Monthly commentary – April 2018

Global markets mostly managed to rise in April, after starting the month under pressure from China's tit-for-tat response to US President Donald Trump's announcement of tariffs. April ended with stunning progress on the Korean peninsula, with the meeting of North Korean leader Kim Jong-un and the South Korean president, Moon Jae-in, and indications of a formal treaty between the two nations.

Developments in the global economy

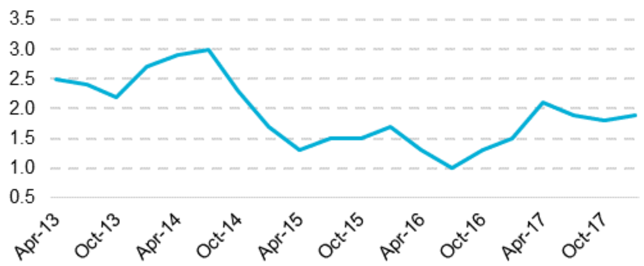
Australia

As widely expected, the Reserve Bank of Australia held the official cash rate steady at 1.5% at its board meeting in April. The CoreLogic Home Value Index of capital city home prices fell by 0.2% in March, to stand 0.8% higher over the year, while the national home price index was flat in March, to be up 1.2% over the year. This was the smallest annual growth in national prices in more than five years. On the latest Westpac-Melbourne Institute Consumer Sentiment Index, households were slightly less optimistic in April than in March, with the Index dropping back from 103 to 102.4 in April.

Australia's March jobs number was seen as soft, with the total number of people employed in Australia in either full-time or part-time work increasing by 4,900, well short of market expectations for 20,000 new jobs. February's job numbers were revised down from a gain of 17,500 to a loss of 6,300, ending the string of 16 straight months in which employment grew in Australia.

March-quarter inflation figures showed a weaker-than-expected headline consumer price index (CPI) number at 0.4%, versus 0.5% expected, flowing into an annual rate of 1.9%, the same as in the December quarter, against the expected 2%. Underlying or "core" CPI, which strips out volatile price movements in the CPI survey, rose by 0.5% in the quarter and by 2% over the 12 months.

Chart 1: Australian CPI – last 5 years

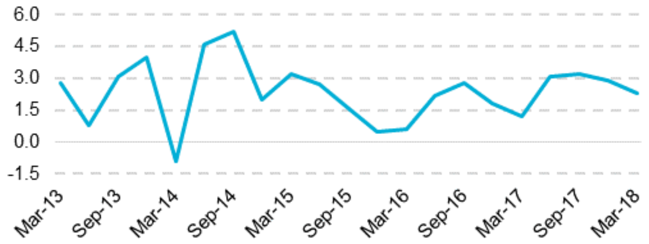


Source: BTIS/Bloomberg

US

The US economic recovery ticked along, with the current expansion becoming the second-longest on record, according to National Bureau of Economic Research figures that go back to the 1850s. GDP grew at a 2.3% annualised rate in the first quarter, stronger than the forecast figure of 2%, but weaker than the 2.9% rate in the fourth quarter. Consumer spending grew at 1.1% over the March quarter, a slowdown from the 4% growth rate in the fourth quarter, and the smallest quarterly rise since 2013. US inflation hit the Federal Reserve's elusive 2% target in March, after six years below that level, reinforcing the case for further interest rate rises. Government bond yields pushed higher, with the yield of the 10-year US Treasury briefly passing the psychologically important 3% level in April, for the first time since January 2013.

Chart 2: US GDP Annualised – last 5 years



Source: BTIS/Bloomberg

The US economy gained 103,000 jobs in March, the least in six months, but the figure meant that US employers added a healthy average of 211,000 jobs a month in that six-month period. The US unemployment rate remained at 4.1%, a 17-year low, for a sixth straight month. Jobs growth for January and February was revised downward in April, by a combined 50,000 jobs.

US personal income rose 0.3% in March, while consumer spending hit 0.4%. More importantly, the core Personal Consumption Expenditure price index jumped 2% year-on-year in March to finally hit the Fed's target. However, this was widely anticipated by markets and doesn't seem to alter the Fed's gradual pace of interest rate hikes. US wages and salaries advanced 0.2%, the smallest gain since October, after a 0.4%increase in February.

