

Monthly Market Snapshot

JANUARY 2016

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Key insights

The New Year has begun with widespread volatility in global markets, with equities posting steep negative returns in January. The main factors driving the market's volatility are events in China, oil price collapse and central bank policies.

We start with the market turmoil in China. Chinese equities declined sharply in January, as the Shanghai Stock Exchange Composite Index (A shares) fell by 23% and MSCI China Index (H shares) by 12% over the month. The Chinese government attempted to intervene in the market and stop the sell off by introducing a "circuit-breaker", which was triggered twice within a week and resulted in the early close of the Shanghai and Shenzhen stock exchanges. However, this mechanism was removed shortly after it was introduced as it failed to instil stability in Chinese equities and instead caused fear and volatility around global markets. The continued economic slowdown and currency depreciation also weighed on investor sentiment, although most of the recent economic updates, such as Q4 GDP, Purchasing Managers Index (PMI) and retail sales, were largely within markets' expectations.

The decline in oil prices continued in January. At one point, the Brent crude price was below USD 30 per barrel, after being above USD 100 only 18 months earlier. The oil producing countries' failure to reach an agreement to cut production means that the oversupply of oil is likely to persist for the foreseeable future. Global demand for oil doesn't seem to have changed significantly over the month. In addition, global equity markets have shown an unprecedented correlation with movements in oil prices in January. The MSCI World Index fell by 2% on the day oil price dropped to USD 25 per barrel, and it then recovered by 2.6% when oil price jumped by 10% two days later.

Global central bank policies remain supportive. Despite the US interest rate lift off in December last year, the Fed has reassured the market that future interest rate rises will be gradual and data dependent. The latest Federal Open Market Committee (FOMC) statement in January shows that the Fed has recognised a moderate slowdown in US economic activity late last year and is also closely monitoring global economic and financial conditions. Consequently, at the time of writing, markets expect 0% probability of a rate hike in March and only 10% probability of a single hike by December 2016.

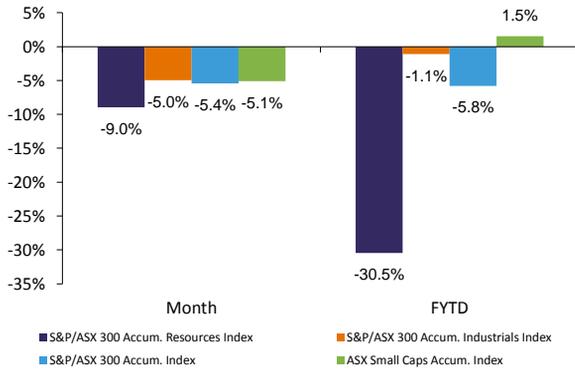
In Europe, Mario Draghi said after the European Central Bank (ECB) January meeting that the bank will "review and possibly reconsider" monetary policy at its next meeting in March, leading markets to expect some further stimulus in the Euro zone.

In Japan, the Bank of Japan (BoJ) surprised the market by undertaking further easing measures - it implemented a negative interest rate policy on excess reserves held at the central bank to try to stimulate lending and create inflation in Japan. That drove a rally in global equity markets at the end of January.

Domestically, the Reserve Bank of Australia (RBA) left the cash rate unchanged at 2% at its first meeting in 2016. The RBA in its latest monthly statement acknowledged that the economic transition from mining to non-mining is continuing, and also emphasised two areas of focus that could influence future monetary policy – 1) whether the improvement in labour market conditions is continuing; and 2) whether the recent financial turbulence portends weaker global and domestic demand.



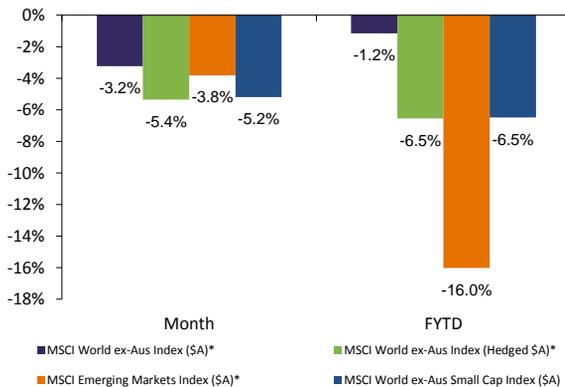
Australian equities



Australian equities fell by 5.4% in the first month of the year. This was largely driven by Materials (-9.1%), Financials (-7.4%) and Energy (-6.5%). The best performing sectors were Telecom (+0.7%) and Utilities (+0.7%).



