

April 2014

The US economy continued on an upward trajectory based on the latest set of data released in April. Personal income and consumer spending for March grew at a faster rate than the market expected. The Labour market appears to be strengthening with non-farm payroll jobs increasing by 288,999 for April and the unemployment rate falling to 6.3% from 6.7%. However, this was driven by a material drop in the participation rate of 806,000 (down to 62.8%). Both the Markit and ISM manufacturing PMI indices, both measures of manufacturing activity, printed at solid levels. Conversely, GDP growth slowed over the first quarter of 2014 to 1.3%. This was likely due to adverse weather which appeared to be already priced in with little market movement when the data was released.

There was no notable change to policy in the Federal Open Market Committee's (FOMC) meeting in April. The federal funds target rate remained unchanged at a range of 0% to 0.25%. There was a continuation of the Fed winding down their securities purchasing program by another \$10 billion per month, split evenly between Treasuries and mortgage-back securities. Starting in May, the US Federal Reserve will be purchasing securities at a rate of \$45 billion per month with further "tapering" being data dependent.

The Chinese economy appears to be stabilising after several months of negative news flow. The official Chinese manufacturing PMI again edged up slightly for April to 50.4. Although the "unofficial" HSBC/Markit PMI moved in the same direction as the official PMI reading, the HSBC/Markit index remained below the 50 index level threshold that separates manufacturing activity between expansion and contraction. It is widely thought that the HSBC/Markit PMI index uses a smaller sample for its survey of private sector businesses while the official PMI index

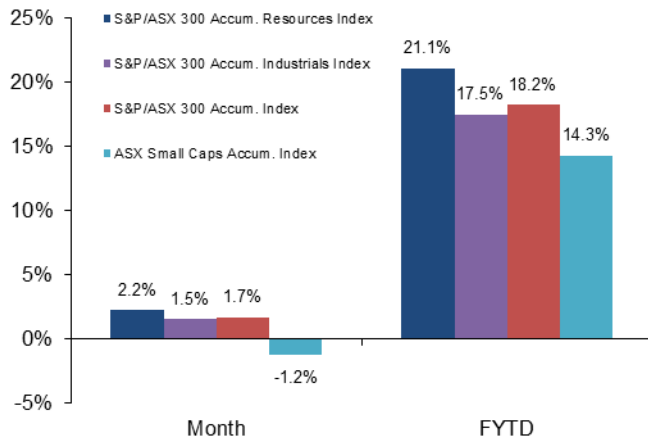
surveys mainly large government backed businesses.

Elsewhere in Asia, there are concerns over Japan as this was the first month after their sales tax increased from 5% to 8%. Manufacturing activity declined for the first time in 14 months to 49.4. In addition, the Bank of Japan (BOJ) left its key interest rate (0% to 0.1%) and financial asset purchases program (Y60 to Y70 trillion) unchanged. More importantly, the BOJ's inflation outlook is that inflation will be about 1.25% for some time (below its 2% target). This suggests that the BOJ is either sceptical about the effectiveness of Shinzo Abe's third arrow of structural reforms and/or that it is indicating to the market that it is unlikely to increase its securities purchases. Both cases are negative for the economic outlook of Japan.

More positive is the Eurozone where the unemployment rate for March has fallen slightly to 11.8% from 11.9% and economic activity has continued to improve. In April, the manufacturing and services PMI for the Eurozone came in at 54.0, up from 53.1. Subsequently, the "flash" harmonised measure of consumer prices has slightly accelerated to 0.7% y/y in April, abating some of the fears of deflation although we note this is just a single data point. For peripheral countries, Portugal will be exiting its bailout program from the EU and IMF in May leaving Greece as the sole country still in the bailout program. This follows successful bond auctions at significantly lower borrowing costs by these peripheral European countries.

Domestically, the Reserve Bank left interest rates unchanged at 2.5% as widely expected and indicated that monetary policy was likely to remain in a holding pattern for the foreseeable future.

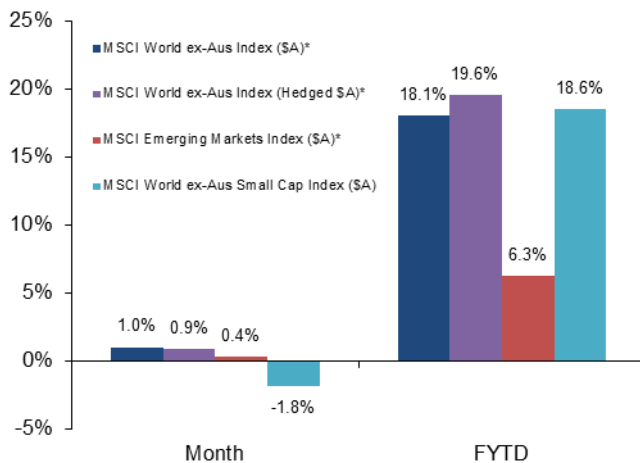
Australian equities



Australian equities had a positive month for April with both the Resource and Industrial sectors recording gains. In term of other sectors, Energy (+3.4%) was the top performer while Health Care (-1.4%) was the biggest loser for the month.

