Monthly Markets

March 2015

Investors remain obsessed with the timing of the first interest rate hike in the US. Risk assets such as equities reacted positively when the March US nonfarm payroll report came out weaker than expected as it implied a delay to rates "lift off" due to the softer labour market. The US economy only added 126,000 jobs over the month and kept its unemployment rate at 5.5%.

The "dovish" interest rate sentiment was further backed by the US Federal Reserve's meeting announcement where, although the word "patient" in regards to when rates will begin to rise was removed, the comments around US growth were no longer "solid" but rather it has "moderated somewhat".

In Frontier's view, the timing of when the US Federal Reserve raise interest rates is not as important as the reason behind it. If interest rates were increased due to a stronger economy, which appears more likely to be the case currently with stronger manufacturing purchasing manager index (PMI) readings at 55.7 (up from 55.1 last month), then it should be positive for markets.

However, if interest rates were forced to be increased due to inflation pressures rather than growth, then it would be expected to have negative implications across most asset classes. This scenario seems unlikely at present with US headline inflation over the year still in negative territory (-0.1%) for February, albeit this was the first month where inflation accelerated since October last year.

Inflation elsewhere in the world also saw a slight pickup last month as the sharp fall in oil prices from last year stabilised. In Europe, both German and the wider European Union inflation rate ticked slightly higher although still at dismal levels. Additionally, the positive impact of the lower Euro, oil prices and the commencement of quantitative easing appears to be flowing through to the economy as European manufacturing PMI readings rose over March. The German manufacturing PMI was up to 52.8 from 51.1 and, for the European Union, was up to 52.2 from 51.0.

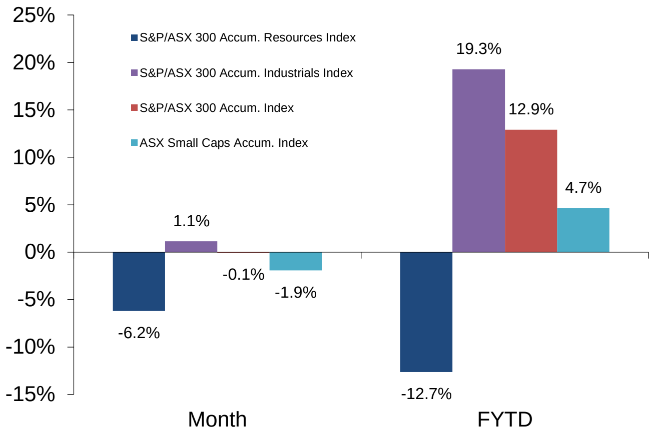
In China, the monetary policy easing enacted by the People's Bank of China (PBoC) appears to have had an impact on the real economy with the official Chinese manufacturing PMI back above the 50 threshold at 50.1. However, it should be noted it is only barely above the 50 threshold and the HSBC Chinese PMI survey actually weakened for the same month. This goes to show the precarious situation that the Chinese economy is still in.

In spite of the weak real economy, Chinese equities have skyrocketed. In local currency terms, the Shanghai Composite Index is up 83% over the financial year. This reflected expectations that the PBoC and the Chinese government would deliver further stimulatory policies to support its economy.

Over in Japan, despite the Bank of Japan (BoJ) leaving its key interest rate and quantitative easing programme unchanged, there were signs that the BoJ was capitulating slightly. In its announcement, the BoJ stated that inflation in Japan was likely to be about zero percent for the time being due to the decline in energy prices. This comes two years after the BoJ announced its 2% inflation target.

Locally, despite the disappointing GDP growth figure for the fourth quarter, the Reserve Bank of Australia (RBA) again left the cash rate unchanged at 2.25%. There was around a 70% probability of a rate cut expected by the market. The usual commentary was provided in the RBA's announcement with housing prices, particularly in Sydney, being the key reason holding the central bank back from lowering the cash rate.

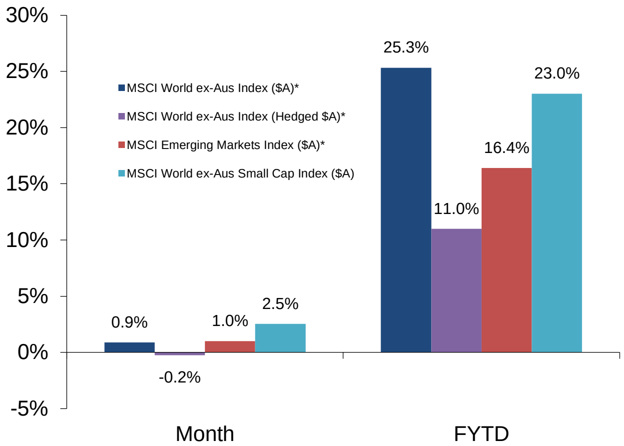
Australian equities



Domestic equities ended March slightly negative. The weakness in the Resources sector due to falling iron ore prices was the main cause of this.

