View from the hill

MARCH 2016

Market update

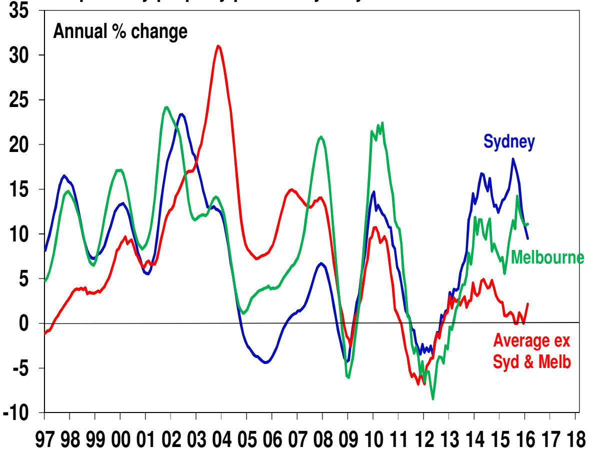
The table below provides details of the movement in average investment returns from various asset classes for the period up to **29 February 2016.**

Asset class (% change)	1 month	3 months	1 year	3 years (%pa)
Australian shares	-1.8	-4.6	-13.7	3.0
Smaller companies	1.0	-0.5	-3.6	-1.4
International shares (unhedged)	-1.7	-7.0	-2.1	19.3
International shares (hedged)	-1.4	-8.6	-8.1	10.4
Emerging markets (unhedged)	-1.1	-7.4	-16.0	2.7
Property – Australian listed	2.8	8.0	6.6	14.3
Property – global listed	0.0	-1.8	-2.6	9.9
Australian fixed interest	1.0	2.6	3.0	5.4
International fixed interest	1.1	2.7	4.4	6.0
Australian cash	0.2	0.6	2.3	2.6

Overview & Outlook

Global equities continued their weaker trend falling 1.4% (hedged) in February, with Australian equities following the global lead, falling 1.8%. The volatility was driven by ongoing concerns that global growth was slowing with some possibility of recession. This concern and weaker energy prices, both of which would lead to higher bad debts being recorded by banks, were the primary drivers of the sell-off. Similar factors caused declines in the Australian equity market, as well as the potential for a slowdown in China and shorting of banks by funds looking to profit from perceptions that the domestic housing prices were in a bubble and likely to record sharp declines.

Capital city property prices - Sydney & Melb versus the rest



Source: Reserve Bank of Australia

While home prices bounced in January after declines in the December quarter, momentum in Sydney appeared to be slowing. There has been a spate of recent media reporting on Australian property values, which have highlighted debt levels and valuation to income ratios and this has focused attention on the property market.

Resource stocks rallied toward month-end, and rose 7.5%, despite Rio's significant profit decline leading to a significant dividend cut. BHP also cut it's dividend after recording a statutory loss due to asset write-downs. Operating profits, while positive, where at a multi-year low. Notably, resource stocks are now less than 10% of the domestic equity market, from over 30% a peak of at the height of the commodities boom.

The RBA left the official cash rate on hold at 2.0% at its meeting in March, where it has remained since May last year. The bias continues to be toward another rate cut given low inflation and a stronger $A.

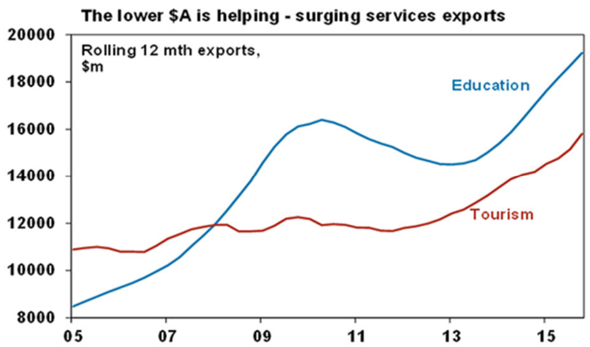
The oil price fell further, but toward month-end it rallied back toward $35 per barrel leading to a very strong relief rally of energy and resources stocks into March. The driver of improved oil prices was an agreement between Russia and OPEC to cap oil production at current levels, providing a base for oil prices. More broadly resource stocks were buoyed by the weaker $US and data indicating global growth was holding up better-than-expected.

