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Private Wealth View

February 2015

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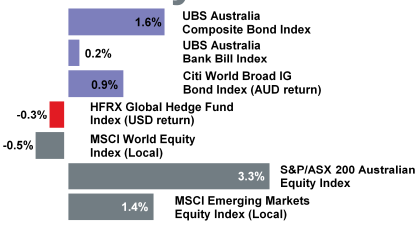
January 2015



What's changed in January?

After a weak December, global equity prices eased 0.5% with strong gains in Europe offset by weakness in the United States:

- Developed market shares fell 0.5% in local currency terms. The the US was 3% lower, Europe was up 3.9%. Australian shares rose 3.3%
- Emerging market equities rose 1.4% with gains in India and price fallls in Mexico, Brazill and China
- Government bond yields continued to fall in the UK, Germany, Japan, Australia and the US. Australian 10-year government yields fell 36 basis points to new record lows
- Investment grade credit spreads rose in September, by seven basis points to a spread of 127 basis points above US Treasury yields
- The US Dollar continued to strengthen against the British Pound, Yen and Euro, and the Australian Dollar which dropped 4 cents to below US$0.78
- Gold prices fell US$7 an ounce to US$1,260 and WTI crude oil fell by US$14 a barrel to end January at US$47.80 a barrel

Macro monitor

The start of the New Year was a rocky affair with global share markets drifting lower before staging a strong second half recovery in January. Early in the month markets continued to be spooked by lower oil prices combined with the uncertainty around the magnitude of the European Union's (EU) quantitative easing program. Markets were characterised by lower bond yields with several Central Banks, including China and Canada, undertaking monetary stimulus through a combination of lower interest rates and other stimulatory measures.

Global bond yields have continued to decline with extended low inflationary expectations, sub-trend growth and the likelihood that the US Federal Reserve will remain 'patient' and data dependent regarding its decision to raise cash rates. However, later in the month investor concerns were partly alleviated by the EU announcing a larger than expected purchase of €60 billion ($A85 billion) worth of private and public sector bonds a month, between March 2015 and September 2016. This helped restore confidence which drove markets higher by month end.

Despite share market optimism, global growth remains weak, with the International Monetary Fund (IMF) downgrading world growth expectations for 2015 from 3.8% to 3.5%. It also suggested the oil price decline will not offset weaker growth prospects for China, Europe and Japan. However, Global PMI manufacturing data has stabilised with steadying growth.

Across currencies, the US Dollar has continued to strengthen against most currencies, appreciating 7.2% against the Euro. Oil prices continued their sharp decline in January, down 9.4% and representing a decline of 47% over the past four months. Countries like Russia continue to be impacted by the sharp oil price collapse.

China continues to contract and reported GDP growth of 7.3% in 2014, below the Government's forecast rate. The Government had set an official growth target of 7.5% for 2014 and it's the first time for more than 15 years that the growth target was not met. Following the November 2014 interest rate cut, the People's Bank of China announced a second interest rate cut in early February.

By James Wright, Chief Investment Officer, JBWere

Positioning

Global equity market valuations do not appear extended in a low interest rate environment and an expansion in price-to-earnings multiples is expected to continue. Lower oil prices, lower interest rates, improved consumer confidence and continued earnings growth provides conditions for global equity markets to continue gaining traction over the short-to-medium term.

We continue to favour domestic equities sectors which benefit from the fall in the Australian Dollar and lower fuel prices. These include certain healthcare stocks, particularly those with a global revenue base, as well as consumer discretionary areas which benefit from increased international inflows such as tourism and gaming.

ByJames Wright.

Summary of policy developments

ECB to buy more bonds – The European Central Bank announces a €60 billion per month quantitative easing plan that will run to at least September 2016. 75% of the newly printed Euros will be used to buy government bonds of Eurozone countries including lower-rated peripheral countries

RBA joins the club - The RBA joins other central banks by cutting official interest rates, from 2.5% to 2.25%, amid concerns that the economy could be performing more strongly than it currently is

Currency corner

The Australian Dollar continued to lose ground against a stronger US Dollar in January, falling from US$0.8184 to US0.7788 at month end, a near 5% decline. Almost all of the move in the exchange rate related to ongoing strengthening in the US Dollar with the Dollar Index (which measures the US Dollar against a basket of major currencies) appreciating by 4.9% in January.

The US Dollar rise can be attributed to good economic data there, plus comments from the US Fed pointing to a short term interest rate rise in mid-2015. Also providing a boost for the US Dollar was the announcement from the European Central Bank, and several central banks (such as in Switzerland, Singapore, Denmark, Canada and Australia), that they would provide further monetary stimulus through lower interest rates, quantitative easing or currency revaluation.

The rapid decline in the Australian Dollar to the US0.77 area happened more quickly than most forecasters expected and the 0.25% February cash rate cut also surprised many economists. So, although analysts expect the currency to head towards US$0.75 over the next six to twelve months, it is possible these forecasts will be revised lower in coming weeks.

