

Monthly Market Snapshot

DECEMBER 2016

The Monthly Market Snapshot publication provides commentary on the global economy and the performance of financial markets

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Key insights

Equity markets increased 1.82%, rallying higher post the US election. Bonds continued its sell off with US and Australia 10 year yields rising to 2.37% and 2.76%, respectively. The spread between the Australian 10 year and US 10 year government bond yield narrowed to 0.39%.

In the US, equity markets rallied on the positive prospect that a Trump administration would bring about for American corporates. The Federal Reserve raised interest rates by 0.25%, with a new target range from 0.50% to 0.75% at their December 2016 meeting. The Committee acknowledged the US economy has strengthened considerably with a tighter labour market and buoyant economic climate. Average hourly earnings continued to rise, increasing by 0.4% in December, indicating a sustained monthly wage growth against a backdrop of an increase by 156,000 Non Farm payrolls in December 2016. Wage growth and Non Farm payrolls in the US for 2016 averaged 3.84% and 156,000 growth each month. US manufacturing and services PMI index maintained its strength with improvement in business exports and prices paid within the PMI components.

Crude oil prices rose following a joint effort by OPEC to reduce production and cut supply to the market. Prices stabilised at \$56 per barrel by the close of December. OPEC announced cuts to supply for different grades of oil to the Asian region in February 2017. US Baker Hughes rig count increased marginally .

In Europe, the Italian referendum result rejecting economic reform plans resulted in the resignation of the Italian Prime Minister. Rising populism and voter backlash heightens political risks within the Euro region.

In Australia, the labour market improved with full time employment posting marginal gains, while part time employment softened.

As a recap of the 2016 calendar year. Equities produced solid returns of more than 10% over the year. Equity markets rebounded, after the correction early in the year on concerns of a slowdown in China, and the unexpected results of the Brexit vote and US Presidential Election, had only very short-term limited negative impact on markets. Australian equities benefited from the very strong performance of the Resources sector over the year, as commodity prices rallied strongly from recent lows. Internationally, the US, UK and Emerging Markets performed positively, while Europe and Japan were flat for the year.

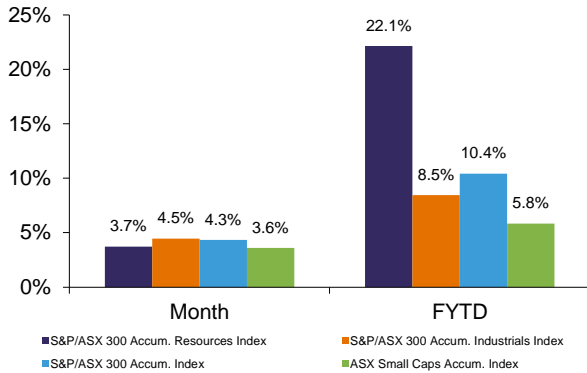
Fixed interest assets posted moderately positive returns for the year. Australia and US yields rose marginally over the year, while in Europe and Japan, bond yields fell contributing to stronger returns from international fixed income.

Overall, foreign currency detracted from returns over 2016. The AUD weakened modestly against the USD and YEN, with commodity price increases providing a support for the AUD but RBA rate cuts seeming to drive the AUD depreciation. However, the EUR, and most significantly, the GBP, depreciated in response to the Brexit vote.

Listed international and Australian property posted positive returns for the year, but did decline materially in the second half of the year as bond yields rose.



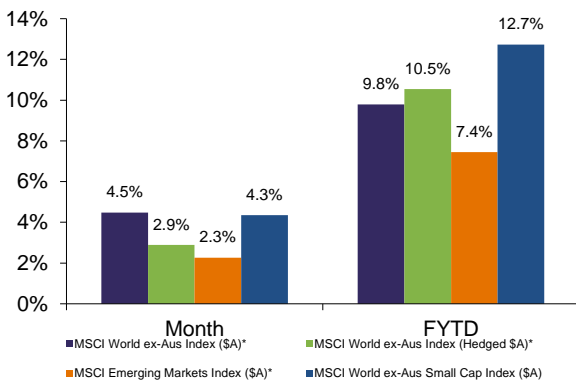
Australian equities



Australian equities increased in December, closing the month up 4.3%, with both Resources and Industrials posting strong gains.



