workers employed, which allowed the unemployment rate to drop from 6.4% to 6.3%.

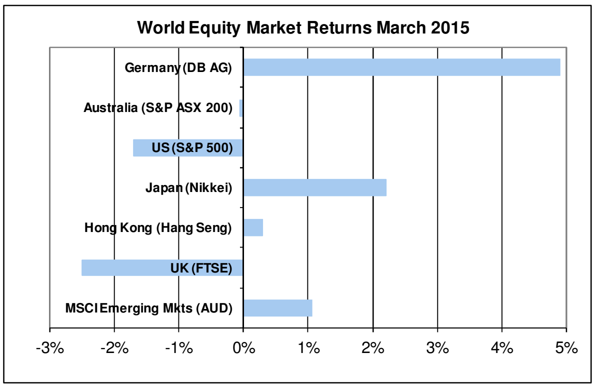
Share markets

After the strong gains of February, movements on share markets were more subdued last month. The Australian market was almost flat with the S&P ASX 200 Index recording a marginal fall of 0.1% over the month. The pattern of price movement across the sectors was consistent with the dominant trend of recent years. Sectors providing more defensive yield based returns found some support; whereas resource stocks were pushed lower by an average of 6.2% due to falling commodity prices. Finance and healthcare were amongst the leading sectors, both higher by around 2%.



Source: S&P ASX 200 Index

Results on overseas markets were mixed last month with a 2% fall in the $A (to U.S. 76.3 cents) providing the main source of positive return for unhedged Australian investors. Although bond yields declined, the U.S. equity market showed signs of nervousness over the possibility that interest rates would move higher this year. The S&P 500 Index fell by 1.7% over the month. In contrast, strong results were again recorded on Continental European markets as confidence grew over the likely positive impact of the recently announced Quantitative Easing program.

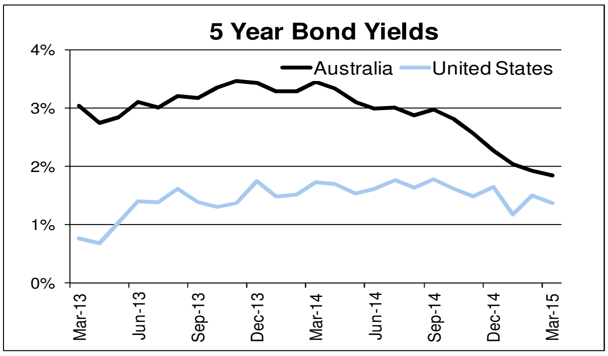


Source: Index as shown.

Emerging markets also experienced positive returns last month. The increase was largely due to China, where the Shanghai Composite Index surged 13.2% in response to some more accommodative monetary policy being put in place by the central bank. The gains in China more than offset declines in resource sensitive markets such as Russia and Brazil.

Interest rates

Despite some speculation that there would be a further easing in monetary policy, the Reserve Bank kept interest rates unchanged following its Board meetings in early March and April. Bond yields, however, continued to drift lower as investors took note of the U.S. Federal Reserve statement suggesting that low rates would be maintained for some time ahead. The Australian 5-year Government bond yield declined from 1.93% to 1.84% over March, with the equivalent U.S. yield dropping 0.13% to 1.34%. These falls created increased bond prices and positive returns for fixed interest investors.



Source: Reserve Bank of Australia. US Federal Reserve.

Property

Following 3 months of very strong gains, the Australian listed property market lost ground over March. The A-REIT sector recorded a fall of 2.0%, despite the fact that lower bond yields made property yields more attractive on a relative basis. There was not the same pullback on overseas markets, however, with the UBS Global Investors Listed Property Index rising by 0.7% in hedged currency terms over March.

Source: S&P ASX 200 A-REIT Acc Index.

Price rises in the residential property sector continue to attract much attention. Low interest rates have clearly boosted affordability and created increased demand from investors seeking assets with higher potential returns than interest bearing deposits. The Australian Bureau of Statistics Property Price Index suggests that residential prices increased by 6.8% in capital cities across Australia over 2014. Increases ranged from 1.2% in Perth to 12.2% in Sydney.