By Nick Ryder, NAB Private Wealth Investment Strategist

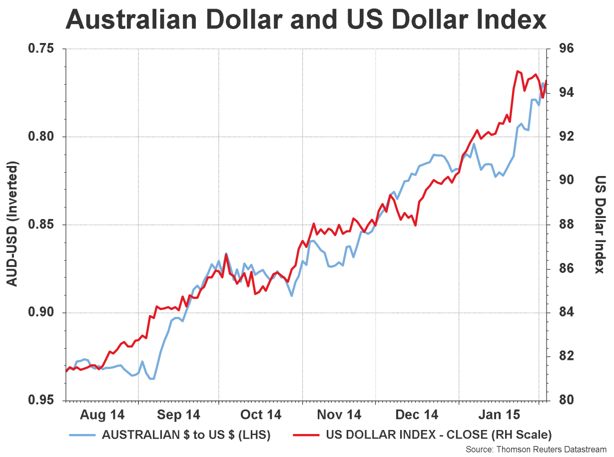
Housing update

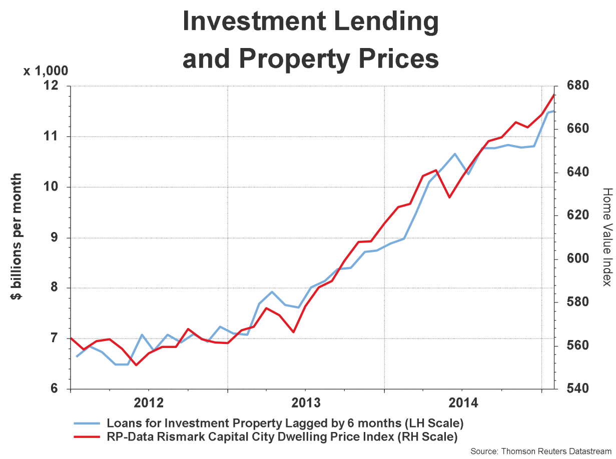
Australian capital city dwelling prices rose 1.3% in January led by Melbourne at 2.7% and Sydney at 1.4%. Over the past year, capital city prices rose 8%, with the highest gains in Sydney (13%) followed by Melbourne (7%) while price rises in other capitals were more subdued (-0.3% – 4.6%). Sydney continues to show the highest capital city growth rates with prices 57% higher than they were during the financial crisis in January 2009. Prices in Melbourne are up 50% over the same period.

The rate of price appreciation has moderated since mid-2014 when annual growth peaked at 11.5% versus the 8% current annual return. Detached houses continue to generate stronger price growth – up 8.2% over the past year versus 6.2% growth for units.

The recent reduction in the official cash and mortgage rates should help drive residential property prices higher, however, the RBA continues to indicate that it is concerned about the level of investor buying and it appears to be working on measures to restrict aggressive lending by banks to the investor sector of the market through the introduction of potential 'macro-prudential' controls.

By Nick Ryder.





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Global performance markets monitor – 30 January 2015

