View from the hill

MAY 2019

Market update

The table below provides details of the movement in average investment returns from various asset classes for the period up to **30 April 2019.**

Asset class (% change)	1 month	3 months	1 year	3 years (%pa)
Australian shares	2.4	9.3	10.4	11.1
Smaller companies	4.1	11.0	7.2	11.8
International shares (unhedged)	4.6	12.0	14.3	14.5
International shares (hedged)	3.9	9.2	8.4	13.0
Emerging markets (unhedged)	3.1	6.9	1.8	14.3
Property - Australian listed	-2.3	5.5	18.0	8.4
Property - global listed	-0.7	3.0	13.0	6.0
Australian fixed interest	0.3	3.1	7.9	4.2
International fixed interest	0.0	1.8	5.0	3.1
Australian cash	0.2	0.5	2.0	1.9

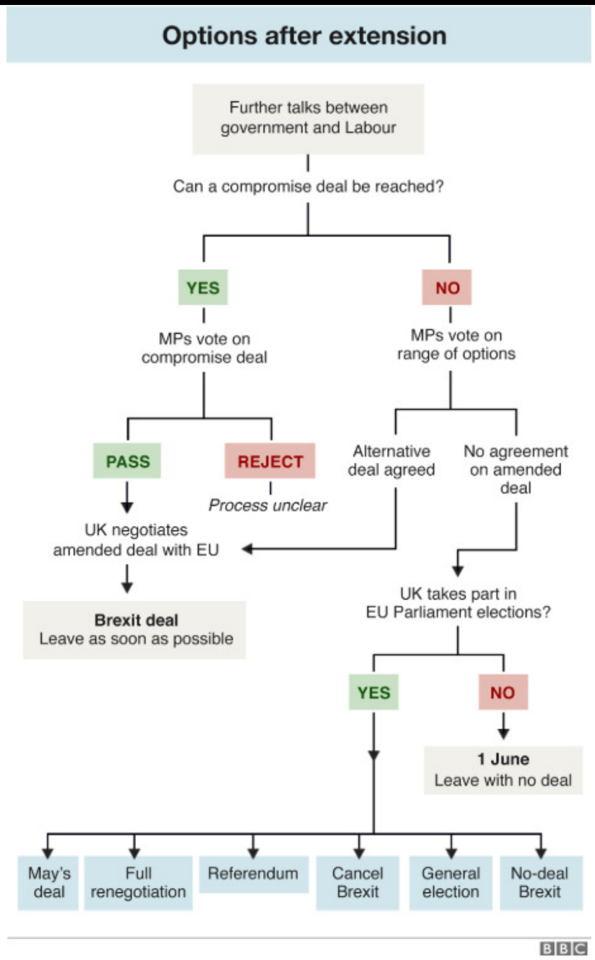
Overview & Outlook

The resurgence of global market has continued in April with lower volatility and US equities heading back to all-time highs. While economic data continues to be mixed with some signs of softening markets continue to rise as the potential for further rate rises has all but been ruled out.

Question marks remain around key issues that could meaningfully impact economic activity in Europe, the US and to some extent China, namely Brexit and the US-China trade war.

Just this weekend Trump has reversed the decision to hold off on raising tariffs from 10% to 25% on $200bn of Chinese imports with the change to take effect this week. He also flagged another 25% tariff on $325bn of goods “shortly”. This is Trump’s way of trying to pressure the Chinese to agree to his terms, let’s see how that plays out.

In April the EU granted the UK a six-month extension to Article 50 (exit of the EU) as the UK Parliament failed to agree to pretty much anything relating to the issue. So, the UK now has until 31 October to renegotiate a deal with the EU or for Mrs May to get enough of the parliament over the line on the existing deal so while preventing the withdrawal of the UK without a deal it leaves a great deal to be resolved. So, the UK must accomplish in six months what could not be done over the last two plus years. The chart (right) provides an outline of the potential outcomes ahead.