International equities (\$A)

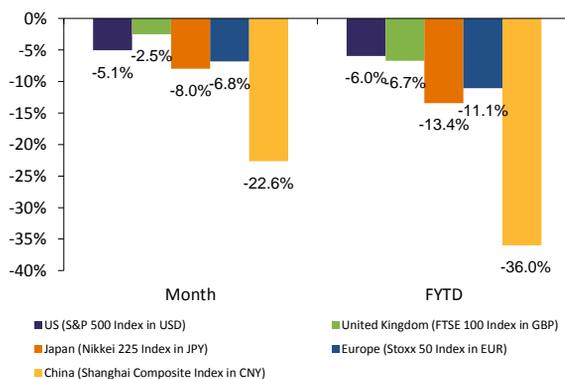


Both developed and emerging market equities recorded a negative return in January.

The hedged developed market equities index lagged the unhedged index in January due to the depreciation of the Australian dollar over the month.



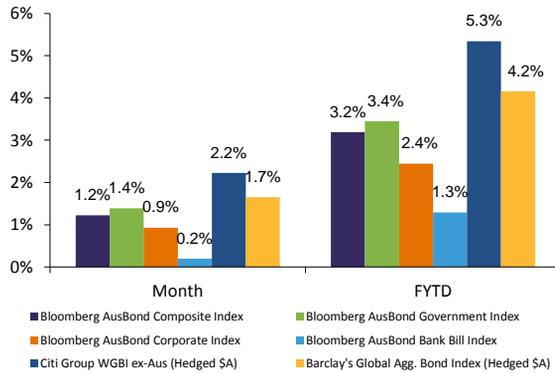
International equities (local currencies)



All major equity markets delivered negative returns in local currencies over the month. The slide of Chinese A-shares continued, with a massive 22% fall in January and 36% fall for the financial year to date.



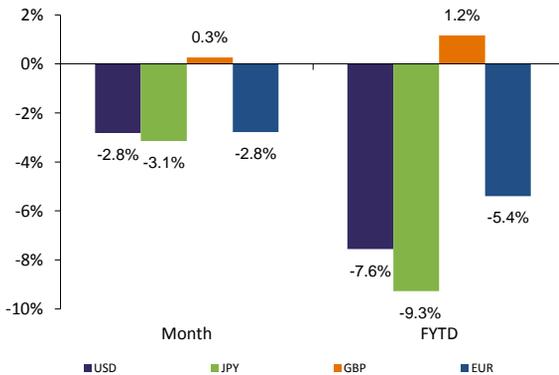
Fixed income



Global bonds finished the month in positive territory. The expectation that the Fed will not raise interest rates too quickly and that the ECB will provide additional QE likely drove yields down. Domestically, Australian government and corporate bonds also had small positive returns for the month.



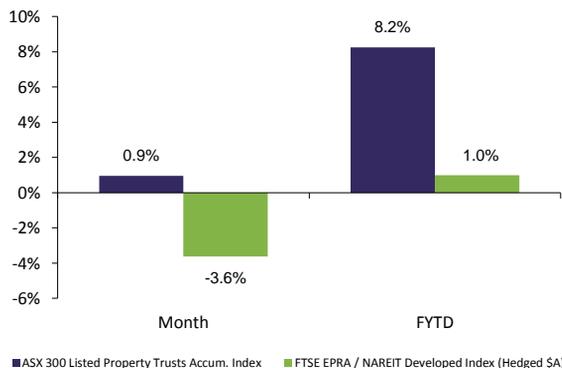
Australian dollar against major currencies



The Australian dollar depreciated in January against the US dollar (USD), Japanese Yen (JPY) and Euro (EUR), and strengthened slightly against the British Pound (GBP).



