

Monthly Market Snapshot

DECEMBER 2017

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

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Key insights

The 2017 calendar year was an eventful geopolitical year. US President Trump was regularly the centre of attention: From unsuccessfully repealing the Affordable Care Act to legislating the Tax Reform at year end, and ongoing issues with his administration, including Russian links, staffing changes and controversial statements. There was significant escalation of issues with North Korea and ongoing instability in the Middle East (including in Saudi Arabia, Syria, Yemen, Qatar, Iran, and Trump recognising Jerusalem as the capital of Israel). Britain triggered Article 50, to officially begin the process of negotiation to exit the EU. In October, the 19th National Congress of the Communist Party of China was held, with President Xi consolidating power for his next 5-year term (and perhaps longer). There were also general elections in France, UK and Germany.

Economic growth was solid in 2017, across most regions, including the US, Europe, Japan, and emerging markets. Leading indicators, including PMI Surveys, suggest strong growth momentum into 2018. The early stages of monetary policy tightening occurred in 2017. The US Federal Reserve raised interest rates three times and began reducing its balance sheet in October, while the ECB advised of a slowdown in its Quantitative Easing (QE) programme in 2018. The current chair of the US Federal Reserve, Janet Yellen, will step down in February 2018, with Jerome Powell, an existing member of the FOMC to assume the role of Chair. In Australia, the RBA left interest rates unchanged over the year.

Despite geopolitical events, financial markets were relatively unaffected, with volatility at low levels. Equities enjoyed strong performance, with global equities hedged returning around 20% over the year, driven by earnings growth. Emerging markets produced particularly strong returns of nearly 30%. Australian equities lagged but still returned more than 10%, with Resources

a strong performer as commodity prices increased on improved global growth. A key negative for Australian equities in 2017 was the Telstra share price that declined around 30% on concerns over its future profitability. Listed property struggled in 2017, specifically retail property, facing challenges from online shopping, and produced single digit returns.

There was little change in fixed interest yields from the start of 2017 to the end of the year. Therefore, fixed interest returns were moderate and broadly in line with yields. Credit spreads contracted further over the year and provided some additional return premium.

Despite the Fed raising interest rates, the USD weakened over 2017. The AUD was also supported by increasing commodity prices, although strength in the EUR and, to a lesser extent, the GBP, saw the AUD depreciate against these currencies. Overall, foreign currency exposure detracted around 7% from global equity returns in AUD in 2017.

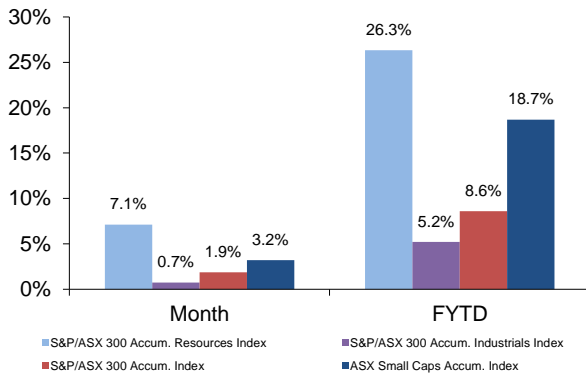
In the month of December, equity markets did not respond particularly significantly to the passing of US taxation changes, but did continue to produce solid positive returns. Australian equities performed well over the month driven by Resources. The AUD appreciated against all major currencies also driven by rising commodity prices.

Despite the announcement of the takeover of Westfield in December, the Australian listed property index was flat over the month.

In December, the US Federal Reserve raised interest rates for the third time in the year. International government bonds produced a small positive return in the month. In Australia, the RBA continued to keep rates on hold, however, government bond yields rose, leading to negative returns from Australian fixed income in December.



