

# Monthly Market Snapshot

MAY 2018

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

FRONTIER  
ADVISORS



# Market Commentary

With improved economic conditions around the World underpinned by fiscal stimulus and low interest rates, unemployment rates globally continue to trend downwards. Central banks globally are now dealing with stronger economic growth and gradual tightening. Amid a sanguine market outlook, looming geopolitical risks remain a concern. Italy's new populist government reignited fear of a European Union (EU) breakup while trade tensions persist with Trump's ongoing protectionism rhetoric. The recent Iran sanctions and political crisis in Venezuela have also played a significant role in oil prices climbing nearly 40% the past year, which could continue to add to inflationary pressures. Furthermore, Turkey and Argentina are experiencing macroeconomic stress as a result of large economic imbalances and limited foreign currency reserves. Against a backdrop of increasing oil prices, political woes, financial volatility and trade tensions, a misstep by policy makers could potentially derail global growth.

In the US, economic growth for Q1 2018 was reported at 2.2% and the latest annual core inflation at 2.1%. The 10-year bond yield rose above 3%, reflecting better growth and inflation expectations but ended below 3% at month end. The S&P 500 rose 2.2% and the US dollar also strengthened across major currencies. The Federal Open Market Committee (FOMC) is potentially on track for another rate hike at the next scheduled June meeting, given the robust outcome of the recent US jobs report signalling 223,000 new jobs in May (more than forecast) and payroll gains of more than 1 million for the year. In addition, the unemployment rate has also fallen to 3.8%, the lowest rate since December 2000. The numbers suggest that business conditions and investor sentiments remain strong.

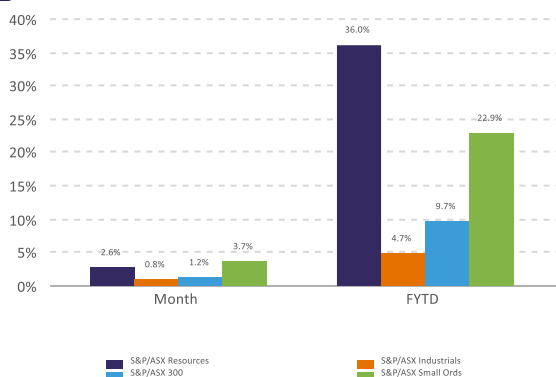
Within Europe, the composite Purchasing Manager Index (PMI), which tracks business trends across manufacturing and service sectors has fallen to 54.1. The PMI has softened for four consecutive months (although it still remains above 50 which indicates expansion in business activity), suggesting the move towards a more benign growth environment. The unemployment rate also fell to 8.5% as compared to 8.6% the month prior. Meanwhile, the ongoing political uncertainty in Italy has resulted in the Italian 10-year bond yield rising sharply to 2.7% at month end. Debt-riddled Italy is the third largest economy within the EU and will likely continue to present economic policy challenges for the EU.

Within Australia, latest annual core inflation increased to 1.9% and cash rate remains unchanged at 1.5%. The RBA recently released a speech addressing Australia's broadening and deepening economic relationship with China. The report highlighted that China is the largest single export market for Australia, playing a positively significant role across many industries (not just commodities) in Australia. Thus, China's situation is of strong interest and will have a material impact on the Australian economy. Economic indicators are already showing progress in China's efforts to deleverage its financial system. However, the RBA recognises that it is a significant task that requires caution and it will continue to keep a close watch on China as it evolves and reconfigures its financial system to one that is more stable and robust. In addition, the current Banking Royal Commission presents considerable risks for Australian banks.