By sector, Materials (-6.1%) was the worst performing sector over the month with Energy close behind (-6.0%). IT was the best performer at 3.0%.

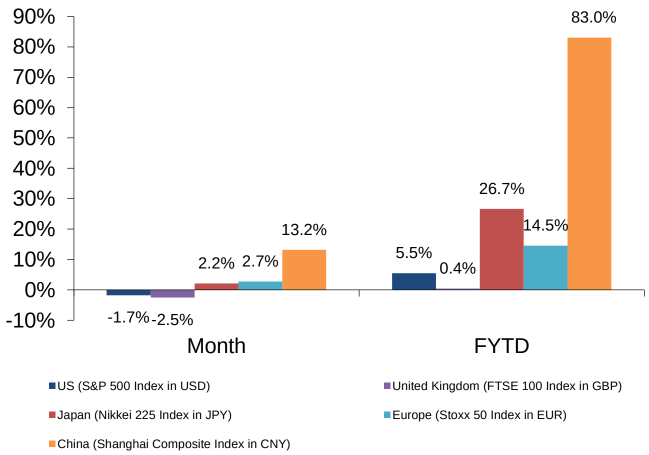
International equities ($A)



Hedged developed market equities underperformed their unhedged counterpart in March as the Australian dollar further weakened against the US dollar.

US and UK equities were the main detractors from performance for developed markets. In emerging markets, Chinese equities continued to be the key positive performance driver with South Korean and South African equities contributing as well this month.

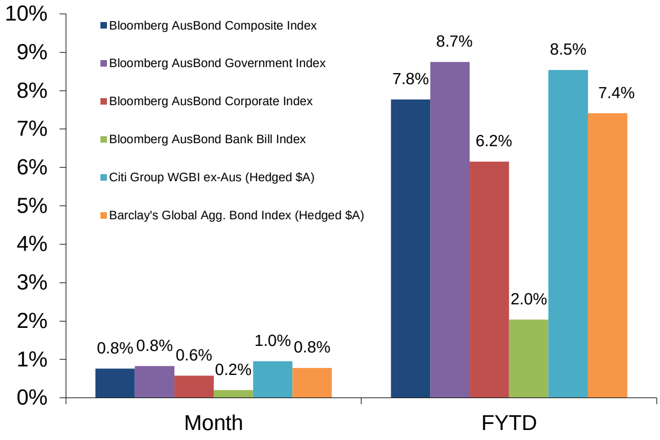
International equities (local currencies)



Foreign equity markets in local currency terms seemed to reflect their central bank policies over the month with both the US and UK equity market lower while Japanese and European equities were higher.

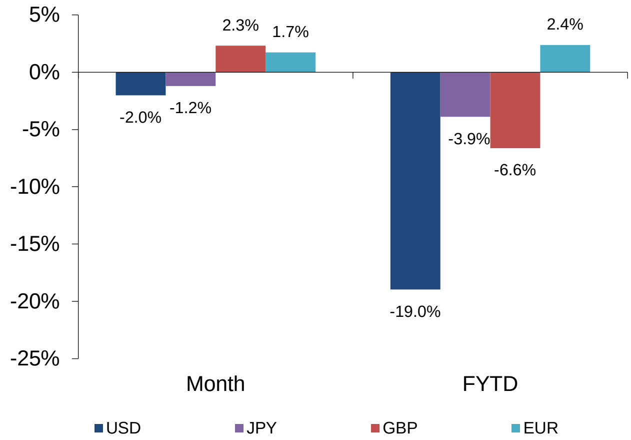
Most notably, Chinese equities rose by 13.2% in March and 83% over the financial year to date! This has been driven by expectations of stimulatory policies from the Chinese government and central bank to support their 7% economic growth target. This can be partly seen with the loosening of restrictions in the property market this month.

Fixed income



Both Australian and international fixed interest delivered a positive return in March. This was partly driven by Australian and major foreign sovereign bond yields falling over the month with the exception of Japan.