Over the month, small caps underperformed relative to broad caps.

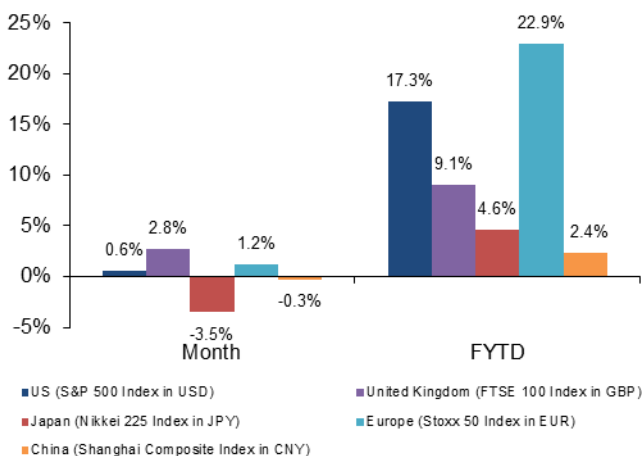
International equities (\$)



Both developed market equities hedged and unhedged performed positively in April. Although emerging market equities were positive, they continued to underperform their developed market counterparts. Emerging market performance was mainly dragged down by Chinese and Russian equities.

The developed market small caps index was the only benchmark to record a negative return over the month.

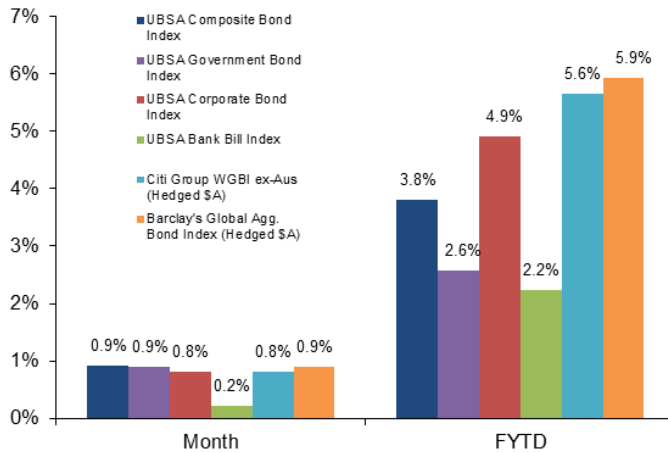
International equities (local currencies)



Positive economic data in the UK has translated to a strong performance for its equity market (+2.8%) in April. Performance has also been positive over the month for the wider European region.

Conversely, the sales tax increase and weak economic data in Japan has impacted on its equity market performance (-3.5%).

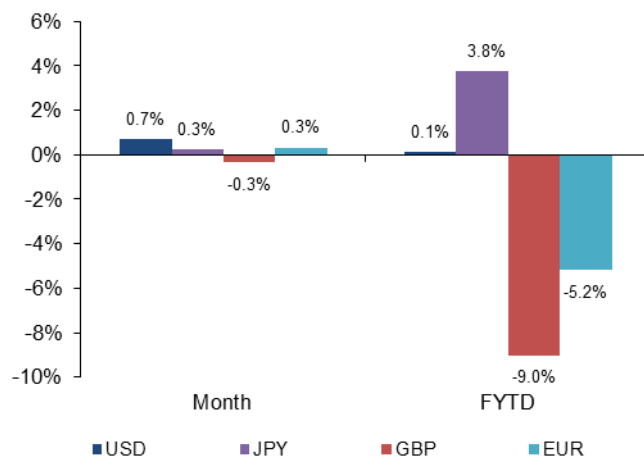
Fixed income



Both Australian (UBSA Composite Bond Index) and international fixed interest (Barclay's Global Agg. Index) delivered positive return in April as global government bond yields broadly contracted in the intermediate and long end of the curve, in particular.

Peripheral European government bond yields have also continued to contract in April.