The Conference Board's leading economic index for the US increased by 0.3% in March to 109.0, following a 0.7% lift in February and a 0.8% rise in January. While the monthly gain slowed, the trend was taken as pointing to continued solid growth in the US economy.

Asia

Japan's tourism sector has emerged as a hot-spot of economic growth, with statistics showing that a record 29.77 foreign visitors arrived in Japan in 2017, up nearly 20% on the previous year. Spending by overseas tourists in the first three months of 2018 came to 1.13 trillion yen ($14 billion), up more than 17%, and boosted in particular by Chinese and South Korean travellers.

China's official April manufacturing PMI data showed that China's manufacturing sector slowing slightly, falling to 51.4 from 51.5 in March. The softer reading, especially slower export orders, was tempered by the private Caixin/Markit PMI survey, which focuses on small and mid-size Chinese manufacturers: it showed better-than-expected growth at 51.1 for April, versus 51 in March, and the consensus forecast of 50.9.

Government data showed that the world's second largest economy grew at an annual rate of 6.8% in the first quarter of the year. Beijing's official target for 2018 is 6.5%, down from 6.9% in 2017. Industrial production lifted at an annual rate of 6% in March, less than the 6.2% expected on economists' consensus, and well down on February's rate of 7.2%; while fixed-asset investment also rose less than expected, up by 7.5% versus the 7.6% expected (investment grew by 7.9% in February.)

Europe

In Europe, economic momentum was maintained, with the forward-looking Eurozone composite purchasing managers index (PMI) unchanged at 55.2, compared to an expected fall to 54.9 (a reading above 50 indicates expansion), and down from the 58.8 achieved in January.

The European Central Bank (ECB) retained its existing policies, maintaining commitment to its bond-buying program at a pace of €30 billion ($47.4 billion) per month until September 2018, with interest rates kept on hold "well past" the end of quantitative easing. While acknowledging the "moderation" in growth momentum observed in recent months, the ECB continued to note the "solid and broad-based expansion of the Euro-area economy."

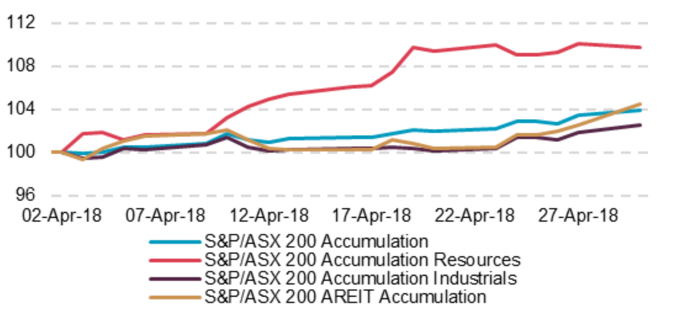
UK economic growth slowed to 0.1% in the first quarter, much worse than the expected 0.3%, and its weakest since 2012. But markets took the economic slowdown to indicate that the softness of the UK economy would preclude the Bank of England from lifting interest rates anytime soon, with the pound reacting to the downside.

Developments in financial markets

Australian shares

The S&P/ASX 200 Accumulation index rose 3.9% in April, powered by a 9.8% surge in its S&P/ASX 200 Resources Accumulation component. The S&P/ASX 200 Industrials Accumulation index was up 2.5%, while the A-REITs group added 4.5%.

Chart 3: Australian indices - April (rebased to 100)

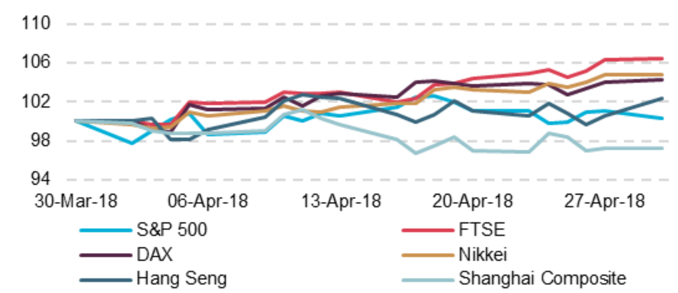


Source: BTIS/Bloomberg

International shares

The Dow Jones Industrial Average rose 0.3% in April on a total return basis, with the S&P slightly ahead of that, with a 0.4% gain, and the Nasdaq Composite index up by less than 0.1%. Strong corporate earnings data and a weaker euro, which boosts exports, drove European stocks higher over the month, with the STOXX Europe 600 index gaining 4.6% on a total return basis, in its best monthly return since December 2016. On a price basis, the German DAX added 4.3%, while in Paris the CAC 40 surged 6.8%. The UK's FTSE-100 index logged its best monthly effort since July 2013, up 6.4%, galvanised by the fall in the pound.

