

Monthly Market Snapshot

MAY 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 in May continue to recover from their lows at the start of the year. In a similar tone to previous months, the actions of central banks have been a key driver of the global financial markets.

In the US, the Federal Open Market Committee (FOMC) Chair indicated a probable rate hike after positive data from the US labour market. An improving housing sector, moderate growth in household spending and a fall in unemployment points to a gradual improvement in the labour market. However, Non Farm Payrolls for May reported 38,000, 77% lower than the market's expectations. Inflation has continued to remain below the 2% target of the Committee against a backdrop of earlier declines in energy prices and a fall in the price of non-energy imports. The FOMC has issued a statement in April to "continue to monitor inflation indicators and global economic and financial developments".

Oil prices rose by 3% in May from the close in April, closing at approximately US\$50 per barrel. The gradual and sustained recovery in oil prices continued in May and the moderate stance adopted by the Fed likely provided a slight boost to US equities, which returned 2.3% in May.

In Europe, the European Central Bank (ECB) left interest rates unchanged. The ECB decided to leave the interest rate on the main refinancing operations, interest rates on the marginal lending facility and the deposit facility unchanged at 0.00%, 0.25% and -0.40% respectively. The next monetary policy meeting will be hosted on 7 July 2016.

The ECB continues its Monthly Asset Purchase Programme (APP) of €80 billion per month in addition to the non-standard measures such as their first operation of a new series of Targeted

Longer-term Refinancing Operations (TLTRO II) and corporate bond purchases under the Corporate Sector Purchase Programme (CSPP).

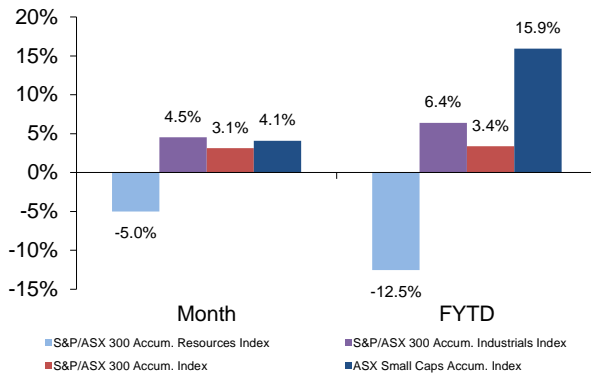
Recently published economic data pertaining to the Euro area has provided mixed signals. Euro area GDP advanced 0.6% in the first quarter of 2016 with annual GDP standing at 1.7%. Unemployment is at a four-year low of 10.2%, while credit markets appear to have improved. Retail sales in the Eurozone were unchanged from April due to a marginal decline in fuel prices and lack of change in consumer products. However, despite the positive data and easing policies undertaken, inflation rates remained unchanged at -0.1% in May.

In April, China's first quarter Gross Domestic Product (GDP) was up 6.7% YoY, meeting market expectations, but it was the slowest rate of growth since the global financial crisis in 2009. The latest China Purchasing Manager Index (PMI) remain unchanged from April at 50.1. Trade data announced was below market expectations due to a larger than expected fall in exports at -4.1%. Retail sales grew by 10.0%, meeting market expectations.

Domestically, the RBA kept the cash rate unchanged at 1.75%. First quarter GDP growth was announced at 3.1% beating market expectations.



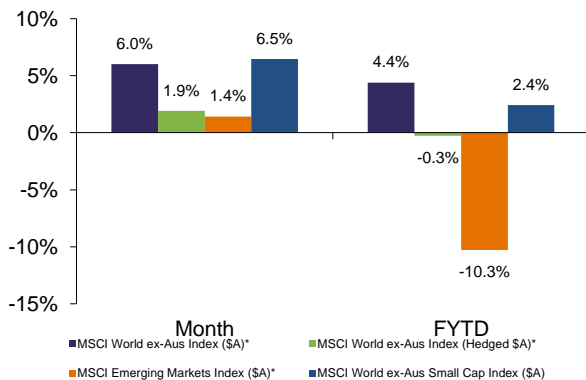
Australian equities



Australian equities recovered in May, finishing the month up by 3.1%.