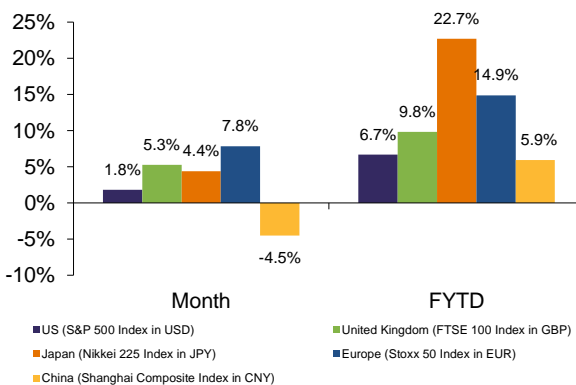
International equities (\$A)



The \$A Hedged MSCI World Index rose 2.9% in December, while the unhedged index gained 4.5%, as the Australian dollar weakened. Emerging market equities rose by 2.3% in Australian dollar terms in December.



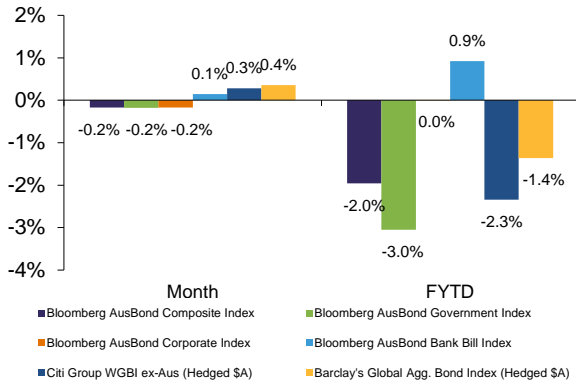
International equities (local currencies)



Major equity markets gained in the month of December, except for China which declined by -4.5%, in local currency terms. All major markets recorded gains for the financial year to date.



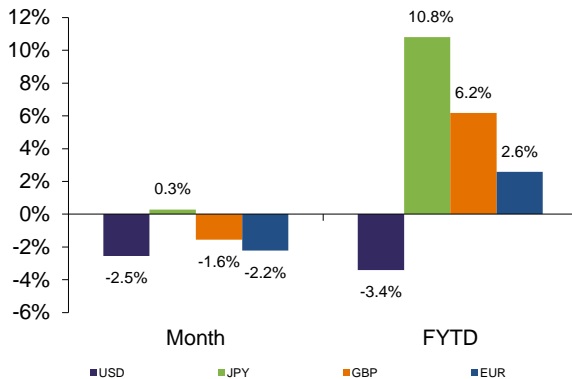
Fixed income



Australian bonds declined marginally by 0.2%, while global bonds produced marginally positive returns for the month.



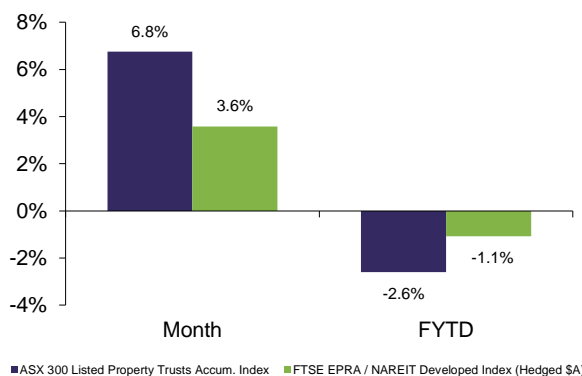
Australian dollar against major currencies



The Australian dollar (AUD) weakened against all major foreign currencies except for the Japanese Yen over the month. For the financial year to date, the AUD recorded gains against all major currencies except for USD.











