

# View from the hill

MAY 2014

HILLROSS

## Market update

The table below provides details of the movement in average investment returns from various asset classes for the period up to 30 April 2014.

| Asset class (% change)          | 1 month | 3 months | 1 year | 3 years<br>(%pa) |
|---------------------------------|---------|----------|--------|------------------|
| Australian shares               | 1.8     | 7.1      | 10.5   | 9.3              |
| Smaller companies               | -1.2    | 2.5      | 2.1    | -4.9             |
| International shares (hedged)   | 0.9     | 5.7      | 19.1   | 13.6             |
| International shares (unhedged) | 1.0     | -0.2     | 31.5   | 15.5             |
| Emerging markets (unhedged)     | 0.4     | 0.6      | 10.0   | 1.8              |
| Property - Australian listed    | 5.7     | 8.5      | 2.6    | 13.7             |
| Property - global listed        | 3.6     | 8.5      | 1.9    | 11.0             |
| Australian fixed interest       | 0.9     | 1.3      | 2.7    | 6.9              |
| International fixed interest    | 0.8     | 1.7      | 2.9    | 7.7              |
| Australian cash                 | 0.2     | 0.6      | 2.7    | 3.7              |

## Overview & Outlook

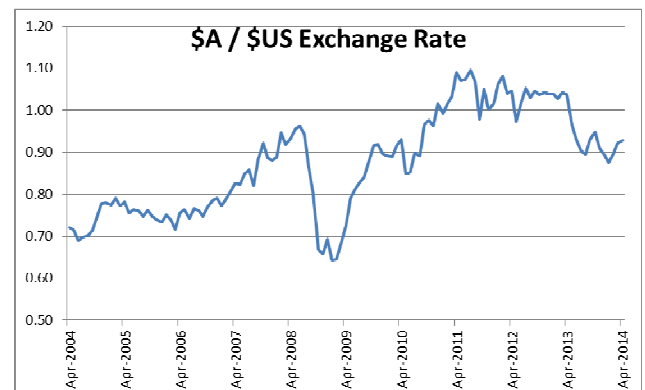
It was another steady month on financial markets, with little change in interest rates and most share markets around the globe posting modest increases. Below average levels of volatility continue to characterise financial markets, against a backdrop of gradually improving global economic growth and accommodative monetary policy.

With unemployment and economic growth in the United States improving in line with expectations, the U.S. central bank has continued to reduce the size of its monetary stimulus. However, as the reduction in the stimulus program has been at the \$10 billion per month financial markets were expecting, this "tapering" of the stimulus has not unsettled markets. In addition, the loose monetary policies in place in Japan and in Europe have provided markets with high levels of liquidity despite some scaling back by the U.S. Federal Reserve.

The maintenance of very low inflation in many developed Northern Hemisphere economies has enabled central banks to maintain loose monetary policies and record low interest rates. In Australia, though, inflation has been higher than in most over developed economies. The March quarter Consumer Price Index (CPI) was slightly below expectations, growing by 0.6% over the 3 month period. Nonetheless, the annual rate of inflation increased. At 2.9%, Australia's annual inflation is now close to the top of the Reserve Bank's target range.

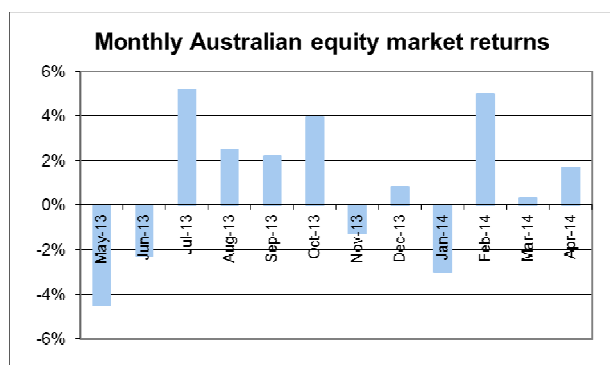
Despite this, recent statements by the Reserve Bank imply they expect little further upward pressure on inflation. As a result, interest rates may remain steady for some time to come.

Confidence on foreign exchange markets that there will be no further decline in Australian interest rates has provided the currency with some recent support. As the chart below indicates, the \$A moved down from cyclical highs in the second half of last year, but has stabilised in recent months. This stalling of the depreciation in the \$A may have lowered economic growth forecasts for the period ahead. A lower \$A would typically provide stimulus to the Australian economy by making local producers more competitive on global markets.



Source: Reserve Bank of Australia.