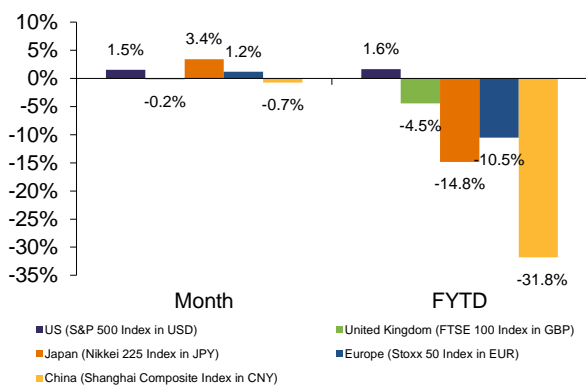
International equities (\$A)



Developed and emerging market equities both went up by around 6.0% and 1.4% approximately in May 2016. Hedged developed market equities underperformed their unhedged counterpart as the Australian dollar weakened over the month.



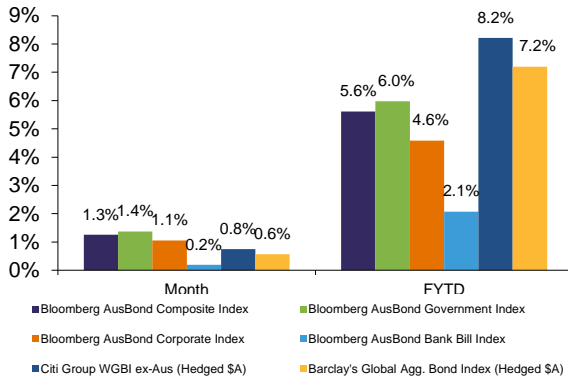
International equities (local currencies)



All major equity markets globally had a marginally positive month in May with the exception of the UK and China. The Chinese equity market fell by 0.7% while UK saw a slide in its equities by 0.2%. For the financial year to date, Chinese equities are down by -31.8%.



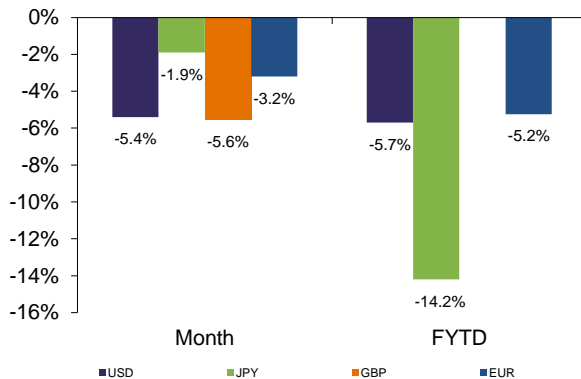
Fixed income



Australian and Global Bond markets had a slightly positive month with returns rising by 0.2% to 1.4% in May.



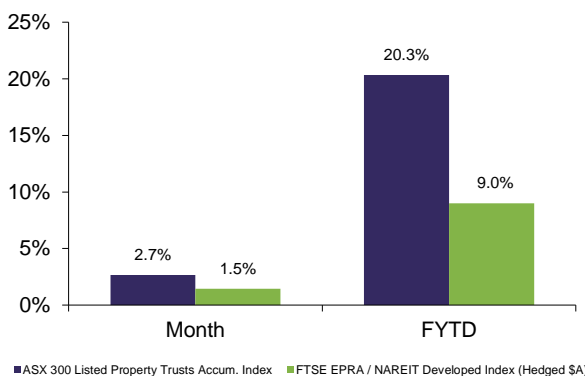
Australian dollar against major currencies



The Australian dollar (AUD) depreciated against all major foreign currencies over the month, mainly driven by the rate cut by the RBA. The AUD depreciated against the US dollar (USD) and Euro (EUR), the Japanese Yen (JPY) and British pound (GBP).











Property



Australian and global listed property performance rose by 2.7% and 1.5% respectively in May.