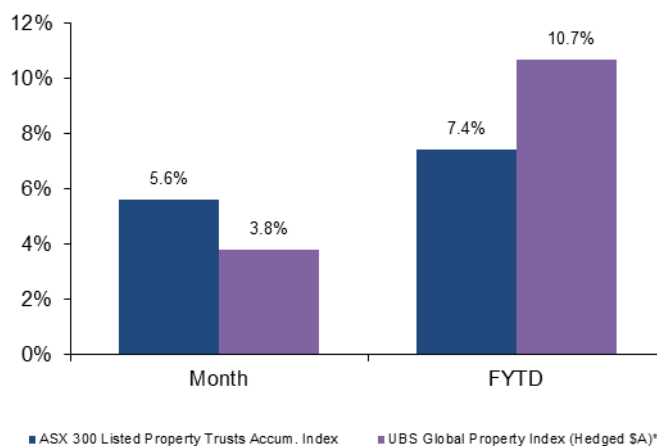
Australian dollar against major currencies



The Australian dollar was relatively stable over April against the major currencies.

The RBA continued to keep interest rates unchanged and maintained its stable monetary policy outlook at its April meeting. This was largely expected by the market.

Property



Both Australian and international listed property markets rose over the month. Although, Australian listed property outperformed relative to its international counterpart over April, it continues to underperform over the financial year to date.

Monthly Markets

30 April 2014	Index value	Month	3 months	FYTD	1 year
Australian equities					
S&P/ASX 300 Accum. Index	45,722	1.7%	6.9%	18.2%	10.1%
S&P/ASX 300 Accum. Industrials Index	88,574	1.5%	7.5%	17.5%	9.8%
S&P/ASX 300 Accum. Resources Index	22,080	2.2%	4.5%	21.1%	11.6%
ASX Small Caps Accum. Index	5,384	-1.2%	2.5%	14.3%	2.1%
International equities					
MSCI World ex-Aus Index (\$A)*	5,349	1.0%	-0.2%	18.1%	31.5%
MSCI World ex-Aus Index (Hedged \$A)*	1,084	0.9%	5.7%	19.6%	19.1%
MSCI Emerging Markets Index (\$A)*	443	0.4%	0.6%	6.3%	10.0%
MSCI World ex-Aus Small Cap Index (\$A)	347	-1.8%	-3.6%	18.6%	33.3%
US (S&P 500 Index in USD)	1,884	0.6%	5.7%	17.3%	17.9%
United Kingdom (FTSE 100 Index in GBP)	6,780	2.8%	4.1%	9.1%	5.4%
Japan (Nikkei 225 Index in JPY)	14,304	-3.5%	-4.1%	4.6%	3.2%
Europe (Stoxx 50 Index in EUR)	3,198	1.2%	6.1%	22.9%	17.9%
China (Shanghai Composite Index in CNY)	2,026	-0.3%	-0.3%	2.4%	-7.0%
AUD versus ...					
USD	0.93	0.7%	6.0%	0.1%	-10.4%
JPY	95.08	0.3%	5.9%	3.8%	-6.2%
GBP	0.55	-0.3%	3.9%	-9.0%	-17.4%
EUR	0.67	0.3%	4.1%	-5.2%	-14.9%
Property					
ASX 300 Listed Property Trusts Accum. Index	29,264	5.6%	8.4%	7.4%	2.5%
UBS Global Property Index (Hedged \$A)*	1,799	3.8%	8.5%	10.7%	1.9%
Australian Fixed Interest					
UBSA Composite Bond Index	7,780	0.9%	1.3%	3.8%	2.7%
UBSA Government Bond Index	8,069	0.9%	0.9%	2.6%	0.8%
UBSA Corporate Bond Index	7,989	0.8%	1.5%	4.9%	4.6%
UBSA Bank Bill Index	8,029	0.2%	0.6%	2.2%	2.7%
Global Fixed Interest					
Citi Group WGBI ex-Aus (Hedged \$A)	-	0.8%	1.8%	5.6%	3.3%
Barclay's Global Agg. Bond Index (Hedged \$A)	-	0.9%	1.9%	5.9%	3.2%
Oil and commodities					
Crude Oil (\$/bbl)	100	-1.8%	2.3%	3.3%	6.7%
Copper Spot (\$/tonne)	6,660	0.1%	-6.2%	-1.1%	-5.2%
Gold Spot (\$/ounce)	1,296	0.9%	4.5%	5.4%	-12.4%
Fixed income (yields) as at ...					
	30-Apr-14	31-Mar-14	31-Jan-14	30-Jun-13	30-Apr-13
Australia Bank Bill	2.67	2.65	2.61	2.79	2.90
Australia 10 Year Government Bond	3.95	4.08	4.00	3.76	3.09
US 10 Year Government Bond	2.65	2.72	2.64	2.49	1.67
UK 10 Year Government Bond	2.66	2.74	2.71	2.44	1.69
Germany 10 Year Government Bond	1.47	1.57	1.66	1.73	1.22
Japan 10 Year Government Bond	0.63	0.64	0.62	0.85	0.61

* Net dividends reinvested