Monthly Market Snapshot

FEBRUARY 2016

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

FRONTIER ADVISORS

Key insights

February was a rollercoaster ride for financial markets. Australian equities (S&P/ASX 300) officially had a "bear market" in mid-February, falling by 20% since their peak in April last year. However, some of the losses were recovered by month end.

In a similar fashion, equity markets overseas also suffered losses but recovered in the latter parts of the month. An example of this was the US S&P 500 Composite Index, which was down -5.7% at the market trough in mid-February but ended the month only -0.4% lower overall.

So what drove the volatility? We believe the financial turbulence was driven by several issues: oil price, financials, US and Chinese growth.

Oil price fell below US$30 per barrel again in February sparking concerns of spill-over into the wider economy. However, the bigger mover in the commodity market was iron ore, which surged by circa 19% over the month. This was potentially driven by expectations of further fiscal spending by the Chinese government to support growth. This led to a positive performance from the resources sector compared to the broader equity market – a dramatic change given how cyclicals have underperformed in recent years.

Conversely for the financial sectors, bank shares declined in value in February. The increasing use of negative interest rates by central banks globally as tools to spur growth (i.e. Sweden's Riksbank, the European Central Bank (ECB) and the Bank of Japan) led to fears over how it may squeeze bank earnings. This was also exacerbated by fears over contingent convertible bonds ("coco" bonds) issued by financial institutions (particularly in Europe).

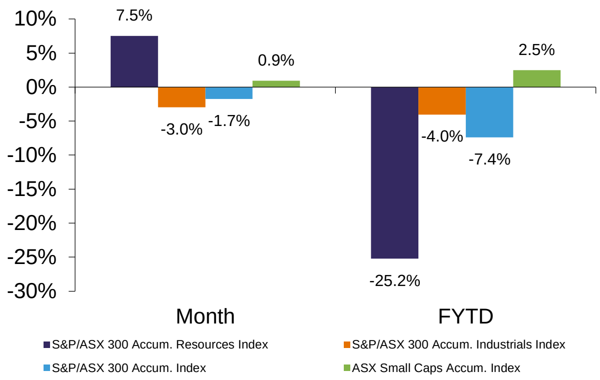
In the US, the strengthening US dollar has negatively affected the country's export sector while the fall in oil prices have been to the detriment of US shale oil producers. The market seemed overly focussed on these issues and overlooked some of the positive economic data that was released. One of these encouraging examples is the US labour market, which added 242,000 nonfarm payrolls in February keeping the unemployment rate at 4.9%. Other positive signs included improving retail sales and consumer consumption.

On China, investors continue to worry over its economic growth prospects. Our view continues to be that Chinese economic growth will inevitably slow, but not collapse, as the country progresses with its transition from being exports/investment driven to a consumption/services driven economy. Although a lot of media attention is given to the slowing industrial production growth and sub-50 reading of the official manufacturing purchasing manager's index (a reading below 50 suggests that manufacturing activities is contracting), not much attention is given to Chinese property prices increasing since the middle of last year or Chinese retail sales growing at above 10% p.a.

It was also announced by the Chinese premier at the National People's Congress early in March that their target growth range for this year is 6.5-7%. This is a relatively high target that suggests the Chinese government will continue to support its economy.

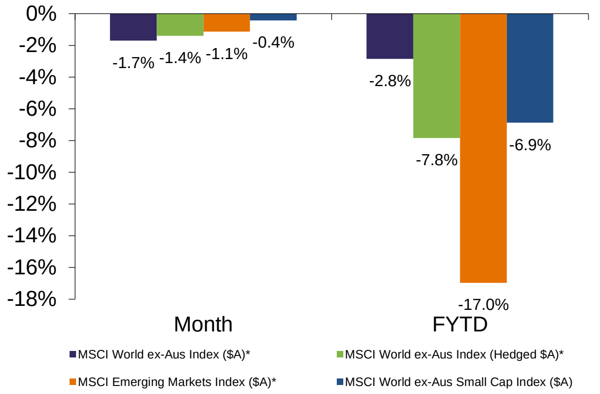
On the domestic front, the Reserve Bank of Australia (RBA) left the cash rate unchanged at 2% at its latest meeting. The announcement was relatively unchanged since the last meeting, with the central bank continuing to monitor the improving labour market and the impact of the recent financial turbulence on growth and demand.