# MAY 2018



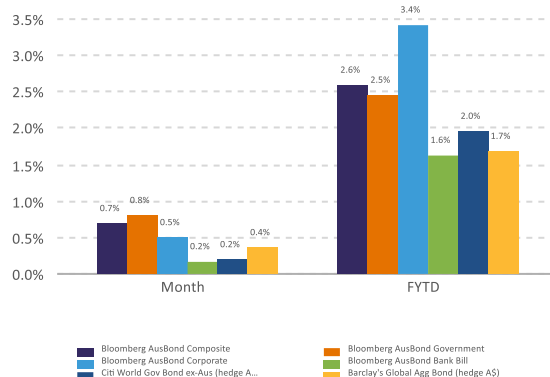
## Australian equities



Source: Thomson Reuters Datastream



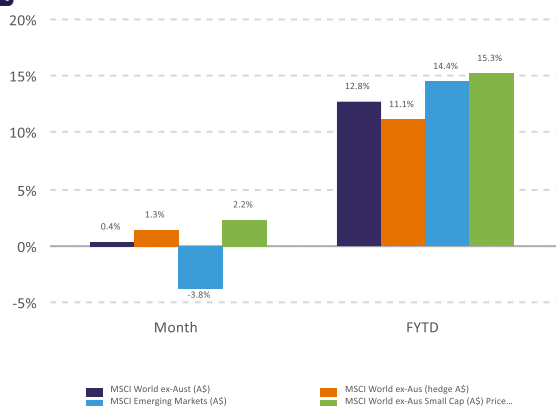
## Fixed income



Source: Thomson Reuters Datastream



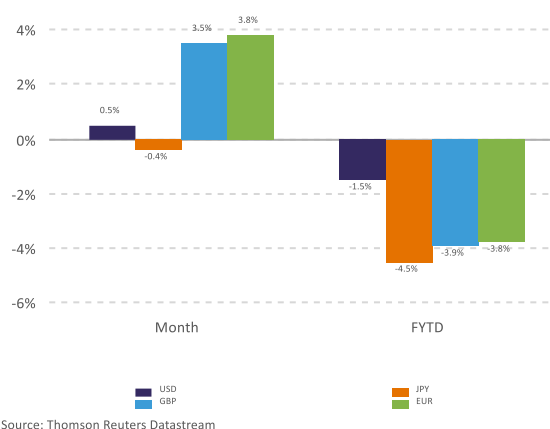
## International Equities (\$A)