Property



Australian and global listed property performance posted positive returns of 6.8% and 3.6%, respectively, in December.

December

	Index value	Month	3 months	FYTD	1 year	
Australian equities						
	S&P/ASX 300 Accum. Index	53,356	4.3%	4.9%	10.4%	11.8%
	S&P/ASX 300 Accum. Industrials Index	109,733	4.5%	4.3%	8.5%	7.4%
	S&P/ASX 300 Accum. Resources Index	19,484	3.7%	8.2%	22.1%	42.9%
	ASX Small Caps Accum. Index	6,480	3.6%	-2.5%	5.8%	13.2%
International equities						
	MSCI World ex-Aus Index (\$A)*	7,526	4.5%	7.7%	9.8%	7.9%
	MSCI World ex-Aus Index (Hedged \$A)*	1,365	2.9%	5.2%	10.5%	10.3%
	MSCI Emerging Markets Index (\$A)*	525	2.3%	1.3%	7.4%	11.7%
	MSCI World ex-Aus Small Cap Index (\$A)	485	4.3%	8.5%	12.7%	11.5%
	US (S&P 500 Index in USD)	2,239	1.8%	3.3%	6.7%	9.5%
	United Kingdom (FTSE 100 Index in GBP)	7,143	5.3%	3.5%	9.8%	14.4%
	Japan (Nikkei 225 Index in JPY)	19,114	4.4%	16.2%	22.7%	0.4%
	Europe (Stoxx 50 Index in EUR)	3,291	7.8%	9.6%	14.9%	0.7%
	China (Shanghai Composite Index in CNY)	3,104	-4.5%	3.3%	5.9%	-12.3%
AUD versus ...						
	USD	0.72	-2.5%	-6.0%	-3.4%	-1.2%
	JPY	84.47	0.3%	9.5%	10.8%	-4.0%
	GBP	0.59	-1.6%	1.0%	6.2%	19.5%
	EUR	0.69	-2.2%	1.0%	2.6%	2.8%
Property						
	ASX 300 Listed Property Trusts Accum. Index	44,130	6.8%	-0.7%	-2.6%	13.2%
	FTSE EPRA / NAREIT Dev. Index (Hedged \$A)*	2,357	3.6%	-2.4%	-1.1%	6.0%
Oil and Commodities						
	Crude Oil (\$/bbl)	54	8.7%	11.4%	11.2%	45.0%
	Copper Spot (\$/tonne)	5,523	-5.0%	13.9%	14.1%	17.4%
	Gold Spot (\$/ounce)	1,152	-1.9%	-12.8%	-13.4%	8.0%
Australian Fixed Interest						
	Bloomberg AusBond Composite Index	8,811	-0.2%	-2.9%	-2.0%	2.9%
	Bloomberg AusBond Government Index	9,141	-0.2%	-3.8%	-3.0%	2.5%
	Bloomberg AusBond Corporate Index	9,020	-0.2%	-1.4%	0.0%	3.8%
	Bloomberg AusBond Bank Bill Index	8,538	0.1%	0.4%	0.9%	2.1%
Global Fixed Interest						
	Citi Group WGBI ex-Aus (Hedged \$A)	2,221	0.3%	-2.6%	-2.3%	5.0%
	Barclay's Global Agg. Bond Index (Hedged \$A)	-	0.4%	-2.2%	-1.4%	5.2%
Fixed income (yields) as at ...						
		31-Dec-16	30-Nov-16	30-Sep-16	30-Jun-16	31-Dec-15
	Australia Bank Bill	1.80	1.76	1.72	1.94	2.33
	Australia 10 Year Government Bond	2.77	2.72	1.91	1.98	2.88
	US 10 Year Government Bond	2.44	2.38	1.59	1.47	2.27
	UK 10 Year Government Bond	1.24	1.42	0.75	0.87	1.96
	Germany 10 Year Government Bond	0.21	0.28	-0.12	-0.13	0.63
	Japan 10 Year Government Bond	0.05	0.03	-0.09	-0.22	0.27

* Net dividends reinvested

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