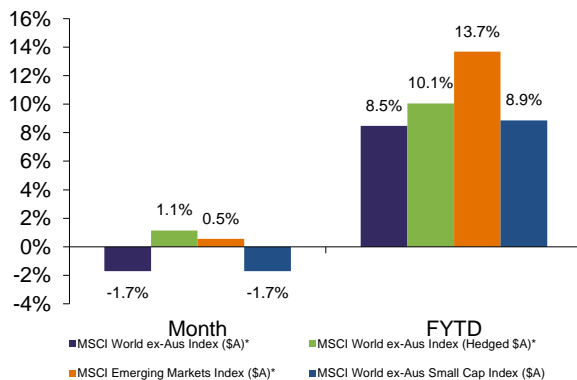
Australian equities



The S&P/ASX 300 Index closed the month up 1.9%, with the strongest growth from Resources and small caps.



International equities (\$A)

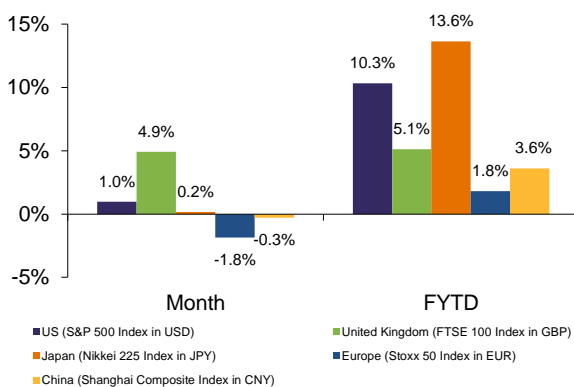


The \$A hedged MSCI World Index ex-Australia gained 1.1% in December while the unhedged index declined by 1.7%, as the Australian dollar strengthened over the month.

Emerging market equities continue to lead developed market equities, gaining 13.7% for the financial year to date.



International equities (local currencies)

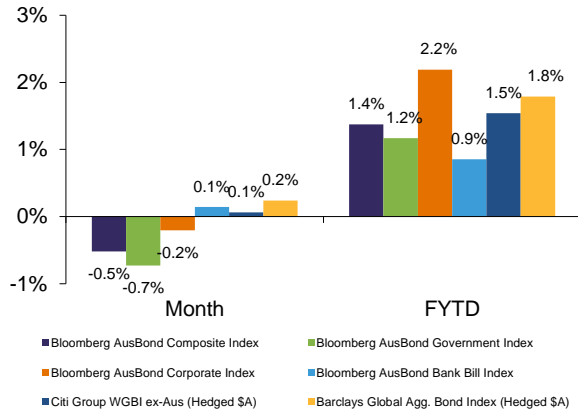


In December, equity markets in the UK and the US gained 4.9% and 1.0% respectively, while Europe declined.

All major markets have posted positive returns for the financial year to date.



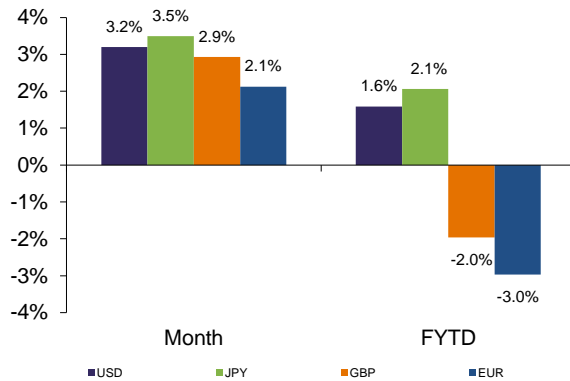
Fixed income



In December, Australian bond returns were negative, while global bonds returns were marginally positive.



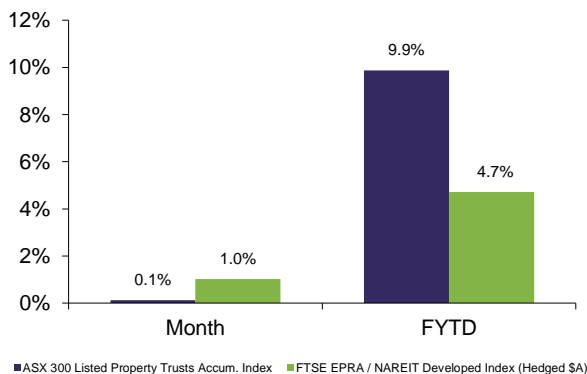
Australian dollar against major currencies



The Australian dollar (AUD) appreciated against all major currencies, in particular against the JPY and USD, by 3.5% and 3.2% respectively.