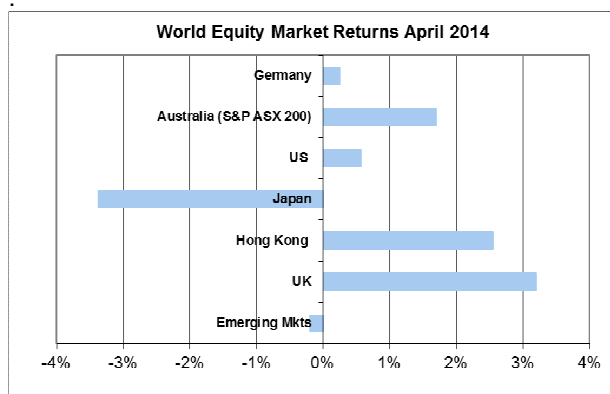
## Share markets



Source: S&P ASX 200 Index

After a flat month in March, the Australian market was one of the better performers in April, with the S&P ASX 200 Index rising 1.8%. The local market was led higher by property trusts as well as the consumer staples and energy sectors. There was also some recovery in commodity prices from the losses of the previous month, enabling mining stocks to advance 2.4%. Consistent with trends overseas, several internet based companies were sold down from record highs; although the local Information Technology sector still finished the month in positive territory with a gain of 1.0%.

Overseas markets produced average returns of slightly less than 1% over April. With little movement in the \$A last month (it was slightly stronger against the \$US but weaker against the Yen and Euro), there was minimal difference in the returns of hedged and unhedged investments. It was a solid month for European markets as expectations firmed that the central bank there would commence a quantitative easing program.

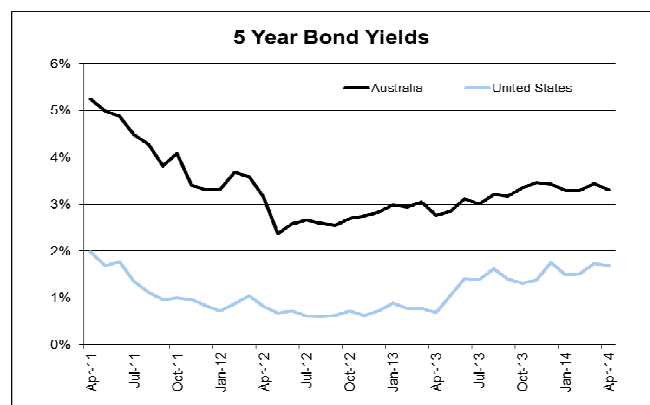


Source: MSCI unless indicated. Returns in local currency of index

Emerging markets underperformed developed markets over April. In local currency terms, the MSCI Emerging Market Index was 0.2% lower. A 5.3% decline in the Russian share market was a major contributor to this weakness. The crisis in the Ukraine combined with the associated introduction of sanctions against Russian companies has led to the withdrawal of some investor support for this region.

## Interest rates

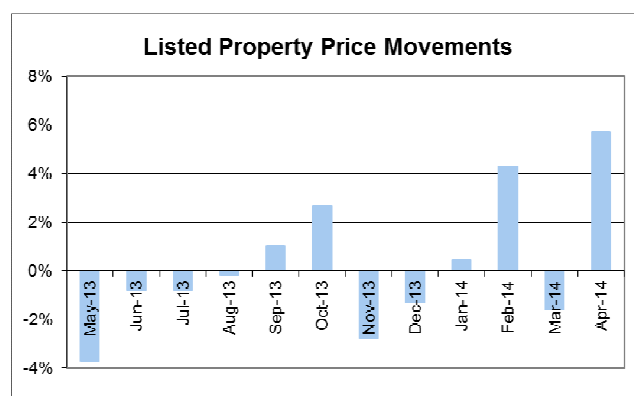
Once again Australian overnight cash interest rates remained at 2.5% last month. There was also little change in longer term yields, with the Australian 5-year Government bond yield falling marginally from 3.4% to 3.3%. The trend on overseas markets was similar with the United States 5-year yield remaining steady at 1.7%.



Source: Reserve Bank of Australia. US Federal Reserve.

## Property

There was a strong rally on listed property markets last month. In Australia, listed property advanced 5.7%. The impressive increase was widespread across most listed property stocks. The growing confidence that current low interest rates would be maintained for some time may have provided additional support for the sector. The Australian listed property sector is currently providing an average yield of around 5.5%, representing an attractive margin above short term interest rates. Global listed property was also well supported last month, rising in value by 3.6%.



Source: S&P ASX 200 A-REIT Acc Index.

In addition to the strong increase in listed property prices last month, there was a continuation of the gains made by direct property as well. The Mercer Australian Unlisted Property Index rose by 1.0% during April to be ahead 9.6% for the past year.

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