Source: Thomson Reuters Datastream



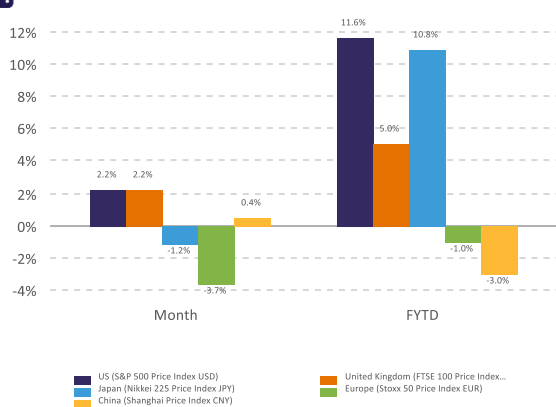
## Australian dollar



Source: Thomson Reuters Datastream



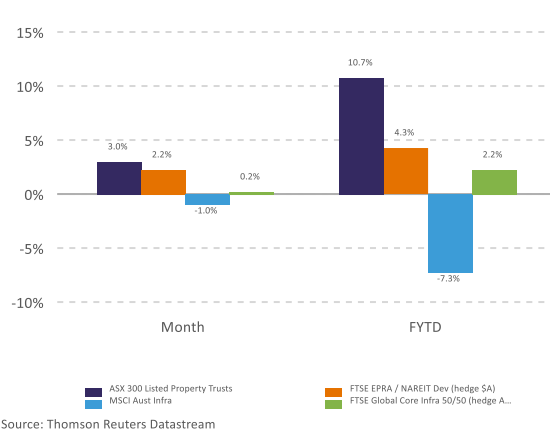
## International Equities



Source: Thomson Reuters Datastream All Price Indices











## Property



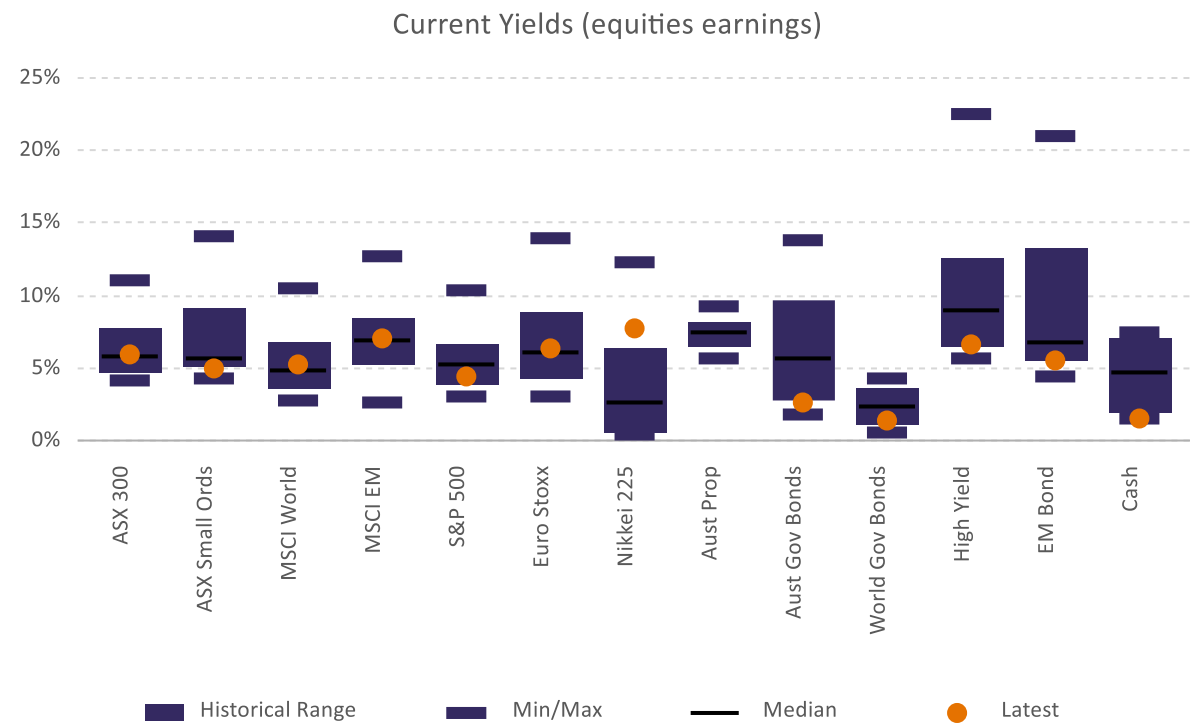
Source: Thomson Reuters Datastream

# MAY 2018

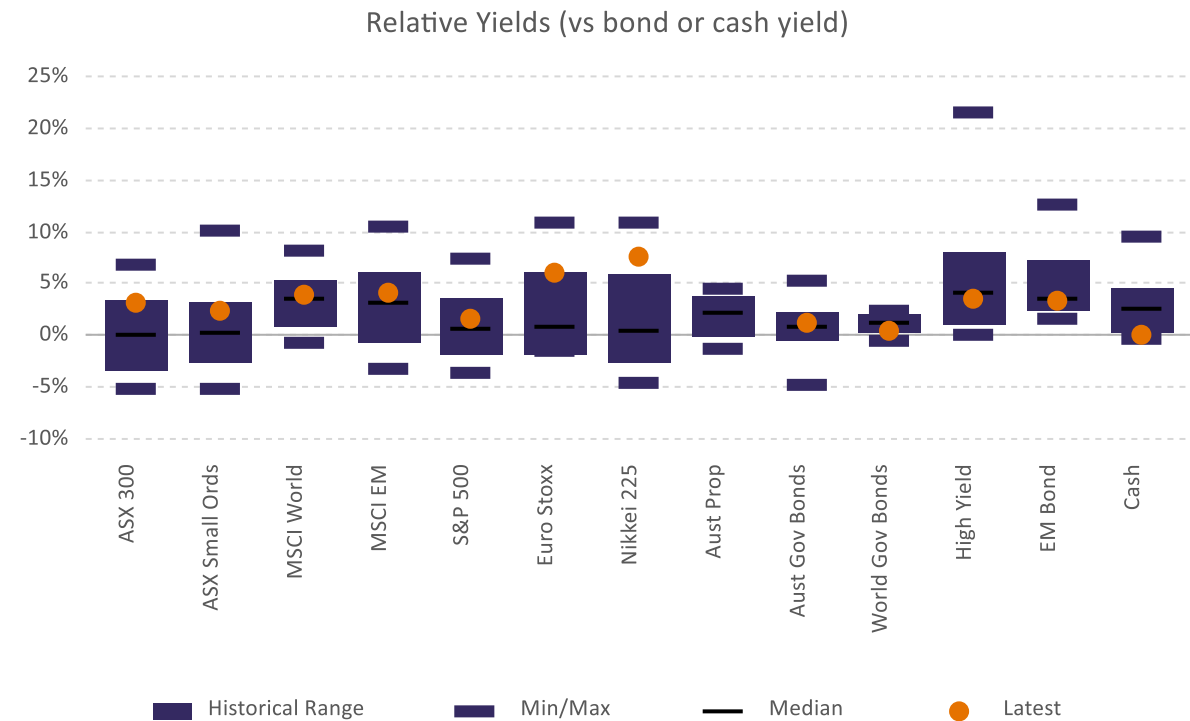
	Index value	Month	3 months	FYTD	1 year
 <b>Australian equities</b>					
S&P/ASX 300 Accum. Index	60,351	1.2%	1.1%	9.7%	10.0%
S&P/ASX 300 Accum. Industrials Index	119,240	0.8%	-0.4%	4.7%	5.4%
S&P/ASX 300 Accum. Resources Index	26,376	2.6%	7.6%	36.0%	33.2%
ASX Small Caps Accum. Index	8,055	3.7%	4.1%	22.9%	25.4%
 <b>International equities</b>					
MSCI World ex-Aus Index (\$A)*	8,870	0.4%	2.6%	12.8%	9.8%
MSCI World ex-Aus Index (Hedged \$A)*	1,655	1.3%	1.0%	11.1%	11.3%
MSCI Emerging Markets Index (\$A)*	671	-3.8%	-2.9%	14.4%	12.2%
MSCI World ex-Aus Small Cap Index (\$A)	574	2.2%	6.2%	15.3%	13.3%
US (S&P 500 Index in USD)	2,705	2.2%	-0.3%	11.6%	12.2%
United Kingdom (FTSE 100 Index in GBP)	7,678	2.2%	6.2%	5.0%	2.1%
Japan (Nikkei 225 Index in JPY)	22,202	-1.2%	0.6%	10.8%	13.0%
Europe (Stoxx 50 Index in EUR)	3,407	-3.7%	-0.9%	-1.0%	-4.2%
China (Shanghai Composite Index in CNY)	3,095	0.4%	-5.0%	-3.0%	-0.7%
 <b>AUD versus ...</b>					