Chart 4: Major market indices – April (rebased to 100)



Source: BTIS/Bloomberg

On Asian markets, the Nikkei (total return) in Japan jumped 4.7%. On a prices basis, the Hang Seng index in Hong Kong was up 2.4%, China's Shanghai Composite Index fell 2.7% and the KOSPI index in South Korea added 2.8%.

Fixed interest

Government bond yields mostly increased during April, amid rising commodity prices and higher inflation expectations. US yields rose over the month across a flatter yield curve, with 10-year yields rising 21 basis points (bps) to 2.95%, although they could not hold on to the 3% level, and the 30-year yield adding 15bps to 3.12%. At the shorter end, the 2-year US bond yield gained 23 bps to 2.49%.

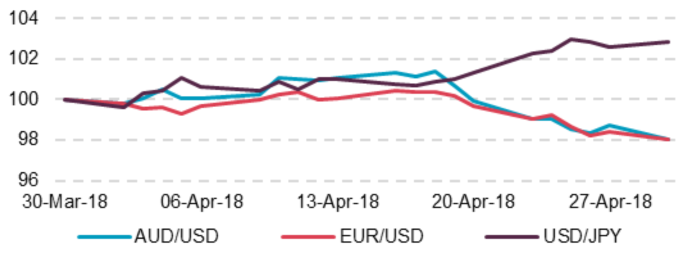
In Australia, 3-year yields gained 8 bps to 2.22%, 10-year yields increased by 17 bps to 2.79% and 20-year yields added 11 bps to 3.11%. The Australia-US 10-year spread widened by 3bps, to –16bps. High-yield corporate bonds were the best performing area of bond markets.

Currencies

The story of the month in the currency markets was the US dollar, which had its best month since Donald Trump's election as President in November 2016, boosted by higher yields. The ICE US Dollar index, a measure of the greenback's value against a basket of major trade partners' currencies, managed a 1.9% gain in April, pushing into positive territory for the first time in 2018.

The euro lost 2.0% against the resurgent US unit and the pound lost 1.8%, while the greenback surged 2.9% against the yen. The Australian dollar lost 1.9% against its US peer, ending the month at 75.3 US cents.

Chart 5: AUD/USD, EUR/USD and USD/JPY – April (rebased to 100)



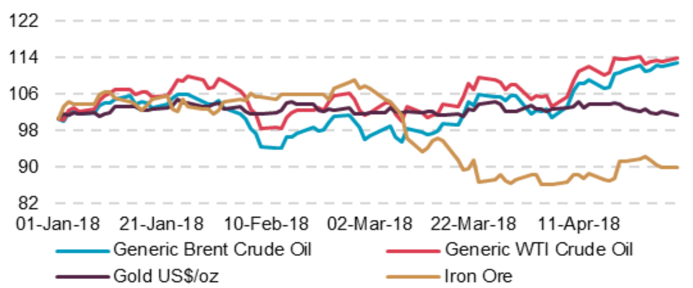
Source: BTIS/Bloomberg

Commodities

Heightened geopolitical tensions in the Middle East and growing optimism over the supply cuts by OPEC galvanised oil prices, with Brent crude surging 7.0% to end the month above $US75 a barrel, its highest level for more than four years, while West Texas Intermediate crude gained 5.6%. Iron ore rose by 3.0%, while gold eased 0.8% and silver was up 0.8%.

Copper was 1.6% higher for April, while aluminium ended up about 12.4% for the month, having been up twice that at one stage. The Bloomberg Commodity Index gained 2.4% for the month.

Chart 6: Major Commodities – Year to Date (rebased to 100)



Source: BTIS/Bloomberg

Funds update

Diversified Multi-Blend Funds

All Diversified Multi-Blend Funds delivered strong positive returns over April which was reflective of the equity market rebound supported primarily by the local market (ASX 200), delivering near 4% total return. The funds slightly underperformed their benchmarks as a result of the Asian Equities sector fund underperforming its benchmark by 1% (gross), and the broader International Shares sector underperforming its benchmark by 0.5% (gross). The Funds continue to outperform their benchmarks over the 12 month period as a result of the SAA bias toward equities, and notable contributions from our active managers.