Share markets

The Australian share market fell again in February, with the S&P/ASX 200 Accumulation Index down 1.8%. The declines were led by the Financials with the Index down 5.3%. Telcos were also notable, falling 5.5% with Telstra under pressure due to NBN concerns.

The December half-year profit reporting season was better-than-expected with 47% of results above market expectations, with 21% coming in below expectations. 65% of companies reported improved profits compared to 12 months ago, and 63% raised their dividends. Most of the big banks reported reasonable results as did housing and consumer stocks.

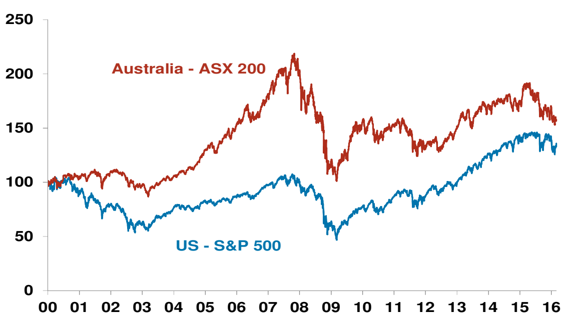
Other factors that contributed to the month-end rally was data showing consumer spending growing at a 2.9%annual rate, supported by very low borrowing rates. Sectors assisted by the weaker $A including manufacturing, tourism, education and services and farming all continued to record sound growth.



Source: Datastream, AMP Capital Investors

The MSCI World (ex-Australia) Index fell 1.7% (un-hedged) taking the annual return down to -2.1%. Signs of slowing global growth, especially in manufacturing, and concerns around the impact of lower commodity prices on emerging markets saw investors sell these markets, which fell 4.7%.

Domestic and Global shares –Long Term



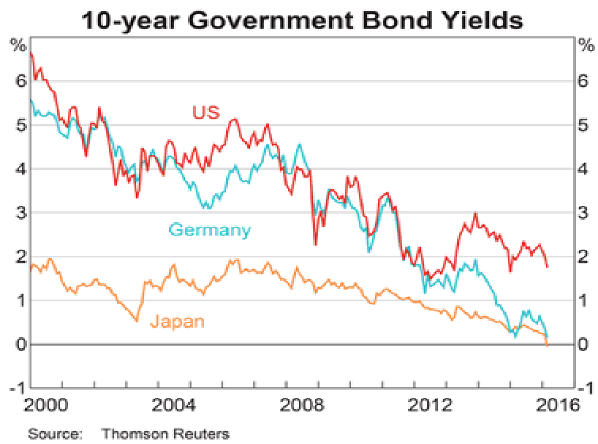
Source: Datastream, AMP Capital Investors

Interest rates

Global bond markets yields fell as fears over global bond market rallied. Very low sovereign bond yields indicate a soft medium-term outlook for growth in light of fragile growth, excess capacity, low commodity prices and inflation.

US 10-year bond yields were down 19 bps to 1.73% while German 10-year bonds more than halved, falling 22 bps to 0.11%. Australian long bonds followed the global lead falling 23 bps to 2.37%.

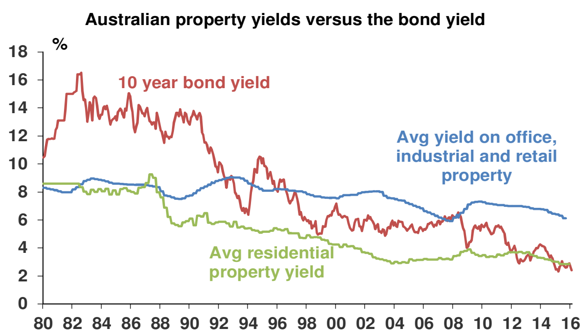
Very high levels of volatility continued in the US high yield credit market, with continued weakness from the Energy and Materials sector resulting in wider spreads over the month with the Bank of America Merrill Lynch US High Yield index spread initially increasing by 110 bps to 8.87%, reflecting the increased distress in these sectors, before rallying to close back at 7.75%.



Property

The A-REIT sector continued its winning ways into February, moving up 2.8%, well ahead of the equity market and brining the annual return to 6.6 %. A strong reporting season across property sub-sectors contributed to sector strength, as did the lower bond yields.

As shown below, property yields still remain very attractive relative to other yield investments. The risk of a sharp increase in bond yields is unlikely in the current environment given the low levels of inflation and slower growth rates.



Source: Thomson Reuters, AMP Capital