Property



In December, Australian-listed property was flat and hedged global-listed property gained 1.0%.

December

	Index value	Month	3 months	FYTD	1 year
 Australian equities					
S&P/ASX 300 Accum. Index	59,724	1.9%	7.7%	8.6%	11.9%
S&P/ASX 300 Accum. Industrials Index	119,807	0.7%	6.1%	5.2%	9.2%
S&P/ASX 300 Accum. Resources Index	24,501	7.1%	15.6%	26.3%	25.7%
ASX Small Caps Accum. Index	7,777	3.2%	13.7%	18.7%	20.0%
 International equities					
MSCI World ex-Aus Index (\$A)*	8,533	-1.7%	5.8%	8.5%	13.4%
MSCI World ex-Aus Index (Hedged \$A)*	1,639	1.1%	5.5%	10.1%	20.0%
MSCI Emerging Markets Index (\$A)*	667	0.5%	7.8%	13.7%	27.1%
MSCI World ex-Aus Small Cap Index (\$A)	543	-1.7%	5.1%	8.9%	11.9%
US (S&P 500 Index in USD)	2,674	1.0%	6.1%	10.3%	19.4%
United Kingdom (FTSE 100 Index in GBP)	7,688	4.9%	4.3%	5.1%	7.6%
Japan (Nikkei 225 Index in JPY)	22,765	0.2%	11.8%	13.6%	19.1%
Europe (Stoxx 50 Index in EUR)	3,504	-1.8%	-2.5%	1.8%	6.5%
China (Shanghai Composite Index in CNY)	3,307	-0.3%	-1.2%	3.6%	6.6%
 AUD versus ...					
USD	0.78	3.2%	-0.3%	1.6%	8.5%
JPY	87.94	3.5%	-0.4%	2.1%	4.1%
GBP	0.58	2.9%	1.0%	-2.0%	-1.6%
EUR	0.65	2.1%	-1.9%	-3.0%	-5.0%
 Property					
ASX 300 Listed Property Trusts Accum. Index	46,973	0.1%	7.8%	9.9%	6.4%
FTSE EPRA / NAREIT Dev. Index (Hedged \$A)*	2,550	1.0%	3.6%	4.7%	8.2%
 Oil and Commodities					
Crude Oil (\$/bbl)	60	5.3%	16.9%	31.2%	12.5%
Copper Spot (\$/tonne)	7,207	7.0%	12.0%	21.6%	30.5%
Gold Spot (\$/ounce)	1,309	2.6%	1.6%	4.5%	12.0%
 Australian Fixed Interest					
Bloomberg AusBond Composite Index	9,133	-0.5%	1.4%	1.4%	3.7%
Bloomberg AusBond Government Index	9,460	-0.7%	1.6%	1.2%	3.5%
Bloomberg AusBond Corporate Index	9,479	-0.2%	1.5%	2.2%	5.1%
Bloomberg AusBond Bank Bill Index	8,687	0.1%	0.4%	0.9%	1.7%
 Global Fixed Interest					
Citi Group WGBI ex-Aus (Hedged \$A)	2,283	0.1%	0.8%	1.5%	2.8%
Barclay's Global Agg. Bond Index (Hedged \$A)	-	0.2%	0.9%	1.8%	3.7%
 Fixed income (yields) as at ...					
	31-Dec-17	30-Nov-17	30-Sep-17	30-Jun-17	31-Dec-16
Australia Bank Bill	1.78	1.74	1.71	1.71	1.80
Australia 10 Year Government Bond	2.63	2.50	2.84	2.60	2.77
US 10 Year Government Bond	2.41	2.41	2.33	2.30	2.44
UK 10 Year Government Bond	1.19	1.33	1.37	1.26	1.24
Germany 10 Year Government Bond	0.43	0.37	0.46	0.47	0.21
Japan 10 Year Government Bond	0.05	0.04	0.07	0.09	0.05

* Net dividends reinvested

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