Australian equities



Australian equities continued to tumble in February, finishing the month down -1.7%. Although the Industrials sector fell over the month (-3.0%), the Resources sector performed strongly, delivering 7.5% in February.

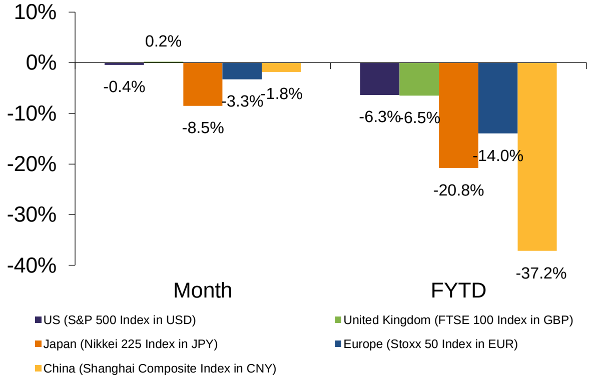
International equities ($A)



Developed market equities were hit harder relative to emerging market equities over the volatile month of February. Hedged developed market equities slightly outperformed their unhedged counterpart as the Australian dollar strengthened slightly.

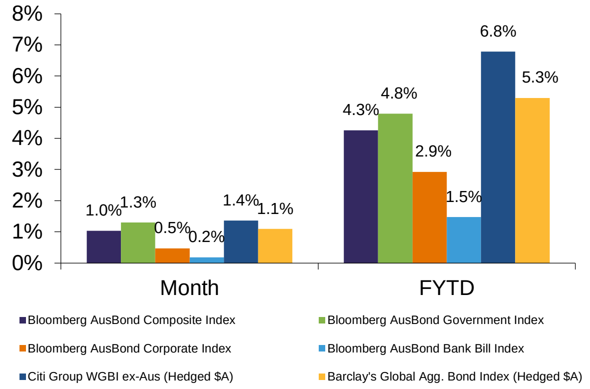
In developed markets, Japan was the main detractor from performance. In emerging markets, both China and India were the main detractors from performance.

International equities (local currencies)



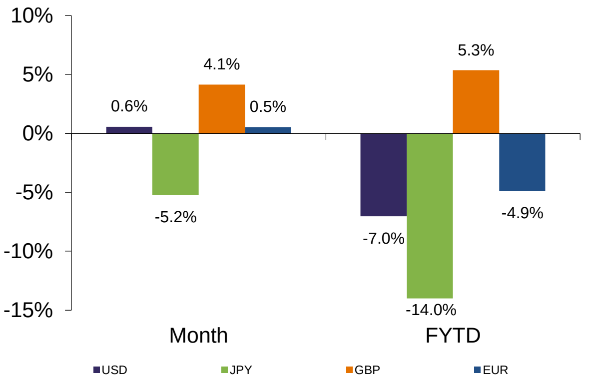
All major equity markets globally had a negative month, with the exception of the UK. Japanese equities fell the most on the back of concerns of whether the negative interest rates implemented by the Bank of Japan will act to spur economic growth.

Fixed income



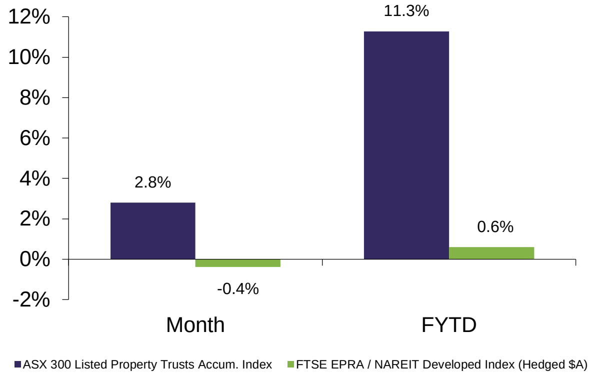
Bond yields fell globally in reaction to the market turbulence in February. This resulted in a positive return from both global and domestic bonds.