MAY 2016

	Index value	Month	3 months	FYTD	1 year	
Australian equities						
	S&P/ASX 300 Accum. Index	49,524	3.1%	11.7%	3.4%	-2.1%
	S&P/ASX 300 Accum. Industrials Index	104,483	4.5%	10.9%	6.4%	1.5%
	S&P/ASX 300 Accum. Resources Index	15,613	-5.0%	17.0%	-12.5%	-20.5%
	ASX Small Caps Accum. Index	6,204	4.1%	13.1%	15.9%	6.9%
International equities						
	MSCI World ex-Aus Index (\$A)*	7,128	6.0%	7.4%	4.4%	1.6%
	MSCI World ex-Aus Index (Hedged \$A)*	1,249	1.9%	8.2%	-0.3%	-3.0%
	MSCI Emerging Markets Index (\$A)*	483	1.4%	8.1%	-10.3%	-13.0%
	MSCI World ex-Aus Small Cap Index (\$A)	452	6.5%	10.0%	2.4%	1.1%
	US (S&P 500 Index in USD)	2,097	1.5%	8.5%	1.6%	-0.5%
	United Kingdom (FTSE 100 Index in GBP)	6,231	-0.2%	2.2%	-4.5%	-10.8%
	Japan (Nikkei 225 Index in JPY)	17,235	3.4%	7.5%	-14.8%	-16.2%
	Europe (Stoxx 50 Index in EUR)	3,063	1.2%	4.0%	-10.5%	-14.2%
	China (Shanghai Composite Index in CNY)	2,917	-0.7%	8.5%	-31.8%	-36.8%
AUD versus ...						
	USD	0.72	-5.4%	1.4%	-5.7%	-5.5%
	JPY	80.59	-1.9%	-0.2%	-14.2%	-15.1%
	GBP	0.49	-5.6%	1.0%	1.0%	-1.2%
	EUR	0.65	-3.2%	-0.4%	-5.2%	-7.0%
Property						
	ASX 300 Listed Property Trusts Accum. Index	43,762	2.7%	8.1%	20.3%	15.6%
	FTSE EPRA / NAREIT Dev. Index (Hedged \$A)*	2,314	1.5%	8.3%	9.0%	4.2%
Oil and Commodities						
	Crude Oil (\$/bbl)	49	6.9%	45.5%	-17.4%	-18.6%
	Copper Spot (\$/tonne)	4,697	-7.3%	-0.2%	-18.4%	-21.8%
	Gold Spot (\$/ounce)	1,218	-5.8%	-1.5%	3.3%	1.8%
Australian Fixed Interest						
	Bloomberg AusBond Composite Index	8,869	1.3%	1.3%	5.6%	4.6%
	Bloomberg AusBond Government Index	9,262	1.4%	1.1%	6.0%	4.8%
	Bloomberg AusBond Corporate Index	8,955	1.1%	1.6%	4.6%	4.0%
	Bloomberg AusBond Bank Bill Index	8,446	0.2%	0.6%	2.1%	2.3%
Global Fixed Interest						
	Citi Group WGBI ex-Aus (Hedged \$A)	2,221	0.8%	1.3%	8.2%	7.0%
	Barclay's Global Agg. Bond Index (Hedged \$A)	-	0.6%	1.8%	7.2%	6.1%
Fixed income (yields) as at ...						
		31-May-16	30-Apr-16	29-Feb-16	30-Jun-15	31-May-15
	Australia Bank Bill	1.99	2.15	2.28	2.13	2.13
	Australia 10 Year Government Bond	2.30	2.52	2.40	3.01	2.73
	US 10 Year Government Bond	1.85	1.83	1.73	2.35	2.12
	UK 10 Year Government Bond	1.43	1.60	1.34	2.02	1.81
	Germany 10 Year Government Bond	0.14	0.27	0.11	0.76	0.49
	Japan 10 Year Government Bond	-0.11	-0.08	-0.06	0.47	0.39

* Net dividends reinvested

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