	Last Price / Level	1 Month	3 Month	Year to date	1 Year	2014	2013
Global Equity Markets Performance							
Australia - ASX200	5588	3.3	2.0	3.3	12.5	5.6	20.2
Japan - Nikkei 225*	17674	1.3	7.8	1.3	20.5	9.0	59.3
Japan - TOPIX	1415	0.5	6.3	0.5	18.3	10.3	54.4
Hong Kong - Hang Seng	24507	3.8	2.2	3.8	15.8	5.5	6.6
Shanghai Composite (A&B)*	3210	-0.8	32.6	-0.8	57.9	52.9	-6.7
Singapore - STI*	3391	0.8	3.9	0.8	15.6	9.6	3.0
New Zealand - NZX50**	2992	3.2	6.6	3.2	17.8	17.5	16.5
US Dow Jones	17165	-3.6	-0.7	-3.6	11.9	10.0	29.7
US S&P 500	1995	-3.0	-0.6	-3.0	14.2	13.7	32.4
NASDAQ*	4635	-2.1	0.4	-2.1	14.3	14.7	40.1
Canada - TSX	14673	0.5	1.2	0.5	10.3	10.6	13.0
Mexico - MSCI*	40951	-5.1	-8.8	-5.1	1.2	2.0	0.0
India - Sensex*	29183	6.1	4.8	6.1	44.4	31.9	6.5
Brazil - Bovespa**	46908	-6.2	-14.1	-6.2	-1.5	-2.9	-15.5
UK - FTSE100	6749	2.9	3.7	2.9	7.4	0.7	18.7
France - CAC40	4604	7.8	9.2	7.8	14.1	2.7	22.2
Germany - DAX**	10694	9.1	14.7	9.1	14.9	2.7	25.5
Spain - IBEX	10403	1.8	0.9	1.8	9.8	8.6	27.8
Italy - MIB	20503	7.9	3.8	7.9	8.5	3.0	20.5
World/Regional Indices Performance							
MSCI World (Loc)*	4738	-0.5	1.6	-0.5	13.5	10.4	29.6
MSCI World Value	8103	-1.4	0.0	-1.4	11.3	9.2	29.7
MSCI World Growth	3421	0.3	3.2	0.3	15.6	11.5	29.5
MSCI AC Europe*	1116	3.9	5.3	3.9	11.6	4.8	21.2
MSCI Asia ex Japan USD*	1150	2.5	0.7	2.5	13.4	5.1	3.3
MSCI Emerging Markets Local	98947	1.4	0.1	1.4	12.0	5.6	3.8
World EPRA/NAREIT Property USD*	4470	4.9	6.3	4.9	21.9	15.9	4.4
World/Regional Indices Performance							
MSCI World Cons Discretionary	231	-0.2	6.9	-0.2	14.8	9.3	43.3
MSCI World Cons Staples	297	2.4	6.2	2.4	21.8	13.2	22.7
MSCI World Energy	344	-3.2	-11.4	-3.2	-5.8	-7.8	19.8
MSCI World Financials	153	-3.1	-1.0	-3.1	9.8	9.5	31.5
MSCI World Health Care	273	2.6	4.5	2.6	25.2	23.4	37.5
MSCI World Industrials	272	-0.7	2.1	-0.7	10.4	6.7	36.2
MSCI World Materials	302	1.7	3.4	1.7	6.2	1.9	7.0
MSCI World Telecommunications Services	130	3.7	3.5	3.7	13.9	5.7	34.2
MSCI World Utilities	237	3.1	5.4	3.1	24.7	21.9	14.3
MSCI World Information Technology	154	-2.8	1.2	-2.8	18.7	18.8	31.0
Global Rates Levels Change							
AUS - 10Y Govt	2.47	-0.36	-0.83	-0.36	-1.53	-1.41	0.96
AUS - 3Y Govt	1.97	-0.19	-0.68	-0.19	-0.88	-0.81	0.29
AUS - 5Y Swap Rate	2.42	-0.26	-0.76	-0.26	-1.23	2.54	0.43
AUS - 3Y Swap Rate	2.22	-0.16	-0.60	-0.16	-0.88	2.38	0.27
AUS – 1Y Swap Rate	2.30	-0.21	-0.38	-0.21	-0.31	2.51	-0.17
AUS - 3 Month Bill Rate	2.56	-0.21	-0.18	-0.21	-0.06	2.77	-0.33
US - 30Y Govt	2.22	-0.53	-0.84	-0.53	-1.40	-1.19	1.01
US - 10Y Govt	1.64	-0.53	-0.70	-0.53	-1.03	-0.84	1.27
US - 5Y Govt	1.15	-0.50	-0.46	-0.50	-0.36	-0.08	1.02
US - 2Y Govt	0.45	-0.22	-0.04	-0.22	0.11	0.29	0.13
US - TIPS 10Y	0.00	-0.48	-0.41	-0.48	-0.55	-0.28	1.51
US - 10Y Breakeven	1.64	-0.05	-0.28	-0.05	-0.48	1.69	2.49
Bund - 30Y Govt	0.90	-0.45	-0.82	-0.45	-1.58	-1.40	0.59
Bund - 10Y Govt	0.31	-0.23	-0.53	-0.23	-1.34	-1.40	0.64
Bund - 5Y Govt	-0.04	-0.05	-0.18	-0.05	-0.69	-0.91	0.63
Bund - 2Y Govt	-0.18	-0.08	-0.13	-0.08	-0.26	-0.31	0.24
Gilt - 30Y Govt	2.04	-0.47	-0.94	-0.47	-1.47	-1.16	0.58
Gilt - 10Y Govt	1.33	-0.42	-0.92	-0.42	-1.38	-1.28	1.20
Gilt - 5Y Govt	0.89	-0.29	-0.66	-0.29	-0.75	-0.70	1.00
Gilt - 2Y Govt	0.36	-0.09	-0.30	-0.09	-0.14	-0.12	0.24
JGB - 30Y Govt	1.28	0.04	-0.30	0.04	-0.36	-0.50	-0.25
JGB - 10Y Govt	0.29	-0.04	-0.18	-0.04	-0.34	-0.41	-0.07
JGB - 2Y Govt	0.02	0.03	-0.02	0.03	-0.07	-0.12	0.06
Global Currency & Commodity Levels Change							
AUD/USD	0.7788	-0.04	-0.10	-0.04	-0.09	-0.08	-0.15
EUR/USD	1.1285	-0.01	-0.07	-0.08	-0.22	-0.17	0.06
GBP/USD	1.5019	-0.03	-0.10	-0.06	-0.14	-0.10	0.03
JPY/USD	117.47	6.31	14.56	-2.43	15.48	14.79	18.56
NZD/AUD	1.0687	-0.05	-0.03	0.02	-0.01	-0.04	-0.17
Gold (USD Spot)	1260.25	-6.88	-120.03	61	9.25	-2.25	-469.4
WTI Crude (USD Spot)	47.79	-14.6	-31.9	-5.7	-49.8	-45.1	6.3
GSI Commodity Index	2990	-7.5	-28.8	-7.5	-37.0	-33.1	-1.2
Volatility Index (VIX) USD	20.97	-0.7	1.35	1.77	2.56	5.48	-4.3