Australian dollar against major currencies



The Australian dollar (AUD) appreciated the most against the British Pound (GBP) over the month, likely driven by market uncertainty around “Brexit”. The AUD was relatively flat against the US dollar (USD) and Euro (EUR), and depreciated against the Japanese Yen (JPY).

Property



Australian and global listed property trusts continued to diverge in performance, with Australian listed property generating 2.8% in February while global listed property returned -0.4%.

February 2016

	Index value	Month	3 months	FYTD	1 year
Australian equities					
S&P/ASX 300 Accum. Index	44,348	-1.7%	-4.5%	-7.4%	-13.4%
S&P/ASX 300 Accum. Industrials Index	94,224	-3.0%	-4.6%	-4.0%	-9.5%
S&P/ASX 300 Accum. Resources Index	13,346	7.5%	-4.1%	-25.2%	-33.1%
ASX Small Caps Accum. Index	5,484	0.9%	-0.5%	2.5%	-3.6%
International equities					
MSCI World ex-Aus Index ($A)*	6,634	-1.7%	-7.0%	-2.8%	-2.1%
MSCI World ex-Aus Index (Hedged $A)*	1,155	-1.4%	-8.6%	-7.8%	-8.1%
MSCI Emerging Markets Index ($A)*	447	-1.1%	-7.4%	-17.0%	-16.1%
MSCI World ex-Aus Small Cap Index ($A)	411	-0.4%	-8.6%	-6.9%	-4.0%
US (S&P 500 Index in USD)	1,932	-0.4%	-7.1%	-6.3%	-8.2%
United Kingdom (FTSE 100 Index in GBP)	6,097	0.2%	-4.1%	-6.5%	-12.2%
Japan (Nikkei 225 Index in JPY)	16,027	-8.5%	-18.8%	-20.8%	-14.7%
Europe (Stoxx 50 Index in EUR)	2,946	-3.3%	-16.0%	-14.0%	-18.2%
China (Shanghai Composite Index in CNY)	2,688	-1.8%	-22.0%	-37.2%	-18.8%
AUD versus ...					
USD	0.71	0.6%	-0.7%	-7.0%	-8.4%
JPY	80.76	-5.2%	-8.5%	-14.0%	-13.0%
GBP	0.51	4.1%	7.6%	5.3%	2.0%
EUR	0.65	0.5%	-3.8%	-4.9%	-6.0%
Property					
ASX 300 Listed Property Trusts Accum. Index	40,468	2.8%	8.0%	11.3%	6.6%
FTSE EPRA / NAREIT Dev. Index (Hedged $A)*	2,135	-0.4%	-3.3%	0.6%	-5.6%
Oil and Commodities					
Crude Oil ($/bbl)	34	0.4%	-19.0%	-43.2%	-32.2%
Copper Spot ($/tonne)	4,706	3.0%	2.3%	-18.2%	-20.6%
Gold Spot ($/ounce)	1,234	10.6%	15.8%	4.9%	1.3%
Australian Fixed Interest					
Bloomberg AusBond Composite Index	8,755	1.0%	2.6%	4.3%	3.0%
Bloomberg AusBond Government Index	9,159	1.3%	3.1%	4.8%	2.8%
Bloomberg AusBond Corporate Index	8,813	0.5%	1.5%	2.9%	2.8%
Bloomberg AusBond Bank Bill Index	8,396	0.2%	0.6%	1.5%	2.2%
Global Fixed Interest					
Citi Group WGBI ex-Aus (Hedged $A)	-	1.4%	3.5%	6.8%	5.5%
Barclay's Global Agg. Bond Index (Hedged $A)	-	1.1%	2.7%	5.3%	4.3%

Fixed income (yields) as at ...	**29-Feb-16**	**31-Jan-16**	**30-Nov-15**	**30-Jun-15**	**28-Feb-15**
Australia Bank Bill	2.28	2.26	2.26	2.13	2.32
Australia 10 Year Government Bond	2.40	2.64	2.86	3.01	2.46
US 10 Year Government Bond	1.73	1.92	2.21	2.35	1.99
UK 10 Year Government Bond	1.34	1.56	1.83	2.02	1.80
Germany 10 Year Government Bond	0.11	0.33	0.47	0.76	0.33
Japan 10 Year Government Bond	-0.06	0.10	0.31	0.47	0.34

* Net dividends reinvested

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