Australian Shares Multi-Blend Fund

The Fund generated positive performance and outperformed the S&P/ASX 300 Accumulation Index by 0.35% on a gross return basis. Underlying managers Bennelong and Solaris were the primary drivers of relative outperformance during the month, while Fidelity and Realindex ended the period slightly below the benchmark. Small caps underperformed the broader Australian equities market over the month, and the Fund's allocation to the Advance Australian Smaller Companies Fund detracted from performance over the month.

Bennelong's outperformance over the period was driven primarily by strong stock selection across all sectors. An underweight to Financials, particularly Banks, contributed positively as the major banks continue to be punished by Royal Commission findings. Bennelong's overweight holding in Treasury Wine Estates was beneficial to relative performance over the month as the stock strongly outperformed the market, generating double digit returns.

International Shares Multi-Blend Fund

After a negative month in March, global equities staged a slight recovery in April. The MSCI World ex-Australia Index was up 2.75% for the month in AUD terms. The Fund was also up over the period in absolute terms, but underperformed by -0.53% on a benchmark relative basis. Underlying manager River & Mercantile was the only positive contributor to relative performance. Strong stock selection in the Industrials and Consumer Staples sectors were the main drivers of River & Mercantile's relative performance for the period. T Rowe Price was the main detractor over the period, mainly due to the pull back in IT stocks over the month.

At the Fund level, underperformance was driven largely by the Fund's underweight to the Energy sector, which was up over 13% for the month with surging oil prices, and stock selection in the IT sector.

Property Securities Multi-Blend Fund

Property securities had another positive month in April, with domestic REITs generating stronger performance than their global counterparts. The Fund was slightly ahead of its composite benchmark, up by +.02% for the month. A-REITs manager, Phoenix, was the largest positive contributor to relative performance over the period. G-REIT managers, Principal and BlackRock, were the largest detractors to relative performance.

Stock selection in the Retail and Health Care REITs sectors hurt Principal's performance, with holdings in stocks such as Japan Retail Fund, Saul Centres and Healthcare Trust of America generating negative returns over the period.

Australian Fixed Interest Multi-Blend Fund

Australian government bond yields ended the month higher as an easing in trade tensions saw markets refocus on the outlook for growth and inflation and the rate at which policy accommodation would be removed. A recovery in risk appetite supported equity markets and a narrowing in credit spreads. Overall, the Australian bond market, as measured by the Bloomberg AusBond Composite 0+ Yr Index, returned -0.35% in April, with capital erosion from higher yields more than offsetting the income return.

The Australian Fixed Interest Multi-Blend Fund returned -0.32% over the month gross of fees, outperforming its benchmark. Performance was mixed across the manager line up with Janus Henderson delivering a modest +0.08% in excess returns. Disappointingly, both Pendal and AMP underperformed the benchmark.

International Fixed Interest Multi-Blend Fund

Global government bonds yields moved higher in April, as markets regained their appetite for risk amid further evidence of strengthening economic conditions. The US 10-year bond yield ended the month 21 basis points higher at 2.95%, after peaking over 3% in the last week of the month. Likewise, the German 10-year bond yield ended higher, rising by 6 basis points to 0.56%, while the Japanese 10-year bond yield ended the month slightly higher at 0.055%.

Heightened caution characterised sentiment within the global credit markets at the start of the month, as investors fretted over the possibility of an escalation in the trade dispute between the US and China. However, a more reconciliatory tone in the rhetoric from both sides subsequently prompted spreads to partially recover from their initial widening. In addition, a strong first quarter earnings season in the US to date has provided support to credit spreads.

The International Fixed Interest Multi-Blend Fund returned -0.39% over the month gross of fees. This was in line with the benchmark (the Bloomberg Barclays Global Aggregate Index hedged to AUD) which returned a negative -0.38%. Wellington strongly outperformed the benchmark although this was offset by poor performance from the Standish portfolio.

Defensive Yield Multi-Blend Fund

The Advance Defensive Yield Multi-Blend Fund returned 0.01% over the month gross of fees, underperforming the Bloomberg AusBond Bank Bill Index which returned 0.16%. Kapstream was the only manager which outperformed the benchmark in April. Disappointingly, both Standish and Pendal underperformed during the month with FX, curve and macro trades detracting from overall performance. The Fund continues to generate strong income with an average current running yield of around 2-3%.