USD	0.76	0.5%	-2.5%	-1.5%	1.8%
JPY	82.29	-0.4%	-1.5%	-4.5%	-0.4%
GBP	0.57	3.5%	1.0%	-3.9%	-2.4%
EUR	0.65	3.8%	1.6%	-3.8%	-2.9%
 <b>Property</b>					
ASX 300 Listed Property Trusts Accum. Index	47,317	3.0%	7.5%	10.7%	5.7%
FTSE EPRA / NAREIT Dev. Index (Hedged \$A)*	2,540	2.2%	7.7%	4.3%	4.8%
 <b>Oil and Commodities</b>					
Crude Oil (\$/bbl)	67	-2.2%	8.8%	45.6%	38.7%
Copper Spot (\$/tonne)	6,845	1.1%	-0.7%	15.5%	21.0%
Gold Spot (\$/ounce)	1,305	-1.6%	-1.9%	3.3%	0.7%
 <b>Australian Fixed Interest</b>					
Bloomberg AusBond Composite Index	9,243	0.7%	1.2%	2.6%	1.7%
Bloomberg AusBond Government Index	9,580	0.8%	1.4%	2.5%	1.3%
Bloomberg AusBond Corporate Index	9,592	0.5%	0.8%	3.4%	2.9%
Bloomberg AusBond Bank Bill Index	8,754	0.2%	0.5%	1.6%	1.8%
 <b>Global Fixed Interest</b>					
Citi Group WGBI ex-Aus (Hedged \$A)	2,293	0.2%	1.0%	2.0%	1.7%
Barclay's Global Agg. Bond Index (Hedged \$A)	-	0.4%	0.8%	1.7%	1.5%
 <b>Fixed income (yields) as at ...</b>	<b>31-May-18</b>	<b>30-Apr-18</b>	<b>28-Feb-18</b>	<b>30-Jun-17</b>	<b>31-May-17</b>
Australia Bank Bill	1.98	2.03	1.79	1.71	1.73
Australia 10 Year Government Bond	2.67	2.77	2.81	2.60	2.39
US 10 Year Government Bond	2.86	2.95	2.86	2.30	2.20
UK 10 Year Government Bond	1.23	1.42	1.50	1.26	1.05
Germany 10 Year Government Bond	0.34	0.56	0.66	0.47	0.30
Japan 10 Year Government Bond	0.04	0.06	0.05	0.09	0.05