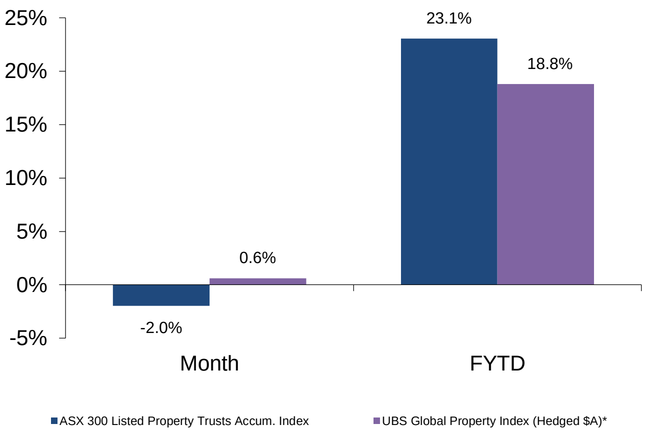
Australian dollar against major currencies



The Australian dollar (AUD) fell against the US dollar and Japanese Yen (JPY) over the month while it appreciated against the British Pound (GBP) and Euro (EUR).

Although the AUD depreciating against the JPY and appreciating against the GBP was slightly unexpected given the monetary policies in place for their respective countries, the negative trend is maintained over the financial year to date.

Property



Australian listed property underperformed its global counterpart in March.

Over the financial year to date, the ongoing thirst for yield by investors has meant that domestic and international listed property were one of the best performing sectors.

31-Mar-15	Index value	Month	3 months	FYTD	1 year
Australian equities					
S&P/ASX 300 Accum. Index	51,213	-0.1%	10.3%	12.9%	13.9%
S&P/ASX 300 Accum. Industrials Index	105,346	1.1%	11.7%	19.3%	20.8%
S&P/ASX 300 Accum. Resources Index	18,722	-6.2%	3.1%	-12.7%	-13.3%
ASX Small Caps Accum. Index	5,577	-1.9%	7.3%	4.7%	2.3%
International equities					
MSCI World ex-Aus Index ($A)*	6,836	0.9%	9.6%	25.3%	29.1%
MSCI World ex-Aus Index (Hedged $A)*	1,253	-0.2%	5.2%	11.0%	16.7%
MSCI Emerging Markets Index ($A)*	537	1.0%	9.5%	16.4%	21.9%
MSCI World ex-Aus Small Cap Index ($A)	439	2.5%	11.6%	23.0%	24.3%
US (S&P 500 Index in USD)	2,068	-1.7%	0.4%	5.5%	10.4%
United Kingdom (FTSE 100 Index in GBP)	6,773	-2.5%	3.2%	0.4%	2.6%
Japan (Nikkei 225 Index in JPY)	19,207	2.2%	10.1%	26.7%	29.5%
Europe (Stoxx 50 Index in EUR)	3,697	2.7%	17.5%	14.5%	16.9%
China (Shanghai Composite Index in CNY)	3,748	13.2%	15.9%	83.0%	84.3%
AUD versus …					
USD	0.76	-2.0%	-6.9%	-19.0%	-17.2%
JPY	91.72	-1.2%	-6.4%	-3.9%	-3.3%
GBP	0.52	2.3%	-2.0%	-6.6%	-6.9%
EUR	0.71	1.7%	4.8%	2.4%	5.4%
Property					
ASX 300 Listed Property Trusts Accum. Index	37,232	-2.0%	9.2%	23.1%	34.4%
UBS Global Property Index (Hedged $A)*	2,225	0.6%	7.1%	18.8%	28.4%
Australian Fixed Interest					
Bloomberg AusBond Composite Index	8,568	0.8%	2.7%	7.8%	11.1%
Bloomberg AusBond Government Index	8,983	0.8%	3.1%	8.7%	12.3%
Bloomberg AusBond Corporate Index	8,623	0.6%	2.2%	6.2%	8.8%
Bloomberg AusBond Bank Bill Index	8,229	0.2%	0.7%	2.0%	2.7%
Global Fixed Interest					
Citi Group WGBI ex-Aus (Hedged $A)	-	1.0%	2.7%	8.5%	11.2%
Barclay's Global Agg. Bond Index (Hedged $A)	-	0.8%	2.6%	7.4%	10.2%
Oil and Commodities					
Crude Oil ($/bbl)	48	-4.3%	-10.6%	-54.8%	-53.1%
Copper Spot ($/tonne)	6,065	2.4%	-4.8%	-13.9%	-8.8%
Gold Spot ($/ounce)	1,183	-2.5%	-0.2%	-10.7%	-8.1%

Fixed income (yields) as at …	31-Mar-15	28-Feb-15	31-Dec-14	30-Jun-14	31-Mar-14
Australia Bank Bill	2.23	2.32	2.77	2.68	2.65
Australia 10 Year Government Bond	2.32	2.46	2.74	3.54	4.08
US 10 Year Government Bond	1.92	1.99	2.17	2.53	2.72
UK 10 Year Government Bond	1.58	1.80	1.76	2.67	2.74
Germany 10 Year Government Bond	0.18	0.33	0.54	1.25	1.57
Japan 10 Year Government Bond	0.41	0.34	0.33	0.57	0.64

* Net dividends reinvested