Source: BBC

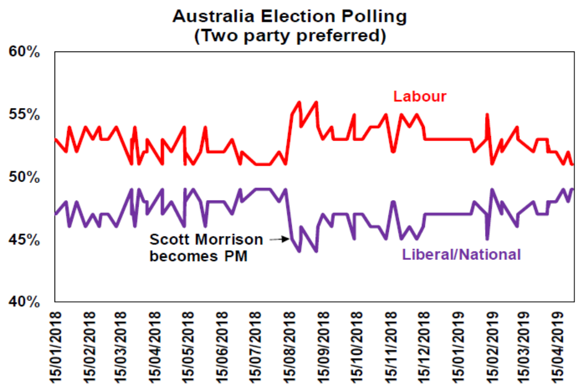
Share markets

Prime Minister Scott Morrison unsurprisingly announced the Federal election, to take place on 18 May. Despite the likely change in government and the softening economic conditions, which arguably have been driven by the housing down turn, Australian shares were strong again in April gaining 2.4%. Consumer staples (7.4%) was the strongest sector with Info Tech (7.3%) and consumer discretionary (5.0%) also performing well. Utilities (-0.5%) was the weakest sector in the market while Energy (1.5%) and Telecom Services (1.7%) were among the three worst performing sectors.

Australian small caps (4.1%) outperformed the broader market as investors bought into more volatile positions.

Dulux jumped (31.8%) on the day of the announced all cash takeover bid from Japan's Nippon Paint Group Energy which the Dulux board has unanimously recommended to shareholders.

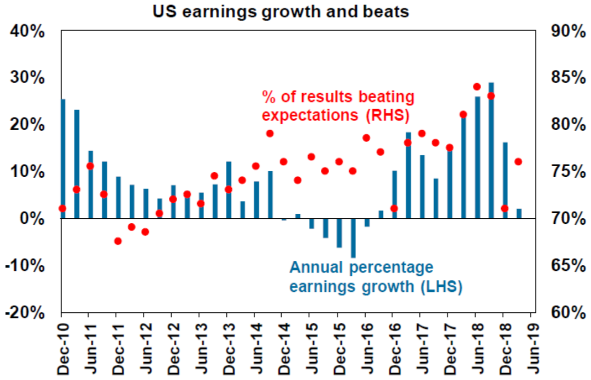
The Labor Party which currently leads opinion polls continues to promise limits on negative gearing and claiming franking credit refunds which may impact the way investors approach Australian share and residential property investing in the future. But clearly from the chart below the result is becoming much more in the balance.



Source: Wikipedia based on major polls, AMP Capital

International shares (3.9%) on a currency hedged basis outperformed the local market. This was driven by greater risk appetite with higher volatility stocks doing well as did financial stocks and the consumer discretionary sector. The risk appetite was reflected in the performance of Emerging markets (3.1%) also performing well.

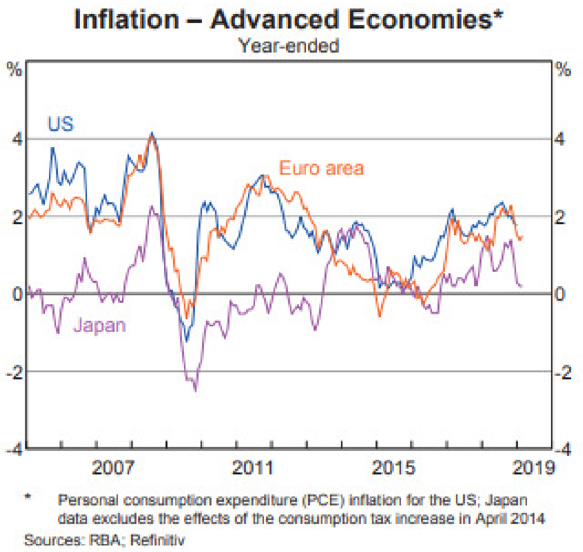
US equities, which reached an all-time high late in the month, were supported by the positivity in the March quarter earnings results which have been better than expected. However as can be seen on the chart below, the growth level is the lowest since 2016 and while it is expected to be the low of the current cycle is clearly less impressive than the strong growth that has supported the returns of US equities in the past few years.



Source: AMP Capital

Interest rates

Australia's cash rate was again left on hold at 1.50% despite weakening inflation and economic growth. Given this weakening, and domestic and global inflation sliding, the risk for official interest rates is to the downside and has been a key factor in the change of tune by the US Fed and the RBA.



The Australian 10-year bond yield rose marginally to 1.80% while in the US the 10-year yield arose 9 bps to 2.50% in a subdued month for fixed interest markets.

Property

Listed property markets were weaker with Australian REITs (-2.3%) underperforming their international counterpart (-0.7%) on a currency hedged basis. This weakness may simply reflect acknowledgement of the relative value between assets with REITs being among the strongest asset class in the last 12 months despite the falls in April. Over the 12 months to the end of April Australian listed property has returned 18.0% and globally listed property has gained 13.0%.