\* Net dividends reinvested

# Asset Class Yields Relative to History

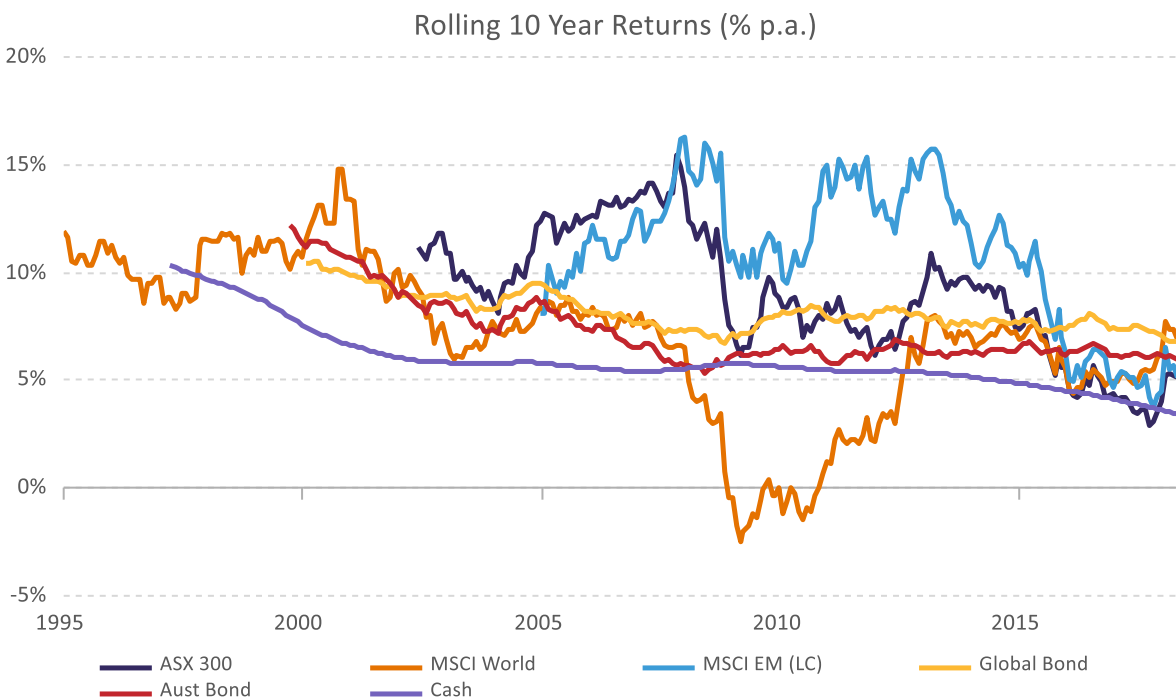


Source: Thomson Reuters Datastream

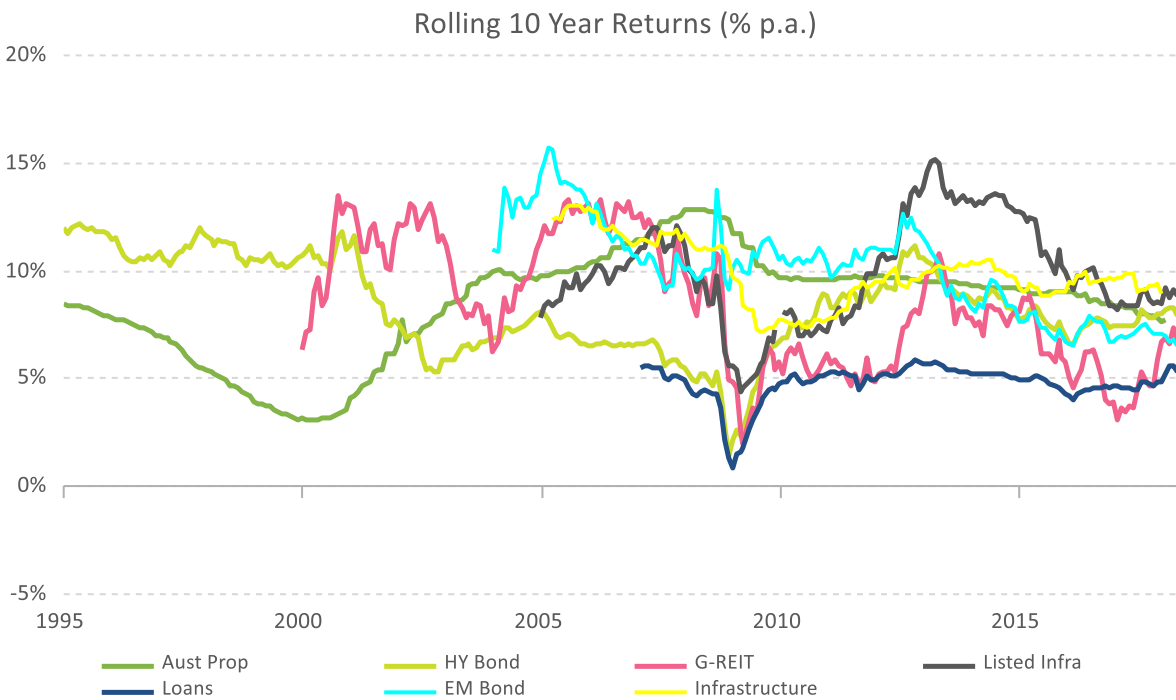


Source: Thomson Reuters Datastream

# Asset Class Long-Term Returns



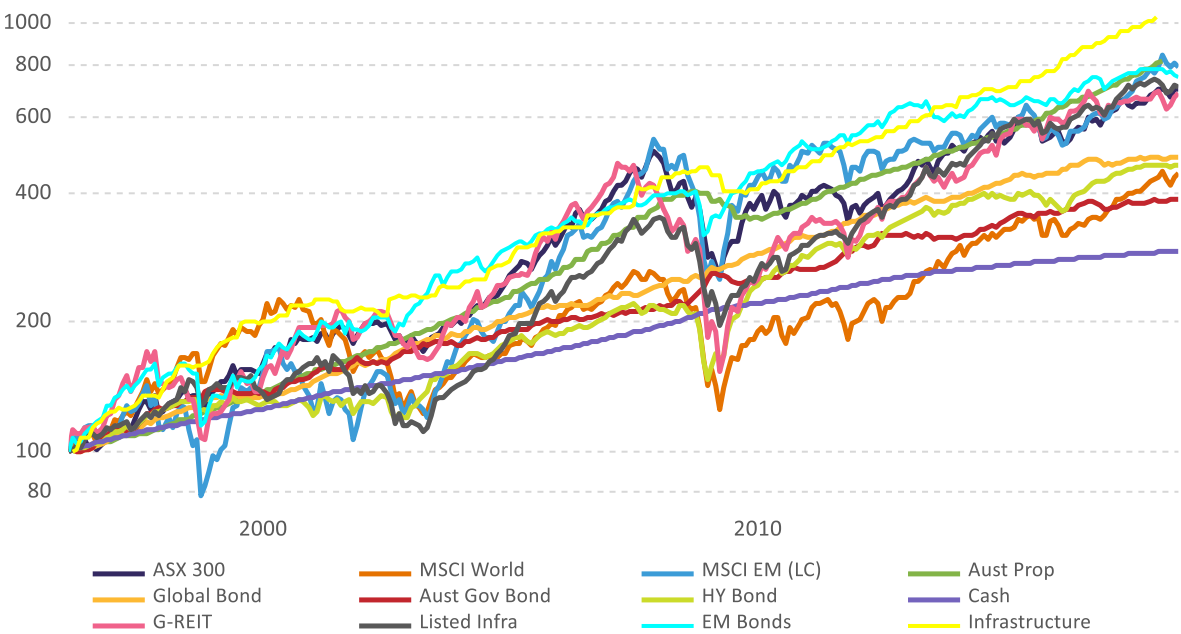
Source: Thomson Reuters Datastream



Source: Thomson Reuters Datastream

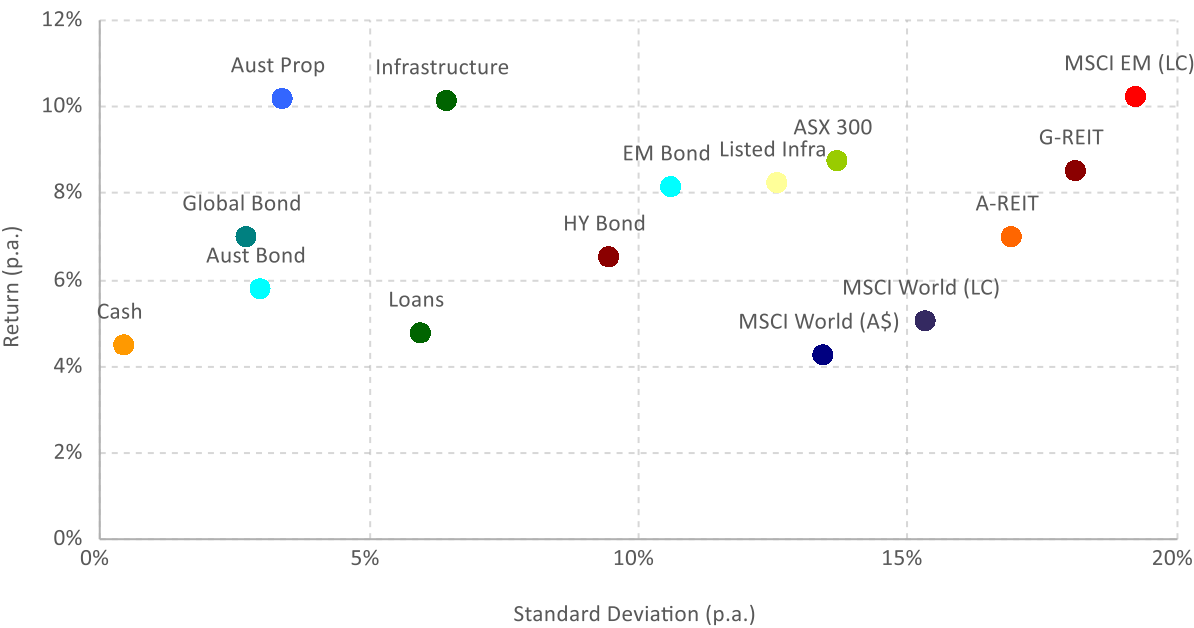
# Asset Class Long-Term Returns

Cumulative Values since 1/01/1996 (\$100 reinvested)



Source: Thomson Reuters Datastream

Return-Risk Profile over 20 Years (p.a.)



Source: Thomson Reuters Datastream

**Frontier Advisors**

Level 16, 222 Exhibition Street

Melbourne, Victoria 3000

Tel: +61 3 8648 4300

**[www.frontieradvisors.com.au](http://www.frontieradvisors.com.au)**

**[@frontier\\_adv](#)**

Frontier does not warrant the accuracy of any information or projections in this paper and does not undertake to publish any new information that may become available. While this information is believed to be reliable, no responsibility for errors or omissions is accepted by Frontier or any director or employee of the company.

The advice in this paper does not take into account investors' particular objectives, financial situation or needs. Investors should consider the appropriateness of the contents of this paper in light of these matters and seek individual advice prior to taking action on any of the issues raised in this paper or making any investment decisions. Investors should obtain and read the applicable Product Disclosure or Information Statement before making a decision on acquiring any financial products. Frontier Advisors Pty Ltd does not provide taxation advice and investors should seek their own independent taxation advice from a registered tax agent.

ACN 074 287 406 AFS Licence No. 241266

© Frontier Advisors

**FRONTIER**  
ADVISORS