Property



Australian listed property trusts were slightly up in January but delivered solid performance (8.2%) for the financial year to date. Global listed property trusts sold off in January and was only up 1% for the financial year to date.

January 2016

	Index value	Month	3 months	FYTD	1 year	
Australian equities						
	S&P/ASX 300 Accum. Index	45,126	-5.4%	-3.5%	-5.8%	-5.8%
	S&P/ASX 300 Accum. Industrials Index	97,095	-5.0%	-0.5%	-1.1%	-1.1%
	S&P/ASX 300 Accum. Resources Index	12,413	-9.0%	-21.4%	-30.5%	-30.8%
	ASX Small Caps Accum. Index	5,433	-5.1%	-1.4%	1.5%	3.6%
International equities						
	MSCI World ex-Aus Index (\$A)*	6,749	-3.2%	-7.4%	-1.2%	4.9%
	MSCI World ex-Aus Index (Hedged \$A)*	1,171	-5.4%	-6.6%	-6.5%	-1.2%
	MSCI Emerging Markets Index (\$A)*	452	-3.8%	-11.4%	-16.0%	-12.9%
	MSCI World ex-Aus Small Cap Index (\$A)	413	-5.2%	-8.7%	-6.5%	1.7%
	US (S&P 500 Index in USD)	1,940	-5.1%	-6.7%	-6.0%	-2.7%
	United Kingdom (FTSE 100 Index in GBP)	6,084	-2.5%	-4.4%	-6.7%	-9.9%
	Japan (Nikkei 225 Index in JPY)	17,518	-8.0%	-8.2%	-13.4%	-0.9%
	Europe (Stoxx 50 Index in EUR)	3,045	-6.8%	-10.9%	-11.1%	-9.1%
	China (Shanghai Composite Index in CNY)	2,738	-22.6%	-19.1%	-36.0%	-14.7%
AUD versus ...						
	USD	0.71	-2.8%	0.0%	-7.6%	-8.8%
	JPY	85.21	-3.1%	-1.1%	-9.3%	-7.2%
	GBP	0.49	0.3%	6.6%	1.2%	-4.3%
	EUR	0.65	-2.8%	0.4%	-5.4%	-5.4%
Property						
	ASX 300 Listed Property Trusts Accum. Index	39,362	0.9%	2.1%	8.2%	7.5%
	FTSE EPRA / NAREIT Dev. Index (Hedged \$A)*	2,143	-3.6%	-4.2%	1.0%	-5.7%
Oil and Commodities						
	Crude Oil (\$/bbl)	34	-9.2%	-27.8%	-43.5%	-30.3%
	Copper Spot (\$/tonne)	4,570	-2.9%	-10.9%	-20.6%	-17.5%
	Gold Spot (\$/ounce)	1,116	5.2%	-2.3%	-5.1%	-13.0%
Australian Fixed Interest						
	Bloomberg AusBond Composite Index	8,666	1.2%	0.7%	3.2%	2.2%
	Bloomberg AusBond Government Index	9,041	1.4%	0.7%	3.4%	1.8%
	Bloomberg AusBond Corporate Index	8,772	0.9%	0.6%	2.4%	2.9%
	Bloomberg AusBond Bank Bill Index	8,381	0.2%	0.6%	1.3%	2.3%
Global Fixed Interest						
	Citi Group WGBI ex-Aus (Hedged \$A)	-	2.2%	2.4%	5.3%	3.5%
	Barclay's Global Agg. Bond Index (Hedged \$A)	-	1.7%	1.8%	4.2%	2.8%
Fixed income (yields) as at ...						
		31-Jan-16	31-Dec-15	31-Oct-15	30-Jun-15	31-Jan-15
	Australia Bank Bill	2.26	2.33	2.07	2.13	2.53
	Australia 10 Year Government Bond	2.64	2.88	2.61	3.01	2.44
	US 10 Year Government Bond	1.92	2.27	2.14	2.35	1.64
	UK 10 Year Government Bond	1.56	1.96	1.92	2.02	1.33
	Germany 10 Year Government Bond	0.33	0.63	0.52	0.76	0.30
	Japan 10 Year Government Bond	0.10	0.27	0.31	0.47	0.28

* Net dividends reinvested

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