Advance Diversified Multi-Blend Fund Performance

Net (after fee) Wholesale performance of the Advance Diversified Multi-Blend Funds to end April 2018 against benchmarks are as follows.

	1 Mth %	3 Mths %	1 Yr %	3 Yrs %	5 Yrs %	7 Yrs %
Defensive Multi-Blend	**0.79**	**0.3**	**3.94**	**3.34**	**3.8**	**4.59**
Benchmark	0.82	0.51	3.68	4.07	4.62	5.39
Moderate Multi-Blend	**1.47**	**0.42**	**6.11**	**4.75**	**5.52**	**5.94**
Benchmark	1.49	0.47	5.12	5.09	6.13	6.65
Balanced Multi-Blend	**2.11**	**0.4**	**8.04**	**6.02**	**7.22**	**7.1**
Benchmark	2.18	0.46	6.65	6.13	7.65	7.74
Growth Multi-Blend	**2.58**	**0.34**	**9.14**	**6.68**	**8.13**	**7.64**
Benchmark	2.67	0.3	7.71	6.95	8.66	8.42
High Growth Multi-Blend	**2.95**	**0.23**	**10.23**	**7.3**	**9.55**	**8.5**
Benchmark	3.08	0.21	8.66	7.5	9.95	9.19

April Market Data

Australian shares	1 Month	3 Months	1 Year	3 Years	5 Years
S&P/ASX 200 Accumulation	3.91%	0.34%	5.46%	5.70%	7.53%
S&P/ASX 200 Industrials Accumulation	2.55%	-0.58%	0.62%	4.79%	7.93%
S&P/ASX 200 Resources Accumulation	9.77%	4.29%	31.50%	9.49%	5.49%
S&P/ASX 200 Accumulation AREIT	4.47%	1.10%	1.03%	7.32%	9.83%
S&P/ASX Small Ords Accumulation	2.75%	0.44%	18.45%	11.07%	8.05%

Global shares	1 Month	3 Months	1 Year	3 Years	5 Years
MSCI World ex Australia Unhedged in $A	2.75%	1.78%	12.40%	9.24%	16.78%
EPRA/NAREIT Developed Index Hedged $A	2.87%	-1.28%	3.05%	3.72%	5.93%
STOXX Europe 600 Total Return	4.64%	-1.23%	2.93%	2.48%	8.89%
S&P 500 Total Return	0.38%	-5.77%	13.27%	10.57%	12.96%
Nikkei 225 Total Return	4.73%	-1.93%	19.31%	6.82%	12.13%

Fixed interest	1 Month	3 Months	1 Year	3 Years	5 Years
Bloomberg AusBond Bank Bill Index	0.16%	0.44%	1.75%	1.96%	2.26%
Bloomberg AusBond Composite 0+ Yr	-0.35%	0.79%	2.16%	2.71%	3.91%
Barclays Global Aggregate TR Hedged A$	-0.38%	0.22%	1.74%	3.17%	4.30%

Commodities	Month End Price	1 Month	3 Months	1 Year	3 Years	5 Years
Bloomberg Commodity Index	89.5930	2.42%	-0.23%	6.64%	-4.77%	-7.68%
Generic Brent Crude Oil	75.17	6.97%	8.86%	45.31%	4.02%	-5.99%
Generic WTI Crude Oil	68.57	5.59%	5.93%	39.00%	4.77%	-6.01%
Gold US$/oz	1315.39	-0.76%	-2.21%	3.71%	3.56%	-2.29%
Iron Ore	63.32	2.98%	-11.58%	-3.34%	3.03%	-14.00%

Currencies	Month End Price	1 Month	3 Months	1 Year	3 Years	5 Years
AUD/USD	0.753	-1.94%	-6.52%	0.56%	-1.61%	-6.20%
EUR/USD	1.2078	-2.00%	-2.71%	10.86%	2.47%	-1.71%
USD/JPY	109.34	2.88%	0.14%	-1.93%	-2.89%	2.33%
GBP/USD	1.3763	-1.80%	-3.02%	6.27%	-3.57%	-2.39%

Source: BTIS / Bloomberg

For more information on market activity and investments, please contact your BT relationship manager.